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# Journal on Banking Financial Services & Insurance Research

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# Influence of Integrated Nutrient Management on Economic Return of Wheat Under Upper Egypt Conditions

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## **ABSTRACT**

*The effect of integrated use of chemical fertilizer (NPK), biofertilizer and farm yard manure (FYM) on costs, return and net profit per ha as well as return-cost ratio of wheat was carried out in the Experimental Farm of the Faculty of Agriculture, South Valley University at Qena on a sandy soil. The recommended NPK, biofertilizer and FYM were applied alone and in various combinations among them. A randomized complete block design, with three replications, was used in this study. Treatments affected all economics parameters studied. The highest value of costs per ha was obtained from treatment T<sub>1</sub> (recommended NPK, 190: 70: 120 N, P<sub>2</sub>O<sub>5</sub>, K<sub>2</sub>O kg ha<sup>-1</sup>). T<sub>6</sub> (half of the recommended NPK + 10 tons FYM + biofertilizer) treatment gave the maximum return and net profit per ha as well as return-cost ratio compared with the other treatments. Therefore, integrated plant nutrient supply system could help in meeting the goals of balanced fertilization and increased profitability per unit area.*

**Key words:** wheat, biofertilizer, FYM, return, net profit and return-cost ratio.

## **1. INTRODUCTION**

Wheat (*Triticum aestivum*, L.) is the world's most important and most widely grown cereal crop through many properties and uses of its grains and straw. In Egypt, it is well known that the expansion of wheat planting in sandy soils is one of the solutions for curtailing the gap between consumption and production of wheat. However, production of wheat in sandy soils is facing many problems like, low organic matter and poor soil fertility.

Now, increased attention is being paid to develop an integrated plant nutrition system that maintains and enhances soil productivity through balanced use of different sources of nutrients, including chemical fertilizers, organic fertilizers and biofertilizers. The basic concept, underlying the integrated plant nutrition system, is the adjustment of soil fertility and plant nutrient supply to an optimum level for sustaining desired crop productivity. This might optimize the benefits of all sources of plant nutrients in an integrated manner [1].

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The high cost of chemical fertilizers and the low purchasing power of most of the farmers restrict its use in proper amounts, hampering crop production. Besides, a substantial amount of the nitrogen is lost through different mechanisms including ammonia volatilisation, denitrification and leaching losses, causing environmental pollution problems [2], [3]. The use of expensive chemical fertilizers and pesticides is a limiting factor for the low-income farmers and increases the cost of crop production. Bio-fertilizers are eco- friendly and have been proved to be effective and economical alternate of chemical fertilizers with lesser input of capital and energy [4].

Biofertilizers differ from chemical and organic fertilizers in the sense that they do not directly supply any nutrients to crops and are cultures of special bacteria and fungi. The production technology for biofertilizers is relatively simple and installation cost is very low compared to chemical fertilizer plants. Azotobacter act as one of the important biofertilizer for rice and other cereals, it can apply by seed dipping and seedling root dipping methods [5-8]. Azotobacter can also able to enhance the growth in wheat crop [9].

The combination of mineral fertilizers, with organic manures, helped in increasing the grain yield of wheat and implied a saving of 50% cost, compared to a system with only mineral fertilization [10]. Jen-Hshuan [1] stated that microbial inoculants could be used as an economic input to increase crop productivity, lowering fertilizer doses and more nutrients increasing harvested from the soil. Moreover, Hegab and Abou El-Wafa [11] showed that the integration between chemical, organic and biofertilizers gave higher grain, straw and biological yields of wheat crop, compared with single application of such fertilizers.

The objective of this study was to investigate the effect of seven combinations of chemical, organic and bio fertilizers on income of bread wheat c.v Giza 168.

## **2. MATERIALS AND METHODS**

### **2.1. Experimental site description**

The investigation was carried out at the experimental farm of the Faculty of Agriculture, South Valley University, Qena Governorate, Egypt, during 2013/2014 season. It lies at 26°10' N latitude and 32°43' E longitudes with an altitude of 79 m above mean sea level. The soil of the experimental field was sandy having pH 7.88, electrical conductivity 2.52 ds/m, organic carbon 0.49% and available NPK of 186.3, 8.25 and 183.0 ppm, respectively.

## 2.2. Experimental treatments and design

The different treatment combination as follows:

T<sub>1</sub>- Recommended NPK (190: 70: 120 N, P<sub>2</sub>O<sub>5</sub>, K<sub>2</sub>O kg ha<sup>-1</sup>).

T<sub>2</sub>- FYM (20 tons ha<sup>-1</sup>) alone.

T<sub>3</sub>- Biofertilizer (*Azotobacter chroococcum*) alone.

T<sub>4</sub>- Half of the recommended NPK+ 10 tons FYM.

T<sub>5</sub>- Half of the recommended NPK + biofertilizer.

T<sub>6</sub>- Half of the recommended NPK + 10 tons FYM + biofertilizer.

T<sub>7</sub>- Control (without any fertilizers).

For as biofertilizer treatments, the seeds were inoculated by liquid culture of locally isolated strains of *Azotobacter chroococcum* ( $\approx 10^9$  CFU/ml) which obtained from Biofertilizers Production Unit of Faculty of Agriculture, South Valley University. 1% of carboxy methyl cellulose (CMC) was added to the culture to increase its viscosity to gel form to act as adhesive biostabilizer, the addition of CMC was made just before using. The experiment was carried out in a randomized complete block design (RCBD) with three replications. Experimental unit measured 3.0 m in width and 4 m in length.

## 2.3. Cultural practices

Bread wheat (Giza 168 cv.) was sown on the 15th of November. Whole of phosphorus and potassium were applied basally before sowing in all treatments. Nitrogen fertilizer was applied in three equal doses; the first, during soil preparation, and the second and third after 21 and 63 days from sowing, respectively. The other cultural practices were carried out as recommended for the crop.

## 2.4. Measured traits

At harvest time, grain and straw yields were estimated at plot basis. Cost of land rent, land preparation, bed preparation and repairing, fertilizers, labor, irrigation and harvesting as well as price of the products and byproducts were recorded. Simple economic analysis such as total cost, return, net benefit and benefit-cost ratio were done for different treatments.

## 3. RESULTS AND DISCUSSION

Data in Table 1 indicated that the minimum cost (8145 L.E ha<sup>-1</sup>) was recorded in T<sub>7</sub> (control, without any fertilizers), followed by T<sub>3</sub> (biofertilizer alone) of 8345 L.E ha<sup>-1</sup> than other treatments. Application of mineral NPK alone (T<sub>1</sub>) gave the highest value of cost (10110 L.E ha<sup>-1</sup>) followed by T<sub>6</sub> (half of the recommended NPK + 10 tons FYM + biofertilizer) of 10028 L.E ha<sup>-1</sup>.

It is evident from the results in Table 1 that the maximum return per ha of 22701 L.E., was obtained from treatment T<sub>6</sub> (half of the recommended NPK + 10 tons FYM + biofertilizer) , followed by T<sub>1</sub> (recommended NPK, 190: 70: 120 N, P<sub>2</sub>O<sub>5</sub>, K<sub>2</sub>O kg ha<sup>-1</sup>) of 20052 L.E. The return per ha was minimum (12455 L.E. /ha) in the T<sub>7</sub>.

Like return per ha, T<sub>6</sub> gave the maximum net profit per ha (12673 L.E). The net profit per ha was minimum (4310 L.E) in the T<sub>7</sub> (Table 1). The highest return and net profit values observed in the T<sub>6</sub> treatment can be attributed to the increases in grain yield (5610 tons ha<sup>-1</sup>) and straw yield (8605 tons ha<sup>-1</sup>) produced per unit area under T<sub>6</sub>. The lowest return and net profit values observed in the T<sub>7</sub> treatment can be attributed to the decreases in grain yield (3024 tons ha<sup>-1</sup>) and straw yield (4881 tons ha<sup>-1</sup>) produced per unit area under this treatment (Figure 1).

Also, the highest value of return-cost ratio (2.26) was obtained by the application of T<sub>6</sub>, while, the lowest (1.53) was obtained from T<sub>7</sub>. These results are in agreement with those reported by Shah and Ahmad [12] who found that integrated use of urea and FYM at 75:25 or 50:50 ratios (N basis) had produced maximum yields and was, then, recommended for profitable wheat grain yield. While, Jen-Hshuan [1] reported that microbial inoculants could be used as an economic input to increase crop productivity and fertilizer doses might be lowered.

**Table 1. Effect of integrated nutrient management on economic traits of wheat.**

Treatments	Total cost (L.E*/ha)	Return (L.E/ha)			Net profit (L.E/ha)	Return-cost ratio
		Grain	Straw	Total		
T <sub>1</sub>	10110	13013	7039	20052	9942	1.98
T <sub>2</sub>	9545	10544	6240	16784	7239	1.76
T <sub>3</sub>	8345	9560	5336	14896	6551	1.79
T <sub>4</sub>	9828	12842	6900	19742	9914	2.01
T <sub>5</sub>	9328	12727	6765	19492	10164	2.09
T <sub>6</sub>	10028	14956	7745	22701	12673	2.26
T <sub>7</sub>	8145	8062	4393	12455	4310	1.53

T<sub>1</sub> - Recommended NPK (190: 70: 120 N, P<sub>2</sub>O<sub>5</sub>, K<sub>2</sub>O kg ha<sup>-1</sup>), T<sub>2</sub> - FYM (20 tons ha<sup>-1</sup>) alone T<sub>3</sub> - Biofertilizer (Azotobacter chroococcum) alone, T<sub>4</sub> - Half of the recommended NPK+ 10 tons FYM ha<sup>-1</sup>, T<sub>5</sub>- Half of the recommended NPK + biofertilizer, T<sub>6</sub> - Half of the recommended NPK + 10 tons FYM ha<sup>-1</sup> + biofertilizer, T<sub>7</sub> - Control (without any fertilizers). \*L.E (Egyptian pound)= US \$ 0.126.



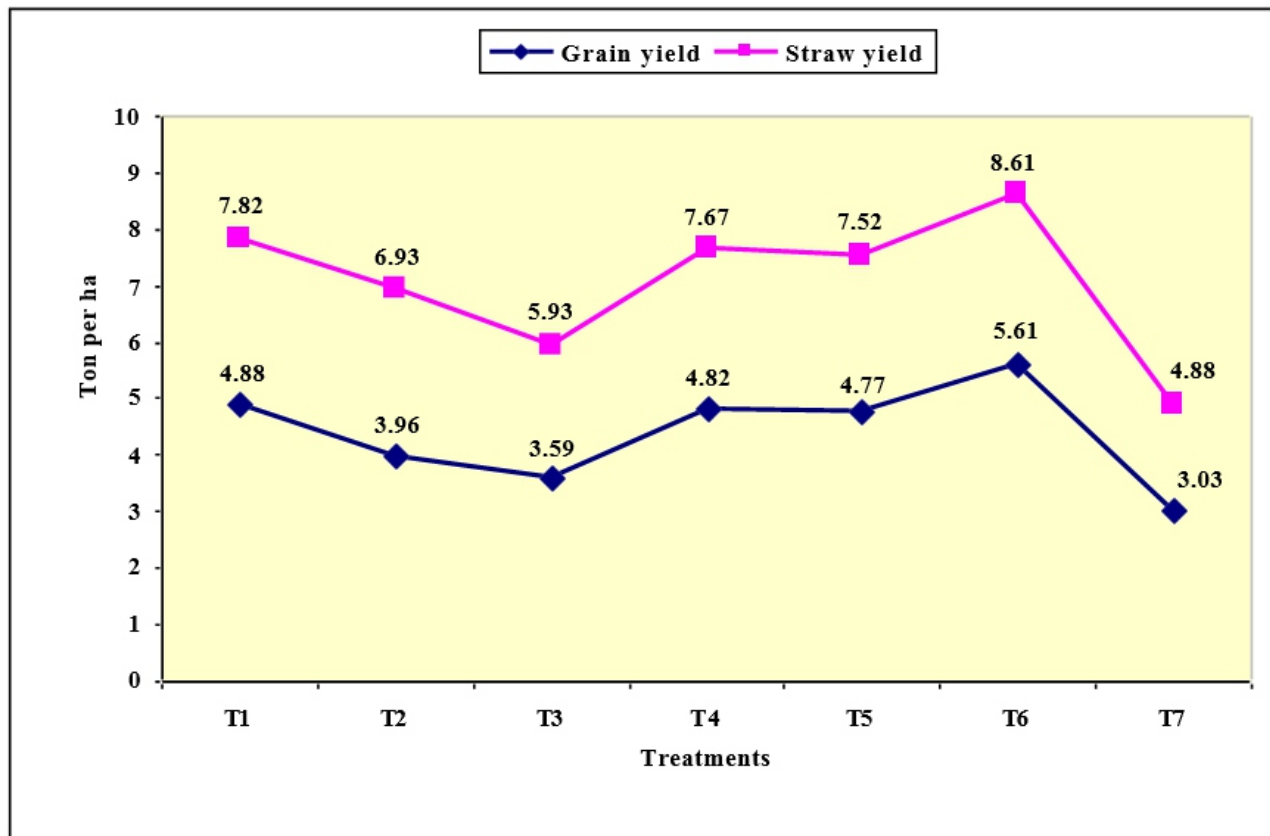


Figure 1: Effect of integrated nutrient management on grain and straw yields of wheat

#### 4. CONCLUSION

Generally, it can be concluded that application of half of the recommended NPK + 10 tons FYM + biofertilizer with Azotobacter on wheat gave the highest values of return and net profit per ha as well as return-cost ratio. The minimum values of previous were obtained from control treatment (without any fertilizers).

