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Effect of Corporate Financing on Shareholders Wealth

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ABSTRACT

The study evaluates the effect of corporate financing on shareholders wealth, in Nigerian Pharmaceutical Industry. The study used 5 out of the 15 firms listed in the Nigerian Stock Exchange based on judgmental reasoning while composite multiple regression model analysis was applied. Findings of the study are that retained earning has a negative and significant effect on economic value added of firms in Nigerian Pharmaceutical Industry and also that equity capital as well as debt capital each has a negative and significant effect on the economic value added of firms in Nigerian Pharmaceutical Industry whereas only trade payable has a positive and significant effect on economic value added of firms in Nigerian Pharmaceutical Industry. The study therefore recommends that firms in Nigerian Pharmaceutical Industry should strive to increase their turnover so as to improve their cash flows from operating activities. Again, that total assets of firms in Nigeria Pharmaceutical Industry should be enhanced in order to increase their production capacity and avoid the use of equity as a major source of finance among others.

Keywords: Corporate, financing, shareholders, wealth and industries.

INTRODUCTION

The main objective of every business is to create value for its stakeholders such as shareholders, creditors, investors, employees [1]. This is in agreement to agency theory by [2] which states that the conflict of interest between agent (manager) and principal (shareholders) should be minimized by reconciling the differences in their risk tolerance. Therefore management should take business decisions that maximize wealth of the most important stakeholders- the shareholders but in a corporate manner [3, 4].

Corporate finance is the area of finance that deals with the different sources of funding, the capital structure and actions taken by managers to increase value of firm to shareholders as well as tools used to allocate financial resources [5].

Companies are constantly faced with financing or capital structure decision for future investment [6]. Capital structure is the relationship which exists between the various classes of capital used by the firm in financing its operations [7], besides it is the interaction between the company's internal reserve, debt capital and equity capital and preference stock. According to [8] the way a firm generates money to finance its operations and in what way it assigns these financing options to its statement of financial position is referred to as company's capital structure. Capital structure of a company describes the relative amounts of different Types of securities which are used to finance the company's activities. Capital structure decisions of companies are

believed to be used to reduce taxes, bankruptcy cost, and or as signaling, bonding or control devices.

According to [9] there are two basic sources of raising capital which includes: internal and external sources. He went further to define external financing as that part of the total debt in a business that is owed to outsiders, these include long term debt (such as loan, lease, debentures etc.), short term debt (such as trade payable, bank overdraft, treasury bills etc.) and equity while internal source refers to funds generated from within the enterprise which is mostly retained earnings which a company decides the amount to be ploughed back into the business (to finance investment) rather than paid out as dividend to shareholders.

[10] say that access to finance is vital for the survival, growth and performance of any company. Access to external finance is a key determinant of the company's ability to develop, operate and expand for no business can survive without enough fund for working capital, non-current asset, investment, employment of skilled employees, development of markets and new products [11]. The different use of the various sources of fund and their effect on company's value varies from country to country due to the differences in financial system and institutional factor. Nigeria is a developing country with its economic structure that of an underdeveloped as oil and gas dominates its economy [12].

The major problem of corporation is the difficult task on the side of directors to raise fund and strike a balance between the various proportions of fund to be gotten from the various sources (capital mix) for financing its' operations and at the same time increase the wealth of shareholders and growth of company in a complex economic environment in which resources are scarce [13].

STATEMENT OF THE PROBLEM

The irrelevance proposition of financing choices by [14] has remained subject of debate. The dividing line is whether a firm uses equity or debt or retained earnings or trade credit, the value of the firm does not change whereas the other side of the argument holds that firms value changes in relation to the sources of financing. Consequently while [15], argue that the use of retained earnings as a source of finance increases performance, Modigliani and Miller maintain that debt has a positive effect on performance. On the other hand [16] said that debt has a negative relationship with performance. Given that firms performance can make or mar the value of shareholders wealth, there is need to evaluate the effect of various financing choices on shareholders wealth.

OBJECTIVES OF THE STUDY

The general objective of this study is to evaluate the effect of corporate financing decision on shareholders wealth whereas the specific objectives include:

1. Evaluate the effect of total debt on economic value added of firms in Nigeria pharmaceutical Industry.
2. Ascertain the effect of equity securities on economic value added of firms in Nigeria pharmaceutical Industry.
3. Determine the influence of trade payable on economic value added of firms in Nigeria pharmaceutical Industry.
4. Examine the influence of retained earnings on economic value added of firms in Nigeria pharmaceutical Industry.

