Corporate Financing Options and Its Impact on Shareholder’s Value in Nigeria

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Abstract
This study examined corporate financing options on shareholder’s value in Nigeria for eleven (11) years spanning from 2007 to 2017. The study used time series data derived from the central bank of Nigeria (CBN) statistical bulletin (2017) an annual report of the banks under study. The independent variables are debenture, bonds, preference shares and ordinary shares which were proxied for corporate financing options. While the dependent variable is value added which was proxied for shareholder’s value. The value added for the purpose of this study represents the additional wealth which the bank has been able to create by its own and employee’s effort. Multiple regression model through E-views version 7.0 statistical software was applied to the study. The findings of the study revealed that debenture, bond, and ordinary shares have a positive relationship to value added of corporate firms while preference shares do not have a positive relationship to the value added of corporate firms. Furthermore, the findings revealed a direct relationship of those exogenous variables to the endogenous variable (value added). In addition, the result concluded that only bond and ordinary shares build a significant interest among other variables. The study concluded that a unidirectional causal relationship exists among debenture, bond, preference share and value added. This implies that debenture, bond, and preference shares have a short-run relationship with value added. Thus, the researcher recommended that the management of corporate entities in Nigeria should increase the use equity capital in financing to improve value added of their entities and investors should also consider the capital structure of any entity before investing in them as the strength of a firm capital mix determines the level of returns and value added.

Keywords: Bond, Financing, Long term debt, Ordinary share, Preference share, Shareholders value

Introduction
In a corporate firm, additional wealth is created by hardworking, experienced managers and their subordinates, and this represents the value added to the firm. In other words, value added represents the additional wealth which the bank has been able to create by the manager and the employees’ effort. The fact remains that the business must encounter some challenges for a certain period without making a significant change in value.

The Nigerian firms make their financing decisions to obtain the optimal capital structure (debt and equity). In so doing, they consider the benefits of tax advantages and incentives versus the cost of default. The main arguments for using debt to finance firm’s activities rely on its relative cost. Moreover, Pike and Neale (2014) stated that issuing debt involves lower administrative costs as it does not necessarily require an underwriter.

Statement of the Problem
There are several studies on the effect on the performance of most corporate bodies even in well-developed economies and other growing economies and in Nigeria in particular. In much anticipation of the researcher, there is little literature yet on this topic, the impact of corporate financing and shareholder’s value in the Nigeria context. Rather, there are related topics on Determinants of Capital Structure and others like Capital Structure and Firm Performance. The challenging issue that is facing the firm’s choice of Capital Structure mix is the issue of; what is the best ratio, since firms have the choice between debt and equity financing this issue of what is the best ratio has been on for several years, but that has remained still unsettled in the area of corporate finance.

The few studies available in corporate financing have not investigated more on its impact on shareholder’s value. This study aims at contributing in filling this gap by expanding the scope both in the period covered and using a better measure to proxy shareholders value which tries to eliminate the challenges and further
expose the potential and existing investors to various opportunities that surround corporate financing. Thus, the study sets to determine the impact of corporate financing options on shareholder’s value in Nigeria. The independent variables are debenture, bond, ordinary share, and preference share. The dependent variable is value added of the firms under study.

**Review of Related Literature**

**The concept of Corporate Financing**

According to Kennon (2015), corporate financing refers to the percentage of capital (money) at work in business by type. There are two forms of financing: equity financing and debt financing.

Kausar, Nazir, and Butt, (2014) confirmed that the capital structure of a firm is a make-up of a mix of diverse securities. A mixture of equity and debt are the options of financing. The decision about the mixture of debt and equity is one of the serious decisions of any firm.

Akintoye (2014) posited that decision for any business organization is a decision for a suitable capital structure; the decision is not only because of the need to maximize returns to various organizations but on an organization’s ability to a pact with its competitive environment. The existing argument that was firstly developed by Modigliani and Miller (2012), state that an most favorable capital structure exists which equal the risk of bankruptcy with the tax savings of debt.

