Effect of Financial Structure on the Performance of Cement Manufacturing Companies in Nigeria

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ABSTRACT

This paper reviews related literature on the effect of capital structure on the performance of cement manufacturing firms in Nigeria. The researcher used secondary information gathered from books, journals and internet materials. Findings revealed that managers of firms are under pressure to determine the right proportion of debt and equity that would be used to achieve optimal financial performance. It was concluded that researchers are yet to reach a compromise on the optimal capital structure of a firm that would maximize firm's performance. It has been recommended that as managers continue to vary the debt to equity proportions more research should be conducted to find out an optimal capital structure that would optimize firm's performance.

Keywords: Capital Structure, Ownership Structure, Agency Theory, Leverage, Corporate Finance

INTRODUCTION

This study is a review of related literature on the effect of financial structure on the performance of cement manufacturing companies in Nigerian. Financial Structure is a mixture of debt and equity capital maintained by a firm, it is also referred to as capital structure of a firm. The capital structure of a firm is very important since it related to the ability of the firm to meet the needs of its stakeholders Boodhoo (2009). Modigliani and Miller (1958) were the first researchers to landmark the topic of capital structure, they argued that under the assumptions of a perfect

capital market, investors homogeneous expectations, tax free economy and no transaction costs, capital structure was irrelevant in determining the firm's value and its future performance. On the other hand, Batkin and Chatterjee (1994) as well as many other studies have proved that there exists a relationship between capital structure and firm value.

Modigliani and Miller (1963) in their seminar paper titled the correction proved that their model was no more effective if tax was taken into consideration since tax subsidies on debt interest payments will cause a rise in firm value when equity is traded for debt.

Since each of the component sources of capital has a cost that is associated with it, it is expected that the way a company is financed should impact on its performance. Consequently, interest (cost of debt) has a tax shield which relieves the tax burden of firms as it reduces their taxable income and makes them pay less tax. However, managers ought not to be deceived by this because bankruptcy cost is associated with issuing debts. On the other hand, declaration and payment of the cost of equity (dividend) is not mandatory but when it is paid, serves as an incentive to investors and the general public is also attracted to invest in the company. The prevailing argument is that debts may be preferable because it is tax deductible even though it is associated with bankruptcy. Equity source is cheap because dividend declaration and payment is not mandatory however, it has agency problem which arises because of the conflict between owners and managers and also owners and lenders.

STATEMENT OF THE PROBLEM

The debate on the irrelevancy of capital structure in the determination of firm value advocated by Modigliani and Miller (MM) is yet to reach consensus (Shoaib, 2011; Hung, Albert and Eddie, 2002; Ishola, 2008; Narendar, Khamis and Lateef, 2007). The attempts so far made to find the right balance between debt

and equity a company should use to optimise firm performance are yet to proffer solution to the problem. This has attracted the attention and concern to firm managers and practitioners who need this information to run their businesses. Meanwhile, managers of firms are under pressure to determine the right proportions of debt and equity to use in achieving optimal financial performance. They are also expected to determine which of the financing options mostly affect performance and whether by varying their proportions, performance can be improved.

Studies investigating the relationship between capital structure and firm performance in Nigeria are rather sparse. Notable exceptions been Onaolapo and Kajola (2010); Oke and Afolabi (2008); Nosa and Ose (2010); Ishola (2008). These studies have concentrated on other sectors such as banking and in most cases aggregate sectors of the economy and their results are also mixed and inconclusive. This calls for further empirical studies to be conducted in the field to see if the use of a particular sector will produce more convincing results. This study investigates the relationship between capital structure and firm performance in the cement industry because of the important role played by the industry in the economy and its phenomenal capital requirements. The main problem this study seeks to solve is whether the manner in which the cement industry is financed is significantly related to financial performance.

OBJECTIVES OF THE STUDY

The primary objective of this study is to review the related literature on the effect of financial structure on the performance of cement companies in Nigeria, the specific objectives are:

(i) To review the theoretical issues on the effect of financial structure on the performance of cement manufacturing companies in Nigeria.

(ii) To review the conceptual issues on the effect of financial structure on the performance of cement manufacturing companies in Nigeria.

