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Structural Change on Financial Leverage and Shareholders Risk of Returns in Oil and Gas Companies in Nigeria

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ABSTRACT

This study investigated structural change on financial leverage and shareholder risks of returns in oil and gas companies in Nigeria. In conducting this research, samples were used for the first and second analysis, the first analysis was tested using multiple regression while the second analysis was done using a non-probability method. The same set of dependent variables were used as measure of leverage, multiple regression analysis, and non-parametric techniques were employed for analysis 1 and 2 respectively, while the test statistic was used to test the significance of each regression model, the chi-square was utilized in testing the significance of the effect of leverage on shareholders risk of returns. Whereas the 'f test statistic was used in determining the overall significance of each regression, findings were presented, It was concluded that financial leverage has significant effect on shareholders risk of returns, it is further discovered that, the need to maximize profit and increase ownership control of the firm led to an increase in the use of leverage as a means of investing finances by firms. It was therefore recommended that leverage be employed by business organizations.

KEYWORDS: *structural change, financial leverage, shareholders returns, parametric technique*

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1. INTRODUCTION

This is defined as the variability of Earnings before Interest and Tax The environment both internal and external in which a firm operates determines the variability of Earnings Before Interest and Tax (EBIT). A firm can better face such risk if it can predict it with a fair degree of accuracy. The variability of Earnings Before Interest and Tax has two components: Variability of Sales: The variability of sales revenue is in fact a major determinant of operating risk. A Company sale may fluctuate for three reasons. The change in general economic conditions may affect the level of business activities. Business cycle is an economic phenomenon, which affects sales of all companies. Certain events affect sales of companies belonging to a particular industry for example, the general economic condition maybe good but a particular industry may be hit by recession. Other factors may include the availability of raw materials, technological changes, actions of competitors, industrial relations, shift in consumer preferences etc. Factors which are internal to the company an also affect sales level such as changes in management, product market decisions of the company and its investment policy, or strike in the company have a great influence on the company's sales (Helfert, 2022).

The fact is that different corporate organizations are into different kinds of business and the environment of their business differs hence, they are exposed to different kinds of situation both business and financial risks Irrespective of the nature of business and risk faced, the fact remains that if the Company must continue to survive, decisions must be taken on how to meet the various financial demands of the business and the risks involved must be burn. It is also important to know that a Company can decide not to use debt in its financing and in such a case does not have financial leverage but, for a firm that makes use of debt, it can magnify both profits and losses and therefore returns to shareholders. More debt means increased financial leverage. Financial leverage can increase potential rewards or the potential for financial distress and failure. Conceptually, the firm

has a certain amount of risk inherent in its operations, which is its business risk, described as the uncertainty inherent in projection of failure in Earnings Before Interest and Tax (EBIT). By using debt, the firm concentrates its business risk on the common stockholders: (Brigham 1989:645). The impact of financial leverage can be described in terms of its effects on earnings per share (EPS) and Return on Equity (ROE). Brigham (2019) also noted that the ability of a firm to pay dividend is directly related to its expected Earnings per share, the greater the expected Earnings per share, the greater the expected dividend. The objective of company's financial policies is to maximize shareholder's wealth (i.e. increase returns and reduce risks) which will ensure the satisfaction of the latter. Secondly, arguments have been presented which seem to suggest that appropriate application of financial leverage policies can be used according to Van-Home (2021) to increase returns of shareholders and reduce associated risks. However, opponents of this argument notably proponents of the Net Operating Income (N. O. I) approach to security valuations and Modigliani and Miller in Pandey (2020) have a contrary view. These constitute the problem which the researcher intends to understudy and possibly proffer solutions. It is the intention of the researcher to determine the structural change on financial leverage and shareholders risk of returns with a view to providing investors with the required satisfaction.

