

Capital Structure and Performance of Non-Financial Firms in Sub-Sahara Africa

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Abstract

The study examines the impact of capital structure on return-on-assets (ROA) performance of non-financial firms in Sub-Sahara Africa for a period of nine (9) years (2012-2020). A total of forty (40) non-financial firms were studied using their capital structure variables of long term debt to equity (LTDQ), total debt (TD), total debt to equity (TDQ), and total debt to total assets (TDTA) as well as their ROA performance. The panel data analysis technique was employed. It was found that LTDQ, TD and TDQ have positive impact on ROA performance; while TDTA has a negative impact on ROA performance, and all variables were significant at 1 percent level. The study recommends that, since long term debt to equity strongly explain corporate performance in the Sub-Saharan African Countries, management should sustain their current policies and should also be very sensitive in determining the appropriate amount of long term debt that ought to be included in their capital structure build up.

Keywords: Financial Performance, Return-on-Assets, Debt-to-Equity, Sub-Sahara Africa, Non-financial Firms

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1. Introduction

Capital structure has been an interesting issue among several economics and financial experts such as Modigliani and Miller (M& M) (1958; 1963), Myers and Majluf (1984). The seminal works of M & M (1958, 1963) on capital structure irrelevance and its interplay with value of firms, has since been a subject of debate in business finance; and was the first to triggered researchers' interest to this theory. Modigliani and miller (1958) had earlier argued that the association between capital structure and cost of capital (k_o) is irrelevant; meaning that the

upsurges or decline in debt finance does not have influence on k_0 and overall performance of the firm. However, M & M (1963) provided proof on the relevancy of capital structure to performance of firms. According to him, capital structure is very central to overall performance.

Capital structure is a decision on how a firm is financed, which is a complex task often subjected to the management and suppliers of fund. It connotes how a firm finances its asset through the combinations of equity and debt (Saeedi & Mahmoodi, 2011). The traditional theories such as M & M (1963) and Myers (1984) Static Trade-off Theory argue otherwise on how relevant capital structure is to firm value. Saying, debt capital has a lesser value in relation to equity; thus, a company has the ability to step-up its value through borrowing, but to a judicious level. It is assumed by this theory of that the cost of debt remains constant to a critical level wherein it begins to ascend. It postulates that optimal capital structure exist, which increases value of a firm to its peak, likewise reducing the firm's k_0 . Thus, the firm's value is not expected to be equal at varying levels of capital structure employed by the firm.

Capital structure decision remains a crucial decisions by financial manager to ensure effective performance of the firm. To effectively maximize the firm performance, management carefully analyze the capital structure decision to achieve optimality. Corporate managers always try to arrive at and employ the optimal capital structure that will guarantee better returns on investment (Abata, Migiyo, Akande & Layton, 2017). So, to obtain optimum capital, the managers will have to act in the best interest of shareholders in such a way that they will have enough, but not excess free cash flow (Onaolapo & Kajola, 2010; Guangchen, 2012).

Since M & M (1958, 1963), Jensen and Meckling (1976) arguments on capital structure, these arguments have been tested in several empirical works across the globe on capital structure variables that are relevant to the determination of corporate performance. For instance, the studies of Idode, Ogunlowore, Adeleke, and, Ashogbon (2014), Dahiru (2016), Mathanika, Virginia and Paviththira (2015) all showed that a significant relationship exist. However, Mykhailo (2013), Appah, Okoafor and Bariweni (2013), Oino and Ukaegbu (2016) and, Ajayi and Zahiruddin (2016) conclude otherwise. Thus, this study is an attempt to domesticate the above arguments in the Sub-Saharan Africa region by empirically investigating this relationship using non-financial firms in the Sub-Saharan Africa countries of Nigeria, Kenya, and South Africa. Therefore, considering the few studies in this area taking Sub Saharan African as a unit, coupled with the nature of the non-financial sector and its contributions to the Sub Saharan African Countries GDP, it is important to provide current empirical investigation on firms overall financial performance with respect to capital structure composition. The specific objectives are to;

- (i) Examine how long term debt-to-equity affects financial performance of non-financial firms in Sub-Sahara African Countries;
- (ii) Investigate the impact of total debt on financial performance of non-financial firms in Sub-Sahara African countries;
- (iii) Determine how total debt-to-equity ratio affects financial performance of non-financial firms in Sub-Sahara African countries;
- (iv) Examine the impact of Total debt to total asset on financial performance of non-financial firms in Sub-Sahara African countries.