(iii) To review the empirical issues on the effect of financial structure on the performance of cement manufacturing companies in Nigeria.

METHODOLOGY

The study used information from literatures reviewed by different researchers relating to the topic. This method was applied by collecting information from books, journals and online sources relating to the issue under consideration. The remaining parts of the paper are chapter two for literature review and chapter three for the summary, conclusion and recommendation.

REVIEW OF RELATED LITERATURE

This study is a review of related literature on the effect of financial structure on the performance of cement manufacturing companies in Nigeria. As financing of all firms is done by equity, debt or hybrid security, a firm's capital structure should rely upon the size of the composition of debt or equity that is used by it to be operational. The issue of capital structure influence on firm performance has generated heated and intensive debates and arguments among researchers of corporate finance for decades. But no consensus has so far been reached on the nature and direction of the relationship. Evidence of such studies include: Ahmed, Abdullah and Roslan (2012); Scheonbrodt (2011); Ong and Teh (2011); Saeedi and Mahmoodi (2011) among others. To add to researches already conducted in this field of finance; this chapter addresses the concept of capital structure, the supporting capital structure theories and review of empirical studies.

Financial Structure Theories

The following theories have evolved from capital structure and financial literature of the firm:

Modigliani and Miller (MM) Irrelevancy Theory

The MM theory states that there is no relationship between capital structure and cost of capital. This means that there will be no

effect of increasing debt on cost of capital. Value of the firm and cost of capital are fully affected from the investors' expectations of future benefits accruable to the firm. MM hypothesis supports the Net Operating Income (NOI) approach of valuing the firm and the overall cost of capital are independent of firm's capital structure. NOI approach suggests that capital structure does not determine firm value as the market capitalises the firm as a whole, thus the split between equity and debt is irrelevant. They argued that if two firms are identical in all respects but are different in values, it is as a result of one being overvalued. This overvaluation will be short-lived as the investors in the overvalued firm will sell their shares in order to buy in the undervalued firm. This process is termed arbitrage and it stops when the values of the two firms are equalized.

This theory has often being questioned (see Shoaib 2011; Tian and Zeitun 2007; Jensen and Meckling 1976; Fama and French 2002; Frank and Goyal 2005) because of its underlying assumptions. The capital market is not perfect as individuals and firms do not have the same borrowing power and expectations. Firms are generally more credit-worthy, so they are preferred to individual borrowers by lenders, who seek to minimise risk. Also the assumption of zero transaction cost is unrealistic because buying and selling of securities on the floor of the capital market involves some costs like brokerage fees. Additionally, capital market is dominated by institutional investors who are not permitted by the Securities and Exchange Commission (SEC) to practice home-made leverage which hinders the operations of the arbitrage process. Home-made leverage is the portion of debt in the capital structure of a company where the investors are owners. Lastly, corporation tax will frustrate this theory because incomes of companies are taxable and interest charges are tax deductible, which means that the cost of borrowing funds to the firm will be less than the contractual rate of return.

Pecking Order Theory

In the theory of firm's capital structure and financing decisions, the pecking order theory was first suggested by Donaldson in

1961 and was modified by Stewart Myers and Nicholas Majluf in 1984 (Frank and Goyal, 2005). It states that companies prioritise their sources of finance (from internal financing to equity) according to the principle of least effort or of least resistance, preferring to raise equity as a financing means of last resort. Hence, internal funds are used first, and when they are depleted, debt is issued. Based on empirical evidence, options have been made available on how a firm could finance its operations and assets in line with this theory.

Fluck (1999) revealed that the preliminary and following decisions of financing should follow a pattern: companies will float external equity and bonds initially and afterwards, use retained earnings, long term debts and external equity for subsequent financial requirements. Stenbacka and Tombak (2002) largely agreed with Fluck's assertion but not in order of financing. They recommended that small companies should issue debt first to generate retained earnings and as it accumulates, managers should concurrently obtain both debt and new equity. Meziane (2009) suggested a slightly different option: start ups should be financed with owners' capital, expanding companies with venture capital or private equity while mature companies should use internal financing, more debt and equity, in that order. These options are suggested but managers are expected to choose which one(s) to follow in accordance with the prevailing circumstances in their companies and the primary objective the company seeks to pursue.

