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Implications of Equity Capital Financing on Corporate Financial Performance of Deposit Money Banks in Nigeria

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Abstract
This study examines the implications of equity capital financing on the corporate financial performance of deposit money banks in Nigeria, as such, 14 banks listed on Nigerian Stock Exchange for a period of 11 years (2006-2016) was selected. The data used is secondary in nature; extracted from the Annual Reports and Accounts of the various Banks and employed ex-post facto research design, and Pooled Ordinary Least Square Method in the analysis. It made use of panel data structure and the data was analysed with E-View package (version 13). Also, the P and T values assisted in the analysis of both magnitude and direction of the relationship between the independent and dependent variables. It also revealed that both ROE AND EVA has a positive effect on the corporate financial performance of Deposit Money Banks in Nigeria. The study concludes that Equity financing has positive effect on corporate financial performance of Deposit Money Bank in Nigeria; therefore, Increasing this variable will bring a positive effect on the corporate financial performance of Deposit Money Banks in Nigeria. It recommends that the implications of scheduling banks capital into equity financing, short-term debt and long-term debt by managers should be closely supervised and monitored by both shareholders and bondholders' so as to avoid the company adding negative value to them who are contributors of finance.
Keywords: Return on Equity, Deposit Money Banks, Economic Value Added, Equity Capital Financing
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1. Introduction

Capital and its formation has been an issue of discussion in the extant literature, but the fact remains that no business exists without capital. Capital could be in form of share capital, such that the shareholders, the general public would subscribe to it. It also refers to cash contributed originally by the shareholders commonly called sweat money. Although, it is one thing to provide capital, yet, it is also another thing for the capital to create value for the providers. Okolo, Okwu, Egbe and Monyei (2019) asserted that Banks survival is directly dependent on its ownership structure. Also, Eriki, Idolor, and Eghosa (2012) divulge that the carefulness behind the ideas of financing a company shows how crucial it is to the optimization of corporate returns, and its value to the owners and as such, underscores the magnitude of financial management to the execution of business organizations. In the word of Gurnam (2012), whenever funds have to be secured, the financial manager should weigh the rewards and disadvantages of the various sources of funds and choose the more profitable sources keeping in view the expected capital structure. That is because neither does a firm operates with neither the intention to make lose nor a shareholder wanting a negative value as returns, thereby making the decision regarding choice of financing a banks a critical importance and has to be approached with a great care. This study considers Equity capital financing otherwise called shareholders fund; sweat money. Such that, Tariq, Waqar, and Muhammad (2014); Gurnam (2012) observed that debt is riskier when compared to equity because it gives room for the financial risk. More so, interest and principal payments on debt must be paid promptly when due. Else, bankruptcy, loss of control for the owners may arise. Finally, they conclude that some debt, but not hundred percent debt financing (optimal) will be reached by introducing various market imperfections. In the argument of, Fenty and Rusdiah (2015), using equity to finance a firm is more expensive than using debt Adesina, Nwidobie, and Adesina (2015), posted that any firm that fails to plan its capital structure may have difficulties in raising funds to finance its operations in the near future and may be unable to stabilize its use of funds. It is of concern among researchers that each organization should arrange its capital in such a manner that it will make the best use of its funds and to be able to appear in the dynamic or changing situations. With this, the study is aimed at ascertaining implications of equity capital financing on corporate financial performances quoted banks in Nigeria, and presumes that Equity capital financing has no significant effect on the corporate financial performance of Deposit Money Banks in Nigeria

2. Review of Literature

2.1 Money Banks in Nigeria (MDBs)

The name "Deposit Money Bank" was adopted for all Banks (Commercial and Merchant) operating in Nigeria since the commencement of universal banking in 2001. These financial institutions grant financial services; such

as accommodating deposits, giving trade loans and auto loans, advance lending and basic investment products like savings accounts and certificates of deposit (Ejoh, & Sackey 2014). In other words, Banking may be described as the gigantic business activity of accepting and protection of money owned by other people and entities, otherwise called depositors, and then lending of this money in organize way to bring in a profit, add value to the contributors and create a financial increase in the economy through an economics practice called the multiplier result.

