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CAPITAL STRUCTURE AND THE FINANCIAL PERFORMANCE OF OIL AND GAS COMPANIES IN NIGERIA

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Abstract
This research work examined the relationship between Capital Structure and Financial Performance in Oil and Gas Companies in Nigeria for a period of 5 years from (2013-2017). Secondary data obtained from the Nigerian Stock Exchange Commission, was used in this study. Ordinary least square multiple linear regression was the statistical tool used for the analysis with the aid of E-view 10. In carrying out the analysis, the stationary test shows that the variables are stationary at first difference. The co—integration test proved the presence of a long run relationship. The granger causality test proved no causality between the variables and the results of the regression analysis carried out revealed both positive and negative relationships that exist between the variables. It was found that Debt to equity ratio and debt to Total Assets ratio have significant and positive impact on Return on Assets. The study therefore concluded that optimal capital structure has significant and positive relationship with the financial performance of oil and Gas companies in Nigeria. It was recommended that optimal capital structure is a pre-condition for improved financial performance.

Key Words: Debt to Equity Ratio. Debt to Total Assets Ratio. Oil and Gas Companies. Nigeria.

Introduction

Financial performance is the measure of how well a company can use its assets from its primary business to generate revenue. Simply put, it is the reward of any business. Erasmus (2008). noted that financial performance measures like profitability and liquidity among others provide a valuable tool to stake holders which aids in evaluating the past financial performance and current position of a company. Rahul (1997) also noted that a company's performance is its ability to achieve its target objectives from its available resources. Suleiman (2013) viewed a company's performance as the result of a company's assessment or strategy on how well a company accomplished its goals and objectives. Financial performance provides a deductive measure on how well a company can use assets from business operations to generate revenue. Van Horn (2005) defined financial performance as a subjective measure of how well a company can use assets from its primary mode of business and generate revenues. This term according to Pandey (2001) is used as a general measure of the overall financial health of a business. Research a company's financial performance emanates from organizations theory and strategic management. The notion of financial performance is used to describe performance of an entity with the legal status of a company. Financial performance evaluation are designed to provide answers to a broad range of important questions, some of which include whether the company has enough cash to meet all its obligations, is it generating sufficient volume of sales to justify recent investment. Financial performance can be measured by variables which involve

productivity, profitability, growth or, even, customers" satisfaction. These measures are related among each other. Financial measurement is one of the tools which indicate the financial strengths, weaknesses, opportunities and threats. Those measurements are return on investment (ROI).
residual income (RI), earning per share (EPS), dividend yield, return on assets (ROA), growth in sales, return on equity (ROF), e.t.c (Stanford, 2009). One major factor that can influence a company's performance is Capital Structure.
influence a company's performance is Capital Structure. Capital structure involves the decision on the combination of the various sources of funds a company uses to finance its operations and capital investments. Capital structure is the mixture of types of debt and equity the company has in its balance sheet (Peavler, 2012). According to this definition, the capital structure of a company can be ascertained by knowing how much of the ownership is held in debts and how much in equity. The company's debt might include both short-term debt and long-term debt (such as mortgages), and equity, including common stock, preferred shares, and retained earnings. In other words, capital structure can be described as the composition of long-term liabilities, specific short-term liabilities like bank notes, common equity, and preferred equity which makes up the funds with which a business company finances its operations and its growth (Peavler, 2012).
Debt and equity are the major classes of capital structure, with debt holders and equity holders representing the two types of investors in a company. Each of them is associated with different levels of control, benefits and risk. While debt holders exert lower control, they earn a fixed rate of return and arc protected by contractual obligations with respect to their investment. Equity holders arc the real owners of a company, bearing most of the risk and correspondingly, have greater control over decisions (Aliu, 2010). The use of debt in an organizations capital structure has both positive and negative effects on its financial performance. Companies that use an optimum amount of debt in their capital structure have enhanced company value which is manifested in the form of increased sales, efficiency in production and low taxes. While companies with different cases of sub optimal use of debt in their capital structure usually suffer from a variety of financial ailments which Rajan & Zingalcs (1995) described as payment of high taxes, high proportions of accounts payable, large deficits in the company's cash flow and in some cases corporate dissolution. Also, Modigliani and Miller (1963) suggested that company's should incorporate more debt in their capital structure in order to maximize the company's value which is manifested through high profits, increased share prices and efficiency in management. It is on these grounds that this research shows the relevance of/and the relationship between Capital Structure on/and the Financial Performance of Oil and Gas companies in Nigeria.