Aside this subsection, the reminder of the work is structured into four sections. The second section considers conceptual and theoretical literature on financial performance and capital

structure. The third section is on methodology. The results and discussion are presented in the fourth section and the fifth section concludes the paper with some recommendations made.

2. Literature Review

Performance: Corporate performance is based on how efficient and effective a firm uses its available resources to generate revenues (Olaniyi, Elelu & Abdulsalam, 2015). Corporate performance is an indication of how efficient and effective the finance manager is with the management of funds. Performance can be taken as the returns generated from an investment resources within a certain period of time. Performance according to Bello (2008), is a yardstick for assessing the total productivity of businesses by employing input and output analyses. A major measure of firm's financial performance is Return of Assets (ROA). Others are Return on Capital Employed (ROCE), Gross Profit Ratio (GPR), Return-on-investment (ROI), Return on Equity (ROE), Tobin's Q, among others. This study used ROA as measure of financial performance. ROA measures corporate performance and how a company efficiently employs its asset to get income. A high ROA tells how efficient the performance of management is when asset is employed in income generation. (Pandey, 2010).

Capital Structure: This is the percentage of long term funds (debt or equity) released or approved to embark on the activities of a business. Capital structure according to Nirajini and Priya (2013) and Olaniyi, Elelu and Abdulsalam (2015) is the various ways of financing firms' operations; that is basically debt, equity, or both. The mix of long-term fund like debt, debenture, bond, preferences and equity share capital is capital structure. More importantly, this is an intricate area in making of financial decisions due to its interrelations with other variables of financial decision. According to Olowo (2009), equity capital is shareholder money available for business operations (owners' fund), typically made up of two categories namely contributed capital and retained earnings. Contributed capital this is the money raised or spent in the business organization such as stocks ownership. Retained earnings is the profit generated from the business in the previous years that a company keeps to be used for reinvestment purposes which in turn strengthens the company balance sheet while serving as a seed for expansion and further growth. Also, Pandey (2010) and Van – Horne, (2002), considered equity capital as the most expensive sources of fund for a firm. While debt capital is the borrowed fund used in financing the organizational activities.

The expected interaction between capital structure components and ROA is discussed below:

Long Term Debt-to-Equity and ROA Performance: this is solvency ratio and it measures "the ability of a company to pay its long-term liabilities, such as debt and the interest on that debt" (Smith, 2020:3). Long-term debt therefore affects firm's financial performance when it has a maturity of more than one year. A positive relationship is expected with financial performance

Total Debt and ROA Performance: This is the capital that a business raises by taking out a loan. And subscribers to debt capital do not become part shareholders of the business they are creditors. According to MacCarthy and Ahulu (2019:12) "debt is a cheaper fund than equity, and interest payments on it are tax-deductible. Subsequently, as the level of debt increases, returns to equity holders also increase enhancing the company's value".

Total Debt-to-Equity (or Leverage) and ROA Performance: Leverage is consider "an investment strategy of using debt". Precisely, it is the use of borrowed fund to increase investment's return (Hayes, 2020). However, debt fund is mostly cheaper than equity fund, interest paid on debt are tax-deductible; therefore, it is expected that as debt increases,

rewards to equity fund will also increase, hence improving the firm's overall financial performance (Hayes, 2020). Removing risk factor, the more the debt, the higher the value (Dessi & Robertson, 2003).

Debt-to-Total Assets and Firm Performance: This ratio expresses the degree or extend to which a firm uses debt to finance its assets. It takes account of all debt and all assets of the company (Malm & Roslund, 2013). Corporate Finance Institute (2019) says that this ratio is commonly employed to estimate the overall risk of a firm. Firms with high ratio are more leveraged and, hence, riskier. For instance, the findings of Ngoc and Jeremy (2011) revealed a substantial negative relationship between this variable and firm performance. However, those of Goyal (2013) and Khalil (2014) showed a significant positive relationship with firm performance.