2.2 Equity Capital Financing (EQF)

The choice of any corporate body to structure its equity financing in this millennium has become a thing of concern. Equity financing is usually in form of monies acquired from the business owners and from other investors or in form of reserves attributable to the owners of the entity other than amounts directly contributed by the owners. Equity could be in form of retained earnings, common stock or preferred stock. Dare and Sola (2010) sees equity to include paid-up share capital, share premium, reserves and retained earnings. It is a navigable instrument in the theory of finance that enables the holders to have influence and supervise managerial decisions through the board of directors. Organizations that rely solely on equity are being regarded as unleveraged. Mumtaz, Rauf, Ahmed, and Noreen (2013) detailed out that most of the large firms are depend on leverage as bank credit is the predominant source of financing and the equity market has a insignificant role in meeting financing needs of firms compared to the total amount of bank credit issued. It is of interest to note that deposit money banks in Nigeria had access to the stock market before the 2008 financial crisis to raise fund, but since the incidence, it has become increasingly difficult to raise fresh equity, thereby either relying on old equity such as resulting to retained earnings or even raise from the private placement. This ordinarily forms the basis of argument in this study.

2.3 Return on Equity (ROE)

Return on equity is also used to measure corporate financial performance in this study. It details how well a company has used the capital from its shareholders to generate profits. Investors use ROE as a measure of how well a company is using its money. Many researched have used it in their study (Onuorah & Nkwazema, 2016; Fenty, *et al.*, 2015; Olaniyi, Elelu, & Abdulsalam, 2015, Aymen 2013). Return on equity is calculated as profit after tax divided by shareholder's equity. Onuorah, *et al.* (2016) is the view that returns on equity (ROE) have not been a major player in the determinant of capital structure performance of firms in Nigeria. The interest of shareholders in any corporate body is how their capital employed will yield a profit to which will, in turn, determine the amount to be paid as dividend. Although the decision of dividend is at the discretion of management to exercise, most times there may be profit but the management may settle on to plough it back to the business as a source of internal equity called retained earnings to boost the future operation of the firm.

2.4 Economic Value Added (EVA)

It is one thing to evaluate profits, yet it is another to assess the efficiency or cost value of capital employed to generate the profits. Economic value added as developed by Stern Steward of United State of America is not a new performance parameter in the world because it has gained popularity as a better-quality tool for measuring corporate performance but it is rarely familiar in Nigeria as a measure of financial performance in the banking industry. EVA is a performance measure that associates a charge for the opportunity cost of capital, it, therefore, measures shareholders gain from positive or negative value added over time. That is to say in calculating economic value added, either a value is added or a value is destroyed. As argued in, Omah, Okolie, and Durowoju (2013), that EVA proves the amount of economic value produced in any particular accounting period and simply recognized as the amount a corporate organization can earn in a surplus of its cost of capital. EVA is proposed to offer managers an insight, better information and motivation to formulate the decisions that will create the greatest shareholder wealth. EVA has been seen in various ways, according to different scholars. In the words of, Al-Mamun, and Mansor (2012), EVA can explain capital market, capital budgeting and net assets at the same time, hence, EVA is adjusted in its reporting to get rid of distortions encountered in measuring true economic performance. EVA trounces the conventional accounting flaw because it reflects on the cost of equity. Basically, EVA is the measure of the business's true economic profit for the year, since it represents the residual income that remains after the cost of both debts and equity, has been deducted from income. In the view of, Owusu-Antwi, Mensah, Crabbe and Antwi (2015), economic value added operates based on the postulation that management must create enough revenues to cover interest charges, operating expenses, and make existing returns that shareholders need as reparation for assuming risks. Economic Value Added (EVA) is the stupendous income which a company realized after costs of capital are subtracted.

