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OWNERSHIP STRUCTURE AND FINANCIAL PERFORMANCE ON LISTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study looked at the ownership structure and financial performance of listed manufacturing companies in Nigeria. The Return on Asset was used as a proxy for the effect of the variables of the ownership structure on the financial performance of the company. A sample of 35 listed manufacturing companies was used for the study. The data was collected and analyzed from nine years of annual reports and accounts of selected sample manufacturing companies. The study found that institutional ownership has a positive and significant impact on financial performance. The study recommends that institutional owners continue to use their resources and expertise to exercise control over management abuse, which has the potential to negatively impact the performance of Nigeria-listed manufacturing companies.

Keywords: Ownership Structure, Institutional Owners Financial Performance, Manufacturing Companies, Nigeria

1. Introduction

Business' corporation's sole objective is to make a profit, which is typically determined by their decision making mechanisms. Corporate decisions have an impact on the company's capital base and plans for external funding (leverage). When a company borrows money and resources from the outside sources, it is referred to as debt financing (Yahaya & Lawal, 2018). Each company can create its own in different ways. A company's vision usually dictates the type of ownership structure it chooses (Shaba, Yaaba, & Abubakar, 2019). The ownership consists of share capital as well as the position held by the shareholders. The structures is important for the management of companies because they affect the motivation of managers as well as the economic efficiency of companies (Meckling, 1976).

Karl (2019), went on to say that corporate governance can help individuals, companies, and society align their interests on a fundamental ethical foundation, and that it can help owners

achieve their strategic goal by increasing shareholder wealth and dominant the market share. Participation in management decisions can improve company performance by aligning monetary consideration between manager and shareholders (Posner, 2009). Greater manager ownership can improve business performance because managers are better able to defend corporate control against a market takeover threat (Fosberg, 2015). Shareholders with a stake in corporations, on the other hand, can be more active in protecting the organization's interests among all stakeholders. This is because they must believe and feel that the organization's failure is implicitly their failure, and that losing their stake could result in them losing their stake. Managers who participate in more than one organization, on the other hand, also seek to improve the performance of one organization so that high returns are reported when dividends and bonds are issued.

Nigeria's manufacturing sector is one of the most important. in several ways It's a way to boost productivity in terms of import substitution and expansion, as well as generate currency income and increase employment. Despite ongoing policy strategies to attract credit to the manufacturing sector, most Nigerian manufacturing enterprises have remained unattractive due to the various allegations imposed by financial institutions and government leading to a reduction in the net worth of the companies (Alhaji, 2018). Despite the important role of the manufacturing sector in development, Nigeria is still lagging behind, as shown by the several declines of the manufacturing sector to GDP. Also from the financial statement of some manufacturing companies, as seen in Nascon Allied Industries Plc, which recorded 37% of its asset return in 2015 but decreased to 13% in 2017. Nigerian Flourmill Plc recorded an asset return of 13% in 2014 and further decreased to 1% in 2018. Cutix Plc recorded 19% of its return on assets in 2017 and further decreased to 8% in 2018 is as a result of poor economic downturn and improper management of the organization. Financial performance, as measured by ROA, has revealed the need for improvement, as well as the identification of specific factors that influence financial performance and the magnitude of their impact on Nigeria's manufacturing sector.

Many researchers have turned to these shareholders as ownership grows over time. Due to their advantage of diffuse shareholders, institutional, concentrated, and foreign) as potential monitors. Because it increases stock ownership and aims to maximize investment, it is therefore possible to create new management disciplines. Conflicts that can affect the company's operating performance are strongly linked to the ownership structure. Hafez, (2017) argued that the ownership structure leads to conflict. According Tachiwou and Morey, (2016), this interest can lead to agency problems. As the ownership structure of a business changes and control is separated from ownership, incentive alignment issues arise. Objective of this study is to examine ownership structure and financial performance on listed manufacturing companies in Nigerian. The specific objectives are to examine the effects of management ownership and financial performance on listed manufacturing companies in Nigerian. Study the impact of institutional ownership and financial performance on public listed manufacturing companies in Nigeria. To examine the impact of ownership concentration and financial performance on listed manufacturing companies Nigeria.

