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Does The Use Of Outsiders' Fund Enhance Shareholders' Wealth? Evidence from Nigeria

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Abstract

This paper is an attempt to extend the analysis of the links between the firm's financial structure and the objectives of the firm in maximizing shareholders' wealth. In theory, the financial goal of the firm should be shareholders' wealth maximization as reflected in the book value and the market value of the firm's share. However it is a challenge to management in our world of complex economic environments to achieve this objective. It is against this background that this paper empirically examined the impact of outsiders fund on the firms' shareholders wealth maximization objective using three value maximization indicators; net profit margin viz dividends per share and current ratio from 2004 to 2008 in the Nigerian economy. The study reveals that outsider fund has a positive though not significant impact on dividend per share and current ratio though it was negative and significant impact on net profit margin. Therefore, the study

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recommends the use of outsiders fund in the financial mix of firms as to magnify shareholders' wealth but an optimal level of outsiders' contribution should be sought for by management. This will reduce the possibility of trading on the equity of shareholders which may lead to bankruptcy of the firm.

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1 Introduction

The issue of value creation for stakeholders of the firm as a result of the composition of the financial mix of the firm may be traced to the seminal works of Modigliani and Miller (MM) in 1958. In most of MM's works, their arguments had always been the irrelevance proposition on the financing choices of firms, thus, whether the firm uses equity or debt, the value of the firm does not change, it must be said that most of their works are based on certain assumption (see MM, 1958; MM, 1961 and MM, 1963). There have been several theories after the works of MM carried out by several scholars either in agreement or disagreement. Many of these scholars discussed the composition of the financial structure and its influence on the value of the firm.

Among the theories formulated include the irrelevance or relevance theory (MM, 1958; MM, 1961), the trade-off theory (Kraus and Litzenberger, 1973), the pecking-order theory (Myers and Majluf, 1984), agency theory (Jensen and Meckling, 1976), and the signalling theory (Ross, 1977). These have tried to explain the impact of the financing choices of firms on the value of the firm.

The firm's financing structure as agreed by these scholars consists of a mix of debt and equity (Okafor, 1983; Pandey, 2005; Damodaran, 2002; Brigham, 2000). It is in line with these works that Brealey, Myers and Marcus (2004),

submit that the firm's basic financial resources are the streams of cash flows produced by its assets and operations and when the firm uses purely equity capital, the cash flows generated by the assets and operations of the firm belong entirely to the equity holders. When, however, there is a mix of debt and equity, the cash flows generated by the firms' assets and operations are split into two, a relatively safe steam that goes to the debt-holders and a more risky one that goes to the equity holders. No matter the financing option chosen by the firm, the risky cash flow streams that go to the equity-holders must be maximized. Value must be enhanced for them. Failure of the firm to do so will have a negative impact on the value of the firm because the firm as a going concern that must continue to exist must at the same time generate a premium which motivates shareholders to continue to invest in them. In line with the above, the problem often associated with debt financing includes, among others, from investors' or potential investor's points of view, are the following: reduction of the firm's profitability (Florackis, 2008); reduction of shareholders' earnings per share (Pandey, 2005), and non payment of dividends to shareholders (Stulz, 1990).

This study attempts to contribute to existing literature on the impact of debt financing on the shareholders' wealth maximization objective from an empirical perspective by looking at three important wealth maximization or value creating indicators: net profit margin, dividend per share and current ratio. The essence is to determine whether outsiders' fund enhances the overall objective of maximizing the wealth of shareholders wealth of Nigerian firms. The paper is organized into five sections. Section one is the introduction. Section two is the review of related literature. Section three contains the methodology. Section four shows the empirical analysis/results while section five contains our conclusions, policy implications and recommendations.