Empirical Review: Mykhailo (2013) researched on how capital structure affects how a firm performs. The study employed the method of triangulation. Employing a sample size of 16.5 thousand firms in Ukraine for the period 2001 to 2010, the findings shows that leverage correlates negatively with how well the firm performs. Thirty-six (36) quoted firms in Bangladesh Dhaka Stock Exchange for a 6 years (2007 to 2012) was investigated by Hasan, Rahaman, Ahsan, and Alam (2014). Results obtained from the Panel data analysis showed an appreciable positive correlation between ROA and capital structure. Nguyen (2020) examined listed firms on the Vietnam stock market for six years, from 2013 to 2018. The study employed the GLS and the empirical results showed a statistically significant negative effect. Ibrahim (2009) studied how capital structure affects selected firms in Egypt ROA performance between 1997 and 2005 by applying OLS. The findings show that capital structure is irrelevant to financial performance. Similar work of Nimalathasan and Valeriu (2010) studied manufacturing firms in Sri Lanka. With panel data analysis, debt-equity ratio was found to strongly and positively affect profitability ratios. Fosu (2013) employed a unique measure of competition panel data, encompassing 257 firms from South African from 1998 to 2009. Findings suggest that leverage significantly and positively affects the firms' performance. Lucy, George and Muathe (2014) examined 42 selected non-financial firms from the Nairobi securities exchange from 2006 to 2012. Findings revealed that financial leverage negatively related with the way the firms perform as determined by ROA and ROE. Similarly, Mukaria, Mugenda and Akenga (2015) examine 38 non-financial companies from the securities exchange of Nairobi. From 2006 to 2013. Using OLS technique there was negative correlation between leverage and firm performance. In another related study by Daniel (2017) in Kenya focused on 36 listed companies for the period 2011 to 2015. From the findings, the value of non-financial firms is statistically and significantly associate with capital structure; specifically, long term debt impacts positively on firm values.

Further work on non-financial firms was embarked on by Osuji and Odita (2012) in Nigeria. Results indicate the firm's Debt Ratio (DR) exerts a notable negative effect on ROA and ROE. Chandrasekharan (2012) and Appah, Okoafor and Bariweni (2013) examined how 87 listed firms (2007 to 2011) and 32 firms quoted (2005 to 2011) respectively on the Nigerian Bourse. The studies used the PLS analysis and the outcomes revealed a noteworthy correlation between debt ratio and performance. Ikponmwosa and Eriki (2014) examined fifteen (15) selected non-financial multinational companies, they employed panel data and correlation analysis. Empirical outcomes indicated that generally, the variables of capital structure constitute a *sine qua non* in determining the profitability and value of firms in Nigeria. Lawal, Monica, Edwin, and Adisa (2014), studied how capital structure affects the way firms perform

from 2003 to 2012, with Nigerian manufacturing companies. They applied the OLS technique and empirical outcomes show that indices of debt to equity ratio, and overall debt correlates in a negative way with how firms perform.

Babalola (2014) did a work on how capital structure correlates with the way firms perform, using 31 manufacturing (1999 – 2012). Employing the triangulation method, the research showed that capital structure display trade-off theory proposition and countered that large firms have a greater propensity to maintain greater performance. Dahiru (2016) sought to determine how capital structure affects the way 31 listed Nigerian manufacturing firms performed from 2009 to 2014 employing PLS method. The conclusions indicate that long-term debt, total debt, and short-term debt have noteworthy impacts on how the firms performed financially. Oino and Ukaegbu (2016), researched on Nigerian listed non-financial firms, using the pool OLS and GMM in ensuring the robustness of results. Empirical findings showed profitability and asset structure correlate negatively with leverage. The results of Asen, Nwude, Idamoyibo, Ufodiana and Udo (2021) in Nigerian manufacturing firms also confirm a significant negative relationship of variable of study. In conclusion, most empirical works reviewed have stated a strong relationship between capital structure and performance of firms for individual countries and sectors. This study did a combine effect study for three Sub-Sahara Africa counties and non-financial sectors.

3. Research Methods

The traditional or relevance theory as postulated by M & M (1958), is the adopted theoretical framework. The Relevance Theory debates that the firm's total value at any given period is strongly influenced by its capital structure. The mixture of debt and equity determine how the firm will perform financially. This proposition is given by:

$$FMV = f(DT, EQ) \dots\dots\dots (1)$$

Where: FMV represents firm market value;

DT is debt and while EQ stands for equity.

The theory believe that debt has a limit, beyond which, further increase would results to decrease in the value of the firm. Thus, management must be astute in the choice of corporate financing. Although, it has been debated that there exists no one universal optimal capital structure for firms, however, the right debt-equity combination that enhances the overall way the firm performs at any material point in time is deemed as its optimal capital structure.

The population of the study comprises of 185 non-financial firms listed in Nigeria, Kenya and South Africa Stock Exchanges as at 31st December 2020. This comprises of 77 firms for Nigeria, 42 firms for Kenya and 66 firms for South Africa respectively. The sample size for the study is 40 consisting of Nigeria (16), Kenya (10), and South Africa (14). The justification for the sample used was based on data availability, coupled with the fact that each company must have fulfilled its obligation of publishing their annual reports for the year ended 2012 to 2020. The secondary data used is collected from audited report of non-financial firms submitted to the Nigeria, Kenya and South Africa Stock Exchanges.