2.5 Empirical Review

Akeem, Terer, Kiyanjui and Kayode (2014) examined the effect of capital structure on firm's performance, using

manufacturing companies in Nigeria from 2003 to 2012 as a case study. Descriptive regression technique was employed to reflect on the effect of a modest key concept such includes; Return on asset (ROA), Return on equity (ROE), Total debt to the total asset(TD), Total debt to equity ratio(DE) on performance. Secondary data was used and data were assembled from ten (10) manufacturing firm. The result suggests that capital structure dealings (total debt and debt to equity ratio) are negatively linked to firm performance, but not compulsory that firms source more of equity than debt in financing business operation, still if the value of a business can be better using debt capital. Adesina, et al. (2015) study the impact of post-consolidation capital structure on the financial performance of Nigeria quoted banks, and believed to have increased bank equity against debt. It applied debt and equity as independent variables which consist of ten (10) Nigerian banks quoted on the Nigerian Stock Exchange (NSE) considering eight (8) years from 2005 to 2012. Ordinary least square regression analysis of secondary data was used and showed that capital structure has a significant positive relationship with the financial performance of Nigeria quoted banks. The study concludes that the management of quoted banks in Nigeria consistently uses debt and equity capital in financing to improve earnings.

Githire and Muturi (2015), researched into the effect of capital structure on the performance of firms quoted on the Nairobi Securities Exchange from the year 2008-2013. It used explanatory non-experimental research; Secondary data was gathered and queued into the Statistical Program for Social Sciences (SPSS) and multiple regression analysis methods were used to analyze and test the hypotheses. The findings reviewed that equity has a positive and significant effect on financial performance; It ended up with the conclusion that equity financing improves financial performance. Also, Fenty, *et al*. (2015) explain the determinants of capital structure of the firms banking sector companies listed in Indonesia Stock Exchange with the range 2012-2014, using debt to equity ratio, nonperforming loan and loan to deposit ratio. The profitability is determined from the return on equity (ROE) and Net Interest Margin (NIM). The data were analyzed using the structural equation model (SEM) with SmartPLS 3.0. The results revealed that; firm size has insignificant effect to the dividend payout but negative significant effect to the capital structure; risk has positive significant effect to the dividend payout but insignificant effect on the capital structure; profitability has insignificant effect to the dividend payout but negative significant effect to the capital structure.

Olaniyi, *et al.* (2015) studied the impact of capital structure on performance of selected firms in US in the pre (2003-2006), during (2007-2008) and post-crisis (2009-2012) periods with an aim to determine if there is a relationship or not between two variables. It employed multiple regressions Model to estimate the relationship and performance was measured using Return on equity, return on assets, price per share, earnings per share and Tobin's Q while capital structure is proxy by Debt to Equity ratio. Their study found mixed results such that impact of capital structure on corporate performance relied on the type of performance used and is period related. Specifically, a percentage increase in the level of debt brings 46% changes in ROA. In the broad view, they agreed that capital structure is not a major determinant of corporate performance as it has an insignificant impact (15%) on corporate performance of US companies.

3. Methodology

3.1 Research Design

Obachie 2015) sees ex-post facto research design as that which determines the cause-effect relationship among variables. Therefore, this study employed ex- post facto research design in obtaining, analyzing and interpreting the relevant data for hypotheses testing. Particularly, panel data was adopted in data analysis. The study concentrated on secondary data as obtained from published financial statements of the sampled deposit money banks in Nigeria. The population consists of the (26) twenty-six licensed deposit money banks registered by the central bank of Nigeria as at 2016 while the sample size for this study is determined by the number of deposit money banks currently quoted on the floor of Nigeria stock exchange. The importance of this criterion is to ensure that annual reports and statement of accounts of the sampled banks are readily available since quoted banks are required to make available such reports annually. The fourteen banks that fall within this range are listed below.