2 Review of Related Literature

The Modigliani-Miller theorem is one of the cornerstones of modern corporate finance. At its heart, the theorem is an irrelevance proposition. It provides conditions under which a firm's financial mix does not affect its value. No wonder, Modigliani (1980: xiii) explains the theorem as follows …*with well-functioning market (and neutral taxes) and rational investors, who can undo the corporate financial structure by holding positive or negative amount of debt, the market value of the firm-debt plus equity, depends only on the streams of income generated by its assets. It follows, in particular, that the value of the firm should not be affected by the share of debt in its financial structure or by what will be done with the returns paid out as dividend or reinvested…*

What is currently understood as the Modigliani-Miller theorem comprises three distinct results from a series of papers (MM, 1958, 1961 and 1963). The first proposition establishes that under certain conditions, a firm's debt-equity ratio does not affect its market value. The second proposition establishes that a firm's leverage has no effect on its weighted average cost of capital (that is, the cost of equity capital is a linear function of the debt-equity ratio) while the third proposition holds that the firm's value is independent of its dividend policy.

Miller (1991:217) succinctly explains the intuition for the theorem with a simple analogy when he says …*think of the firm as a gigantic tub of whole milk. The farmer can sell the whole milk as it is, or he can separate out the cream and sell it at a considerably higher price than the whole milk would bring...* The essence of Miller's argument is that, increasing the amount of debt (cream) lowers the ratio of outstanding equity (skim milk) selling off safe cash flows to debt-holders which leaves the firm with more valued equity and in this way keeps thus keeping the total value of the firm unchanged. Put differently, any gain from using more of what might be seem to be a cheaper debt is offset by the higher cost of riskier equity. Hence, given a fixed amount of total capital, the allocation of capital between debt and equity is irrelevant because the weighted average of the

two costs of capital to the firm is the same for all possible combinations of the two.

Spurred by Modigliani and Miller's (1958, 1961 and 1963) arguments, that in an ideal world without taxes, a firm's value is independent of its debt-equity mix, economists have sought conditions under which the financial structure of the firm would matter. Economic and financial theories suggest that several factors influence the debt-equity mix such as differential taxation of income from different sources, informational asymmetries, bankruptcy cost/risks, issues of control and dilution and the agency problem (Hart, 2001).

Thus, in line with the above, the question now is? Do corporate financing decisions affect firm's value? How much do they add and what factor(s) contribute to this effect? An enormous research effort, both theoretical and empirical has been devoted towards sensible answers to these questions since the works of Modigliani and Miller (1953, 1961, and 1963). Several foreign and local scholars have theoretically and empirically studied the impact of the firm's financial mix on the value of the firm from different perspectives (Jensen and Meckling, 1976; Jensen, 1986; Fama and Miller, 1972; Myers, 1977; Miller and Scholes, 1978; Elton and Gruber, 1970; among others).

In fact, Elton and Gruber (1970) studied the link between taxes, financing decisions and firm value and found that personal taxes make dividend less valuable that capital gain and stock prices fall by less than the full amount of the dividend on ex-dividend days. Fama and Miller's (1972) study on the financial structure of the firm was on leverage and they argue that leverage (debt finance) can increase the incentive of the stockholders to make risky investment that shift wealth from bondholders but do not maximize the combined wealth of security holders, thus, value is not created. Jensen and Meckling (1976) evaluating financial structure from the agency cost model submit that higher leverage allows managers to hold a larger part of its common stock thereby reducing agency problem by closely aligning the interest of the managers and other stockholders,

thus asserting that since the interest of stockholders are protected, value is created. In another paper by Jensen (1986), he argues that leverage (debt finance) used by the firm enhances value by forcing the firm to pay out resources that might otherwise be wasted on bad investment by managers.

Myers (1977) argues that leverage (debt finance) can make firms to under invest because the gains from investment are shared with the existing risky bonds of the firm. In effect, the agency effect of financing decision works through profitability and can make firms to take better or worse investments and to use assets more or less efficiently. Miller (1977), re-evaluating earlier MM theories on financial structure argues that if common stock is priced as tax free but personal tax rate built into the pricing of the stock, corporate interest payment is then the corporation tax rate. The tax shield at the corporate level is offset by taxes on interest at the personal level; hence, debt does not affect firm value. He therefore submits that if there are two firms with the same earnings, before interest and taxes, the more levered firm's higher after-tax earnings are just offset by the higher personal taxes paid by its bondholders. In this way given pre-tax earnings, there is no relationship between debt and value.