Tests of this theory have not been able to show that it is of first-order importance in determining a firm's capital structure. However, researchers have found that there are instances where it is a good approximation of reality. For instance, Fama and French (2002) investigated the trade-off and pecking order theories of capital structure and found that some features of the data they used were better explained by pecking order theory. Goyal and Frank (2003) showed amongst other things that, the

theory failed where it should hold, namely for some firms where information asymmetry is presumably an important problem.

Trade-Off Theory

This theory refers to the idea that a company chooses how much debt and equity finance to use by balancing the costs and benefits. The classical version of the theory goes back to Kraus and Litzenberger (1973), who considered a balance between the cost of bankruptcy and the tax saving benefits of debt. This theory is often set as a competitor to the pecking order theory (Frank and Goyal, 2005). The prevailing argument, originally developed by Jensen and Meckling (1976) is that, an optimal capital structure exists which balances the risk of bankruptcy with the tax savings of debt. Once established, this capital structure should provide greater returns to stakeholders than they would receive from an all equity firm.

Thus, it is argued that the use of leverage either to discipline managers or to achieve economic gain is the easy way out, but may lead to liquidation of the company. The fact that an optimal capital structure has not been found is an indication of some flaw in the logic. Modigliani and Miller (1963) argued that bankruptcy costs exist and it increases when equity is traded off for debt. Hence they argued that an optimal capital structure that is reached when the marginal cost of bankruptcy is equal to the marginal benefit from tax-sheltering provided by the increase in debt ratio. The task of efficient managers is thus to recognize when this optimal capital structure is achieved and to maintain it over time. In doing so, they will be able to minimise the WACC and financing costs, and thus maximise firm's performance and value. In theory, modern financial techniques would allow top managers to calculate accurately optimal trade-off between equity and debt for each firm. In practice, Simerly and Li (2000) found that most firms do not have an optimal capital structure because managers do not have the incentive to maximise performance as their compensation is not generally related to it. This theory is most appealing in terms of wealth maximising objective of the firm.

The empirical relevance of the trade-off theory has often been questioned. Miller (1977), Myers (1984) and Fama and French (2002) argued that firms do not undo the impact of stock price shocks as they should under the basic trade-off theory and so the mechanical change in asset prices makes up for most of the variations in capital structure. Despite such criticisms, the trade-off theory still remains the dominant theory of corporate finance as the dynamic version of the model seem to offer enough flexibility in matching data, so contrary to Miller's theoretical argument, dynamic trade off models are hard to reject empirically (Frank and Goyal, 2005).

The Agency Theory

Proponents of the agency theory argued that due to dilution of equity ownership of large corporations, ownership and control become more and more separated. Jensen and Ruback (1983) remarked that this situation gives professional managers an opportunity to pursue their own interests instead of those of shareholders. In theory, shareholders are the only owners of a company, and the task of its directors is merely to ensure that shareholders' interests are protected and maximised. More specifically, the duty of directors is to run the company in a way which maximises the long run return to its owners, and thus maximise the company's profit and cash flows (Shoaib, 2011). Maximising shareholders' wealth and company profits are the key objectives of finance and are keen to managers.

However, Jensen and Meckling (1976) observed that managers do not always run the firms they work for to maximise shareholders' wealth. They seem not to align their interests with those of their principals. From this observation, the development of the agency theory took into account the principal-agent relationship as a key in determining firm performance. The problem is that the interests of the principal and the agent are never exactly aligned, and thus the agent, who is the decision-making part, tends to pursue his own interest instead of those of

principal. It means that the agent will tend to spend the free cash flow to fulfil his need for self-aggrandisement and prestige instead of returning it to shareholders (Jensen and Ruback, 1983). Hence, the main problem faced by shareholders is to ensure that managers will return excess cash flows to them (through dividend payouts); instead of having it invested in unprofitable projects (Jensen, 1986). If the principal wants to make sure that the agent acts in his interest, he must undertake some agency costs such as cost of monitoring managers. The more the principals want to control managers' decisions the higher their agency costs will be.

