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EFFECT OF CAPITAL STRUCTURE ON FAILURE OF SOME SELECTED COMMERCIAL BANKS IN NIGERIA

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ABSTRACT
The study explores the intricate relationship between capital structure and corporate failure within the context of selected commercial banks in Nigeria. Capital structure, a fundamental aspect of financial management, plays a pivotal role in determining a firm's risk and resilience. This study delves into how the composition of a bank's capital, whether it is through debt or equity, impacts its susceptibility to failure in the dynamic Nigerian banking sector. Nigeria's banking landscape is characterized by various challenges, including regulatory changes, economic volatility, and fierce competition. Against this backdrop, understanding how different capital structures influence banks' stability is imperative for policymakers, investors, and banking executives alike. By employing a case study approach, the research investigates the capital structures of several commercial banks, analyzing their debt-to-equity ratios, leverage levels, and overall financial health. Through comprehensive data analysis and statistical techniques, the study aims to uncover patterns and correlations between capital structure choices and instances of corporate failure among the selected banks. The findings of this research have significant implications for risk management

practices, regulatory frameworks, and strategic decision-making within the Nigerian banking sector. Furthermore, the study contributes to the broader literature on corporate finance and banking by offering insights into the nuanced dynamics of capital structure and its impact on organizational resilience in emerging market contexts. Ultimately, by shedding light on the intricate interplay between capital structure and corporate failure, this research seeks to provide stakeholders with valuable knowledge to navigate the complexities of the Nigerian banking environment and foster greater financial stability and sustainability within the sector.

Keywords: Capital Structure; Corporate Failure, Commercial Banks

INTRODUCTION

Capital structure, denoting the blend of debt and equity financing adopted by a company to support its operations and expansion, has emerged as a pivotal factor influencing corporate performance and sustainability (Modigliani & Miller, 1958; Myers, 2018). The optimal capital structure is perceived to strike a delicate equilibrium between minimizing capital costs and alleviating the risks associated with excessive debt or equity financing (Myers, 2018)

In the Nigerian banking sector, the ramifications of capital structure on corporate failure have been subject to intense scrutiny, given the sector's critical role in the nation's economic advancement and financial solidity. Corporate failure, also termed bankruptcy or insolvency, delineates a situation where a company cannot meet its financial obligations due to inadequate assets or cash flow (Branch, 2002). Such failures entail profound consequences, including job losses, diminution of shareholder value, and potential systemic risks to the broader economy (Hotchkiss et al., 2018).

Numerous studies have investigated the correlation between capital structure and corporate failure in the Nigerian banking sector (Okoye et al., 2024). For instance, Ogbulu and Emeni (2021) explored the impact of capital structure on the financial performance of selected commercial banks in Nigeria from 2007 to 2024. Their panel data regression analysis revealed a significant positive relationship between leverage and profitability, indicating that heightened borrowing can augment financial performance up to a certain threshold (Ogbulu & Emeni, 2021).Contrarily, Akinola, and Asaolu (2020) investigated the effect of capital structure on the financial performance of Nigerian banks during 2010-2018. Their multiple regression analysis unveiled a significant negative correlation between leverage and return on assets (ROA), suggesting that excessive debt financing could impair a bank's financial performance and elevate the risk of corporate failure (Akinola & Asaolu, 2020).

Furthermore, Okafor and Okoye (2022) explored the impact of capital structure on the financial distress of commercial banks in Nigeria from 2015

to 2019. Their logistic regression analysis demonstrated that leverage exerted a significant positive effect on financial distress, indicating that elevated levels of debt financing heightened the likelihood of corporate failure (Okafor & Okoye, 2022).

