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CORPORATE DEBT POLICY AND FIRM VALUE: NEW EVIDENCE FROM NIGERIA

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ABSTRACT

This study adopts the panel data framework to investigate the relationship between corporate debt policy and the market value of quoted firms in Nigeria using secondary data from the published accounts of sixty (60) companies selected from all the sectors of the economy covering the period from 1990 to 2016. Specifically, the paper examines the effects of short-term debt, long-term debt, debt to equity ratio and total debt stock on market value per share using all the three methods of panel data approach of research methodology namely pooled regression, random effects and fixed effects being supported by likelihood ratio and Huasman tests to justify the selection of an appropriate model. Furthermore we conducted pair wise panel causality tests to establish if there is a reverse effect on debt policy variables from market value per share of the companies. Contrary to the irrelevance theory, there is evidence from the fixed effects results that market value per share has a negative relationship with short-term debt, long-term debt and debt to equity ratio while it has a positive relationship with total debt stock. However, while the effect of short-term debt, long-term debt, total debt stock is highly statistically significant, that of debt to equity ratio is statistically insignificant. The joint influence of the independent variables highly significantly explains as much as sixty one percent (61 %) of the variations in market value per share. Therefore, our conclusion is that a strategic reduction in both short-term and long-term debts is needed to maximize shareholders' wealth in Nigeria.

KEYWORDS: *Corporate Debt Policy, Firm Value, Fixed Effects*

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