Ezeoha (2007) examined the impact of major firm characteristics on the financial leverage of quoted companies in Nigeria and used panel data from 71 quoted Nigeria companies with a 17 year period (1990 – 2006). The results showed that the relationship between corporate ownership and financial leverage was positive across the proxies but more significant within the classes of foreign and indigenous firms. The relationship with asset tangibility was found to be non significant and negative, using total debt ratio or short term debt ratio as the dependent variable. It was also seen from the research study that the relationship between leverage and profitability was significant and negative (Ezeoha, 2007)

Adelegan (2007) empirically examine the effect of taxes on business financing decisions and firm value in Nigeria. The study which analysed 85 manufacturing firm in Nigeria from 1984 to 2004 found that dividend and debt

covey information about profitability of the firm. This information obscures any tax effect of financing decision. However, there was evidence that earnings and investment were key determinants of the firms' value in Nigeria. The study also found positive relationship between dividend and value and negative relationship between debt and value in firms examined.

Examining the impact of debt financing from a bankruptcy perspective, Onwumere, Ibe and Okpara (2011a) posit that present and potential investors need information for their investment decisions, which include the value creating potential of relevant firms. This information helps the investor to estimate the value of the firm which in turn aids the process of investment decision making. At the same time, management of the relevant firm must pay serious attention to the composition of the firm's financial structure as failure to achieve an optimal financial structure may lead to insolvency and financial distress. These can ultimately lead to bankruptcy. It was against this background that they examined the impact of debt finance on the value of Nigerian firms adopting a bankruptcy model. The study relied on historic accounting data obtained from the financial statements and accounts of 28 quoted firms on the Nigerian Stock Exchange and covered the period, 2004 – 2008, while adopting the Multiple Discriminant Analysis (MDA) where a benchmark Z-score of 2.675 was established in classifying firms as either having enhanced value or not. The results revealed that the use of debt finance enhances the value of firms hence debt should be encouraged for firms in developing countries in order that they will meaningfully contribute to their economic growth and development.

Also examining the impact of debt on asset utilization of Firms in Nigeria, Onwumere, Ibe and Okpara (2011b) posit that assets are the livewire of any firm as there are the resources that must be used to generate the much needed cash-flow that sustains the long term growth of the firm. However, the volume of funds available to the firm is not always enough to finance its operations. As a result, management will have to source for external funds to finance asset purchases. The

use of outsider funds can have detrimental effect on asset utilization as there may be covenants that restrict the use of such assets, thus limiting the value-creating potentials of the firm. The study revealed a negative and insignificant impact of total debt rate on total asset turnover for most firms sampled hence an increase in debt leads to a reduction in the asset utilization potentials of the firm. Therefore they assert that this may be partly attributed to covenants attached to the use of these assets by creditors. Therefore, management must choose the right amount of debt in the financing mix so as to reverse the negative impact of outsider funds on the ability of firms to maximize the use of its assets.

3 Methodology

A research design "is a kind of blueprint that guides the researcher in his or her investigation and analyses" (Onwumere, 2009). The research design adopted for this research is the *ex-post facto* research design. The study relies on historic accounting data obtained from the financial statements and accounts of the 28 quoted firms in the Nigeria Stock Exchange, from 2004 – 2008. The events under investigation had already taken place and the researchers do not intend to control or manipulate the independent variables. Our inability to manipulate these variables led to our adoption of *ex-post facto* research design. For this paper, 28 firms were selected one each from the following sub sectors;- Agriculture; Airline; Automobile; Breweries; Building materials; Chemical and Paints; Commercial Services; Computer and Office Equipments; Conglomerates; Construction; Engineering Technology; Footwares; Food, Beverages and Tobacco; Health Care; Hotel and Tourism; Industrial and Cosmetic Products; Information and Communication Technology; Leasing; Machinery and Marketing; Maritime; Media; Packaging; Petroleum; Printing and Publishing; Road Construction; Road Transportation and Textiles subsectors.

