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CAPITAL STRUCTURE AND FIRM FINANCIAL PERFORMANCE OF LISTED DEPOSIT MONEY BANKS IN NIGERIA: MODERATING EFFECT OF BOARD FINANCIAL LITERACY

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Abstract
The purpose of this work is to examine the interaction of members of the board with financial knowledge on the association among capital structure with firm financial performance in the Nigeria DMBs. Empirical studies were reviewed to scrutinize the upshot of capital structure in connection to the performance of firms. As the result of the foregoing, this study introduces board financial literacy as a moderator variable to interact between capital structure with performance of firms. A correlational design was adopted. Population and sample size of the study consists of 13 listed DMBs on the floor of Nigeria Stock Exchange for the period 2012 to 2021. Fixed effects regression model was employed to analyse the data of the study. Diagnostic test was conducted to confirm the validity of the statistical inferences of the study. The result shows that BFL moderated the correlation involving DEFR with financial performance. Also, the result found that EFR and DEFR were not significant to the firm financial performance of DMBs in Nigeria. This work recommends that board members with financial literacy should come up with effective policy towards encouraging debt financing in their entities by effective supervision so as to enhance the overall firms' financial performance as well as safeguarding shareholders interest. Research in future should replicate this topic in a domain other than DMBs.

Keywords: equity financing ratio, debt to equity financing ratio, firm age and leverage
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1. Introduction

It is imperative to document that firm financial performance is the major concern of every investor, stakeholders as well as the economy. Given that, the wellbeing and survival of every corporation can be traced through the firm financial performance, financial managers therefore employs the necessary policies that are related to finance in other to attend an optimum capital structure in their different corporations so as to enhance their performance (Mohammed, Gugong & Ayuba, 2022).

Various studies have been conducted to examine the correlation linking capital structure and firm financial performance in the operations of businesses (Mohammed, Gugong & Ayuba, 2022; Tanko, Siyanbola, Bako & Dotun, 2021 and Oladele, Omotosho & Adeniji, 2017). Modigliani and Miller (1958) was thepioneer theory in this context, followed by (Jensen & Meckling, 1976 and Myers & Majuf, 1984) which they provide a new definition of a firm and show how theiranalysis of the factors influencing the creation and issuance of debt and equity claims is a special case of the supply side of the completeness of markets problems.Also, likely changes were asserted from other studies on firm financial performance of corporations involving capital structure of different sectors of the economy were (Oladele, Omotosho & Adeniji, 2017; Nikoo, 2015; Abdel-Jalil, 2014 and Nirajini, & Priya, 2013).

However, despite the effort to revive and to restructure the Nigerian banking system there has been a persistent corporate distress among the listed DMBs in Nigeria over the years due to the instability in their financial performances (Abdulwahab, 2021). Also, TheGuardian.ng (2018) narrated the takeover of Skye Bank Plc by Polaris Bank Plc in 2018 as their problems emanated after it used short-term funds to buy local lender Mainstreet Bank in 2014 but failed to raise fresh cash. It had been in talks with shareholders and investors to raise capital but suspended plans after weak oil prices hit the capital markets and drove foreign investors away. Numerous studies have investigated the nexus involving capital structure with firm financial performance in different context (Oladele et al., 2017; Hassan & Muhammad, 2016; Siddik, Kabiraj & Joghee, 2016; Adesina, Michael & Adesina, 2015 and Sultan & Adam, 2015). Nevertheless, findings of these studies point out a mixed result. Particularly, Ogiriki, Andabai and Werigbelegha (2018) examined the effect of financial leverage on corporate performance of firms in Nigeria and

their result revealed a positive significant correlation. Also, Abdulla (2017) conducted a study on Capital structure in a tax-free economy in UAE. the findings of the study shown a positive significant association. Similarly, Dahiru (2016) investigated capital structure and financial performance of listed manufacturing firms in Nigeria and the result of the study found a significant positive association involving capital structure with financial performance of the firms. On the other hand, Ajibola and Wisdom (2018) examined capital structure and financial performance of listed manufacturing firms in Nigeria and the findings revealed a negative insignificant correlation with capital structure and financial performance. Also, Uremadu and Onyekachi (2018) investigated the impact of capital structure on corporate performance of consumer goods firm in Nigeria. The result documented an insignificant connection linking capital structure and the firm's financial performance.