In theory, the modern financial practice would allow top managers to calculate correctly optimal trade-off between equity and debt for each firm. However, in practice; many studies found that most firms do not have an optimal capital structure. This is due to the reality that the managers do not have an inducement to increase a firm’s performance because their recompense is not usually linked to it. Moreover, as managers do not share firm’s profits with shareholders, it is very likely to augment company’s expenditures by buying everything they like and surrounding themselves of luxury and amenities. Hence, the main apprehension of shareholders is guaranteeing that managers do not misuse firm’s resources and operate the firm in order to get its value, which requires looking for a way to solve the principal-agent problem (Bokpin and Isshaq; 2014).

Chandrasekharan (2012) was of the opinion that firms need to substitute debt for equity or equity for debt and to adjust this until it reaches a level of maximization of the value of the firm. The application of excessive external financing could give rise to over-leverage of the organization since the organization will have extensive obligations to the fund providers which could disrupt the business operations and performance. This level is the optimum level of capital structure, a lot of debate among researcher has been on this issue of optimal capital structure that maximizes firm value. Owualah (2013) in his own debate on optimal capital structure opines that debate has shifted from whether they exist to determining the optimal capital structure for any particular firm as well as understanding the underlying influences to the firm’s performance. These underlying influence on firms he claims differ from country to country.

Oladeji and Olokoye (2014), the assumption of the wealth maximization rule is that there exists an optimal capital structure level for a firm which is the level where risk of venturing into external funding through allowing for sharing of earnings commensurate with the return on equity which constantly varies hence the need to identify the effects of the potential determinants of capital structure on corporate performance.

Onuorah (2011) indicated that corporate financing is a function of long-term finance and can be categorized into those that have definite maturities like debentures, mortgage bonds, leases, warrants, and convertible securities. Those that are essentially perpetual with no stated maturities like ordinary shares and preference shares is known as equity capital.
Debenture and Shareholders Value

A debenture is a channel to long-term debt arrangement that is used by large companies to borrow money. Most debentures are secured or backed by the borrower’s reputation, creditworthiness or history of the issuer while some are based on the borrower’s assets or collateral, and they vary from one country to another. Both firms and governments frequently issue this type of bond to secure capital. Debentures have a more precise purpose, and they are normally issued to raise short-term capital for upcoming expenses or to pay for expansions. They are sometimes called revenue bonds because they may be expected to be paid for out of the proceeds of a new business project (Ibenta, 2011).

Bonds and Shareholders Value

These are stocks sold at the capital market by governments, government parastatals, government companies, and limited liability corporations. This type of stock is sold at a fixed interest rate at a specified number of years. Bonds are the most secure type of shares in which investors are willing to buy at any amount because of the security terms attached to it. The Nigerian capital market has been characterized in recent times by bonds mostly sold to investors, government and corporate bodies which boost the confidence of these investors coming into the market to purchase these bonds. Therefore, Osiegbu, Nwakanma, and Onuorah (2013) suggested that bonds as demanded highly boost the performance and liquidity of companies in growing the profit of these companies.

According to Ibenta (2011), a bond is a written promise by a business firm to pay a specific sum of money at a specific date to the bearer or registered holder of the bond. It is a documentary promise issued by a public company or a government and which resembles other promissory notes.

Helfert (2012) submitted that bond constitutes a part of an elaborate contract or agreement between the issuing business firm and the bondholder. The basis of such contract or agreement rests on the undertakings by the two sides to the agreement. According to Rock (2012), the bondholder undertakes to furnish the business firm with funds, and the business firm undertakes to repay the number of funds borrowed at a specific future date. Secondly, the business firm will make periodic payments of a fixed rate of interest to the holder or the bearer of the bond. The periodic interest is conceived as the price which the business firm has to pay in order to induce the bondholder to part with his funds for a fairly long time, thereby denying him the alternative uses of these funds.

The bond market in Nigeria can be classified in various ways: it consists of government and corporate securities. In this regard, government securities consist of Federal Government Development Stock, treasury

Source: Researcher’s Computation 2018.

Figure 1: Conceptual Framework of Firm’s Financing and Shareholders Value
certificates (TCs), and Treasury bonds (TBs) and the development bonds issued by the state and local government.

Another classificatory scheme uses a time dimension such that the instruments are categorized into medium and long-term bonds. In this sense, the bond market is defined as an organization market for standardized marketable loans with medium to long-term maturities. The maturity can range from a minimum of 5 years and up to 25 years.

