

**THE EFFECT OF FINANCIAL LEVERAGE ON THE PERFORMANCE OF QUOTED
MANUFACTURING COMPANIES IN NIGERIA**

EUNICE EZEDURU

Department of Business Administration
Kaduna State University-Nigeria
euniceezeduru@gmail.com
[+234-8036473236](tel:+234-8036473236)

&

OMOLADE OLAJIDE

Department of Business Administration
Kaduna State University-Nigeria
Mldtemi002@gmail.com
[+234-08099446574](tel:+234-08099446574)

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YUSHAU I. ANGO (Ph.D)

Department of Business Administration
Kaduna State University-Nigeria
yushauango@yahoo.com
[+234-8033111933](tel:+234-8033111933)

ABSTRACT

The debt-to-equity ratio of a firm determines how cash flows will be shared between equity holders and debt holders. Financial managers face difficulty in determining the optimal leverage. The main objective of this study is to determine the effect of financial leverage on the performance of quoted Manufacturing firms in Nigeria. The sample data was extracted from 92 manufacturing companies registered by the Nigerian stock exchange (NSE) from the period 2007 to 2016. Return on Equity (ROE), Return on Asset (ROA) and Return on Investment (ROI) represent performance of dependent variables. While Debt/Equity ratio represent financial leverage as independent variable. Simple Least Square regression method was used as a tool of data analysis and findings of the paper reveal that, Debt to equity ratio has insignificant effect on the performance of quoted Manufacturing firms in Nigeria, it also shows a positive effect relationship between financial leverage and Debt to equity ratio. The coefficient of determination shows 81% of the total variation in the dependent variable (Leverage) can be explained by the explanatory variables (Debt to equity ratio). Therefore it is recommended that, management of quoted manufacturing firms should work very hard to improve their financial leverage in order to increase Debt equity ratio such as return on assets, returns on equity and return on investment and earnings from their business transaction. The Management of Nigerian quoted manufacturing firms must caution against the apparent benefits of greater leverage simply as a device for controlling managerial opportunistic behavior.

Keywords: Debt equity ratio, Leverage, Return on equity, Return on asset, and Return on investment.

INTRODUCTION

Investors invest for anticipated future returns, but those returns can rarely be predicted precisely as there will almost always be risk associated with investments. Actual or realized returns will almost always deviate from expected returns anticipated in the beginning of the investment period. It is assumed that investors will prefer investments with the highest expected return suitable to their risk aversion (Bodie et al. 2008)). Financial risk for a firm is commonly associated with the form of financing. The greater the amount of debt a firm uses to finance its operation, the higher the financial risk. The risk stems from the firm not being able

to meet its financial obligations. This has given rise to a thought in finance of the unambiguous relationship between capital structure and return on equity. It is important to note that, in evaluating the performance of a firm, the personal wealth of a firm may influence the level of risk a company investor and managers may be willing to assume as well as determine the resources available to support the business. As a result of ownership and wealth incentive, it is important to investors and others to understand its effects on firm performance as they evaluate a firm because capital structure decision on financing the assets (such as personnel, machinery and buildings) of an organization by debt or by equity will leave relationship with the final result for any given period since capital structure influence the returns and risks of shareholders and this consequently affects the market value of the shares.

The manufacturing sector consists of establishments that use mechanical or chemical processes to transform material or substances into new products. An establishment is usually at a single physical location and is often called a plant, factory, or mill. It ordinarily uses power-driven machines and equipment for handling materials. Its products may be final products that consumers will purchase, such as an automobile or a chair, or they may be goods for use by other manufacturers, such as parts for automobile engines or rolls of upholstery fabric. A manufacturing establishment may also assemble parts or perform blending operations. Manufacturers are in the business of producing physical units of output for consumption by end users or other manufacturers. One goal of production is to consume as few inputs as possible to produce a quality output. Financial leverage is closely linked with corporate performance (Tian and Zeitun, 2007). Corporate performance can be measured by variables which involve productivity, profitability, growth or, even, customers' satisfaction. These measures are related among each other. Financial measurement is one of the tools which indicate the financial strengths, weaknesses, opportunities and threats. Those measurements are return on investment (ROI), residual income (RI), earning per share (EPS), dividend yield, return on assets (ROA), growth in sales, return on equity (ROE) (Barbosa and Louri, 2005).