Nevertheless, researchers such as Margaritis and Psillaki (2008), Berger and Di Patti (2002) have found that capital structure can in no small measure cope with the principal-agent problem without substantially increasing agency costs, but simply by trading off equity for debt. It is argued that firms can discipline managers to run businesses more efficiently by increasing their debt-equity ratio. Therefore, debt creation ensures contractually that, managers will return excess cash flow to investors and pay lenders' interest instead of investing in projects that have negative Net Present Values (NPVs). This is because high degree of leverage entails high interest expenses, which force managers to focus only on those activities necessary to ensure that the financial obligations of the firm are met. Hence, by having less cash flow available, managers of highly levered firms see their ability of using the firm's resources for discretionary- and often useless-spending, dramatically reduced.

Firms which are mostly financed by debt can be used as a control mechanism, in which lenders and shareholders become the principal parties in the corporate governance structure. Managers that are not able to meet debt obligations are easily and promptly displaced in favour of new ones that can do better work in the owner's interest. Leverage firms are therefore somehow better for shareholders because they assure them that those managers do not have the ability and the cash to waste the firm's resources for their selfish interests. The ultimate outcome of debt creation

is thus, to transfer wealth from the organisation and its managers to investors (Jensen, 1989).

This reasoning may lead to the conclusion that debt financed firms are always better for investors than equity financed firms. It is logical, therefore, to wonder why not all firms are purely financed by debts. The answer lays in the fact that debt financing increases the cost of capital and other costs: highly levered firms are likely to face cash problems, which increases their likelihood of bankruptcy. Moreover, highly levered firms which are generally considered risky, tend to be low-rated by rating agencies. This classification of risky companies increases their overall cost of capital, since they seek to guarantee higher returns than those guaranteed by well-rated firms if they want to attract investors. It is pertinent to conclude this theoretical review by stating that the acceptance or otherwise of these theories has remained a puzzle and a controversial issue among corporate finance researchers and practitioners and their application is left to individual managers to choose which one is appropriate to them at any particular point in time.

THE CONCEPT OF CAPITAL STRUCTURE

The importance attached to the capital structure of a company cannot be over-emphasised. Sequel to this, Tian and Zeitun (2007) remarked that one of the main factors that could influence the performance of a firm is capital structure. To this end, the conceptual framework of capital structure includes a definition of capital structure and the factors that determine a firm's choice of finance.

DEFINITIONS OF CAPITAL STRUCTURE

Capital structure has been defined by many authors and scholars. However, these definitions are explicit and have the same meaning.

Aborode (2005) defined capital structure as the way a firm combines securities that carry fixed charges with equity. It can also be referred to as financial leverage. Van Horne (2002) defined capital structure as the proportions of debt instruments and preferred and common stock on a company's Balance Sheet. This study adopts the definition of Pandey (2005) which says a company's capital structure refers to its debt level relative to equity on the balance sheet. It is a snapshot of the amounts and types of capital that a firm has access to, and what financing methods it has used to conduct growth initiatives such as research and development or acquiring assets. From these definitions, it is worth saying that capital structure is the way a corporation finances its assets through some combination of equity, debt or hybrid security and that a firm's capital structure is then the composition or structure of its liabilities.

REVIEW OF EMPIRICAL STUDIES

A number of studies have investigated the relationship between capital structure and firm performance and results tend to be mixed. Some studies show positive relationship while others show negative relationship. Others found that there is a weak or strong association between capital structure and firm performance. Some of these studies conducted from different parts of the world, including Nigeria are reviewed below:

Berger and Di Patti (2002) researched on capital structure and firm performance with a view to testing agency theory and its application in 3720 banks in the US. In addressing the problem of reverse causality from performance to capital structure, two opposite and competing hypotheses were adopted: the efficient-risk hypothesis and the franchise-value hypothesis. A two-equation structural model was used to estimate a two stage least squares (2SLS) models for empirical testing of agency theory. Berger and Di Patti study found that efficiency measures were negative for all values of equity capital to total assets consistent with the agency cost hypothesis for virtually all large professionally managed banks, which generally have low equity capital. It was also found that an increase in outside block

ownership reduces profit efficiency, which in not consistent with the hypothesis of increased monitoring incentives from more concentrated outside ownership. Size was found to have negative and significant relationship suggesting that large banks tend to be less efficient. However, the study could not find strong dominance of one hypothesis over the other. But there was an indication and evidence in support of the efficiency-risk hypothesis over the franchise-value hypothesis. For relatively low level of efficiency, the findings were consistent with the dominance of the efficiency-risk hypothesis under which the expected additional earnings from higher efficiency substitute for equity capital in protecting the firm from the expected costs of bankruptcy or financial distress.