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# Uncertainty and Role of Insurance

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## **ABSTRACT**

*Insurance is a transfer of losses from one party to another in exchange of payments. The main purpose of this article is to explore the association between life insurance and policyholder. For this purpose, survey conducted through questioners and find out the opinion of policyholders. Variables like insurance is an instrument for sheltering of dependent ,life insurance is a source of covering risk, life insurance is attractive and beneficiary risk coverage for an employee have been analyzed. T-test is used and result indicates that life insurance provides shelter and benefit to policyholders and in case of death to their dependent.*

## **1. INTRODUCTION**

The objective of this article is to find out the importance of life insurance for developing countries policyholders but also to consider that how this investment might be financially helpful to the dependent. Life insurance can play a very important role in the settlement of heir's life after the uncertain death of policyholders. Most of the research work related to importance of insurance conducted for developed countries like Yanyun Zhu (2007) explained the decision of individual to purchase of life insurance and purchase of stock.. Mark V. Pauly and Bradley. Herring(2007) examined the different models of demand for insurance. Adam Smith had recognized that people are an important element of nation's wealth, so the essence of human capital is that investment are made in oneself with an expectation of future benefit, so the concept of insurance is established because insurance is a pooling of risks to enable to share risks. A number of research articles explained the importance of life insurance e.g. Zhu(2007) explained the decision of individual to purchase of life insurance and purchase of stock. It was explained that life insurance and purchase of stock are not dependent to each other. Researcher used fisher's model to explain the importance of life insurance.

Chen, CFA, Ibbotson, sky, and Zhu(2006) in the article explained the importance of insurance by giving explanation related to increase in demand of life insurance in case of loss of human capital.

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By considering the research work related to importance of insurance for developed countries in this article emphasis is given on the importance of life insurance from developing countries especially Pakistan so following hypothesis are developed for this purpose.

- 1) Life insurance is a better instrument for sheltering the heirs of the deceased salaried persons.
- (2) Life insurance policy is a source of covering personal risk to a great extent
- (3) Life insurance is attractive and beneficiary risk coverage instrument for an employee.
- (4) Life insurance is often an important component for dependent heirs of the deceased person.

Gutter and. Hatcher (2008) in the article explained that life insurance protect the racial differences of human capital . For that purpose, survey had been conducted and tried to find out the attitude of white household and black house hold towards life insurance for the protection of their wealth Researchers prepared a model for this purpose and divided it in two steps. 1st step demand of life insurance with related to racial differences, 2nd step explained that how much human capital invested by white household and black house hold for life insurance.

Life insurance coverage is dependant variable in the study. Probability analysis was also considered and concluded that white households are much better to black household, regarding to different aspects so they were more interested towards life insurance and invested more in life insurance.

Central features of Huang, Mileusky, Wang (2008) article was the correlation between innovations to the labour come process and financial returns. Main focused of paper was labour income and life insurance purchase. They explained that how much life insurance family unit protected against the loss of the earning member of that family. For research purpose, consider the family life cycle model. In the model, input variables were time horizon of the family, time of retirement and last one was at the time of loss of main earning member of family. The findings of the result showed that family utilized their financial resources in a way that protected the family in a best condition and gave them better satisfaction by purchase of life insurance.

Gatzert and Kling (2007) focused on risk measurement approach with a concept of risk- neutral valuation and tried to find out key risk drivers for participating life insurance contracts. According to them insurance contract market value has same risk but variation in the risk coverage of insurance company that explained through developed different models for analyzing the relationship between actuarial approach and financial approach and concluded that risk neutral valuation for insurance contract is concerned with insurance liabilities handling method.

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Borz,Ngugen and Timothywee(2007) examined that in OECD countries life insurance consumption determinants and focused on different socio economic factors.

With the help of univariate analysis researchers concluded, that income variable has a positive significant influence on life insurance demand.

Pauly, Bradley and Herring(2007) examined the different models of demand for insurance. In this study estimate demand for insurance by taking data from the individual or nongroup health insurance market was considered.

Dependent variables were degree of restrictiveness of insurance plan chosen by insured person, cost –sharing of the plan chosen. Explanatory income, age variables were, gender, family size, education, health status.Zhu(2007) studies explained the decision of individual to purchase of life insurance and purchase of stock. There is no dependency between purchase of life insurance and stock. Researcher used fisher's model to explain the importance of life insurance. According to the research all policy holders purchase life insurance for the benefit of their dependent in case of uncertain death of policy holder and individual buys stock only when the rate of interest high. Purchase of life insurance dependent on the size of income as well as risk aversion habit of an individual. Shrivastava (2005 explained the terrorism and effects of terrorism in an individual life. Because of increase in trend of terrorism uncertainty of life can be manageable to the great extent through insurance that will be beneficial to the insured as well as their dependent. Puelz (1991) prepared a model that assist an individual to choose best life insurance contract that helped them in minimizing risk. He used Analytical hierarchy process model for that purpose. This AHP model helps an individual to select the best insurance.

Therefore it is evident from literature that there is a positive link between risk and insurance and because of this insurance becomes a big industry that is beneficial to the development of any country.

## **METHODOLOGY AND DATA**

Major focus of this study is importance of life insurance. Population of present research study adopts both quantitative and qualitative paradigm. The study uses mix method designed i.e. survey as a quantitative mode of enquiry or case study as a qualitative study. Sample consists of 193 life insurance policyholders of different insurance companies working in Pakistan In this study, all categorical variables converted in to scale variable and then apply T-test for finding associations between uncertainty and insurance. For this purpose assign numbering to hypothesis and allocate related

questions. Of the total sample respondents, it is found that 34.2percentage are in the age group 36-40 years old. The majority of the sample is male i.e77.7percentage. Most of the sample respondents have attained bachelor's degree.

## RESULTS

The result of following table indicates that mean value of hypothesis is more than 4 shows that respondents are more than agree with hypothesis. The standard deviation indicates that there is approximately the same deviation in the response.

### ONE-SAMPLE STATISTIC

	N	Mean	Std. Deviation	Std. Error Mean
Life insurance may be a better instrument for sheltering the heirs of the deceased Salaried persons	193	4.2632	0.41021	0.02953
Life insurance policy is a source of covering personal risk to a great extent	193	4.351	0.41003	0.02951
Life insurance is attractive and beneficiary risk coverage instrument for an employee	193	4.2422	0.54241	0.03904
Life insurance is often an important component for dependent	193	4.0881	0.7552	0.05436

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Life insurance may be a better instrument for sheltering the heirs of the deceased Salaried persons	8.914	192	0	0.26321	0.205	0.3215
Life insurance policy is a source of covering personal risk to a great extent	11.89	192	0	0.35104	0.2928	0.4093
Life insurance is attractive and beneficiary risk coverage instrument for an employee	6.204	192	0	0.24223	0.1652	0.3192
Life insurance is often an important component for dependent	1.62	192	0.107	0.08808	-0.0191	0.1953

Results indicate that hypothesis 1 is accepted. Hau also proved it (March, 2000).In the article, developed a model for an individual who allocate his resources for the consumption of their dependent. Demography and personal characteristics are less important as compare to financial and wealth variable at the time of selecting life insurance policy. Policyholders are interested to buy the insurance policy that will give maximum benefit at minimum cost to him as well as dependent also.

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Terrorism causes increase in risk and motivate people to invest their amount in such type of schemes that will benefit to them as well as their dependent in case of any loss. Not only terrorism in developing countries increase in inflation also encourages people to invest their savings in buying life insurance scheme. Shrivastava(2005) explained the terrorism and effects of terrorism on individual's life. Because of increase in trend of terrorism uncertainty of life can be manageable to the great extent through insurance that will be beneficial to the insured as well as their dependent.

Secondly it is also find that (H2) is also positive i.e. life insurance policy is a source of covering personal risk to a great extent ( $p < .05$ ). Thus investment in buying life insurance policy is beneficial to the policy holders in case of any disability and also provide security in case of loss of human capital. Puelz (1991) presented a Analytical hierarchy process model that helps an individual to choose life insurance for minimizing risk.. This AHP model helps an individual to select the best insurance.

Thirdly, it is also notified that (H3) is also accepted i.e. life insurance is attractive and beneficiary risk coverage instrument for an employee. ( $p < .05$ ). In this modernize and advance technology era everyone is interested to render their services to those organization, which provide full security to employees as well as their dependent. Organization can easily hire talented, skill labour force by giving them some incentive in form of life insurance, and in return, it will be beneficial to the organization. Santomero and. Babbel (1997) explained the process of analyzing financial management risk by insurance companies. For this purpose authors consider a committee comprises of different persons of management side and lead by a senior manager of the organization to find out the way that how the risky condition can be manageable with the help of insurance company.

Fourth hypothesis (H4) is not accepted i.e. life insurance is often an important component for dependent ( $p > .05$ ). It indicates that not only life insurance is important component to dependent but also the presence of earning member. No doubt that up to some extent life insurance can cover the financial crisis but cannot fulfill the all requirement of dependent. Some religious point may effect on decision of buying life insurance scheme.

## CONCLUSION

.Pauly and Herring (2007) developed a model that shows demand for life insurance. Study estimating demand for insurance has taken data from the individual or nongroup health insurance market. Dependent variables were chosen insurance plan's restrictiveness, chosen plan cost, whether any coverage obtained. Explanatory income, age variables were, gender, family size, education, health status. Moffets (1979) introduced the new matrix that explained the concept of saving related to life



insurance. Model considered premiums, death benefit and survivor. Mathematical relations explained the importance of life insurance that in the presence of different saving schemes how the insurer increases the customer for life insurance.

Different authors explained insurance in different ways related to uncertainty bases, but in this article major emphasis given to role of insurance to cover up uncertainty that will be beneficial to insured as well as his dependent.

The basic purpose of buying insurance policy is to make investment as well as safety of wealth and maintain same standard of living of dependent after the uncertain death of policyholders.

Study have been done related to life insurance demand basically for developed countries where fully resources are available to insurance industry and government also pays more attention on this investing activities. But for developing countries lack of financial availability and increase in terrorism increases the uncertainty and increases the demand for life insurance

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# A Competency Model for Effective Training in Bancassurance

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## **ABSTRACT**

*People are the most valuable assets. However, in reality, the greatest challenge faced by any organization is that human resources remain undervalued, underutilized or under trained. In order to combat with this challenge, every organization must ensure that they have the right people capable. Globalisation, favourable economic climate, growing urbanization, increasing consumerism, technology and rise in the standard of living increased the demand for financial products and services and generated greater employment opportunities. Increased competition world-wide is forcing the learning organizations to find innovative ways to design and deliver cost-effective training. Although there is an increasing awareness in education and employment, with dynamic regulatory provisions, high employee turnover, spread of workforce across boundaries, getting the right person for right job at the right time became difficult and necessitated the effective training especially in banking and insurance sectors.*

*The present study makes an attempt to propose a competency model to impart effective training for bancassurers. For this purpose, the article proposes the ASTD (American Society for Training and Development) competency model to provide a strategy for successful professional training.*

## **1. INTRODUCTION**

People are the most valuable assets. However, in reality, the greatest challenge faced by any organization is that human resources remain undervalued, underutilized or under trained. In order to combat with this challenge, every organization must ensure that they have the right people capable. Increased competition world-wide is forcing the learning organizations to find innovative ways to design and deliver cost-effective training. Thus, training, as an important HRD (human resource development) function, refers to the methods employers use to give new or present employees the skills they need to perform the jobs effectively and efficiently.

## **2. NEED AND IMPORTANCE**

Globalisation has resulted in favourable economic climate in the form of growing urbanization, increasing consumerism, technology and rise in the standard of living. All these factors increased the demand for financial products and services and generated greater employment opportunities.

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Considering the complexity in the financial sector, the requirement for quality manpower is inevitable. Although there is an increasing awareness in education and employment, with dynamic regulatory provisions, high employee turnover, spread of workforce across boundaries, getting the right person for right job at the right time became difficult and necessitated the effective training especially in banking and insurance sectors.

### **3. REVIEW OF LITERATURE**

Dr. V. Sreedevi et al (2014) suggested that performance appraisal and sales training needed to be emphasized for improved performance in bancassurance business in India. Alok kumar & Pankaj kumar pandey (2013) found that the most common challenges to success are poor manpower management, lack of a sales culture within the bank and no involvement by the branch manager.

Anju verma and Renu bala (2012) concluded that bancassurance would provide cost effective channel to increase the life insurance density and penetration. Sumathi Kumaraswamy (2012) examines the bancassurance business of India and suggests that, with the increasing usage of information technology and enhanced customer sophistication, bancassurance is expected to play an important role in future growth of life insurance. T.Hymavathi Kumari (2012) concluded that better trained bank employees as well as the informative marketing material can give boost to business. Dr.NanditaMishra (2012) concluded that adequate training coupled with sufficient incentive system could bring success to the bancassurance. Dr. Shefali Verma et al (2011) found that training plays a very important role in the success of any organization because directly or indirectly it affects the performance of the employees. Through training opportunities, workers can develop and maintain skills that are required for employment in a continually changing workplace. Pang-Ru Chang, Jin-Lung Peng and Chiang Ku Fan (2011) found that a salesperson in a traditional sales channel sells diversified financial products, but financial specialists in banks need more training about insurance products to function well in bancassurance channels.

