Financing Policy and Share Prices of Quoted Manufacturing Firms in Nigeria: A Multi-Variant Study

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Abstract

This study examined the relationship between investment policy and dynamic of stock prices of quoted manufacturing firms in Nigeria. Panel data of 15 quoted manufacturing firms was collected from the annual reports of the manufacturing firms from 2010-2019. Stock prices of the quoted firms was modeled as the function of short term portfolio investment, subsidiary investment, long term portfolio investment and long term investment. Multiple regressions were formulated. Panel data methodology was employed while the fixed effects model was used as estimation technique at 5% level of significance. Fixed effects, random effects and pooled estimates were tested while the Hausman test was used to determine the best fit. Panel unit roots and panel cointegration analysis were conducted on the study, evidence from the findings shows that explained 60.2 percent of the systematic variation in the stock prices of the quoted manufacturing firms, the regression coefficient found total capital ratio have negative relationship stock prices of the quoted manufacturing firms while equity capital, debt equity ratio and debt capital have positive relationship with the stock prices of the quoted manufacturing firms. The probability coefficient found that equity capital and debt capital are statistically significant while total capital ratio and debt equity ratio have no significant relationship with stock prices of the manufacturing firms. From the findings, the study concludes that there is significant relationship between financing policy and stock prices of quoted manufacturing firms, the recommend that manufacturing firms in Nigeria should adopt pecking order in other to finance their investment to improve the stock prices of the manufacturing firms.

Keywords: *Financing Policy, Share Prices, Quoted Manufacturing Firms, Nigeria, Multi-Variant Study.*

Introduction

In a deregulated financial market, managers believe that the potential costs of debt financing are much higher than the benefits. Leverage causes firm value discounts, whereas cash balances are valued positively by investors, but only up to a certain level (Loncan & Caldeira, 2014). Vo and Ellis (2016) found that only low leveraged firms are likely to create shareholder value. They investigated the relationship between capital structure and value of shareholders in Vietnam and discovered that the cost of debt financing is more than the benefits received, suggesting that leverage had adverse effects to the value of firms thereby affecting investment decision. Financing policy is traditionally viewed as the use of debt component capital structure, through the use of fixed income securities, such as loans and bonds. It has a significant influence on the company's ability to achieve its ultimate goal, such as maximizing the shareholders wealth (Taani, 2012). Increased in leverage results increase in return and risk (Al-Tally, 2014).

However, the use of leverage is associated with two different possible outcomes either positive such as maximizing the profit or negative such as minimizing the profits. Financing leverage is determined by profitability, corporate size, liquidity, cash flows, tax and dividend policy (Rajin, 2012). It is measured in terms of debt equity ratio, long term debt to total debt, total debt as percentage to total asset and short-term debt to total debt (Rehman, 2013). Financial leverage is intended to earn more on the fixed charges funds than their costs (Al-Tally, 2014). The effect of financial leverage in maximizing the return of the shareholders' is based on the assumptions that the fixed- charges funds such as the loan and debentures can be obtained at a cost lower than the firm's rate of return on net assets (Damouri, 2013). According to the

tradeoff theory (Kraus and Litzenberger, 1973) the optimal capital structure is determined by balancing the positives and negative effects of financing policy. In other words, balancing the benefits of debt financing, which includes tax savings, reducing agency cost, with the cost associated with the debt, that include direct and indirect bankruptcy costs.

Furthermore, the use of financing policy is proven to be beneficial when the investment made by the leverage earn returns more than the cost of debt. These disadvantages are relatively small as compared to the tax shield that associates the use of financial leverage. financing policy can also a negative impact if the investment that has been made did not achieve sufficient returns having no recognizable income to shield, meaning that returns is lower than the cost of debt the company is at a higher risk due to the level of debt they undertook, resulting in reducing the overall value of the company. However, several subsequent researches have cast doubt about the validity of the pecking order model. Chirinko and Singha (2010) used illustrations to point out that firms can exhibit high values of firms even if their financing activity substantially violates the pecking order. Frank and Goyal (2014) test the pecking order model using a more comprehensive data set and find that bpo: (a) is generally much lower than one; (b) is greater for large firms than small firms; and (c) has been declining over the years. Jong, et. al. (2010) found that firms vary substantially with the firm's financing status. Specifically, firms is higher (lower) when the firm has a financing surplus (deficit), indicating that firms are more likely to retire debt when they have a surplus than to issue debt when they have a deficit.

Consider predictions of the trade-off theory for hypothesis, the trade-off theory emphasizes the benefits and costs of debt. Optimal leverage for a given firm is reached when the benefits and costs of debt balance at the margin (Harris and Raviv, 1991). When a firm's actual leverage deviates from its optimal or 'target' leverage, the firm will tend to make marginal financing decisions that serve to adjust leverage toward the target (though transaction costs may inhibit swift adjustment. Thus, the trade-off theory suggests that hypothesis will vary with firm characteristics that determine optimal leverage. Next, consider predictions of the market timing hypothesis for firms.

Baker and Wurgler (2004) found that firms tend to issue (retire) equity when recent returns on their stock have been relatively high (low). They suggest that individual firms' incremental financing decisions reflect their attempts to time the equity market. The implication of the market timing hypothesis depends on the firm's financing status. When the firm has a financing deficit, market timing implies that will be negatively related to recent stock returns; the firm will be more (less) likely to issue equity (debt) as stock returns rise. In contrast, when the firm has a surplus, will be positively related to stock returns; the firm will be less (more) likely to retire equity (issue debt) as stock returns rise. The above divergences among scholars imply that the effect of financing policy is inconclusive. While the above studies are well documented and explained the dynamic relationship between financing policy in foreign countries with developed financial market, they failed to explain the effect of financing policy of emerging financial market like Nigeria. Therefore this study examined the effect of financing policy on stock prices of quoted manufacturing firms in Nigeria.

