The Determinants of Capital Structure of Firms Listed In Nigerian Food/Beverages and Tobacco Industry

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ABSTRACT

This study focused at examining the determinant of capital structure decision of listed food/beverages and tobacco firms in Nigerian capital market. In different part of the globe there are many studies on determinant of capital structure of listed food/beverages and tobacco firms, but to the best of our knowledge, the studies are mostly foreign based, and there is no study conducted in developing country like Nigeria. Therefore, this would not provide conclusive result on Nigeria. Though research on the determinant of capital structure decision of listed food/beverages and tobacco firms in Nigeria has not been fully explore. Therefore, it has made little contribution in terms of the industrial development, employment and revenue generation and shock of bankruptcy. The proponent of dual economy model, have emphasized the need for a viable manufacturing sector for the purpose of industrial development. Base on this it therefore, creates a gap that need to be filed within the literature. Pecking order theory was used to underpin the work. The population of the study is eighteen listed food/beverages and tobacco firms in Nigerian capital market. The samples of the study are eleven listed food/beverages and tobacco firms in Nigeria. The study reveals that tangibility, firm growth, profitability has a significant positive effect on determinant of capital structure decision of listed food/beverages and Tobacco firms in Nigeria at 1% level of significance. The findings further reveals that, firm size is positively correlated and significant at 10% level. Further research should be conducted by the researchers on their relationship with companies. The regulatory authority such as SEC should make it mandatory for listed food/beverage and tobacco firms in Nigeria should have some level of leverage in the firm. The regulatory authority such as SEC should make sure that firms under food/beverages and tobacco should be categorising on their economic of scales in order to control their price. SEC should make sure that listed food/beverage and tobacco firms in Nigeria disclose their report promptly and the external auditors should be mandated to report on the performance of the firms' audit. Regulatory authority should make sure that listed food/beverage and tobacco firms operating in Nigeria should comply by submitting their financial statement regularly on time schedule.

Key Words: Leverage, Tangibility, Firm growth, Profitability and Firm size

1.0 Introduction

There are large body of literature that exists in the area of corporate financing in accounting that examines the financing behaviour of companies which shows their capital structure. Capital structure is one of the most important aspects of financing decision often made by financial managers. It is also the hub of any decision making in the area of corporate finance. It aid in the maximization of return on firm investment and then increase the financing decision and dividend pay out to prospective shareholders. In corporate finance, financing decision has been characterised by enhancing the growth and survival of the business which

required the management decision towards realizing efficient financing decision. It also results in securing and protecting the interest of the shareholders by ensuring effective planning and financial management. It aid in the combination of optimal capital structure by managers through ensuring that shareholders wealth are maximize. Firms can finance their investment through debt, equity or both. This form of investment could have high risk and gearing earning for the shareholders. It can also affect the cost of capital and market value of their shares. Capital structure of the firms is embedded on the mix of debt and equity in financing the company asset and it is therefore regarded as the most crucial decision to be made by the financial managers. One of the objectives of capital structure is to ensure that firms are being finance by lower cost of capital mix in order to ensure that shareholders wealth are maximize. It is also one of the effective means, management use in managing the cost of capital. Capital structure has positive influence on ensuring optimal financial performance, and optimal mix of the firm's capital (Ghosh, 2008).

Firms can increase the level of their leverage through debt factoring by issuing more stock to buy or pay debt. The basic objective of capital structure is the financial mix used by the firm in trying to maximize shareholders wealth and on the other hand firm cost of capital. There are many different theories that have sprung up in attempting to explain the concepts of capital structure, but there is no consensus on which one to adopt, all depend on the subject matter and researchers focus to study by the researchers. Tax may trigger the increment of debt capital. There are limit to which firms might finance it operation through debt and there are limit on the amount of money to be borrowed.