As a result, the researchers hypothesized that managerial ownership had little impact on the financial performance of Nigerian manufacturing firms. In Nigeria, the financial performance of manufacturing companies has no bearing on institutional ownership. Furthermore, the financial performance of listed manufacturing companies in Nigeria is unaffected by ownership concentration. The study looked at the ownership structure and financial performance of

Nigerian listed manufacturing companies. The study used eight-year sample of 35 Nigerian public companies all of which were in the consumer and industrial goods sectors. The practical outcome of the study is expected to be of benefit because financial performance is a direct outcome of revenue generation and effective utilization of capital mix of companies. The outcome of the study will equip Nigeria listed manufacturing companies with useful information that will assist in making financing decisions. The existing and potential investors will also find it useful as it will help them to take right action in respect to investment decision.

2. Literature Review

This section examines the prior studies on the ownership structure and financial performance on listed manufacturing companies.

Adamu, Ishak, & Chandren, (2017) examined how the ownership structure of companies listed on the Ghana stock exchange affects their performance. Product Moment Correlation and Pearson Logistics Regression were used to analyze performance indicators such as return on assets (ROA), return on equity (ROE), and dividend yield (DY), while foreign ownership, institutional ownership, and concentration of ownership were used to determine ownership structure. They investigated the effect of ownership structure on the performance of Ghanaian companies listed on the stock exchange. Performance indicators such as return on asset (ROA), return on equity (ROE), and dividend yield (DY) were analyzed using Pearson's Product Moment Correlation and Logistic Regression, while ownership structure was determined using foreign ownership, institutional ownership, and ownership concentration. The ownership concentration is negatively correlated with firm performance, whereas managerial and institutional ownership are positively correlated with the performance of listed manufacturing companies on the Ghana stock exchange.

Maina & Ishmail, (2014) studied the impact of ownership structure on the financial performance of Nairobi Stock Exchange companies, using regression analysis and correlation methods, the researchers discovered a link between ownership structure and company performance in a sample of 62 publicly traded companies from 2009 to 2013. The findings revealed that while managerial ownership has a positive relationship with firm financial performance, ownership concentration does not. Furthermore, Fabian, James, and Moshi, (2014) investigated the effects of ownership structure on financial institution performance from 2008 to 2012 using financial institutions listed on the Ghana Stock Exchange. The findings revealed a significant negative relationship between managerial ownership and ownership concentration and firm performance (ROA), while managerial ownership and ownership concentration have a positive effect on firm performance (ROE and ROA). Delong, (2019), investigate the impact of ownership structure on the performance of Sri Lankan publicly traded manufacturing firms. The research study used a sample of 20 companies to analyze the data, which was done using correlation analysis.

In Nigeria, very few researches have been done on ownership structure. Benjamin, Love & Kabiru, (2014), the impact of ownership structure on the financial performance of Nigeria's listed insurance companies was investigated. Using the least squares method, for seventeen (17) companies for the period 2001-2010. The research focuses on two aspects of two independent variables used to measure ownership structure: management ownership and institutional participation, with the company's performance measured in terms of return on asset (ROA) and return on equity (ROE) (ROE). According to the findings, there is a positive relationship

between the ownership structure and the organization's financial performance as measured by ROA and ROE

Many scholars have attempted to determine the link between firms financial performance and managerial ownership Jaffar, (2019), investigated the relationship between ownership structure on the evolution of company's financial performance. He looked into the operational performance of 133 companies that went public after their initial public offerings (IPOs) in Thailand. Their findings revealed that managerial ownership with low supervisory policy will show an abysmal financial performance. Elder (2019) submit that, Exogenous factors such as government policies unrelated to incentive contracts, largely determined the ownership structure. They discovered that companies with a large management stake outperformed those whose executives did not own shares in matched sample comparisons. Their findings show that managerial ownership shows a strong and consistent impact on the company's financial position. Unlike previous studies, their findings were unlikely to suffer from an endogeneity problem, which can be difficult to resolve when using public listed company.