Thus, earlier studies emphasized on the significance of training needs in promoting insurance for bankers.

### **4. METHODOLOGY**

The present study makes an attempt to propose a competency model to impart effective training for bancassurers. For this purpose, the article proposes the ASTD (American Society for Training and Development) competency model to provide a strategy for successful professional training. Training programs often aim to develop the competencies or skills the person needs to do his or her job. A

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competency model consolidates an overview of the competencies (the knowledge, skills and behaviours) someone would need to do a job well. This model identifies training and development skill gaps to accomplish individual goals in consistent with the organizational goals. The components of this model are applied to suit the training needs of bancassurers and can serve as the base for continuous needs to address the challenges and problems faced by the bancassurers. This can, in turn, be modified to supplement the existing training modules.

## **5. TRAINING IN BANCASSURANCE BUSINESS**

At present, insurance employment provides attractive career opportunities and better compensation. This calls for hiring the right profile employees and giving them quality training in accordance with the industry standards and thereafter retaining them for efficient conduct of business. Hitherto, for insurance education and training, the Indian insurance companies drawn support from Chartered Insurance Institute (London) and Institute of Actuaries (London). On 30th June 1955, the Federation of Insurance Institutes floated 'Insurance Institute of India' and established 'College of Insurance' for providing insurance education and attempted to fill the gap in the area of continuous training needs of the Indian insurance industry.

It is seen that the traditional banking undergone a sea change requiring a whole range of services to suit the requirements of diversified customers. Insurance firms use a variety of intermediaries such as individual agents, brokers, banks and direct selling and sometimes, a mix of two or more channels of distribution. On the recommendations of Malhotra Committee, banks participated in the insurance sector. With the intensity of competition, the profit margins have dwindled and banks had to look for alternative business solutions. Bancassurance is a strategy whereby the bank cross-sells insurance products through its own distribution channels called branches to its customers. Thus, 'Bancassurance' constitutes three parties – the bank, the insurer and the insured (customer).

According to the IRDA, the life insurance industry recorded a premium income of Rs.3,14,283 crore during 2013-14 as against Rs.2,87,202 crore in the previous financial year, registering a growth of 9.43 per cent (0.05 per cent growth in previous year). During 2013-14, life insurers issued 408.72 lakh new policies. The non-life insurance industry had underwritten a total premium of Rs.70610 crore in India for the year 2013-14 as against Rs.62973 crore in 2012-13, registering a growth of 12.13 per cent as against an increase of 19.10 per cent recorded in the previous year. As regards channel-wise distribution of policies, bancassurance has become an important channel in many countries and particularly in the emerging economies like India. It is because the channel offers several advantages such as low distribution cost, wide geographical spread of bank branches, enjoying customer loyalty and significant

reduction of distribution and other administrative costs. In 2012-13, the bancassurance channel alone contributed to 2452767 number of life policies with a premium of Rs. 10072.96 crore. In case of non-life business also, the banks floated 7826000 policies amounting to a gross premium income of Rs.4186 crore. During 2013-14, the share of banks in total individual new business had gone down from 16.18 per cent in 2012-13 to 15.62 per cent in 2013-14. Earlier, only on-the-job training was given for newly appointed agents. However, this is slowly replaced with the formal training with the rapid expansion of big players like ICICI Life Insurance, ICICI Lombard, HDFC Life Insurance and Tata AIG General Insurance. Moreover, high attrition rate of agents in the insurance industry especially due to low remuneration for the last three years raised concern as it adversely affects life insurers' business, policy persistency and public perception of the agency channel as a stable career (IRDA). . As banking is the main function of a banker, he may or may not be expected to possess the knowledge and skills of selling insurance policies. Therefore, it is imperative to impart training to the bankers

## 6. APPLICATION OF ASTD COMPETENCY MODEL TO THE BANCASSURER TRAINING

Training starts with who needs to receive training, what kinds of training are required and who will be responsible for providing training and for testing the learned from the training. The ASTD model (Figure 1) emphasizes on two aspects. They are 'foundational competencies' that are important to everyone in the field and the 'specific areas of expertise', which are the specialized knowledge and actions required by specific roles. The application of each of these components with respect to bancassurrer training is described in the following table (Table 1):

**Figure 1: Figure showing the ASTD Competency Model™**



**Table 1: Application of ASTD Competency Model for Bancassurance Training**

Training and Development area of expertise/Foundation Competencies	Application of the model in Bancassurance training
<p><b>Instructional Design:</b> Design and develop informal and formal learning solutions using a variety of methods.</p>	<ul style="list-style-type: none"> <li>Chalking out a strategic business plan to provide a wide range of world-class financial products and services and expand the insurance business across the territories.</li> </ul> <p>Assessment of short-term and long-term training needs in general and specific areas.</p> <p>Drafting a curriculum and creating modules in collaboration with the insurance companies, actuarial experts, brokers, agents, bank branch managers, bancassurers and other authorized/regulatory bodies such as the III and the IRDA, CITRD (Centre for Insurance Training, Research &amp; Development) and also other industry stakeholders in designing various certified courses.</p>
<p><b>Training Delivery:</b> Deliver informal and formal learning solutions in a manner that is both engaging and effective.</p>	<p>Establishing clear-cut objectives for delivering the training program. Giving lectures, providing training material booklets, demonstrations through audio video visuals, conducting workshops, learning via customized computer software applications, issuing In-house magazines and training circulars to keep abreast of the latest trends in the economy in general and insurance business in particular.</p> <p>Creating motivation and encouragement for quality learning.</p> <p>Evaluate learning outcomes through feedback for effective training or retraining.</p>
<p><b>Learning Technologies:</b> Apply a variety of learning technologies to address specific learning needs</p>	<p>Effective Data base management system to respond to the customer profiles besides providing convenience and accurate information regarding various insurance products and services.</p> <p>Deploying information technologies such as mobile devices, social media, big data, predictive modeling and cloud computing.</p> <p>Web-based agency sites allow clients to complete application processes, sign policies and proposals, and receive quotes without having to visit the insurance agency in person.</p> <p>A variety of insurance technology software and hardware exist to make an insurance agent's work easier. Agency Port's BookSmart, AMS Service Transit Server, PACT accelerator, TurboStorm and TurboRator Comparative Rating System and Insurance management systems are a few of the significant insurance technologies that allows agents to decrease input and output processes.</p> <p>Telematics and usage-based insurance (UBI) are of recent technologies in auto insurance.</p>
<p><b>Evaluating Learning Impact and managing learning programs.</b></p>	<p>Identifying the training needs on continuous basis by establishing the competency gap.</p> <p>Equip sales team with required skills and knowledge on various products and the range of distribution channels available.</p> <p>Assist the customers in financial planning take the right products, keeping in view their demographic and socio-economic profile vis-a- vis the revenue it can generate to the banks in dealing with the risks of the insured against several calamities.</p>
<p>Use learning metrics and analytics to measure the impact of learning solutions. Provide leadership to execute the organization's people strategy; implements training projects and activities.</p>	<p>Platform for discussing various problems, ideas in the light of past experiences by the bancassurers and suggest alternative solutions.</p> <p>Ensuring flexibility in designing the programmes.</p> <p>Ways to increase insurance penetration by creating innovative products such as obtaining single policy covering multiple disasters and basic insurance needs for different income groups.</p> <p>Redesigning the products, strategies and processes on timely basis.</p> <p>Top management support and commitment.</p>

<p><b>Integration of Talent Management and Coaching:</b></p> <ul style="list-style-type: none"> <li>• Build an organization's culture, capability, capacity, and engagement through people development strategies.</li> <li>• Apply a systematic process to improve others' ability to set goals, take action, and maximize strengths.</li> <li>• Capture, distribute, and archive intellectual capital to encourage knowledge sharing and collaboration.</li> </ul>	<p>Creating careers that lead to effective sales performance specially in the areas like Motivation, Team Working, Effective Performance Management, Relationship Management, Resource Planning, Leadership, Time Planning, Goal Setting, Optimising Management Information, Managing Service Quality, Mastering Technology, Coaching and Developing Staff.</p> <p>Focus on quality customer service.</p> <p>Adopting the customer-centric approach keeping the customer's best interest genuinely rather than just achieve the sales targets and commission. However, this may call for rephrase of new set of sales practices, behaviours and skills on the part of bancassurers.</p> <p>Ethical and compliant approach to sales promotion. Inculcating empathetic skills amongst the staff.</p> <p>Addressing implementation issues such as role clarity and fixing the responsibility for sales management.</p> <p>Providing additional incentives to customers.</p> <p>Creating value addition to every transaction or communication by retaining its existing customers and attracting prospective ones.</p> <p>Establish trust and intimacy with the client.</p> <p>Maintaining competitive edge to distinguish itself from competitors and improve its image among customers.</p> <p>Effective leadership and management style for developing motivation among the staff.</p> <p>Unlocking the distribution potential of bank branches for increased sales and revenue.</p> <ul style="list-style-type: none"> <li>• Focus on quality referrals</li> <li>• Improvement in the business relationships of insurers and bancassurers with NGOs, SHGs, Banking Correspondents and VLEs (under CSC scheme) facilitating insurance research and also enhancing the insurance reach.</li> </ul>
<p><b>Change Management and Performance Improvement:</b></p> <p>Apply a systematic process to shift individuals, teams, and organizations from current state to desired state.</p> <p>Apply a systematic process for analyzing human performance gaps and for closing them.</p>	<p>With the help of situation analysis, expert trainers conduct a number of interviews with selected staff from the branch network as well as Head Office and Regional/Area functions to identify the stage of development of the business to understand the pitfalls and motivational issues that may be affecting the sales team in the light of global best practices allowing for cultural differences, and the challenges to be faced in the future.</p> <p>Trainers then identify all the gaps and make recommendations for best business practices and provide a comprehensive report.</p> <p>Imparting training should always be seen as investment in staff and the returns on such investment are automatically generated in the form of profits.</p> <p>Selection of trainers with sufficient experience or knowledge in the financial services.</p> <p>Mentoring the sales staff to provide regular counselling, advice, facilitation and direction, guiding the mentored staff member to perform consistently to the required standard.</p>
<p><b>Foundational ompetencies :</b></p> <p><b>Business Skills</b></p> <p><b>Global Mindset</b></p> <p><b>Industry Knowledge</b></p> <p><b>Interpersonal Skills</b></p> <p><b>Personal Skills</b></p> <p><b>Technology Literacy</b></p>	<p>Developing a contextual help system through customized software packages to the bancassurance mentors, trainers and sales force.</p> <p>Development of the right mental attitude amongst bank staff and sales force and direct their efforts towards customer delight.</p> <p>Emphasis on customer trust and loyalty amongst bank staff. Making them aware of their own abilities and inherent strengths to deal with the anxieties of diversified customers.</p> <p>Reducing the product complexity and cumbersome procedures and formalities in taking the insurance policies and dispel fear and anxiety amongst the clients.</p> <p>More thrust on micro insurance products.</p>
	<p>Offering specialized products by specialized staff. Finding market niches to enjoy monopoly.</p> <p>Skill, will and opportunity for optimal sales performance.</p> <p>Blending of both traditional and modern selling techniques for aggressive sales promotion without creating the negative effect on customer relationships and bank image.</p>



## 7. CONCLUSION

Training is a vital part in the performance of overall business. Both the insurance density and penetration had declined since 2009 due to decrease in savings, unbanked households, decreased exports, high inflation, expansionary monetary policies, weak economic growth, mis-selling of insurance products and also reduced demand for life insurance market. A cooperative regulatory framework, strong insurance awareness and education, proactive sales culture along with quality customer service through value addition creates competitive advantage and improve its image and retain not only its existing customers but also attract potential clients. Besides, the increased cap of FDI (Foreign Direct Investment) in insurance from 26% to 49%, coupled with newly

launched scheme by the Prime Minister Shri Narendra Modi Jan Dhan Yojana (JDY) as an initiative towards financial inclusion would augment the growth in insurance sector. Further, a two-way referral system by both the parties can go a long way in synergizing the operations between the insurance and banking business. Finally, bancassurance can be a win-win strategy provided both the banks and the insurers are aware of each other's needs such that both recognize that their primary role is to satisfy the customer.