There are many studies conducted on the determinant of capital structure in both developed and developing countries, but to the best of our knowledge there is no study conducted in developing countries especially on the area of food/beverages and tobacco firms in Nigeria that covered a period between 2005 to 2012. Therefore their findings and results may be inconclusive and create a gap that need to be filed within the literature. Furthermore, most of the studies in respect to the effect of asset tangibility, firm growth, profitability and firm size on leverage are at macro level neglecting the micro level and sector-specific. Hence, there is the need to examine the determinant of capital structure of listed food/beverages and tobacco firms in Nigeria. Likewise, there is neglect in respect to studies that determine capital structure on firms' performance of listed food/beverage and tobacco firms in Nigeria which has not been fully tackled in previous studies. One reason why this is necessary is that the process of diversification can be achieved mainly through the manufacturing sectors as most determinant of capital structure have been on effects of board composition on capital structure of non-financial firms in Nigeria (Hassan, 2009). More so, research on the determinant of capital structure of listed food/beverages and tobacco firms in Nigeria has not been fully explored. Therefore, it has made little contribution in terms of the industrial development, employment provision, revenue generation and shock of bankruptcy. The proponents of dual economy model have emphasized the need for a viable manufacturing sector for the purpose of industrial development. In view of these problems, the overall objective of the study is to examine the determinant of capital structure decision of listed food/beverages and tobacco firms in Nigeria. In line with the objective of the study, the following null hypotheses were formulated

Ho$_1$ Asset tangibility has no significance difference on leverage of listed food/beverage and tobacco firms in Nigeria.

Ho$_2$ Firm growth has no significance difference on leverage of listed food/beverage and tobacco firms in Nigeria.

Ho$_3$ Profitability has no significance difference on leverage of listed food/beverage and tobacco firms in Nigeria.

Ho$_4$ firm size has no significance difference on leverage of listed food/beverage and tobacco firms in Nigeria.

This study examined the determinant of capital structure decision of listed food/beverages and tobacco firms in Nigeria for the period of eight years from 2005-2012. The dependent variable of the study is leverage and the independent variables are asset tangibility, firm growth, profitability and firm size. The Significance of the study is as follows: The findings of the study will add value to the existing literatures on determinant of capital structure of listed Food/Beverages and Tobacco firms in Nigeria and serve as reference for further research. The outcome of the research will assist the shareholders of the Food/Beverages and Tobacco firms in Nigeria to determine the best optimal capital structure combination of their firms, which will guide them in taking relevant business related decisions. The regulatory authority (SEC) will benefit from the outcome of the study in the sense that it will enable them examine the effectiveness of their monitoring instruments as well as review and upgrade them as appropriate when determining the capital structure of the firms. Other stakeholders like government, employees and creditors will also benefit from the findings of the study by allowing them to make informed decisions about policies, employments and ratings respectively. The findings of the study will also contribute to the existing empirical studies on determinant of capital in Nigeria in the selected industry. The study will also be useful to accounting educators and the outcome of the study will also be useful and serve as an input or motivation for further research.

2.0   Literature Review and Theoretical Frame Work

2.1   Leverage and Assets Tangibility of Firms

The asset value of the companies' play a significant role in determining its capital structure, as larger firms can easily diversified their portfolio. Therefore, firms asset tangibility will show great liquidation value and the firm's that have high tangibility of asset will have high financial leverage as they can borrow at lower rate of interest, if they secure their debt with the asset. Debts may be given when there are tangible asset that will be use as security, banks and other financial institution should used it as collateral, (Harris and Raviv 199,1 Brandley et al. 1984 and Wedig et al. 1988). There are several studies that show a positive relationship between leverage and asset tangibility such as; (Friend and Lang 1988 Shyam-Sunder and Myers1999). On the other hand there are studies that supported a negative relationship such as Caesar and Holmes (2003); Hall et al (2004) and Esperanca et al (2003).

2.2   Leverage and Firm Growth

Studies have shown that, growth will result to a greater demand on internally generated fund and on the other hand, firm has to look for a means of borrowing. Also firm with high growth prospect will use high debt ratio (Hall et al., 2004, Marsh 1982). There are some situations whereby high growth firm, will require more external financing and will be expected to show high leverage Heshmati, (2001). The margin between finance and growth has been a difficult task, however growing firm seem to have used more external financing. When a firm seems to be growing from micro, small, medium and large scale, they tend to move away from internally generated source of financing to external sources (Areeteyet et al. (1994) and (1998). There are a relationship between previous growth and future. Michaelas et al. (1999) argue that future opportunistic growth will be positively correlated to leverage, particularly