Several studies have been conducted in both developed and under developing countries. This includes Hafez, (2017), who looked at the differences between family-run businesses, businesses controlled by individuals through partnerships, businesses controlled by businesses, and businesses with less than 50% ownership by block owners. The work was analyzed using samples from 280 Israeli companies and the data-jacketing analysis technique. Manager/companies are less efficient at generating income than companies run by non-owner/manager, according to their findings, businesses run by family relative/owners perform the worst. In encouraging solid financial performance, they recommended that modern forms of business organization open businesses with dispersed owners and non-owner managers.

Kerim & Alaji, (2019) investigated the nexus between the ownership structure of Nigerian companies and firms financial performance. The survey period is from 2012 to 2018 and consists of 87 companies. We used five specific survey questions to investigate the voting share and financial performance of the controlling owner/owner, and the relationship between voting discrimination and financial performance. Their findings show that companies with diversified ownership structures, the largest owners with less than 20% of total votes, are associated with poor financial performance.

Institutional investors are a key stakeholder in day-to-day running of financial market, and they control the force in the stock market. They play a significant role not only in developed markets but also in emerging markets around the world. Similarly, in the United States, these institutions held around 5% of total shares of listed companies in 1945, 8% in 1950, 33% in 1980, 45 percent in 1990, 60% in 2003, and 67 percent in 2010, with their shareholding steadily increasing (Kerim & Alaji, 2019). However, as their equity ownership has grown, they have gained more power to speak up when they disagree with management, and as a result, the institutional owners participate more in corporate decision-making through the voting rights at company general meetings, and they are attempting to control the firm's. These institutional investors monitor the financial cash-flow of the organization to, improve the firm financial performance.

Institutional shareholding has continued to dominate the capital market. The effects of institutional share ownership and accounting issues are rarely studied empirically. The presence of institutional investors should improve the company's financial performance. Firm financial performance should improve as institutional investors gain more expertise, resources, and ability

to control and monitor management. Institutional owners try to prevent management from hiding corporate resources and opportunistically manipulating earnings because corporate performance is linked to institutional ownership (Chechet, 2014).

Nawi, (2018) examined the impact of managerial shareholder ownership concentration on American companies' financial performance. To assess firm's operations, a tree-factor model was used, with the performance index to determine the labor resources and investment. They discovered that ownership concentration of an organization had no impact on American businesses' financial cash flow. Kakanda, Bello, & Abba, (2016) opined that there are Different measure to financial performance of an organizations such as, shareholders who are concerned with profitability and managers who are concerned with the company's growth. Both profitability and growth should be taken into account when evaluating a company's performance, as performance is seen as the most important factor in determining the long-term viability of a business start-up, which is the primary goal for-profit making business. The efforts that have been made to efficiently and effectively achieve the goals are referred to as performance. This includes the use of human capital management, and natural resources, as well as company's management's quality results, as managers' use various levels of equity and debt to strategies for an improve financial performance (Gleason, Mathur, & Mathur, 2017). Performance is a scientific assessment of firms profitability and liquidity strength, with the goal of uncovering the significance and importance of the items included in the income statement and balance sheet that management uses in establishing a sound operation - and supporting financial policy - when analyzing the financial statements.

The theoretical explanation for the study is centered on agency theory. The theory anchors the interaction between the principal (shareholders) and the principal's agent (company executives). This implies that the firm can be viewed as a loosely defined nexus of contracts between resource holders. When one or more individuals, known as principals, hire one or more other individuals, known as agents, to perform a service and then delegate decision-making authority to the agents, an agency relationship is formed. Due to a conflict of interest, the use of debt in the ownership structure can also result in agency costs. Conflicts of interest can arise between shareholders and bondholders (agency costs of debt), or between shareholders and managers (agency costs of equity), (Jensen& & Meckling, 1976). Jensen& & Meckling, (1976) proposed that, for an optimal debt level in ownership structure, the agency costs arising from managers' divergent interests with shareholders and owners should be minimized. They propose that either the firm's ownership or the number of managers be increased in order to align managers' interests with those of the owners, or that the use of debt be encouraged to curb managers' proclivity for excessive extra consumption. Posner (2009) discusses the agency problem in the context of free-cash flow.