The standard of increasing capital in Nigeria became harder to achieve due to the associated risk of raising capital. Although Financial Leverage and the effect on the value and performance had been studied for many years, researchers still cannot agree on the extent of the effect. In Nigeria, investors and stakeholders do not look in detail the effect of Financial Leverage in measuring their firms' performance as they may assume that attributions of Financial Leverage are not related to their firms' performance and value. Indeed, a well attribution of Financial Leverage will lead to the success of firms. Modern financial theory and strategic management which provide basis of associating leverage and firm performance are based on very different paradigms, resulting in opposing conclusions. Therefore, there is need for more integrative research to resolve the controversies. Strategic management scholars exhibit disparate opinions regarding the possibility of such integration. Oviatt (1984) suggested that a theoretical integration between the two disciplines is indeed possible, and that transaction cost economics and agency theory provide possible avenues. In contrast, Bromiley (1990) believed that the scope for integration is limited, if at all possible. According to him, strategy researchers should neither import empirical results from finance, nor should they work towards integration of strategic and financial research.

The choice of an appropriate financing mix constitutes a critical decision for the survival and continuous growth of any business organization not only because of the need to maximize returns to the various interest holders, but also because of the impact such informed decision has on the performance of an organization in a competitive environment. The survival and growth of a firm is dependent on the availability and access to resources but financing these resources has limitations. Therefore, applying these limit resources should be in the way that creates an appropriate share of value for providers and users of resources because without capital the firm would be unable to run, grow and expand their business.

Although various studies on the effect of financial leverage on firm performance carried out in Nigeria gave less attention to manufacturing sector which is at its growing stage (see Ojo, 2012; Ikechukwu & Nnagbogu, 2014; FCIB, 2014). However, most of these studies present inconclusive and contradictory results over the effect of financial leverage on the performance of quoted manufacturing companies and as such more studies are needed in this area and this justify the need for this research. Therefore, the conduct of this study is going to fill the gap left by researchers.

The resolution of this issue for the practical conduct of operations in the manufacturing sector seems important. Accordingly this paper explores the link between leverage and manufacturing sector, contributing towards the existing empirical evidence of asset pricing implications of leverage. Furthermore, the empirical data that have been used to test this proposition have predominantly derived from firms in developed countries; there is therefore the need to test the robustness of this proposition in a different environment and more importantly in a developing country. It is in the light of these conflicting views the study attempts to

investigate the effects by analyzing a financial leverage question from a Nigerian business environment. This has served as a motivation for the current paper.

Therefore, the objectives of this study is to examine the effect of financial leverage on the performance of quoted manufacturing firms in Nigeria, to determine the effect of debt/equity ratio on the return on equity of quoted manufacturing firms in Nigeria, to find out the effect of debt/equity ratio on the return on assets of quoted manufacturing firms in Nigeria and To evaluate the contribution of debt/equity ratio to return on investment of quoted manufacturing firms in Nigeria. This study was guided by the following research questions: 1) what is the effect of financial leverage on the performance of quoted manufacturing firms in Nigeria? 2) How does debt/equity ratio influence the return on equity of quoted manufacturing firms in Nigeria? 3) What is the impact of debt/equity ratio on the return on assets of quoted manufacturing firms in Nigeria?

In line with the research questions, this study tested the following hypotheses: H_{01} : There is no significant effect of financial leverage on the performance of quoted manufacturing firms in Nigeria. H_{02} : There is no significant impact of debt/equity ratio on the return on equity of quoted manufacturing firms in Nigeria. H_{03} : There is no significant effect of debt/equity ratio on the return on assets of quoted manufacturing firms in Nigeria. The paper is organized into five sections given the introduction as section one. The rest of the paper is organized as follows: Section two presents the literature review. In section three, the methodology adopted for this study is presented. Presentation of results is done in section four and conclusion is drawn in section five with policy implication.

