

Equity Financing and Bank Performance in Nigeria: Special Performance to First Bank in Nigeria.

Emenuga, Primus

Department of Banking and Finance, Ekiti State University, Nigeria
Corresponding Author: Emenuga, Primus

Date of Submission: 02-04-2019

Date of acceptance: 17-04-2019

I. INTRODUCTION

In 2005, banking sector restricted, re- engineered and recognized through consolidation exercise which not only reduced the numerical strength of the bank but also made them to operate supermarket banking by diversifying their capital structure. The numerical strength stinks to 25 from 89, in which the equity financing (shareholders funds) grew geometrically from an average of sixty two billion naira (N62bn) to seventy three billion naira (N73bn) (Central Bank of Nigeria, 2005) and also there was a drastically fall of funds borrowed from sixty four billion naira (N64bn) in the year 2004 to (N47bn) in 2005. The shareholders funds are affected by the reputation of the capital requirement which therefore hold the component of the funds which therefore makes investors in the banking sector to borrow funds for sustainability maintenance and to finance their business activities.

This policy was able to increase the owners funds while the CBN regulate the capital requirement of banks and makes adjustments to it in a way that there was an increase to 10% by the Basel II accord from 8% which was the initial percent for banks that operate within Nigeria while banks with international presence were told to have their tier I capital at 15% which the vital banks were required to keep away 16% for the Tier I capital.

The heavy regulatory capital requirement leads to the fact that commercial banks were not able to borrow money, while experiencing liquidity squeeze in 2009, the Central Bank of Nigeria intervened by injecting (N620B) six hundred and twenty billion Naira into 3banks (The spring bank PLC, platinum Habib bank PLC and Afribank bankn Plc) and after injecting it they Nationalized it.

Therefore, policy makers, analyst came to different opinions on increase in the profitability of the deposit money banks (DMS). The scholars put forth three views on corporate finance.

- i. There must be a relationship between high debt to equity ratio and firm profitability which makes firms rely much on borrowed funds.
- ii. Show a positive relationship between high equity-to-dept ratio and firm profitability such that firms depend more on owners funds than borrowed funds.
- iii. It is the representation in the middle position between the owners' fund and the borrowed fund.

The cost of financing is the major issue while implementing any of the scenarios.

The study therefore is to be tested the effect of equity financing on bank performance in Nigeria with special reference to First Bank of Nigeria (FBN).

II. LITERATURE REVIEW

This section discuss some empirical studies, which helps in examining the impact of equity financing capital structure performance. The section is divided into three: the first presents the past studies which shows a positive relationship while the second shows a negative correlation while the last gave a mixed display of result.

Equity financing (Capital structure and organizational performance), this shows positive relationship, scholars like Adeleke, Ogunlowore, Idode and Ashogbon (2014) have examined and researched on equity financing and its profitability to Nigerian banks. The study work with return on assets (R.O.A) measure as earnings before taxes (EBT) which is divided by the total debt to total asset as a measure of banks performance and total debt to total ratio and equity to total assets as ratio independent variables.

The research explained the significance of the equity formulation and its positive influence on Nigerian banks and it profitability. On this research study, researcher recommends that equity and debt should be used by the directors and management in financing their business activities as supported by the Agency theories.

More also, Nwidoble and Adesina (2015) reveals the impact of the equity financing capital structure in the post consolidation era, where they check the financial performance of 10 Nigeria banks for the period of

seven years (2005 to 2012). the study make use of the profit before tax as its dependent variables and utilized ordinary least square as a method of estimation. It shows that equity has a significant positive relationship with the level of profit of Nigerian Banks. The author reveals that debt and equity capital which is used in financing Nigerian Banks will improve earnings.

Negative relationship between equity forming and organization performance:-

Most research provides significant evidence of negative impact of equity financing of an organization example Hayajneh and Soymadi (2007), made a research on the effect of equity formation on organization of 76 organizations which is used on the Ammam stoye Exchange of Jordan for the period of 2001 to 2006 which 53 are industrial and 23 are the service sector.

