Determining the Effect of Capital Structure on the Performance of Deposit Money Banks: Evidence from Nigeria

BY

PAUL, NDUBUISI Ph.D

Abstract

This study sets out to evaluate the effect of capital structure on the performance of Deposit Money Banks (DMBs) using Nigeria as reference point. Data for the study were obtained from secondary sources specifically from the audited annual financial reports of some selected Deposit Money Banks in Nigeria. The data were analysed using Autoregressive Distributed Lag (ARDL) method. Findings revealed mixed impact of capital structure variables on performance indicators. The result also showed positive relationship between bank size and performance indicators used in the study. Despite the mixed results, the study recommends that bank management should place more emphasis on using retained earnings to finance investments followed by owners equity in that order as recommended by pecking order theory.

Keywords: Pecking order theory, capital structure, return on asset, return on equity, bank performance

INTRODUCTION

Corporate financing decisions, one of the four major corporate decisions, are quite complex processes. Theories in corporate finance may only have explained certain facets of the diversity and complexity of financing choices. Researches over the years have given no accepted conclusion on the exact determinants and relationship between capital structure and firm performance in either developed or emerging economics. Graham and Harvey (2001) argued that, although a lot of studies have been done in investigating capital structure of the firms, the results obtained are still unclear. This, according to them, might be due to wrong measurement of key variables, investigation on wrong models or issues, misspecification of managerial decision process or unresponsive of owner-managers. Capital structure is very important DMBs because it has an impact on long-term corporate profits, (Aurangzeb and Hag, 2012). It represents the banks financial framework which consists of the debt and equity used to finance the firm. Decision regarding type of capital structure of a bank should play a critical role since capital impacts on profitability and solvency of Deposit Money Banks (DMBs).

An optimum capital structure which gives maximum returns to shareholders plays an important role in the growth and progress of any bank. As in Singh and Singh (2016), assert that "the proper and right combination of debt and equity will always lead to market value
enhancement”. In making capital structure decisions managers should consider the significant difference between the industry and the individual banks.

The effective management of capital structure ensures the availability of required fund to finance the future growth and enhance the financial performance of the firm. Capital structure is the combination of debt and equity that finance the banks strategic plan. Gitman (2009) emphasises that capital structure policy is a policy concerning the optimal combination of the use of external and internal sources of funds to finance an investment and also to support the banks operations in an effort to increase its profits and achieve a higher value. It is important to have optimal combination of funds from internal and external sources in banks capital structure to avoid a highly leveraged bank, with maximum debt source of finance in its capital structure which results in the bank finding-its freedom of action restricted by its creditors and may have its profitability affected with the payment of higher interest costs.

The problem financial managers are faced with in capital structure decision is that there is yet no clear cut guideline that can be consulted when taking decision regarding optimal capital structure. An optimal capital structure enhances the competency of the firm and impacts higher returns to shareholders compared to the return provided by an all equity firm. Akinsurule (2008) argues that most financial managers make capital structure decisions not necessarily out of empirically verified evidence. Myers (2001) asserts that large number of business failures in the past have been due to the inability of the financial managers to correctly identify and take advantage of the economical sources of financing for their firms based on empirically verified information.

Studies on capital structure are mostly carried out in developed countries. Only few studies have been conducted in developing countries including Nigeria. The banking industry in Nigeria is an important sector that is yet to be given special importance in the capital structure study.

Capital structure theories, such as trade-off, pecking order and agency cost theories have been developed to explained capital structure, but the problem of optimal capital structure is still one of the central problems of corporate finance and has attracted much attention as a research fertile area (Noulas and Genimakis, 2011 and Olayinka, 2011). For these many years researchers have studied the impact of capital structure on banks performance, they still cannot agree on the extent of the impact.

Although there are existing theoretical frameworks from finance and strategic management set out to explain the determinants of capital structure and the impact of capital structure on bank performance, there is still no agreement among economists and other researchers in finance as to which of the existing theories present the best description of the actual behaviour of banks. With the mixed and conflicting results from various studies, the quest for
Determining the effect of capital structure on performance of deposit money banks with Nigeria as reference point is the focal point of this study.