LITERATURE REVIEW

A number of empirical research works on the literature brings one quickly to the key question of whether the 'mix' in financing an investment of a firm really matters. When the ratio of debt to equity, or degree of leverage is varied, what happens to the total valuation of the firm and to its cost of capital? On the other hand, what happens to its earnings capacity? The former has been an issue of intensive argument over the years. With differing assumptions, the traditionalists and the Modigliani-Miller (M&M) were the major acclaimed contending parties on the matter. Equipped with 'arbitrage' syndrome, the M&M made a formidable attack on the traditionalists. They opined that the total investment value depends on its underlying profitability and risk and that it is independent of its financing mix. They further stressed that unless a company is able to do something for investors that they cannot do for themselves, value is not created. Hence, the Modigliani-Miller (MM) capital structure models are based on the central assumption that the levered and the unlevered firms belong to the same 'homogeneous risk-class'. Literally, their argument seems to be strong; however, it failed to realize that the proportion of risk of an investment is influenced by the introduction of debt into its capital structure. No matter how arbitrage transactions are adopted, the final implication of debt as it affects individual perception of investment risk stands out. Thus, the inclusion of financial risk cannot be all that over emphasized. This rationally will have a feedback on the firm's earnings capacity and eventually the value of the firm.

Hasan Ahmed Al-Tally (2014) in his research work on An Investigation of effect of financial leverage on firms financial performance in Saudi Arabia's public listed companies has demonstrated that since the Incorporation of Saudi stock market in the year 2003, corporations have been in the position to substitute equity for more debt. Since the day new banks have entered the Saudi financial market; Corporations came into position to borrow more funds from the banks. This research was conducted to further enhance the understanding of how financial leverage operates in no Interest based financial system of the country & how it may affect the financial performance. Study has examined the 57 publicly trading firms listed in Saudi Arabian stock market between the years 2002-2010. His Study was an attempt to further extend the understanding regarding previous literature on how financial performance is linked to financial structure Zakat (Islamic Tax) and the sizes and ages of Saudi Arabian firms in a no Interest based financial system. His study attempted to provide a new theoretical view on the traditional capital structure theories notably the Tradeoff & Pecking order theories. Independent variable used in the study was financial leverage & zakat whereas financial performance was used as dependent variable. Descriptive & Inferential Statistical techniques were brought into play including maximum & mean factor analysis, standard deviation, ANOVA and SPSS Software was utilized to focus the noteworthy relationship among the variables. Overall results concluded that in the long term in the absence of acute economic downturns, lower leverage tend to lead to higher returns on both Assets and equity and leads to higher profit margins. It also brought in to view the evidence that Saudi firms could attempt to enhance their financial performance by balancing their Zakat liabilities with leverage borrowing trends. A separate research is required to examine the effects of Zakat on

capital structure and financial performance for each sector may provide In-depth knowledge regarding this relationship.

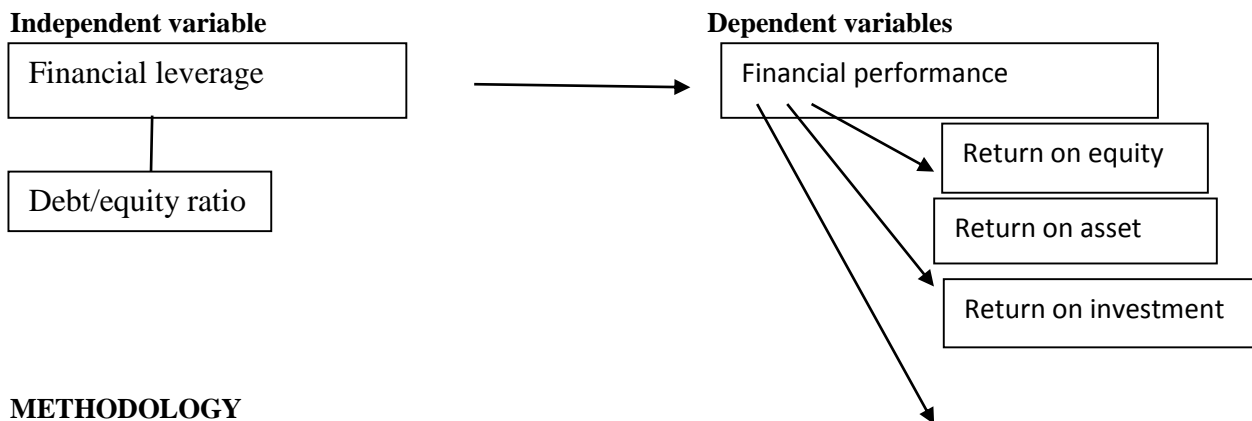
Perinpanathan Rajkumar (2014) had examined the Impact of financial leverage on financial execution with extraordinary reference to John Keells holding plc in Srilanka. John Keells holding plc is the biggest recorded Company in Colombo stock trade having joined in ahead of schedule 1870's as a produce and trade brooking business by two English men named as Edwin & George john. To test the hypothesis and relationship between dependent and Independent variables, data of John Keells plc was taken from period 2006- 2012. NP ratio, ROE; ROCE is used to measure dependent variable whereas Debt to equity ratio was employed to measure Independent variable. For identifying the pattern of relationship between financial leverage & financial performance correlation and regression analysis were adopted. Correlation analysis displayed a strong negative relationship of -.789 between the variables at significance level of 0.05. ANOVA test was also brought into play. Finally it was concluded that there is negative relationship between financial performance and financial leverage. Hence if John Keells wants to maximize its financial performance it has to adopt the policy of minimum debt capital in their capital structure. Somayyeh Mahmoudi (2014) presents an empirical insight on the effect of leverage on cement industry profitability in Iran. The study was an attempt to highlight the crucial issue that the managers are confronting today, and how to choose the combination of debt & equity to achieve the optimal capital structure that would minimize the firms cost of capital & improves returns to the business owners. Using leverage on capital structure as Independent variable and profitability as dependent variable and time period comprised of years 2008- 2011. They used descriptive and regression models to test the theory. Results of the exploration demonstrate that there is critical negative relationship between firm's profitability & leverage. It was evidenced through this research that top management of every firm should be focused on making prudent financing decisions in order to remain profitable and competitive and therefore managers should realize to what extent leverage had an influence on the financial performance.