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# Role of Bancassurance in the Performance of Commercial Banks with Special Reference to HDFC Bank

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## **ABSTRACT**

*The business of banking and insurance around the globe is changing due to integration of global financial markets, development of new technologies, universalization of banking operations and diversification in non-banking activities. This has given rise to a new form of business i.e. bancassurance business where banks and insurance join hands together.*

*Bancassurance simply means selling of insurance products by banks. By selling insurance policies bank earns a revenue called as fee-based income. This may help the banks to cover up most of their operating expenses and also to improve the levels of staff efficiency in the banks. So, efforts are being made to do the evaluation of performance of bancassurance. The paper wants to study the role of bancassurance in the performance of banks and to find out that banks should continue their bancassurance business or not. CAMEL MODEL has been used as a tool of analysis, as it is a recognised model for measuring the financial performance of banks.*

**Keywords:** *Bancassurance, Capital Adequacy Ratio, NPA, EPS, Return on Asset, Business per Employee, Profit per Employee*

## **1. INTRODUCTION**

### **Meaning and Definition of bancassurance**

Bancassurance is a new buzz word. It originated in India in the year 2001. Bancassurance simply means selling of insurance products by banks. In this arrangement, insurance companies and banks go through a tie-up and thus allowing banks to sell the insurance products to its customers. This is a system in which a bank has a corporate tie-up with one insurance company to sell its products by selling insurance policies, bank earns revenue stream apart from interest. It is called as fee based income. This income is purely risk free for the bank since the bank simply plays the role of intermediary for sourcing business to the insurance company.

The concept of bancassurance was started in France in 1980's and spread across different parts of Continental Europe, USA, and also in Asia, particularly in India. Government of India, during its

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notification dated 3<sup>rd</sup> August 2000, has accepted insurance as an acceptable form of banking under the Banking Regulations Act 1949. The Reserve Bank of India too has approved bancassurance by allowing banks to offer physical infrastructure to insurance companies within the premises of some selected branches and allowing them to sell their insurance products to the bank's customers. These banks in exchange earn referral fees based on the premium collected. . It started getting more recognition after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 of „Corporate Agency“ regulations. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer.

### **Reasons for banks to enter into bancassurance business**

1. By getting into the business of general insurance, banks are trying to provide an extra flow of revenues from the same customers through the same channel of distribution and with the same people.
2. Insurance distribution will help the banks to increase its return on assets (ROA) by providing fee based income. Fee based selling helps the banks to cover part of their operating expenses and also helps to increase the levels of staff productivity in banks.
3. Banks can help to find a way out to lessen overstaffing problems without taking measures for reducing staff.
4. The expense ratio in insurance activities through bancassurance is extremely low. This is because the banks and the insurance companies are getting the advantage from the same distribution channels and customers.
5. Banks entry in distribution of insurance products helps them to expand their profit margin and simultaneously the customer base for the insurance companies rapidly. This helps to popularize insurance as an important financial protection product.
6. Banks try to retain customer loyalty by offering them an added and more sophisticated range of products like by selling personal life insurance policies to customers at a nominal rate while opening a new account.
7. Banks can also take the benefit of large scale customer base. With the help of this the per-head cost will be reduced rather than advertising it through print, radio or television.

It is expected that through bancassurance banks and insurance companies can collectively receive a fee - based income between Rs.13, 500 Cr. and Rs. 22,000 Cr. over the next five years. In India, with some insurers such as SBI Life already selling almost 40% new business through bancassurance channel, and thus following the success story of the European nations; while others like ICICI-Prudential Life, HDFC-Standard Life, Kotak Life Insurance, Aviva Life Insurance and ING-Vysya Life Insurance

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contributing about 25% from bancassurance channel. HDFC bank has been awarded as best bancassurance partner for the year 2011 during the 11th International Excellence in Retail Financial Services Awards Programme.

### **Entry of HDFC bank into bancassurance business**

HDFC Bank also distributes life insurance, general insurance companies and mutual fund houses. Third party distribution income contributed approximately 15% of total fee income for the year ended March 31, 2015, compared to 11% of the total fee income for the previous year. Under bancassurance business, HDFC bank has two subsidiaries HDFC Standard Life Insurance Company Limited and HDFC ERGO General Insurance Company Limited. HDFC Standard Life Insurance Co. Ltd. was established in the year 2000. It became the first private life insurance company in India. HDFC Life is a joint venture between Housing Development Finance Corporation Limited (HDFC), India's leading housing finance institution and Standard Life plc, the leading provider of financial services in the United Kingdom. HDFC Ltd. holds 70.65% and Standard Life (Mauritius Holding) 2006 Ltd. holds 26.00% of equity in the joint venture, while the rest is held by others.

HDFC Ergo General Insurance was established in the year 2002. It is a 74:26 joint venture between HDFC Ltd. which is India's housing finance institution and ERGO International AG, the primary insurance entity of Munich Re Group. Banks earned commission income for the year ended March 31, 2015 includes fees of ` 454.01 crore (previous year: ` 337.56 crore) in respect of life insurance business from HDFC Standard Life Insurance Company Limited and ` 137.07 crore (previous year: ` 116.69 crore) in respect of general insurance business from HDFC ERGO General Insurance Company Limited.

### **LITERATURE REVIEW**

Sparks, K. Karol. (2013) it provides a detailed roadmap for banking institutions seeking to commence insurance activities and maximise opportunities in this competitive era. Insurance activities of banks are logical pursuits for partnerships and joint venture structures as banks seek expertise and support from insurance companies and insurance agencies. Joint ventures between banking and insurance companies are gaining popularity in the late 1990. These arrangements permit the banks to focus on distribution and marketing, and with the insurance companies focusing on product development, underwriting and insurance expertise. The bank assumes variety of roles through various activities in networking arrangements: sale of customer lists, referrals, lease of office space, employee sharing, marketing accommodations and administrative support.

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Krishnamurthy, R. (2004) banks command enormous trust in the minds of the public and has a close knowledge of the customer's background. This helps bank in selling life insurance and hence insurance companies seek to enter into wide ranging banking partnerships. Bancassurance has achieved remarkable success in some European countries. Banks in Europe have also chosen to concentrate on bancassurance, as a major fee earning activity to beat the stringent risk-based capital needs imposed by the Basle Rules. The extensive presence of bank branches and the large no of bank customers would mean that India in some ways as in the case of Japan is an ideal candidate to take bancassurance forward.

Kulkarni, Shubhada, Mohan. (2012) banks are having the necessary potential to make bancassurance the most efficient way to achieve financial inclusion in insurance sector. The bank customers with higher average premium per-capita provide quicker means to grow for insurers. The complementary nature of insurance products towards the bank advances (e.g.credit life) provide synergies in operations to the entire financial sector. The ease of access to bank customers reduces servicing costs, contributes to lower lapsation of insurance policies and hence lower costs to the economy. Banks see value in insurance business due to complementarity of products, fee income derived from the distribution of insurance and ease of recovery of advances in case of death of the borrower or destruction of properties.

Pejawar, Anand. (2008) by doing proper analysis of the transactions, the banker can understand the "Investment psychology" of the customer and accordingly offer the insurance products to them. The lengthy forms, lengthy processes, tough underwriting norms, cumbersome health check-up will put off the customer as they are used to having simple and faster approvals. Products sold through bancassurance channel should be simple to understand, simple to sell and simple to buy. The future is bright and positive. Indian life insurance industry, which is growing at a CAGR of around 25% is expected to be a big boon to this segment which could be a major contributor in Asian Bancassurance markets in the coming years.

Venugopal, R. (2011) bancassurance is the second most preferred channel for the Customers after agency channel. For banks, it is a source of additional fee-based income. For insurers, it is a tool of increasing their market penetration and premium turnover. For the customers, it is a bonanza in terms of easy purchase, high quality product and service delivery at own will and doorstep. Thus it is a win-win situation for all. Banks have extensive experience in marketing to both existing customers and new clients. They have access to multiple communication channels like the direct mail, ATMs, telemarketing etc. So there is a vast scope for life insurance business when banks provide the insurance support for Home loan, Personal Loan, Vehicle Loan etc. and an equally considerable opportunity for selling General insurance while sanctioning other advances for machinery, equipment, properties and the like.

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Sreesha, C.H. (2014) it explains the conceptual frame work of bancassurance and explains the different models of bancassurance prevailing in India. A brief description about different bancassurance product available and major bancassurance tie-ups in India are also given. For measuring the real benefit of convergence of banking and insurance to banking companies, a case study has done by selecting the largest public sector bank in India named State Bank of India. This case study reveals the extent of cross selling benefit enjoyed by banks in India. The correlation analysis shows the relationship between the cross selling percentage and performance measurement variables of banks.

Karunagaran A. (2006) This paper identified the various bancassurance models as feasible source of sustainable income to banking sector by exploiting the synergy in the context of India having the largest banking network on the one hand and lower insurance penetration and insurance density on the other hand. It also highlights some of the likely issues in general as well as specific from the point of regulator and supervisor. It concludes that going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India and it would be a „win-win situation“ for all the parties involved - the customer, the insurance companies and the banks.

Trivedi, Smita Roy. (2015) the paper looks at the impact of new business lines and income streams on banks“ profitability and stability. In Indian banking, the move to innovation adoptions and new income streams has been more pronounced for new private and foreign banks, while there appears to have been certain hesitation on the part of public sector and old private banks. The implications of the study may be that banks adopting new income streams must choose those that are likely to enhance stability of income. The distribution of non- interest income can significantly impact stability of income as increasing „fee-income“ in non-interest income may have a positive impact on risk-adjusted Performance. Trading income, an important component of non-interest income, seems to be more volatile while core service income or the fee, commission, and brokerage income generated from provision of new products and services may lead to greater stability in income.

Pandey Pooja and Asthana Pradeep. (2015) it analyse the financial impact of banc-assurance business on performance of the banks and to compare the financial position of banks dealing in insurance. The paper concludes that bancassurance is a petite earner for the banks but if it used effectively then this will certainly be the good source of fee-based income for banks. Growth rate of insurance income is remarkable in some of the banks so there is scope of selling bancassurance products by the banks in the long run. Sridharan, G and Allimuthu, S. (2009) Banks in India have a wider network with high level of confidence and trust among public. This made insurance companies to have distribution agreements with banks. The introduction of bancassurance concept the banks with the customer base they have are

able to tap the market very well. Banking institutions and insurance companies have found bancassurance to be an attractive and profitable complement to their existing activities. The successes demonstrated by various bancassurance operations particularly in Europe have triggered a concept of mergers and acquisitions across continents and efforts are on to replicate the early success of bancassurance in other parts of the world as well.

### **SIGNIFICANCE OF THE STUDY**

Banks are the key pillars of the Indian Financial system. Banks have realised the importance of value added services like insurance service to fulfil customer need at one door step. As bancassurance services helps to increase the fee based earnings of the banks through commission which is profitable for the banks and side by side it helps in improving the productivity of staffs. This study is helpful in knowing the impact of bancassurance activity on the performance of banks and to find out that banks should continue their bancassurance business or not.

### **OBJECTIVES OF THE STUDY**

1. To analyse the impact of bancassurance on the financial performance of bank.
2. To identify the important financial ratios from the camel model on which banks performance can be judged.
3. To know that bancassurance business is profitable for banks or not.

### **RESEARCH METHODOLOGY**

The study will be analytical in nature. It is mainly based on secondary data. For this study, HDFC bank, the largest private sector in Indian banking industry was taken as a sample. The annual report of HDFC bank has been used for making an analysis on the financial performance of banks in bancassurance and the data pertinent to bancassurance has been collected from journals & magazines as well as the internet. The study period is 5 years, starting from year 2010 to 2015. CAMEL Model has been used as a tool for the analysis of data.

### **LIMITATIONS OF THE STUDY**

The limitation to this work is the time factor as it covers the five year period ranging from 2010-2015 which restricts the facts. And it is mainly based on secondary data which is derived from annual reports of banks so the reliability and accuracy depends on the data published in such reports. This study is totally quantitative in nature so it does not give the importance to the qualitative facts like efficiency of workers, reputation and prestige of the management which also play an important role.

## CAMEL MODEL

To judge the financial viability of banks, the Reserve Bank of India has introduced a rating methodology known as CAMEL [Capital adequacy, Asset quality, Management performance, Earning performance, Liquidity] model. The CAMEL model can be implemented by making use of the publicly available accounting data. In general CAMEL rating is designed to reflect a bank's financial performance. The table below presents the financial indicators (taken for this study) for each of these selected modules and its expected effects on the likelihood of improvements of bank's performance. Those important variables are been selected from the CAMEL model which have direct link with bancassurance performance.

**Table 1 Financial indicators from CAMEL model and their expected improvement in the bank's performance**

Financial Indicators	Expected effect on performance
<b>Capital Adequacy and Solvency</b>	
Capital Adequacy Ratio	Increase
<b>Asset Quality</b>	
Return on Assets	Increase
Non-performing assets as % to net advances	Decrease
<b>Management Performance</b>	
Staff cost as a % to total income	Decrease
Non-Interest income as % of operating profit	Increase
Operating cost as a % to total income	Decrease
Business per Employee	Increase
Profit per Employee	Increase
<b>Earning Performance</b>	
Earnings Per share	Increase

### Analysis of performance of HDFC in bancassurance by using CAMEL Model

- 1. Capital Adequacy Ratio-** It is a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures. As per the RBI guidelines for the banks to enter into the insurance sector, the CAR of the bank should not be less than 10 % and the level of non – performing assets should be reasonable. By entering into bancassurance business the bank can reduce the risk weighted assets and thereby increase capital adequacy ratio.
- 2. Return on Assets:** It is calculated to know productivity of the assets. The return on assets formula looks at the ability of a company to utilize its assets to gain a net profit. The best opportunity for the banks, which undertakes bancassurance operation is to increase its return on assets.