Theoretical Framework - The Modigliani Miller Hypotheses

The underlying rationale for the Modigliani-Miller theory is that the value of the firm is determined solely by the left hand side of the balance sheet which reflects the company's investments policy (Drobetz and Grüninger, 2007). The theory suggests that the value of the firm tends to be independent of the debt balance of the company and instead, it is mainly affected by the presence of a number of project investments with positive net present value. Modigliani-Miller assumes that investors have the same financial information about a firm with that of the managers, which can be referral to as systematic informatics but in practice, it is more convenient to assume that manager are likely to have insider information which is simply called asymmetric information (Tekker, et al,2009). Myers and Majiluf (1984) confirmed that mangers of form have superior information about the actual value of the firms.

In their path-breaking paper in 1958, Nobel Laureates Merton Miller and Franco Modigliani provided the formal proof of their now famous M &M irrelevance propositions. Thus, the MM theory states that, based on the assumption of no brokerage, tax and bankruptcy costs, investors can borrow at the some rates as corporations and they would tend to have the same information as management about the firms future investment opportunities. There are two propositions.

MMI or Proposition I: According to Modigliani and Miller, quoting Pandey (2010), the form's market value is not affected by capital structure: that is , any combination of debt and equity is as good as any other. In M-M's world of perfect capital market, because of borrowing and lending rates for all investors and no taxes, investors can borrow their own.

MMII or Proposition II: Here Modigliani and Miller accept that borrowing increases shareholders' return. They show that increased risk exactly offsets the increased return, thus leaving the position of shareholders unchanged.

Modigliani and Miller (1958) proposition concluded that the value of the firm, that is, its stock price, does not depend on the capital structure or dividend payout of the firm. The main idea behind Modigliani and Miller's theory is that a rational investor can create any capital structure on his/her own through homemade leverage substitution. Capital structure irrelevance is based on assumptions that include perfect capital markets, homogenous expectations, no taxes, and no transaction costs; all earnings are paid out as dividend. Modigliani and Miller (1963) stated that borrowing will only cause the value of the firm to rise by the amount of the capitalized value of the tax subsidy. The introduction of tax deductibility of interest payments has an implication on the choice of capital structure. Profitability increases, non-debt tax shields reduce and liquidity increases.

Pecking Order Theory

Donaldson (1961) followed by Myers (1984) suggests that management follows a preference ordering when it comes to financing. His work suggests that the costs of issuing risky debt or equity overwhelm the forces that determine optimal leverage in the trade-off model; the result is the pecking order. He also argued that the trade-off theory fails to predict the wide degree of cross-sectional and time variation of observed debt ratios. The pecking order theory is mainly a behavioral explanation of why certain companies finance the way they do. It is consistent with some rationale arguments, such as asymmetric information and signaling, as well as with flotation costs.

Moreover, it is consistent with the observation that the most profitable companies within an industry tend to have the least amount of leverage and more of equity (Khan and Jain, 2004). This observation that profitable firms mostly adopt equity financing by using least debt amounts makes this theory relevant to the study. The pecking order theory explains why the bulk of external financing comes from debt; why more profitable firms borrow less: not because their target debt ratio is low. The order followed is that firms prefer internal finance and if external finance is required, firms issue the safest security first. They start with debt, then possible hybrid securities such as convertible bonds then perhaps equity as a last resort (Pandey, 2010). Corporate managers are more likely to follow a financing hierarchy than to maintain a target debt- equity ratio.

The equity of a firm will be mispriced by the market when the management of that firm holds more information about the future prospects of the firm and condition of its assets as compared to outside shareholders. According to Myers and Majluf (1984), the market tends to conclude that the shares of an issuing firm are overvalued, which

in turn leads to lower proceeds for a share issuing firm. The important fact here is that managers will only issue shares when they are overvalued in order to protect the interests of existing shareholders.

The Static Trade-Off Theory

This theory holds that a firm's capital composition of debt and equity is determined by taxes and costs of financial distress. Based on this Theory, it is deductible interest payment has benefits since the tax deductible and therefore preferred to equity financing. The static theory trade-off theory of capital structure predicts that firms will choose their mix of debt and equity financing to balance the costs and benefits of debt. A point or range is reached beyond which debt becomes more expensive because of the increased risk (financial distress) of excessive debt to creditors as well as to shareholders. When the degree of leverage increases, the risk of creditors increases and they demand a higher interest rate and do not grant loan to the company at all, once its debt has reached a particular level.

Further the excessive amount of debt makes the shareholders' position very risky. This has the effort of increasing the cost of equity. Thus, up to a point, the overall cost of capital decreases with debt, but beyond that point the cost of capital would start increasing and therefore it would not be advantageous to employ debt further, so there is a combination of debt and equity which minimizes the firm's average cost of capital and maximizes the market value per share. The trade-off between cost of capital and earnings per share (EPS) set the maximum limit to the use of debt.

The static trade-off theory of capital structure (also referred to as the tax-based theory) states that optimal capital structure is obtained where the net tax advantage of debt financing balances leverage related costs such as financial distress and bankruptcy, holding firm's assets and investment decisions constant (Baxter, 1967 and Altman, 1984). In view of this theory, issuing equity means moving away from the optimum and should therefore be considered bad news. According to Myers (1984), firms adopting this theory could be regarded as setting a target debt-to-value ratio with a gradual attempt to achieve it. However, he suggested that managers will be reluctant to issue equity if they feel it is undervalued in the market. The consequence is that investors perceive equity issues to only occur if equity is either fairly priced or overpriced. As a result, investors tend to react negatively to an equity issue and management is reluctant to issue equity.

Market Efficiency Theory

Efficient-market hypothesis (EMH) was prounded by Fama (1953). The theory asserted that financial market is "informationally efficient". There are three major forms of the hypothesis: "weak", "semi-strong", and "strong". Weak EMH claims that prices on traded assets (for example, stock bonds, or property) already reflect all past publicly available information. Semi-strong EMH states that prices reflect all publicly available information and that prices instantly change to reflect new public information. Strong EMH additionally claims that prices instantly reflect even hidden or "insider" information. Efficient market theory implies that market will react quickly to new information. Thus, it is important to know when the accounting report first became publicly known. The accounting report is informative only if it provides data not previously known by the market.