**Ordinary Shares and Shareholder’s Value**

Over the years, ordinary shares have been posited by financial experts and economist as funds raised by firms through individuals and corporate bodies for the establishment of a new or existing business geared towards rewarding these risk takers yields on their funds. Those investors do not come with a fixed amount. Lastly, holders of this type of shares bear losses at the risk of the firm liquidating financially and also do not get a dividend at who buy ordinary shares from firms operating in the capital market are called the ordinary shareholders, they do not gain privileges in their funds invested in the businesses except for their annual dividends which the period if the firm’s financial report is computed at a loss. Though, the ordinary shareholders are sometimes called the owners of the firm, because of the type of risk they bore into the firm’s operations. The ordinary shares are sold by the firms who are registered and operating in the stock market in which investors buy these shares at the capital (Osiegbu, et al., 2013).

**Preference Shares and Shareholder’s Value**

Preferred stock represents mixed features not obsessed by common shares including a mixture of both equity and a debt instruments; it is usually considered a hybrid instrument. Preferred shares are senior higher ranked than common shares, but subsidiary to bonds in terms of a claim for the company and may have preference over common stock (ordinary shares) in the payment of dividends and upon liquidation.

**Theoretical Framework**

The view of this study began on the premise of corporate financing option and shareholder’s value in Nigeria and is traced to various theories that are discussed below:

Modigliani and Miller (MM), (2012) illustrates that under certain assumptions, a firm’s value is untouched by its capital structure. The capital market is believed to be perfect in Modigliani, and Miller’s taught, where insiders and outsiders have free access to information; no transaction cost, bankruptcy cost, and no taxation exist; equity and debt choice become irrelevant and internal and external funds can be perfectly substituted. The M-M theory (2012) argues that the value of a firm should not depend on its capital structure.

**Agency Cost Theory of Corporate Financing**

This is a theory concerning the relationship between the principal (shareholders) and the agent of the principal (company’s managers). This insinuates that the firm can be analyzed as a connection of contracts between resource holders. Gang (2014) suggest that either ownership of the managers in the firm should be increased in order to align the interest of managers with that of the owners or users of debt should be actuated to control managers’ inclination for excessive extra consumptions.

**Pecking Order Theory of Corporate Financing**

This theory of capital structure introduced by Donaldson (1961) is one of the most leading theories of corporate control. It goes dissimilar to the idea of some firms having a distinctive mixture of debt and equity finance, which reduces their cost of capital. It is the main challenger to the trade-off theory; it suggests that actual corporate leverage ratios typically do not reflect capital structure targets, but rather the broadly observed corporate exercise of financing new investments with internal funds when possible and issuing debt rather than equity if external funds are required. Chaplinsky and Niehaus (2013) suggest that when a firm is looking for ways to finance its long-term investments, it has a well-defined order of preference with respect to the sources of finance it uses. It states that a firm’s first preference should be the utilization of internal funds (i.e., retained earnings), followed by debt and then external equity. (Huang and Song, 2015) argues that the more profitable the firms become, the lesser they borrow because they would have sufficient internal finance to undertake their investment projects.
The Free Cash Flow Theory of Corporate Financing

The free cash flow problem proposed by Jensen (1986) relies on the principal agency theory and the analysis of conflicts between managers and shareholders. The agency problem is associated with the imperfect and asymmetric information; managers are the agents of shareholders. However, this relationship is fraught with contradictory interests. It states that management tends to act in a way that is more inclined to serve its own interests rather than the shareholders. The choice of capital structure and dividend policy creates major conflicts that might influence the way in which firms are operated (Meyers, 2014).

Agency costs are divided into two categories, agency costs of equity and agency costs of debt. The agency costs of equity are based on the fact that while managers bear the responsibility and costs of a performed activity, they are not able to profit from the entire gain (Damodaran, 2013). Hence, they will become more inclined to obtain perquisites and transfer the firm’s assets into personal benefits than managing the firm the optimal way (Pike & Neale 2014). Dividend pay-outs reduce the free cash flow under management’s control, hence mitigating the risk of wasting that cash flow on negative NPV projects.