This development gives the basis for the inclusion of a moderator variable (in line with Baron & Kenny, 1986) to explain the controversy in the reviewed literature. Thus, BFL serve as moderator connecting capital structure with firm financial performance of DMBs in Nigeria. Numbers of the directors with financial knowledge in the constitution of the board are likely to affect the entity's effective decision making as they possessed technical financial expertise. Therefore, there is need to examine the moderating role of BFL on the nexus connecting capital structure with firm financial performance of DMBs in Nigeria. This study examines how effective capital structure can be achieved by having board financial literacy, which may significantly improve firm financial performance. Again, to the best of the researcher's comprehension, the reviewed literatures with moderator variable were carried out in non-financial sector and foreign countries (Tanko, Siyanbola, Bako & Dotun, 2021; Javeed & Yaqub, 2017 and Juma, 2010). Thus, this current study will focus on the Nigerian banking sector, in line with its significant role towards the economic growth and sustainability through the provision of services that are financial in nature to the general public as well as different individual business corporations.

The main aim of this study is to examine the moderating role of board financial literacy on the nexus among capital structure with firm financial performance of DMBs in Nigeria for the period of 2012-2021 because it is within the period that Nigerian banking sector had an acquisition of Skye Bank Plc by Polaris Bank Plc in 2018. Specific objectives of this study are as narrated below:

i. To examine the cause of equity financing on firm financial performance of DMBs in Nigeria.
ii. To investigate the effect of debt to equity financing on firm financial performance of DMBs in Nigeria.
iii. To examine the moderating effect of board financial literacy on the nexus between equity financing and firm financial performance of DMBs in Nigeria.
iv. To examine the moderating effect of board financial literacy on the nexus between debt to equity financing and firm financial performance of DMBs in Nigeria.

2. Literature Review

This section is premised on literatures on firm financial performance, equity financing, debt to equity financing and board financial literacy. Firm financial performance refers to the measurement of total financial health of business. Equity financing is the raising of capital from external sources through sale of shares of the company by a way of income retention. Debt to equity financing is termed as an investment solvency of an entity. Board financial literacy is the ability of the member of the board to understand and effectively use various financial experiences.

2.1 Equity Financing and Firm Financial Performance

Basit and Irwan (2017) in their study revealed that equity ratio has an insignificant correlation with the firms' financial performance. Conversely, Chechet and Olayiwola (2014) establish that equity financing is positively related to financial performance, using panel data through the annual reports of the listed companies under the Nigerian Stock Exchange. Also, Awunyo-Vitor and Badu (2012) studied the link between equity financing and financial performance of listed Ghanian banks for 11 years. The result documented a significant positive correlation involving equity financing with performance (financial) the firms. Velnampy and Niresh (2012) examine the nexus between equity finance and profitability and listed 10 Sri Lankan banks for the period of 8 years. Negative correlation was established with equity finance and financial performance. In view of the foregoing, this will test the below hypothesis.

$H0_1$: Equity financing ratio does not significantly affect firm financial performance of DMBs in Nigeria.

2.2 Debt to Equity Financing and Firm Financial Performance

Uremadu and Onyekachi (2018) opined that total debt ratio to equity has a negative and insignificant effect on ROA. Also, Basit and Irwan (2017) examined the effect of capital structure on firms' performance on Malaysian industrial sector. Debt to equity showed a negative effect on ROA of the firm. Shaba and Yaaba (2016) studied the effect of capital structure on bank profitability of deposit money banks for the period of 10 years in Nigeria. Capital Structure was measured by owners' funds and borrowed funds while, profitability was proxies by gross earnings of the domain. Multiple linear regression result discovered a positive significant association with debt to equity financing and profitability. Oladeji, Ikpefan and Olokoyo (2015) revealed a negative effect between leverage represented by debt to equity and firm performance of the study. Amos and Francis (2014) shows that debt to total equity is positive and significantly associated with financial performance of the listed non-financial companies in Nigeria. Again, Maina and Ishmail (2014) examine the effect of debt-equity ratio on performance for the period 10 years. The result reveals that short term debt to total assets has positive significant association with financial performance of firms listed at the Nairobi. In view of the above, the below null hypothesis is formulated.

$H0_2$: Debt to equity financing ratio do not have significant effect on firm financial performance of DMBs in Nigeria.

