



CORPORATE LEVERAGE AND THE PERFORMANCE OF A GROWTH FIRM: THE CASE OF GUINNESS NIGERIA PLC

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ABSTRACT

Explaining the role of corporate leverage in companies' financial performance is one of the primary objectives of contemporary research in corporate finance and this role remains a questionable subject which has continued to attract the attention of many researchers. The main objective of this study is to examine the effect of financial leverage on financial performance of a growth firm in Nigeria over a period of twenty-six (26) years (1993 – 2018). This work adopted debt ratio (DR); debt-equity ratio (DER) and interest coverage ratio (ICR) as independent variables and their effect on financial performance proxied with earning per share (EPS) was analysed. Secondary data were obtained from the audited financial statement (Statement of comprehensive income and Statement of financial position) of the selected company which is quoted on the Nigerian Stock Exchange (NSE). Descriptive statistics, Unit root, Vector Error Correction Model (ECM) and the Fully Modified Ordinary Least Square Method (FMOLS) were employed for analysis. Our result shows that the interest coverage ratio had a significant positive effect on earnings per share in the short run, whereas in the long run, only the debt-ratio had significant positive effect on earnings per share. The debt-equity ratio had no significant effect on earnings per share for our selected company either in the short run or in the long run. We therefore recommend that cognizance be given to the type of ratios used and the growth characteristics of the firm(s) to be selected for a research in corporate/financial leverage and firm performance.

Keywords: Debt-ratio, Growth Firm, Leverage, Profitability, Shareholder wealth maximization



1. INTRODUCTION

Financing is the acquisition of cash or other assets through means such as sales of stocks, retaining net profit and increasing debt. A firm's capitalization consists of internally generated funds and due to the fact that a company may not be able to raise all funds which it requires internally, it may depend on additional external financing (Mishkin 2007). Financial decision making is very relevant for the profitability of any firm. These include long-term financing and short-term financing decisions (Olowe 2017). The long-term decisions are mode of capital sourcing and dividend decisions while the short-term financing decisions involve liquidity decisions. Thus, the financial manager is responsible for determining the optimal mix of debt and equity that will ensure maximization of shareholders' wealth (Maina &Kondongo, 2013). Financial leverage involves the use of external funds in generating profit for the firm which is primarily the maximization of shareholders' wealth and welfare.

Financial performance refers to the degree to which financial objectives are being or have been achieved. It is the process of measuring the result of firm's policies and operations in monetary terms (Taouab & Issor 2019). Firm's performance and profitability is very important in any economy as there are many far reaching benefits which can be derived from that. Amongst them are; first, the profits to the firm which means income to the shareholders and hence spillover effects and multiplier effects for individual, households and the economy in general. Second, the corporate taxes that the government will earn will enable the implementation of infrastructure projects and social welfare programs. Third, when firms are profitable it means they can attract more investors and thereby raise large capital for bigger and high returns projects (Ross, Westerfield & Bradford 2018). Hence, the optimal capital structure decision seems to be relevant to finance managers and board of directors primarily because such decision is expected to lead to increased profitability and shareholders' wealth maximization (Mishkin 2007).

Most finance managers believe that the use of financial leverage is like a 'double-edged sword' because it can either magnify the firm's potential gains or losses (Ross et al 2018). Thus, corporate managers are faced with the problem of financing option and, at what level in terms of magnitude, financing can help achieve efficiency in firm performance. Growth firms use debt to provide additional capital for their business operations. They also retain a portion of their profit (retained earnings) to be invested back into the business thereby not declaring 100% dividend. Using debt is advantageous to existing owners (Pandey 2014). Through financial leverage,



equity owners get to keep extra profits generated by the debt capital after interest payments. As long as using debt doesn't threaten the financial soundness of a company in times of difficulties, equity owners welcome certain debt uses to help enhance their investment returns (Olowe 2017). This raises question as to what the maximum acceptable level of debt is. For investors, the challenge is determining whether the organization's debt level is sustainable. The raising of appropriate funds in an organization will aid the firm in its operation; hence, it is important for firms to know the debt equity mix that gives optimal financial performance.