For relatively higher level of leverage, the findings of Berger and Di Patti were more consistent with the dominance of the franchise-value hypothesis, under which firms try to protect higher expected income from higher efficiency by holding additional equity capital. Findings also revealed that, higher leverage or lower equity capital ratio is associated with higher profit efficiency. The effect was economically and statistically significant. Profit efficiency was also responsive to the ownership structure of the firms, as neither of the hypotheses dominated the other for the ownership sample. However, the substitution effect of the efficiency-risk hypothesis dominated the entire sample, suggesting a difference in behaviour for the small banks that comprised most of the full sample. This work was famous in testing theory in the banking industry where equity capital dominates. However, the results are consistent with the pecking order predictions of capital structure and directed towards the interest of owners and managers, but that of lenders was not captured. A similar work can be conducted using another sector and comparison can be made between this and that result.

Margaritis and Msillaki (2008) researched on capital structure, equity ownership and firm performance across different industries

using a sample of 1410 French manufacturing firms. They used productive efficiency as a measure of firm performance and model technology using the directional distance function proposed by Chambers et al. (1996). They also employed non-parametric Data Envelopment Analysis (DEA) methods to empirically construct the industry's best production frontier and measured firm efficiency as a distance from that frontier. Using these performance measures, they examined if more efficient firms choose more or less debts in their capital structure. Margaritis and Psillaki summarised the contrasting effects of efficiency on capital structure in terms of two competing hypotheses: the efficiency-risk hypothesis and the franchise-value hypothesis.

Using quantile regression methods, they tested the effects of efficiency on leverage and thus the empirical validity of the two competing hypotheses across different capital structure choices. They also tested the direct relationship from leverage to efficiency stipulated by the Jensen and Meckling (1976) agency cost model. Their analysis included the role of ownership structure on capital structure and firm performance. They tested that concentrated ownership should lead to better firm performance by lowering agency cost while dispersed equity ownership should be associated with more debt in the firm's structure.

The findings of Margaritis and Psillaki study using the ordinary least squares and quantile regressions, showed that the effect of efficiency on leverage is positive and significant in the low to medium range of the distribution, supporting the efficiency-risk hypothesis, that more efficient firms with relatively low levels of debt tends to choose higher debt ratios because higher efficiency lowers the expected cost of bankruptcy and financial distress. At the higher level of efficiency, it was found that income effect associated with the franchise-value hypothesis where more efficient but highly levered firms choose lower debt levels outweigh the substitution effect associated with efficiency-risk hypothesis. Consistent with the pecking order theory, profitability had a negative effect on leverage for all industries on the average and also across different capital structures.

The findings of Margaritis and Psillaki study were consistent with the views that the fear of bankruptcy induces managers of highly levered firms to lower debts. The work could not find evidence to suggest that the franchise-value effect outweighs the efficiency-risk effect even for the most highly levered firms. This study is a replica of Berger and Di Patti (2002) but in another land using a different sector. It is typical of a research conducted in advanced countries where the capital market is efficient and data collected represents a fair view of the activities on it. It used productive efficiency instead of profitability measures applied by many researchers in this field but a measure of leverage effect along lenders interest is absent. The study also used aggregate firms and so there is no way for sector by sector analysis of firm performance.

Ahmed, Abdullah and Roslan (2012) examined the effect of capital structure on firm performance in the consumers and industrial sectors of all the 58 Malaysian firms listed on the main market of Bursa from 2005-2010. Multiple regression analysis was used to analyse the data so as to obtain findings of the study. It was found that short term debt and total debt had significant relationship with ROA, while for ROE; all the capital structure indicators had significant relationship. The analysis with lagged values also showed that none of the lagged values for total debt, short term and long term debts had significant relationship with performance. The study also showed that all the models tested had a very low explanatory power on firm performance. The significance of ROE and capital structure variables was suggested that short term debt tends to be less expensive and increasing it with a relatively low interest rate will lead to an increase in profit levels. Lagged capital structure variables were not significantly associated with ROE and were thought to imply that capital structure had no immediate or long term effect on returns to shareholders.