2.1 Theoretical Framework

The theory of capital structure was first developed by Modigliani and Miller (1958). M&M Theory assumes that the market is perfect and everyone in the market has perfect information, and no one individual can influence the price; there is a single rate of interest for borrowing and lending; there are no homogeneous products and that there exist investors who are rational and no personal or corporate taxation exist. These assumptions generated more researches by scholars since their theory predicts 100% debt financing (due to substantial corporate tax benefit), which is not observed in practice. M&M theoretical proposition carries the implications that: (1) financing and investment policies are independent, (2) internal and external financing are perfect substitutes; and (3) the specific type of the financing contractual arrangement, either-equity or debt is also irrelevant. Frank and Goyal (2008) contend that some of the most common elements are consideration of taxes, transaction costs, bankruptcy costs, agency conflicts, adverse selection, lack of separability between financing and operations, time-varying financial market opportunities and investor clients' effects.

The trade-off theory of capital structure states that an organisation's capital is constituted by both debt and equity and that their ratio (debt-equity ratio) is a trade-off between its interest tax shields and the costs of financial distress. The theory states that there is an advantage of financing through debts due to tax benefit of the debts. However, some costs arise as a result of debt costs, bankrupt costs and non-bankrupt costs. The tax benefit among other factors, makes the after-tax cost of debt lower and hence the weighted average cost of capital (WACC) will also be lower (Anarfor, 2015). Brigham and Gapenski (1996) argue that an optimal capital structure can be obtained if there exist tax benefit which is equal to bankruptcy cost. According to the theory, the take is that as the debt-equity (D/E) ratio increases then there is a trade-off between bankruptcy and tax shield and this as a result, causes an optimal capital structure for the firm. Despite the theoretical appeal of debt financing, researchers of capital structure have not found the optimal capital structure (Simerly & Li, 2000).

The pecking-order theory of capital structure developed by Myers (1984) and Myers and Majilu (1984) is of the essence that firm will adhere to the hierarchy of financing by preferring to finance itself from internally generated funds, because the use of such funds does not send any negative signal that may lower the stock price of the firm. When internal finances are depleted, it will opt for equity (Anarfor, 2015). The assumption of this theory is that firms will always follow the hierarchy of financing through internal funds and finally as a last resort, finance through equity which may not be true in practice. Myers and Majiluf (1984) further postulate that firms that make high
profits tend to attain low debt profile because when firms are more profitable their first priority is to generate financing through retained earnings since they maximize the value of the existing shareholders. The pecking-order theory suggests that organisations well understand their financial resources and give priority according to their existing working situation (Aurangzeh and Haq, 2012). The theory is a competing theory of capital structure that says firms prefer internal financing.

Another theory which gives explanation to how organisations select their capital structure is the Agency Theory by Jensen and Meckling (1976). Jensen and Meckling (1976) and Jensen and Ruback (1983) argue that, managers do not always pursue shareholders interest to mitigate this problem. They suggest that firms should either increase the ownership of the managers in the firm in order to align the interest of managers with that of the owners or increase the use of debt which will reduce the equity base and thus increase the percentage of equity owned by managers.

2.2 Empirical Literature

Onaolapo and Kajola (2010) examine the impact of capital structure on financial performance using sample of banks listed on the Nigerian Stock Exchange during the period, 2001-2007. OLS method of estimation was used to analyse the panel data which were generated. The result of the study shows that capital structure surrogated by debt ratio has a significantly negative impact on the financial measures, proxy by Return on Asset and Return on Equity.

The result of an investigation of the effect of capital structure on the performance of banks quoted on the Nigerian Stock Exchange from 2011-2015, by Ubesie (2016) indicates that capital structure has effect on the ROE and EPS of the banks. The study used descriptive statistics and pooled ordinary least square (POLS) regression analytical method of data analysis. Mutalib (2010) examines the determinants of capital structure in Nigerian banking industry for the period 2000-2009 using time series data. The ordinary least square method of analysis was used to analyse the effect of (tangibility of assets, size, growth, profitability, earnings volatility, and liquidity) on capital structure. The result of the study shows that profitability, size and liquidity are negatively significantly related to leverage whereas potential of growth, tangibility are positively significantly related with the leverage ratio. The prediction of pecking-order theory was proved in the case of profitability where as earnings volatility fails to confirm the trade-off theory.