RESEARCH QUESTIONS

The following questions were used in the study:

1. To what extent does total debt affect economic value added of firms in Nigeria pharmaceutical Industry?
2. What is the degree of effect, equity securities have on economic value added of firms in Nigeria pharmaceutical Industry?
3. To what level does trade payable affect economic value added of firms in Nigeria pharmaceutical Industry?
4. To what magnitude does retained earnings influence economic value added of firms in Nigeria pharmaceutical Industry?

STATEMENT OF HYPOTHESES

For the purpose of achieving the objective of the study, and in line with the research questions, the following hypotheses guided the study:

1. Ho Total debt does not significantly affect economic value added of firms in Nigeria pharmaceutical Industry.
2. Ho Equity security does not significantly affect economic value added of firms in Nigeria pharmaceutical Industry.
3. Ho economic value added is not significantly affected by trade payables of firms in Nigeria Pharmaceutical industry.
4. Ho Retained Earnings does not significantly affect economic value added of firms in Nigeria pharmaceutical Industry.

CAPITAL STRUCTURE

The capital of a company, according to [17], is an amount of money which an individual or entity possesses for the sole purpose of taking investment opportunities which should not reduce in value over time. [18] sees capital structure as the relationship between the various classes of capital used in financing the operations of a firm. Uremadu and Efobi (2012) as cited by [19], posit that the capital structure of a firm consist of long-term sources of finance which include debt and equity , and the short-term sources of finance, which include, cash, reserves, trade-payable among others.

[20] identify a more comprehensive capital structure composition, based on their study of Australian small and medium scale businesses capital structure behaviour. Consequently, they identified that a company's capital structure should include the following;

1. Reinvested profits (R.Es);
2. Short-term debt financing like trade credit;
3. Long-term debt financing like debentures and long-term debts etc.
4. New equity capital injections from existing owners and owner managers;
5. New equity capital from uninvolved parties like outside investors, venture capitalists etc.

Debt

Debt is a contractual obligation of the issuer to make interest and principal payments over a specific period and the cash payment to debt holders are limited in amount and duration and It is a cheaper source of capital as its interest payment is tax deductible and its holders are less tolerant of risk [21]. The inability of the company to repay this

commitment and the interest accruable to this commitment would attract distress for the company and this may ultimately lead to bankruptcy

Business dictionary defines debt 'as a duty or obligation to pay money, deliver goods/render services under an express or implied agreement. The use of debt in a firm as a source of fund creates financial leverage that can multiply yield on investment as long as returns generated by debt exceed its cost. MM's theory sees debt as the best source of finance for future investment or business activities. According to agency theory, the use of debt as a source of finance ensures that management is disciplined by the financial market thereby reducing agency cost and increasing firm's value and it gives a real situation of the firm (state of performance).

Equity Capital

Equity financing entails the ability of the firm to raise its external funds from the public and at the same time, issue out a part of the firm's ownership right evidenced by share certificate [22]. [23] states that equity holders are owners of the business whose potential value and duration of their investment is open-ended and they are being rewarded with dividend from profit made by the company. Equity could be seen as a claim of a holder of common stock or ownership interest in stock or preferred stock. Also it represents fund contributed by owners (stock holders) plus retained earnings. It is also seen as net worth of the company (total asset minus total liability) (business dictionary).

In accounting and finance equity is seen as the difference between the value of asset and cost of liabilities of something owned for they are paid dividend as reward for investment based on the number of equity shares owned (wikipedia). [24], refers to equity security as a financial asset that entitles the owner to claim on the profit of a particular company. He has right to sell shares at a profit or loss at any point in time [25]. Equity allows access to funds without incurring debt and it gives its holder ownership right to business (right to vote on important issues concerning a firm) and a claim to future earnings of the firm.

The use of additional equity as a source of finance for business activities is considered the last resort of financing option [26] because additional equity reduces the share value of the former shareholders thereby destroying their value by ownership dilution. Also using equity to finance future investment shows there is a reduction in value of equity stockholders as a result destruction of current shareholders value [27].

Trade Payable

Trade payable is the supplier whose payment for goods or services has been processed but who has not yet been paid but this serves as finance for the operations of a business on an on-going basis, which is considered as short-term debt mostly used in a tight monetary policy and to solve financial friction of small business enterprises (SMEs) [28]. [29] posit that trade credits exist between the buyer and the seller in which the seller allows the buyer sometime before payment for the goods or service instead of immediate cash payment.

According to [30], it is part of a joint commodity and financial transaction in which a firm sells goods or services and simultaneously extends credit for the purchase to the customer. Trade credit plays an important role in firm financing policy, for the buyer it is a source of financing through accounts payable [31]. It does not rely on formal collateral but on trust and reputation [32]. Trade payable is an amount owned by a firm to its suppliers for goods delivered or service consumed by the firm in the ordinary

course of business which is usually classified as current liabilities because it is usually paid within one year.