Anup and Suman (2010) has researched on the Impact of capital structure on the firm's value (evidence from Bangladesh). An attempt has been made empirically in this study to support Modigliani Miller argument of Impact of obligation value proportion on firm esteem in their capital structure hypothesis. The paper had attempted to test the Influence of obligation value structure on estimation of shares given diverse sizes, businesses and development opportunities with the organizations joined in Chittagong Stock trade & Dhaka stock trade. Tests for the study purpose are drawn from four most dominant parts i.e. building, nourishment & associated, fuel and force, Chemical and Pharmaceuticals. 77 Companies from 4 separate segments of Bangladesh capital business has been taken as a populace for the study while estimation of the firm was taken as needy variable and firm size, gainfulness, open possession in capital structure, profit payout, holding and operation of development rate, Liquidity & business danger was taken as Independent variables. Descriptive Statistics and Correlation analysis is used as statistical tools for relation of the variables. Cross sectional tie arrangement altered impact model was likewise used to break down the accessible information & to figure out the noteworthy effect of capital structure on the organizations esteem. Results concluded that to maximize the abundance of shareholders obliges an immaculate consolidation of value & obligation. While expense of capital has negative correspondence and it must be least as would be prudent. It has additionally been observed through the findings that by changing the composition of capital structure of the firm can have increase in its value in the market. While it could be a huge strategy for directors to rely on debt to have a capital structure that can maximize the wealth of shareholders.

Asif et al. (2011) in their research finding regarding Impact of financial leverage on dividend policy evidence from listed companies at Karachi Stock exchange, examines the relationship between dividend policy & the financial leverage of 403 companies, listed in the Karachi stock exchange during the period 2002-2008. The strategy for the profit that is trailed by the organizations is tried by utilizing broadened model of Linter (1956). Data utilized was gathered from investigation reports, online information base of overall stock data, SBP website, Business Recorder website and annual reports of the listed companies. Islamabad Stock exchange and Security exchange commission of Pakistan was brought into play for the collection of data for the year 2002 and 2003. Dividend yield and debt ratio were used as Independent variable and dividend per share as dependent variables. First descriptive statistics for all the variables are collected and after that association lattice was computed to distinguish a preparatory relationship among all the variables emulated by relapse examination on board information to look at the extent and criticalness through settled and irregular impact model. It were demonstrated through hypothetical attestations and were defended through Random impact display that broadly practiced dividend approach and level of corporate obligation influence the profit arrangement of Pakistani firms.