Free cash flow is the cash flow beyond what is required to finance all projects that have positive NPV. Conversely, managers are more interested in investing in projects, despite their NPV, to grow their firms. Meyers (2014) argues that growth enhances managers’ power as it puts more resources under their control. Further, growth increases managers’ perquisites, since compensations are usually associated with growth. Usually, this problem is more palpable when organizations generate large free cash flows. The issue lies in how to embolden manager’s to apply this cash flow efficiently (Fama and French, 2013). The influence of agency costs on the capital structure will thereby become more significant for such organization, as introducing debt to the capital structure will replace dividend pay-outs but alleviate the agency problem by reducing the resources under managers’ control. Inanga and Ajayi, (2014) suggested that debt is more effective than dividend pay-outs in reducing agency costs. The pay-out of cash to shareholders and dividend promises are not static but can alter in the future. However, when issuing debt, managers are forced to pay interest and principals in a way that cannot be changed; otherwise, the cost of default will increase, hence threatening the future of the organization (Meyers; 2014). Issuing more debt to repurchase stock is also an effective way of encouraging managers to make better use of the free cash flow. However, increased leverage will affect firm value and consequently increase the cost of financial distress (Jensen, 2016).

Another problem that may occur is the second category of agency costs, i.e., the agency costs of debt. The agency costs of debt focus on the relationship between shareholders, bondholders and the manager’s ways of obtaining personal interests (Huang and Song, 2015). When debt increases in the firm’s capital structure it transfers the default risk on bondholders while managers and shareholders carry the company’s investment decisions. The problems occur when managers start to act in a way that benefits themselves or shareholders, on behalf of bondholders. However, bondholders are aware of such contradictory and can put some restrictions on the use of their money to mitigate the potential for financial default, (Rajan and Zingales, 2013).

Empirical Review

Ishaya and Abduljeeleel (2014) studied the impact of capital structure and profitability in Nigeria covering a period of ten (10) years spanning from 2000 – 2009. Seventy (70) firms out of the two hundred and forty-five (245) firms listed on the Nigeria Stock Exchange was sampled. The study made use of panel data obtained and analyzed using Hausman chi square estimation, fixed-effects, and the random-effects. Debt ratio and equity was proxy for capital structure as the independent variables while the profitability of the firms under study serves as the dependent variable. The result revealed that debt ratio is negatively related to the profitability while equity is positively related to the profitability of the firms under review.

Simon-Oke and Afolabi (2011) conducted a study which investigated the impact of capital structure on the performance of the industry in Nigeria for a period of eight (8) years from 1999 – 2007. Five (5) quoted firms in the Nigeria Stock Exchange were sampled. The panel data regression model was applied in the study. Debt financing, equity financing, and the debt-equity ratio were proxied for capital structure as the independent variables while profitability index measures the firm’s performance as the dependent variable. The results revealed a positive relationship among equity financing, the debt-equity ratio with firm’s
performance while debt financing reveals a negative relationship with the performance of the firms under review.

Akinyomi (2013), applied some firms which were selected randomly from the food and beverage categories for a period of five years (2007-2011) using the static trade-off and the pecking order theory point of view. He adopted the use of correlation analysis method and revealed that each of debt to capital, debt to common equity, short-term debt to total debt and the age of the firms’ is significantly and positively related to return on asset and return on equity, but long-term debt to capital is significantly and related to return on asset and return on equity. His hypothesis also tested that there is a significant correlation between capital structure and financial performance using both returns on asset and return on equity.

Various scholars have studied firms financing, but most have always focused on the performance of firms or profitability of firms, using profit after tax, returns on the asset returns on capital employed or returns on equity as the dependent variable. Majority of the studies carried out relied on performance indicators and accounting ratios as a measure of shareholders value, but it has been observed that accounting ratios cannot give the true value of a firm. It is pertinent to note that this study will widen the existing gap by using a purely economic measure of shareholders value which is value added as a measure of shareholders value.

Methodology

This study critically examines the effect of corporate financing options on shareholder’s value in Nigeria. These banks were chosen because during the period under study they had high market value (market capitalization). The study made use of ex-post facto research design because secondary data were used. The Target population of this study consists of all financial institutions in Nigeria. Additionally the sample size for this study consists of ten (10) Deposit Money Banks in Nigeria and they are as follows: Access Bank, Diamond Bank, Eco Bank, Fidelity Bank, First Bank of Nigeria, First City Monument Bank Guaranty Trust Bank, Sterling Bank, United Bank for Africa and Zenith Bank all located in Lagos for the period 2007-2017.