short-term leverage. They also argue that agency problem and cost of financing would reduce once firm issue short-term debt rather than long-term debt. In a similar related study Myers (1977) opines that firms with growth opportunities tend to have small proportion of debt in their capital structure. Most of the studies conducted on the relationship between leverage and growth shown an inconclusive result. Some show a positive relationship such as (Titman and Wessels, 1988 and Barton et al., 1989). Other shows a negative relationship such as (Roden and Lewellen, 1995 and Al-Sakran, 2001) and Esperanca et al.(2003) in their study found a mixed evidence.

2.3   Leverage and Firms Profitability

The pecking order theory of capital structure indicated that whenever a firm is profitable, then the financing option should be more of internally generated sources rather than externally. Firms tend to use mixed fund, but use internally generated fund first, before going externally. On the other hand firms that are profitable may resolve to use less leverage (Myers and Majluf, 1984). Murinde et al. (2004) notes that firms that can retained profit rely heavenly on internally generated fund than firms that cannot retained which rely on external sources, therefore retention are the principle sources of financing. Titman and Wessels (1988) and Barton et al. (1989) agree that high profitable firms would maintain relatively low debt ratio. Several studies have shown a contradictory result, some find a positive relationship with pecking order theory. Notably among them are Friend and Lang. (1988); Van der Wijst and Thurik, (1993); Mishra and McConaughy, (1999). Others found a negative relationship between profitability, long-term debt and short-term debt (Cassar and Holmes (2003) and Hall et al. (2004)). Therefore, apriori expectation in relation to pecking order theory is that, a negative relationship will exist for leverage level of Nigerian food/beverages and tobacco firms.

2.4   Leverage and Size of the Firms

Size of the firm is one of the determinants of capital structure, large firm can easily diversified their portfolio to have lower variability of earning and observed high debt rations Wald (1999). The firms that have high leverage may reduce agency cost as they would repay their debt than smaller firms that are coming up. Smaller firms may also find it more costly in term of information asymmetry. In a nutshell larger firm will have higher debt than the smaller firms. In term of bankruptcy risk, the larger firms will have small shock of bankruptcy than smaller firms when compared in term of economy of scale. Titman and Wessels, (1988) notes that when comparing larger and smaller firms, bankruptcy is opposite function of firm size. Prasad et al. (2001) posits that a fixed portion of defaults used to be small for larger firm in term of marginal cost of dollars. Cosh and Hughes, (1994) compare larger firms with smaller firms in term of their risk and discovered that operational risks are often related to firm size. These entice smaller firms to use small debt. Empirically the relationships between firm size and leverage have been significantly positive (Barton et al, 1989; Al-Sakran, 2001 and Hovakimian et al., 2004). They conducted their study on smaller and larger firms in term of the use of equity financing and debt issue. The result of their findings shows smaller firms prefer the uses of equity financing and larger firms prefer the uses of debt rather than stock. Another related study was carried out on long term debt in relation to firm size by Esperanca, et al., (2003) and Hall et al., (2004). The result of their findings shows a positive relationship between firm size and long term debt ratio, but a negative relationship between short-term debt ration and firm size was shown.

There are several studies that supported a negative relationship between shot-term debts and firm size (Chittenden et al., 1996; Michealas et al., 1999). However, in a similar study conducted by Titman and Wessels, (1988) posits that small firms tend to use more short-term debt than larger firms, because smaller firm will have more transaction cost whenever they issue long-term debt or equity. The apriori expectation of this study between firm size and leverage of listed food/beverages and tobacco companies is to be positive.

2.4   Theoretical framework

There are three theories that have been used by different scholars to underpin studies on capital structure these are: the agency cost theory; static theory and pecking order theory.

2.5   Agency Theory

Jensen and Meckling, (1976) notes that by maximizing debt level in capital structure suggested an optimal debt level that would arise as a result of agency cost. They suggested a situation whereby the interest of the managers in the firm should increase in order to be aligning with the owners. The debt level should also be motivated to control managers' tendency for extra consumption. Free cash flow in a firm can be controlled by increasing the managers' stake in the firms or debt in the capital structure and on the other hand reducing the amount of "free" cash available to managers.