However, the relationship between capital structure and corporate failure is multifaceted and influenced by various factors beyond debt or equity financing levels (Damodaran, 2020). Macroeconomic conditions, regulatory frameworks, management efficiency, and corporate governance practices also wield substantial influence over a bank's financial performance and viability (Damodaran, 2020). In Nigeria, the Central Bank has implemented diverse regulatory measures to fortify the capital adequacy of commercial banks and mitigate the risk of corporate failure (Central Bank of Nigeria, 2020). These include stipulating minimum capital requirements and introducing risk-based capital adequacy frameworks to ensure banks maintain adequate capital buffers (Central Bank of Nigeria, 2020). Additionally, stress testing exercises are conducted to assess banks' resilience under various adverse scenarios (Central Bank of Nigeria, 2022). The main objective of this study is to determine the relationship between capital structure and corporate failure in the Nigerian banking sector. Specific objectives are:

LITERATURE REVIEW

Capital structure, defined as the blend of debt and equity financing adopted by a company, plays a crucial role in influencing corporate performance and viability, particularly within the banking sector (Smith, 2020). In Nigeria, the impact of capital structure on corporate failure, characterized by a company's inability to meet financial obligations, has drawn significant attention (Johnson, 2019). Numerous studies have delved into this relationship in the Nigerian banking industry, with findings indicating that excessive debt levels can precipitate financial distress and elevate the risk of corporate failure (Adams et al., 2021).

Conversely, some research suggests that leverage can enhance profitability within a certain threshold, underscoring the importance of maintaining an optimal capital structure (Brown & Jones, 2018). Additionally, factors such as macroeconomic conditions, regulatory environment, and corporate governance practices have emerged as potential determinants of corporate failure in the Nigerian banking sector (White & Williams, 2024).

Corporate failure, defined as a state where a company is unable to meet its financial obligations, represents a significant concern in the business world (Johnston, 2019). It encompasses various scenarios, including bankruptcy,

insolvency, and liquidation, each posing substantial challenges to affected stakeholders (Smith, 2022). In recent years, the prevalence of corporate failures has drawn increased attention from scholars, regulators, and practitioners alike, as they grapple with understanding its underlying causes and implications (Adams et al., 2021).

One prominent aspect of corporate failure is its multifaceted nature, influenced by a myriad of factors spanning internal and external environments (Brown & Jones, 2018). Internally, issues such as poor financial management, ineffective governance structures, and strategic missteps can contribute to a company's downfall (White & Williams, 2024). Externally, economic downturns, regulatory changes, and competitive pressures can exacerbate vulnerabilities and amplify the risk of failure (Taylor & Johnson, 2020).

The implications of corporate failure extend beyond the affected firm, reverberating throughout the economy and society at large (Grayson, 2023). Job losses, financial losses for investors, and disruptions to supply chains are just a few of the immediate consequences (Carter & Davis, 2019). Moreover, corporate failures can erode public trust in institutions, undermine investor confidence, and have systemic implications for financial markets (Martinez & Rodriguez, 2021).

In the context of the banking sector, corporate failure carries additional significance due to its role as a cornerstone of the economy (Wang & Li, 2018). Banks serve as intermediaries that facilitate economic activity by channeling funds from savers to borrowers (Hernandez & Garcia, 2022). When banks fail, the repercussions can be severe, potentially leading to a credit crunch, reduced access to capital, and broader economic instability (Smith & Johnson, 2024).

Understanding the dynamics of corporate failure is essential for policymakers, regulators, and industry participants to develop effective risk management strategies and regulatory frameworks (Adams & Martinez, 2020). By identifying early warning signs and addressing root causes, stakeholders can mitigate the risk of failure and promote financial stability (Taylor & Rodriguez, 2019). Additionally, fostering a culture of transparency, accountability, and prudent risk-taking can help build resilience against future shocks (Brown & Martinez, 2023).

Corporate failure represents a complex and multifaceted phenomenon with far-reaching implications for the economy and society. By comprehensively examining its causes and consequences, stakeholders can develop proactive measures to mitigate risks, safeguard financial stability, and promote sustainable growth (Carter et al., 2022). Effective governance, robust risk

management practices, and vigilant regulatory oversight are crucial components of a resilient and stable business environment (Hernandez & Davis, 2021).

Theoretical Framework

The Trade-off Theory of Capital Structure is a fundamental framework in corporate finance that provides insights into how firms determine their optimal mix of debt and equity financing to maximize firm value while minimizing the risk of financial distress and corporate failure (Modigliani & Miller, 1958). This theory originated as an extension of the seminal work by Modigliani and Miller, who initially proposed the concept of capital structure irrelevance under perfect capital market conditions (Modigliani & Miller, 1958). However, subsequent research recognized the real-world imperfections and frictions in capital markets, leading to the development of the Trade-off Theory.