Table; Sample Size for this Study

S/No	Institutions	Banking License	Bank Type
1	Access Bank PLC	International Authorization	Commercial Bank
2	Diamond Bank PLC	International Authorization	Commercial Bank
3	Fidelity Bank PLC	International Authorization	Commercial Bank
4	First City Monument Bank PLC	International Authorization	Commercial Bank
5	First Bank Nigeria Limited	International Authorization	Commercial Bank
6	Guaranty Trust Bank PLC	International Authorization	Commercial Bank
7	Skye Bank PLC	International Authorization	Commercial Bank
8	Union Bank of Nigeria PLC	International Authorization	Commercial Bank
9	United Bank of Africa PLC	International Authorization	Commercial Bank
10	Zenith Bank PLC	International Authorization	Commercial Bank
11	Stanbic IBTC Bank PLC	National Authorization	Commercial Bank
12	Sterling Bank PLC	National Authorization	Commercial Bank
13	Unity Bank PLC	National Authorization	Commercial Bank
14	Wema Bank PLC	National Authorization	Commercial Bank

Table 2; Description of Variables

Return on Equity (ROE)	$\frac{\text{Profit-after-tax}}{\text{shareholders' equity}}$
Economic Value Added (EVA)	NOPAT– (CAPITAL EMPLOYED*WACC)
Equity financing (EQF)	$\frac{\text{Shareholders Fund}}{\text{Total assets}}$

Source: Researcher's Computation of Variables

3.2 Model Adoption and Modification

The independent variable in this study is Equity Capital financing (EQF), while, Returns on equity (ROE) and Economic value-added (EVA) as the dependent variables, which measures corporate financial performance. However, there is no unique measurement of corporate financial performance in extant literature. EVA is considered because it's not common as a measure of performance in the Nigerian banking industry, while ROA and ROE are chosen because they are to an extent common and important accounting – based and generally accepted measures of financial performance. Specifically, the model is adopted from the works of, Olaniyi, *et al.* (2015) as $ROA_{it=} \beta 0+ \beta 1DE_{it} + \beta 2\ FS_{it}+U_{it}$, and modify to suit this work thus:

$Y_{it} = f(EQF_{it}, \varepsilon)$

Y = Corporate financial performance proxy with Return on Assets (ROA), Return on equity (ROE) and Economic value added (EVA).

EQF = Equity financing

ε = Error term

3.3 Method of Data Analysis

This study employed the panel data structure spanning through eleven (11) years period as extracted from the annual reports and accounts of the sampled banks and analyzed using the pooled Ordinary Least Square (OLS). The panel data was analyzed with E-View (version 13)

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4. Data Analysis and Interpretation

Table 3; Descriptive Statistics

VARIABLES	ROE	EVA	EQF
Mean	-0.039580	-13492241	0.199560
Median	0.101240	-8637283.	0.151409
Maximum	1.770331	1.18E+08	0.998778
Minimum	-13.39541	-1.09E+08	-0.402127
Std. Dev.	1.171792	26248069	0.216250
Skewness	-10.07066	-0.207097	2.424697
Kurtosis	113.3894	8.477182	9.965874
Jarque-Bera	79746.11	191.0835	456.2535
Probability	0.000000	0.000000	0.000000
Sum	-6.016148	-2.05E+09	30.33308
Sum Sq. Dev.	207.3376	1.04E+17	7.061391
Observations	152	152	152

Description of table 3

Table 3 above, shows the mean (average) for each variable, their maximum values, minimum values, standard deviation. The result provides some insight into the nature of the selected bank's data used for the study. Firstly, it was observed that over the period under review, the mean of return on equity (ROE) and economic value added (EVA) are -0.039580 and -13492241 respectively, this means that the selected banks have negative return on equity and economic value added in the period of the study. The table also reveals that a positive average value of 0.199560 for equity financing, 0.712823. The maximum value of equity financing is 0.998778 and its minimum value is -0.402127, in that case, the large differences between the maximum and minimum value show that the bank's data used for the study are homogeneous.