The study made use of the non-probability sampling technique. Olannye (2006) defines sample techniques as the process of selecting the sample for the research study. It is a plan specifying how demands will be drawn from the population. The non-probability sampling technique, specifically known as convenience sampling was used because the sample size was selected according to the researcher’s convenience without necessarily referring to the representatives of the sample to the population. The data used for the study were secondary data collected from annual reports of the banks under study and Central bank of Nigeria (CBN) Statistical Bulletin (2017). The data obtained were analyzed using the influential or descriptive analysis with the aid of the econometric views (E-views) version 7.0 statistical software This is justified by the fact that E-view 7.0 is robust and reliable, (Kiefer, and Vogelsang, 2012).

Model Specification

The model is adapted from (Atiyet, 2012) and modified in this research; debenture was included thereof to the modified model.

The model is specified as follows:

The functional form expression of the model is presented as:

\[ Y = f (X_1, X_2, X_3, X_4) \]  \hspace{2cm} \text{Eq. 1}

Where:

\( Y \) represent the dependent variable,
\( F \) is the function,
\( X_1 – X_4 \) represent the independent variables.

The Operational function:

\[ VA = F(DBT, BND, ORS, PRS) \]  \hspace{2cm} \text{Eq. 2}
\[ VA = \beta_0 + \beta_1DBT + \beta_2BND + \beta_3ORS + \beta_4PRS + \mu \]  \hspace{2cm} \text{Eq. 3}
Where:

VA = Value Added and represent the dependent variable
DBT = Debenture,
BND = Bond,
ORS = Ordinary Share,
PRS = Preference Share

β₀ = Constant Intercept;
β₁- β₄ = Coefficients;
µ = Error term.

The model is expressed in estimation form as follows:

**Apriori Expectations**

The expectation of the result is proposed as debenture (DBT) will have a positive impact on the value added of firms in Nigeria, and it is presented as DBT > 0

The expectation of the result is proposed as bond (BND) will have a positive impact on the value added of firms in Nigeria, and it is presented as BND > 0

The expectation of the result is proposed as ordinary share (ORS) will have a negative impact on the value added of firms in Nigeria, and it is presented as ORS < 0

The expectation of the result is proposed as preference shares (PRS) will have a positive impact on the value added of firms in Nigeria, and it is presented as PRS > 0

**Results and Discussion**

**Unit Root Based on Augmented Dickey Fuller Test Result**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Order</th>
<th>ADF</th>
<th>Critical value</th>
<th>ADF&gt;Critical Value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA</td>
<td>I(0)</td>
<td>-3.3142</td>
<td>-3.2598</td>
<td>No unit root</td>
<td>Stationary</td>
</tr>
<tr>
<td>DBT</td>
<td>I(2)</td>
<td>-5.0720</td>
<td>-3.4033</td>
<td>No unit root</td>
<td>Stationary</td>
</tr>
<tr>
<td>BND</td>
<td>I(1)</td>
<td>-5.2133</td>
<td>-3.4033</td>
<td>No unit root</td>
<td>Stationary</td>
</tr>
<tr>
<td>ORS</td>
<td>I(1)</td>
<td>-4.1612</td>
<td>-3.3209</td>
<td>No unit root</td>
<td>Stationary</td>
</tr>
<tr>
<td>PRS</td>
<td>I(2)</td>
<td>-4.6735</td>
<td>-3.5195</td>
<td>No unit root</td>
<td>Stationary</td>
</tr>
</tbody>
</table>

*Source: Author's Computation from E-view 7.0.*

The table above reveals the summary of the unit root test carried out. The null hypothesis states that there is the presence of unit root. Using the Augmented Dickey-Fuller Test, the result must show a probability value that is lower than the critical value at 5% level of significance, in order to reject the null hypothesis.

From the table above, the probability value of augmented dicker-fuller (ADF) test statistics are all less than the test critical values (TCV) at 5% level of significance for all the data series (see also, appendix). Therefore, the study rejects the null hypothesis which states that there is the presence of unit root and accepts the alternative that there is no presence of unit root and thereby stationary.

