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CAPITAL STRUCTURE AND FIRM SIZE OF SELECTED LISTED FIRMS IN THE OIL AND GAS INDUSTRY IN NIGERIA

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Abstract

This study examined the effect of capital structure on the firm size of selected listed Oil and Gas Industry in Nigeria. It also looked at whether firm size is influenced by Equity Finance, Noncurrent Liability Finance, Total Liability Finance and Leverage. The corporate annual reports and websites for the periods 2011-2020 were utilised as the main sources of secondary data. The study adopted the use of panel estimation technique to analyse the data collected from annual reports and corporate websites of the Listed Oil and Gas Industry in Nigeria. Hausman test confirmed fixed effect model as appropriate for this study. The overall finding showed that capital structure has a significant effect on firm size. In addition, Equity Finance and Leverage have a negative and significant effect on firm size. Total Liability Finance has a positive and significant effect, while Noncurrent Liability Finance has no significant effect. The study recommended that all the identified macro and micro economic factors that affect capital structure and firm size should be considered when formulating an appropriate capital structure decision for the overall benefits of shareholders.

Keywords: capital structure, total liability finance, firm size, oil and gas, equity finance

INTRODUCTION

Capital structure is the use of a combination of equity capital, short – term liabilities and long – term liabilities by a company to finance its activities (Hsiao, 2009; Uremadu & Onyekachi, 2018). It indicates how a firm uses various sources of funds to finance its growth and operations. Capital structures of firms differ due to their liquidity, company risk, profitability, company growth, age, asset structure and size (Al-Najjar & Taylor, 2008). The main aim of any capital

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structure is to minimize the overall cost of capital and maximise shareholders' wealth by using a proper mix of various available sources of finance (Ross *et al*, 2005). One of the crucial responsibilities of a financial manager is to decide and manage a capital structure that is optimal. This involves a trade- off between return and risk (Brigham & Huston, 2001 cited in Uremadu & Onyekachi, 2018). Capital structure decision is for this reason, regarded as one of the most crucial decisions a company can make as an optimal mix of equity and liabilities bears on the normal business operations as well as on future growth which may directly or indirectly affect its assets and size (Salam & Shourkashti, 2019).

Company size is categorized into three: small, medium and large firms. Investors are normally more interested in large firms because such firms are capable of maintaining their earnings. Firm size is essential for profit generation as investors are usually more confident in large firms that have large assets as such firms are presumed to be able to constantly improve on their financial performance. The assets of large firms are considered more stable and can easily be used as collaterals. A big sized company with healthy financial performance will not tamper with its financial statements; it will disclose more relevant information to stakeholders than a relatively smaller one (Hasanuddin *et al*, 2021). Thus, company size, based on signal theory, is a positive pointer to investors on information disclosed in financial statements (Morris, 1987).

The success of any business organisation hinges on finance which is needed for normal business activities that will enhance business expansion and growth. It therefore follows that growth cannot be achieved without adequate funds. A well - funded business organisation with strong capital base and optimal capital structure will grow faster than those with poor capital structure. A well planned capital structure therefore serves as oil that lubricates the growth of organisations, company size being one of the attributes of measuring firm growth (Ngwoke & Sergious, 2019 cited in Hasanuddin *et al*, 2021).

Many research works on capital structure indicate that the relationship between capital structure and firm size is positive. Marsh (1982) and Panigrahi (2018) prove that long – term liabilities are often chosen by large firms while small firms go for short – term liabilities. This is so because large firms, when issuing long – term liabilities, take advantage of economies of scale. They enjoy better bargaining power as they use their vintage position to negotiate favourably with payables. The cost of issuing equity and liabilities therefore negatively relate to firm size. Larger

companies are also mostly favoured to have high credit ratings which make non-bank liability financing more accessible to them, quite unlike smaller companies (Bevan & Danbolt, 1999, Ogbulu & Emeni, 2012). Larger firms, in addition, have more steady cash flows, from diversification which make them less prone to liquidation unlike smaller firms (Panigrahi, 2018). This suggests a possibility of a positive relationship between firm size and capital structure.

Findings from researchers across the globe on the relationship between capital structure and firm size are however mixed. Studies that indicate a positive association between capital structure and firm size include: Afza & Hussain (2011); Alzomaia (2014); Baltaci & Ayaydin (2014); Chen (2004); Kandır, Iskenderoğlu & Onal, (2011); Kurshey & Strebulaev, (2015); Kurshev, & Strebulaev, (2006); Lim (2012); Owolabi & Inyang (2012); Sanil, Arsyad bin Noraidi & Ramakrishnan, (2018); Shah & Hijazi (2004); Shah & Khan, (2017); Wang (2011).