Trades payable constitute all money a firm owes the vendor he buys business supplies and materials included in its inventory. It is a form of credit offered by supplier to allow them to pay for product or services after it has already been received (www.investopedia.com). Trade credit represents an interest free- term loan used to purchase current asset on credit with terms of payments normally varying from between 30 to 90 days.

Retained Earnings

Retained earnings could be seen as cumulative earnings of a firm minus the dividend declared since its existence and likewise an amount not yet distributed to its stockholders [33]. It does not pull financial cost, facilitates the expansion of the company and protects the financial autonomy [34]. Retained earnings is that part of firm's profit kept aside for investment into the business or payment of debt and its interest rather than payment to shareholders as dividend [35]. Retained earnings is seen as the percentage of net earnings not paid out as dividends but retained by the firm to be reinvested in its core business or to pay debt (www.inestopedia.com). [36], sees retained earnings as that part of profit made that is kept by directors for expansion purposes of the company and not shared to shareholders as dividend but recorded under shareholders equity in the statement of financial position.

The use of retained earnings as a source of finance for investment opportunity is preferred by many organization as it has no restrictive conditions, allows escape from asymmetric information and increases the chances of firms growth [37, 38].

Shareholders Wealth

Shareholders wealth is the collective wealth conferred on shareholders through their investment in a company. It is said that issuing more shares will reduce shareholder wealth while paying dividend will increase it (wisegeek.com).

Theoretical Framework

Financing option has numerous theories surrounding it such as trade off theory by [39], pecking order theory by [40], and finance theory by [6].

Trade-Off Theory

This theory argues that more profitable firms prefer debt financing as compared to equity financing for the sake of profit, since more debt allows for more tax benefit and low agency cost as debt can be acquired at low cost.

Pecking Order Theory

This theory says that a firm has more profitable finances through retained earnings because it maximizes the value of existing shareholders before considering debt and equity if additional finance is needed and it almost has no cost. It supports hierarchical order which puts into consideration those benefits of resources to be used.

Financing theory

This opines that trade credit (account payable) is seen as a substitute for firms financing due to the close contact between the buyer and the supplier. Therefore firms prefer its

use because it enables business to make purchases at little or no cost and serves as an evaluation tool to analyze quality of product.

Empirical Review

Debt, Equity and Performance

[37] studied the effect of capital structure on financial performance of Nigeria quoted conglomerates for the period 2011-2015. The study made use of descriptive statistics and the pooled ordinary least square regression analytical method were used to analyze data and it was shown that capital structure has effect on return on asset and asset turnover but non on equity and earning of the conglomerate.

[22] evaluated the effect of capital structure (debt and equity) on firms' financial performance and shareholders wealth in textile sector of Pakistan. Regression analysis was used to analyse sample data of 155 textile firms for the year 2006 to 2011. Result shows that the capital structure positively impacts the firm performance and shareholders wealth.

[3] examined the effect of capital structure on performance using three manufacturing companies selected randomly from the food and beverage categories for a period of five years (2007-2011) and 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 relatively related to return on asset and return on equity. His hypothesis also tested that there is significant relationship between capital structure and financial performance using both return on asset and return on equity.

[1] examined the effect of capital structure on profitability of listed firms in Ghana during the five year period from 2005-2009 using regression analysis to investigate the data as well as average profitability and debt ratio was used to determine dependence on debt and study revealed there exist statistically significant positive relationship between profitability and short term debt and significantly negative relationship between profitability and total long term debt. However result revealed a statistically negative relationship between profitability and total debt.

[7] researched on the impact of capital structure and liquidity of corporate returns in Nigeria. Data were gotten from the financial statement for period covering 2002-2006., it data was analysed using OLS methodology, which showed a positive and significant influence of ratio of long term debt to equity and value of short- term debt , on profitability.

[8] examined 'does the use of outside' fund enhances shareholders wealth? Evidence from Nigeria for the period 2004 to 2008 using regression analysis. The study reveals that outside fund has a positive but not significant effect on shareholders wealth.

[11] also studied the Impact of Debt on asset utilization of 28 quoted firms in Nigeria stock exchange for the period, 2004- 2008 using regression analysis. Its result shows a negative and insignificant influence of debt on asset turnover indicating a reduction in asset utilization as debt increases.