Aim and Objectives of the Study

The aim of this study is to examine the relationship between Capital Structure and the Financial Performance pf Oil and Gas companies in Nigeria. However, spccilic objectives arc to:

1. Ascertain the relationship between Debt-to-Equity Ratio and the Return on Assets of Oil and Gas Companies in Nigeria.
2. Determine the relationship between Debt to Total Asset Ratio and the Return on Assets of Oil and Gas Companies in Nigeria.

Research Questions

The following research questions were raised:

1. What is the relationship between Debt to Equity Ratio and the Return on Assets of Oil and Gas Companies in Nigeria?
2. What is the relationship between Debt to Total Asset Ratio and the Return on Assets of Oil and Gas Companies in Nigeria?

Statement of Hypotheses

The following null hypotheses were proposed to address the research questions:

H0i: There is no significant relationship between Debt to Equity Ratio and the Return on Assets of Oil and Gas Companies in Nigeria.

II0$_2$: There is no significant relationship between Debt to Total Asset Ratio and the Return on Assets of Oil and Gas Companies in Nigeria.

Significance of the Study

This study will be of significance to the following;

A. Theoretical Benefit: This research work will add to the existing literature on Capital Structure and the Financial Performance of Oil and Gas companies in Nigeria. It will also assist in further research.

B. Practical Benefit: This study will be of immense benefit to oil and gas companies in ascertaining the benefits associated with capital structure for optimal financial performance.

Scope of the Study

The scope of this study was viewed from three perspectives namely content, geography and unit of analysis.

I. Content Scope: The study was carried out to determine the relationship between capital structure and the financial performance of oil and gas companies in Nigeria. It covered the period from 2013-2017 (5years).

ii. Geographical Scope: This research covered quoted oil and gas companies that are quoted in the Nigerian Stock Exchange. The study sourced for data from the published Annual Reports and Accounts of five (5) quoted Oil and Gas companies in Nigeria, Gotten from the Nigerian Stock Exchange Commission.

Limitations of the Study

This study was restricted to only concentrate on capital structure and the financial performance of oil and gas companies in Nigeria, instead of examining other major factors that influence financial performance of oil and gas companies. This limitation is due to the area under concentration. However, a thorough investigation was carried out despite this limitation.

Literature Review

Brief Conceptual Review

Capital Structure: Capital structure is simply a company's financial framework, which comprises of a company's retain earnings, debt financing and equity financing in order to maintain the business entity

in financing its operations.

Financial Performance: Financial performance provides a deductive measure of how well a company can use assets from business operations to generate revenue.

Return on Assets: Return on Asset is use to indicate how profitable a company is relative to its total assets.

Debt to Equity: Debt to Equity measures the proportion of creditors fund in relation to shareholders fund

Debt to Total Asset: Debt to total asset measures the amount of the total funds provided by creditors in relation to the total assets of a company. It is also a debt ratio that defines the total amount of debt relative to assets.

Empirical Review

This section provides some insights understanding of prior studies done by different authors in various countries at different periods in. the area of capital structure and financial performance.

Total Debt to Total Assets and Financial Performance Cross Country Reviews

Fosbcrg and Ghosh (2006) in their research conducted on 1022 companies in the New York Stock Exchange (NYSE) and 244 companies in the America Stock Exchange (AMEX) concluded that the relationship between total debt and financial performance is negative. Mouang and Song (2006) in the research conducted on 1200 Chinese companies during 1994 to 2003 concluded that leverage has negative relationship with financial performance. Andersen (2005) reviewed the relationship between capital structure and firms performance for 1323 companies from various industries and concluded that there is a significant relationship between total debts to total asset and financial performance. Ebaid (2009) studied the effect of capital structure on the performance of 64 Egyptian companies during 1997 to 2005. The results suggested that there is a significant negative relationship between total debts to total assets and financial performance. Mramor and Crnigoj (2009) concluded that there is a significant negative relationship between total debt to total assets ratio and financial performance. Zaitun and Tian (2007) found a significant negative relationship between total debt to total asset and financial performance. The studies of Abolfazl et al (2013) indicated significant negative relationship between total debt to total assets and financial performance. This shows that the lower total debt to total assets ratio, the better the financial performance. The studies arc in line with the result of Heydar, Elham, Vahid and Mohscn (2012) which revealed that there is significant negative relationship between total debt to total assets and financial performance. Abdul (2010) examined the relationship between capital structure decisions and firm performance of the engineering sector of Pakistan. The results showed that total debt to total assets has significant negative relationship with firm financial performance.