Table 4; Correlation Analysis

VARIABLES	ROE	EVA	EQF
ROE	1.000000	0.113624	0.080731
EVA	0.113624	1.000000	0.089724
EQF	0.080731	0.089724	1.000000

Description of table 4

The correlation matrix in Table 4 above is to check for multicollinearity and to explore the association between explanatory variable and the dependent variables. The findings from the correlation matrix table4.2 show that return on equity (ROE) has a positive association with economic value added (EVA). This justifies the use of two measures as a proxy for banks financial performance. ROE has a strong positive association with equity financing, EVA has a positive relationship with equity financing.

4.1 Regression Analysis

Table 5; Return on Equity Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.761624	2.535901	-1.483348	0.1402
ROA	1.685064	1.923686	0.875956	0.3825
EVA	5.78E-09	3.82E-09	1.514211	0.1322
EQF	0.594450	1.055116	0.563398	0.5740
STD	0.145814	0.952902	0.153021	0.8786
LTD	0.444779	1.396600	0.318473	0.7506
SIZE	0.373348	0.268796	1.388964	0.1670
AGE	0.189108	0.269632	0.701356	0.4842

R-squared	0.051740	Mean dependent var	-0.039580
Adjusted R-squared	0.005644	S.D. dependent var	1.171792
S.E. of regression	1.168481	Akaike info criterion	3.200482
Sum squared resid	196.6101	Schwarz criterion	3.359634
Log-likelihood	-235.2366	Hannan-Quinn criteria.	3.265135
F-statistic	1.122433	Durbin-Watson stat	1.949797
Prob(F-statistic)	0.352235		

Description of table 5
The R-squared which is the coefficient of determination or measure of goodness of fit of the model tests the explanatory power of the independent variables in any regression model. From our result, the R-squared (R^2) is 52% in ROE model. The F-statistics measures the overall significance of the explanatory parameters in the model, and it shows the appropriateness of the model used for the analysis while the probability value means that model is statistically significant and valid in explaining the outcome of the dependent variables. From table 5, the calculated value of the f-statistics is 1.122433, and its probabilities are 0.352235 which is greater than 0.05. We, therefore, reject and state that there is no significant relationship between the variables. This means that the parameter estimates are not statistically significant in explaining the effect of the dependent variables. The t-statistics helps in measuring the individuals' statistical significance of the parameters in the model from the result report. It was observed from above that all the variables were statistically insignificant at 5%. Our model is free from the problem of autocorrelation because the Durbin-Watson value is 1.949797 in ROE Model which is approximated as 2 (that Means, the absence of autocorrelation in the model used for the analysis). The a'priori criteria are determined by the existing accounting theory and state the signs and magnitude of the variables from the result. EQF, has a positive sign in ROE Model in that its value is 0.563398,. This implies that increase in EQF, increases the banks' performance by 56%.

Table 6; Economic Values Added Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.76E+08	53332914	3.298036	0.0012
ROA	91273196	41052685	2.223319	0.0278
ROE	2709926.	1789661.	1.514211	0.1322
EQF	-24177039	22775503	-1.061537	0.2902
STD	-11373484	20606635	-0.551933	0.5818
LTD	-22532244	30183442	-0.746510	0.4566
SIZE	-20721050	5596952.	-3.702202	0.0003
AGE	6287012.	5822959.	1.079694	0.2821

R-squared	0.114479	Mean dependent var	-13492241
Adjusted R-squared	0.071433	S.D. dependent var	26248069
S.E. of regression	25293215	Akaike info criterion	36.98117
Sum squared resid	9.21E+16	Schwarz criterion	37.14032
Log-likelihood	-2802.569	Hannan-Quinn criteria.	37.04582
F-statistic	2.659446	Durbin-Watson stat	2.109070
Prob(F-statistic)	0.012873		