The above model was slightly modified in this study by incorporating four (4) variance of the two independent variables in the traditional approach model. Which are LTDQ, TD, TDQ and TDTA; while the dependent variable FMV (performance indicator) is replaced by CPER (corporate performance).

Thus, the modified version of this model which flows from the traditional theory as advocated by M & M (1958) is stated in its functional form as follows:

$$CPER = f(LTDQ, TD, TDQ, TDTA, FAGE) \dots\dots\dots (2)$$

However, the econometric form of the above model is as follows.

$$CPER_{it} = \alpha_0 + \alpha_1 LTDQ_{it} + \alpha_2 TD_{it} + \alpha_3 TDQ_{it} + \alpha_4 TDTQ_{it} + \alpha_5 FAGE_{it} + \varepsilon_{it} \dots\dots (3)$$

Where: *CPER* = performance (proxy by ROA)

LTDQ_{it} = Long term debt to equity; *TD_{it}* = Total debt for firm i at period t

TDQ_{it} = Total debt to asset for firm i at period t; *TDTA_{it}* = Long term debt-to-total asset for firm i at period t; α_0 = Intercept; $\alpha_1 - \alpha_5$ = Parameter Estimate

The a priori expectations of the coefficients are $\alpha_1, \alpha_2, \alpha_3$ and $\alpha_4 > 0$.

Table 1: Operationalization of Variables

SN	Variables	Definition / Measurement	Type of Variable	Source	Apriori sign.
1.	CPER	Corporate performance	Dependent	Hasan, Ahsan, Rahaman and Alam (2014)	+
2.	LTDQ	Long term debt to equity	Independent	Babalola (2014), Fosu (2013)	+ and -
3.	TD	Total debt	Independent	Lawal and Edwin (2014)	+
4.	TDQ	Total Debt to Equity	Independent	Babalola (2014) and Fosu (2013)	+
5.	TDTA	Total debt to total asset	Independent	Akinyomi (2013)	+
6.	FAGE	Firm Age	Control	-	+

Source: Author's Computation, (2021).

The descriptive statistics, correlation test and the panel data analysis is used in this study. The Hausman test specification was carried out to effectively choose the best performing effects

between the fixed effects, and the random effects. The Eview 9.0 econometric software is used for the analysis.

4. Result and Discussion

The summary statistics are presented in Table 2.

Table 2. Descriptive Statistics

	CPER	LTDQ	TD	TDQ	TDTA	LFAGE
Mean	16.8004	15.9791	16.0992	1.00836	0.95736	3.12188
Median	16.5893	15.7201	16.0476	1.00417	0.96063	3.27696
Max	21.2336	20.4968	20.6005	1.53599	0.99968	4.00733
Min	14.2763	9.91195	12.8650	0.87912	0.86266	0.00000
Std. Dev.	1.64892	1.65707	1.75894	0.05751	0.02215	0.78429
Skew	0.51558	0.47803	0.29657	3.66400	-0.88568	-1.32931
J-B.	11.5291	9.44732	6.25710	9374.50	37.5094	79.4384
Prob.	0.00313	0.00888	0.04378	0.00000	0.00000	0.00000

Source: Author's computation (2021)

The mean value of corporate performance (CPER) reported for all the sampled non-financial firms in Sub-Saharan Africa (combined) is 16.8004 billion. The mean value (16.8004) is slightly higher than the median value (16.5893), and both are positive signed. The data distribution is rightly skewed, and that is why the skewness coefficient of 0.51558 positive. The maximum value of CPER is 21.2336 while the minimum value stood around 14.2763. It shows more firms in the region have performed averagely well. There is very low variations in the overall CPER, since the SD value of 1.64892 is very low. This simply suggests a low level of variability of CPER either across all the non-financial firms or in the region as a whole. The Jaque-Bera (J-B) statistic value is 11.5291 and significant at 1 percent. It implies non-normal distribution, hence heterogeneous with firm-specific characteristic. Thus the justification for the use of panel data estimation technique for analysis.