To aid model formulation, we used the following to denote their respective variables.

TDR	=	Total Debt Rate
NPM	=	Net Profit Margin
EPS	=	Earnings per Share
DPS	=	Dividend per Share
a	=	Regression equation intercept
b	=	Regression equation coefficient
μ	=	error term
Log	=	Natural logarithm

Therefore, given the researchers' intention to examine the impact of outsiders fund as represented by total debt rate on the objectives of the firm to maximize wealth of shareholders, we took the natural logarithm for three (3) value maximization indicators: net profit margin, dividend per share and current ratio to represent shareholders wealth maximization objective; as well as the natural logarithm of total debt rate which represented outsiders contribution to the financial structure of firms in Nigeria, The study adopted a two variable regression model to test the three hypotheses stated. The general form of the model in which *Y,* the dependent variable, is a function of *X,* the independent variable and is given as;

$$Y = f(X) \quad (1)$$

Thus, for hypothesis one which states that Total Debt Rate does not have a positive significant impact on the Net Profit Margin of Nigerian firms, it was represented by the equation.

$$\text{LogNPM} = a + b\ \text{LogTDR} + \mu \quad (2)$$

For hypothesis two, which states that Total Debt Rate does not have a positive significant impact on the Dividend per Share of Nigerian firms, was represented by the equation,

$$LogDPS = a + b\ LogTDR + \mu \quad (3)$$

And for hypothesis three, which states that Total Debt Rate does not have a positive significant impact on the Dividend per share of Nigerian firms, was represented by;

$$LogCR = a + b\ LogTDR + \mu \quad (4)$$

Explanatory Model Proxies

The variables used as proxies in this study comprises of both the dependent and independent variables. Here, we describe their relevance and explains the rationale for the choice of each in the model.

a) Total Debt Rate (TDR)

Total debt contains both long term and short term liabilities. The debt ratio is employed to explain the amount of leverage being used by a firm (Suhaila and Wan Mahmood, 2008; Myers 2002; and Graham, 2000). A high percentage means that the company is too dependent on external leverage to finance its activity while a low ratio represents otherwise (Ward, 2009). Generally, the higher the ratio, the riskier the firm's position to be in default of interest payment and this may lead to financial distress and eventual bankruptcy (Suhaila and Wan Mahmood, 2008). The predicted proxy for Total Debt Rate according to Pandey (2005) is;

$$\text{Total Debt Rate} = \frac{\text{Total debt}}{\text{Shareholders funds}} \quad (5)$$

b) Net Profit Margin (NPM)

A firm's ability to find and implement successful capital investment opportunities for growth is usually reflected in its long or short term profitability (Salmi and Virtanen, 1997). The Net Profit Margin tells you how much profit a company makes for every N1(one naira) it generates in revenue or sales. Though,

it varies between industries but all else being equal, the higher a company's profit margin compared to its competitors, the better (Kennon, 2009). The proxy that explains this variable (Pandey, 2005) is;

$$\text{Net Profit Margin} = \frac{\text{Profit after Tax x 100}}{\text{Sales or turnover}} \quad (6)$$

c) Dividend per Share (DPS)

This is the sum of declared dividends for every ordinary shares issued (Brigham, 2005). The payment of dividend to shareholders acts as a signalling effect, thus enhancing the value of the firm (Ross, 1977). It is very important in measuring value. DPS is the total dividend paid out over an entire year divided by the number of outstanding ordinary shares issued (Pandey, 2005). The proxy used in this research to represent DPS as adopted from Pandey (2005) is;

$$\text{Dividend per Share} = \frac{\text{Dividend Paid}}{\text{No of Ordinary shares outstanding}} \quad (7)$$

d) Current Ratio (CR)

A current ratio is an excellent diagnostic tool as it measures whether or not the firm has enough resources to pay its liabilities over a given period (Ward, 2009), hence when the firm default in her debt obligation, shareholder's value re eroded. The current ratio is an indication of a firm's market liquidity and ability to meet creditors' demand. If the current ratio is too high, then, the firm may not be efficiently utilizing its current assets or its short term financing facilities (Kennon, 2009). The proxy used in this study to explain this variable as adopted from Pandey, (2005) is;

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad (8)$$

Table 3.1 and 3.2 contain normal and log value figure of our parameters.