The study worked on the tangible assets, the growth of the organization and the financial leverage, as his proxies for the equity formation. The return on equity and Tobin's Q as measure for the organization size as a control variable, and uses multiple regression model represented by ordinary least square (OLS). This research excluded the financed service firm because of their equity finance which provides a significant negative relationship between equity financing and performance of those desired Organization. The result later shows the negative impact of the equity on the performance of high and low leveled firm and the growth of the organization. There was no significant difference between the performance and the organization growth at the high and low level.

Investigating equity financing and bank performance; Schlarls like Awunyo-Vkor and Bacln (2012) makes empherical research between equity financing and 7 listed ghanian banks from 2000 to 2010. The author makes use of independent variables as debt to equity ratio, the return of asst and Tobin's Q as proxies for bank performance of the organization size, age, the current liability and board size as his variable for control. Panel regression methodology was used and started the sampled banks are highly finance levered which is also negative to the equity.

In the return of asset, the author highlighted the fact that the banks were over dependent on short term loan which increase the rate in which bank lend and also reduce the participant in the board market. These studies recommend the Ghanaian listed Banks to rely more on the internal generated fund. In financing the activities and settlement of debt, the banks should search for the low interest- bearing ones that tax should benefit the loan that will exceed the financial distress associated with it. They suggest that the authors should dialogue with other sector and stakeholders in the financial sector to develop an efficient board market so that banks can raise long time debt in order to avoid the bank relying on the short term debt and also the authorities should also increase the tax relief which is going to enable banks in making more profit which would improve the investment.

Contributing to the empirical literature, Lavorsky, (2013) research on the impact of the equity formation (debt-to-asset ratio on performance (return on asset, return on sales and total factor productivity) of 16,500 ukrama organization between 2001 and 2010. The institutional factors shows as the organization size, industry and exit/entry were used in these study. The research made the hypothesis that financial leverage positively affects firm activity through disciplining of managers, tax should affect possible heteroscedasticity between the two which are leverage and organizational performance. This finding negates the free cash flow or the tractor off theory of equity finance but supports the peccary order theory hypothesis.

Audu and Anafi (2013) used a panel data methodology to study the effect of equity financing and capital structure on its profitability of a list of a banks in Ghana stock exchange from the period of 2005 to 2012 using the equity finance and capital structure as its foundation. The study check in the impact of the total leverage, debt and equity ratio, total liabilities of the bank size and return on asset, equity returns Tobin's Q and economic value added (EVA) revealed that there is 70% of the total equity capital of banks in Ghana agreed the debt of 75% which is for the short and long term debt which the finding revealed they are consistence. It was also revealed that there is negative relationship between the leverage and the profitability among the listed banks. The bank size and the profitability negativity suggest that bigger banks inherit low profit rate and online model claiming the negative role of the size from scale inefficiencies. The study latter recommend the full utilization usage of resources at their command in order to increase profitability in the Ghana listed bank.

Akeem, Terer, Kiyanju and Kayode (2014) research on the effect of equity finance and capital structure selected 10 companies randomly on the Nigeria stock exchange uses their generalized least square regression in analyzing a secondary data from [2003 to 2012]. Total depth to asset ratio was adopted. Total debt to equity ratio and long term debt to capital ratio as equity finance variables and the organization age as the control variable reveals that influence on equity finance on the organization performance is negative which proxies by the return on the investment and on the return on asset. Recommendation where made that the organization should adopt les debt and more equity while financing the business activities, also establishment of an organization to point that the weighted average cost of capital is minimal.
Equity financing and organization performance! Mixed finding review;

Other studies on equity financing, capital structure and organization performance reveals the Proof of mixed relationship Olokoyo (2012) research on the performance of equity (Leverage) on the return on assets, return on equity and Tobin's Q) of 101 organization listed from the Nigeria stock market from 2003 through 2007. The researcher used panel data analysis and fixed-effect to estimate random effect and regression model which reveals that an organization leverage have a significant negative relationship with the market performance measure (Return On Assets) and that the leverage measure have a positive and highly significant relationship with the market performance measure (Tobin's Q). The study established that Nigeria Organization are partially financed by equity capital or a mix of equity capital and short term debt. The study reveals that the maturity structure of debt affects the performance of organization and also the size of the organization has significant positive effect on its performance. Recommendation made that Organization in Nigeria should make structure that match their high market performance with real activities that can make the market performance reflect on their internal growth.