The study suggested that investors who concern for ROE should be indifferent to any level of debt used by the firms since the level of debt does not affect the firm's ROE. It concluded that fundamental analysis of the firm size, growth and efficiency have little role to play in guiding investors' choice of firms with good operating performance. This study to some extent, showed the effect of capital structure and how it may help in predicting immediate and future impact of firm performance. It failed to show the interest of lenders as no index was used to depict their concern.

Sheonbrodt (2011) investigated the influence of firm specific characteristics over firm performance by analysing 49 US and 49 German firms between 2009 and 2010. The study used the US as a common law country and Germany as a civil law country in line with La Porte et al. (1998). He credited common law countries with better creditor protection rights, resulting to better framework for financial developments and economic growth and argued that there is no reason to accept this proposition. Using regression analysis, the results suggested that although not significant, leverage variables of German firms were more positively related with firm performance than their US peers. The results did not prove that the leverage variables for German firms were significantly more positive than the US leverage variables but at least proved that the US leverage variables were not significantly more positive than the German leverage variables. This, according to him, proved that there is no difference between common and civil countries in terms of better creditor protection rights.

Sheonbrodt's study further found that different financial resources were used with respect to both countries, indicating that the availability and development of the financial resources do have influence over the relationship between leverage and firm performance. This study illustrates the fact that, financial issues can be combined with other disciplines to give weight and add value to studies and to make them appear real and exceptional.

However, as noted in all other works, lenders interest was not addressed by this study.

Ong and Teh (2011) examined capital structure and corporate performance of all the 49 Malaysian construction firms listed on the main market of Bursa from 2005-2008, a study that covered pre and post 2007 crisis. The 49 firms were divided into big, medium and small sizes, based on their paid up capital. Using the pooling regression method, it was found that there is a relationship between firm's capital structure and corporate performance. For big firms, only return on capital and EPS had significantly positive relationship with capital structure. Comparatively, return on capital and debt-equity market value were the most correlated and showed the strongest relationship among all the variables. Debt to equity market value, long term debt to capital and total debt to capital had direct impact on corporate performance. The other independent variables did not affect the dependent variables. In the medium construction companies, only operating margin had significant relationship with capital structure.

Basically, long term debt to capital employed had direct impact on corporate performance while the other independent variables were not. In the small construction companies, only EPS had significant relationship with capital structure. Total debt to capital had impact on corporate performance while the other explanatory variables did not affect firm performance. This study was conducted in a particular sector and results can be compared with those of other sectors of the economy. However, it also failed to recognise the interest of lenders, as no variable was used to represent their interest

Shoaib (2011) examined the impact of capital structure on firm's financial performance over the period 2006-2009 using 62 companies listed on the Kalachi Stock Exchange using 100 level index to estimate the relationship among capital structure and

firm's financial performance. Earnings before interest and taxes (EBIT), return on equity (ROE), earnings per share (EPS), price earnings (P/E) ratio and net profit margin were used to represent financial performance. Using regression analysis, the result showed that all the three variables of capital structure, current liabilities to total assets, long term liabilities to total assets and total liabilities to total assets negatively impacts the EBIT, ROE, EPS and net profit margin. P/E ratio showed negative relationship with current liabilities to total assets and positive relationship was found with long term liabilities to total assets while the relationship was found to be insignificant with total liabilities to total assets.

The result also indicated that ROE had a significant impact on current liabilities to total assets and total liabilities to total assets but a positive relationship was found with long term liabilities and total assets. The study concluded that managers of firms should watch all the leverage measures used in the study as they show mixed result with performance. The study used aggregate sectors and the result obtained may not reflect the specific sector performances of the sampled companies to enable comparison to be made among the sectors. Also, the interest of lenders was not represented.