Stock market thrives on information. This is because information plays an essential role in reducing the investors' challenges in the capital market. Information is important to investors in helping them evaluate investment opportunities to decide how to allocate their savings. In addition, it is also important because it enables investors to monitor whether their resources have been used wisely by managers. Markets where information is irregular give opportunities for investors who are more informed to take advantage of those who are less informed and make it more expensive for investors to buy or sell a security without affecting its price.

As a result of the important role of information to the market, stock exchanges word-wide, set listing and post-listing requirements for companies seeking quotation. For instance, in Nigeria, the post-listing requirements of the NSE laid emphasis on the timely release of information. Quoted companies are required to provide the market with information about their operations to the public. This information includes quarterly, half-yearly and yearly financial accounts. However, the investors in Nigeria have suffered untold hardship due to lack of regular and reliable information from the listed companies on NSE (Goddy, 2010).

In Nigeria, Nigerian stock market is efficient in the weak form and follows a random walk process (Olowe, 1999 and Okpara, 2010). The implication is that all information conveyed in past patterns of a stock's price is reflected in the current price of the stock. Therefore, it is ineffectual to select stocks based on information about recent trends in stock prices. Olowe (1999) uses data of an end of the month quoted stock prices of 59 randomly selected from January 1981 to December 1992 on the Nigeria stock exchange and employs a sample autocorrelation test. The study concluded that the Nigeria stock market appeared to be efficient in the weak form. Kukah, Amoo and Raji (2006) focus their study on market indices in local currencies rather than prices of individual stocks. They use the capitalization weighted index of all listed stocks. They use both parametric and non-parametric test in determining the efficiency of the Nigerian stock market, according to them, the results of the parametric tests show that the Nigerian capital market is weak form efficient while the parametric tests showed that the market is not weak - form efficient.

Literature Review

The Concept of Financing Policy

The financing policy is known to influence the firm's value and its risk. The value of the firm is affected by capital market imperfections such as corporate taxes, personal taxes and bankruptcy costs. The tax benefits of debt (in addition to financial flexibility, bond rating, and profit fluctuation) are the most significant factors shaping the company financing policy. Moreover, they found that bond rating and financial flexibility are the primary factors influencing bond-issue policy, while per share profit, dilution effect and share price on the stock exchange are the primary factors influencing decisions regarding stock issues. Capture structure is defined as the combination of debt and equity to finance a firm's operations. Capital structure includes mixture of debt and equity financing (Baral, 2004). According to Pandey (2010) capital structure refers to the mix of long-term sources of funds, such as debenture long-term debt, preference share capital and equity share capital including reserve and surpluses.

Abor (2008) capital structure is defined as the specific mix of debt and equity a firm uses to finance its operations. A company's combination of debt and equity issues to relieve potential pressures on its long-term financing (Tekker, et al, 2009). Yet, the mixture of a variety of long-term sources of funds and equity shares including reserves and surpluses of an enterprise is called capital structure (Pratheepkanth, 2011).

From the above, discussion, two financing options are open to financial managers-debt and equity. Thus, the financial manager can increase shareholder claim or increase creditor's claim on the assets of the firm. Shareholders' claim increases when shares are issued for public subscription while creditors' claim increases when the company borrows on a short-term or long-term basis. Therefore, the various means of financing company operations represent what is known as financial structure. The financial structure of affirm is shown on the balance sheet as combination of liabilities and equity. Similarly, the financial manager can finance the assets of the business by debt or equity. The use of both debt and equity as sources of funds to a business is termed capital structure. It is also known as debt-equity mix.

The use of internal financing sources by managers for investments is aimed at enhancing firm value. The use is also because of the information asymmetry between agents and principals (Ross 1973) relating to both activities and information. Research on the influence of liquidity on the firm value has been done by Chen et al. (2016), Van Heerden and Van Rensburg (2016), Azmat (2014) and Prombutr et al. (2010). The results showed that liquidity has a positive effect on firm value. Based on the above description, the hypothesis proposed in the research ismanagers are considered not to always act in accordance with the interests of shareholders. Therefore, one of the mechanisms is to increase the proportion of debt. Adding debt can reduce agency costs and lead to an increase firm value.

The more the debt increases, the smaller the idle funds the manager can spend on unnecessary expenses. The more the debt, the more the cash firm must reserve to pay interest on it and also repay the principal of the debt. Thus, the debt can reduce agency costs as well as increase the firm value, because by the debt, the firm can increase its operational funds as well as profitable investment activities. Brigham and Ehrhardt (2013) stated that the use of debt would increase the value of the firm through an increase in stock market prices, as well as if it downs, it will lower stock market prices. Modigliani and Miller (1958) stated that the debt ratio would be able to increase the firm value, but at some point, additional debt would result in the risk of bankruptcy. To the extent that interest payments can be used to reduce the tax burden, the debt reduction benefits the firm owner. However, such benefits will be recognized by the cost of bankruptcy and possible personal tax differences between income from equity and from debt. Theoretically, the firm should use the debt that will minimize the cost of the firm's capital. A good firm whose performance can signal a high proportion of its debt towards its capital structure can raise the firm value. .

Stock Price

Market share price is defined as the price which the market assigns to the company's stocks. Stock price volatility represents the variability of stock price changes could be perceived as a measure of risk faced by investors. Shiller (1981) argued that stock prices are more volatile than what is justified by time variation in dividends. Numerous studies have documented evidence showing that stock returns exhibit phenomenon of volatility clustering, leptokurtosis and asymmetry. Volatility clustering occurs when large stock price changes are followed by large price changes, of both signs, and small price changes are followed by periods of small price changes (Mande 1963; Fama, 1965; Black, 1976). Ajao (2012) noted that a number of recent studies have sought to characterize the nature of financial market return process, which has always been described as a combination of drift and volatility.