Growth in firms is said to have various connotations. It can be defined in terms of revenue generation, value addition and expansion in terms of volume of business. From another perspective, it can be measured in terms of some qualitative features like market position, quality of product and goodwill of the customers (Kruger 2004). Guinness Nigeria Plc, has maintained the top position in terms of revenue generation increasing its percentage year-on-year, its retained profit year-on-year for business expansion has also been on the increase. It maintains a comfortable market position in the manufacturing sector and the food and beverage industry.

The literature on corporate leverage and financial performance of companies in Nigeria is characterized by inconsistent research findings. While some like; Appah (2013), Thaddeus and Chigbu (2012), Micheal (2012), Uremadu (2004), show that financial leverage has significant positive effects on firm's financial performance in Nigeria, others like Enekwe, Agu and Nnagbogu (2014), Kaluidichi (2012), Onaolapo and Kajola (2010) have findings which show negative relationship between leverage and financial performance of companies in Nigeria.

Could the difference in findings be attributed to the nature of the firms involved in terms of the dividend and capital structure policy? Could it be the leverage ratios or the financial performance ratios adopted? This research work intends to examine the effect of leverage on the financial performance using debt-ratio and coverage ratio against earnings per share. The rest of this paper is structures as follows; Section 2- Literature review, Section 3- Methodology, Section 4-Results and Discussion of findings, Section 5- Conclusion and Recommendations

2. LITERATURE REVIEW

In terms of application and relevance to practice, the trade-off, perking order and market timing theories of capital structure have been more prominent. The trade-off theory (Jensen 1986; Myers 1977) argues for the consideration of cost of financial



distress and agency cost in taking decisions on external financing. A firm will suffer financial distress when promises to creditors are broken or honoured with difficulty. The firm's continuous inability to make payments to debt holders can ultimately lead to its insolvency. For a given level of operating risk, the likelihood of financial distress increases with higher debt. With higher business risk and higher debt, probability of financial distress becomes much greater. Investors know that levered firms may fall into financial distress and this situation will usually cause worry and uncertainty about the future value of the firm. This worry is reflected in the current market value of the levered firm's securities. The value of the firm is broken down into three parts presented as follows;

Value of firm = value of unlevered + PV (tax shield) – PV (costs of financial distress)
.... (1)

Where the cost of financial distress depends on the probability of distress and the magnitude of costs encountered if distress occurs. Direct costs of financial distress include costs of insolvency. These are cost associated with the liquidation of company assets and paying-off of debt holders. Also incurred are high legal and administrative costs. Indirect costs are such that relate to the actions of employees, managers, customers, suppliers and shareholders. In the situation of financial distress, the conflict of interests which usually result among shareholders, debt-holders and management will lead to Agency costs. Agency costs have their influence on a firm's capital structure.

Trade-off theory further recognizes that target debt ratio may vary from firm to firm. Companies with safe, tangible assets and plenty of taxable income shields ought to have high target ratios, while unprofitable companies with risky, intangible assets ought to rely primarily on equity financing.

The pecking order theory (Brealey, Myers and Allen 2008; Myers and Majluf 1984) considers the asymmetries of information that exist between insiders and outsiders which becomes the reason for the company giving preference to its internal resources first, followed by debt and finally shareholders' equity. The idea behind their argument is that the owner-manager of the firm knows the true value of the firm's assets and growth opportunities. Outside investors can only guess these values. If the manager offers to sell equity, then the outside investor must ask why the manager is willing to do so. In most cases, the manager of an overvalued firm will be willing to sell equity, while the manager of an undervalued firm will not. Therefore, when



managers issue equity instead of riskless debt, outside investors rationally discount the firm's stock price. To avoid this discount, managers will follow a pecking order theory of finance. The Pecking order theory further maintains that businesses adhere to a hierarchy of financing sources and prefer internal financing (i.e retained earnings and excess liquid assets or 'slack') when available, and debt is preferred over equity if external financing is required. Therefore, the debt ratio depends on the degree of asymmetry of information, the self-financing capacity of the company and the various constraints which it meets trying to access the various sources of finance.