Suleiman and Nour (2012) studied the effect of capital structure on the performance of Palestinian financial institutions. The result revealed that total debt to total asset has a positive relationship with financial performance. Abbasali, Ali, Hamid and Kambiz (2012) investigated the impact of capital structure on the financial performance of companies listed in the Tehran Stock Exchange using a sample of 400 firms from 2006 to 2010. The results suggested that there is a significant negative relationship between total debt to total asset and financial performance. Rasa and Jurgita (2012) studied the relationship of corporate governance decisions on capital structure and performance of Lithuanian food and beverages companies for the period 2005 to 2010. The result revealed that total debt has strong negative relationship with financial performance of listed manufacturing firms in Lithuanian. Gholamrcg, Alireza and Alircza (2013) investigated the association between capital structure and financial performance of companies in Iran. The population of the study consists of 380 companies listed on Tehran Stock Exchange for 13 years from 2001 to 2013. To test the hypotheses, the pooled data regression method was used. F and T statistics were used to test the significance of patterns. The outcome of the study showed a significant negative relationship between total debt to total assets and financial performance. Roanne (2013) investigated the effect of capital structure on firm financial performance from 2003 to 2011. The result indicated a significant negative relationship between total debt to total assets and financial performance. Maniagi, Mwalati, Ondiek, Mesiega and Ruto (2013) investigated the relationship between firm's capital structure and performance among a sample of 30 companies listed on Nairobi Stock Exchange for the period of 5 years, 2007 to 2011. The results revealed that total debt to total assets ratio significantly influence return on assets of listed firms in Nairobi. Waqas, Imran, Hafiz, Jawad and Zahid (2013) examined the determinants of financial performance of textile and food sector in Pakistan. The result revealed that total debt to total assets has strongly negative relationship with financial performance at 5% level of significance. In addition, Saeed et al (2013) studied the impact of capital structure on performance of listed banks in Pakistan for the period of 2007-2011. The finding showed that total debt to total assets has a strong positive relationship with financial performance. Jude (2013) studied the impact of capital structure on financial performance of 30 listed manufacturing firms in Sri Lanka from 2008 to 2012. The findings revealed that there was no significant relationship between total debt to total assets and financial performance. Abdullah (2014) investigated the impact of capital structure of 74 firms on financial performance in Saudi Arabia for the period 2004 to 2012. The result of the regression showed that total debt to total assets has significant relationship with financial performance. Almustapha (2014) investigated the relationship between capital structure and firm performance during and after the global financial crisis among Malaysian listed companies. The research used a panel data approach on a sample of 278 non-financial listed companies. The regression models revealed that total debt to total assets has a significant negative relationship with financial performance. Maina & Ishmail (2014) examined the relationship between capital structure and financial performance of all the firms listed at Nairobi Securities Exchange from 2002 to 2011. The result generated from the output of Gretl statistical software indicated a negative relationship between total debt to total assets and financial performance, furthermore, Harwood (2015) examined the effect of debt on the performance of commercial banks listed on Nairobi Securities Exchange. The study used longitudinal research design on 11 commercial banks and analyzed the data using SPSS version 16.0. The regression result revealed that total debt to total assets has negative relationship with firm performance. Mathanika, Virgina and Paviththira

(2015) investigated the impact of capital structure on firm value of listed manufacturing companies in Sri Lanka. Secondary data was extracted from the financial statements of 15 companies. The result indicated that total debt to total assets has insignificant association with financial performance.

Onaolapo and Kajola: (2010) investigated the effect of capital structure on financial performance of companies listed on Nigeria Stock Exchange. The study was performed on 30 nonfinancial companies in 15 industry sectors for the period 2001 to 2007. The results showed that total debt to total assets ratio has significant negative effect on financial performance. Osuji and Odita (2012) studied the impact of capital structure on the financial performance of Nigerian firms using a sample of 30 non-financial firms listed on the Nigerian Stock Exchange for the period 2004-2010. The results showed that total debt to total assets has significant negative impact on financial performance of the firms. Taiwo (2012) investigated the effect of capital structure on firm's performance in Nigeria using five-year annual data of 10 firms. The result of the regression indicated a negative relationship between the explanatory and outcome variables. Appah, Okoroafor and Bariweni (2013) investigated the impact of capital structure on performance of 32 quoted firms in the Nigerian Stock Exchange for the period 2005 to 2011. They found that total debt to total assets has significant negative relationship with financial performance.