2.3 Board Financial Literacy and Firm Financial Performance

Reformed USAID (2009) narrated that any SME member (manager) who is has financial knowledge are more likely to make a wise business decision towards enhancing their services, products and work in partnership with self-assurance with the suppliers. Kahveci & Wolfs (2019) and Peters, Miller & Kusyk (2010) established the nexus between board financial knowledge and firm financial performance respectively and the result reveal a statistically positive significant correlation with the firm financial performance. Similarly, Erin, Arumona & Omotayo (2019); Kahveci & Wolfs (2019); Akhtar & Liu (2018) and Peters, Miller & Kusyk (2010) documented that entities that have an independent director with accounting and finance knowledge is likely to effectively enhance the entity's performance. They employed a multiple regression analysis gotten from the audited annual report from their respective domain from Nigerian Stock Exchange. Pereira and Filipe (2018) investigated how the quality of board members training will affect the financial performance of Portuguese banks. Sample of the study consist of 276 board members. Findings of the study show a statistical positive significant

correlation between the whole educational parameters with the financial performance of the firm.

H0$_4$: Board financial literacy does not have significant impact on firm financial performance of DMBs in Nigeria.

2.4 Board Financial Literacy on Capital structure and Firm Financial Performance

Liu (2011) opined that board of directors (BOD) is an essential aspect of corporate governance that is saddle with the responsibility to affect managerial decision. Board of directors is essential key indicator of corporate governance which is saddled with the task to improve the effectiveness and efficiency in every organization (Muhammad & Kurawa, 2021). Financial literacy of the board could have positive or a negative effect on a firm financial efficiency depending on the financial know how of the members constituted in the (BOD) in relation to capital structure which could have a positive impact on the firm financial performance. Liuraman and Dabari (2020) investigated the moderating effect of board quality on capital structure and financial performance of listed industrial goods in Nigeria for the period of 5 years. Pooled regression was employed to run the regress of the study. Also, result of the study found a positive significant relationship with capital structure and firm performance. Again, Iqbal and Javed (2017) asserted that corporate governance mechanism has statistically and positively improve the interaction involving capital structure with performance (financial) of Pakistan manufacturing firms. From the above assertion this study tests the below hypothesis:

H0$_5$: Board financial literacy has no significant impact on the relationship between capital structure and firm financial performance of DMBs in Nigeria.

Considering the existing link between board financial literacy and firm financial performance from the previous literatures, this study employs board financial literacy in order to strengthen the correlation between capital structure and firm financial performance of DMBs in Nigeria. However, as a result of the established gap from the previous studies, this study is underpinned by pecking order theory which was propounded by Myers and Majuf (1984) and supported by agency theory originated by (Berle, & Means, 1932).

Pecking order theory states that firm has order of preference for capital structure for the purpose of avoiding information asymmetry between managers of the firm

and potentials investors and other stakeholders. The theory assert that companies prefer internal financing such as retained earnings to short term debt, long term debt, equity among other source of external source of finance. Also, agency theory clarifies on the association between the owner(s) of a firm and the manager(s) in any decision making which will enhance the performance of a firm. The theory deals with the agency's problem that may result from conflict of interests either between the shareholders and managers or between the debt holders and stockholders. The agency theory also helps the relationship between principal and agent in terms of decision-making process, with respect to blends of capital structure of firm.

3. Methodology

Correlational research design was employed because it describe the statistical relationship between two or more variables (Olowokure et al. 2016). The population of this paper covers the entire DMBs in Nigeria whose financial data are available on the floor of NSE for the period of 2012 to 2021. As a result of the foregoing, Polaris Bank Plc was filtered out due to the non-availability of data from 2012 to 2018. Therefore, 13 DMBs mark up the sample size of this research.

Table 3: Variables Measurement and Source

Variables	Measurements	Source
Dependent Variable		
Firm Financial Performance (FFP)	Measured by an index derived from return on assets, earnings per share and return on equity.	Yahaya (2022) & Yahaya, Farouk, Lamidi, Yusuf and Dania (2015)
Independent Variables		
Equity Financing Ratio (EFR)	Total equity / Total assets.	Mohammed et al., (2022) & Sultan and Adam (2015)
Debt to Equity Financing Ratio (DEFR)	Total debts/ Total equity.	Mohammed et al., (2022) & Eniola, Adewunmi and Adewunmi (2017)
Moderator Variable		
Board Financial Literacy (FA)	Proportion of BOD members who has certificate in accounting, finance, ANAN, ACCA and ICAN	Tanko et al., (2021) & Bala and Kumai (2015)

Control Variables		
Firm Age	Measured as the number of years since listing.	Abdulwahab, Bala, Kwanbo and Gwamna (2022) & Qasim (2014)
Firm Size (FS)	Natural log of total assets.	Abdulwahab et al., (2022) & Rajha and Alslehat (2014)
Leverage (LEV)	Measured by the proportion of debt as a fraction of equity.	Yahaya (2022) & Abdulwahab et al. (2022)

Source: Generated by the Authors, 2022.