2.6   Static Trade- Off Theory

Those who suggested this theory hold a view the non- existence of optimal capital structure. They noted that a firm will set a target debt level and then work towards it. The proponents of the theory suggest that a firm should choose how much debt finance and equity finance to use by weighing the cost and benefits. The benefit of financing with debt are identified, the tax benefit of debt, cost of financing with debt and financial distress including bankruptcy cost of debt. The theory suggested firms should predict the cost and benefit of using mix of debt and equity in order to evaluate the cost and benefit of the debt. It may not be advisable for a firm to minimize the cost of its capital structure by employing more debt. Therefore, to maximize the firms average cost of capital and market value per share, there is a need to avoid employing more debt and instead since there is a combination of debt and equity. This theory has suffer many criticisms by most scholars believing that it create conflict of interest between shareholders and creditors. A negative relationship between debt and profitability was documented by Titman and Wessels, (1988).

2.7   Pecking Order Theory

The pecking order theory suggests that firms should not set an optimal capital structure instead, should follow a pecking order of incremental financing choices that places internally generated funds at the top order, followed by debt issues and only when firm reached it's "debt capacity" of new equity financing. Myers and Majluf, (1984) opines that this theory is based on the information asymmetry between managers and market and trade-off theory costs and benefits to debt financing of issuing new securities. The cost of equity should often include the cost of retained earnings. The cost of debt is also cheaper in term of taxes when payment is to be made to shareholders. Myers, (1984) states that, firms prioritized the sources of their financing, in line with the law of least effort or resistance for optimal capital mix. In this regard firm preferred their sources of financing to be through retained earnings than debt and external equity financing. Pecking order theory suggested a hierarchy of financing sources which started with internal financing available, debt and equity whenever external

IJISET - International Journal of Innovative Science, Engineering & Technology, Vol. 2 Issue 10, October 2015.

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ISSN 2348 – 7968

financing was required (Myers1984). Mackie-mason's, (1990) opines that the importance of information asymmetric gives reason for firms to have concern on who are the providers of funds as different providers of fund have different access to information about the firms and monitoring mechanism. This is in line with the pecking order theory of Myers and Majluf (1984). Shyam-sunder and Myers, (1999) shows that firms follow the pecking order theory in their financing decision whenever firm have positive financial deficit such as a function of dividend payments, net capital expenditure, net change in working capital and operation of cash flows after interest and taxes). This work therefore adopts the pecking order theory in line with other similar studies.

3.1 Methodology

The research design adopted for this paper is Correlational which is used to describe the statistical association between two or more variables. It is therefore, most appropriate for the study because it allows for testing of expected relationships among variables and making prediction regarding these relationships in everyday life events. The study makes use of documentary data obtained from annual reports and accounts of the company as well as the FACTS book of Nigerian Stock Exchange. The study's population consists of all 18 listed food/beverages and tobacco firms in Nigeria as at 31 December 2012. Consisting of 7-up Bottling company Plc, Beverages West Africa Plc, Big Treat Plc, Cadbury Nigeria Plc, Ferdinand Oil Mills Plc, Flour Mills of Nigeria Plc, Foremost Dairies Plc, Honeywell Flour Mill Plc, Multi-Trex Intergrated Foods Plc, National Salt Company Nigeria Plc, Nestle Nigeria Plc, Nigeria Bottling Company Plc, P.S. Mandrides and Company Plc, Tantalizer Plc, UTC Nigeria Plc, Union DICON Salt Plc, Dangote flour mills, Dangote Sugar Refinery plc were used. The sample of the study consist of the total of eleven companies as seven (7) companies was excluded from the population; P.S. Mandrides and company Plc, UTC Nigeria Plc and Foremost Dairies Plc whose data were not completely available and Dangote flour mills, Dangote Sugar Refinery plc, Tantalizer and Honeywell were listed in 2007 and 2008 respectively was exclude from the sample, as they were listed after the date of the study by the securities and exchange commission.