Methodology

This study used the cross-sectional field survey of the quasi-experimental research design. This design was useful in this study because it examined the relationship that exists between variables that are not subject to manipulation. The target population for this study consisted of five (5) oil and gas companies that are quoted on the Nigerian stock exchange (NSE) as revealed in the third quarter of 2016 NSE fact book. To conduct a meaningful study capable of empirical generalization, the research used the target population as the accessible population. Using the purposive sampling technique, the study companies were:

1. Conoil Nigeria PLC
2. MRS
3. Forte Oil
4. Total Nigeria PLC
5. Oando PLC

The sample size was 5years from (2013-2017) data selected from the published Annual Reports and Accounts of the Five (5) quoted oil and gas companies. Purposive sampling technique or judgmental sampling technique was used. Data for the study was collected from secondary sources. Secondary data which was the major source was collected from the Annual Report and Accounts of the five (5) quoted oil and gas companies in the Nigerian Stock Exchange Commission. The data collected was for the period of 5ycars, (2013- 2017).

Operational measures of variables

The dependent variable is financial performance, whereas the independent variable is capital structure in the Nigerian oil and gas companies. The dimensions of the predictor variable being used in the study are debt to equity ratio, debt to total asset ratio and total asset turnover ratio. Whereas, the determinants of the criterion variable are return on assets and return on equity. Data for computation will be gotten from the financial statements of the selected banks.

Dependent Variables:

Return on Asset: Formula = Net income / Total assets

Independent Variable:

Debt to Equity Ratio: Formula = Total Liabilities / Shareholders Equity

Debt to Total Asset Ratio: Formula = Total Liabilities / Total Assets

Total Asset Turnover Ratio: Formula = Net Sales / Average Total Assets

Data analysis technique involves the mathematical and statistical tools used in testing the stated hypotheses. This work used the ordinary least square, multiple regression analysis on E-vicw 10 to determine the relationship between the independent variable and the dependent variable. The statistical tools used in analyzing the statistical reliability of our parameter estimates are:

Results and Discussion

Presentation of Panel Data

The data obtained from the Port Harcourt branch of the Nigerian Stock Exchange and the website of the individual firms are presented in this session.

Table 1: MRS Nigeria PLC.

YEAR	ROA%	ROE%	DER%	DTAR%	TATR%
2013	0.96	3.23	234.7	70.1	267.25
2014	3.62	3.69	186.1	65.0	159.6
2015	4.82	4.46	281.8	68.6	130.2
2016	5.3	4.2	134.6	54	123
2017	3.7	3.3	131	41	121

Source: Computed by the researcher, extracted from the published Annual Reports and Accounts of MRS Nigeria pic, an Oil and Gas Company in Nigeria, Gotten from the Nigerian Stock Exchange Commission form 2013-2017.

Table 2: Total Total Nigeria PLC.

YEAR	ROA%	ROE%	DER%	DTAR%	TATR%
2013	9.5	31.2	18.2	47.6	86.2
2014	6.3	26.1	17.5	42.3	90
2015	4.83	24.9	415	80.6	497.4
2616	10.8	62.8	480.9	82.8	425
2017	7.42	28.4	282.6	73.9	533.5

Source: Computed by the researcher, extracted from the published Annual Reports and

Accounts of Total Nigeria pic, an Oil and Gas Company in Nigeria, Gotten from the Nigerian Stock Exchange Commission form 2013-2017.

Co-integration Test

Johansen co-integration test was employed to determine whether variables are co-integrated and will not produce a spurious regression. The result is presented and summarized in the tables below for Trace and Maximum Eigen value co-integration rank test respectively, fable 4.4.1 Summary of the Result of Johansen Multivariate Co-integration Test Unrestricted Co-integration Rank Test (Trace)
Date: 03/21/19 Time: 17:59
Sample (adjusted): 3 25
Included observations: 23 after adjustments
Trend assumption: Linear deterministic trend
Scries: ROA ROE DER DTAR TATR
Lags interval (in first differences): 1 to 1

Unrestricted Co-integration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigen value	Trace Statistic	0.05 Critical Value	Prob.**
None * *	0.725094	71.9967	69.81889	0.0332
At most 1	0.527103	42.2962	47.85613	0.1506
At most 2	0.452600	25.0720	29.79707	0.1589
At most 3	0.303582	11.2128	15.49471	0.1988
At most 4	0.118129	2.89130	3.841466	0.0891

Trace test indicates 1 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values
Source: Extracts from E-view print out Version 10 and author's compilation

Table 4. Summary of the Result of Johansen Multivariate Co-integration Test Unrestricted Cointegration Rank Test (Maximum Eigenvalue)

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None	0.725094	29.70052	33.87687	0.1455
At most 1	0.527103	17.22420	27.58434	0.5608
At most 2	0.452600	13.85923	21.13162	0.3767
At most 3	0.303582	8.321508	14.26460	0.3470
At most 4	0.118129	2.891309	3.841466	0.0891

Max-eigenvalue test indicates no cointegration at the 0.05 level *
denotes rejection of the hypothesis at the 0.05 level **MacKinnon-Haug-Michclis (1999) p-values
Source: Extracts from E-view print out Version 10 and author's compilation **Granger**

Causality Tests

Table 5. Summary of Pair Wise Granger Causality tests conducted.