Table 3.1: Summary of Value Parameter (Aggregate Values)

Years	TDR	%Δ	NPM	%Δ	DPS	%Δ	CR	%Δ
2008	49.4824	- 78	535.856	618	8787.2	38	37.223	9
2007	227.081	517	74.6309	-64	6364.13	37	34.2131	4
2006	36.8249	-14	209.125	- 69	4635.1	- 7	32.85	1
2005	43.0126	- 45	682.6	291	5006	-27	32.4103	-17
2004	78.6436	-	174.505	-	6883.66	-	39.2586	-

Source: Various financial statement and accounts of the 28 firms from 2004-2008

Note: TDR = Total Debt Rate, NPM = Net Profit Margin, TAT=Total Asset Turnover, DPS = Dividend per Share, CR = Current Ratio, %Δ = Percentage Change

Table 3.2: Summary of Log Value Parameter (Aggregate Value)

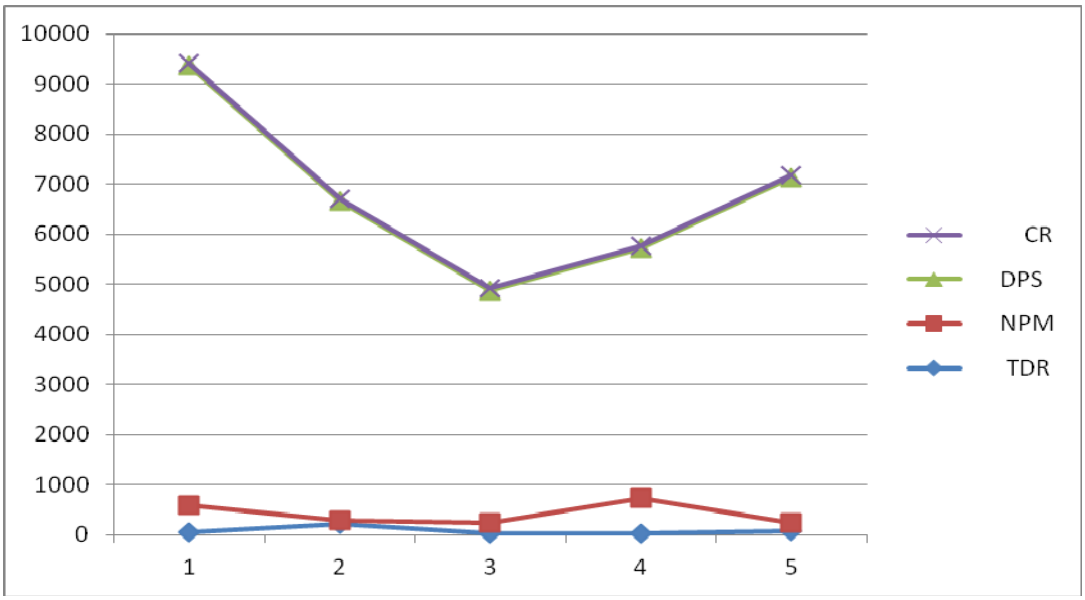
Years	LogTDR	LogNPM	LogDPS	LogCR
2008	1.69445076	2.729048	3.943851	0.59592
2007	2.3561808	1.872919	3.803739	0.580211
2006	1.56614158	2.320406	3.666059	0.564199
2005	1.6335957	2.834166	3.699491	0.568142
2004	1.89566339	2.241808	3.837819	0.584085