The mean value of LTDQ is 15.9791 and the median value is 15.7201; suggesting that the average LTDQ of firms in the region is almost similar to the median LTDQ. The SD value of 1.65707 is very low among the firms. The mean value for total debt (TD) for the entire sample is 16.0992 with corresponding maximum values of 20.6005 and minimum values of 12.8650. This clearly shows that within the sampled firms, more seem to employ the use of debt financing than equity. Averagely, the standard deviation values of 1.75894 is quiet low. The mean value of firm age (FAGE) is 3.12188, with low SD value of 0.78429. The two variables in the study TDQ and TDTA also present interesting outcomes. The mean value (1.00836) for

leverage or TDQ, even though is low seems to perform better than those of TDTA with an average value of 0.95736 and low SD values of 0.05751 and 0.02215 respectively. All the variables in the study have J-B values significant at 1 percent, which shows that the individual firm's characteristics are essential in the measurement of corporate performance with respect to capital structure in the Sub-Saharan African Countries.

Correlation Analysis: In the result, corporate performance (CPER) is seen to have a strong positive correlation with LTDQ and TD, with respective values of 0.9559862 and 0.9827449. CPER has a moderate correlation value of 0.4150232 with TDTA, and a weak positive and negative correlation values of 0.1495743 and -0.3998623 with leverage TDQ and FAGE.

Table 3. Pair-wise Correlation Table

	CPER	LTDQ	TD	TDQ	TDTA	FAGE
CPER	1					
LTDQ	0.955986	1				
TD	0.982744	0.896776	1			
TDQ	0.149574	-0.142705	0.299610	1		
TDTA	0.415023	0.189393	0.575310	0.813626	1	
LFAGE	-0.399862	-0.381414	-0.414271	-0.089542	-0.260102	1

Source: Author's computation (2021)

Among the explanatory variables, only LTDQ and TDTA have a strong positive correlation with TD of 0.8967769 and TDQ of 0.8136 respectively. This could be an indication of autocorrelation problem, which the model will correct.

Hausman Test Specification Result

The Hausman test specification for random effect is conducted and the result is as seen in table 4 below. Thus, the probability value for the model is significant at the 1 percent level. Therefore the Fixed-effect estimation is the best model to apply.

Table 4. Hausman Test for Panel Effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.278210	5	0.0017

Source: Author's computation (2021)

Fixed Effects Results: For robustness check, both model results are presented. However the fixed-effect model will be interpreted. The result of the fixed effects model for the Sub-Saharan Africa is presented in table 5. The goodness of fit is impressive with R squared value of 0.99 which is very high and indicates that 99 percent of the systematic variations in CPFR in the sub-region is explained by the model. The adjusted R-squared value of 0.99 percent is equally

very high, with F value of 181706.5 and significant at 1 percent. This implies a good predictive ability of the model.

Table 5: Capital Structure and Firms Performance in Sub-Sahara Africa (Dependent Variable = CPER)

Variable	<i>Fixed Effects (FE)</i>			<i>RandomEffect(RE)</i>		
	Coeff.	t-Stat.	Prob.	Coeff.	t-Stat.	Prob.
Constant	11.07693	45.34704	0.0000	10.89378	44.71567	0.0000
LTDQ	0.242515	20.96645	0.0000**	0.246233	22.49582	0.0000
TD	0.799879	66.55104	0.0000**	0.789514	70.08517	0.0000
TDQ	2.240991	21.49726	0.0000**	2.270183	22.05995	0.0000
TDTA	-13.88285	-78.54282	0.0000**	-13.61144	-78.61979	0.0000
FAGE	0.000287	0.055729	0.9556	0.001094	0.464818	0.6426
AR(1)	0.505661	6.615123	0.0000			
R-squared	0.99			0.99		
Adj. R-squared	0.99			0.99		
F-statistic	181706.5	D.W = 1.64		133802.4	D.W = 0.96	

Source: Author's computation (2021). Note: ** significant at the 1% level.

From the results, all the coefficients for LTDQ, TD and TDQ are rightly signed with the expected positive a-priori signs. However, the coefficient of TDTA does not possess the expected a priori positive sign, as it is negatively signed. For the individual coefficient of the variables, the coefficients of LTDQ and TD have significant positive relationship with corporate performance (CPER) at 1 percent. Meaning LTDQ and TD separately employed in the capital structure of firms in the sub-region significantly and positively affect the overall performance of listed non-financial firms on the Stock Exchanges. This presupposes that, management must be very sensitive in determining the appropriate amount of LTDQ and those of TD that should be included in their capital structure build up. Since there are no universally approve optimal capital structure for all firms, it therefore follows that the best combinations of equity and debt capital that would yield the highest possible returns within a given financial year, should be regarded as the firms' optimal capital structure. Indeed, a 1 percent increase in LTDQ and TD results in about 0.242515 and 0.799879 percent increases in the non-financial firms' ROA performance. This seen to agree with the works of Nimalathasan and Valeriu Brabete (2010), Fosu (2013), Bassey, Aniekan, Ikpe and Udo (2013) that reported significant positive impact of LTDQ on corporate performance. It disagreed with those of Lucy, Muathe and George (2014), Mukaria, Mugenda and Akenga (2015), Oladeji, Ikpefan and Olokoyo (2015), Oino and Ukaegbu (2016); and Dahiru (2016), who concluded negative and no relationship between LTDQ and performance. As it relates to