[15] studied effect of capital structure on performance, it used a study of five quoted firms within a period of nine years (1999-2007) from the static trade-off and agency cost theory point of view. They employed the panel data regression model and revealed in

their study a positive relationship between firms' performance and equity financing as well as between firms' performance and debt-equity ratio. There is also a negative relationship that exists between firm's performance and debt financing due to high cost of borrowing in the country.

[16], this study aimed to test the impact of the financing decision on the performance of a sample of companies listed on Amman Stock Exchange Securities has reached 53 companies for the period (1999-2008) and the researcher has focused on to examine the relationship between the company's debts and its impact on return on assets and return on equity using the SPSS, the study found no statistically significant relationship between the ratio of indebtedness and long-term loans and short-term loans and study variables except for a statistically significant relationship between The debt ratio and return on investment.

Retained Earnings and Performance

[10] researched on the effect of retained earnings on the returns of firms listed at Nairobi securities exchange using secondary data for the period of 2009 to 2013 in which data was analyzed using SPSS statistical package for social science and regression analysis. Results shows relationship between return on retained earnings was statistically insignificant that is retain Earnings is irrelevant in influencing stock of return aimed by investors of NSE listed firm.

[16] examined the impact of retained earnings on stock returns of food and personal care goods industry listed in Karachi stock exchange. The study consist of seven active company and data used was for 2009-2011. Linear regression and spearman's correlation analysis was used to analyze data & a week and insignificant relationship was found to exist between retain earning and stock returns.

[7] investigated the application of pecking order concept by NSE companies and found that NSE gave priority to internal resources for finance as their total assets' profitability, liquidity levels and sales amounts increased and preferred a lower level of external resource use. The study further revealed that those companies with more internal funds utilized these internal funds to fund their new projects rather than using debt or even equity, while those companies with limited internal funds opted to get debt to fund their projects and if debt was not readily available they opted for equity, thus following the pecking order theory.

[9] further restate this argument while analyzing the substitution effect existing between internal and external financing. They concluded that more profitable firms would depend more on internal financing than they would depend on external financing. This implies that more profitable firms would issue less of external finance (debt capital) and would depend more on internal finance (equity capital); while the less profitable firms would have no option, but to depend on external finance, which varies from debt financing to equity financing.

Trade Payable and Performance

[20] examined the effect of account payables on financial performance of publicly listed manufacturing companies at NSE, Kenya. Census sampling technique and secondary data was used. SPSS was used to carry out the descriptive analysis of the variables and multiple regression was used to test the relationship between the account payable and firm performance. The result suggests that there is a positive relationship between account payable and profitability.

[23] investigated trade credit in corporate financing in South Africa of companies listed in JSE. The study uses panel data collected for 92 companies for period 2001-2010 and employs the generalized method of moments (GMM) estimation technique. The study suggest that firms have a target level and that firms internally generated resources, investment opportunities and short-term financial debt play an important role in the use of trade credit as a source of financing among the listed companies.

[37] examined trade credit and profitability in small and medium enterprise in Netherlands. 71 SMEs were investigated from 2009-2103 using Regression analysis, the result shows that account payable is positively related to the profitability.

Summary of Empirical Review

Empirical Review Table 1

Year	Author	Topic	Methodology	Findings
2016	Ubesie	Effect of capital structure on financial performance of Nigeria quoted conglomerates	descriptive statistics and the pooled ordinary least square regression	Capital structure has effect on return on asset and asset turnover but non on equity and earning of the conglomerate.
2016	Benjamin and Gladys	Examined the effect of account payables on financial performance of publicly listed manufacturing companies at NSE, Kenya.	SPSS analytical tool and multiple regression	The result suggests that there is a positive relationship between account payable and profitability.
2014	Yujie	Examined trade credit and profitability in small and medium enterprise in Netherlands.	using Regression analysis,	the result shows that account payable is positively related to the profitability
2014	Mujahid	Effect of capital structure (debt and equity) on firms' financial performance and shareholders wealth in textile sector of Pakistan	Regression analysis	capital structure positively impacts the firm performance and shareholders wealth
2014	Kwenda and	Investigated trade credit in corporate financing	the generalized method of	The study suggest that firms have a target level and that firms