Source: Various financial statement and accounts of the 28 firms from 2004-2008

Note: TDR = Total Debt Rate, NPM = Net Profit Margin, DPS = Dividend per Share, CR = Current Ratio

Table 3.1 above specifically shows the summary of the aggregate value parameters of the 28 firms under study from 2004 to 2008. It could be observed from the table that in 2007, there was a high TDR (227.081) when compared with other years. The indication is that in 2007, most Nigerian firms utilized a high proportion of outsider's funds in the operations of their firms. This was followed by 2004 which had a TDR of 78.6%, 2008 was 49.5%, 2005 was 43.0% and the

least was in 2006 which was 36.8%. A look at the table also revealed that NPM in 2008 was the highest with 535.9% followed by 2005 which was 682.6%. In 2004, it was 174.5%, a sharp drop and in 2007, it was 74.6%. As revealed from the table, DPS figures was 8787.2, 6364.13, 4635.1, 5006 and 6883.66 respectively in 2008, 2007, 2006, 2005 and 2004 while the figure for CR was 37.223, 34.2131, 32.85, 32.4103 and 39.2585 for 2008, 2007, 2006, 2005 and 2004 respectively. Figure 1 is a graphical display of Table 3.1.



Source: Authors' graphical presentation
Note: TDR = Total Debt Rate, NPM = Net Profit Margin, DPS = Dividend per Share, CR = Current Ratio

Figure1: Summary of Value Parameter (Aggregate Values)

4 Analysis of Results

Below is our analysis of aggregate results of the impact of TDR on NPM. Table 4.4 is quite instructive.

Table 4.4: SPSS Aggregate Result of the Impact Of TDR On NPM, DPS and CR

Particulars	R	R^2	DW	Standard Coefficients		F	Sig.
				Beta	T- Value		
NPM	0.798[(a)]	0.637	2.715	-0.798	-2.293	5.256	0.106
DPS	0.281[(a)]	0.079	1.290	0.281	0.507	0.257	0.647
CR	0.290[(a)]	0.084	1.294	0.290	0.524	0.275	0.638

Source: Appendix

Note:

R = Correlation Coefficient or Beta

R^2 = Coefficient of Determination

Adj. R^2 = Adjusted Coefficient of Determination

DW = Durbin Watson (d) test statistic

T-value = Student t- test Statistic

F = F- test statistic

Model Equation NPM = 4.179 – 0.973TDR

DPS = 3.611 + 0.098TDR

CR = 0.557 + 0.012TDR

From the above table, it can be observed that, there is a negative significant impact of TDR on NPM as TDR coefficient is -0.973, and t–value 2.293 absolute. Also, the d–test statistic value is 2.248. The variation of NPM as explained by the independent variable in this model is 63.7%. The level significance of 0.106, which is greater than 0.05, indicates that the variation explained by the model is not due to chance. Hence the null hypothesis is accepted that outsiders' fund in the financial structure of firms in Nigeria does not have a positive significant impact on net profit margin.

From the above table, it is clear that there is a positive non-significant impact of TDR on DPS as TDR coefficient is 0.098, and t–value = 0.507. The correlation coefficient is 0.281 which is positive as indicated by a positive beta dependent variable. Thus, there was a positive correlation between TDR and DPS

though not significant. However, the variation of DPS explained in this model is 7.9% indicating that there are other variables which must have impacted on DPS other than TDR such as low dividend payout ratio. The level of significance of 0.647, which is greater than 0.05, indicates that the variation explained by the model is not due to chance. Therefore *a prior* hypothesis is rejected hence the use of outsiders' fund has a positive though non-significant impact on dividend per share of Nigerian firms.

It is evident from the table, there is a positive non-significant impact of TDR on CR (TDR coefficient = 0.012, and t–value = 0.524). The d–test statistic value is 1.294. However, the variation of CR explained in this model is 8.4%, indicating that other variables which must have impacted on CR other than TDR. The overall level significance of 0.877, which is greater than 0.05, indicates that the variation explained by the model is due to chance, hence, we reject the null hypothesis and accepted the alternative hypothesis that TDR has a positive impact on DPS. Thus, Total debt rate has a positive and non-significant impact on Dividend per share.