The study employed a multiple linear regression, direct and moderated models respectively. Thus, the specific models are as stated below:

Direct model

$FFP_{it} = \beta 0+\beta 1EFR_{it}+\beta 2DEFR_{it}+\beta 3BFL_{it}+4FA+5FS+6LEV+\varepsilon_{it}$

Moderated model

$FFP_{it}=\beta 0+\beta 1EFR_{it}+\beta 2DEFR_{it}+\beta 3BFL_{it}+\beta 4EFR*BFL_{it}+\beta 5DEFR*BFL_{it}+6FA+7FS+8LEV+\varepsilon_{it}$

Where:
FFP = Firm Financial Performance
EFR = Equity Financing Ratio
DEFR = Debt to Equity Financing Ratio
BFL = Board Financial Literacy
FAGE = Firm Age
FSIZ = Firm Size
LEV = Leverage
β_0 = Constant
$\beta_1 - \beta_8 =$ Co-efficient of EFR, DEFR, BFL, EFR*BFL, DEFR*BFL, FA, FSIZ and LEV in both models respectively.
ε = other factors that were not included by this model
i = participating firms (i = 13 banks)
t = time variable (t = 10 years)

4.0 Result and Discussion

Table 4.1 Descriptive Statistics

Variables	Obs.	Min	Max.	Mean	Std. Dev.
FFPI	130	0.0751	0.7458	0.4135	0.2420
EFR	130	0.0012	0.1837	0.1388	0.0652
DEFR	130	0.0236	3.0509	0.8500	1.0616
BFL	130	0.0000	0.8789	0.3104	0.2302
FA	130	5.0000	104.0000	27.7539	24.2845
FSIZ	130	2.0215	3.6958	2.8413	0.4721
LEV	130	0.0977	1.5630	0.5254	0.3834

Source: Extracted from STATA 13 Output

Table 4.1 shows that firm financial performance has an average of 41.3% which spread at 24.2% having minimum and maximum average at 7.5% and 74.5% respectively. Also, EFR revealed a mean value of 0.1388 and spread at 0.0652. 0.0012 and 0.1837 represents the minimum and maximum value respectively. Again, DEFR has an average value of 0.8500 with a standard deviation of 1.0616. The minimum and maximum values are 0.0236 and 3.0509 respectively. More so, the moderator variable has a mean value that stood at 3.10% which implies that DMBs has an ineffective utilization of financial literate in the board members. The deviation of the data from the mean stood at 0.2302. The minimum and maximum values are 0.0000 and 0.8789 respectively.

Table 4.2 Correlation Matrix

Variables	FFPI	EFR	DEFR	BFL	FA	FSIZ	LEV
FFPI	1.0000						
EFR	-0.4059	1.0000					
DEFR	0.0596	-0.0240	1.0000				
BFL	0.0571	0.2469	0.1349	1.0000			
FA	-0.0689	0.1704	-0.2588	0.2565	1.0000		
FSIZ	-0.1263	0.0750	-0.0047	0.0200	-0.1294	1.0000	
LEV	0.0350	-0.0116	0.0047	-0.0495	-0.1612	0.1111	1.0000

Source: Extracted from STATA 13 Output

Table 4.2 showed a positive significant association between DEFR, BFL & LEV with FFPI of the sampled DMBs in Nigeria. Also, there is a negative significant correlation involving EFR, firm age (Control variable) and firm size (control variable) with FFPI of the sampled DMBs in Nigeria. Also, the correlations linking the independent variables are insignificant, which indicate absence of multicollinearity in the study's model.

Table 4.3 Diagnostic Test

Variables	VIF	Tolerance Value	
FA	1.25	0.8002	
BFL	1.18	0.8482	
DEFR	1.13	0.8858	
EFR	1.09	0.9188	
FSIZ	1.04	0.9620	
LEV	1.04	0.9644	
Mean VIF			1.12
Hettest Chi^2			1.29
Hettest Sig			0.2568
Hausman Prob.			0.0459

Source: Extracted from STATA 13 Output

Table 4.3 found that the data of the study are homoskedastic in nature evidenced from chi2 of 1.29 along with prob. 0.2568. Thus, this study suggest that the original OLS regression is not suitable thereby leading this study to conduct fixed effects regression and random effects regression to determine which of the two (2) models stands to be suitable for this study. The hausman test revealed a prob. Chi^2 of 0.0459. Hence, fixed effects regression stand as the appropriate model of this study. Also, the variable are free from multicolinearity, this is because none of the VIF of the variables is up to 6 (Gujarati, 1995).