Muritala (2012) studied selected banks listed in Nigeria Stock Exchange using their audited financial statements for the period 1999-2013. The study used the triangulation analysis and the result reveals that capital structure is a trade-off between the costs and benefits of debt. The research by Agha (2015) on capital structure determinants and their relationships on listed banks in Pakistan for the period 2008-2013 using panel least square method of regression analysis shows that the independent
variables including liquidity, profitability and cost of debt have a significant impact and negatively related with debt ratio, implying that if the variables increase, debt ratio will decrease. The study also reveals that tax and growth variables have significant impact and a positive relationship, implying that if these variables increase debt ratio will decrease. Three other variables used in the study (size, tangibility and dividend) have no significant impact on debt ratio, meaning that there would be no impact of any change occurring in these variables on debt ratio.

Talat (2011) studied the determinants of capital structure of banking sector of Pakistan using the researches by of Rajan and Zingales (1995) and Booth et al (2001) as bases for the validation of their work. The study uses pooled data regression model on the sample of banks to identify the determinants of capital structure. The debt to total assets ratio is used as a proxy for leverage and the impact of size, profitability, tangibility of assets, cost of debt, taxes, liquidity is analysed. The result shows that these variables have significant influence on debt and equity financing decisions in Pakistan banking sector. The result indicates that profitability, taxes and liquidity are statistically significant and are consistent with static trade-off theory and Pecking-order Theory. Anarfo (2015) examines the relationship between capital structure and bank performance in sub-Saharan Africa for the period 2000-2006. The study employed the use of panel data techniques to analyse the relationship between capital structure and bank performance proxy by ROA, ROE. Total debt ratio was the proxy for capital structure. The results further indicate that capital structure of banks in Sub-Saharan Africa is statistically insignificant, implying that capital structure do not impact banks performance, that is, banks' performance does not depend on their capital structure rather it is capital structure that depends on banks performance. It was also found that size is an important determinant of total debt ratio and asset tangibility is an important determinant of bank performance but does not carry the expected signs in the ROA and ROE. Tax rate and inflation were found to be significant in determining only the NIM; however, growth rate of banks, size and the GDP growth rate are not significant in determining banks performance in Sub-Saharan Africa.

In another study Aurangzeb and Haq (2012) examined the determinants of capital structure in banking industry of Belgium for the period 2004-2009. Multiple regression technique was used to analyse the relationship between dependent variables (leverage) and independent variables (bank size, tangibility of assets, profitability and growth). Findings show that all independent variables have significant impact on the balance of leverage with bank size, tangibility and profitability having positive relationship while growth has negative relationship.

Ignacio (2003) studied the Uruguayan Banks and observed that about 40% Uruguayan
banks are financed by their own resources with leverage value being up in an extent of 60%. Results of the study favour the Pecking-order theory which shows the inverse effect of profitability with outside financial support.

Kahhle and Shatir (2005) examined the impact of capital structure on Bank’s financial performance in pery from 2007- 2012. Three independent variables (debt-equity ratio, debt to total assets ratio, short-term debt to total assets ratio) were studied. Using linear regression to analyse secondary data obtained from published audited annual financial reports of sample banks, the results indicate that capital structure has significant negative impact on return on equity and return on assets (ROA). The impact on earnings per share (EPS) was insignificantly negative.

Tifow and Sayilir (2015) evaluate the relationship between capital structure and bank performance using a sample of selected banks listed on Borsa Istanbul Stock Exchange from 2008-2013. Short-term debt to total assets was used as proxy of financial leverage. ROE, ROA and Earnings Per Share were used for performance, while growth and size were used as control variables. Findings of the study show that short-term debt has a significant negative relationship with ROE and EPS.

3.0 RESEARCH METHODOLOGY
3.1 Data Collection

To achieve the objective of the study, data was collected from the secondary source by going through various annual financial reports of selected Deposit Money Banks (DMBs) in Nigeria for the period 2006-2015. The sample studied comprises five Deposit money banks quoted in the Nigeria Stock Exchange.

3.2 Method of Data Analysis

Autoregressive Distributed Lags (ARDL) approach was adopted in this study to investigate the long-run equilibrium (cointegration) among variables. The method is in line with other researchers like Onaolapo and Kajola (2010), Raheman et al (2007), Chowdhury and Chowdhury (2010), Muritala (2012), Park and Jang (2013).