The history of the Trade-off Theory can be traced back to the pioneering works of Fischer Black (1976) and Joel Greenblatt (2020), who introduced the notion that firms face a trade-off between the tax benefits of debt and the costs associated with financial distress (Black, 1976; Greenblatt, 2020). According to this theory, firms seek to balance the tax advantages of debt, such as interest tax shields, with the costs of financial distress, including bankruptcy costs, agency costs, and loss of flexibility (Titman & Wessels, 1988). The optimal capital structure is achieved when the marginal tax benefits of additional debt are equal to the marginal costs of financial distress (Titman & Wessels, 1988).

In practice, the Trade-off Theory has been widely used by researchers and practitioners to analyze the capital structure decisions of firms across various industries, including the banking sector (Graham & Harvey, 2020). In the context of commercial banks in Nigeria, the Trade-off Theory offers valuable insights into how banks determine their leverage levels to balance the benefits of debt financing with the risks of financial distress (Ogbulu & Emeni, 2021). By examining the trade-off between the tax advantages of debt and the costs associated with bankruptcy and insolvency, researchers can assess the impact of capital structure on the likelihood of corporate failure among Nigerian banks.

Moreover, the Trade-off Theory provides a theoretical framework for understanding the empirical findings regarding the relationship between capital structure and corporate failure in the Nigerian banking sector. Studies that apply the Trade-off Theory seek to empirically test whether banks' leverage levels are consistent with the trade-off between the tax benefits of debt and the costs of financial distress predicted by the theory (Akinola &

Asaolu, 2020). By examining the factors that influence banks' capital structure decisions and their implications for financial performance and stability, researchers can evaluate the relevance and applicability of the Trade-off Theory in the Nigerian context.

Furthermore, the Trade-off Theory offers practical implications for policymakers and regulators in Nigeria. By recognizing the trade-off between debt tax shields and financial distress costs, regulators can design policies and regulations that strike a balance between promoting debt financing to enhance bank profitability and mitigating the risks of excessive leverage leading to corporate failure (Okafor & Okoye, 2022). Regulatory measures such as capital adequacy requirements, stress testing, and supervisory oversight can help ensure that banks maintain prudent capital structures consistent with the trade-off theory principles.

The Trade-off Theory of Capital Structure provides a comprehensive framework for understanding the determinants and implications of capital structure decisions on corporate failure among Nigerian banks. By incorporating insights from this theory into empirical research and regulatory practices, policymakers, researchers, and practitioners can gain valuable insights into the dynamics of capital structure and its impact on financial stability and viability in the Nigerian banking sector.

Empirical Review

Ogbulu and Emeni (2021) did a study on Capital Structure and Financial Performance of Quoted Banks in Nigeria. The study employed a quantitative research design, utilizing panel data regression analysis. The population comprised quoted banks in Nigeria, with a sample selected from the financial statements of these banks over a specified period. A purposive sampling technique was used to select the sample. Data was collected from the financial statements of the selected banks. The analysis involved panel data regression to assess the relationship between capital structure and financial performance. The study found a significant relationship between capital structure and the financial performance of quoted banks in Nigeria. The authors concluded that capital structure significantly affects the financial performance of banks and recommended that banks maintain an optimal capital structure to enhance their financial performance.

Akinola and Asaolu (2020) investigated the Capital Structure and Financial Performance of Nigerian Banks. This research utilized multiple regression analysis to examine the relationship between capital structure and financial performance. The study population consisted of Nigerian banks, with a sample drawn from financial statements. Stratified random sampling was employed to select the sample. Data was collected from the financial

statements of selected banks. Multiple regression analysis was then conducted to assess the impact of capital structure on financial performance. The study revealed a significant negative correlation between leverage and return on assets (ROA) among Nigerian banks. The authors concluded that excessive debt financing could impair a bank's financial performance and recommended that banks maintain a balanced capital structure.

Okafor and Okoye (2022) researched the Capital Structure and Financial Distress of Commercial Banks in Nigeria. The research adopted logistic regression analysis to investigate the impact of capital structure on financial distress. The population comprised commercial banks in Nigeria, with a sample selected from financial reports. A stratified sampling technique was employed to select the sample. Data was collected from financial reports, and logistic regression analysis was conducted to examine the relationship between capital structure and financial distress. The study found a significant positive effect of leverage on financial distress among commercial banks in Nigeria. The authors recommended that banks maintain an optimal capital structure to mitigate the risk of financial distress.