Market timing and inertia (Baker & Wugler 2002; Jung & Ali 1994; Lucas & McDonald 1991; Jalilvand & Harris 1984) takes the position that corporate finance is best understood as the cumulative effects of past attempts to time the market. Managers will attempt at increasing in the firms' capital when they think that the actions are overestimated (i.e a high market- to- book ratio). Thus, a small debt ratio must follow a long period of high market-to-book ratio. According to Welch (2004), the companies quickly do not adjust their debt ratio to the fluctuations in the value of the shareholders' equity. The basic idea is that managers look at current conditions in both debt and equity markets. If they need financing, then they will use whichever market looks favorable currently and if neither market looks favorable, then fund raising may be deferred. Alternatively, if current conditions look unusually favorable, then funds may be raised even if they are not currently required. The theory concludes that conditions of the debt and equities market per time, will determine the one the firm will subscribe for.

Arising from the application of the theories above, several factors have been identified to determine the choice of financing sources for the firm. Capital structure theories gave them as; size (Chung 1993; Grinblatt and Titman 1998; Rajan and Zingales 1995), Asset structure (Ozkan 1996; Hutchinson and Hunter 1995; Berger and Udell 1998; Harris and Raviv 1990), Profitability (Sunder and Myers 1999; Grindler and Gordon 1995; Jensen 1986), Risk (Titman and Wessels 1988; Bradley, Jarell and Kim 1984), Growth (Lang et al. 1996; Harris and Raviv 1990; Williamson 1988; Myers 1984), Market-to-book ratio (Myers 1977), Non-debt tax shield (DeAngelo and Masulis 1980), Age (Petersen and Rajan 1994), Industry effect (Harris and Raviv 1991).

For companies with growth opportunities, according to the trade-off theory, the use of debt is limited. In case of bankruptcy, the value of companies with growth opportunities will be close to zero as growth opportunities are particular case of



intangible assets (Harris and Raviv, 1990; Williamson 1988). Firms with less growth prospects should use debt because it has disciplinary role (Jensen 1986). Whereas, firms with growth opportunities may invest sub-optimally, and therefore creditors will be more reluctant to lend for long horizons. This problem can be solved by short-term financing (Titman and Wessels 1988) or by convertible bonds (Jensen and Meckling 1976). Applying pecking other arguments (Lang et al. 1996; Titman and Wessels 1988) argued that growing firms place a greater demand on the internally generated funds of the firm. Consequentially, firms with relatively high growth will tend to issue less debt subject to information asymmetries i.e the use of short-term debt. Ordinarily, this should lead to firms with relatively higher growth opportunities having more leverage.

Many empirical works on financial leverage and firm performance conducted panel studies which involve panel data analyzed with panel or pooled regression. The aggregation of firms under this type of study which gives the fixed and random effects of all the companies in the selection does not take into account the different growth characteristics of each. This may be a reason for the mixed or inconsistent findings.

For instance, Javeed and Tabassan (2018) studies financial leverage and financial performance in Pakistan using a number of listed firms of the Pakistan textile industry. The study period covered 2007-2016. They employed the pooled regression and their result showed positive relationship between leverage and return on asset, sales growth and net profit margin. Whereas leverage has a negative relationship with return on equity. From the same Pakistan, Ali (2020) carried out a study on leverage and financial performance using some listed companies in the Food and Fertilizer sector covering 2008- 2015. His result showed that financial leverage does not have any significant impact on financial performance measured by return on asset. In Nigeria, Ndubuisi, Ifechi & Nweke (2019) studied financial leverage and firm financial performance using non-financial firms listed on the Nigerian Stock Exchange covering the period 2000-2015. Their findings show earnings per share significantly and negatively related to debt-equity ratio and total debt-total asset ratio.

While return on equity show insignificant relationship with financial leverage measures. Much earlier in Nigeria, Enekwe et al (2014) carried out a study on effect of financial leverage on financial performance using some selected listed pharmaceutical companies in Nigeria covering the period 2001-2012. Their findings



show that debt-ratio and debt-equity ratio have negative relationship with return on assets while interest coverage ratio has a positive relationship with return on asset. Ogiriki, Andabai and Bina (2018) in a study of financial leverage and its effect on corporate performance of firms in Nigeria covering the period 1999-2016, have findings that show that return on asset has a positive and significant relationship with long term debt of the selected firms.

With the background established in both the theoretical and empirical literature on the relationship between financial leverage and financial performance, we go ahead to test this relationship using our case study of a growth firm.