While on the other side it has been observed that financial leverage was found to have negative effect on profit payout, demonstrating that less profit installments are made by the organizations that are under high leverage. In addition, most studies on the impact of financial leverage on firm performance carried out in Nigeria (such as, Ojo, A. S, 2012.; Innocent, E. C., Ikechukwu, A. C.& Nnagbogu, E. K, 2014.; FCIB, N. O, 2014.) gave less attention to manufacturing sector which is at its growing stage. Therefore, the conduct of this study is going to fill the gap left by researchers.

ADOPTED PROPOSED THEORETICAL FRAMEWORK



METHODOLOGY

POPULATION OF THE STUDY

The population of this study consists of all Nigerian manufacturing companies that enjoy first-tier listing on the Nigerian Stock Exchange (NSE). As at October, 2016, a total of Ninety two manufacturing firms enjoy first tier listing on the Nigerian Stock Exchange. However, these Ninety two (92) firms form the population in this study.

SAMPLE OF STUDY

There are many types of sampling methods. For the purpose of this study, stratified sampling technique is used considering the sectorial grouping of firms in the stock market. A stratified sampling method extends the ideas of simple random sample to ensure that a heterogeneous population has its defined strata taken account of in the sample. One advantage of this method is that the sample itself is free from bias. The selection of strata is subjective and it increases cost due to the extra time and labour necessary for the organization and implementation of the sample. Slovin’s sampling technique formula is used in determining sample size of this study as adopted by Ariola *et al* (2006).

Slovin's formula is written as:

$$n = N / (1 + Ne^2)$$

Where n = Number of samples

N = Total population

e = Error tolerance

Hence: n = 92

$$1 + 92 (0.15)^2$$

$$N = 30$$

To select sample size from each sector from the population size, we now determine our sample size through the use of proportional sampling techniques.

MEASURES OF THE STUDY

In this study, performance is measured by three proxies namely; return on equity (ROE), return on assets (ROA) and return on investment (ROI).The nature of the data collected would determine the type of tool to be adopted for analysis. For the purpose of this study simple regression technique is to be used as a tool of analysis. This is for the reason that the study determines the effect of leverage which is the independent variable represented by Ratio of Debt to equity on the firm’s performance represented by ROE, ROA and ROI of quoted manufacturing firms in Nigeria. Thus, the study has one independent variable and three dependent variables.

MODELS SPECIFICATION

The models used in testing the hypotheses of the study are presented below:

$$ROE = \alpha + \beta_1 DER$$

$$ROA = \alpha + \beta_2 DER$$

$$ROI = \alpha + \beta_3 DER$$

Where:

ROE = RETURN ON EQUITY as a dependent variable 1

ROA = RETURN ON ASSETS as a dependent variable 2

ROI = RETURN ON INVESTMENT as a dependent variable 3

α = Constant

$\beta_1 - \beta_3$ = Coefficient of the independent variable

LEV = D/E (Ratio of Debt to equity as an independent variable)

VARIABLES MEASUREMENT

ROE = $\frac{\text{Net Profit after Tax}}{\text{Average Share Holder Equity}}$

This measure how much share holder earn for its investment. Ratio indicates how Profitable a company is by comparing its net income to average shareholders' equity. The higher the percentage, the more efficient equity holders fund is been utilized.

ROA = $\frac{\text{Net Profit after Tax}}{\text{Total Assets}}$

This shows how profitable a company's assets are in generating revenue. It states how much of earnings is been derived from each naira of assets an organization control.

ROI = $\frac{\text{Net Profit after Tax}}{\text{Total Tangible Assets}}$

This is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. It shows the ratio of money realized/unrealized on an investment relative to the invested amount. If an investment does not have a positive ROI, or if there are other opportunities with higher ROI, then the investment should not be undertaken.

DECISION RULE

When the probability value is greater than 5% level of significance we reject the null hypothesis that Leverage has no significant effect on the Performance of Quoted Manufacturing Firms in Nigeria and when the probability value is less than 5% level of significance, we accept the alternative hypothesis that leverage has a significant effect on the performance of Quoted Manufacturing Firms in Nigeria. The technique of t-test has also been used to estimate the regression coefficient of the variables.

DATA PRESENTATION AND ANALYSIS

Determinants of the Effect of Leverage on the Performance of Nigerian Quoted manufacturing firms.

The study uses three dependent variables for determining the aggregate effect of Debt equity ratio on the performance of Nigerian quoted manufacturing firms. These three explanatory variables are return on equity, return on assets and return on investment. The study hypothesizes significant effect between explanatory variables and Debt equity ratio in Naira.