**Ordinary Least Square (OLS) Output Result**

Dependent Variable: VA
Method: Least Squares
Date: 08/27/18   Time: 08:58
Sample: 2007 2017
Included observations: 10

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>10.57897</td>
<td>0.723451</td>
<td>14.62293</td>
<td>0.0000</td>
</tr>
</tbody>
</table>
The table above presents the output of the results of the relationship between Value Added and debenture, bond, ordinary share, and preference share. The relationship between the independent variables and Value Added of corporate entities in Nigeria tries to explain the magnitude of the coefficient of each of the independent variable and the significant level using the prob. value of the t-statistics.

1. The relationships between the variables from the result output in the table above are as follows:

a). Debenture (DBT) has a positive relationship as shown by the coefficient value of 0.1884 which implies that DBT is directly related to Value Added (VA). This shows that a unit change in debenture leads to 0.1884 changes in Value Added (VA). The P-value of the t-stat is 0.288 > 0.05 which shows that debenture is not significant to value added of corporate firms in Nigeria despite its positive relationship.

b). Bond (BND) has a positive relationship as shown by the coefficient value of 8262.137 which implies that BND is directly related to Value Added (VA) also a unit change in bond leads to 8262.137 changes in Value Added (VA). The probability of the t-stat is 0.005 < 0.05 which shows that bond is significant to Value Added of corporate firms in Nigeria.

c). Ordinary share (ORS) has a positive relationship as shown by the coefficient value of 0.00038 which implies that ORS is directly related to value added (VA) also a unit change in ordinary share leads to 0.00038 changes in Value Added (VA). The probability of the t-stat is 0.000 < 0.05 which shows that ORS is significant to value added of corporate firms in Nigeria.

d). Preference share (PRS) has a positive relationship as shown by the coefficient value of 0.0392 which implies that PRS is directly related to value added (VA). This shows that a unit change in PRS leads to positive change in Value Added (VA). The probability of the t-stat is 0.652 > 0.05 which shows that preference share is not significant to value added of corporate firms in Nigeria.

2. The Global Statistics is discussed below:

a). $R^2$ which is the coefficient of determination 0.777 (77%) which shows the level of the positive relationship among the independent variables (DBT, BND, ORS, PRS) to Value Added (VA). This shows that all the independent variables put together contributed 77% to the Value Added of the banks in Nigeria.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard Error</th>
<th>t-Statistic</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBT</td>
<td>0.188409</td>
<td>0.158867</td>
<td>1.185953</td>
<td>0.2889</td>
</tr>
<tr>
<td>BND</td>
<td>8262.137</td>
<td>2418.703</td>
<td>3.415937</td>
<td>0.0051</td>
</tr>
<tr>
<td>ORS</td>
<td>0.000380</td>
<td>7.54E-05</td>
<td>5.035446</td>
<td>0.0003</td>
</tr>
<tr>
<td>PRS</td>
<td>0.039293</td>
<td>0.082094</td>
<td>0.478638</td>
<td>0.652</td>
</tr>
</tbody>
</table>

**Estimation Command:**

**Estimation Equation:**

$$VA = C(1) + C(2)\times DBT + C(3)\times BND + C(4)\times ORS + C(5)\times PRS$$

**Substituted Coefficients:**

$$VA = 10.5789706359 + 0.188408988577\times DBT + 8262.13755\times BND + 0.00037779102\times ORS + 0.0392932821995\times PRS$$

**Source: E-view 7.0**
b). Adjusted $R^2$ which is the coefficient of correlation (0.598) shows the level of correlation between the independent variables and dependent variables. It revealed the degree of variation of correlation that the independent variables could explain to the dependent variable. This revealed that 59% is what the independent variables are capable of explaining to the dependent variable while (41%) could not be explained due to the financial problems which can be absorbed by the disturbance term or error term $U_t$ or $E_t$.

e). The prob. value of the F-statistic is 0.000. This shows that all the four variables under study are statistically significant to Value Added of Corporate entities in Nigeria.

d). Durbin Watson stat which dictates no presence of serial autocorrelation has 1.965 which shows that there is no presence of serial autocorrelation in the series.

**Granger Causality Test Results**

This test was applied to confirm the assumptions of the ordinary least square (OLS).