3. METHODOLOGY

This study adopted descriptive research design where the population of this study comprised all sixteen (16) DMBs listed on the Nigerian Stock Exchange and operating as at 31st December 2017. Purposive sampling technique was used where sample size of the study was drawn from the population using listing as criteria of filtering. Base on the year of listing of 2012 considered by this study, Jaiz Bank was dropped as not listed as at that year. Data was sourced through the annual reports and accounts of the listed DMBs. Multiple regression technique was used to analyze the data based on the application of panel data from listed DMBs using STATA version 14 software, this is because the OLS-multiple regression explained the variation of the dependent variable due to variation in any of the independent variables. Hair, Black, Babin and Anderson (2010) insisted that multiple regression analysis is the best framework for use with a single dependent variable and multiple independent variables as in this study. Stata software was selected for this study because it is free of errors and one of the most commonly used software in panel data study. The panel data methodology was employed because panel data are more informative, more efficient with higher degree of freedom and lesser collinearity. This is in consistence with the prior studies of Amoako and Asante (2012); and Hossain (2014).

3. METHODOLOGY

Earnings per Share Ratio (EPS)

Pandey, (2014) defined EPS as the market prospect ratio that measures the amount of net income earned per share of stock outstanding. It is computed by dividing net income less preferred dividend by the number of common stock outstanding during the period. It is a popular measure of overall profitability of the company and is expressed as;



$$\text{Earnings per share} = \frac{(\text{Net income} - \text{preference dividend})}{\text{Weighted average numbers of shares outstanding}}$$

Debt Ratio (DR)

Ekwe and Duru (2012) assumed that when external funds are borrowed, example, from banks at a fixed rate, they can be invested in the company and gain a higher return than the interest paid to the bank. This is measured by the total debt to total assets and is a proxy to leverage. It is given as;

$$\text{Debt ratio} = \frac{\text{Total-Debt}}{\text{Total Assets}}$$

Debt to Equity Ratio

Nwude (2003) defines debt to equity ratio as a measure of the proportion of debt to shareholders' funds in the total financing of a business. Items such as accumulated losses and deferred expenditures are eliminated from the shareholders' funds before using it as the denominator. The ratio indicates how much naira was raised as debt for N1 of equity. A high debt to equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expenses as well as volatile cash flow as principal payments on debt come due. If so much debt is used to finance increased operations (high debt to equity), the company could potentially generate more earning per share than it would have without this outside financing. It is calculated as follows;

$$\text{Debt to equity ratio} = \frac{\text{Long-term-debt}}{(\text{Share capital} + \text{reserves})}$$

Interest Cover Ratio

Interest cover measures the ability of the company to meet its obligations to pay Interest (Pandey 2014). It is calculated as;

$$\text{Interest cover ratio} = \frac{\text{Profit before interest and tax}}{\text{Interest charges in the year}}$$

An interest cover ratio of less than 3.0 times is considered very low, suggesting that the company could be at risk from too much debt in relation to the amount of profits it is earning. The risk is that a significant fall in profitability could mean that profits are insufficient to cover interest charges, and the entity will therefore be at risk from any legal action or other action that lenders might take.

The secondary data that contains the financial information of Guinness Nigeria Plc is sourced from the Nigeria Stock Exchange Fact Book and the Annual report and



Financial Statement of the company for the period of 26years which is within 1993 to 2018.

Model Specification

We follow the work of Enekwe et al (2014) to specify a model showing the functional relationship between Earnings per share and its determinant factors as follows;

$$EPS = f (DR, DER, ICR) \dots\dots\dots (1)$$

Explicitly, the model can be specified as;

$$EPS_t = \beta_0 + \beta_1 DR_t + \beta_2 DER_t + \beta_3 ICR_t + \varepsilon_t \dots\dots\dots (2)$$

Where:

EPS = Earnings per Share; DR = Debt Ratio; DER = Debt-Equity-Ratio; ICR = Interest Coverage Ratio

ε_i = Error term

4. DATA ANALYSIS AND DISCUSSION

Descriptive Statistics

Descriptive statistics show us the qualities of the data we are using for estimation, the knowledge of which allow us to define the appropriate methodology for estimation. The table below summarizes the descriptive statistics:

Table 1
Descriptive Statistics

	EPS	DR	DER	ICR
Mean	5.093728	0.935122	0.421126	17.18991
Median	5.487920	0.567453	0.368378	5.355744
Maximum	12.15514	5.732364	0.954648	83.87299
Minimum	-1.338669	0.428481	0.038131	0.000000
Std. Dev.	3.526170	1.319502	0.269037	22.38637
Skewness	0.032686	3.183392	0.612419	1.627235
Kurtosis	2.064635	11.25776	2.304208	4.788654
Jarque-Bera	0.952446	117.7871	2.149715	14.94010
Probability	0.621125	0.000000	0.341346	0.000570
Sum	132.4369	24.31316	10.94928	446.9376
Sum Sq. Dev.	310.8469	43.52714	1.809516	12528.73
Observations	26	26	26	26

From the table 1, EPS represent earnings per share, DR represents debt ratio, DER represents debt equity ratio and ICR represents interest coverage ratio. The



description shows that the average values of EPS, DR, DER and ICR from 1993 to 2018 are 5.09, 0.42, 0.42 and 17.19 while the mid observations of these variables when arranged in ascending or descending order are 5.49, 0.57, 0.37 and 5.36 respectively. The table also indicate that the maximum obtainable values of these variables (i.e., EPS, DR, DER and ICR) given the values of the series from 1993 to 2018 are 12.16, 5.73, 0.95 and 83.87. On the other hand, the minimum values of the aforementioned variables are -1.34, 0.43, 0.038 and 0 respectively.

The standard deviation values showed the extent at which the observations are dispersed around their respective means and the standard deviation to mean ratio of all the variables that are higher than 0.5 suggested a high coefficient of variation (i.e., high dispersion). Also, considering the skewness statistics whose threshold value for symmetry (or normal distribution) is zero, none of the variable is exactly zero (although some are close to zero); all variables are positively skewed since their skewness statistics are greater than zero. On the other hand, the kurtosis value whose threshold is three indicates that DR and ICR are leptokurtic (highly peaked) while EPS and DER is platykurtic (lowly peaked). Although skewness statistics indicate that both EPS and DER are normally distributed and kurtosis value indicates that none of the variables is normally distributed (since it is not closer to 3), neither skewness nor kurtosis can singularly confirm the normality of a series. Hence, since the Jarque-Bera statistics combines skewness and kurtosis properties, it provides more comprehensive information. Following the above highlight on Jarque-Bera, since the probability value of EPS and DER are higher than 5%, it suggests that the hypothesis of normal distribution cannot be rejected for EPS and DER. It also suggests that the DR and ICR are normally distributed since their probability value is less than 5%.

Graphical Analysis

The graphical analysis shows the trends of the series. It shows the movement of the various variables which are the earnings per share, debt ratio, debt-equity ratio and interest coverage ratio over the period of 1993 to 2018.