Multiple regression technique was used in the data analysis using panel data. For the companies for the period of eight years that all the companies under food/beverages and tobacco firms in Nigeria that formed part of the sample were combine and regressed which justified the reason for been used as panel methodology. The general panel model data can be better presented in the following form (Tahir, 2008).

$$Y_{it} = a_i + BX_{it} + e_{it} \quad - \quad - \quad - \quad - \quad - \quad - \quad - \quad eqn1$$

Where;

Y_{it} it is the value of independent variable for each individual company i at time t. a_i it is the individual effect to be taken by the constant overtime and to the specific individual cross sectional unit i; X_{it} it contain the set of explanatory variables for the individual company i at time t in the estimation. e_{it} it is the random error term of the disturbance.

The variables of the study consist of the dependent and independent variables and control variables. The dependent and independent variables are define as; Levit (Debt Ratio)= represent leverage (measure as book value of long term debts divided by capital employed i.e long term debts plus shareholders funds), TANG=Tangibility of Asset calculated as Fixed Assets Divided by Net Total Asset, Growth= growth potentiality (Calculated as % Increase in Net Total Assets), Prof = profitability calculated as earning after tax divided by capital

IJISET - International Journal of Innovative Science, Engineering & Technology, Vol. 2 Issue 10, October 2015.

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employed and *FMSIZE* = natural log of total assets (will be use as control variable). In line with these variables, the empirical results are base on this regression model;

Leverage = α+ β₁TANG+ β ₂FMGWTH+ β₃PROFT+ β₄FMSIZE + εᵢ.   *eqn2*

$$Leverage = \alpha + \beta_1 TANG + \beta_2 FMGWTH + \beta_3 PROFT + \beta_4 FMSIZE + \varepsilon_i \qquad eqn2$$

The data collected were analyzed using descriptive statistic to show a means distribution and standard deviation of both the dependent and independent variables. Correlation analysis using Pearson correlation technique was used to establish the relationship between the variables. The regression model was estimated using ordinary least square (OLS). Abor (2005) opines that OLS provide a consistent estimate of α (intercept) and β (slope). Hall (2005) argued that OLS is bias as it fails to provide endogeneity, therefore regression analysis techniques was employed in estimating the model.

4.1 Analysis and Discussion of result
This section focuses on the data analysis and discussion of the results of the study. The regression analysis conducted and the inferences drawn from it. Summary of the regression results from the SPSS output were presented in a tabular form, from where detailed analysis and discussion of the result were given. The analysis begins with the sample descriptive statistic presented in table 1, the correlation matrix is presented in table 2, and the regression is contained in table 3.

4.2.1 Sample Descriptive Statistics
Table 1 shows the mean and standard deviation values of the variables used in the study as well as the values of Skewness and Kurtosis for robustness test.

Table 1 Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
LEV	-4.73	-.21	-3.2257	1.02870	1.923	3.076
TANG	10.35	16.50	12.4991	2.39800	.686	-1.386
FMGWTH	12.61	17.38	15.1564	1.38737	.185	-1.367
FMSIZE	12.50	17.99	15.2074	1.40157	.890	.021
PROFT	9.58	18.26	17.0923	1.48653	-2.039	2.530

Source Author's computation using SPSS 20.0

From the above table1, it is shown that the observed scores (i.e. mean values) of the variables: Leverage, tangibility, firm growth, firm size and profitability lies within the expected range (minimum and maximum values). Further , the results of the kurtosis is showing flatness of the curve in relation to normal, and higher kurtosis means the data is skewed, but this is a mild one. A normal distribution should have a zero or near zero skewness (Park, 2008). On the other hand, Central limit theorem states that an observation from 30 to above can be considered as population, and are assumed to be normally distributed.

The 88 means that the number of observation of the eleven films. A cursory look at the observations in all the variables disclosed data normality distribution. This can be buttressed from both the kurtosis and the level of the descriptive statistics. Although, kurtosis for firm

IJISET - International Journal of Innovative Science, Engineering & Technology, Vol. 2 Issue 10, October 2015.

www.ijiset.com

ISSN 2348 – 7968

size, profitability, tangibility and growth are less than 3, which is the value generally considered moderate.