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**ROA= Net Income/ Average Total Assets**

3. **Non-performing assets as a % to net advances** - Banks are required to reduce their NPAs to a reasonable level, as a precondition to enter into bancassurance. And moreover, when insurance products will be used as collateral to secure bank advances and loans, banks would be able to control their NPA.
4. **Staff cost as a % to total income:**It is the amount spent by an organisation towards an employees which includes salary, wages, and perks, etc. out of its total income earned. Banks have excess human resources which it can use for other cross selling activities like bancassurance and can reduce the staff cost.
5. **Non-Interest income as % of operating profit** – It is the ratio of non-interest income to operating profit. Banks which indulge in bancassurance activities earns commission income which is included in non-interest income. So it is necessary to calculate.
6. **Operating cost as a % to total income** – Due to bancassurance, banks will be able to enjoy economies of scale advantage which lead to reduction in the operating costs of the banks.
7. **Business per Employee:** This ratio is used to find out the productivity of employees. It is the other benefit associated with Bancassurance .The bank can be able to earn income through Bancassurance business by using its existing employee.  
Business per employees – Total of net advances and deposits / Average employee Numbers
8. **Profit per Employee:** it helps to find out the productivity of the employees in terms of profit. By entering into bancassurance business, it can be able to increase its profit per employee by utilising existing employees only.

**Profit per employee- Net profit/ No of Employees**

9. **Earnings per share-**The portion of a company's profit share serves as an indicator of a company's profitability. It shows the overall performance.

**EPS = Net Income/Average Outstanding Shares**



**Table 2: Performance of HDFC in bancassurance from 2010-2015**

<b>Financial Indicators of HDFC</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Capital Adequacy Ratio	16.20%	16.50%	16.80%	16.10%	16.80%
Return on Assets	1.58%	1.77%	1.90%	2%	2.02%
NPA as % to net advances	0.19%	0.18%	0.20%	0.27%	0.25%
Staff cost as% to total income	11.69%	10.10%	9.46%	8.52%	8.72%
Non-interest income as % of operating profit	60.60%	61.59%	59.97%	55.15%	51.70%
Operating cost as % to total income	32.06%	27.56%	26.81%	24.55%	24.34%
Business Per employee	6.53	6.54	7.5	8.9	10.1
Profit per employee	0.07	0.08	0.1	0.1	0.12
Earnings Per share	17	22.1	28.5	35.5	42.1

**RESULTS OF THE STUDY:**

1. The Capital Adequacy ratio has been found to be in a favourable position because it shows an increasing trend. The bank slightly showed a continuous growth of 16.8% in 2014- 15 from 16.2% in 2010-11. As per the norms of RBI, the capital adequacy ratio should not be less than 10% while performing bancassurance operations. So it is concluded that HDFC has the potential to go for bancassurance operations in future.
2. The return on asset ratio is continuously increasing and reached to 2.02% in 2014-15 from 1.58% in 2010-11. Therefore, it can be said that bank has the full ability to utilise its assets for earning maximum profit by going through bancassurance activities.
3. According to the RBI norms, there is another precondition that banks should have a reasonable level of NPA. So this ratio should be considered. It is noted in the observations that in the year 2011-12 the NPA to net advances ratio decreases to 0.18% then it increases to 0.27% in 2013-14 and again it decreases in next year. Thus, banks should take steps for reducing this ratio.
4. The staff cost as a % to total income is continuously declining year by year which proves that banks are using their excess human resources for other cross selling activities profitably. So their staff per cost reduces.
5. Commission income is earned by banks through bancassurance which is included in the non – interest income. From the table, it is clear that non-interest income as % of operating profit is continuously declining which is not a positive signal for bancassurance operations.
6. Bancassurance will lead to the reduction in operating expenses of banks as it can have the opportunity of economies of scale. It is observed in the table that operating expenses as % to total income is continuously decreasing. So banks are getting benefit from bancassurance.
7. The other benefit of bancassurance is that, banks can increase its business per employee and profits per employee by redeploying its existing human force for selling insurance. Table 2 indicates that business per employee and profits per employee have increased from 6.53 and 0.07 in 2010-11 to 10.10 and 0.12 in 2014-15.

8. The earning per share (EPS) also shows an increasing trend although it is not directly linked with bancassurance. But the ultimate aim of banking activity is to increase its EPS.

## CONCLUSIONS

The performance of HDFC bank in bancassurance business has been found to be satisfactory. It has done a good job till now but still it is not utilising its full potential in bancassurance activities. The financial indicators like increase in capital adequacy ratio, return on assets, business per employee, profit per employee and decrease in staff cost operating expenses shows a favourable position of bank performance through bancassurance. But from the negative side, the decrease in non-interest income and NPA fluctuations is not a positive signal. Banks has to take necessary steps like making efforts to increase the fee income through more insurance sales by employees training & customer awareness programmes etc. to overcome this problem. So lastly it is concluded that the progress of bank is the result of many factors and bancassurance is one of the important factor playing a greater role in the performance of banks.

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# Capital Structure and Firm Value in Nigeria (Evidence from Selected Quoted Firms)

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## **ABSTRACT**

*The study examined the effect of capital structure on firm value of selected quoted firms in Nigeria. It adopted long term debt, equity capital, as independent (x) variables of capital structure while Tobin Q was used as proxy for firm value the dependent variable. It adopted ex-post facto research design. The statistical package used for the analysis was e-view version 8.0. The population of the study was firms drawn from conglomerate and consumer goods sectors of Nigeria Stock exchange for a period of nine (9) years 2007-2015. Descriptive statistics, correlation and ordinary least square (OLS) of multiple regression analysis were used to test the hypotheses formulated to guide the study. The coefficient of determination  $R^2$  showed that 65% systematic variations in firm value could be explained by the independent variables. The F value (62.44647) was significant at 1% which means that the parameters estimated were statistically significant in explaining the effect of the independent variables on the dependent variable. The study therefore, concluded that capital structure with regard to long term debt was negatively but statistically significant to firm value, while equity capital was positively insignificant to firm value. The study recommended that firms should be more concerned with management of equity capital in business financing since it is more related to the value of the firm.*

## **INTRODUCTION**

Capital structure is the the method which a company adopts to finance its assets through the mixture of equity, debt or hybrid securities (Ubesie (2016). Chechet and Olayiwola (2014) observe that whether a business is newly established or is ongoing, it requires funds to carry out its activities. These funds are referred to as capital. Capital structure therefore refers to the means of funding a business. Two major sources available for firms willing to raise funds for their activities are internal and external (Chechet and Olayiwola, 2014). Internal sources refer to funds generated from within an enterprise; while external sources refer to funds generated from outside the entity. External funding may be by increasing the number of co-owners of a business or by outright borrowing in form of loan, or the, issuance of debentures, bonds or other forms of debt instruments (Ubesie2016). Financial managers are concerned with the determination of the best financing mix; or the optimum combination of debts and equity available to the firm (Akeem; Terer; Kiyanjui,. and Kayode, 2014). According to Akeem et al., (2014)

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one of the importances of capital structure is that it is tightly related to the ability of firms to fulfill the needs of various stakeholders. According to Alfred (2007) as cited in Akeem et al. (2014) a firm's capital structure implies the proportion of debt and equity in the total capital structure of the firm. According to Dare and Sola (2010) as cited in Akeem et al. (2014) there are various alternatives of debt-equity ratio. These include 100% equity, 0% debt; 0% equity, 100% debt and X% equity: Y% debt. From these three alternatives, option one is that of the unlevered firm, that is, the firm that shuns the advantage of leverage (if any). Option two is that of a firm that has no equity capital. This option may not actually be realistic or possible in the real life economic situation, because no provider of funds will invest his money in a firm without equity capital. This is what is referred to as 'trading on equity' because; it is the equity element that is present in capital structure that motivates the debt providers to give their scarce resources to the business (Chechet and Olayiwola, 2014). Option three is the most realistic one in that, it combines both a certain percentage of debt and equity in the capital structure and thus, the advantages of leverage (if any) are exploited.

Firms are financed by their Capital structure, which is the combination of total equity and long term debt (Ogbulu and Emeani 2012). Equity is owner's financial contribution to the firm without any obligation to pay back the cost of fund. Debt on the other hand consists of borrowed fund to which firm has an obligation to pay back both the principal that is borrowed and interest which is the cost for using the borrowed fund (Aliu, 2010). There are different forms of equity and debt, which combine to make up the capital structure. The corporate finance literature attaches much importance to capital structure as a result of its capacity to influence investment through mix of funds (leverage ratio) affects the cost and availability of capital and thus, firms' investment source. Ogbulu, and Emeni, (2012) explain that capital structure refers to the mix of its financial liabilities with equity and debt holders being major investors to the firm, they exert different types of control on the firm's investment decisions. Debt holders receive fixed interest on their investment and exert low control on firms investment decision whereas Equity holders bear most of the risk and exercise greater control for firms investment decisions hence they are the residual claimants, In reality, establishing an optimal capital structure is a difficult task (Shoaib, 2011). Taani, 2013; Oladeji, Ikpefan and Olokoyo 2015) express that a firm may require issuing a number of securities in a mixture of debt and equity to meet an exact combination that can maximize its value. By that process the firm succeeds in achieving its optimal capital structure.

In reality, capital structure of a firm is difficult to determine (Ong and Teh, 2011). A firm has to issue various securities in a countless mixture to come across particular combinations that can maximize its overall value which means optimal capital structure (Ong and Teh, 2011). Therefore, the issue of how an organization is financed is of paramount importance to both managers and providers of funds. This is

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because if a wrong mix of finance is applied, the performance and survival of the business enterprise may be seriously affected (Osuji and Odita, 2012). Capital structure is closely linked with corporate performance (Tian and Zeitun, 2007, as cited in Ong and The, 2011).

In both developed and developing countries, there has been an argument on the effect of capital structure of a firm on firm value (Nwankwo, 2014). According to Akeem et al. (2014) financial constraints have been a major factor affecting corporate firms' value in developing countries especially Nigeria.

The financial management functions of a firm -including its capital structure decision -deals with the management of the sources and uses of finances. According to Pandey (2005), the capital structure decision of a firm is a significant managerial decision; it influences the shareholders return and risk, and subsequently affects the value of a firm. Firms enter into transactions with suppliers of finance (debt holders or equity holders) when raising capital for assets. The right to partake of the cash flows generated from the assets lies with these suppliers. The debt-to-equity ratio of a firm determines how these cash flows will be shared between debt holders and equity holders. In other words, if firms are set up to maximize equity holder's wealth, then the proportion of cash flows disbursed to debt holders becomes important. The different types of financing, however, are also associated with different levels of costs. An examination of the net benefit of a firm's assets should incorporate these cost differences along with the value of such assets. In Nigeria, financial constraints have been a major factor affecting corporate firms' value. Debate on the relationship between the capital structure of a firm and its value began from Modigliani and Miller theory of capital structure and firm value. The core objective of a firm is to maximize its value which can be achieved by examining its capital structure or financial leverage decision based on its impact on the value of the firm (Antwi; Mills, and Zhao (2012), Ogbulu and Emeni (2012), Adeyimi and Oboh (2014)). In capital structure theories, the most important decision of the firm relates to the proportions of debt and equity to employ in order to optimize the value of the firm and minimize the cost of capital (Agliardi and Kousisi, (2013); De long, , Kabir and Nguyen (2008), Margaritis, and Psillaki, (2010), Gersbach, (2013)).

## **STATEMENT OF THE PROBLEM**

Optimal capital structure of a firm is difficult to determine. Although capital structure and its effect on the firm value and performance had been studied for many years, researchers still do not agree on the extent of the effect. Many studies have been carried out on this topic (Ogbulu and Emeni (2012); Antwi; Mills and Zhao (2012), Mathanika, Vinothini and Paviththira (2015), Kausar, Nazir and Butt (2014), Draniceanu and Ciobanu (2013) and Chowdhury and Chowdhury (2010). While Ogbulu & Emeni (2012) reported irrelevance of equity capital to firm value using debt and equity as independent

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variables, Antwi et al (2012) reported relevance of equity capital to firm value using same variables. Since they use the same variables but observed different results, there is need for further research on the topic. This study tries to find out the reason by introducing independent variables of firm size and firm age. Also while Ogbulu and Emeni (2012) used 124 quoted companies in Nigeria stock exchange, Antwi et al (2012) used all 34 quoted companies in Ghana stock Exchange. This study uses quoted firms in two sectors of Nigeria stock exchange. Incidentally no study has been carried out using firms quoted only on these two sectors with the same independent variables at least in Nigeria. This is the gap established by the literature and hence the motivation for this study.

The broad objective of this study is to examine the effect of capital structure on firm value of two sectors (conglomerates and Breweries) of quoted firms on Nigeria Stock Exchange. The specific objectives are to

- i. Determine the effect of long term debt on firm value.
- ii. Find out the effect of equity on firm 'value.

### **RESEARCH QUESTIONS**

- i. How does long term debt affect firm value?
- ii. To what extent does equity capital affect firm value?