	Holden	in South Africa of companies listed in JSE.	moments (GMM) estimation technique	internally generated resources, investment opportunities and short-term financial debt play an important role in the use of trade credit as a source of financing among the listed companies
2014	Michael	effect of retained earnings on the returns of firms listed at Nairobi securities exchange	SPSS and regression analysis.	Results shows relationship between return on retained earnings was statistically insignificant
2013	Akinyomi	Effect of structure performance	capital on correlation analysis	there is significant relationship between capital structure and financial performance using both return on asset and return on equity
2013	Abert&Micheal	Effect of structure profitability	capital on regression analysis average profitability and debt ratio	There is a statistically significant positive relationship between profitability and short term debt and significantly negative relationship between profitability and total long term debt. However result revealed a statistically negative relationship between profitability and total debt.
2012	Uremadu and Efobi	The impact of capital structure and liquidity of corporate returns in Nigeria.	OLS methodology	It showed a positive and significant influence of ratio of long term debt to equity and value of short- term debt , on profitability
2012	Onwumere,	'does the use of outside' fund enhances	using regression	The study reveals that outside fund has a positive but not

	Ibe&Ozoh	shareholders wealth? Evidence from Nigeria	analysis	significant effect on shareholders wealth.
2012	Onwumere, Ibe&Ozoh	the Impact of Debt on asset utilization of 28 quoted firms in Nigeria stock exchange	using regression analysis	Its result shows a negative and insignificant influence of debt on asset turnover indicating a reduction in asset utilization as debt increases.
2012	Falak&faiza	impact of retained earnings on stock returns of food and personal care goods industry listed in Karachi stock exchange	Linear regression and spearman's correlation analysis	A week and insignificant relationship was found to exist between retain earning and stock returns.
2011	Simon-Oke and Afolabi	Effect of capital structure on performance, quoted firms	panel data regression model	Their study a positive relationship between firms' performance and equity financing as well as between firms' performance and debt-equity ratio. There is also a negative relationship that exists between firm's performance and debt financing
2010	Mbugua,	Investigation of the application of pecking order concept by NSE companies		NSE gave priority to internal resources for finance, debt and Lastly resorting to equity
2008	Ghadome	the impact of the financing decision on the performance of a sample of companies listed on Amman Stock Exchange Securities	SPSS analytical tool	The study found no statistically significant relationship between the ratio of indebtedness and long-term loans and short-term loans and study variables except for a statistically significant relationship between The debt ratio and return on investment.

2007	Almeida and Campello	further restate this argument while analyzing the substitution effect existing between internal and external financing	Shows that more profitable firms would depend more on internal financing than they would depend on external financing
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Source: Authors' Arrangement of Empirical Review

Research Design

The study adopted an ex-post facto research design, and made extensive use of secondary data collected from the financial statement of pharmaceutical firms in the first tier of Nigerian stock exchange for the period of 2008-2014.

5 out of the 15 Pharmaceutical firms listed in the Nigerian stock exchange were selected using judgmental reasoning.

The dependent variable is economic value added while the independent variables are retained earnings, debt securities, equity securities and trade payables.

Model Specification

The composite multiple regression (prediction) model is statistically formulated as,

$$EVA_{ti} = \beta_0 + \beta_1 DEBTSEC_t + \beta_2 EQSEC_t + \beta_3 APAY_t + \beta_4 RE_t + \epsilon_t \dots \dots \dots (10)$$

- EVA economic value added
- TODEBT Total Debt
- EQSEC Equity Security
- TPAY Account payables (Trade payable)
- RE Retained Earnings
- ε Error Term
- β₀ = Coefficient (constant) to be estimated
- β₁ - β₆ = Parameters of the independent variables to be estimated
- 1. t = Current period

Description of Model Variables

The research variables are structured into dependent and independent variables for the purpose of the analysis. The dependent variable of the study is economic value added while the independent variables are Equity Capital, Debt Capital , trade payable and retained earnings.

Table 2: Model Variables Description

Short Form(Acronym)	Details	Source of Data
EVA	Economic value added	Authors computation
EQSEC	Equity Security	Annual Report and Accounts
TDEBT	Total Debt	Annual Report and Accounts
TPAY	Trade Payable	Annual Report and Accounts
RE	Retained Earnings	Annual Report and Accounts

Source: Author's Arrangement.

DATA PRESENTATION

TABLE 3: TIME SERIES DATA OF FIDSON PLC

YEAR	RE	EQUITY	TP	DEBT	EVA
2008	1,216,626,000	750,000,000	776,226,000	756,104,000	487,120,235
2009	1,957,422,000	750,000,000	913,833,000	1,660,111,000	536,088,145
2010	1,481,592,000	750,000,000	275,214,000	1,808,014,000	594,880,285
2011	1,643,849,000	750,000,000	250,611,000	3,165,802,000	553,913,065
2012	2,404,478,000	750,000,000	1,517,386,000	2,692,339,000	600,339,426
2013	1,521,257,000	750,000,000	1,692,585,000	3,980,867,000	460,083,972
2014	2,043,001,000	750,000,000	3,779,619,000	4,843,933,000	997,712,319
2015	2,602,420,000	750,000,000	4,212,210,000	4,645,471,000	1,088,238,596