3.2.1 Autoregressive Distributed Lag (ARDL) or Bounds Test

Autoregressive Distributed Lag (ARDL) or bounds test which is initially proposed by Pesara and Shin (1998), is an alternative cointegration technique which is used for determining cointegrating relationship in small samples unlike the Johansen cointegration technique which may require large data samples for the purpose of validity (Ghatak and Saddiki, 2001). Unlike other cointegrating techniques, which require all of the regressors to be integrated of the same order, ARDL can be applied whether the regressors are I(1) and/or I(0) or mix of both (ie. whether the results are all unit root or all stationary). It avoids the pre-testing problems associated with standard cointegration, which require that variables are already classified I(1) or I(0). It also avoids the optimal
number lags to be specified, implying that with possible that different variables have different optimal number of lags. An ARDL model incorporates the lagged values of the independent variables among the set of explanatory variable (Gujarati & Porter 2009).

3.3 Variables of the Study

The study used two financial performance as indicators dependent variable measured by Return on Equity (ROE) and Return on Asset (ROA). Capital structure as independent variable is measured by Total debt/Assets and Equity/Assets. The control variable which also affects bank financial performance is the size of the bank measured as log Total Assets.

The table below shows the details of variables used in the study.

**Table 3.1 Details of variables**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables</td>
<td>Capital structure</td>
<td>Total Debt to Total assets</td>
<td>Total Debts divided/Total assets x 100</td>
<td>Javed, Younas And Imran (2014), Pouraghajan Et Al (2012), Tong Kong (2012), Onaolapo and Kajola (2010).</td>
</tr>
<tr>
<td></td>
<td>Equity to Total assets</td>
<td>Equity / Total assets x 100</td>
<td>Javed, Younas and Imran (2014), Lee and Hsich (2013), Nirajini and Priya (2013).</td>
<td></td>
</tr>
</tbody>
</table>
3.4 Model Specification

The relationship between capital structure and financial performance is represented by the following models:

\[
\begin{align*}
\text{ROA} & = b_0 + b_1 \text{MXA} + b_2 \text{MXE} + b_3 \text{Size} + U_t \quad \text{(1)} \\
\text{ROE} & = b_0 + b_1 \text{MXA} + b_2 \text{MXE} + b_3 \text{Size} + U_t \quad \text{(2)}
\end{align*}
\]

Where \( b_0, b_1 \ldots b_3 \) are model parameters.

\[\begin{align*}
\text{ROA} & = \text{Return on Assets} \\
\text{ROE} & = \text{Return on Equity} \\
\text{MXA} & = \text{Total debt to Asset ratio} \\
\text{MXE} & = \text{Equity to Asset ratio} \\
\text{Size} & = \text{Total Asset} \\
U_t & = \text{Error term}
\end{align*}\]

4.0 Data Analysis and Findings

Table 4.0 Descriptive Statistics

<table>
<thead>
<tr>
<th>Source: Author’s compilation from E-view 9 results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 4.0 shows the summary of the descriptive statistics of sample study. From the above results, number of total observations is 40 and mean value of return on equity is 22.7, return on assets has a mean of 14.4, mean value of debt to assets ratio, which is an independent variable and determines capital structure, is about 38.7, equity to asset ratio which is again independent variable has a mean value of 62.7, natural log of total assets which measures firm’s size are 19.7. standard Deviation for ROE is 12.9, ROA is 7.2, and for MXA, MXE, Size are 8.8, 12.6, 2.1 respectively. Skewness is positive for return on equity, return on</td>
</tr>
</tbody>
</table>
assets, total debt over assets ratio, equity over asset ratio, natural log of total assets, implying that the data is positively skewed because extreme values are to the left. Kurtosis is used to show the peakedness of flatness of the data. There are three types of kurtosis, platykurtic distribution, which shows low degree of peakedness or flatness, normal or mesokurtic distribution show normal distribution curve and leptokurtic duistribution show high peakedness of the data. If kurtosis is less than 3 then its platykurtic distribution, if its equal to 3 then its mesokurtic distribution and if kurtosis shows values more than 3 then its leptokurtic distribution. Total debt over assets ratio a have kurtosis values more than 3, which show leptokurtic distribution, while return on assets, return on equity, equity over assets ratio, natural log of total assets have kurtosis value less than 3, which reveals flatness of data and it is platykurtic distribution. The p-values of Jarque-Bera indicate that all the variables are normally distributed.