TRENDS OF DEBT RATIO FROM 1993-2018

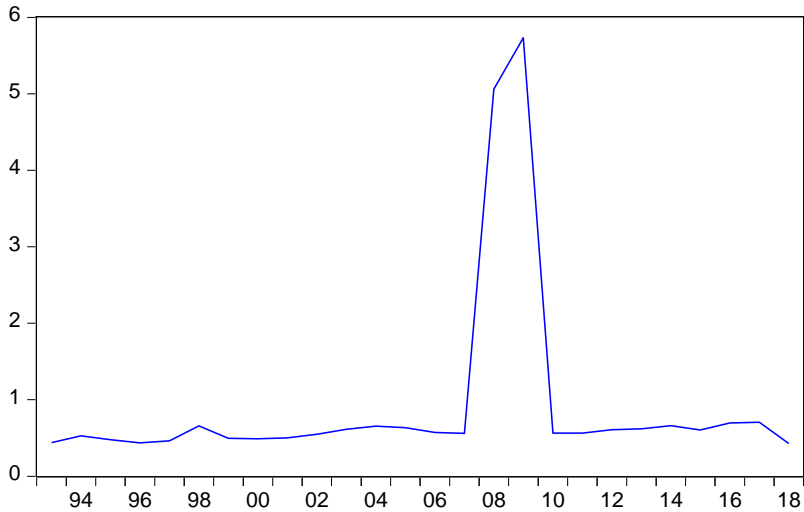


Figure 1: Trend of Debt Ratio from 1993-2018

TRENDS OF DEBT-EQUITY RATIO FROM 1993-2018

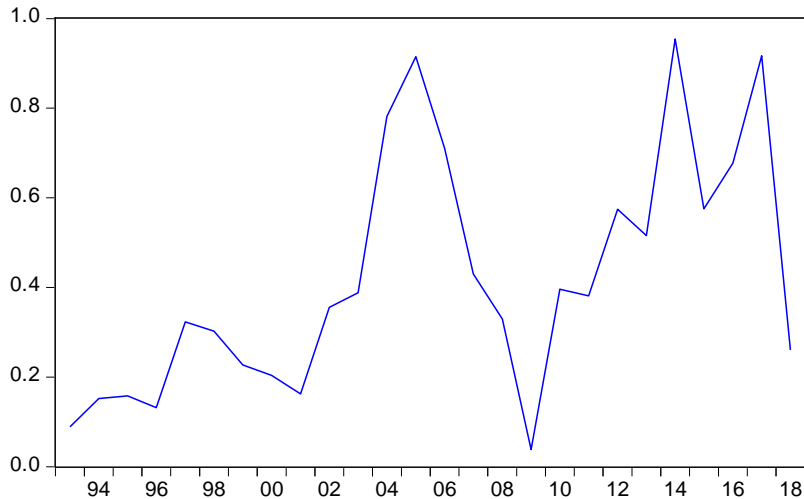


Figure 2: Trend of Debt-Equity Ratio from 1993-2018

Unit Root Test

Table 2
Augmented Dickey-Fuller Test Result

VARIABLE	LEVEL			FIRST DIFFERENCE			I(d)
	MODEL A	MODEL B	MODEL C	MODEL A	MODEL B	MODEL C	
EPS	-0.7531	-1.8219	-1.61831	-4.5397***	-4.4468***	-4.4209	I(1)
DR	-2.2971**	-3.5242**	-3.4843*				I(0)
DER	-1.1664	-2.6425*	-2.8719				I(0)
ICR	-2.8736***	-4.0518***	-4.1453**				I(0)

Source: Authors' Computation

From the ADF test result, debt ratio, debt-equity ratio and interest coverage ratio are stationary at levels form while earnings per share is stationary at first difference.

Co-integration test

Co-integration test is used to detect or check for the presence of long-run equilibrium between or among series. Evidence from the unit root test indicated that all the variables are integrated of the same order except EPS that is, the variables have unit roots. As a result of this, the Johansen (1988) co-integration test is applied to carry out the test. The Johansen co-integration test results are given in Table 4.3 and both test; the trace test revealed that there is 3 co-integration equations at 5% level of significance while max-Eigen test revealed that there is 1 co-integration equation at 5% level of significance, thus the variables in the model have a long-run equilibrium relationship.

Table 3
Johansen Co-integration Test

Hypothesized No. of CE(s)	Trace Statistic	5%critical values	Max-Eigen Statistic	5%Critical Values
None*	67.71865	47.85613	33.18519	27.58434
At most 1*	34.53345	29.79707	20.21793	21.13162
At most 2*	14.31552	15.49471	11.68123	14.26460
At most 3	2.634287	3.841466	2.634287	3.841466

*Max-Eigen tests indicate 3 co-integrating equation at 5% level. Trace Statistic tests indicate 1 co-integrating equation at 5% level. *Denotes rejection of the hypothesis at the 5% level of significance.*

Source: Author's Computation

Table 4
Vector Error Correction Model (short run)

Dependent: Earnings per share

Variables	Coefficient	Standard error	T-statistic
C	0.034213*	0.46772	0.07315
D(EPS(-1))	0.248785	0.24273	1.02495
D(DR(-1))	-0.289706	0.36703	-0.78934
D(DER(-1))	2.744573	2.53823	1.08129
D(ICR(-1))	0.037961**	0.01859	2.04157
ECM(-1)	-0.110977*	0.06827	-1.62561

** indicate significance at 10% level, ** indicate significance at 5% level,*

**** indicate significance at 1% level*

Source: Author's Computation

Having established the presence of a long run relationship between the dependent and independent variables, the short run dynamics was ascertained using the Vector Error Correction Model (VECM) and the results presented in Table 4.4. The VECM was conducted to ascertain if or not all the variations in dependent variable was owing to the co-integrating vectors trying to return to equilibrium and the error correction term that captures this variation. On the long run relationship between dependent variables and earning per share, the error correction model coefficient as shown in Table 4 showed the expected negative sign expressing that there is a tendency by the model to correct and move towards the equilibrium path following



disequilibrium in each period thus, significant error correction is taking place. 11% of the error generated in the previous year is corrected in the current year.