Volatility may impair the smooth functioning of the financial system and adversely affect economic performance (Rajni, 2012). Stock price volatility is an indicator that is most often used to find changes in trends in the market place. Stock price volatility tends to rise when new information is released into the market, however the extent to which it rises is determined by the relevance of that new information as well as the degree in which the news surprise investors. However, economists and financial experts have propounded theories on what causes volatility. Some financial economists see the causes of volatility embedded in the arrival of new, unanticipated information that alter expected returns on a stock (Engle, 1982). Others claim that volatility is caused mainly by changes in trading volume, practices or patterns which in turn are driven by factors such as modifications in macroeconomic policies, shift in investors' tolerance of risk and increased uncertainty (Rajni, 2012).

These characteristics are perceived as indicating a rise in financial risk, which can adversely affect investors' assets and wealth. For instance, volatility clustering makes investors more averse to holding stocks due to uncertainty. Firm-level stock return volatility is important for both managers and shareholders. First, high volatility increase a firm's perceived riskiness, thereby raising its cost of capital. Second, high volatility could affect the various agency relationships in the firm, exacerbating conflicts between stockholders and bondholders and hindering resolution of stockholder-management problems. Third, recent research suggested that investment strategy based on volatility can earn statistically and economically significant abnormal returns (Hutchinson, 2001).

Empirical Review

Nwala, Gimba and Oyedokun (2020) examined the impact of corporate financial policy on firm value of insurance firms in Nigeria for the period 2011 to 2017. In carrying out this study, expost-facto research design was employed, and secondary data sourced from 25 insurance annual report and Nigeria Stock Exchange factbook for the period of 7 years. Pool time series data were extracted related to dividend payout, equity issuance, debt asset, equity asset, return on asset and Tobin Q was used as proxies for firm value in this study. The findings indicate that dividend payout and equity issuance have significantly impacted on firm performance (Tobin Q), the study also stated that ROA has no significant relationship with dividend payout, equity asset, debt assets and equity issuance during the period under study. It was recommended that insurance managers should devote adequate time in designing a dividend policy that will enhance firm's performance (ROA) and shareholder value. Again, the company should review its dividend policy in order to reduce agency cost and maximize the value of the company.

Okeke (2019) examined the effect of capital structure on firm value of selected quoted firms in Nigeria. It adopted long term debt, equity capital, as independent (x) variables of capital structure while Tobin Q was used as proxy for firm value the dependent variable. It adopted ex-post facto research design. The statistical package used for the analysis was e-view version 8.0. The population of the study was firms drawn from conglomerate and consumer goods sectors of Nigeria Stock exchange for a period of nine (9) years 2007-2015. Descriptive statistics, correlation and ordinary least square (OLS) of multiple regression analysis were used to test the hypotheses formulated to guide the study. The coefficient of determination R^2 showed that 65% systematic variations in firm value could be explained by the independent variables. The F value (62.44647) was significant at 1% which means that the parameters estimated were statistically significant in explaining the effect of the independent variables on the dependent variable. The study, therefore, concluded that capital structure with regard to long term debt was negatively but statistically significant to firm value, while equity capital was positively insignificant to firm value. The study recommended that firms should be more concerned with management of equity capital in business financing since it is more related to the value of the firm.

Uzokwe (2019) examined the effect of debt financing on the financial performance of quoted firms in Nigeria stock exchange using time series data from 2000-2017. The objective was to examine the controversial findings of scholars on the effect of capital structure on corporate performance of firms. Return on assets and return on equity was modeled as the function of debt equity ratio, debt ratio, equity ratio, total liability ratio and long-term debt ratio. Multiple regressions with the aid of statistical package for social sciences were used as data analysis techniques. Model one found that a correlation coefficient (r) of .872 this implies that a very strong correlation exists between return on assets and explanatory variables. The coefficient of determination (r^2) is .678 which shows that 67.8% of the variation in Return on Assets is attributable to the variations in the financial leverage. Also, the F- value calculated of 8.338 has a correlation corresponding value of .004 which implies a good model utility. The test of significance conducted as shown in the tables above states that ROA has a calculated value of 242.032 and a corresponding significance value/probability value of .014. The positive sign of t-value (1.653) shows the direction of the variables. This therefore implies that when a financial leverage is well used, this leads to a better, reliable and fairer financial result that is objective and represent the true state of affairs in the food and beverage companies proportionately. Model two found that a correlation coefficient (r) of .772 this implies that a very strong correlation exists between return on assets and explanatory variables. The coefficient of determination (r^2) is .639 which shows that 63.9% of the variation in return on equity is attributable to the variations in the financial leverage. Also, the F-value calculated of 7.644 has a correlation corresponding value of .004 which implies a good model utility. The test of significance conducted as shown in the tables above states that ROE has a calculated value of 568.906 and a corresponding significance value/probability value of .003. The positive sign of t-value (3.310) shows the direction of the variables. This therefore implies that when a financial leverage is well used, this leads to a better, reliable and fairer financial result that is objective and represent the true state of affairs in the food and beverage companies proportionately.

Ndubuisi and Onyema (2019) examined the effects of financial leverage on the profit growth in Nigeria using the total debt to capital ratio, debt to equity ratio, cost of debt, debt to asset ratio and long term debt to capital ratios as proxies for financial leverage for a sample of 80 non-financial firms quoted on the Nigerian Stock Exchange over the period of 2000 to 2015. Data were analysed using the panel data regression analysis model which includes the pooled regression model, fixed effect model and the random effect model. The choice of the appropriate model between Fixed Effect and Random Effect is made using the Hausman Test. In accordance with the research findings, we conclude that financial leverage has significant effect on the profit growth of firms in Nigeria and also that there exists a significant relationship between the inflation rate and profit growth but the relationship with the interest and exchange rates on financial leverage of quoted companies in Nigeria. The nature of the relationship differs from one another; a positive relationship was reported for the total debt to capital ratio, debt to asset ratio and long-term debt to capital ratios and a negative relationship for the debt to equity ratio and the cost of debt.