5 Conclusion, Policy Implications and Recommendations

This paper is an attempt to extend the analysis of the links between the firm's financial structure and the objectives of the firm in maximizing the shareholders' wealth. In theory, the financial goal of the firm should be shareholders' wealth maximization as reflected in both the book value and the market value of the firm's share but it is a challenge to management operating in complex economic environment to achieve this objectives. Management needs to pay serious attention to the composition of the firm's financial structure as it concerns outsiders' contribution in the financing structure. Failure to achieve an optimal financial structure may lead to insolvency and financial distress which can ultimately lead to bankruptcy. Thus, a firm's financing decision should be

dependent on a critical appreciation of the magnitude of risk before the decision is made. This is because the behaviour of management in its financing decisions is often restricted by bankruptcy risk as creditors monitor the risk level of the firm and exert pressure on its operating activities. It was in line with the above therefore, that this paper looked at the impact of outsiders fund in the capital structure of Nigerian firms on the wealth maximization objectives.

Profitability implies that a firm either produces maximum output for a given amount of input. The underlying logic of profitability is efficiency in the use of the firm's resources. The composition of the firm's financial structure must be such that the objectives of maximizing the profitability of the firm must be achieved through effective and efficient use of debt finance in the financial structure. The findings from this paper succinctly buttress the impact of outsiders fund in the financing structure of Nigerian firms on profitability. The volume of debt in the firm's financial structure should move positively with the achievement of an enhanced profitability, however, the reverse was observed from the findings. The implication is that outsiders' fund in the financing structure of Nigerian firms for the period (2004-2008) did not enhance shareholders' wealth maximization. The Trade off theory of firms' financial structure suggests that the trade off between debt and equity should be such that the optimal financial structure enhances profitability of the firm considering the fear that an unprofitable firm can go bankrupt. When such a situation occurs, shareholders value is not enhanced as a result of the huge volume of debt in the firm's financial structure.

Information content or signalling view investors as holding that regard dividend payment is a signal of management earnings forecast. The announcement of dividend conveys information to investors regarding the firm's value prospects. When investors have incomplete information about the firm, they will look for other information that may provide a clue, as the firms' future prospects and as often assumed by investors, managers have more information than investors about the firm. In this way management that lacks confidence in the firm's ability to

generate cash flows in the future may either keep dividend constant or possibly reduce the amount of dividend paid out. Essentially, the use of debt finance is to maximize future cash flows that will generate handsome cash flows and increase the reward accruable to shareholders in the form of dividend. The findings in this paper indicate that outsiders' fund has a positive impact on the payment of returns to shareholders on per share basis. Imperatively, the use of external fund should be able to increase the generation of cash flows that will translate to a high dividend payout ratio to shareholders thus enhancing the firms' objectives of maximizing the wealth of shareholders.

The liquidity decisions of the firm are as important as the investment, financing decisions and dividend decisions of the financial manager. The investment in current assets affects the firms' profitability and liquidity. To enhance shareholders' wealth maximization, current assets should be managed efficiently in order to safeguard the firm against the risk of illiquidity as lack of liquidity in extreme situation can lead to insolvency or financial distress. The major aim of using outsiders' fund is to enhance profitability, though there is often a conflict between profitability, and liquidity because if firms do not invest sufficient funds in current assets, they may become illiquid and therefore risky (Van Horne, 1970). The profitability/liquidity trade off requires that the financial manager should develop sound techniques of managing current assets (Pandey, 2005). The result from this paper suggests that the use of outsiders' fund enhances shareholders' wealth maximization principle though not significantly.