Table 5

Fully Modified Least Squares (FMOLS) Long Run Regression Results

Dependent: Earnings per share

Variable	Coefficient	Std. Error	t-statistic
DR	1.645738**	0.714130	2.304537
DER	4.777137	3.619701	1.319760
ICR	0.050938	0.041180	1.236977
C	0.686221*	2.231182	0.307560

* Indicate significance at 10% level, ** indicate significance at 5% level,

*** indicate significance at 1% level

Source: Author's Computation

Table 5 presents the long run regression co-efficients of debt ratio, coverage ratio and earnings ratio. The debt ratio co-efficient indicates, for every 1% increase or decrease in debt ratio there will be a corresponding increase or decrease of 1.65% on earnings per share of the sampled organization. This shows that there is a positive relationship between debt ratio and earnings per share in the long run.

The regression co-efficient of debt equity ratio in the estimated regression is 4.78%, which shows a positive but not significant relationship with earnings per share. The value of the regression co-efficient of interest coverage ratio indicates that, for every one percent increase in interest coverage ratio there will be a corresponding increase of 0.051% on earnings per share. This shows that there is a positive relationship between interest coverage ratio and earnings per share.

Discussion of Findings

Our focus was to establish the relationship between leverage and financial performance using different leverage indicators for a growing firm. We established that a growing firm is one that shares its profits after tax between dividends paid and retained earnings with a larger portion going to retained earnings. A growing firm has a policy of continuous expansion of business as such will need to complement equity capital with external capital. Arising from the conflict in literature on the relationship between leverage and financial performance, we sought to examine the effect of leverage on financial performance of our growing firm using different proxies for leverage. The following observations are made from our findings.



First, in the short run, the interest coverage ratio had a significant positive effect on earnings per share whereas in the long run, only the debt-ratio had significant positive effect on earnings per share. Second, the debt equity ratio had no significant effect on earnings per share for our growth firm either in the short run or in the long run. Our findings on debt ratio align with that of Kartikasari and Meriah (2016) who used debt ratio as a proxy for leverage when studying the effect of leverage and firm size on profitability of public manufacturing companies in Indonesia. Their findings reveal that debt ratio has significant positive effects on profitability which was proxied with return on asset. This is also consistent with the works of Devi and Devi (2014); Singparwoko and El wahid (2011). The insignificant positive effects of the debt-equity ratio in our growth firm, aligns with the position of Mostafa and Boregowda (2014). The significant positive effects of interest coverage ratio on earnings per share in the short run aligns with the position of Enekwe et al (2014) which shows that interest coverage ratio (ICR) has a positive relationship with financial performance Return on Assets (ROA) as proxy.

5. CONCLUSION AND RECOMMENDATIONS

Debt ratio and interest coverage ratio have been identified in our work as the different leverage proxies that significantly affects the financial performance of a growing firm at different stages of their growth. Therefore, we can safely conclude that the conflicting findings observed in the extant literature on leverage and financial performance of companies in Nigeria may be as a result of the different proxies used to represent the major variables for the different categories of firm samples used. When a growth firm or a set of growth firms is used, the debt ratio and interest coverage ratios may be found to have significant effects whereas, when a 'no growth or 'normal' firm is used, the result may be different.

Similar studies on corporate leverage and financial performance could be done to cover more years in order to have a longer span of the short run to the long run of a growth firm. More facts may emerge on the characteristics of the leverage and profitability variables not observed in this work. Further, future studies can use different proxies for financial performance combined with the different proxies for leverage. Studies on the relationship between leverage and financial performance should recognize the 'growth' factor which represents the different stages of development and expansion for each firm. Growth characteristics of each company should be ascertained before companies are lumped together in panel studies. It must



be ensured that they possess similar growth characteristics, otherwise, firms should be evaluated separately on a case-by-case basis using time series.

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