Lucky and Uzokwe (2020) tested Miller and Modigliani dividend policy irrelevant hypothesis in Nigeria. The objective was to examine the validity of the irrelevant hypothesis. Tobins Q measure of market value was modeled as the function of dividend payout ratio, retention ratio, dividend per share and dividend yield. 20 firms were selected on the basis of availability of information necessary for conducting the study and the readiness of annual financial reports for the period of 10 years from 2008-2017. Cross sectional data was sourced from financial statement and annual reports of the firms. Based on the analysis of fixed and random effect results, random effect was used. The study revealed that 75 percent variation on the market value can be predicted by variation on independent variables in the regression model. The beta coefficient of the variables found that all the independent variables have positive and significant relationship with market value of the selected quoted firms. The study concludes that dividend policy is relevant as oppose to the irrelevant hypothesis of Miller and Modigliani. Its therefore recommend that managers should manage their dividend policies effectively since it is relevant and has significant effect on market value and optimal dividend policy which implies policy of trade-off between dividend payout and retain earnings should be well managed and investors should have adequate knowledge of dividend policy of quoted firms that will correspond with their investment objectives of avoid conflict in dividend policy.

Cahyono and Sulistyawati (2017) in their study found that firm value is not impacted by dividend policies. Thus, increasing dividend policies are not impact on investor reaction and then firm value is not impacted also. This is consistent with the theory proposed by Miller and Modligiani stating that the dividend policy does not affect the firm value because they think the dividend payout ratio is simply the details and does not affect the welfare of shareholders. Rafika and Santoso (2018) found that firm value can impacted from funding decision. Debt to equity ratio (DER) used as an indicator of the funding decisions in this study, that is the ratio between total debt of the company, either current debt or long-term debt with its own capital (equity). So, when amount of DER increases then PBV also going to be increasing because amount of debt can help management in the company operating. Finally, investors think that increasing of debt can increases of companies' performance like a Banks' mind.

Methodology

Research Design

This study used ex-facto research design, to examine the relationship that exists between Financing policy and value of quoted manufacturing firms in Nigeria. The choice of this form of research design is based on its reliability to provide objective estimates of study variable relationships free from subjective errors. The ex-post facto design was considered to be the right research design for the study.

Population of the Study

Nogales (2002) defined population as the total number of elements that conform to the characteristics needed for the purpose of the study. The population for this study consists of 63 quoted manufacturing firms listed on the Nigerian Stock Exchange (NSE) within the period of 2010 to 2019 financial years.

Sample and Sampling Techniques

From the population, a sample size of 15 quoted manufacturing firms was selected randomly from each manufacturing sector. The rationale for the sample size is the ease in getting relevant and reliable data for the study from the annual financial reports submitted to the Nigeria Stock Exchange within the time scope of this study.

Sources of Data

The data for this study are secondary data sourced from the financial statement and annual reports of the selected quoted firms.

Model Specification

From theories, principles and empirical findings, the models below are specified in this study.

$$STP = \Psi_0 + \Psi_1 DER + \Psi_2 DC + \Psi_3 EQC + \Psi_4 TCR + \mu \qquad 3.3$$

Where

STP = Stock prices of the quoted manufacturing firms proxy by end year trading price

DER = Debt equity ratio

DC = debt capital

EQC = Equity capital

TCR = Total capital to total assets ratio

β_0 = Regression Intercept

β_1 - $\beta 4$ = Coefficient of the independent variables to the Dependent variable

μ = Error term

Table 1**: Analysis of Variables and A-Priori Expectation**

Variable	Measurement	Notation	Expected relationship
Stock Prices	Log of end year stock price	STP	Dependent variable
Debt equity ratio	Log of debt to total equity	DER	+
Debt Capital	Log of total debt of the firms	DC	+
Equity capital	Log of total equity of the firms	EQC	+
Total capital ratio	Log of total capital to total assets	TCR	+
Retention ratio	Log retained earnings	RR	+

Techniques of Analysis

The signs and significance of the regression coefficients were relied upon in explaining the nature and influence of the explained variables and dependent variables as to determine both magnitude and direction of impact. Regression analysis is often concerned with the study of the dependence of one variable, the dependent variable, on one or more other variables, the explanatory variables, with a view to estimating and/or predicting the population mean or average value of the former in terms of the known or fixed (in repeated sampling) values of the latter (Gujarati and Porter, 2009).

Coefficient of Determination (r2)

The coefficient of determination is the primary way we can measure the extent, or strength, of the association that exists between two variables. In other word, it is measure of degree of linear association or correlation between two variables, one of which happen to be independent and other being dependent variable. It measures the percentage total variation in dependent variable explained by independent variables. The coefficient of determination value can have ranging from 0 to +1. If the regression line is perfect estimator $R^2 = +1$. Thus the value of $R^2 = 0$ when there is no correlation. In this study, coefficient of determination is calculated to know the degree of correlation of dividend per share with earning per share and market price per share with earning per share.

Regression Constant (a)

The value of constant, which is the intercept of the model, indicated the average level of dependent variable when independent variable is zero. In another words, it is better to understand that 'a' (constant) indicates the mean or average effect on dependent variable of all the variables omitted from the model.

Regression Coefficient

The regression coefficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in the regression model. In other words, the coefficient describes how changes in independent variables affect the value of dependent variables estimate.

Standard Error of Estimate (SEE)

With the help of regression equations perfect prediction is practically impossible. The standard error of the estimate measures the accuracy of the estimated figures. It also measures the dispersion about an average line. If standard error of estimate is zero, then the estimating equation to be 'perfect' estimator of the dependent variable. It

indicates that the smaller value of SE estimates the closer will be the dots to the regression line. Thus, with the help of standard error of estimate, it is possible for us to ascertain how good and representative the regression time is as a description of the average relationship between two series. In this research work, standard error of estimate is calculated for the selected dependent and independent variables specified on the model.