Description of table 3
The R-squared which is the coefficient of determination or measure of goodness of fit of the model tests the explanatory power of the independent variables in any regression model. From our result, the R-squared (R^2) is 12% in EVA model. The F-statistics measures the overall significance of the explanatory parameter in the model, and it shows the appropriateness of the model used for the analysis while the probability value means that model is statistically significant and valid in explaining the outcome of the dependent variables. As calculated, value of the f-statistics is 2.659446, and its probabilities are 0.012873 which is less than 0.05. We, therefore, accept and state that there is a significant relationship between the variables. The t-statistics helps in measuring the individuals' statistical significance of the parameters in the model from the result report. Our model is free from the problem of autocorrelation because the Durbin-Watson value is 2.239293 in EVA Model which is approximated as 2 (that Means, the absence of autocorrelation in the model used for the analysis). The a'priori criteria are determined by the existing accounting theory and state the signs and magnitude of the variables from the result. EQF has a negative sign in EVA Model and its values are -1.061537. This implies that decrease in EQF decreases the banks' performance by 106%.

4.2 Hypotheses Testing

Ho_1: There is a no significant effect of Equity financing on the corporate financial performance of Deposit Money Banks in Nigeria.

Model 1 (ROE) In the result from our test, we found out that the value of our t-statistics for equity financing is 0.563398 with a probability of 0.5740. This probability value is greater than the desired level of significance of 0.05. We reject the alternate and accept the null hypothesis, which says that there is no significant effect of Equity financing on the corporate financial performance of Deposit Money Banks in Nigeria. Thus, equity

financing is positive and has no significant impact on the corporate financial performance of Deposit Money Banks in Nigeria at 5% level of significance. The view is in line with the works of Akeem, *et al.* (2014) which result suggests that capital structure dealings are negatively linked to firm performance

Model 2 (EVA) In the result from our test as stated above, we found out that the value of our t-statistics for equity financing is -1.061537 with a probability of 0.2902. This probability value is greater than the desired level of significance of 0.05. We reject the alternate and accept the null hypothesis, which says that there is no significant effect of Equity financing on the corporate financial performance of Deposit Money Banks in Nigeria. Thus, equity financing is negative and has no significant impact on the corporate financial performance of Deposit Money Banks in Nigeria at 5% level of significance. The finding is not line with against the work of Olaniyi, *et al.* (2015) which was of the opinion that under an agency theory, it is expected that a positive relationship should exist between corporate performances and firm's capital structure.

5. Conclusion and Recommendation

The study excluded companies from the non-financial sectors thereby considered only financial sectors. The rationale for the inclusion of financial related quoted companies is due to the fact that their cash holding policies are exogenously determined by Central Bank of Nigeria (CBN). Also excluded were non-quoted companies because of non-disclosure of the financial reports and newly quoted companies that will result in missing data for the period being studied. In ROE model, bank performance has a positive relationship with equity financing. In EVA model, bank performance has a positive association with equity financing. These findings support the work of Olaniyi, *et al.* (2015) which was of the opinion that under an agency theory, it is expected that a positive relationship should exist between corporate performances and firm's capital structure while decreasing EQF as in EVA will have effect on corporate financial performance of Deposit Money Banks in Nigeria, and that of, Akeem, *et al.* (2014) which found that companies that are in a position to finance their operations using equity should reduce debt financing to improve their financial performance. This study therefore concludes that EQF in ROE and EVA indicates that increasing the variables will have effect on corporate financial performance of Deposit Money Banks in Nigeria; and based on the differing conclusions of the various empirical analyses in the literature, the topic on Equity capital financing will continue to attract attention of scholars and researchers as no accurate conclusive evidence has been reached as to the variable. It is therefore recommended that the implications of scheduling banks capital into equity financing, short-term debt and long-term debt by managers should be closely supervised and monitored by both shareholders and bondholders' so as to avoid the company adding negative value to them who are contributors of finance. Also, the managers should make every effort always to trade in equity method of financing which will greatly improve the performance of the company.

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