Table 4.2 Correlation Matrix

		LEV	TANG	GROWTH	FMSIZE	PROFT
LEV	Pearson Correlation	1				
	Sig. (2-tailed)					
TANG	Pearson Correlation	-.207	1			
	Sig. (2-tailed)	.053				
GROWTH	Pearson Correlation	.122	.056			
	Sig. (2-tailed)	.258	.602			
FMSIZE	Pearson Correlation	.039	.572**	-.416**	1	
	Sig. (2-tailed)	.715	.000	.000		
PROFT	Pearson Correlation	-.588**	-.393**	-.330**	.536**	1
	Sig. (2-tailed)	.000	.000	.002	.000	

Source: Author's computation using SPSS 20.0

The symbol $**$, and $*$ represents significant at 1% and 5% respectively.

The results presented in the table 2 above shows that leverage and tangibility are negatively related and significant at 5% level. Leverage and firm growth are positively related and are not significant. Leverage and firm size are positively correlated and are also not significant, while leverage and profitability are negatively related and significant at 1% level.

Table 4.2.3 Regression Results of determinant of capital structure

Variables	Coefficient.		T-statistic	P-Value
Constant	4.839		2.565	.012
TANG	-.325		-7.412	.000
GROWTH	.201		3.145	.002
FMSIZE	.120		1.816	.073
PROFT	-.519		-9.815	.000
R		.779		
R^2		.638		
Adj R^2		.620		
F stat		36.520		
F-Sig		.000		
DW		1.513		

Source: Author's computation using SPSS

The estimated equation of the study is presented as follows:

LEV = 4.839 +.120(Fmsize) -.519(PROFT) -.325(TANG) + .201(GROWTH)

The coefficient of firm size of 0.120 indicates that, on average a 1unit change in firm size holding other variables constant increase leverage by .120. It is also observed that a1unit change in profitability holding other variables constant will on the average lead to decrease in leverage by 0.519. Further, holding all other variables constant, a 1 unit change in firm growth will on the average lead to increase in leverage by 0.2, it is also observed that a 1uint change in tangibility holding all other regressors constant, will on the average lead to decrease in leverage by 0.325.

It is also observed from the table that tangibility, firm growth, and profitability are significant determinant of leverage at 1% level of significance, while firm size determine the firm leverage level and is significant at 5% level. R= .77, R^2= 0.638, indicates that the regressors in the model (i.e tangibility, firm growth, firm size and profitability) accounted for 64% of variation in leverage in the selected industries. However, the remaining 36% is believed to be accounted for by the random error term. The F-statistics of 36.52 with a p- value of 0.000 indicates that the regressors are jointly significant in explaining variation in the regressand (i.e leverage).

The Durbin Watson statistics of 1.85 indicates absence of serial correlation in the data both positive and negative. The results show that the estimated model of the study is fit because all the exogenous variables, firm size, firm growth, tangibility and profitability are significant determinant of leverage. The tolerance value and the variance inflation factors are advanced measures of assessing multicollinearity between the independent variables of the study. The variance inflation factors were consistently less than (10) indicating absence of multicollinearity as was observed by (Casey,et al 1999), this shows the appropriateness of fitting the model of the study with four independent variables. In addition, the tolerance values are consistently smaller than 1.00 thus, further substantiates the fact that, there is absence of harmful multicollinearity among the independent variables, (Tabachnick & Fidell 2007).

The results shows that, tangibility is negatively correlated with the dependent variable leverage, this indicates that higher tangible firms are having so many ways of mitigating financing decisions that can lead to dilution of control by having more debts than equity in their capital structure mix.

The findings show that profitability is negatively related with the endogenous variable leverage, this indicates that increase in firms' profitability will lead to decrease in leverage. Or in other words, the finding shows that higher profitable firms are not usually high levered in their capital structure mix. The firm control is still in the hand of equity holders with no dilution of control.

The finding reveals that, firm size is positively correlated with the regressand (leverage) and firm size determine the capital structure decision of listed food/beverages and Tobacco firms in Nigeria, but firm size in most of the time form a motivation for the management of listed food/beverages and Tobacco firms to be highly levered, because of many portfolios they have.