**Model I**

**Table 4.1: Autoregressive Distributed Lag (ARDL) Results**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA(-1)</td>
<td>0.456276</td>
<td>0.184357</td>
<td>2.474966</td>
<td>0.0242</td>
</tr>
<tr>
<td>ROA(-2)</td>
<td>0.351641</td>
<td>0.211637</td>
<td>1.661526</td>
<td>0.1149</td>
</tr>
<tr>
<td>MXA</td>
<td>-0.052267</td>
<td>0.297182</td>
<td>-1.940976</td>
<td>0.0690</td>
</tr>
<tr>
<td>MXA (-1)</td>
<td>-0.57682</td>
<td>0.297182</td>
<td>-1.94097</td>
<td>0.0690</td>
</tr>
<tr>
<td>MXE</td>
<td>-0.180622</td>
<td>0.282378</td>
<td>-0.639647</td>
<td>0.5309</td>
</tr>
<tr>
<td>Size</td>
<td>3.942238</td>
<td>6.639204</td>
<td>0.593782</td>
<td>0.5605</td>
</tr>
<tr>
<td>Size (-1)</td>
<td>-7.489589</td>
<td>5.266235</td>
<td>-1.422191</td>
<td>0.1731</td>
</tr>
<tr>
<td>Size (-2)</td>
<td>10.14603</td>
<td>3.52498</td>
<td>2.856028</td>
<td>0.0109</td>
</tr>
<tr>
<td>Size (-3)</td>
<td>1.560683</td>
<td>0.932015</td>
<td>1.674526</td>
<td>0.1123</td>
</tr>
<tr>
<td>C</td>
<td>-41.09962</td>
<td>67.08091</td>
<td>-0.612687</td>
<td>0.5482</td>
</tr>
<tr>
<td>R- squared</td>
<td>0.832082</td>
<td></td>
<td>14.07730</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.644410</td>
<td>S.D. dependent var</td>
<td>7.313787</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>4.361313</td>
<td>Akaike info criterion</td>
<td>6.086800</td>
<td></td>
</tr>
<tr>
<td>Sum of squared resid.</td>
<td>323.3579</td>
<td>Schwarz criterion</td>
<td>6.9557566</td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>-92.60580</td>
<td>Hannan-Quinn criter.</td>
<td>6.393786</td>
<td></td>
</tr>
<tr>
<td>f-statistic</td>
<td>4.433690</td>
<td>Durbin-Watson stat</td>
<td>1.985304</td>
<td></td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.001642</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Author’s compilation from E-view results
Table 4.1 presents the results of the ARDL test for the impact on ROA of independent variables representing capital structure, namely, Total Debt to Asset ratio, Equity to Asset ratio and Total Asset representing firm size. The results indicate that MXA, MXE are all negatively related to ROA. Only the one-period lags of MXA have significant relationship with ROA. Size have positive but insignificant relationship with ROA. while the two-period lags of size have significant relationship.

The over result reveal that R-squared is 0.83 and adjusted R-squared is 0.64 indicating that 83% of the variations in ROA could be explained by the combined effects of changes in the explanatory variables. The model is a good fit with the F-statistic value and its P-value if 4,433690 and 0.001642 respectively. The Durbin-Watson statistic value is approximately 2.0 indicating the absence of any auto-correlation in the ARDL model. This result is in line with Tifow and Sayilir (2015), and Pouraghajam et al (2012).

