

**SHORT TERM DEBT AND FINANCIAL PERFORMANCE OF LISTED OIL AND GAS FIRMS
IN NIGERIA****Dr Kaine Awuli Horsfall****Department of Accountancy, Faculty of Business Studies****Ignatius Ajuru University of Education, Port Harcourt, Rivers State, Nigeria****ABSTRACT**

The study unveiled some salient relationship between debt structure and financial performance of listed oil and gas firms in Nigeria for the period 2008-2107. The aim of this study is to empirically ascertain the effect of debt structure on profitability of listed oil and gas firms in Nigeria. The study has contributed to the empirical body of literature on debt structure and financial performance of listed oil and gas firms in Nigeria. It aids to understanding the relationship between institutional factor on Nigerian firms debt structure and the proportionate effect on financial performance. More so, short term debt (STD) was found to have negative significant effect on financial performance on ROCE, with a positive relationship on NPM of listed oil and gas firms in Nigeria. The study therefore, concluded that short term debt is one of the strong determinants of the financial performance of listed oil and gas firms in Nigeria. The study recommends that further work is necessarily required in other sectors in Nigerian economy along with developing new hypothesis and also to design new variables to reflect the institutional influences. In addition, another work is needed urgently to lay a solid foundation on the resultant relationship between the use of equity and financial performance of list firms (oil & gas) in Nigeria using the same period of study along with different proxies as measures of financial performance.

Keywords: Short Term Debt, Debr Structure, Financial Performance, Oil and Gas

INTRODUCTION

Notably, one of the most prominent issues in corporate and financial business world today is tied closely with the issue of funding. The issue of inadequate capital remains a major challenge among business in Nigeria; as such business and corporate organizations are constantly searching for means to expand in their operations in order to deliver quality of services, increase revenue, maximize shareholders-wealth and protection of stake-holders interest while new businesses seek divergent means of raising adequate capital (fund) to start operations. In a normal course of everyday business operation, management is obliged to source for fund for its business operations as a sign or signal of good management plan or strategy. Again in business operation, a firm performs finance and accounting functions simultaneously and continually. The finance function calls for skillful planning, control and execution of a firm's activities. Financing and investment decision are viewed as the most important functions to be performed as well as decisions areas that confront financial manager's in an organization. In the financing decision, management is confronted with determining the best financing mix (equity/debt) for the business as well as knowing the associated risk.

The financing mix decision is the use of equity and debt a company puts to use in financing its business operations. The theory of capital structure and its relationship with firm's performance has been an issue of great interest and concern in corporate finance and accounting literature since after the seminar work presented by Miller and Modigliani (1958). Capital structure depicts the major claim to corporation assets including equities and liabilities (Riahi, Belkaoni, 1999). However, in the seminar presented by Miller and Modigliani (1958), they argued that under restrictive assumptions of perfect capital market, investor's homogenous expectations, tax-free economy and no transaction cost that capital structure is irrelevant in determining firm's value but in a reverse view, their position changed when they considered the involvement of corporate tax, transaction cost and no tax-free economy. Tax savings resulting from interest paid on debts creates

value for the firms. Capital structure can take in the form of 100% debts: 0% equity, 100% equity: 0% debts, x% debts: y% equity or x% equity: y% debts. Option one 100% debts: 0% equity represents a case in an organization where the firm's capital structure is debts and with no equity. This option in a sense is unrealistic or possible in a real life economy situation due to the fact that, no reasonable provider of fund with business oriented will invest or risk his money in such firm without equity capital. Option two is a situation where a firm chooses to overlook the advantages of leverage (if any). However, option three seems most realistic in such that, it combines a certain percentage of equity and debt element in the capital structure and in returns, the merit of leverage (if any) is enjoyed.

Debt Structure

The theory and concept of capital structure and its relationship with firm's performance has been a very serious controversy as such have become an issue of great concern/interest in corporate finance and accounting literature since after the seminar work presented by Modigliani and Miller (1958). By definition, "capital structure is the combination of debt and equity securities that compromise a firm's financing of assets" (John J. Hamptom). Modigliani and Miller (1958) in their seminar raised an argument under certain conditions that "the choice of debt and equity does not affect the firms value, thus capital structure being irrelevant proposition includes a situation where there are no taxes, no transaction costs in the capital market and no information cost among players; but in a reverse notion, their position changed when they considered the involvement of corporate tax, transaction cost and that in real practice, no economy is tax-free. Ever since, financial theorists have strived severally to give possible explanation for the financing decisions of firms (Harris & Raviv, 1991; Myers, 1984). Myers and Brealey (2003) in their opinion assert that "in terms of the appropriate mix, it will be improper to say that more debt is always better or equity better. However debt may be better than equity in some cases and worse in some cases vice versa" In clear terms many financial policies are associated with their own peculiar risk pattern and character. In today's business world with rapid development has led to series of discourse, argument and confusion, yet most of the worries are still not provided with solutions. Harries and Raviv (1991), states that "dynamic use of debt has received little attention in the vast theoretical literature on capital mix" Nonetheless, Pandey (1999) states that "capital structure gives an appropriate relationship between long-term debt and equity".