Also the finding of the study reveals that, firm growth is positively correlated with the dependent variable leverages, this indicates that higher grow firms are mostly highly levered. The implication of this growth is, if there no good management of growth, the firm will be highly levered to the extents that the management cannot control, which may lead to liquidation of the firm, if care is not properly taken.

Firm size has positive impact on the performance of listed food/beverage and tobacco firms in Nigeria this signifies that size form a motivation for firms to be highly levered, if decision is taken recklessly. It also indicates that firm size has increase the return of other shareholders fund in listed food/beverage and tobacco firms in Nigeria through lending. The implication of this as that the more the level of firm size in listed food/beverage and tobacco firms in

Nigeria the more the return they would generate if utilised judiciously and shareholders fund will be protected in the listed food/beverage and tobacco firms in Nigeria The result provides us with sufficient evidence of rejecting the null hypothesis of the study.

4.2 Findings and Discussions:

The finding indicates that tangibility serves as a factor that determines capital structure decision of listed food/beverage and tobacco firms in Nigeria.

Asset tangibility has proven to determine the capital structure decision of listed food/beverages and Tobacco firms in Nigeria; this is an indication that the quality of tangible assets of the firms strongly drives their market value. The results obtained in the empirical study support the research conducted by Friend and Lang 1988 and Shyam-Sunder and Myers 1999 that asset tangibility will show great liquidation value. While supported the negative relationship are the study conducted by (Cassar and Holmes, 2003, Esperanca et al, 2003 and Hall et al, 2004).

This confirms that as firms are growing there will be reputation, the greater the shareholders' confidence in its growth and survival. This may result in greater patronage for shares of such companies and consequently higher market prices (value). The results is consistent with the empirical results reportes in (Titman and Wessels, 1988, Barton et al, 1989 and Michaelas et al, 1999), that future opportunistic growth will be positively related to leverage, particularly short-term leverage. While on other hand, supports a negative relationship are (Roden and Lewellen, 1995 and Al-Sakran, 2001).

The findings from quantitative analysis of the data indicates leverages are effective tool that can be used by companies to improve profitability of their firms in the listed food/beverage and tobacco firms in Nigeria because of tax saving aspect. Profitability has positive significant coefficient in the regression. This confirms that there may be greater confidence of the shareholders in its strength, growth and survival. This would attract more shareholders. The results obtained support findings of (Van der Wijst and Thurik,1993 and Mishra and McConaughy,1999, While supported the negative relationship are Cassar and Holmes, 2003 and Hall, 2004).

Regarding the control variable firm size, we found that firms' size significantly affected the quantum of sales revealing that firms with larger assets have high probability of economic scale and bring higher profit to the firms. This is for the fact that the empirical result shows the control variable is significant at 10% level of significance. The reason may be because of the inclusion of debt in the measurement of leverage as debt financing is argued to have propensity to maximize shareholders' value. However, not all the companies were consistently financed by debt. The result complements those of Titman and Wessel, 1988. Support a negative relationship is by Chittenden et al,(1996) and Michealas et al, (1999).

5.1 Conclusions and Recommendations

The following are the conclusions that are drawn from the findings of the study:

   i.   The leverage have served as an important determinant factor in capital structure decision of listed food/beverage and tobacco firms in Nigeria, which help to prevent abuses and other irregularities by the firms in sourcing the financial mix of the listed food/beverage and tobacco firms in Nigeria, prevent fraud and maximize shareholders' wealth and enhanced the value of the listed food/beverage

and tobacco firms in Nigeria. More so, to generate employment, revenue and increase industrial development.

ii. There is a need for the regulatory authority to monitor the level of leverage in listed food/beverage and tobacco firms in Nigeria in order to reduce the shock of bankruptcy.

iii. Leverage has minimized the risk of managers from engaging in earnings management. The higher levered the firm is, the lower the risk of liquidation because of high scrutiny from debt financiers.

The following recommendations were made among others from the conclusions of the study:

- The regulatory authority such as SEC should make it mandatory for listed food/beverage and tobacco firms in Nigeria should have some optimum level of leverage in their capital structure financing.
- SEC should make sure that listed food/beverage and tobacco firms in Nigeria disclose their report promptly and the external auditors should be mandated to report on the performance of the firms' audit.

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