**Hypotheses of the study:** The following null hypotheses (Ho) have been formulated to guide the study:

1. Long term debt does not significantly affect firm value.
2. Equity capital does not significantly affect firm' value

### **SIGNIFICANCE OF THE STUDY**

The study will be beneficial to the following:

Policy makers because the study will highlight the need from its findings i for the government to formulate more favorable financial and economic guidelines as the sector demands and this will sustain the operations of Nigerian Manufacturing firms, especially the potential firms yet to be quoted in the stock market and resultantly contributing to GDP of the nation which has been on the decline hitherto that will grow the economy.

Investors will find it useful because it will help them to recognize the link between capital structure and firm value and in choosing appropriate measures to evaluate and analyze firms' financial status while committing their hard-earned funds for a expected return.



Industrialists will value it in identifying problems associated with either debt financing or equity financing and identifying the best financing mix which will be more effective at encouraging an efficient operation of the firms.

Students and researchers who will want to develop future research on this subject will also benefit from this study as it will contribute in filling the gap of existing body of knowledge in accounting, finance and economics regarding capital structure decision which has been a long debate .

### **SCOPE OF THE STUDY**

This study was limited to conglomerates and consumer good sectors with preference to breweries quoted on Nigeria stock exchange as at 31st December 2007. It covers a period of nine years, from 2007-2015. so as to have high observation. (Tobin Q was used as proxy for Firm value. It is perceived necessary in order to keep the study within controllable level.

### **LIMITATION OF THE STUDY**

A lot of constraints were encountered in the course of carrying out this research work. The researcher lacked sufficient resources to face the challenges of this research work. It was not easy to source for the adequate materials' to carry out this research. Most of the companies did not post their financial statements for some years and this led to narrowing the sample size to fifteen.

### **REVIEW OF RELATED LITERATURE**

### **CONCEPTUAL FRAMEWORK**

#### **FIRM VALUE**

Firm value (FV) according to Kim, and Kwak (2010) connotes efficiency of signaling a firm's performance to the market, forecasts expected yields of investments, and assesses realized efficiency of investments. According to Ehrhard and Bringham (2003), the value of a business based on the going concern expectation is the present value of all the expected future cash flows to be generated by the assets, discounted at the company's weighted average cost of capital (WACC). From this it can be seen that the WACC has a direct effect on the value of a business (Johannes and Dhanraj, 2007). WACC is used to define a firm's value by discounting future cash flows. Minimizing WACC of any firm will maximize value of the firm (Antwi; Mills, and Zhao, (2012). Firm value can be seen as Enterprise value (EV) or total enterprise value (TEV) is an economic measure reflecting the market value of a business. It is a sum of claims by all claimants' creditors and shareholders. The relationship between capital structure

and firm value has been the subject of considerable debate, both theoretically and in empirical research. Antwi et al (2012) state that, the value of a firm is the value of its assets plus the value of tax benefits enjoyed as a result of debt minus the value of bankruptcy cost associated with debt. Modigliani (1980) points out that, the value of a firm is the sum of its debt and equity and this depends only on the income stream generated by its assets. The value of the firm's equity is the discounted value of its shareholders earnings called net income. That is, the net income divided by the equity capitalization rate or expected rate of return on equity. The net income is obtained by subtracting interest on debt from net operating income. On the other hand, the value of debt is the discounted value of interest on debt (Antwi et al 2012). Pandey (2004) opines that, the capital structure decision of a firm should be examined from the point of its effect on the value of the firm. He further states that if capital structure decision can affect a firm's value, then firms would like to have a capital structure which maximizes their value. The aim of a firm should therefore center on the maximization of its value through capital structure decisions. For this study Tobin Q will be used as a proxy for firm value. In the work of Nguyen (2014) firm value was measured with ROE and BVE (book value of equity plus long term debt). Kausar et al (2014) used Tobin Q to measure firm value while Chowdhury and Chowdhury (2010) used share price to measure firm value. Funami and Moghadam (2015) used ROE, EPS and MV to measure firm value while Ogbulu and Emeani (2012) and Antwi et al (2012) used book value of equity plus long term debt to measure firm value.

**Tobin Q** :expresses the firms value which is measured by dividing the market value of owners equity plus the book value of total liabilities to the book value of total assets (Ghosh (2007), Agarawal and Zhao (2007) and King and Santor (2008)).

**Tobin's Q:**  $BV \text{ of assets} - BV \text{ of equity} + \text{market value of equity} / BV \text{ of assets}$

### 2.1.2 CAPITAL STRUCTURE

The term capital structure according to Kennon (2010) refers to the percentage of capital (money) at work in a business by type. It is company's use of varied funding sources to finance operations and growth. There are two forms of capital: equity capital and debt capital. Alfred (2007) states that firm's capital structure is the proportion of debt and equity in the total capital structure of the firm. Pandey (1999) in the work of Adeyemi and Oboh (2011) differentiated between capital structure and financial structure by affirming that the various means used to raise funds represent the firm's financial structure, while the capital structure represents the proportionate relationship between long-term debt and equity capital. The capital structure of a firm as discussed by Inanga and Ajayi (1999) does not include short-term credit, but means the composite of a firm's long-term funds obtained from various sources. This was affirmed by Ogbulu and Emeni (2012) and Antwi et al (2012).



Therefore, a firm's capital structure is described as the capital mix of both equity and long term debt capital in financing its assets. Capital structure, preferred stock and common equity are mostly used by firms to raise needed funds (Inanga and Ajayi 1999). The firm must consider its business risk, tax positions, financial flexibility and managerial conservatism or aggressiveness, while these factors are crucial in determining the target capital structure, operating conditions may cause the actual capital structure to differ from the optimal capital structure. Hence, the main concern of shareholders is ensuring that managers do not waste firm's resources and run the firm in order to maximize its value, which entails finding a way to solve the principal-agent problem. Capital structure is the combination of the debt and equity structure of a company. It can also be referred to as the way a corporation finances its assets through some combination of equity, debt or hybrid securities Kausar, Nasir and Butt (2014). Capital structure is usually measured by the following; ratio of debt to total asset, the equity ratio to total asset, a debt ratio to the equity and equity ratio to debt (Javad ; Hamed and Elham (2012).Capital structure of the firm is determined by various internal and external factors Abdolkarim and Alhani (2015). The major external factors (macro variables) that affect the capital structure of the firm include policy of government, inflation rate, interest rate and capital market condition. The micro (internal), factors are profitability, growth rate, size of firm, growth in Sales, Operating Leverage, Period of Finance, Level of stock prices and Tax policy Priya; Nimalathasan, and Piratheepan, (2015). The various components of a firm's capital structure according to Inanga and Ajayi (1999) may be classified into equity capital, preference capital and long-term loan (debt) capital.

## **2.2. THEORETICAL EXPOSITION**

### **2.2.1. LONG TERM DEBT AND FIRM VALUE**

According to Adeyemi, and Oboh, (2011), debt capital in a firm's capital structure refers to the long-term bonds the firm use in financing its investment decisions because the firm has years, if not decades, to come up with the principal, while paying interest only in the meantime. The cost of debt capital in the capital structure depends on the health of the firm's balance sheet. This can be expressed as:  $K_d = \text{Int}/B_o$  Where:  $K_d$  equals the before-tax cost of debt;  $\text{Int}$ , the interest element and  $B_o$ , the issue price of bond (debt). The after-tax cost of debt capital will be:  $K_d (1-T)$ . Where:  $T$  is corporate tax rate. Long term debt includes obligations that are not due to be repaid within the next twelve months. Such debt consists mostly of bonds or similar obligations, including a great variety of notes, capital lease obligation and mortgage issues.

A company's long term debt combines with preferred and common stock equity make up its capital structure (Ogbulu, and Emeni, 2012). Generally, debt is money that has been borrowed from another

party and must be repaid at an agreed date. The cost of using this money, which also must be paid, is interest. The person or firm making the loan is called the creditor or lender and the person or firm borrowing the money is called the debtor or borrower. Business debt may be in the form of commercial loans, terms loans, or bonds. In addition to the requirement to pay interest, debt may also carry restrictive covenants that the borrower must satisfy to prevent default (Antwi; Mills, & Zhao, 2012)). In contrast to equity, debt is not an ownership interest in the firm. Creditors generally do not have voting power. The firm's payment of interest is a fully tax-deductible cost of doing business, unlike dividend payments which are not tax deductible. If it is not repaid, the creditor may legally seize the assets of the firm, which could result in equity liquidation or reorganisation. Thus, a major cost of issuing debt is the possibility of financial distress. (Jane Malonis and Cengage, 2000). Aggarwal and Kyaw (2006) also posit that, debt can have both positive and negative effects on the value of the firm so that the optimal debt structure is determined by balancing the agency costs and other costs of debts as a means of alleviating the under and over-investment problems. In addition to the requirement to pay interest, debt may also carry restrictive covenants that the borrower must satisfy to prevent default (Ogbulu, and Emeni, 2012). The use of debt as a funding source is relatively less expensive than equity funding for two principal reasons

- Debtors have prior claims in case the company goes bankrupt thus debt is safer and commands a smaller return. This effectively means a lower interest rate for the company than that expected from the total shareholder return (TSR) on equity.
- The second reason is that debt is less expensive as a funding source which stems from the fact that interest payments are tax deductible thus reducing the net cost of borrowing.

### 2.2.2. EQUITY AND FIRM VALUE

Adeyemi, and Oboh, (2011) defined equity capital as including share-capital, share premium, reserves and surpluses (retained earnings). Typically, equity capital consists of two types which include: contributed capital, which is the money that was originally invested in the business in exchange for shares of stock or ownership and retained earnings, which represents profits from past years that have been kept by the company and used to strengthen the Balance Sheet or fund growth, acquisitions, or expansion. The cost of equity capital of a firm using the dividend growth basis can be expressed as:  $K_e = \frac{d_0(1+g)}{P_e} + g$  (1)

Where:  $K_e$  equals the cost of equity capital;  $d_0$ , the current dividend per share;  $P_e$ , the Ex-dividend market price per share and  $g$ , the expected constant annual growth rate in earnings and dividend per share.

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Preference Capital- According to Adeyemi, and Oboh, (2011) preference share capital is a hybrid in that it combines the features of debentures and those of equity shares except the benefits. Its cost can be expressed as:  $K_p = P_{div}/P_o$ .

Where:  $K_p$  equals the cost of preference share;  $P_{div}$ , the expected preference dividend and  $P_o$ , the issue price of preference shares.

Equity capital refers to the contributed capital; money originally invested in the business in exchange for shares of stock; and retained profits; profits from past years that have been kept by the company to strengthen the balance sheet, growth, acquisition and expansion of the business. Equity unlike debt includes paid-up share capital, share-premium, reserves and surplus or retained earnings. Igben (2004) defines paid-up capital as the portion of the called-up capital which has been paid-up by the shareholders. Share premium is the excess amount derived from the issue of shares at a price that is above its par value. He also describes reserves as amounts set aside out of profits earned by the company which are not designed to meet any liability, contingency, commitment or diminution in value of assets known to exist at the balance sheet date. Lastly, retain earnings are profit plough back into a company in order to create more resources for operations and invariably increase in the value of the firm.

## **THEORETICAL REVIEW**

The pecking order theory of capital structure as introduced by Donaldson (1961) is among the most influential theories of corporate leverage. It goes contrary to the idea of firms having a unique combination of debt and equity finance, which minimize their cost of capital. The theory suggests that when a firm is looking for ways to finance its long-term investments, it has a well-defined order of preference with respect to the sources of finance it uses. It states that a firm's first preference should be the utilization of internal funds (i.e. retain earnings), followed by debt and then external equity. He argues that the more profitable the firms become, the lesser they borrow because they would have sufficient internal finance to undertake their investment projects. He further argues that it is when the internal finance is inadequate that a firm should source for external finance and most preferably bank borrowings or corporate bonds. And after exhausting both internal and bank borrowing and corporate bonds, the final and least preferred source of finance is to issue new equity capital.

Pecking Order theory tries to capture the costs of asymmetric information which states that companies prioritise their sources of financing (from internal financing to equity) according to the principle of least effort, or of least resistance, preferring to raise equity as a financing means of last resort. Hence, internal funds is used first, and when that is exhausted, debt is issued, and when it is not sensible to issue any more

debt, equity is issued. On the other hand, Pecking Order Theory (Myers & Majluf, 1984), captures the effect of asymmetric information upon the mispricing of new securities, which says that there is no well-defined target debt ratio. They opined that investors generally perceive that managers are better informed of the price sensitive information of the firms. Investors' perception is such that managers issue risky securities when they are overpriced. This perception of investors leads to the underpricing of new equity issue. Sometimes this under-pricing becomes so severe that it causes substantial loss to the existing shareholders. To avoid the problem arising from information asymmetry firms usually fulfill their financing needs by preferring retained earnings as their main source of financing, followed by debt and finally external equity financing as the last resort.

This work is anchored on pecking order theory of capital structure because the study aims at finding out the combination of business financing that will yield maximum result.

## **2.4 EMPIRICAL REVIEW**

Many studies have been undertaken locally and internationally, on this area of study. Some of these studies will be discussed in this section and to make this section easier, it will be grouped internationally and locally. The following studies were undertaken locally, here in Nigeria; Chandrasekharan (2012) conducted a study using 87 firms out of the population of 216 firms listed on the Nigeria stock exchange for a period of five years (2007-2011) from static trade-off, agency and pecking order theory point of view. He employed the panel multiple regression analysis and the study reveals that for the Nigerian listed firms; firms' size, growth and age are significant with the debt ratio of the firm, whereas, profitability and tangibility are not.