Short Term Debt

This measures the way in which a company's short-term debts must be paid within an accounting period. Some scholars have argued that the shorter the debt, the better the company will improve its performance. "Short-term debt is a measure of the company's financial leverage. Indicates what percentage of the assets is financed with short-term debt. Short-term debt is a debt that must be paid within 12 months or less and is not included in the figure of long-term liabilities in the balance sheet. Includes creditors and accumulations" (Akinyomi, 2013) "Short-term debt represents the financial position of the company's ability to meet its current financial requirements payable within one accounting year. Shows the percentage of company assets financed with loans and other financial obligations that last more than a year" The short-term debt ratio is calculated by dividing current liabilities by total assets. Both numbers are easily available in the balance sheet. A lower debt ratio generally implies a more stable activity with the potential for longevity since a company with a lower ratio also has a short-term debt. Furthermore, it was further debated that "short-term debts adversely affect the profitability of the companies due to the fact that they are exposed to refinancing risk" (Khalaf, 2013, Nerrender, et al, 2007; Pratheepkanti, 2011; Shah et al, 2011 , Onalaporkajola, 2010; Pandey, 2001, Stohs & Mauer, 1996). Based on this, it is expected that the debt maturity index (short-term debts) will have a significant effect on the company's profitability in the oil and gas industries in Nigeria due to the effectiveness of the bank deposit policy.

Concept of Performance Measurement

The concept of performance measurement has commonly been considered put together a measure that showcases "an operational control and derived from statutory financial reporting (Kuwaiti, 2004). Authors like Gomes et al 2011 was of the view that the prime aim of performance measurements is to assist planning and ensure that operations are effectively carried out in line with firm's objectives. Meanwhile it was observed that, in modern day time, performance measurement goes beyond simply ascertaining business position for external reporting purposes, but encompasses several measures that translate the prospect of the firm (internally & externally) into his ability to continue as a going concern" Thus according to Bala and Cook, (2003), "the traditional measurement system encounters serious setback by its limitations to measure past, present and future trends as well as firms performance due to its sided measures" Based on the foregoing limitations as well as the setbacks in the traditional measurements of performance, Bala and Cook, (2003) suggested "the use of other measurement tools such as, Data Envelopment Analysis (DEA) which in addition to comprehensive measurement" This observation was supported by Dervitsiotis (2004), where he concludes that "the traditional measurement system used by management for management decision making needs complete overhauling as it only measure the past and current business condition not minding the appropriateness of various measures linked with business changing environment" It was also observed that majority of challenges are associated by managers, employees, and other stakeholders including potential investors lie in the heart of poor measurement system which normally affects expectations and outcomes (Dervitsiotis, 2004). Therefore for sustainability, firms need to perform to expectation of their customers, suppliers and other stakeholders. According to Kotler, (1984), for a business to perform well, it requires satisfying the needs of its customers more than its competitors. Hence, the concept of performance itself in this regard refers to the extent to which a firm operates efficiently and effectively.

Empirical Review

A lot have been said about debt structure and its relationship with the firms performance (profitability). However, it will be improper as well as incomplete of this study without looking at some critical contributions of eminent scholars on the subject matter alongside with the various methodologies adopted and the findings of their studies as concerns this present study. This aspect is necessarily important as it enable the researcher to identify appropriate gap to explore and to get a glimpse of some previous recommendations made as well as further studies.

Ahmad, Abdullar and Roslan (2012) conducted a study in Malaysia that sought to "investigate the impact of the capital structure on the company's performance by analyzing the relationship between asset performance (ROA), capital performance (ROE) and debt to short term and total debt" The study established that short-term debt and long-term debt had a significant relationship with ROA. It was also established that the ROE had a significant relationship with short-term debt, long-term debt and total debt.