Velnampy and Niresh (2012) research about the relationship between equity finance and profitability and listed 10 srilanban banks for the period of 2002 to 2009 using discipline statistics of person product correlation techniques. The study employs the debt to equity and debt to total funds as a measure of equity finance and net profit, return on capital employed, return on equity and net interest margin proxies for the organization performance. The researcher reveal a negative relationship between equity finance and profitability except the association between significantly negatively correlated with net internet margin, debt to the total fund is found to be significant negatively correlated with the net profit and net interest margin. Suggestions were made from the result that 85% of the total asset in the srilanbam banking sector are represented by debt, continuity the hypothesis that banks are highly levered installation. It was revealed by the author that the outcome of the study was to guide banks, lead creditors and policy planers to formulate better capital structure, better equity financing and capital structure policy decision.

Olayiwola and Chechet (2014) research on the equity formation and capital structure and it gains to Nigeria the organization lusted from the agency cost theory perspective with a sample of 70 out of 245 organization for a decade period of years under the NSE the years which is award 2000 to 2009. The study makes use of the panel data methodology approach make use of 2 independent variables which is (debt & equity) as surrogates of equity formation and is profitability as the only independent variable. The research reveals the negativity of the debt ratio to the profitability and equity. These have positive effect on organization performance, their profitability. More so, there is wisdom conventionally. Recommendation were made that organization experiencing financial issue and willing to raise funds for their expansion and their operation should go and access equity and if it is not enough they should acquire little debt.

Hassan, Alisan, Rahman and Alamu (2014) study the effect of equity financing on the performance of 36 Banglashi organization listed on the Dhaka stock Exchange from the period 2007 to 2012. The study did not make use of financial services organization owing to their different equity finance the operation uses a measure of performance earning per share (EPS), return on equity (ROE), return on Asset (ROA) and Tobin's Q as measure of organization performance of equity finance ratio! Short-term debt, long-term debt and total debt as independent variable. Panel data regression method was used. The author found that whereas EPs is significantly positively relates on short-term debt. Same is also negatively related to long-term debt. The results also reveal a significant negative effect of equity finance on (ROA). However, there wasn't a concrete evidence of an effect on the equity finance on organization performance as measured by ROE and Tobin's Q. also there was conclusion on the equity has a negative impact on the organization performance. The hypothesis peaking order was also consistence on the empirical studies turn out to be inconclusive. It is a bit ambiguity maybe due to the theoretical framework difference and the method of its estimation. Some researchers are over-emphasized on the models which include the control of variable e.g age and size of the organization. Also there factor are known to influence the organization performance and also can't be classified or referred to as one of the element of equity financing.

III. METHODOLOGY

The research method for this study was focused on equity financing impact on bank performance in Nigeria with special reference to First bank of Nigeria (FBN). The explanatory and endogenous variables are the two types of variables for this research purpose, equity financing (proxy with capital adequacy (CA), while bank performance was proxy with return on equity (ROE).

The author decided to use first bank of Nigeria (FBN) because it's one of the oldest quoted banks in Nigeria and source of data was mainly from secondary and covered the period of nine years (2008 – 2016)

The specification of this research model is thereby

$$y=f(x)$$

$$ROE = f(CA)$$

By explicit expression;

$$ROE = \beta_0 + \beta_1 CA + \mu$$

Where

ROE = Return on Equity

CA = Capital Adequacy

β_0 = Constant

β_1 = Co-efficient of Parameter

μ = Error term

the author uses linear regression analysis as method of estimation and the e-view econometric software 7.0 package.