Researchers that found a negative association between capital structure and firm size include: Awan & Amin (2014); Bassey, Arene & Okpukpara (2014); Harc, (2015); Kalam & Khatoon, (2021); Masnoon & Saeed (2014); Qayyum (2013). Osaretin & Michael (2014) found no confirmation.

Some of the recent research works in Nigeria on capital structure focused mainly on performance. They include: Adenugba, Ige & Kesinro, (2016); Ajibola, Wisdom & Qudus (2018); Akani & Ifechi (2017); Igbinoia, & Ogbeide, (2019); Ihejirika, Ndugbu, Mbagwu & Ojiegbe (2020); Joshua *et al.* (2018). Lofinmakin, & Tams-Alasia, (2018); Miko & Para (2019); Nuraddeen & Ibrahim (2019); Umoh, Udofia, Hanson & Ekanem, (2021); Uremadu & Onyekachi (2018) Yakubu & Gbenga (2019). Some other works focused on determinants of capital structure: Anande-kur & Agbo, (2021); Aremu, Ekpo, Mustapha & Adedoyin, (2013); Owolabi & Inyang (2012).

None of the works focused mainly on capital structure and size of firms listed in the Nigerian Oil and Gas industry in spite of the importance of the industry to the Nigerian economy. The industry is a highly capital intensive one and attracts lots of investments, developments and infrastructure into the country's economy and other sectors. The sector is crucial to the development and growth of the country as it accounts for almost 90% of the country's foreign exchange earnings and 83% of its GDP (Ogbeifun, 2008 cited in Abubakar, 2020).

Eterna Oil Nigeria Plc and MRS Nigeria Plc are two major companies in the down - stream sector of Oil and Gas industry in Nigeria. Eterna Oil Nigeria Plc reduced its leverage from 1.95 in 2015 to 1.94 in 2016 (0.52% reduction). Its turnover (a measure of firm growth), increased by 16%; total assets (another measure of firm growth) increased by 10.8%. MRS Nigeria Plc had earlier in 2015 reduced its leverage by 5.38% (from 1.96 in 2014 to 1.86 in 2015). Its total assets increased by 15.7% while turnover reduced by 6.09%. This apparent inconsistency in the sector in respect of changes in the composition of capital structure and their effect on total assets and turnover is worth investigating. Oil and Gas sector, compared to other sectors like Health Care, Basic Materials, Consumer Goods and Industrials, tilts highly towards liability financing, indicating that the sector uses liability financing more than any other sectors of the Nigerian economy (Anande-kur & Agbo, 2021). The growth of this industry which relies heavily on liability financing should be of interest to researchers. It therefore becomes more imperative to investigate the relationship between capital structure and firm size of selected listed companies in the Oil and Gas industry in Nigeria because of the importance of the industry to the Nigerian economy and because of the unique nature of its capital structure.

LITERATURE REVIEW

Theories

Two theories are relevant for this work. Pecking – order Theory (POT) is based on asymmetric information which exists between investors and managers (Degryse *et al.* 2012). Firms will naturally want to use funds that have the least level of asymmetric information. This is because costs of borrowing will increase when funds are sourced from outside parties who are not in possession of complete information. It follows therefore that firms, according to POT, will first use internal sources of funds and will use outside funds as the last option. This theory states further that there is no liability – to – equity ratio that is optimal.

Trade – off Theory (TOT) states that a firm will choose capital structure that is optimal when it balances tax benefits derived from outside funds with the financial distress costs. These costs will increase as leverage increases.

Empirical Review

The effect of capital structure on firm size appears to be a relatively new area of focus as literature on it is scarce. Most of the existing works on capital structure centre more on performance and determinants. This literature review is therefore based on determinants of capital structure from which inferences are made on the relationship between capital structure and firm size.