Conceptual Framework

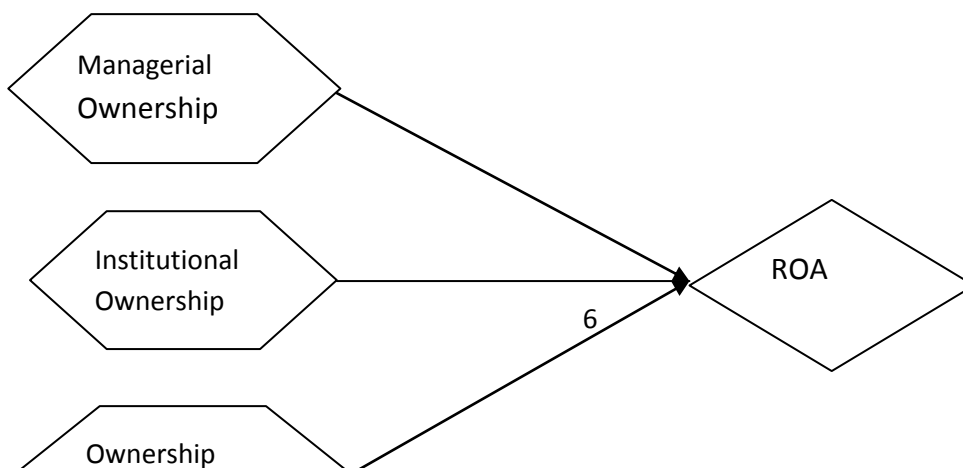


Figure 1.2

3. Methodology and Variables

Correlational research design was used in this study. The positivism approach, which is the research paradigm, informs the design. With a sample size of 35, the study population consists of all fifty-nine (59) listed manufacturing firms on the floor of the Nigerian Stock Exchange as of December 31, 2019. (35). the methodology for the sampling method is as follows:

- i. The companies must have been listed on the Nigerian Stock Exchange (NSE) for one (1) year prior to 2011.
- ii. Firm must not be delisted during the period of study
- iii. The data for this study came from the firms' annual financial reports for the time period under consideration, which was 2011 to 2019.

The study's financial data is secondary in nature, obtained from annual reports. Due to the fact that both time series and cross sectional data was used in the study we no considered panel regression analysis as appropriate to underpin the independent variable of the study. While return on assets was used as the dependent variable.

Table 1: Definition of variables and Measurements

Variables	Measurements
R.O.E	It's calculated by dividing total equity by earnings after interest and taxes. Tian and Zeitun's (2018)
R.OA	It is calculated by dividing total assets by earnings after interest and taxes. Jiraporn & Liu(2017)
Managerial Ownership	The proportion of shares held by managers and executive directors divided by the total number of shares issued is how it's calculated. Salehi, Mohmoud, and Heydari (2012)
Institutional Ownership	It is expressed as a percentage of institutional investors' shares held compared to the total number of shares issued (those that held 5 percent and above) Kouki & Guizani (2009) and Lamba and Stapledon (2016).
Ownership Concentration	It is calculated by dividing the total number of ordinary shares issued by the number of shares held by the largest shareholders. Abubakar 2017

Source: Author’s Computation, 2021

The impact of IVs (managerial ownership, institutional ownership, and ownership concentration) on the DV was investigated using a modified model (financial performance as measured by return on assets). The equation model that expresses the influence of Y (the dependent variable) on X was a regression of Y on X. (the independent variables). The linear regression is represented mathematically as $Y = F(X)$, which means Y is a function of X. $Y = 0 + 1X_1 + 2X_2 + \dots + nX_n + e$

Where,

Y= the dependent variable (financial performance)

X = the independent

0 = the intercept,

1.....n = coefficient

Empirical models estimated in the study were proxied as follows:

Where:

ROA = Return on Assets

$MOWN_{it}$ = managerial ownership

$INOWN_{it}$ = institutional investors.