Dependent Variable	Independent Variable	Expected Result
Bank performance (proxy with return on equity (ROE))	Equity financing (proxy with Total funds)	Positive (+)

Source: Author's computation, 2019

IV. DATA PRESENTATION AND INTERPRETATION OF RESULT

Year	Total Funds (TFD)	Return on investment (ROE)
2008	7.6	4.2
2009	8.1	4.8
2010	9.8	5.2
2011	10.2	5.5
2012	14.7	18.9
2013	20.7	17.1
2014	8.9	20.2
2015	(6.9)	0.6
2016	11.3	11.3

Source: Author's computation, 2019

Linear Regression Analysis (Ordinary Least Square)

In order to achieve the objective spelt out in introductory part of this study, we utilized ordinary least square (OLS) to estimate the effect of equity financing on bank performance in Nigeria with special reference to first bank of Nigeria for the period of 9 (nine) years from 2008 to 2016. The result is presented in Table 4.1

Table 4.1: Estimated Results of Effects of TFD on ROE (2008 – 2016)

Variables	OLS	
	Coefficient	Prob.
C (Constant)	2.818099	0.03811
ROE		
TFD	0.690839	0.0332
R Square	0.451800	
Adjusted R ²	0.383275	
Durbin Watson	1.280939	
F – Statistics	6.593209	
Prob. F – Statistics	0.033245	
No of Observation	10	
Schwarz criteria	6.523884	
Mean Dep. Variable	9.160000	
S.D. Dep Variable	7.141925	
SSR	251.6590	

Source: Author's Computation, 2018

$$ROE = \beta_0 + \beta_1 TFD + \mu$$

Linear regression analysis was applied and result was presented in table 4.1 to determine the relationship between ROE and TFD.

The model is explicitly expressed as;

$$ROE = 2.818099 + 0.690839 + 0.269047$$

The coefficient values of TFD is 0.690839

The table 4.1 results of the regressions show that the total funds measure is statistically significant at 5% level of significance. The coefficient of constant is 28.2 which means that holding equity financing proxy with total

fund constant, the bank performance proxy with return on equity (ROE) will increase by 28.1 if there is an additional unit of fund in which it has a positive relationship.

The total fund (TFD) co-efficient suggests that a percentage increase in total fund (TFD) will lead to 69% increasing in return on equity (ROE) of the first bank of Nigeria, ROE a proxy for bank performance within the period under review. This is in accordance with the studies of Velnampy and Niresh (2012), Adeleke, Ogunlowore, Idode and Ashogbon (2014), Nwidoble and Adesina (2015) which shows that equity financing utilized positive statistically significant effect on bank performance in Srilanban bank and Nigeria correspondingly.

It also support the work of Alisan, Rahman and Alamu (2014) of Bangladesh which depicted that equity financing has positive correlation with bank performance in Nigeria. but the study is contrary to the work of Olokoyo (2012) that shows negative relationship between equity financing and bank performance.

Also The R² square value is the co-efficient of determination which explains percentage variation. This shows that a unit increase in the explanatory variables vis a vis total funds(TFD) account for about 69 percent variation in return on equity (ROE).

The Adjusted R-square coefficient in table 4.1 that shows only 38% of variation in return on equity (ROE) was elucidated by the total fund (TFD). This implies that total fund (TFD) impact on return on equity (ROE) of banks in Nigeria is inadequate. This conform with empirical finding of Akeem, Terer, Kiyanju and Kayode (2014) which concluded that equity financing has potential of growth inducing, though yet to be contributed meaningfully to performance of banks in Nigeria.

Durbin Watson statistics shows whether there is serial correlation among the explanatory value of 1.38 and this depicted the presence of autocorrelation which means that the explanatory variables might be serially correlated.

The regression result in Table 4.1 depicts that there is positive correlation between equity financing proxy with total fund (TFD) and bank performance proxy with return on equity (ROE) in Nigeria which validates the Mcinnon-Shaw (1973) and also authenticates the empirical research of Akeem, Terer, Kiyanju and Kayode (2014) that equity financing proxy with total fund (TFD) stimulate bank performance proxy with return on equity (ROE). The regression output in Table 4.1 shows that equity financing proxy with total fund (TFD) has significant effect on bank performance proxy with return on equity (ROE). Therefore, the null hypothesis (H₀: there is no significant impact between equity financing proxy with total fund (TFD) and bank performance proxy with return on equity (ROE) in Nigeria) should be rejected and alternative hypothesis (H_a: there is significant impact between equity financing proxy with total fund (TFD) and bank performance proxy with return on equity (ROE) in Nigeria) should be accepted.