The regression results are presented in Table 4.2 below.

Analysis of effect of Leverage on the performance of Nigerian quoted manufacturing firms

Number of obs =	10			
F(3, 6)	0.44			
Prob> F	0.7298			
R-squared	0.8119			
Adj R-squared	0.7271			
			Root MSE	= .09162
DER	Coef.	Std. Err.	T	P>t
ROE	0.1723394	.3187839	0.54	0.608
ROA	0.243887	.351377	0.69	0.514
ROI	0.2503041	.3982713	0.63	0.553
_cons	-0.1373535	.2265609	-0.61	0.567

Source: stata 12 (2014)

Effect of Leverage on Return on equity of Nigerian Quoted manufacturing firms.

A null hypothesis that Leverage has no significant effect on the return on equity of Nigerian quoted manufacturing firms was formulated to ascertain whether Debt equity ratio has effect on financial leverage of Nigerian quoted manufacturing firms or not. The hypothesis is tested and the regression result in the above table reveals a positive correlation coefficient of 17% percent between Leverage and return on equity (ROE), while Leverage on return on asset (ROA) also reveals a positive correlation coefficient of 24% and Leverage and return on investment (ROI) reveals a positive correlation coefficient of 25%. The correlation coefficient, ROE = 0.1723394, ROA = 243887 and ROI = 2503041 have positive values and statistically insignificant relationship, showing that between pair of financial leverage and debt equity ratio is positive and insignificant relationship. Also, the result of the regression model that Debt equity ratio is playing insignificant role in measuring return on equity, asset, investment and the positive nature of the correlation coefficient explains the model in the regression ROE, ROA, ROI = $\alpha + \beta$ DER .The result of the model reveals that for every N1 naira increase in Leverage brings about N17 increase in return on equity, also, for every N1 naira increase in Leverage brings about N24 naira increase in return on asset and for every N1 naira increase in Leverage brings about N25 naira increase in return on investment. The R² (coefficient of determination) shows that 81% of the total variation in the independent variables (leverage) can be explained by the dependent variable (performance) and this slide drops to about 72% after adjusting for degree of freedom which is still significant.

The F-statistic reported in the upper panel of the table gives the goodness of fit of the model. The F- statistic is approximately 72.98 with a Probability of 0.000000. The significance of this value implies that the data used in the estimation fitted well into the regression equation, hence the model is adequate in explaining the effect of financial leverage on the performance of quoted manufacturing companies in Nigeria. That is the independent variables (leverage) jointly have a significant influence on the dependent variable (performance).

In addition, F-values in the regression results 0.72 indicate that leverage has the highest value of 72.98. This shows that leverage has greatest effect on the performance. However, all the calculated significant value of return on equity 0.608, return on asset 0.514 and return on investment 0.553 are greater than 5% level of significant (P >0.05). This therefore produced the evidence of accepting the null hypothesis that leverage has no significant effect on performance of Nigerian quoted manufacturing firms.

Discussion of Findings

Given the above empirical results, it shows that the correlation coefficient of leverage and performance is closed to hundred percent and this can be submitted that the leverage shows positive effects on performance for the period under review.

Quoted manufacturing firms with good Debt equity ratio to reduce cost of capital and increase their turnover which ultimately improves their performance. The study accepted the null hypotheses that Leverage in Nigerian quoted manufacturing firms have no significant effect on the three explained variables: return on equity, return on assets and return on investment. The results reveal a positive relationship of 17%, 24% and 25% between the value of Debt equity ratio and return on equity, return on assets and return on investment of Nigerian quoted manufacturing firms respectively. The study shows that for every N 1 naira increase as a result of Leverage, the volume of return on equity increases by N17, return on assets by N24 and investment by N25 in Nigerian Quoted manufacturing firms.

The result implies that the more quoted manufacturing firms mix their equity and debt properly, the more return to be generated on equity, assets and investments. The study reveals that the performance indicators of the sampled quoted manufacturing firms can be explained by the influence of Debt equity ratio. In addition, Nigerian quoted manufacturing firms performed remarkably well within the period of the study. Debt equity ratio has insignificant effect on their performance. The regression shows that firms that issued more common and preferred equity are the same firms that increased their Debt equity ratios. More importantly, the correlation between issuing activity and Debt equity ratio changes is so modest that the two are almost orthogonal. Consequently, the empirical literature on (equity) issuing activity and Financial Leverage should be seen as distinct. A variable that explains equity-issuing activity does not necessarily explain capital structure changes, and vice versa.