$OWNCON_{it}$ = ownership concentration

4. Discussion of findings

Return on assets (ROA) is used as a measure of financial performance in this study. However, due to endogeneity issue, each independent variable (i.e. managerial ownership, institutional ownership, and ownership concentrated) is instrumented in the ROE model because it is suspected that they are endogenous. Table 2 shows result of regression analysis on the effect of ownership structure and financial performance on listed companies using ROA.

Table 2: Descriptive Statistics

Variable	Observation	Minimum	Max	Mean	Std. Dev.
ROA	315	-.21	.9	.0696	.2107
MOWN	315	.45	.036	.765	.4740
INSTOWN	315	0.051	0.95	0.4106	0.1905
OWNCON	315	0.075	0.85	0.0827	0.2039

Source: Author's Computation, 2021

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table 2 summarizes descriptive statistics for the dependent and independent variables for the sampled listed manufacturing companies. The results above show the minimum indicators of the variables calculated from annual financial statements. Return on assets (ROA) is used to calculate the average return of 7%. The picture shows poor performance over the duration of the study period. The contribution of net income invested by the company's shareholders per naira is measured by the ROA (local currency). A measure of the owner's invested capital's efficiency. The maximum and minimum ROA values, respectively, were 0.9 and -0.21. This shows that the most profitable manufacturing companies made N9 of net income with a single N1 of capital investment. And the maximum losses that the manufacturing company incurs are loss of N 0 per N1 of the investment. The standard deviation of the ROA is 0.2107, which shows a high degree of variability between the manufacturing companies. MOWN is a variable that represents the share of total number of sharing issues. This variable's average value is 0.45. Management represents approximately 95% of total assets, according to the value, Due to the difficulty in obtaining long-term credit from financial institutions; manufacturing companies are increasingly relying on private equity for financing their operations.

The minimum and maximum values for MOWN are 0.45 and 0.035, respectively. Manufacturing firms have a Positive insignificant variation with a standard deviation of 0.4740. The institution ownership ratio (INTOWN) also stands at an average of 0.1905. This means that long-term debt accounts for nearly 21% of total assets. The minimum and maximum values for OWNCON are 0.051 and 0.95, respectively. Average OWNCON deviation among sampled listed companies is 0.2039, indicating moderate variation. Beyond the concentration of ownership, manufacturing

firms are financially managed with a large percentage of institutional ownership, as stated in the previous position.

Table 3: Correlation matrix

Variable	ROA	MOWN	INSTOWN	OWNCON
ROA	1.0000			
MOWN	.0843	1.0000		
INSTOWN	-0.1323	-0.0359	1.0000	
OWNCON	-0.2087	0.1193	0.1021	1.0000

Source: Author's Computation, 2021

According to the correlation matrix table 3, MOWN is positively correlated with returns on assets (ROA) of existing manufacturing companies. The above variable appears to be moving in the opposite direction of the ROA. INSTOWN and OWNCON, on the other hand, have a negative correlation with ROA, indicating that the variables are moving in the same direction as ROA. In terms of correlation, the table shows a positive correlation between MOWN, INTOWN, and OWNCON, but a negative correlation between Ownership concentrations.

Residual tests

The Breach Pagan/Cook-Weisberg test was used to determine whether there was heteroskedasticity in this study. Because the Chi2 value of 2.31 with a p-value of 0.1285 indicates that there is no heteroskedasticity, the null hypothesis that the residual variance is constant (homoscedastic) is not rejected. The researchers used a multicollinearity test to determine the strength of the relationship between the explanatory variables, which could have an impact on the study's outcome. All of the variables have tolerance values greater than 0.10 and values less than 10. This demonstrates that multicollinearity is not a problem. The Hausman speciation test was used to determine whether fixed or random effect models should be used. Chi2 value is 0.16 and the prob>chi 09954 value is revealed by the Hausman test. The Hausman test favors the random effect model due to the insignificant value reported by the probability of chi2. To choose between the random effect result and OLS regression, the Breusch and Pagan Lagrangian multiplier test for random effect was used. A chi2 of 0.000 and a p-value of 1.000 were obtained from the test.