Sanil *et al* (2018) conducted a research on the impact which various firm sizes have on capital structure by investigating 108 consumer good firms listed in Malaysia. The research period was from 2006 to 2015. Empirical results from fixed effect analysis confirmed a positive and significant relationship between firm size and capital structure. Shah and Khan (2017) worked on those factors that determine capital structure decision in listed Pakistani non-financial firms for a period of ten years (2005 – 2014). Findings from fixed effect analysis confirmed a strong positive relationship between firm size and leverage ratio. Alzomania (2014) employed cross-sectional pooled data from Saudi Arabia listed 93 firms to investigate the determinants of capital structure. It was found that firm size positively and directly relate to capital structure though asset tangibility has a negative influence. Baltaci and Ayaydin (2014) extracted quarterly data from 39 banks in Turkey from 2002 to 2012 to consider those macro-economic factors likely to affect capital structure. Findings from regression analysis confirmed that firm size positively relate to leverage ratio. Lim (2012) investigated the determinants of capital structure of 31 A – share firms in Chinese financial services for a period of five years (2005 – 2009). Findings showed that firm size has a positive relationship with non-debt tax shield. Afza and Hussain (2011) studied the determinants of capital structure of selected listed firms in Pakistan for a period of four years (2003 – 2007) by using pooled regression analysis. Firm size was found to be positively and significantly related to debt ratio, thus confirming Pecking order Theory (POT). Sheikh and Wang (2011) worked on 160 firms listed in Pakistan for a period of five years (2003 – 2007) to ascertain the determinants of capital structure. Analysis confirmed that firm size and leverage ratio have a positive association. Chen (2004) used regression analysis on data got from listed Chinese companies from 1995 to 2000. Firm size was found to significantly and positively relate with total leverage estimations.

Some researchers came out with negative association and sometime without any association. Priyono (2017) studied the effect which firm size has on capital structure by using 14 companies listed in Indonesia, study period being from 2011 to 2014. The analysis was done with the use of smartpal because capital structure was used as a mediator variable. The result showed that firm size has no effect on capital structure. Harc (2015) investigated the relationship that exists between firm size and capital structure in 500 SMEs in Croatia with the use of Pearson Correlation Coefficient. The research period was from 2005 to 2010. The results revealed a negative significant relationship between short-term leverage and firm size. Masnoon and Saeed (2014) based their research work on factors that determine capital structure in 10 automobile companies listed in KSE. The research period was from 2008 to 2012. Findings from correlation analysis confirmed that firm size and debt ratio are insignificantly correlated. Awan and Amin (2014) used 2006 – 2012 as research period to investigate the determinants of capital structure among 68 textile firms in Pakistan by using panel data techniques. Firm size was found to be negatively related to capital structure. Qayyum (2013) focused on 70 Pakistani cement companies to analyse the determinants of capital structure, the research period being 2007 – 2009. Correlational analysis showed that leverage and firm size are negatively and significantly related.

Findings from Nigeria are not different from those from other climes. Adaramola & Olarewaju (2015) used explanatory and descriptive research method to analyse data from listed insurance companies in Nigeria to establish a positive and significant relationship between firm size and capital structure. Oseretin and Michael (2014) could not confirm the relationship between capital structure and firm size from the model used. The researchers applied cross sectional analysis on data from 20 listed Nigerian firms. Aremu *et al.* (2013) worked on data from listed banks in Nigeria over a research period of 2006 to 2010 using pooled OLS method to find a positive and significant relationship between capital structure and firm size. Ogbulu and Emen (2012) tested a hypothesis of no significant relationship between capital structure and firm size by conducting panel regression on data collected from 110 listed firms in Nigeria over a ten year period. Findings confirmed a positive and significant relationship between them.

Paseda (2021) investigated the determinants of capital structure of 50 non-financial listed Nigerian companies with 1999 to 2014 as the research period. Modified weighted models and

OLS regressions were used on panel data sourced from the selected companies. Firms size and capital structure were found to be negatively associated. Bassey *et al* (2014) established a negative relationship between firm size and capital structure. The researchers used OLS on data sourced from 28 listed firms in Agro-Allied industry in Nigeria, the research period being 2005 to 2010.

It is clear from the review of related literature that research work on the effect of capital structure on firm size appears to be relatively new. A critical review of the determinants of capital structure used for this work shows that findings on the relationship between capital structure and firm size are mixed and sometimes conflicting. This research work therefore serves as part of the pioneer work and a contribution to the existing body of literature on this topic thereby reducing the observed gap.