Ogbulu and Emeni (2012) conducted a study on the impact of capital structure on a firm's value using 124 companies quoted on the Nigerian Stock Exchange (NSE) for the year ended 31st December 2007. Long-term-debt was found to be the major determinant of a firm's value. Following from the findings of this study, corporate financial decision makers are advised to employ more of long-term-debt than equity capital in financing their operations since it results.

Babalola (2014), using 31 manufacturing firms with audited financial statements for a period of fourteen years (1999-2012) from static trade-off point of view. He employed the triangulation analysis and the study revealed that capital structure is a trade-off between the costs and benefits of debt, and it has been refuted that large firms are more inclined to retain higher performance than middle firms under the same level debt ratio.

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Akinyomi (2013), using three manufacturing companies selected randomly from the food and beverage categories and a period of five years (2007-2011) using the static trade-off and the pecking order theory point of view. He adopted the use of correlation analysis method and revealed that each of debt to capital, debt to common equity, short term debt to total debt and the age of the firms' is significantly and positively related to return on asset and return on equity but long term debt to capital is significantly and negatively related to return on asset and return on return on equity. His hypothesis also tested that there is significant relationship between capital structure and financial performance using both return on asset and return on equity.

Taiwo (2012), using ten firms listed on the Nigerian Stock Exchange for a period of five years (2006-2010) from the static trade-off, pecking order and agency theory point of view. In his findings, He employed the Im Pesaran and shines unit root test and Panel Least Square test and revealed that the sampled firms were not able to utilize the fixed asset composition of their total assets judiciously to impact positively on their firms' performance.

Bassey, Aniekan, Ikpe and Udo (2013), using a sample of 60 unquoted agro-based firms in Nigeria within a period of six years (2005-2010) from the agency cost theory point of view. They employed the Ordinary Least Square regression and descriptive statistics and revealed that only growth and educational level of firms owners were significant determinants of both long and short term debt ratios, assets structure, age of the firms, gender of owners and export status impacted significantly on long term debt ratios,

Simon-Oke & Afolabi (2011), using a study of five quoted firms within a period of nine years (1999-2007) from the static trade-off and agency cost theory point of view. The result showed a positive relationship between firms' performance and equity financing as well as between firms' performance and debt-equity ratio. There is also a negative relationship that exists between firms' performance and debt financing due to high cost of borrowing in the country.

Semiou and Collins (2011), using a sample size of 150 respondents and 90 firms were selected for both primary data and secondary data respectively for a period of five years (2005-2009) from the relevance, pecking order, the free cash flow, the agency cost and the trade-off theory point of view. They employed the descriptive statistics and Chi- square analysis and suggested that a positively significant relationship exists between a firm's choice of capital structure and its market value in Nigeria.

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The following were undertaken internationally; outside Nigeria:

Kausar; Nazir and Butt (2014) examine the impact which capital structure has on Firm Value. The result of the study showed that capital structure measured by Long term debt to total assets, short term debt to total assets and total debt to total assets has a significant negative impact on firms' performance measured P/E. Capital structure measured by Long term debt to total assets and total debt to total assets has a significant negative impact on firms' performance measured by Tobin's Q while short term debt to total assets has negative but insignificant impact on Tobin's Q. Assets size has also significantly negative impact on firm performance measured by P/E and Tobin's Q. Firm age has also significantly negative impact on firm performance measured by P/E and Tobin's Q. Volume of capital measured by log of equity has a significant positive impact on firm performance measured by P/E and Tobin's Q. Firms listed in KSE of Pakistan are largely dependent on equity and short term debt but debts are attached with strong covenants which affect the performance of the firm. The study discloses a noticeable fact that Pakistan firms are either mostly financed by equity capital or a mixture of equity capital and short term financing. Ong and Teh (2011) investigated effect of capital structure on firm's performance of construction companies for a period of four years (2005-2008) in Malaysia. The result shows that there is relationship between capital structure and corporate performance.

Zeitun and Tian (2007) in Jordan conducted a study on capital structure and corporate performance on 167 Jordanian firms' between 1989-2003. They found a significantly negative relationship between capital structure and corporate performance. Many variables such as return on assets, return on equity, profitability, Tobin's Q were used to measure performance while leverage, growth, size and tangibility were proxies for capital structure.

Puwanenthiren, (2011) in Sri Lanka carried out an investigation on capital structure and financial performance of some selected companies in Colombo Stock Exchange between 2005-2009. The results shown the relationship between the capital structure and financial performance is negative.

Nguyen,(2014) in his study Threshold Effect of Capital Structure on Firm Value: Evidence from Seafood Processing Enterprises in the South Central Region of Vietnam investigate whether there is an optimal capital structure at which point firm is able to maximize its value, the result shows that there exists double thresholds effect between debt ratio and firm value.

Taani (2013) using a sample of 45 manufacturing companies listed on the Amman Stock Exchange were used for this study which covers a period of five (5) years from 2005- 2009. The results show that there is a negative and insignificant relationship between STDTA and LTDTA, and ROA and PM; while TDE is



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positively related with ROA and negatively related with PM. STDTA is significant using ROA while LTDTA is significant using PM. The study concluded statistically, capital structure is not a major determinant of firm performance.

Abdul (2010) using 36 engineering sector firms in Pakistani market listed on the Karachi Stock Exchange (KSE) during the period 2003-2009 applied Pooled Ordinary Least Square regression and revealed the results show that financial leverage measured by short term debt to total assets (STDTA) and total debt to total assets (TDTA) has a significantly negative relationship with the firm performance measured by Return on Assets (ROA), Gross Profit Margin (GM) and Tobin's Q. The relationship between financial leverage and firm performance measured by the return on equity (ROE) is negative but insignificant. Asset size has an insignificant relationship with the firm performance measured by ROA and GM but negative and significant relationship exists with Tobin's Q.

Loderer and Waelchli (2010) in their study investigated the relationship between firm age and performance using a dataset consisting of 10,930 listed US firms and covering the years between 1978 and 2004. Their empirical results showed that as firms get older, their return on assets, profit margins, and Tobin's Q ratios deteriorate.

On the contrary, Coad; Segarra-Blasco and Teruel (2013) found that older firms enjoy higher productivity and profits when they investigated the relationship between firm age and performance measured by the ratio of profits to sales in Spanish manufacturing firms for the period 1998-2006.

Empirical studies focusing on developing countries are fewer in number compared to those on United States or Europe. In one such study,

Majumdar (1997) found that older firms have lower return on sales ratios using a dataset of 1,020 Indian companies. However, a study by Ghafoorifard; Sheykh; Shakibae & Joshaghan (2014) provided evidence to the contrary. The authors analyzed the relationship between firm size, age and financial performance in 96 listed companies listed on Tehran Stock Exchange for the period from 2008 to 2011 and documented a positive relationship between a firm's age and its Tobin's Q ratio. A positive relationship between firm age and profitability was also documented by Kipesha (2013) for microfinance institutions in Tanzania and by Osunsan; Nowak; Mabonga; Pule, Kibirige & Baliruno (2015) for SMEs in Uganda. A limited number of studies investigated age-profitability relationship for Turkish firms. These studies employed relatively small samples and short time periods. In one of them, Gurbuz; Aybars & Kutlu O (2010) used panel data analysis on a sample of 164 firm-year observations for



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real sector firms for the period 2005-2008, and could not demonstrate a significant relationship between firm age and return on assets. Also relevant is the study by Basti; Bayyurt & Akin (2011) which employed panel data covering the period 2003-2006 from a sample of 160 listed firms in Turkey. Results from random effects model showed a positive relationship between age and profitability measures including return on assets, return on equity and basic earning power. On the contrary, Dogan (2013) found a negative relation between firm age and return on assets running a multiple regression on data from 200 listed companies between the years 2008- 2011.

## **2.5 KNOWLEDGE GAP IN THE LITERATURE**

Empirical evidence had shown mixed results on the effect of capital structure and firm value (Ogbulu and Emeni 2012; Antwi et al 2012; Mathanika 2015 and Kausar 2014). While Ogbulu & Emeni (2012) reported irrelevance of equity capital to firm value in Nigeria using debt and equity as independent variables, Anga et al(2012) reported relevance of equity capital to firm value in Ghana using same variables. Mathanika et al (2015) reported that equity ratio, and debt ratio have significant impact on Firm Value of the Companies in Sri-lanka while Kausar et al (2014) reported that capital structure measured by Long term debt to total assets, short term debt to total assets and total debt to total assets has significant negative impact on firms' value in Pakistan. Incidentally, no study has been carried out using long term debt, equity capital as independent variables with size and age as control variables of capital structure. The study therefore identifies and tries to fill this gap as the study want to embark on the same topic to find out if it will give same result while adding more independent variables.

## **3.0 METHODOLOGY**

### **3.1 RESEARCH DESIGN**

Research design is the structure and strategy for investigating the relationship between the variables of the study. The study made use of ex-post facto research design. According to Kerlinger and Rint (1986) cited in Ubesie, (2016) in the context of social science research an ex-post facto investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors. The choice of this design was due to the fact that the study perceived it as being appropriate because of lack of control over the responses and inability to manipulate sample subjects.

This study used panel data generated from the secondary source. The data were extracted from the Annual Reports and Accounts of the sampled companies from the fact books covering 2007 and 2011 editions published by the Nigeria Stock Exchange. The hypotheses were tested based on the information

obtained from the historical data documented in the annual reports and accounts of the listed firms. This is because the phenomenon observed in the study has already taken place. Therefore, the research adopted correlation and ex post factor designs because of the relationship, and cause and effect examination of the numbers.

### **3.2 POPULATION OF THE STUDY**

The population of study is made up of the 225 companies quoted on the Nigeria stock Exchange as at 31st December 2007 with preference to Conglomerates and Breweries quoted on the floor of the Nigerian Stock Exchange (NSE) as at 31st December 2007.

### **3.3 SAMPLING AND SAMPLING TECHNIQUE**

Fifteen (15) companies selected from two sectors (Conglomerates and Consumer goods) of quoted companies on Nigeria stock Exchange were used. This was done using non-probability sampling method. The companies are

1. Chellarams Plc.
2. A.G. Leventis (Nig) Plc.
3. SCOA Nig Plc.
4. UAC of Nig Plc
5. Transnational Corporation of Nigeria (Transcorp) Plc
6. John Holt Plc.
7. Unilever Plc
8. PZ Cussons Nigeria Plc
9. United Technologies Company.
10. Nigerian Breweries Plc
11. Seven-Up Bottling Company Plc
12. Guinness Nigeria Plc.
13. Coca-Cola Bottling Co
14. International breweries Plc
15. Champion Breweries Plc

In other to guide against data omission and ensure uniformity in presentation, some firms, because of the following factors, were excluded. Firms that ceased to operate at any point during the period of study were excluded. Mostly affected were firms in the consumer goods sector.

### **3.3 METHOD OF DATA COLLECTION**

The study utilizes secondary data which were obtained from the published annual financial statements and the Nigerian Stock Exchange Fact book for the companies under study. The study spans a period of nine years, from 2007 to 2015. Panel data over this period was used to determine the influence of capital structure variables on firm value.

### **3.4 MODEL SPECIFICATION**

This study adopted the model of Ogbulu and Emeni (2012) and Antwi et al (2012) but added size and age as control variables of capital structure.

The model used in this study is presented in a relational form as follows:

Firm value = f(capital structure)

Firm value = f(LTD, EQCAP, FIZE and FIGE)

With the linear expression of the model being:

$$\text{Tobin } q = 0 + 1\text{LTD} + 2\text{EQCAP} + 3\text{FSIZE} + 4\text{FAGE} + \mu$$

WHERE

0 is constant and – 6 are parameters to be estimated.

The apriori expectation is to follow the line of,

$$1-6 > 0$$

FIRMV = Firm value proxied by Tobin Q

LTD= Long term debt

EQCAP= Equity Capital

FIZE= Firm Size

FIGE= Firm Age

$\mu$ = error term

### 3.5 METHOD OF ANALYSES

The regression method of data analysis was adopted in this study. To be specific, The Ordinary Least Square regression technique was adopted to analyze the relationship (association) between dependent variable (firm value) and the independent variables (capital structure) in the model. OLS correlation method is appropriate. Therefore, descriptive statistics and multiple regression analysis were the major statistical tools used in analyzing the data.

Explanations to the test statistics are:

- i. Coefficient of Determination ( $R^2$ ) Test = measures the explanatory power of the independent variables on the dependent variable.
- ii. F-Test = measures the overall significance. The extent to which the statistic of the coefficient of determination is statistically significant is measured by the F-test. At 10% level of significance, we reject null hypotheses for tests with probability estimates lower than 10% (0.10) and conclude that they are statistically significant. Otherwise, we accept (when probability estimates are above 0.10) and conclude that there is no overall statistical significance.
- iii. T-Test = measures the individual statistical significance of the estimated independent variables. At 10% level of significance, reject null hypotheses for tests with probability estimates lower than 10% (0.10) and conclude that they are statistically significant. Otherwise, we accept (when probability estimates are above 0.10) and conclude that there is no overall statistical significance.
- iv. Durbin-Watson (DW) test = test for autocorrelation. This is used to check for the appropriateness of the models for analysis. Any equation with Durbin-Watson less than or greater than values not approximately 2, is not acceptable. Unacceptable Durbin-Watson suggests that the analysis cannot

be relied on.