Booth et al (2001) examined data from "10 developing countries to assess whether capital structure theories are portable in countries with different institutional structures" The study examined whether the stylized facts, which were observed in the studies of developed countries, could be applied only to these markets or whether they have a more general applicability. The results are somewhat skeptical of this premise. They provide evidence that the capital structure options of companies in developing countries are influenced by the same variables as developed countries. However, there are persistent differences in the institutional structure between countries that indicate that country-specific factors are working. Their results have suggested that although some of the ideas of modern financial theory are portable in all countries, much remains to be done to understand the impact of different institutional options.

Ebaid's study (2009) partially agreed with Ahmad et al (2012). In the study, "Ebaid attempted to establish the link between the debt level and the financial performance of companies listed on the Egyptian stock exchange. The study used asset performance, equity performance and gross profit margin as dependent variables and short-term debt, long-term debt and total debt as independent variables. The results of the study showed that there was a negative impact of short-term debt and total debt on asset performance (ROA). The study also concluded that there was no significant relationship between long-term debt financing and ROA. Ebaid also concluded that there was an insignificant relationship between total debt, short-term debt and long-term debt and financial performance measured by gross profit margin and ROE"

Adaramola, Sulaimon and Fapetu (2005) objected to establishing "a realistic relationship between the capital structure and the corporate performance of publicly listed companies in Nigeria. They use data from the panels of fifty listed companies for 2002. The data were subjected to different tests through different panels. The panel one included data from banking and non-banking companies, panel two contains data from 25 non-banking companies, while panel three contains 25 banking companies" The study uses the estimation model of the ordinary least squares regression (MCO) to analyze the variables (earnings per share (EPS), in relation to financial leverage, weighted average of the cost of capital (WACC) and commercial risk. The structure of the capital did not have a significant impact on the value of non-banking companies, since all the explanatory variables used in the panel for non-banking companies were not statistically significant from zero. On the contrary, the result shows that, "the value of the banking firms is positively affected by its capital structure. The concept of optimal capital structure is inapplicable to Nigerian banking institutions"

David and Olorunfemi (2010) carried out "an investigation on the relationship that exist between earnings per share (EPS) and leverage ratio and dividend per share (DPS) and leverage ratio in Nigerian petroleum industry" The study employs panel data analysis using pooled regression estimation, fixed-effect estimation, random-effect estimation and maximum likelihood estimation. They observed "a positive relationship between earnings per share (EPS) and leverage ratio and dividend per share (DPS) on leverage ratio"

Ogebe, Joseph and Kemi (2013), sort to "investigate the impacts of capital structure on firm performance in Nigeria from 2000 to 2010" The study anchored on the traditional theory of capital structure to determine the significance of leverage and macroeconomic variables on firm's performance. More so, the study made a comparative analysis of the selected firms classified into highly and lowly geared firms setting a leverage threshold of above 10% as being highly geared. "A static panel analysis was used to achieve the objectives of the study, using fixed effect regression estimation model, where a relationship was established between performance (provide by return on investment (ROI) and leverage of the firms over a period of ten years. The result theory of capital structure which asserts that leverage is a significant negative relationship was established between leverage and performance. The study again in the findings recommended for firms to use more of equity against debt in financing their business activities"

De Miguel and Pindado (2001) analyzed "the characteristics of society that are determinants of the structure of capital according to different explanatory theories and how institutional characteristics influence the capital structure options in Spanish companies" The study develops an objective adjustment model when studying the debt of Spanish companies in terms of adjustment to their objective debt level which was confirmed by the empirical evidence of the study. "The study used data from panels of Spanish companies not listed on the stock exchange, obtained from the CNMV database (Spanish Commission for Security Exchange) for the period 1990-1997. The econometric analysis used in the study was the estimation of the dynamic model with predetermined variables using a moment generalization method (GMM). The model is estimated using the DPI (Dynamic Panel Data) program. Empirically, the results are consistent with tax theories and financial difficulties and the interdependence between the investment and

the financing decision. Furthermore, the result provides further evidence on hierarchical order theory and free cash flow theories. Once again, the study showed that Spanish companies incur considerable transaction costs when they decide to adjust their debt ratio in the period preceding the target level in the current period. However, the author considered that the transaction costs were lower than those of US companies"