Source: Company's Annual Reports and Accounts

TABLE 4: TIME SERIES DATA OF GSK PLC

YEAR	RE	EQUITY	TP	DEBT	EVA
2008	4,622,000	1,415,000	6,075,000	9,560,000	4,585,217,925
2009	6,321,000	1,416,000	6,772,000	16,257,000	3,480,199,334
2010	4,779,000	1,418,000	6,888,000	15,100,000	3,933,707,787
2011	5,100,000	1,387,000	10,915,000	33,402,000	5,875,774,383
2012	642,000	1,349,000	8,054,000	18,302,000	4,368,083,224
2013	913,000	1,336,000	8,317,000	18,245,000	1,610,072,963
2014	(2,074,000)	1,339,000	7,958,000	18,784,000	790,764,523
2015	(1,397,000)	1,340,000	9,191,000	16,632,000	5,408,917,998

Source: Company's Annual Reports and Accounts

TABLE 5: TIME SERIES DATA OF MAY & BAKER PLC

YEAR	RE	EQUITY	TP	DEBT	EVA
2008	762,232,000	350,000,000	718,264,000	1,659,347,000	647,802,791
2009	714,313,000	350,000,000	550,888,000	2,244,534,000	345,413,003
2010	876,157,000	490,000,000	977,884,000	3,565,418,000	371,867,975
2011	1,038,000,000	490,000,000	853,992,000	2,641,768,000	392,704,053
2012	1,016,202,000	490,000,000	965,815,000	3,709,575,000	359,897,736
2013	913,113,000	490,000,000	1,120,343,000	3,523,022,000	449,392,984
2014	976,454,000	490,000,000	974,667,000	3,575,203,000	492,534,261
2015	995,486,000	490,000,000	1,549,196,000	3,128,739,000	511,207,303

Source: Company's Annual Reports and Accounts

TABLE 6: TIME SERIES DATA OF NEIMETH PLC

YEAR	RE	EQUITY	TP	DEBT	EVA
2008	328,326,000	328,630,000	554,820,000	773,268,000	163,751,615
2009	232,962,000	410,788,000	391,248,000	401,766,000	376,762,604
2010	355,009,000	410,788,000	386,106,000	351,126,693	173,142,833
2011	290,245,000	410,788,000	405,970,000	498,887,347	136,445,983
2012	391,743,000	653,980,000	425,833,000	646,648,000	65,870,055
2013	261,165,000	653,980,000	290,823,000	596,371,000	166,432,697
2014	489,700,000	784,776,000	350,512,000	390,419,000	189,941,378
2015	825,384,000	784,776,000	283,535,000	566,134,000	120,140,079

Source: Company's Annual Reports and Accounts

DATA ANALYSIS

TABLE 7: DESCRIPTIVE STATISTIC - INDUSTRY ANALYSIS

	EVA	RE	EQUITY	TP	DEBT
Mean	1.26E+09	7.92E+08	4.40E+08	7.59E+08	1.62E+09
Median	5.02E+08	7.38E+08	4.90E+08	4.16E+08	7.65E+08
Maximum	5.88E+09	2.60E+09	7.85E+08	4.21E+09	4.84E+09
Minimum	6587005 5	-2074000.	1336000.	6075000.	9560000.
Std. Dev.	1.70E+09	7.50E+08	2.94E+08	9.78E+08	1.60E+09
Skewness	1.657923	0.811830	-0.437247	2.330835	0.560416
Kurtosis	4.201884	2.775511	1.791734	8.376156	1.857616
Jarque-Bera	16.58581	3.582223	2.966194	67.51230	3.415075
Probability	0.000250	0.166775	0.226934	0.000000	0.181312
Sum	4.03E+10	2.54E+10	1.41E+10	2.43E+10	5.20E+10
Sum Sq. Dev.	8.98E+19	1.74E+19	2.68E+18	2.96E+19	7.90E+19

Observations	32	32	32	32	32
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Source: Eviews 9.0 Software

Table 7 shows that RE, EQUITY and DEBT have skewness value that are less than one, while EVA and TP have skewness coefficient that are not in excess of one. This indicates that the data for RE, EQUITY and DEBT are normally distributed while EVA and TP are not. The kurtosis coefficient also confirms that all the data series are normally distributed. The P-value for EVA and TP are significant for the Jarque-Bera statistics while others are not too far from being significant. This confirms a normal distribution for all the variables.