Regression Analysis

In coefficient analysis, two or more independent variables are used to estimate the value of dependent variables whereas in the simple regression analysis single independent variable is used to estimate the values of a dependent variable. Multiple regression analysis helps to know relative movement in the variable.

However, for the purpose of this study, panel data regression was employed because available data contain both time series and cross-sectional elements. A panel of data embodies information across time and space and most importantly, a panel retains the same entities and measures some quantity about them over time (Brooks, 2008). As such, this study employs the use of the panel data regression to analyze the performance of Nigerian manufacturing firms from 2009—2018.

Econometrically, the panel data standard linear model can be written as follows (Verbeek, 2012; Brooks, 2014);

$$Y_{it} = \beta_0 + X_{it}\beta + \varepsilon_{it} \quad (2)$$

Where Y_{it} is the dependent variable for firm —*I* at time-i; fib is the intercept term; X1 is a k dimensional vector of independent variables; ε_{it} is the error term; the error term changes over individuals and time and encompasses all unobservable factors that affect Y_{it}.

Moreover, in examining the panel data set through multiple regression techniques, this study is aware of the treatment of the possibilities of individual effects in the adopted models. Individual effect implies that each individual has a divergent effect. There are two core individual effects models in panel data analysis: the fixed effects model and the random effects model (Koop, 2008).

The **Fixed Effects Model (FEM)** takes into account the existence of each individual effect of the observations in a particular model. Put differently, the FEM allows for heterogeneity or individuality among entities by allowing them has separate intercept values. Hence, the individual effect subsists when it is assumed that each entity can have diverse intercepts in a particular model. Econometrically, the fixed effects model can be expressed as the equation below (Koop, 2008).

$$Y_{it} = ai + X_{it}\beta + \varepsilon_{it} \quad (3)$$

The above equation is almost similar with the common pooled model. Where, a_1 symbolizes a fixed (individual) effect. The difference resides in a_1, which varies across entities. Hence, it allows each entity to have its own separate intercept.

While the **Random Effects Model (REM)** just like the fixed effects, model suggests different intercept terms for each entity, it maintains that intercepts are constant over time, with the relationships between independent and dependent variables assumed to be same, both cross- sectionally and temporally (Brooks, 2014). The random effects model can be written as:

$$Y_{it} = \beta_0 + X_{it}\beta + ai + u_{it} \quad (4)$$

Where, Y_{it} is a k-dimensional vector of independent variables, but unlike the FEM, there are no dummy variables to capture the heterogeneity (variation) in the cross-sectional element.

$= \varepsilon_{it} = ai + u_{it},$, which implies that the error term consists of two components: an individual specific component that does not vary over time, and a remainder component that is assumed to be uncorrelated over time (Brooks, 2014; Verbeek, 2012). Moreover, in deciding whether to adopt either the FEM or the REM, this study employs the Hausman-test. According to Koop (2008), the idea behind the Hausnian-test rests on the assumption that if Ho (the individual effect is uncorrelated with any of the independent variables) is true, then both the FEM and REM estimators are consistent and provide relatively identical results. But, in the instance where '*Ho'* is false, the REM will be inappropriate, while FEM will be suitable, and the results obtained could be quite dissimilar.

Multiple regression analysis makes it possible to analyze the relationships between background variables and the dependent variables of interest under the fixed effects or random effects models. In essence, panel data regression analysis is employed to evaluate the relationship between the risk, agency cost and corporate financial policies of the manufacturing firms.

Results and Discussion of Findings

Table 2: Test of Panel Unit Root at Level Series

Method : Series: STP	Statistic	Prob.**	Cross-sections	Obs
Panel Unit Root at Level				
Levin, Lin & Chu t*	0.22962	0.5908	15	117
Im, Pesaran and Shin W-stat	0.29203	0.6149	15	117
ADF - Fisher Chi-square	25.9239	0.6790	15	117
PP - Fisher Chi-square	64.4898	0.0003	15	133
Series: TCR				
Levin, Lin & Chu t*	-2.36517	0.0090	15	120
Im, Pesaran and Shin W-stat	-1.83348	0.0334	15	120
ADF - Fisher Chi-square	45.2401	0.0367	15	120
PP - Fisher Chi-square	115.522	0.0000	15	135
Series: EQC				
Levin, Lin & Chu t*	-2.03574	0.0209	15	120
Im, Pesaran and Shin W-stat	-1.85991	0.0314	15	120
ADF - Fisher Chi-square	47.8808	0.0204	15	120
PP - Fisher Chi-square	116.415	0.0000	15	135
Series: DER				
Levin, Lin & Chu t*	-1.07312	0.1416	13	104
Im, Pesaran and Shin W-stat	0.09093	0.5362	13	104
ADF - Fisher Chi-square	25.2622	0.5042	13	104
PP - Fisher Chi-square	73.3627	0.0000	13	117
Series: DC				
Levin, Lin & Chu t*	-1.41648	0.0783	15	120
Im, Pesaran and Shin W-stat	-1.45802	0.0724	15	120
ADF - Fisher Chi-square	42.7573	0.0615	15	120
PP - Fisher Chi-square	112.481	0.0000	15	135

Source: Extract from E-View Window, 9.0, 2020

The objective of table 2 was to test the stationarity of the variables on the relationship between financing policy and value of the quoted manufacturing firms at level using four test statistics which areLevin, Lin & Chu t, Im, Pesaran and Shin W-stat, ADF - Fisher Chi-square and PP - Fisher Chi-square. The results show that stock price is not stationary at level using Levin, Lin & Chu t, Im, Pesaran and Shin W-stat, ADF - Fisher Chi-square but stationary with PP - Fisher Chi-square. Other results

show that some of variables are stationary at level with and PP - Fisher Chi-square while some are not stationary Levin, Lin & Chu t, Im, Pesaran and Shin W-stat, ADF - Fisher Chi-square and PP - Fisher Chi-square.