Chowdhury and Chowhury (2010) have studied "the impact of the capital structure on the value of the shares of listed companies in Bangladesh. The study aimed to provide a statement on the extent to which a company's capital structure can deviate and how the value of the company changes accordingly. The study analyzed 77 companies from the four most dominant sectors of the capital market of Bangladesh. The study adopted the fixed effect of the cross section and time series to analyze the available data to determine the impact of the capital structure on the value of the companies (pressed by the price of the market share). The transverse regression analysis measures these observations at the same time or during the same period, but they differ in another dimension. The model adopted the value of the company (share price) as a dependent variable"; The size of the company, profitability, public ownership of the capital structure, dividend payments, operating and capital efficiency, growth rate, liquidity and business risk were considered independent variables. Size of the company represented by the share capital, profitability measured by EPS, percentage of public ownership, capital structure presented by the relationship between long-term debt and total assets, payment of cash dividends, efficiency close to the rotation of fixed assets, growth rate measured by the sales growth rate, liquidity measured with the current index and commercial risk presented by the operating leverage. The study recognized all the independent variables as representing the decision on the capital structure of the respective companies. The study establishes, based on the results, "a strong positive correlation between the capital structure of the company and the value of the company expressed by the price of the market share"

CONCLUSION

Based on the discussion and analysis in the preceding chapter, the following conclusions were made:

Short term debt (STD) was found to have negative significant effect on financial performance on ROCE, with a positive relationship on NPM of listed oil and gas firms in Nigeria. The study therefore, concluded that short term debt is one of the strong determinants of the financial performance of listed oil and gas firms in Nigeria.

Additionally, the study found a negative but significant relationship between Equity and financial performance proxies by NPM, ROCE of listed oil and gas firms in Nigeria. Thus, the study concluded that Equity is amongst the determinants of the financial performance of listed oil and gas firms in Nigeria.

RECOMMENDATIONS

In line with the findings of the study, the following recommendations are made:

- i. The management of Nigerian listed oil and gas firms should work very hard to optimize the debt structure of their firms in order to increase the financial performance. They can do that through ensuring that their debt structure is optimal.
- ii. The management of Nigerian listed oil and gas firms should increase their commitments into short term debt (STD) in order to improve financial performance positively.
- iii. Stakeholders of listed oil and gas firms in Nigeria to reduce the level of long term debt (LTD) of any firm in order to improve financial performance. This is in line with the findings of this study that revealed a negative/positive significant relationship between and long term debt on financial performance (ROCE, NPM) of listed oil and gas firms in Nigeria.

REFERENCES

- Adaramola, A. O., Sulaiman, L. A. & Fapetu, D (2005), Capital structure and corporate performance: An empirical investigation, *Nigerian Journal of Banking and Financial Issues*, 6, 40 -55.
- Akinyomi, O.J. (2013). Relationship between capital structure on firm performance: evidence from Nigeria manufacturing industry. *International Journal of Innovation Research and Studies*, 2(9), 1-13.
- Booth, L., Aivaziam, V., Demirguc-Kunt, A., & Maksimovic, V. (2001). Capital structure in developing countries. *Journal of Finance*, 56, 87 - 130
- Chowdhury, A. & Chowdhury, S.P. (2010). Impact of capital structure on firm's value: Evidence from Bangladesh, *Business and Economic Horizons*, 3(3), 111-122
Comparative Study", *International Finance Corporation Technical Paper, No. 2*, Washington DC, USA
Countries", *International Finance Corporation Technical Paper, No.1*, Washington DC, USA.
- David, D. F. & Olorunfemi S. (2010), Capital Structure and Corporate Performance in Nigeria Petroleum Industry: Panel Data Analysis, *Journal of Mathematics and Statistics*. 6(2): 168-173.
- De Miguel, A. & Pindado, J. (2001). Determinants of capital structure: New evidence from Spanish panel data. *Journal of Corporate Finance*. 7, 77 – 99.
- Ebaid, E. I. (2009). The impact of capital-structure choice on firm performance: empirical evidence from Egypt. *The Journal of Risk Finance*, 10(5): 477-487.
- Harris, M. & Raviv, A. (1991). The theory of capital structure. *Journal of Finance*. 48, 297 – 356.
- Khalaf, A. (2013). The relationship between capital structure and firm performance: Evidence from Jordan. *Journal of Finance and Accounting*, 1(3), 41-45.
- Miller M.H. (1977). Debt and taxes. *The Journal of Finance*. 32, 262 – 275.
- Myers, S. C. (2001). Capital structure. *The Journal of Economic Perspective*. 15(2), 81 - 102.
- Pandey, I. M. (1999), *Financial Management*, New Delhi, India, Vikas Publishing House, PVT Ltd.
- Riahi-Belkaoni, A (1999), *Capital structure: Determination, Evaluation and Accounting*, Westport, Quorum Books Publisher.