<table>
<thead>
<tr>
<th>Diagnostic Check</th>
<th>F-stat</th>
<th>Prob.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>DBT and VA</td>
<td>3.86206</td>
<td>0.1480</td>
<td>DBT does not granger cause VA</td>
</tr>
<tr>
<td>VA and DBT</td>
<td>10.3033</td>
<td>0.0453</td>
<td>VA granger cause DBT</td>
</tr>
<tr>
<td>BND and VA</td>
<td>30.7496</td>
<td>0.0100</td>
<td>BND granger cause VA</td>
</tr>
<tr>
<td>VA and BND</td>
<td>3.00154</td>
<td>0.1924</td>
<td>VA does not granger cause BND</td>
</tr>
<tr>
<td>ORS and VA</td>
<td>3.13040</td>
<td>0.1844</td>
<td>ORS does not granger cause VA</td>
</tr>
<tr>
<td>VA and ORS</td>
<td>0.00799</td>
<td>0.9921</td>
<td>VA does not granger cause ORS</td>
</tr>
<tr>
<td>PRS and VA</td>
<td>12.2076</td>
<td>0.0362</td>
<td>PRS granger cause VA</td>
</tr>
<tr>
<td>VA and PRS</td>
<td>1.91790</td>
<td>0.2907</td>
<td>VA does not granger cause PRS</td>
</tr>
</tbody>
</table>

Prob. Value < 0.05, Sig. at 5% for granger causality test vice versa.

**Source: Author’s Result, 2018.**

Causality test is employed at this stage to know the causal relationship between the variables under study, the basis for conducting this test is to enable the researcher to know whether the independent variables can actually cause variations in the dependent variable or vice versa.

The table above emphasize on granger causality test, the probability value of DBT and VA is 0.1480 which is greater than 5% significant level, this shows that debenture (DBT) does not granger cause value added (VA), the probability value of VA and DBT is 0.0453, this shows that VA granger cause DBT. BND and VA are 0.0100 which is less than 5% significant level; this shows that bond granger cause value added, VA does not granger cause bond. ORS does not granger cause value added, and value added granger cause ORS equally because their probability value is less than 5% significant level. PRS and VA granger cause VA and VA do not granger cause PRS.

**Conclusion**

Based on the result findings of the study, the following conclusion was made in the study:

i. The Ordinary Least Square (OLS) Test concludes that Bond (BND) and Ordinary share (ORS) have a significant impact on the Value Added of Deposit Money Banks in Nigeria while Debenture (DBT) and Preference shares (PRS) do not have significant Impact on Deposit Money Banks Performance.

ii. For Unit Root Test, all the variables were stationary.

iii. There exist unidirectional causal relationship among debenture, bond, preference share, and Value Added. This implies that debenture, bond and preference share have a short run relationship with Value Added. This study is in line with the works of (Atiyet, 2012).

**Recommendations**

Arising from the conclusions made, the researcher recommended the following:

1. The costs and risks associated with Bonds investment, preference share should be reduced in an absorptive manner by the government. This can be done when the government increases its share of
fixed-rate bonds in the market with a longer maturity. Moreover, information about the Bond market should be more widely disseminated to encourage more investors. In this direction, effort must be put in place to enhance the confidence of the investors in Bonds market.

2. Usually, the rate of interest for debenture is lower than the rate of the dividend payable on preference shares and equity shares. So raising capital through debentures is less costly, in order to minimize cost management of companies should improve on their debenture for raising fund.

3. The management of corporate entities in Nigeria should increase the use of equity capital in financing to improve value added of their entities, and Investors should also consider the capital structure of any entity before investing in them as the strength of a firm capital mix determines the level of returns and value added.

4. The government and monetary authority should put policies in place to curb inflation in order to avoid unanticipated inflation since unanticipated inflation reduces banks debt ratios because the cost of borrowing will be very high.

Contribution to Knowledge

1. This study contributed to knowledge by taking a step further from ascertaining the effect of corporate financing on performance or profitability but on shareholder’s value.
2. By providing better and more robust modeling that predicted the nature corporate financing and Value Added such as VA = 10.5789706359 + 0.188408988577*DBT +8286.13755*BND + 0.00037779102*ORS + 0.0392932821995*PRS

References