TABLE 8: REGRESSION ANALYSIS- INDUSTRY ANALYSIS

Dependent Variable: EVA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RE	1.177153	0.633513	1.858134	0.0741
EQUITY	-5.661330	1.114739	-5.078614	0.0000
TP	0.159949	0.377863	0.423299	0.6754
DEBT	-0.377361	0.236805	-1.593551	0.1227
C	3.31E+09	3.76E+08	8.810670	0.0000
R-squared	0.612152	Mean dependent var		1.26E+09
Adjusted R-squared	0.554693	S.D. dependent var		1.70E+09
S.E. of regression	1.14E+09	Akaike info criterion		44.68110
Sum squared resid	3.48E+19	Schwarz criterion		44.91012
Log likelihood	-709.8975	Hannan-Quinn criter.		44.75701
F-statistic	10.65374	Durbin-Watson stat		1.697880
Prob(F-statistic)	0.000026			

Source: Eviews 9.0 Software

Interpretation of Regression Coefficient Result

Table 8, indicates that a one naira change in Retained Earnings and Trade Payables will increase Economic Value Added by 1.177153 and 0.159949 respectively. Meanwhile, a unit change in Equity and Debt will decrease EVA by 5.661330 and 0.377361 respectively. This implies that Economic Value Added is influenced positively by retained earnings and trade payables. On the other hand Equity and Debt influence economic value added negatively in Nigeria Pharmaceutical industry.

Interpretation of Durbin Watson- Statistic

The Durbin-Watson statistic shows a value of 1.697880. In this case, the Durbin Watson statistic is closer to 2 than 0 which indicates the absence of autocorrelation in the time series data. The result indicates the absence of positive serial correlation in the time series data extracted from the annual report and accounts of selected firms in Nigeria Pharmaceutical industry.

Coefficient of Determination (R²)

The Adjusted R-squared is 0.554693. The adjusted R² reveals that only about 55% of the variations in Economic Value Added could be explained by the variables under study while about 45% could be explained by other factors capable of influencing Economic

Value Added in Nigeria Pharmaceutical Industry; such as government influence through price regulation, as well as the error term and the unexplained variables.

TEST OF HYPOTHESES

TABLE 9: TEST OF HYPOTHESES ONE

Dependent Variable: EVA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
RE	-1.014882	0.370662	-2.738026	0.0103
C	2.06E+09	4.01E+08	5.144491	0.0000
R-squared	0.199931	Mean dependent var		1.26E+09
Adjusted R-squared	0.173262	S.D. dependent var		1.70E+09
S.E. of regression	1.55E+09	Akaike info criterion		45.21768
Sum squared resid	7.18E+19	Schwarz criterion		45.30929
Log likelihood	-721.4829	Hannan-Quinn criter.		45.24805
F-statistic	7.496786	Durbin-Watson stat		0.825937
Prob(F-statistic)	0.010294			

Source: EvIEWS 9.0 Software

Ho1: Retained earnings do not significantly affect economic value added of firms in Nigeria Pharmaceutical industry.

Decision Rule: Reject H_0 if P-Value is less than a-value of 0.05.

Decision: Table 9 reveals a P-Value of 0.0103 which is less than a-value of 0.05; H_0 is therefore rejected in respect to retained earnings in the industry. This implies that retained earnings significantly affect economic value added of firms in Nigeria pharmaceutical industry.

TABLE 10: TEST OF HYPOTHESES TWO

Dependent Variable: EVA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
EQUITY	-4.243544	0.717398	-5.915184	0.0000
C	3.13E+09	3.78E+08	8.276087	0.0000
R-squared	0.538386	Mean dependent var		1.26E+09
Adjusted R-squared	0.522999	S.D. dependent var		1.70E+09
S.E. of regression	1.18E+09	Akaike info criterion		44.66771
Sum squared resid	4.14E+19	Schwarz criterion		44.75932
Log likelihood	-712.6834	Hannan-Quinn criter.		44.69808
F-statistic	34.98940	Durbin-Watson stat		1.242076
Prob(F-statistic)	0.000002			

Source: EvIEWS 9.0 Software

Ho2: Equity Capital do not significantly affect economic value added of firms in Nigeria Pharmaceutical industry.

Decision Rule: Reject H_0 if P-Value is less than a-value of 0.05.

Decision: Table 10 reveals a P-Value of 0.0000 which is less than a-value of 0.05; H_0 is therefore rejected in respect to equity capital in the industry. This implies that equity capital significantly affect economic value added of firms in Nigeria pharmaceutical industry.