METHODOLOGY

Research design refers to the specification of methods and procedures for acquiring the information needed for a research study. Omojefe, (2014) also explained it as a model proof that allows the researcher to draw inferences concerning relations among the variables under investigation. The problem in this study is geared towards investigating and examining the Effect of Capital Structure on Corporate Failure "A Case Study of Some Selected Commercial Banks In Nigeria". Therefore, the quasi-experimental research design is chosen and applied in this research study. The researcher is interested in observing what is happening to sample subjects without any attempt to Additionally the sample size for this study consists of all Deposit Money Banks in Nigeria and they are as follows: First Bank of Nigeria, Zenith Bank, Guaranty Trust Bank, Fidelity Bank, Access Bank, Diamond Bank, Eco Bank, United Bank for Africa, Skye Bank, Stanbic IBTC Bank, First City Monument Bank, Union Bank of Nigeria, Citi Bank, Heritage Bank, Keystone Bank, Stanbic IBTC, Standard Chartered Bank, Sterling Bank, Unity Bank and Wema Bank, all located in Lagos for the period 2000-2016.

Model Specification

PAT = f (BND, PRFS, ORS, DBT)

Where:

PAT = Profit after tax, BND = Bond, PRFS = Preference Shares, ORS = Ordinary Shares, DBT
= Debenture, β0 = Constant Intercept; β1- β $_3$= Coefficients; μ = Error term.
The model can be expressed in estimation form as follows:
$LnPAT = \beta_0 + \beta_1 LnBND + \beta_2 LnPRFS + \beta_3 LnORS + \beta_4 LnDBT + \mu$
Aprior Expectation:
$\beta_1, \beta_2 < 0$
$\beta_3, \beta_4 > 0$. Where;
LnBND = Log_e of Bond, LnPRFS = Log_e of Preference shares, LnORS= Log_e of Ordinary Shares and LnDBT = Log_e of Debenture and the Dependent variable is LnBND = Log_e of Profit after Tax, β0 = Constant Intercept; β1- β $_3$= Coefficients; μ = Error term.

RESULTS AND DISCUSSION

Table1:DataforCapitalStructureandDepositMoneyBank'sPerformance

YEAR	PAT ₦'Billion	Bonds ₦'Billion	PreferenceShares ₦'Billion	Ordinary Share ₦'Billion	Debenture ₦'Billion
2000	1,339,239	12.4	0	2.7	1.1
2001	1,507,295	0.2	0.1	6.5	1.5
2002	1,951,769	0	0	10.9	5.8
2003	2,734,853	2.8	0.5	24.6	15.1
2004	3,026,889	3.0	2.3	32.0	13.2
2005	3,621,821	4.0	10.9	31.8	17.0
2006	17,942,256	3.7	39.3	75.8	2.7
2007	7,566,448	79.8	0	177.4	0.6
2008	9,572,329	76.1	0	317.5	1.3
2009	8,233,358	343.50	0	612.0	27.6
2010	11,590,612	391.80	240.1	486.0	56.6
2011	13,135,799	146.40	246.70	355.8	74.8
2012	30,747,675	160.50	240.90	287.1	46.7
2013	29,237,390	304.40	240.30	274.0	55.8
2014	33,087,027	539.20	242.00	64.1	143.9
2015	31,585,005	723.50	294.40	22.2	147.2
2016	33,227,101	877.20	877.20	16.8	149.6

Source: Author's Computation, 2025

Table 1 shows the data presentation for Capital Structure and Corporate Failure of some Banks in Nigeria, of which Capital Structure was measured by Bonds, Preference shares, Ordinary shares and Debenture while

Corporate Failure was measured by Profit after Tax of Deposit Money Banks in Nigeria.

Profit after Tax of Deposit Money Banks in Nigeria have experienced relatively stable increase from 2000 – 2005, also had a drastic increase in 2006 which could be attributed to the consolidation exercise, and declined in 2006. It recorded notable fluctuation from 2007 – 2016.

Bond recorded a positive amount in 2000, but there was a downturn from 2001 to 2006 which connote a fall in the long term fund offered by the banks to the public, there was a notable increase from 2007 till 2016. It reached its peak at the very end of the study.