A major significance of this study is to provide an insight to management on the importance of ensuring that financial decisions made by them should be able to enhance shareholders' wealth maximization through the creation and enhancement of value. The amount of outsiders' fund in the financial mix of the firm should be at the optimal level as to ensure that value is enhanced. As could be observed from the literature review and our findings, outsiders fund have a negative significant impact on profitability but positive non-significant impact on

dividend per share and current ratio. The parameter used as a measure of shareholders' wealth maximization principle often acts as signal to investors and investees that the firm through its management is performing. The continued existence of management in the management saddle of any firm is dependent on management's performance. The separation of ownership and management in modern day corporations' demand that agents must act in ways that are in line with the objectives (aspirations) of the principal because failure to do so means the principal (owners) can remove the agent.

Investors and investees through this study are also reminded of their responsibilities. Often, it is rare for any firm to depend solely on equity finance in the firms' financial structure; therefore, as observed, there are element of debt and equity in the financial mix of firms. Thus, management may seek other sources of funding which may not be in the interest of equity holders but may lead to the magnification of returns to equity. It is however recommended that investees and investors must be patient with management even when returns are not made in the short run as major objective of management which is shareholders wealth maximization may not be immediately realizable but will materialize in the long run.

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Appendix

Total Debt Rate and Net Profit Margin SPSS Result

Descriptive Statistics

	Mean	Std. Deviation	N
NPM	2.3996694	.38921303	5
TDR	1.8292064	.31927429	5

Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	F. Change	Durbin Watson
1	.798[a]	.637	.516	.27091433	5.256	2.715

a Predictors: (Constant), TDR
b Dependent Variable: NPM

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.386	1	.386	5.256	.106(a)
	Residual	.220	3	.073		
	Total	.606	4			

a Predictors: (Constant), TDR
b Dependent Variable: NPM

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.179	.785		5.320	.013
	TDR	-.973	.424	-.798	-2.293	.106

a Dependent Variable: NPM

Residuals Statistics(a)

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	1.8870959	2.6555452	2.3996694	.31054928	5
Residual	-.33513936	.24423173	.00000000	.23461869	5
Std. Predicted Value	-1.651	.824	.000	1.000	5
Std. Residual	-1.237	.902	.000	.866	5

a Dependent Variable: NPM

Total Debt Rate and Dividend Per Share

Descriptive Statistics

	Mean	Std. Deviation	N
DPS	3.7901918	.11146581	5
TDR	1.8292064	.31927429	5

Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	F. Change	Durbin Watson
1	.281[a]	.079	-.228	.12352528	.257	1.290

a Predictors: (Constant), TDR
b Dependent Variable: DPS

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.004	1	.004	.257	.647(a)
	Residual	.046	3	.015		
	Total	.050	4			

a Predictors: (Constant), TDR
b Dependent Variable: DPS

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.611	.358		10.082	.002
	TDR	.098	.193	.281	.507	.647

a Dependent Variable: DPS

Residuals Statistics(a)

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	3.7643883	3.8418818	3.7901918	.03131702	5
Residual	-.09832913	.16687666	.00000000	.10697603	5
Std. Predicted Value	-.824	1.651	.000	1.000	5
Std. Residual	-.796	1.351	.000	.866	5

a Dependent Variable: DPS

Total Debt Rate and Current Ratio

Descriptive Statistics

	Mean	Std. Deviation	N
CR	.5785114	.01274146	5
TDR	1.8292064	.31927429	5

Model Summary

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	F. Change	Durbin Watson
1	.290[a]	.084	-.221	.01408187	.275	1.294

a Predictors: (Constant), TDR
b Dependent Variable: CR

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.000	1	.000	.275	.636(a)
	Residual	.001	3	.000		
	Total	.001	4			

a Predictors: (Constant), TDR
b Dependent Variable: CR

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.557	.041		13.652	.001
	TDR	.012	.022	.290	.524	.636

a Dependent Variable: CR

Residuals Statistics(a)

	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	.5754706	.5846029	.5785114	.00369059	5
Residual	-.01127111	.01896670	.00000000	.01219526	5
Std. Predicted Value	-.824	1.651	.000	1.000	5
Std. Residual	-.800	1.347	.000	.866	5

a Dependent Variable: CR