METHODOLOGY

The entire twelve listed firms in the down - stream sub-sector of the Oil and Gas industry in Nigeria constituted the population of this study from which seven were purposely selected. The seven selected companies are: Total Nigeria, Mobil Nigeria Plc, MRS Nigeria Plc, Oando Nigeria Plc, Adrova Nigeria Plc, Eterna Nigeria Plc and Conoil Nigeria Plc. They were selected due to availability of data throughout the research period. The focus on the industry was based on its contribution to the Nigerian economy: 90% of the country's foreign exchange earnings and 83% of its GDP (Ogbeifun, 2008 cited in Abubakar, 2020). The industry is unique in that it tilts highly towards liability financing, indicating that it uses liability financing more than any other sectors of the Nigerian economy (Anande-kur & Agbo, 2021). The research period of 2011 to 2020 was selected due to availability of data.

Model Specification

The model for this study stemmed from literature reviewed. Paseda (2021) used Turnover (TO) to proxy firm size while Uremadu and Onyekachi (2018) used Equity Finance (EF); Total Liability Finance (TLF); Leverage (LEV) and Non - Current Liability Finance (NCLF) to proxy capital structure. The adapted model is stated thus:

$$\text{Firm Size} = f(\text{Capital Structure}) \dots\dots\dots(1)$$

Firm Size = Turnover (TO).....(2)

Capital Structure = EF, TLF, LEV, NCLF (3)

Merging equations 2 and 3:

$TO = \alpha_0 + \beta_1 (EF) + \beta_2 (TLF) + \beta_3 (LEV) + \beta_4 (NCLF) + \mu$(4)

Where:

TO = Turnover, used to proxy firm size

EF = Equity Finance

TLF = Total Liability Finance

LEV = Leverage

NCLF = Non – Current Liability Finance

α_0 = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients of the independent variables

μ = Error term

The data used were logged in order to make them in smaller scale and conform with those of Leverage (LEV) and also to improve on their normality.

$LOGTO = \alpha_0 + \beta_1 (LOGEF) + \beta_2 (LOGTLF) + \beta_3 (LEV) + \beta_4 (NCLF) + \mu$(5)

FINDINGS AND DISCUSSION

Findings

Table 1: Descriptive Statistics

	LOGTO	LOGEF	LOGNCLF	LOGTLF	LEV
Mean	8.089615	7.224455	6.483883	7.636954	2.860364
Median	8.087117	7.250446	6.414550	7.658429	2.689574
Maximum	8.488534	7.646743	7.387892	8.061729	6.679252
Minimum	7.613510	6.766039	4.985844	6.948258	0.807391
Std. Dev.	0.194372	0.194878	0.510826	0.224932	1.270204
Skewness	0.026620	-0.162620	-0.090562	-0.826156	0.631803
Kurtosis	2.724419	3.230308	2.741285	4.231315	2.866037

Jarque-Bera	0.229772	0.463233	0.290907	12.38495	4.709379
Probability	0.891468	0.793250	0.864630	0.062045	0.094923
Sum	566.2730	505.7119	453.8718	534.5868	200.2254
Sum Sq. Dev.	2.606860	2.620446	18.00511	3.491022	111.3258
Observations	70	70	70	70	70

Source: Computations by the authors (2021)

It was necessary to ascertain the normality of the data from the onset. This was achieved from the descriptive statistics in Table 1. The probability of Jarque – Bera of each of the variables used was not significant at 0.05, confirming the assumption that the normality of the data was not violated.

Table 2: Correlation

	LOGTO	LOGEF	LOGNCLF	LOGTLF	LEV
LOGTO	1.000000	0.347930	0.033392	0.606323	0.346033
LOGEF	0.347930	1.000000	0.176161	0.547793	-0.377706
LOGNCLF	0.033392	0.176161	1.000000	0.201240	0.029593
LOGTLF	0.606323	0.547793	0.201240	1.000000	0.539892
LEV	0.346033	-0.377706	0.029593	0.539892	1.000000

Source: Computations by the authors (2021)

Correlation test, another pre-estimation test, was conducted to detect for possible multi-collinearity. Findings from Table 2 showed that none of the correlations is above 0.7, meaning that the data used were free of multi-collinearity (Rekha, 2019).