Narendar, Khamis and Lateef (2007) studied capital structure and financial performance of 144 highly-geared and lowly-geared ranked Omani companies listed on the Muscat Securities Market (MSM) and capital market authority of the Sultan of Oman from 1998-2002. They used ROE, operating profit margin, net profit margin, EPS and ROA as performance measures. It used debt ratio (DR) as leverage measure as well as total assets turnover ratio (TAT), quick ratio (QR), size, age, corporate diversity, capital intensity (CAP INT) and inventory (INV) as control variables. Using regression analysis, the result showed that the low-leveraged firms clearly outperformed the high-leveraged group using all the five (5) performance measures.

DR was found to be negative and significant to performance. Of the seven control variables, only three (QR, age and CAP INT) were significant while the rest were not significant. The study concluded that companies are indifferent in responding to performance no matter their capital structures. The study reported mixed results just like others but used aggregate sectors and failed to acknowledge the interest of lenders in the models used by the study. Abor (2005) studied the effect of capital structure on the profitability of 57 listed firms on the Ghanaian Stock Exchange (GSE) during a five year period from 1998- 2002. The study used ROE as a measure of profitability while short term debts to total assets, long term debts to total assets and total debts to total assets were used to represent capital structure. After regression analysis using OLS method, it was found that a significant and positive relationship existed between STDTA and ROE, a negative and insignificant relationship between LTDTA and ROE while a significantly positive association was found between TDTA and ROE.

It concluded that managers should be careful when choosing the amount of long term debt to hold in their financial structure as it affects performance negatively. The study also used aggregate sectors of the economy and so a comparison between one sector and another may not be portrayed. The study has also failed to include the interest of lenders in its analysis. Onaolapo and Kajola (2010) studied capital structure and firm performance of 30 non-financial firms listed on the Nigerian Stock Exchange (NSE) for seven years from 2001-2007. The study made use of ROA and ROE as measures of firm performance and debt ratio (DR) as a capital structure variable. It also applied assets turnover (TURN), size, age, assets tangibility (TANG) and growth opportunity (GROW) as control variables which according to the study were used to provide robustness to the models. Using OLS, the result showed a negative and significant relationship between ROA, ROE and DR at 5% level of significance.

It also showed that ROA and ROE were both positive and significant to assets turnover. Age was positively and insignificantly related to ROA while it was positive and significant to ROE. The relation between ROA and TANG was negative and significant while it was negative and insignificant with ROE. Growth opportunity was positive but insignificant to ROA and ROE. The study concluded that since debt has a negative relationship with performance, managers should be careful in using debts to finance their operations. The study made use of only one independent variable and many control variables. This may bring other factors which are also capable of influencing firm performance outside mere capital structure. It failed to bring forward the interest of lenders and had aggregated different sectors of the economy, which will hinder ease of inter-sector comparison.

It is pertinent to remark after a review of these studies that, most of the studies used aggregate sectors. Aggregate sector studies may make inter-sector comparison difficult. This study is conducted in the cement manufacturing sub-sector so that the results obtained here can be compared with those of other sectors of the economy. The studies have also failed to include the interest of lenders, who are also one of the main stakeholders of a company. For instance, they may institute a court action against a company that could lead to winding off of the company, especially when the interest due to them is owed for say, 5 years. Considering the lenders' position, this study has included a variable (Interest Cover) in the model, especially among the dependent variables to see how capital structure decisions will affect their interest. The study is intended to fill the gap that exists in corporate finance literature in the areas mentioned above for further empirical studies.

CONCLUSION AND RECOMMENDATION

CONCLUSION

This paper is a review of the related literatures on financial structure and firm's performance in Nigeria. Based on the

reviewed literatures it has been concluded that researchers have not yet reached a consensus on how to determine the optimal capital structure (debt to equity ratio) that will enable firms to maximize performance.

RECOMMENDATION

Studies investigating the relationship between capital structure and firm performance in Nigeria are rather sparse. Notable exceptions been Onaolapo and Kajola (2010); Oke and Afolabi (2008); Nosa and Ose (2010); Ishola (2008). These studies have concentrated on other sectors such as banking and in most cases aggregate sectors of the economy and their results are also mixed and inconclusive. This calls for further empirical studies to be conducted in the field to see if the use of a particular sector (manufacturing sector) will produce more convincing results.

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