#### 4.0 DATA ANALYSIS AND RESULTS PRESENTATION

##### 4.1 DESCRIPTIVE STATISTICS

	TOBIN Q	LTD	EQCAP	FSIZE	FAGE
Mean	2846930.	9960682.	14813636	48929822	70.80000
Median	123252.0	1460991.	6280352.	13787770	77.00000
Maximum	43080349	3.08E+08	7.22E+08	7.05E+08	136.0000
Minimum	-1.18E+08	89.00000	-1.31E+09	754.0000	3.000000
Std. Dev.	14005324	29669892	1.34E+08	87467992	31.45615
Skewness	-3.965268	7.887762	-6.118852	4.102603	-0.077559
Kurtosis	44.19043	77.28232	78.27364	26.74161	2.683300
Jarque-Bera	9897.438	32437.85	32714.34	3549.317	0.699528
Probability	0.000000	0.000000	0.000000	0.000000	0.704855
Sum	3.84E+08	1.34E+09	2.00E+09	6.61E+09	9558.000
Sum Sq. Dev.	2.63E+16	1.18E+17	2.39E+18	1.03E+18	132591.6
Observations	135	135	135	135	135

Table 4.1 shows the mean (average) for each of the variables, their maximum value, minimum values, standard deviation and the Jaque-Bera (JB) statistics with its probability (normality test) It was observed that on the average, the sampled quoted firms in Nigeria were characterized by both positive average TOBIN Q (2846930). The study observed that the average LTD is 9960682, the minimum amount of LTD is 89.00000 while the maximum stood at 3.08E+08 which shows that most companies long term debt are not different (that is, the ranges between the long term debt of the companies are similar and close to each other). The Equity capital showed a maximum value of 7.22E+08 and a minimum value of -1.31E+09 with a mean value of 14813636 and standard deviation of 1.34E+08. Size has a maximum value of 7.05E+08 and a minimum value of 754.0000. The mean value obtained was 48929822 with a standard deviation of 87467992. Then Age has a maximum value of 136.0000 and a minimum value of 3.000000. The mean value obtained was 70.80000 with a standard deviation of 31.45615. The median values for LTD, Equity capital, size, and Age are 123252, 1460991, 6280352, 13787770 and 77.00000 respectively.

The Jaque-Bera which tests for normality or existence of outliers or extreme value among the variables shows that all the variables are normally distributed at 1% level of significance except firm age which was significant at 70%. This means that any variables with outlier are not likely to distort the conclusion and are therefore reliable for drawing generalization.

The variable that has the highest maximum value is Equity followed by Size, Long term debt, Firm value and lastly age. Age also has the least minimum value. The highest mean contributor to firm value is Size, followed by equity, then long term debt and lastly age. Equity capital also has the highest standard deviation followed by long term debt size and age.

#### 4.2 CORRELATION

	FIRMV	LTD	EQUITY	SIZE	AGE
FIRMV	1.000000	-0.426728	0.739950	-0.095718	0.025379
LTD	-0.426728	1.000000	-0.649923	0.894884	-0.260509
EQUITY	0.739950	-0.649923	1.000000	-0.351488	-0.004158
SIZE	-0.095718	0.894884	-0.351488	1.000000	-0.337357
AGE	0.025379	-0.260509	-0.004158	-0.337357	1.000000

From table 4.2, Firm value has negative relationship with long term debt and Size. It also has positive relationship with Equity and Age. Long term debt has negative relationship with firm value, Equity and Age and positive relationship with Size. Equity is negatively correlated with long term debt, size and age while it is positively correlated with firm value. Size has negative relationship with firm value, equity and age and positively correlated with long term debt. Finally age has negative relationship with long term debt, Equity and size and positively related with firm size.

#### 4.3 REGRESSION

Variable	Coefficient	Std. Error	t-Statistic	Prob.	Sig
C	-3988946.	1827554.	-2.182670	0.0309	
LTD	-0.468027	0.262671	-1.781795	0.0771	10%
EQUITY	0.046173	0.039336	1.173819	0.2426	
SIZE	0.156905	0.054314	2.888845	0.0045	5%
AGE	44299.99	19695.20	2.249278	0.0262	5%



R-squared	0.657702	Mean dependent var	2846930.
Adjusted R-squared	0.647170	S.D. dependent var	14005324
S.E. of regression	8319096.	Akaike info criterion	34.74234
Sum squared resid	9.00E+15	Schwarz criterion	34.84994
Log likelihood	-2340.108	Hannan-Quinn criter.	34.78607
F-statistic	62.44647	Durbin-Watson stat	1.767003
Prob(F-statistic)	0.000000		

#### 4.4 INTERPRETATION OF THE RESULT

The f-statistics measures the overall significance of the explanatory variables in the model. From our table 4.3 above the calculated value of the f-statistics is 62.44647, its probability value is 0.000000 which is less than 0.05. We accept and state that there is a significance relationship between the variables. This means that the parameter estimates are statistically significant in explaining the relationship in the dependent variable.

**The t-statistics** helps in measuring the individual contributions of independent variables to the dependent variable with the signs whether positive or negative while the P values determines the level of significance of the individual t values of the independent variables. It is observed from table 4.3 above that Size has the highest positive significant contribution to firm value (2.888845). This means that an increase in the size of a firm increases the firm value. Age also has positive significant contributions to the firm value (2.249278). This means that as the firm continue to grow in age, their value also increases. Long term debt has a negative significant contribution to firm value (-1.781795). This is because a reduction in it reduces the firm value. Equity has a positive insignificant contribution to firm value (1.173819). This shows that increase in it reduces the value of the firm.

**Autocorrelation Test-** The model is free from the problem of autocorrelation because the Durbin Watson value is 1.999297 which is approximately 2.

#### 4.4 Heterosedasticity Test

##### Heteroskedasticity Test: White

F-statistic	46.27408	Prob. F(14,120)	0.0000
Obs*R-squared	113.9018	Prob. Chi-Square(14)	0.0000
Scaled explained SS	429.2165	Prob. Chi-Square(14)	0.0000

R-squared	0.843717	Mean dependent var	96165392
Adjusted R-squared	0.825484	S.D. dependent var	2.75E+08
S.E. of regression	1.15E+08	Akaike info criterion	40.06243
Sum squared resid	1.59E+18	Schwarz criterion	40.38523
Log likelihood	-2689.214	Hannan-Quinn criter.	40.19361
F-statistic	46.27408	Durbin-Watson stat	1.956683
Prob(F-statistic)	0.000000		

This test was carried out to ascertain the level of distribution of error term, to know whether the variance is constant. This test is carried out using the whites' hetrosedasticity test (with no cross An International Double-Blind, Peer Reviewed, Refereed Open Access Journal - Included in the International Indexing Directories

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term).it follow chi-square distribution with degree of frequency equal to the number of regressors excluding the constant term

HO: Homoskedasticity (if the variance is constant)

H1: Heteroskedasticity (if the variance is not constant)

The decision rule, from our heteroskedasticity test it was observed that the probability value of Obs\*R-squared is 0.0003.since this value is less than the desired level of significance (0.10) we reject the null hypothesis and accept the alternative which say that the variance of the error term not constant, is Heteroskedasticity.

#### 4.5 HYPOTHESES TESTING

The need to examine the relationship between the data and the stated hypothesis has called for this section. This result is compared with the statistical criteria to see if the preconceived notion in this research work holds or not.

Ho<sub>1</sub>: Long term debt has no significant effect on firm's value.

From the result of our test in table 4.3 above, the study revealed that the value of our t-test for long term debt is -1.781795 with a probability of 0.0771. This probability value is less than the desired level of significance (0.10). We reject the null and accept the alternate hypothesis, which states that long term debt has significant effect on firm's value.



## Hypothesis two

Ho<sub>2</sub>: Equity capital has no significant effect on firm's value.

From the result of our test in the table 4.3 above, the study found out that the value of the t-test is 1.173819 with a probability of 0.2426; this probability value is greater than the desired level of significance (0.10). We reject the alternative and accept the null hypothesis, which states that equity capital has no significant effect on firm's value

## DISCUSSION OF FINDINGS

Long-term-debt was found to be the major determinant of firm's value because it is significant at 10%. This is consistent with the findings of Ogbulu & Emeni (2012), Antwi et al (2012) Myers and Majluf's (1984) pecking order theory, Myer's (1984). The reason for this agreement is because both the finding of this research work and the findings of the above mentioned theories took cognizance of the market imperfections present in the real world. These imperfections include bankruptcy cost, agency costs, gains from leverage- induced tax shields and information asymmetries. It was revealed that capital structure with regard to long term debt, if effectively practiced will have great effect on firm value because it is significant. The study also reveals that in an emerging economy like Nigeria, equity capital is irrelevant to the value of a firm. This is in line with findings of Ogbulu & Emeni (2012). It is in agreement with the claims put forward by the proponents of the pecking order theory and the traditionalist theory of capital structure relevance. It is also in agreement with the capital structure irrelevancy theory of Modigliani and Miller (1958), which states that equity capital is unrelated to firm value.

## 5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

### 5.1 SUMMARY OF FINDINGS

This study examined the effect of capital structure on firm's value using selected quoted companies on the Nigeria stock exchange. Apart from this broad objective as could be found in the title of the study, specific objectives were the effect of capital structure as reflected in long term debt, equity capital, firm size and firm age. The study adopted ex post facto research design. Descriptive, correlation and multiple regression analysis were used to verify the various null hypotheses set to guide the objectives of the study. All tests were carried out at 0.10 level of significance. The results of correlation matrix coefficient indicated that equity capital and firm age have positive relationship with firm value while long term debt and size have negative relationship with firm value. Long term debt has negative relationship with firm value, equity and age. The matrix revealed also that negative relationships exist between equity capital, long term debt, firm size and firm age. The results of the multiple regression analysis showed that 65 percent of the variations in the dependent variable (Firm value) are caused by changes in independent

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variables.

Major findings from the study are as follows:

1. The result shows that Long-term-debt was statistically significant to firm's value because it is significant at 10%.
2. The result also reveals that Equity capital has no significant effect on firm's value. This is because it is insignificant at 20%

## **5.2 CONCLUSION**

This research work has examined the capital structure and its relationship with the value of the firm in the Nigerian setting, taking into cognisance 15 firms. Based on this and the findings of this study, we can conclusively state that: capital structure has various implications and one of them is its effect on the value of the firm which formed the basis of our study. Based on the analysis and the findings made from the analysis, it is quite modest to conclude as follows. The research work has sufficiently justified the prospects of capital structure as an effect for increasing the values of firm. The general statistics of the result,  $R^2$  and F are within acceptable region. The  $R^2$  shows that about 65 percent of systematic variation in firm value is explained by the predictor variables. The F value is significant at 1 percent. Its value compliments the coefficient of determination,  $R^2$ , to confirm the 'goodness of fit' of the model.

## **5.3 RECOMMENDATIONS**

Based on the findings and conclusions arising from the analysis of data, the study recommends as follows:

1. Firms are strongly advised to always compare the marginal benefit of using long-term-debt to the marginal costs of long-term-debt before concluding on using it in financing their operations. This is because as shown by this work, long-term-debt impacts positively on firm's value
2. Firms should stop using more of Equity capital in business financing since it is unrelated to the value of a firm because the tax benefit which is adduced for the relevance of capital structure in relation to firm's value is offset by the fact that shareholders pay more tax than bondholders. The position of Miller (1977) is in consonance with that of Myers (1977) who opines that a firm with outstanding debt may have the incentive to reject projects that have positive NPV which may harm the firm's value.

## **5.4 CONTRIBUTION TO KNOWLEDGE**

From the empirical analysis done, few works had been done on the effect of capital structure on firm value in Nigeria. This study used equity capital and long term debt as independent variables of capital structure and added size and age as control variables. The study found size and age as strong predictors

of firm value. The graphical representation is based on Ogbulu and Emeni (2012) and Antwi, Mills and Zhao (2012) model which states that  $FV = \alpha_0 + \beta_1 \text{EQUITY} + \beta_2 \text{LTDEBT} + \mu\epsilon$

Based on the above model the study introduced Tobin Q as a proxy for firm value and introduced firm size and firm age as control variables. The model for this study is an extension of their model expressed as

$$\text{Tobin } q = \alpha_0 + \alpha_1 \text{LTD} + \alpha_2 \text{EQCAP} + \alpha_3 \text{FSIZE} + \alpha_4 \text{FAGE} + \mu$$

$$\text{Tobin } Q = -3988946 - 0.468027 \text{LTDEBT} + 0.046173 \text{EQUITY} + 0.156905 \text{FSIZE} + 44299.99 \text{FAGE}$$

(-2.1826)

(-1.7817)

(1.1738)

(2.8888)

(2.2492)

## SUGGESTION FOR FURTHER RESEARCH

This study recommends that further studies could be carried out solely on how to combine debt, equity, firm size and firm age as capital structure moderating variables in achieving firm's value or performance.

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