total debt, the finding agrees with those of Dahiru (2016) and Daniel (2017), but disagree with those of San and Heng (2011) and Lawal et.al (2014) that submitted non-significant negative relationship between TD and corporate performance in their respective countries.

The coefficients of total debt to equity (TDQ) which represents the firms' level of leverage in the sub-region indicates a positive relationship with firms' performance at 1 percent significant level. This means that highly levered firms seem to perform very well in the Sub-Saharan Africa. This equally follows that, policies that would encourage firms to employ more leverage while reducing equity financing in the operations of non-financial firms activities should be pursued in this regard. The results is also in line with those of Nimalathasan and Valeriu Brabete (2010), Fosu (2013), Bassey, Aniekan, Ikpe and Udo (2013) who concluded a significant positive impact of TDQ on corporate performance. However, the finding did not agree with the findings of Oino and Ukaegbu (2016) and Dahiru (2016) who concluded that TDQ has significant negative impact on performance.

The TDTA coefficient shows significant inverse relationship with ROA in the sub-region. This goes to show that the amount of debt employed relative to firms' total assets at any point in time, is a major determinants of corporate performance in the SSA non-financial firms. This again suggests that corporate managers in the sub-region have not been effective in the management of corporate assets in relation to borrowings. It also suggests that the amount of debt employed on the basis of assets has never been recovered. Therefore, management should have a second look at current policy of borrowing with a view to reviewing it so that the expected positive impact on non-financial firms' performance can be achieve through the efficient management of TDTA component in their choice of capital structure buildup. This finding disagrees with the studies of Goyal (2013) and San and Heng (2011) who separately submitted significant positive interaction and a non-significant correlation between TDTA and corporate performance respectively.

The coefficient of firms age (FAGE) is not significant. This shows that in determining corporate performance, how long non-financial firms have been in existence does not matter and does not significantly affect its performance. Therefore, proper care must be taken by management to ensure that irrespective of the age of the firms, their corresponding assets should be properly managed and utilized to achieve optimal capital structure and in turn enhance firms' performance in the Sub-Saharan Africa. The result agrees with those of Chandrasekharan (2012) who didn't find any significant effect of firm age on performance. But however, disagrees with those of Ajayi and Zahiruddin (2016) who submitted negative relationship between age and corporate performance. After correcting for serial correlation with Autoregressive process that had 18 iterations and 1 lag, the improved estimated equation with t-statistics and 1 percent significant probability value was achieved. The overall results are applicable for structural analysis and policy decisions.

5. Conclusion

The study investigated the nexus between capital structure and performance of non-financial firms in Sub-Saharan Africa. Although study on capital structure has been well researched in Nigeria but are still scanty in terms of cross-country studies especially in the Sub-Saharan Africa. Optimal capital structure is at the heart of corporate success, even though there have been a lot of debates as to whether it affect how the firm perform or not. For this reason, the study employs the panel data analysis technique on four capital structure variables that is LTDQ, TD, TDQ and TDTA as well as firm age (FAGE) to explain ROA performance. From the findings we conclude that LTDQ, total debt and TDQ are significant determinant of ROA

performance positively; while TDTA significantly explain ROA performance with reverse effect in the SSA Countries.

From the findings, the following recommendations which are imperative for policy decisions are made. Firstly, management should sustain their current policies and should be very sensitive in determining the appropriate amount of long term debt to equity ratio in determining the firm's capital structure. Secondly, it therefore follows that management should continue to employ additional debt in their financial policy to continuously assures overall corporate performance. They must also ensure that these debt are properly channeled on assets yielding investment, while at the same time eliminate all idle assets and toxic assets. Thirdly, policies that would encourage firms to employ more leverage (due to the tax shield benefits) while reducing equity financing in the operations of the firms activities should be pursued by management in this regard.

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