### Model 2

#### Table 4.2. Autoregressive Distributed Lag (ARDL) Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE(-1)</td>
<td>0.725411</td>
<td>0.167855</td>
<td>4.321649</td>
<td>0.0005</td>
</tr>
<tr>
<td>ROE(-2)</td>
<td>0.232465</td>
<td>0.208526</td>
<td>1.114798</td>
<td>0.2804</td>
</tr>
<tr>
<td>ROE(-3)</td>
<td>-0.434891</td>
<td>0.168161</td>
<td>-2.586158</td>
<td>0.0192</td>
</tr>
<tr>
<td>MXA</td>
<td>1.511534</td>
<td>0.573198</td>
<td>2.637018</td>
<td>0.0173</td>
</tr>
<tr>
<td>MXA(-1)</td>
<td>-1.69429</td>
<td>0.519380</td>
<td>-3.26625</td>
<td>0.0045</td>
</tr>
<tr>
<td>MXE</td>
<td>0.758727</td>
<td>0.426092</td>
<td>1.780666</td>
<td>0.0928</td>
</tr>
<tr>
<td>MXE(-1)</td>
<td>-0.801186</td>
<td>0.443909</td>
<td>-1.804840</td>
<td>0.0888</td>
</tr>
<tr>
<td>MXE(-2)</td>
<td>-0.849943</td>
<td>0.260620</td>
<td>-3.261234</td>
<td>0.0046</td>
</tr>
<tr>
<td>MXE(-3)</td>
<td>0.535315</td>
<td>0.201879</td>
<td>2.651667</td>
<td>0.0168</td>
</tr>
<tr>
<td>Size</td>
<td>4.012640</td>
<td>11.16667</td>
<td>3.593384</td>
<td>0.0022</td>
</tr>
<tr>
<td>Size(-1)</td>
<td>-4.520470</td>
<td>11.33434</td>
<td>-3.972733</td>
<td>0.0010</td>
</tr>
<tr>
<td>Size(-2)</td>
<td>17.76439</td>
<td>4.941417</td>
<td>3.594999</td>
<td>0.0022</td>
</tr>
<tr>
<td>C</td>
<td>-9.477808</td>
<td>106.6762</td>
<td>-0.088847</td>
<td>0.9302</td>
</tr>
</tbody>
</table>

R-squared 0.865748 Adjusted R-squared 0.715701
S.E. of regression 6.604798 Akaike info criterion 6.916846
Sum of squared resid. 7.45972 Schwarz criterion 7.787613
Log likelihood -107.9617 Hannan-Quinn criter. 7.223832
f-statistic 5.769858 Durbin-Watson stat 2.043279
Prob(F-statistic) 0.000328

Source: Author’s compilation from E-view results
The ARDL results in table 4.2 indicate a goodness of fit with an F-ratio of 5.769858 and probability of 0.000328. \( R^2 \) is 86.6% and the adjusted \( R^2 \) is 71.6%, meaning that the model explains that approximately 86.6% of the changes in ROE are attributable to the combined effect of total debt to asset ratio, equity to asset ratio and total asset. The D-W statistic value of 2.043279 indicates the absence of any auto-correlation in the model. From the above result, total debt to asset exerts a positive and significant impact on return on equity (ROE) while its one-period lag has negative coefficient but also significantly impacts on ROE; equity to asset ratio has a positive and, while its one and two-period lags are all negatively significantly related to ROE. Total asset, which coefficient is positive except the one-period lag, exerts positive and significant relationship with ROE. Total debt to asset ratio has positive and significant impact over return on asset. Previous studies by Nirajini and Priya (2013) and Park and Jang (2013) have also shown positive relationship between total debt to asset ratio and return on asset.

5. CONCLUSION

The study investigates the impact of capital structure on bank performance in Nigeria using accounting based measures of performance (ROA and ROE). The study employed the Autoregressive Distributed Lag (ARDL) method also known as Bound test, to estimate the parameters. The regression results reveal that all the explanatory variables except size have mixed relationship with performance indicators used in the study, hence capital structure variables (Total Debt to Asset ratio and Equity to Asset ratio) are found to have mixed impact on financial performance of Nigerian Deposit Money Banks. This result finds robust support in earlier studies by scholars like Pouraghajam et al (2012) and Tifow and Sayilir (2015).

5.2 RECOMMENDATIONS

The study recommends that although mixed relationship between capital structure and financial performance of Deposit money banks in Nigeria was found, managers should rather finance their operations with retained earnings and equity, in that order as supported by the Pecking order theory. To increase performance in Nigeria Deposit money banks, management should also consider some internal factors like worker motivation, production policy and human relations policy.

REFERENCES


Al-Sakran, S. (2001), Leverage determinants in the absence of corporate tax system: The case of


Gitman, L, (2009), Principles of Managerial Finance. (12 ed.) The Addison Wesley


Hovakimian, A., Hovakimian, G. & Tehranian, H. (2004), Determinants of target capital...


International Journal of Business art Comm vol no 1 , 9, 166-81.


TongKong, S. (2012). Key factors influencing capital structure decision and its speed of adjustment of Thai listed real estate companies Procedia,. Social and Behavioural Sciences 40, 716-720.