Table 4.4 Summary of Regression Results (Fixed Effects)

Direct				**Moderated**		
Variables	**Coefficients**	**Z-value**	**P-value**	**Variables**	**Coefficients**	**P-value**
EFR	-0.6797	-1.12	0.264	**EFR*BFL**	1.3657	0.457
DEFR	-0.0002	-0.01	0.994			
BFL	0.2330	2.44	0.016			
FA	0.0074	1.09	0.278			
FSIZ	-0.0294	-0.66	0.509	**DEFR*BFL**	0.1446	0.093
LEV	0.0345	0.61	0.544			
R^2			0.2051	R^2		0.2299
Wald Chi^2			0.1663	Wald Chi^2		0.1789
Prob. Chi^2			0.0001	Prob. Chi^2		0.0001

Source: Extracted from STATA 13 Output

Table 4.4 shows that EFR has a negative insignificant correlation with FFP of the DMBs in Nigeria evidenced from p-value of 0.264 and coefficient of -0.6797. This implies that in every N1 increase in EFR it will translate to a decrease by 67% in the FFP of the DMBs in Nigeria. Also, this outcome reveals that equity financing ratio is likely not to significantly influence the firm financial performance of DMBs in Nigeria for the period under review. Hence, the result of this model supported the formulated null hypothesis. Also, the interaction of BFL with EFR and FFP revealed a positive insignificant association. This means that in every N1 increase in EFRBFL it will translate to no effect on the FFP. This also supported the null hypothesis formulated. In addition, the findings is in consistent with the work of Basit and Irwan (2017) & Dahiru (2016) but contrary to that of (Mohammed et al., 2022; Tanko et al., 2021 and Chechet & Olayiwola, 2014).

Again, table 4.4 revealed that DEFR has a negative insignificant correlation with FFP of the sampled DMBs in Nigeria evidenced from p-value of 0.994 and coefficient of 00.0002. This signifies that in every N1 increase in DEFR it will lead to no impact on FFP of the sampled DMBs in Nigeria. This signifies that debt to equity financing ratio is likely not to have a significant influence on the firm financial performance of DMBs in Nigeria for the period under review. Hence, the result supported the formulated null hypothesis. Also, the interaction of BFL with DEFR and FFP revealed a positive and statistically significant association with FFP of the sampled DMBs in Nigeria. This means that in every N1 increase in DEFRBFL it will translate to an increase by 14% on the FFP of the sampled DMBs in Nigeria. This also supported the null hypothesis formulated. In addition, the findings contradicts that of Mohammed et al., (2022) and Tanko et al. (2021) but it's in cohort with that of (Tanko et al. 2021 & Uremadu & Onyekachi, 2018). Again, the control variables firm age, firm size and leverage shows an insignificant effect on FFP of DMBs in Nigeria. This implies that the years which the banks have been in operations, the size of the banks as well as the leverage do not improve the financial performance of DMBs in Nigeria. Lastly, the moderated model explains FFP at 23% thereby attributing 77% to error term whereas the direct relationship model explains the FFP at 21% and the remaining 79% is accounted by the random error term.

5. Conclusions and Recommendations

Equity financing ratio and debt to equity financing ratio found no significant impact on FFP of DMBs in Nigeria for the period under review. Thus, the findings do not provide an effect to policy implications. On the other hand, the moderated model

of the study shows that DEFR has a positive significant effect on the FFP of DMBs. Also, DEFR displayed an important part in influencing the FFP of DMBs in Nigeria. This study again discovered a negative influence exist with equity on the overall success of the business. Moreover, this study discovered that BFL has a significant positive influence on the firms' performance (financial) of DMBs in Nigeria.

It is recommended that the board members should come up with effective policy towards encouraging debt financing in their entities with effective monitoring so as to enhance the overall firm financial performance as well as safeguarding shareholders interest. This could be through optimal capital structure by using more of debts than equity. This study calls for more studies to investigate the relationship between capital structures, board attributes (that were not captured in this study) and firm financial performance by testing data from other domain (non-financial) and for a longer period. Lastly, findings and recommendations is strictly limited to the DMBs in Nigeria.

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