Table 3: Presentation of Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TCR	-7.066705	0.000605	-0.116787	0.9072
EQC	0.204139	0.103641	1.969680	0.0408
DER	0.014304	0.047652	0.300186	0.7645
DC	0.119619	0.069994	1.708977	0.0496
C	1.379402	0.068787	20.05323	0.0000
	Effects Specification			
			S.D.	Rho
Cross-section random			0.093459	0.3758
Idiosyncratic random			0.120437	0.6242
	Weighted Statistics			
R-squared	0.828401	Mean dependent var		0.479143
Adjusted R-squared	0.601412	S.D. dependent var		0.119451
S.E. of regression	0.119073	Sum squared resid		2.041694
F-statistic	3.052310	Durbin-Watson stat		0.930452
Prob(F-statistic)	0.000512			
	Unweighted Statistics			
R-squared	0.022136	Mean dependent var		1.266040
Sum squared resid	2.977363	Durbin-Watson stat		0.655827
	Correlated Random Effects - Hausman Test			
Equation: Untitled				
Test cross-section random effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		0.776089	4	0.9416

Source: Extract from E-View Window, 9.0, 2020

The probability of the Hausman test is 0.9416 > 0.05 therefore the null hypothesis is accepted, this implies that the random effect results is appropriate for the study.

STP = 1.37940-7.066705TCR+0.204139EQC+0.014304DER+0.119619DC + εt

The result shows that the adjusted R^2 is 0.601412indicating that the independent variables explained 60.1 percent of the systematic variation in the stock prices of the quoted manufacturing firms over the observed years, while the remaining 39.9 percent is explained outside the unspecified variables, thus, exogenously explained. The F-statistic and probability informs that the model is significant while the Durbin Watson statistic informed that the results are free from autocorrelation. The regression results informed us that if the variables are hold constant, stock prices of the quoted manufacturing firms can increase by 0.526. The beta coefficient informed that total capital ratio have negative relationship stock prices of the quoted manufacturing firms while equity capital, debt equity ratio and debt capital have positive relationship with the stock prices of the quoted manufacturing firms. The probability coefficient of the variables informed us that equity capital and debt capital are statistically significant while total capital ratio and debt equity ratio have no significant relationship with stock prices of the manufacturing firms.

Table 4: Pedroni Residual Cointegration Test

	Statistic	Prob.	Weighted Statistic	Prob.
Financing Policy and Stock Prices				
Panel v-Statistic	-2.666624	0.0062	-2.418839	0.0422
Panel rho-Statistic	3.680079	0.0099	3.828731	0.0099
Panel PP-Statistic	3.961244	0.0018	2.024411	0.0485
Panel ADF-Statistic	3.738301	0.0099	3.244172	0.0094
Alternative hypothesis: individual AR coefs. (between-dimension)				
	Statistic	Prob.		
Group rho-Statistic	5.624505	0.0000		
Group PP-Statistic	2.861215	0.0079		
Group ADF-Statistic	3.803755	0.0099		

Source: Extract from E-View Window, 9.0, 2020

Table 4 tested the long run relationship between financing policy and the value of the quoted manufacturing firms. This is to investigate whether long–run steady state or cointegration exist among the variables and to confirm what Coiteux and Olivier (2000) state that the panel cointegration tests have much higher testing power than conventional cointegration test. Since the variables are found to be integrated in the same order I (1), we continue with the panel cointegration tests proposed by Pedroni (1999, 2004). In constant level, we found that the seven statistics reject null hypothesis of no cointegration at the five percent level of significance for the ADF statistic and group ρ –statistic, while the group –ADF is significant at one percent level.

Table 5: Pairwise Granger Causality Tests

Null Hypothesis:	Obs	F-Statistic	Prob.
TCR does not Granger Cause STP	117	1.13697	0.3245
STP does not Granger Cause TCR		0.26565	0.7672
EQC does not Granger Cause STP	117	2.12491	0.1242
STP does not Granger Cause EQC		0.03152	0.9690
DER does not Granger Cause STP	117	0.07078	0.9317
STP does not Granger Cause DER		1.01194	0.3668

DC does not Granger Cause STP	117	2.31156	0.1038
STP does not Granger Cause DC		0.39864	0.6722

Source: Extract from E-View Window, 9.0, 2020

As shown in table 5, there is no causal relationship between the variables (financing policy and value of the quoted manufacturing firms, this means we accept null hypothesis of no causal relationship as against the alternate.

Table 6: Test of Panel Cointegration Test for Sampled Firms

Cross ID	AR (1)	Variance	HAC	Bandwidth	Obs
Berger paint plc	-0.016	0.002477	0.000824	6.00	9
Premier paint plc	-0.054	0.004778	0.005132	1.00	9
Dangote cement plc	0.331	0.014612	0.012929	4.00	9
Lafarage wapco plc	0.596	0.007770	0.008548	2.00	9
Cutix plc	-0.185	0.007522	0.007522	0.00	9
Cement company of north plc	Dropped from Test				
Flour mills plc	0.226	0.004728	0.003873	1.00	9
Unilever plc	-0.032	0.007438	0.006730	1.00	9
Guiness plc	0.861	0.011731	0.013589	1.00	9
Nigeria breweries plc	0.516	0.042315	0.034312	1.00	9
Glaxsmithline plc	-0.101	0.041255	0.033263	1.00	9
May and baker plc	0.118	0.016894	0.014565	4.00	9
Livestock feeds plc	-0.102	0.061972	0.018982	7.00	9
National salt company plc	0.112	0.034405	0.010929	6.00	9
GEIF Company plc	0.424	0.019400	0.018499	5.00	9
Augmented Dickey-Fuller results (parametric)					

Source: Extract from E-View Window, 9.0, 2020

Table 6 presents the power of the mixed model (Stationary ARMA), all the test procedures produced high power over all the sample sizes at order 1 but ADF and KPSS produced low power over all the sample size at order 2 & 3.