Objective of The Study

The main purpose of this study is to determine the structural change on financial leverage and shareholders risk of returns of oil and gas companies in Nigeria. The specific objectives are:

To what extend is debt financing employed by Corporate Organizations

To highlight the effect of financial leverage on the Shareholder's return

For the purpose of this study the following hypothesis would be tested:

Ho_1: There is no significant structural change on financial leverage and shareholders risk of returns.

Ho_2: There is no significant variation in return and shareholders risk of returns

2. LITERATURE REVIEW

2.1. Conceptual Framework

Changes in Financial Leverage

The traditional approach to financing, assumes that the firm should be able to decrease its financial leverage by selling stock and using the proceeds to retire bonds. Issuing bonds and using the proceeds to retire stock increases the firms' leverage. Therefore, the firms total book value remains fixed over the period considered. If the total financing is held constant it will be easy to isolate the effects of a changing capital structure on the firm's value (wright, 2019).

Cost function: The value of the firm according to the traditional approach to capital structure is determined by adding the market value of the firm's debt to market value of its equity. If Earnings before interest and tax is held constant, the lower the cost of capital the higher the value of the firm. The optimal capital structure is therefore at the point or value where the overall cost of capital is minimized. On the other hand Modigliani and Miller in their approach argued that the cost of taxes, a firms market value and the cost of capital remain invariant to capital structure changes. Therefore, there is no Optimal Capital Structure since the method by which the firm's finances itself has no effect on the overall cost of capital. He came up with the following hypotheses: The securities are traded in the perfect capital market situation, which means: Investors are free to buy or sell securities. They can borrow without restriction at the same terms as firms do. They behave rationally, and it can be implied that the transaction cost e. g. cost of buying and selling securities do not exist. Firms can be grouped into homogeneous risk classes; therefore, firms would be considered to belong to homogeneous risk class if their expected earnings have identical risk characteristics. The expected Net Operating Income (NOI) is a random variable with constant mean probability distribution and a finite variance. There should be a 100 percent earning distribution to shareholders. Corporate income tax should not be recognized. In their hypothesis, they argued that a firm in the same risk class, total market value is independent of the debt/equity combination, therefore, capitalizing the expected Net Operating income by the rate of appropriate to that business class. The above proposition states that if identical firms expect the same degree of leverage, have different market value on the cost of capital, arbitrage will take place to enable investors to engage in personal leverage as against corporate leverage to restore equilibrium in the market (Wright, 2019).

FINANCIAL LEVERAGE AND SHAREHOLDERS RISK

We have seen that financial leverage magnifies the shareholder's earnings and also that the variability of earnings before Interest and Tax (EBIT) causes Earnings per share (EPS) to fluctuate within wider ranges with debt in the capital structure. The more debt is used: Earnings per share rises and falls faster

than Earnings before Interest and Tax does Hence, financial leverage does not only magnify Earnings per share but also increases its variability (Helfert, 2022).

Two types of risk are involved: OPERATING RISK AND FINANCIAL RISK. financial risk is the variability of Earnings per share caused by the use of financial leverage is called financial use The variability of Earnings per share and Return on Equity increases with more financial leverage for a given degree of variability of Earnings Before Interest and Tax. Financial Risk is an avoidable risk if the firm decides not to use any debt in its capital structure, because a firm adds financial risk when debt is used. Interest Tax Shiel is another way of explaining the effect of debt, to see the impact of interest charge on the firm's liability, Interest charges are tax deductible and therefore provides tax shield which increases the earnings of the shareholders.