Table 3: Unit Root Test

	LOGTO			LOGEF			LOGNCLF			LOGTLF			LOGLEV		
	Stat	Prob	Station	Stat	Prob	Station	Stat	Prob	Station	Stat	Prob	Station	Stat	Prob	Station
Levinin, Lin & Chu	-0.48116	0.3152	I(1)	2.65361	0.9960	I(1)	-0.45533	0.3244	I(1)	0.01340	0.5053	I(1)	0.42312	0.6639	I(1)
ADF - Fisher Chi	9.21238	0.8172	I(1)	4.38579	0.9927	I(1)	12.7963	0.5426	I(1)	12.3153	0.5810	I(1)	10.2098	0.7467	I(1)
PP - Fisher Chi-square	6.28187	0.9589	I(1)	1.94135	0.9999	I(1)	14.0905	0.4430	I(1)	7.66239	0.9062	I(1)	46.2164	0.0000	I(1)
All tests assume asymptotic normality.															

Source: Computations by the authors (2021)

Three different types of unit root tests (another pre-estimation tests) were conducted for the purpose of examining the stationarity of the data. Findings from Table 3 showed that all the variables were stationary at level I(1) in all the three tests. This means that the statistical

properties of the data were constant throughout the research period (Jaju, 2017). The three tests were Levinin, Lin and Chu; Augmented Dickey Fuller (ADF) and Phillip Perron (PP).

Table 4: Co-integration Test

Pedroni Residual Co-integration Test
Series: LOGTO LOGEF LOGNCLF LOGTLF TLTEF
Date: 10/25/21 Time: 03:59
Sample: 2011 2020
Included observations: 70
Cross-sections included: 7
Null Hypothesis: No co-integration
Trend assumption: Deterministic intercept and trend
User-specified lag length: 1
Newey-West automatic bandwidth selection and Bartlett kernel

Alternative hypothesis: common AR coefs. (within-dimension)

	<u>Statistic</u>	<u>Prob.</u>	Weighted <u>Statistic</u>	<u>Prob.</u>
Panel v-Statistic	-0.282217	0.6111	-0.588348	0.7219
Panel rho-Statistic	2.063492	0.9805	2.560829	0.9948
Panel PP-Statistic	-7.776355	0.0000	-8.478908	0.0000
Panel ADF-Statistic	1.333119	0.9088	0.111196	0.5443

Source: Computations by the authors (2021)

A co-integration test was conducted to ascertain any co-integration among all the variables used. Findings in Table 4 established one co-integration, meaning that there is a long run relationship among the variables.

Table 5: Regression – Pooled, Random, Fixed

Variable	Pooled Coefficient Stand Error () Probability []	Random Coefficient Stand Error () Probability []	Fixed 1 Coefficient Stand Error () Probability []	Fixed 2 Coefficient Stand Error () Probability []
Constant	3.898733	3.714158	3.722918	0.000000
	(0.776296)	(0.779153)	0.865514	(1.31E-12)
	[0.000000]*	[0.0000]*	[0.0001]*	(1.0000)**
LOG EF	0.546440	0.301984	0.246041	-1.38E-12
	(0.394161)	(0.334762)	(0.355025)	4.62E-13
	[0.1704]**	[0.3703]**	[0.4915]**	[0.0044]*
LEV	0.029254	0.030558	0.029254	-2.37E-13

	(0.060188)	(0.052869)	(0.057722)	(7.50E-14)
	[0.1764]**	[0.5653]**	[0.6145]**	[0.0027]*
LOG NCLF	-0.032616	-0.000524	0.013248	-1.17E-13
	(0.048657)	(0.042327)	(0.013248)	(7.50E-14)
	[0.3903]**	[0.9902]**	[0.7865]**	[0.0701]**
LOG TLF	0.028720	0.276259	0.316829	2.43E-12
	(0.377133)	(0.336948)	(0.371955)	(4.85E-13)
	[0.9395]**	[0.4153]**	[0.3984]**	[0.0000]*
Observations	70	70	70	70
R ²	0.393919	0.330481	0.752821	1.000000
Adjusted R ²	0.356622	0.289279	0.658893	1.000000
F - Statistics	10.56160	8.021144	8.014869	6.02E+24
Durbin Watson	0.730342	1.010518	1.128002	1.587659
Probability	0.000001*	0.000026*	0.000000*	0.000000*

*Significant at 0.05

** Not significant at 0.05

Source: Computations by the authors (2021)

The results of four types of regression analyses done are presented in Table 5. The first three are pooled regression, random effect regression and fixed effect regression respectively. It was necessary to know the most appropriate one between fixed effect and random effect models.

Table 6: Hausman Test

Tests	Chi2	P-Value
Breusch-Pagan Lagrange Multiplier (LM)	1.024	0.012
Hausman test	6.746	0.043

Source: Computations by the authors (2021)

Hausman test confirmed fixed effect model as the most suitable for this study since the p-value of each of the two tests in Table 6 is statistically significant at 0.05.