Discussion of Findings

The third hypothesis was formulated to test the relationship between financing policy and stock prices of the quoted manufacturing firms. The multiple regression formulated in the chapter three of this study had stock prices as the dependent variable. Results from the estimated model shows that investment policy explains 60.1 percent (adjusted R^2) variation on stock prices. The estimated regression line is significant when judged from the f-statistic and probability. The Durbin Watson statistic proved that the result is free from autocorrelation.

Findings of the study from the multiple regression results further revealed that total capital ratio have negative but no significant relationship with stock prices of the quoted manufacturing within the periods covered in this study. The estimated coefficient indicates that increase in total capital ratio will reduce stock prices of the firms by 7.06 percent (see table 3). The negative relationship between total capital ratio and stock prices of the quoted manufacturing firms contradict our a-priori expectation and justify theories of capital structure such as the irrelevant theory of Modigliani and Miller (1958). The positive effect of negative effect of total capital ratio on the stock prices can be traced to high cost of capital and underdeveloped nature of the financial market. The negative relationship between the variable contradict the findings of Uzokwe (2019) whose findings validated the relevance of capital structure theory formulated by Gordon in 1956, **Ndubuisiand Onyema (2019),** whose findings indicated positive relationship between total debt to capital ratio, debt to asset ratio and long term debt to capital ratios and a negative relationship for the debt to equity ratio and the cost of debt, Rafika and Santoso (2018) found that firm value can impacted from funding decision and the findings of Rehman (2013) results shows positive relationship of debt equity ratio with return on asset and sales growth, and negative relationship of debt equity ratio with net book value, net profit margin and return on equity.

Findings of the study from the multiple regression results further revealed that equity capital have positive but no significant relationship with stock prices of the quoted manufacturing within the periods covered in this study. The estimated coefficient indicates that increase in equity capital will increase stock price of the firms by 0.2 percent (see table 3). The positive relationship between equity capital and stock prices of the quoted manufacturing firms confirm our a-priori expectation and justify theories of capital structure such as the relevant theory of Gordon in 1956. The positive relationship between the variable confirm the findings of Uzokwe (2019) whose findings validated the relevance of capital structure theory formulated by Gordon in 1956, **Ndubuisiand Onyema (2019),** whose findings indicated positive relationship between total debt to capital ratio, debt to asset ratio and long term debt to capital ratios and a negative relationship for the debt to equity ratio and the cost of debt, Rafika and Santoso (2018) found that firm value can impacted from funding decision and the findings of Rehman (2013) results shows positive relationship of debt equity ratio with return on asset and sales growth, and negative relationship of debt equity ratio with net book value, net profit margin and return on equity. Findings of the study from the multiple regression results further revealed that debt equity ratio have positive but no significant relationship with stock prices of the quoted manufacturing within the periods covered in this study. The estimated coefficient indicates that increase in debt equity ratio will increase stock price of the firms by 0.2 percent (see table 3). The positive relationship between debt equity ratio and stock prices of the quoted manufacturing firms confirm our a-priori expectation and justify theories of capital structure such as the relevant theory of Gordon in 1956. The positive relationship between the variable confirm the findings of Uzokwe (2019) whose findings validated the relevance of capital structure theory formulated by Gordon in 1956, **Ndubuisiand Onyema (2019)** whose findings indicated positive relationship between total debt to capital ratio, debt to asset ratio and long term debt to capital ratios and a negative relationship for the debt to equity ratio and the cost of debt, Rafika and Santoso (2018) found that firm value can impacted from funding decision and the findings of Rehman (2013) results shows positive relationship of debt equity ratio with return on asset and sales growth, and negative relationship of debt equity ratio with net book value, net profit margin and return on equity. Findings of the study from the multiple regression results further revealed that debt capital have positive but no significant relationship with stock prices of the quoted manufacturing within the periods covered in this study. The estimated coefficient indicates that increase in debt will increase stock price of the firms by 1.37 percent (see table 4.9). The positive relationship between debt capital and stock prices of the quoted manufacturing firms confirm our a-priori expectation and justify theories of capital structure such as the relevant theory of Gordon in 1956. like the findings above, the positive relationship between the variable confirm the findings of Uzokwe (2019) whose findings validated the relevance of capital structure theory formulated by Gordon in 1956, **Ndubuisiand Onyema (2019),** whose findings indicated positive relationship between total debt to capital ratio, debt to asset ratio and long term debt to capital ratios and a negative relationship for the debt to equity ratio and the cost of debt, Rafika and Santoso (2018) found that firm value can impacted from funding decision and the findings of Rehman (2013) results shows positive

relationship of debt equity ratio with return on asset and sales growth, and negative relationship of debt equity ratio with net book value, net profit margin and return on equity.

Conclusion

The result shows that the adjusted R^2 is 0.601412 indicating that the independent variables explained 60.1 percent of the systematic variation in the stock prices of the quoted manufacturing firms, the regression coefficient found total capital ratio have negative relationship stock prices of the quoted manufacturing firms while equity capital, debt equity ratio and debt capital have positive relationship with the stock prices of the quoted manufacturing firms. The probability coefficient found that equity capital and debt capital are statistically significant while total capital ratio and debt equity ratio have no significant relationship with stock prices of the manufacturing firms.

Recommendations

1. Manufacturing firms in Nigeria should adopt pecking order in other to finance their capital through equity assets. management to improve the performance of the company is to carry out a policy to maximize the use of debt in capital spending activity, and the efforts to be made by management to increase the value of the company is through the funding policy.
2. It can be concluded, based on the findings of this research that dividend policy is relevant and that managers should devote adequate time in designing a financing policy that enhances firm therefore shareholder value.
3. The relevant authority should take proper steps and decisions whether it would be optimal, target or proportional capital structure pattern in order to maximize the value of the firm and that should be the ultimate goal for any type of business organization.

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