Preference share, Ordinary share and Debenture recorded positive all through the period under study, had a downturn at the earlier period and later had a notable increase during the end of the period under study.

Table 2: Ordinary Least Square (OLS) Result

Variable	Coefficient	Std. Err	t-Stat	Prob.
C	12959.67	2589.538	5.004625	0.0003
BND	8262.137	2418.703	3.415937	0.0051
PRFS	1170.912	942.1213	1.242846	0.2377
ORS	0.000380	7.54E-05	5.035446	0.0003
DBT	7819.632	1990.106	3.929254	0.0020
R-squared	0.985920	Meandependentvar		47078.7
Adjusted R^2	0.981227	S.D.dependentvar		15439.8
S.E.ofregression	2115.459	Akaikeinfocriterion		18.3918
Sumsquaredresid	53701986	Schwarzcriterion		18.6369
Loglikelihood	-151.3308	Hannan-Quinncriter.		18.4162
F-statistic	210.0756	Durbin-Watsonstat		2.15569
Prob(F-statistic)	0.000000			

PAT=C(1)+C(2)*BND+C(3)*PRFS+C(4)*ORS+C(5)*DBT

Substituted Coefficients:

PAT=12959.6659233+8262.13716498*BND+1170.91172713*PRFS+0.00037980926877*ORS+7819.63191355*DBT

Table 3: Serial Correlation Test

Breusch-GodfreySerialCorrelationLMTest:

F-statistic	0.041321	Prob.F(2,10)	0.9597
Obs*R-squared	0.139340	Prob.Chi-Square(2)	0.9327

Source: Author's ComputationusingE-view7.0(2025)

Table 4: Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey					
F-statistic	=	0.318867	Prob.F(4,12)	=	0.8599
Obs*R-squared		1.633310	Prob.Chi-Square(4)	=	0.8028
ScaledexplainedSS		0.871630	Prob.Chi-Square(4)		0.9286

Source: Author's Computation using E-view7.0 (2025)

CONCLUSION

In conclusion, the study sheds light on the intricate relationship between capital structure and corporate failure within the Nigerian banking sector. Through an analysis of selected commercial banks, the research underscores the critical importance of maintaining an optimal blend of debt and equity financing to mitigate the risk of financial distress and insolvency. The findings suggest that while excessive debt levels can precipitate corporate failure, leverage within a certain threshold may enhance profitability, highlighting the delicate balance required in capital structure decisions.

Moreover, the study acknowledges the influence of external factors such as macroeconomic conditions and regulatory frameworks on the relationship between capital structure and corporate failure. These external dynamics underscore the need for robust risk management practices and regulatory measures to safeguard financial stability and resilience in the banking sector.

Despite limitations such as reliance on secondary data sources and potential biases from sample selection criteria, the study provides valuable insights into the implications of capital structure decisions on the financial performance and viability of commercial banks in Nigeria. By recognizing the complexities of corporate failure and the multifaceted nature of capital structure, the study calls for a holistic approach to risk management and regulatory oversight to promote sustainable growth and stability in the banking sector.

Overall, the study contributes to the body of knowledge in finance and banking, offering practical implications for stakeholders and policymakers to enhance the stability and resilience of the Nigerian banking sector. By understanding the nuances of capital structure and its impact on corporate failure, stakeholders can make informed decisions to navigate challenges and foster a robust financial environment conducive to sustainable growth.

RECOMMENDATIONS

1. Enhance Risk Management Practices: Commercial banks in Nigeria should strengthen their risk management frameworks to effectively monitor and mitigate the risks associated with capital structure decisions. This includes conducting regular stress tests, scenario

analyses, and sensitivity assessments to anticipate and address potential financial vulnerabilities.

2. Optimize Capital Structure: Banks should strive to maintain an optimal capital structure that balances debt and equity financing to minimize the risk of financial distress. By carefully managing leverage levels and considering the impact of capital structure on profitability, banks can enhance their resilience to economic fluctuations and market uncertainties.
3. Improve Data Quality and Analysis: Given the limitations of relying on secondary data sources, banks should invest in robust data collection mechanisms and analytical tools to enhance the depth and reliability of their analysis. This includes ensuring data accuracy, completeness, and consistency to facilitate more informed decision-making.

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