A critical review of column three, Table 5 revealed that the Durbin – Watson value of 1.010518 suggested the presence of autocorrelation. Again, none of the independent variables had any significant effect on firm size (proxy with turnover). Their p-values are: LOGEF (0.4915); LEV (0.6145); LOGNCLF (0.7861) and LOGTLF (0.3984). They however collectively had a

significant effect on growth ($p = 0.00000$). This made the findings spurious and totally unreliable. To correct the autocorrelation, the dependent variable was included as an independent variable. The result is in Column 4, Table 5. The problem of auto-correlation was solved as Durbin – Watson value improved to 1.587659 which is closer to 2. The spurious result was also corrected in the process.

Overall, capital structure has a significant effect ($p = 0.0000$) on firm size. The four variables used to proxy capital structure however have mixed results. Equity Finance (EF) has a negative (coefficient = $-1.38E - 12$) and significant ($p = 0.0044$) effect; Leverage (LEV) has a negative (co-efficient = $-2.37E - 13$) and significant ($p = 0.0027$) effect. Non-Current Liability Finance (NCLF) also has a negative (co – efficient = $- 1.17E - 13$) but insignificant ($p = 0.0701$) effect. Total Liability Finance (TLF) however has a positive ($p = 2.43E - 12$) significant (0.0000) effect.

Discussion

Finding from this study shows that capital structure positively affects firm size/growth (proxy with turnover). Big companies can easily provide funds for their investments due to increase in sales growth rates and little information asymmetric. The more a company uses liabilities, according to the Trade-off and Pecking order Theories, the bigger the company becomes as the risk of going bankrupt is remote (Oke & Obalade, 2015). This makes the cost of liabilities lower and therefore more profitable and preferred. Big firms diversify more, have less variance in earnings and can therefore accommodate higher liability ratios (Panigrahi, 2011). Additionally, the value of a firm can increase if its leverage is properly structured (Aziz & Abbas, 2019; Orji *et al*, 2021). Smaller firms, in contrast, have low liability ratios because they have relatively higher cost of information asymmetries with loan providers.

Scholars are of the view that liability financing is superior to internal financing due to the tax advantage it has (Nwaolisa & Chijinde, 2016; Solanke 2021). External sources of funds provide acceleration for growth as they allow firms to lean on existing funds in actualizing their target objectives and growth (Ken-Ndubuisi & Oyema, 2018). Different firms, for these reasons, use various sources of capital to fund their business activities. It can therefore be stated that the size and growth of a company are significantly related to its capital structure (Reschiwati *et al*, 2019).

The finding is consistent with the works of Adaramola & Olarewaju (2015); Afza & Hussain (2011); Aremu *et al.* (2013); Alzomania (2014); Sanil *et al* (2018); . Shah and Khan (2017). It however negates those of Awan & Amin (2014); Paseda (2021); .Bassey *et al* (2014); Harc (2015); Masnoon & Saeed (2014); Priyono (2017).

Many factors affect capital structure. They include attitude of lenders, attitude of management, asset structure, characteristics of the industry, stability of sales and sales growth rate (Priyono, 2017). Others are financial flexibility of the firm, internal conditions of the firm, market condition, tax implications, profitability and operating leverage (Weston & Brigham 1997 cited in Priyono, 2017). Bambang (2001) added factors like firm size, state of capital market, the amount of the needed capital, composition of assets, the risk level of assets, income stability and rate of interest.

Turnover and by extension firm size is also affected by three principal factors identified by Vaz (2021). The first is Entrepreneur (motivation, age and risk propensity). The second are internal factors (vision and mission, objectives, strategic planning, location, legal form, human resources and organizational structure). The third are external factors (political, economic, socio – cultural and technological).

Conclusion

The conclusion from this work is that overall, capital structure significantly affects firm size (growth) though findings from the effect of each of the variables used to proxy capital structure on firm size (growth) are mixed. Capital structure and firm size (growth) are independently affected by a lot of micro and macro - economic factors.

Recommendation

The main purpose of an optimal capital structure is to maximize shareholders' wealth. This work recommends that in formulating an optimum capital structure decisions which will ultimately affect firm size, management should take into consideration all those identified micro and macro – economic factors that affect capital structure and firm growth for the overall benefits of the shareholders.

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