Measuring firm performance has been a major challenge for scholars and practitioners as well. Performance is a multidimensional construct (Chakravathy, 1986), thus any single index may not be able to provide a comprehensive understanding of the performance relationship relative to the constructs of interests. Therefore it is important to look at multiple indicators. At the same time it is important to understand stable relations over time. Thus, instead of using a short-term indicator of performance it is desirable to study how our variables of interest will influence performance over a period of time. Given these considerations, the study selected return on equity (ROE), return on assets (ROA) and return on investments (ROI) as the performance measures, and averaged the data over a 10-years' time period from 2007 to 2016. We therefore concluded that ROE, ROA and ROI were return measures that captured a firm's contribution to the overall investment of resources and therefore were more appropriate measures of performance for this study.

CONCLUSION AND POLICY IMPLICATIONS

The Lease square method was used to analyze the effect of financial leverage on the performance of quoted manufacturing companies in Nigeria during the period 2007-2016. In view of the above, the study hypothesized a significant relationship between Debt equity ratio and three performance indicators of Nigerian quoted manufacturing firms namely; return on equity, return on assets and return on investment.

From the findings, the research are based on the result of the tested hypotheses. It is also based on the pooled cross-section of time series data collected for the period 2007 to 2016 from 28 samples of quoted manufacturing firms out of 92. Simple linear regression is used for testing hypotheses. The result of the study reveals that Debt equity ratio has insignificant effect on the performance of quoted manufacturing firms in Nigeria.

In accordance with the research finding that Debt equity ratio explain the variables of quoted manufacturing firm's performance, the study concludes as follows. Firstly, the statistical evidence on the effect of Leverage on the three performance indicators namely return on equity, return on assets and return on investment in the Nigerian quoted manufacturing firms have insignificant effect on the quoted manufacturing firms' performance. Secondly, the study also concludes that Nigerian quoted manufacturing firms have positive effect and performed remarkably well within the period of the study 2007-2016. Finally, the study reveals the effect of financial leverage on the performance of Nigerian quoted manufacturing firms looking at performance from the perspective of return on equity, return on assets and return on investment via correlation coefficient of the analysis (coefficient of determination).

The study therefore recommends that the management of Nigerian quoted manufacturing firms should work very hard to optimize the financial leverage of their quoted manufacturing firms in order to increase the returns on equity, assets and investment. They can do that through ensuring that their financial leverage is optimal. Hence, there is need for the Management of Nigerian quoted manufacturing firms to increase their commitments into financial leverage in order to improve earnings from their business transaction. The Management of Nigerian quoted manufacturing firms must caution against the apparent benefits of greater leverage simply as a device for controlling managerial opportunistic behavior.

Policy implications are evident from the study. Since there is positive effect of financial leverage on the performance of quoted manufacturing companies in Nigeria, debt and equity represent different

constituencies with their own competing, and often mutually exclusive, goals. As the level of debt increases, the financial leverage can change from one of internal control to one of external control. Therefore, Investors and stakeholders of quoted Manufacturing firms in Nigeria should also consider the leverage level of any firm before committing their hard earned money as the strength of a firm financing mix determine the quantum of their returns.

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APPENDIX

Dependent Variable: DER
 Method: Least Squares
 Date: 02/25/17 Time: 09:48
 Sample: 2007 2016
 Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.137353	0.226561	-0.606254	0.5666
ROA	0.243887	0.351377	0.694089	0.5136
ROE	0.172339	0.318784	0.540615	0.6082
ROI	0.250304	0.398271	0.628476	0.5528
R-squared	0.811937	Mean dependent var		0.102000
Adjusted R-squared	-0.727194	S.D. dependent var		0.082704
S.E. of regression	0.091615	Akaike info criterion		-1.653267
Sum squared resid	0.050360	Schwarz criterion		-1.532233
Log likelihood	12.26634	Hannan-Quinn criter.		-1.786041
F-statistic	0.444800	Durbin-Watson stat		2.738814
Prob(F-statistic)	0.729792			