TABLE 11: TEST OF HYPOTHESES THREE

Dependent Variable: EVA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TP	-0.510507	0.303761	-1.680624	0.1032
C	1.65E+09	3.72E+08	4.426569	0.0001
R-squared	0.086048	Mean dependent var		1.26E+09
Adjusted R-squared	0.055583	S.D. dependent var		1.70E+09
S.E. of regression	1.65E+09	Akaike info criterion		45.35076
Sum squared resid	8.20E+19	Schwarz criterion		45.44237
Log likelihood	-723.6122	Hannan-Quinn criter.		45.38113
F-statistic	2.824498	Durbin-Watson stat		0.763803
Prob(F-statistic)	0.103221			

Source: EvIEWS 9.0 Software

Ho2: Trade Payables do not significantly affect economic value added of firms in Nigeria Pharmaceutical industry.

Decision Rule: Reject H_0 if P-Value is less than a-value of 0.05.

Decision: Table 11 reveals a P-Value of 0.1032 which is higher than a-value of 0.05; H_0 is therefore accepted in respect to trade payables in the industry. This implies that trade payables do not significantly affect economic value added of firms in Nigeria pharmaceutical industry.

TABLE 12: TEST OF HYPOTHESES FOUR

Dependent Variable: EVA				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
DEBT	-0.460109	0.175593	-2.620313	0.0137
C	2.01E+09	3.97E+08	5.060429	0.0000
R-squared	0.186243	Mean dependent var		1.26E+09
Adjusted R-squared	0.159118	S.D. dependent var		1.70E+09
S.E. of regression	1.56E+09	Akaike info criterion		45.23464
Sum squared resid	7.30E+19	Schwarz criterion		45.32625
Log likelihood	-721.7543	Hannan-Quinn criter.		45.26501
F-statistic	6.866038	Durbin-Watson stat		0.816398
Prob(F-statistic)	0.013654			

Source: Eviews 9.0 Software

Ho2: Debt do not significantly affect economic value added of firms in Nigeria Pharmaceutical industry.

Decision Rule: Reject H_0 if P-Value is less than a-value of 0.05.

Decision: Table 12 reveals a P-Value of 0.0137 which is less than a-value of 0.05; H_0 is therefore rejected in respect to Debt in the industry. This implies that Debt significantly affect economic value added of firms in Nigeria pharmaceutical industry.

DISCUSSION

Hypotheses one: This hypothesis states that Retained earning does not significantly affect economic value added of firms in Nigeria Pharmaceutical industry. From the result of the regression analysis in Table 9, it reveals that retained earning affects economic value added negatively and significantly in the tune of 0.0103. It also reveals that about 17% of changes in economic value added can be explained by retained earnings as shown by 0.173262 adjusted R-squared figure.

Hypotheses two: This hypothesis states that equity capital does not significantly affect economic value added of firms in Nigeria Pharmaceutical industry. The regression analysis result of Table 10 reveals that equity capital influenced economic value added negatively. The table also depicts that about 52% of changes in economic value added could be explained by equity capital. The remaining 48% will be explained by other factors not explained in the study.

Hypotheses three: This hypothesis states that trade payable does not significantly affect economic value added of firms in Nigeria Pharmaceutical industry. Trade payables affects economic value added negatively and insignificantly in the tune

of 0.1032 as can be seen in Table 11. The adjusted R-squared revealed that only about 5% of changes in economic value added can be explained by trade payables.

Hypotheses four: This hypothesis states that debt capital does not significantly affect economic value added of firms in Nigeria Pharmaceutical industry. The regression analysis result of Table 12 shows that debt capital influences economic value added negatively. The table also depicts that about 15% of changes in economic value added could be explained by debt capital. The remaining 85% will be explained by other factors not explained in the study.

The findings of the study are:

1. Retained earnings has a negative and significant effect on economic value added of firms in Nigeria Pharmaceutical Industry
2. Equity capital has a negative and significant effect on economic value added of firms in Nigeria Pharmaceutical Industry.
3. Trade payable has a positive and significant effect on economic value added of firms in Nigeria pharmaceutical industry.
4. Debt Capital has a negative significant effect on economic value added of firms in Nigeria pharmaceutical industry.

The following are hereby recommended:

- (i) Firms in Nigeria Pharmaceutical Industry should strive to increase their turn over in other to improve their cash flows from operating activities.
- (ii) Total of asset of firms in Nigeria manufacturing industry should be enhanced in other to increase their production capacity and avoid the use of equity as source of finance.
- (iii) Firms in Nigeria manufacturing industry should opt to make use of any trade credit available to it
- (iv) Firms in Nigeria pharmaceutical industry should reduce the amount of it borrows from outside source in financing its activities.

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