V. CONCLUSION

It is crystal clear that equity financing proxy with TFD is very vital to Nigeria bank performance proxy with ROE, because, equity financing (TFD) spur bank performance (ROE) in Nigeria on the available result. The study used the total fund (TFD) as a measure to return on equity (ROE) in Nigeria. Though the author after running the data with e-view 7, discovered that the TFD has positive relationship with return on equity (ROE) which it's in line with the Apriori-expectation.

The researcher therefore, opined that bank board appropriate committee and policy maker have a lot to do in term of formulating and implementing appropriate policy that will stabilize the bank performance improvement in Nigeria by improving the position of the exogenous variables of the study.

REFERENCES

- [1]. Addae, A. M., Nyarko-Baasi, M. & Hughes, D. (2013). The Effects of Capital Structure on Profitability of Listed Firms in Ghana. *European Journal of Business and Management*, 5(31), 215-229.
- [2]. Adesina, J. B., Nwidobie, B. M. & Adesina, O. O. (2015). Capital Structure and Financial Performance in Nigeria. *International Journal of Business and Social Research*, 5(2), 21-31.
- [3]. Akeem, L. B., Terer, K. E., Kiyanjui, M. W. & Kayode, A. M. (2014). Effects of Capital Structure on Firm's Performance: Empirical Study of Manufacturing Companies in Nigeria. *Journal of Finance and Investment Analysis*, 3(4), 39-57.
- [4]. Awunyo-Vitor, D. & Badu, J. (2012). Capital Structure and Performance of Listed Banks in Ghana. *Global Journal of Human Social Science*, 12(5), 56-62.
- [5]. Berger, A. N. & Bonaccorsi di Patti, P. (2006). Capital Structure and Firm Performance: A New Approach to Testing Agency Theory and an Application to the Banking Industry. *Journal of Banking and Finance*, 30(4), 1065-1102.
- [6]. Central Bank of Nigeria, CBN (2005). Banking Sector Consolidation: Special Incentives to Encourage Weaker Banks. Press Release, April 11.