This indicates that the OLS regression model is the best fit for this study's interpretation. The OLS regression model's result is shown in table 4 below.

Table 4: Regression result

Variable	Coefficient	std. error	Z-value	p>(z)
MOWN	-.0275645	.0323079	-0.85	0.394
INSTOWN	.0066688	.002777	2.40	0.017
OWNCON	-.0174789	.0104115	-1.68	0.094
Constant	.7354418	.0309728	23.74	0.000

Source: Author's Computation, 2021

Adjusted R-Square: 0.1700

Prob.: 0.0010

The adjusted R² of 0.1700 in Table 4 indicates that the independent variables captured in the model explained 17 percent of the variation in ROA of listed manufacturing firms in Nigeria, with a p-value of 0.0010 indicating that it is significant at 1%. This suggests that the model is suitable.

Findings

Table 4 demonstrates that the ownership structure has no significant impact on ROA. Shareholders are unable to monitor or influence decision-making as a result of their passive role in monitoring managers, resulting in a negligible impact on the ROE of listed manufacturing firms in Nigeria was in contrast to the works of (Ibrahim, 2016) and (Yahaya & Lawal, 2018); Almujaed, (2016). This is in line with Yahaya & Lawal, (2018); Almujaed, (2016) findings (Riau, 2017). Furthermore, concentrated ownership has no effect on ROA. This means that ROA is not affected by ownership concentration. This is in line with Ibrahim (2016) and Nenu & Vintil (2018), but it contradicts the findings of Ibrahim (2016) and Nenu & Vintil (2018). (Riau, 2017). On the other hand, institutional ownership contemporaneous value has a significant positive impact on ROA. Institutional shareholders may compel management to improve performance because of their ability to influence board decisions, absorb the cost of effective monitoring, and engage in active ownership. Ibrahim, (2016; Adamu, 2017; Nenu & Vintil, 2018) On the other hand opine that, managerial ownership has no bearing on ROA. This means that managerial ownership has no bearing on the ROA of Nigerian publicly traded companies. It could be due to a lack of motivation on the part of the organization's managers or a sense of belonging to the company's success. This is in line with Kyereboah-Coleman & Biekpe, (2006) findings, but it contradicts Ibrahim's work (2016). Similarly, for control variables, Lagged size is found to have a negative impact on ROA, whereas Lagged growth ratio has a positive impact. This supports Parupalli's (2017) findings that previous growth prospects in Nigeria's manufacturing sectors have an impact on current firm profitability

5. Conclusions

The impact of firm ownership structure on financial performance of listed manufacturing firms in Nigeria has piqued interest in the corporate finance literature. There are five sections to this paper. The study's background was followed by the formulation of three objectives, which were guided by the formulation of three research hypotheses. According to the research statement, as a result of the large number of studies on ownership structure and firm financial performance in Nigeria, the majority of the studies focused on the financial sector, which is a service-oriented sector. The purpose of this study is to see if the results of other financial studies differ from those of the public listed manufacturing sector.

The study concludes that, Institutional ownership has a positive and significant impact on the financial performance of Nigeria's listed manufacturing firms in Nigeria as the financial performance of a company with another owner has a negligible impact. Institutional shareholders should continue to use their power, resources, and expertise to exert control over management abuses of power that can negatively impact the firm's performance. As a result of the study's findings, the following suggestions are made:

- i. The government should pursue a policy that encourages foreign direct investment in Nigeria aggressively.

- ii. The regulatory agency, the NSE, is required to continue administering and motivating companies to follow the corporate governance rules for manufacturing companies. More rules and regulations can be enacted to ensure that manufacturing companies maintain the trust of their shareholders and customers.
- iii. Nigerian investors should take corporate governance more seriously, not just because it is a legal requirement, but because it is a matter of proper understanding of its importance.

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