Pairwise Granger Causality 'bests Date: 03/21/19 Time: 18:10 Sample: 1 25 Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
ROE does not Granger Cause ROA ROA does not Granger Cause ROE	23	0.20337 0.09395	0.8178 0.9108
DER docs not Granger Cause ROA ROA docs not Granger Cause DER	23	4.24796 0.37681	0.0308 0.6913
DTAR does not Granger Cause ROA ROA does not Granger Cause DTAR	23	0.64620 1.39387	0.5358 0.2736
TATR does not Granger Cause ROA ROA docs not Granger Cause TATR	23	3.86517 1.37282	0.0401 0.2787
DER docs not Granger Cause ROE ROE does not Granger Cause DER	23	1.07166 1.05736	0.3633 0.3680
DTAR does not Granger Cause ROE ROE does not Granger Cause DTAR	23	0.10538 3.59888	0.9005 0.0484
DTAR does not Granger Cause DER DER does not Granger Cause DTAR	23	0.37791 0.26772	0.6906 0.7681

Source: Extracts from E-view print out Version 10 and author's compilation The result of the test presented above proves that there is no causal relationship between the variables. This is because the probability of all the variables are above 0.05, this makes the null hypotheses acceptable.

Test of Hypotheses

IIOi: There is no significant relationship between Debt to Equity Ratio and the Return on Assets of Oil and Gas Companies in Nigeria.

ACCEPT

II0_2: There is no significant relationship between Debt to Total Asset Ratio and the Return on Assets of Oil and Gas Companies in Nigeria.

ACCEPT

Discussion of Findings

This study examined the relationship between Capital Structure and Financial Performance in Oil and Gas Companies in Nigeria. Based on the results of the analysis carried out, it is safe to say most variables of Capital Structure do have a negative relationship with the variables Financial Performance for the period covered by this study.

Capital Structure has a significant relationship with Financial Performance in Oil and Gas Companies in Nigeria. This finding is demonstrated in that of Debit to Total Asset Ratio having a significant relationship with Return on Equity. This finding agrees with that of Akinyomi (2013) who studied the effect of capital structure in Nigeria. Data was obtained from annual reports of the companies from 2007 to 2011. Correlation analysis was employed in analysis the data. The finding revealed that total debt to total assets has significant positive effect on financial performance. Similarly, the study of Idodc et al (2014) examined the influence of capital structure on profitability of listed banks in Nigeria. The study found a significant positive relationship between total debt to total assets and financial performance. Also, Babalola (2014) conducted a triangulation analysis of capital structure and firms performance in Nigeria using thirty-one (31) manufacturing firms for the period 1999 to; 2012. The result revealed a significant relationship between total debt to total equity and financial performance.

Summary

This research work examined the relationship between Capital Structure and Financial Performance in Oil and Gas Companies in Nigeria for a period of 5years from (2013-201 7). Secondary data obtained from the Nigerian Stock Exchange Commission, was used to test the hypotheses formulated. Ordinary least square multiple linear regression was the statistical tool used for the analysis with the aid of E-view 10. In carrying out the analysis, the stationary test shows that the variables are stationary at first difference. The co-integration test proved the presence of a long run relationship. 'The granger causality test proved no causality between the variables and the results of the regression analysis carried out revealed both positive and negative relationships that exist between the variables. In testing the hypotheses, one independent variable; debt to total asset ratio was statistically significant at 5% level of significance and had a positive relationship with one of dependent variables while the other independent variables; debt to equity ratio had a negative relationship with return on asset.

Conclusion

The impact of capital structure on firm performance depends on the variables and indicators that are used to approximate capital structure and performance. The study results indicated presence of tradeoff between the use of debts and firm performance when capital structure was measured using the ratio of debts to equity, and asset turnover and performance was measured by return on asset. The study concludes that, oil companies in Nigeria prefer to use more short term debts in form of deposits other than commercial debts hence they still have a chance to excel as the debts to total asset ratio was found to have significant positive impact on return on equity.

Recommendation

I. Oil and Gas companies in Nigeria should work very hard to optimize the capital structure of their company in order to increase the financial performance. They can do that through ensuring that their capital structure is optimal.

II. Oil and Gas companies in Nigeria should increase their commitments into short term debt to total asset in order to improve financial performance from their business operation. This is in line with the findings of this study that the short-term debt of listed manufacturing firms in Nigeria influences

their financial performance positively.

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