- [7]. Central Bank of Nigeria, CBN (2010). Guidance Notes on the Calculation of Regulatory Capital. Press Release, July 1.
- [8]. Chechet, I. L. & Olayiwola, A. B. (2014). Capital Structure and Profitability of Nigerian Quoted Firms: The Agency Cost Theory Perspective. *American International Journal of Social Science*, 3(1), 139-158.
- [9]. Demsetz, H. (1973). Industry Structure, Market Rivalry and Public Policy. *Journal of Law and Economics*, 16(1), 1- 9.
- [10]. Desai, A. (2007). Corporate Tax Avoidance and Firm Value. Harvard University and NBER.
- [11]. Engle, R. F. & Granger, C. W. J. (1987). Cointegration and Error Correction: Representation, Estimation and Testing. *Econometrica*, 55(2), 251-276.
- [12]. Fama, E. F. (1980). Agency problem and theory of the firm. *Journal of Political Economy*. 88, 288-307.
- [13]. Graham, J. & Harvey, C. (2001). The Theory and Practice of Corporate Finance: Evidence from the Field. *Journal of Financial Economics*, 60, 187-243.
- [14]. Harris, M. & Raviv, A. (1991). The Theory of Capital Structure. *Journal of Finance*, 46, 297-355.
- [15]. Hasan, B., Ahsan, M., Rahaman, A. & Alam, N. (2014). Influence of Capital Structure on Firm Performance: Evidence from Bangladesh. *International Journal of Business and Management*, 9(5), 184-194.
- [17]. Iavorskyi, M. (2013). The Impact of Capital Structure on Firm Performance: Evidence from Ukraine. An Unpublished MA Thesis, Department of Financial Economics, Kyiv School of Economics, Ukraine.
- [18]. Idode, P. E., Adeleke, T. M., Ogunlowore, A. J. & Ashogbon, O. S. (2014). Influence of capital structure on profitability: Empirical Evidence from listed Nigerian banks. *IOSR Journal of Business and Management*, 16(11), 22-28.
- [19]. Jensen, M. C. & Meckling, W. H. (1976). Theory of the firm: managerial behaviour, agency costs and capital structure. *Journal of Financial Economics*, 3, 11-25.
- [20]. Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corporate Finance and Takeovers. *American Economic Review*, 76, 332-329.
- [21]. Kim, E. (1978). A mean-variance theory of optimal capital structure and corporate debt capacity. *Journal of Finance*, 33, 45- 63.
- [22]. Kraus, A. & Litzenger, R. H. (1973). A state-preference model of optimal financial leverage. *Journal of Finance*, 28, 911- 922.
- [23]. McConnell, J. & Servaes, H. (1995). Equity Ownership and the Two Faces of Debt. *Journal of Financial Economics*, 39, 131-157.
- [24]. Miller, M. H. (1977). Debt and Taxes. *Journal of Finance*, 32(2), 261-275.
- [25]. Modigliani, F. & Miller, M. H. (1958). The Cost of Capital, Corporation Finance and the Theory of Investment. *The American Economic Review*, 48 (3), 261-297.
- [26]. Modigliani, F. & Miller, M. H. (1963). Corporate Income Taxes and the Cost of Capital: A Correction. *The American Economic Review*, 53, 433-443.
- [27]. Myers, S. & Majluf, N. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, 13, 187-221.
- [28]. Myers, S. (1977). Determinants of Corporate Borrowings. *Journal of Financial Economics*, 5, 147-175.
- [29]. Myers, S. (1984). The capital structure puzzle. *Journal of Finance*, 39, 575-592.
- [30]. Olokoyo, F. O. (2012). Capital structure and corporate performance of Nigerian quoted firms: A panel data approach, Ph D thesis, Covenant University, Ota, Ogun State-Nigeria.
- [31]. Opoku, E. F., Audu, J. K. & Anarfi, B. O. (2013). The Impact of Capital Structure and Profitability of Listed Banks on the Ghana Stock Exchange. *Social and Basic Sciences Review*, 1(2), 74-91.
- [32]. Pesaran, M. H., Shin, Y. & Smith, R. J. (2001). Structural Analysis of Vector Error Correction Models with Exogenous I (1) Variables. *Journal of Econometrics*, 97, 293-343.
- [33]. Ross, S. (1973). The economic theory of agency: The principal's problem. *American Economic Review*, 63(2), 134-39.
- [34]. Scott, J. (1977). Bankruptcy, secured debt and optimal capital structure. *Journal of Finance*, 32, 1-19.
- [35]. Soumadi, M. M. & Hayajneh, O. S. (2010). Capital Structure and Corporate Performance Empirical Study on the Public Jordanian Shareholdings Firms Listed in the Amman Stock Market. *European Scientific Journal*, 8(22), 173-189.
- [37]. Tudose, M. B. (2012). Capital Structure and Firm Performance. *Economy Transdisciplinarity Cognition*, 15(2), 76-82.
- [38]. Velnampy, T. & Niresh, J. A. (2012). The Relationship between Capital Structure and Profitability. *Global Journal of Management and Business Research*, 12(13), 66-74.
- [39]. Yaaba, B. N. (2013). Monetary Policy Rule: A Broad Monetary Conditions Index for Nigeria. *CBN Journal of Applied Statistics*, 4(1), 35-53.

Appendix

Dependent Variable: ROE
Method: Least Squares
Date: 11/08/18 Time: 18:36
Sample: 2007 2016
Included observations: 10

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TFD	0.690839	0.269047	2.567725	0.0332
C	2.818099	3.040709	0.926790	0.3811
R-squared	0.451800	Mean dependent var		9.160000
Adjusted R-squared	0.383275	S.D. dependent var		7.141926
S.E. of regression	5.608687	Akaike info criterion		6.463367
Sum squared resid	251.6590	Schwarz criterion		6.523884
Log likelihood	-30.31683	Hannan-Quinn criter.		6.396980
F-statistic	6.593209	Durbin-Watson stat		1.380939
Prob(F-statistic)	0.033245			

IOSR Journal Of Humanities And Social Science (IOSR-JHSS) is UGC approved Journal with Sl. No. 5070, Journal no. 49323.

Emenuga, Primus. "Equity Financing and Bank Performance in Nigeria: Special Performance to First Bank in Nigeria." IOSR Journal of Humanities and Social Science (IOSR-JHSS). vol. 24 no. 04, 2019, pp. 17-23.