OPTIMAL CAPITAL STRUCTURE

There had been argument among financial experts as to if "Optimal" capital structure exist. There are those who believe that an optimal capital structure exist for each firm, they are known as Traditional Approach proponents and those who believe that Optimal Capital Structure does not exist known as M-M (Modigliani and Miller in Pandy, 2020) Approach. The traditional approach believes that there is an Optimal Capital structure and they based their argument on the following assumptions: Financing through Bonds and Stocks is The traditional approach to capital structure model assumes that the sources of financing available to the firm are Bonds and Stocks. A 100 Percent Dividend Pay-out is assuming that the firm pays all its profit as dividend therefore, the idea of reserve is eliminated as source of financing a firm. No Income Tax is ignored, income tax is assuming that absence of taxes does not distract the general relationship of the capital structure. Constant Earnings Before Interest and Tax: Earnings Before Interest and Tax are assumed to remain constant so that an optimal capital structure can be readily determined Changes in earnings before income and tax would result in a different Optimal Capital Structure for each level of earnings before income and tax. Constant Business Risk: Business risk held constant by assuming that all assets acquired are such that the line of business of the firm remains unchanged. When business risk is held constant it minimizes the effect of financial risk.

OPERATING RISK

This is defined as the variability of Earnings before Interest and Tax The environment both internal and external in which a firm operates determines the variability of Earnings Before Interest and Tax (EBIT). A firm can better face such risk if it can predict it with a fair degree of accuracy. The variability of Earnings Before Interest and Tax has two components: Variability of Sales: The variability of sales revenue is in fact a major determinant of operating risk. A Company sale may fluctuate for three reasons. The change in general economic conditions may affect the level of business activities. Business cycle is an economic phenomenon, which affects sales of all companies. Certain events affect sales of companies belonging to a particular industry for example, the general economic condition maybe good but a particular industry may be hit by recession. Other factors may include the availability of raw materials, technological changes, actions of competitors, industrial relations, shift in consumer preferences etc. Factors which are internal to the company an also affect sales level such as changes in management, product market decisions of the company and its investment policy, or strike in the company have a great influence on the company's sales (Helfert, 2022).

Variability in Expenses: The variability of Earnings Before Interest and Tax is further affected by the composition of fixed and variable expenses. The higher the degree of operating leverage the faster will be the increase in Earnings Before Interest and Tax when sales mess bad times when sales are falling Earnings Before Interest and Tax declines at a faster rate than fall in sales Operating expenses may also vary on account of changes in input prices and may also contribute to the variability of Earnings before interest and tax (Helfert, 2022)

2.2. Theoretical Framework

The theories employed for this work are:

Agency Theory: Agency theory according to Madan (2019) is the theory that explains the relationship between principal (shareholders) and agents (managers). In this relationship, the principal delegates or hires an agent to perform work in the best interest of the principal. The delegation of decision-making authority can lead to a loss of efficiency and can subsequently increase costs. For example, if the owner (principal) delegates decision making authority to the manager (agent), it is possible that the manager would not work as hard as the owner would, given that the manager does not share directly in the results of the organization. This could lead to the agency problems because the theory involves cost of resolving conflict because of the principal, agents and aligning interests of the two groups. It usually leads to risk aversion which is caused by the relationship between risk and return (Dechow & Skinner, 2020). The agent in such a relationship will

do everything possible to ensure that principal that employed him is happy, through falsification of reports in order to justify his position and activities delegated to him. This is known as window dressing. As a result of this window dressing of the financial statement, ethical standard in financial reporting is often significantly desecrated (Ahiazu, 2017). In fact, researchers like Beatty (2017); Bora and Saha (2010) challenged the ethical stance of both shareholders and managers in the use of such practices in any organization. This is because there are many reports of price manipulations, profit overstatement, and accounts falsification by some dubious stewards which renders financial statements ineffective. The business failure of the past decades however, have been closely associated with a number of parties, managing board of directors, auditors and some investors (Ezeani, 2012). The relevance of the agency theory to this work is that accountants at times corroborate with management either to increase or decrease the financial statement. The differences which are observed in financial reporting are legitimately prepared from choice of varied accounting policies of the same organization of the same period, has brought about challenges of credibility to accounting. This is because when the secret reserves are created, it actually means that agents are not providing good information to shareholders or asking managers about any suspicious account or dubious transactions.

2.3. Empirical Review

The study of Eniola, Adewunmi, and Akinselure, (2017) was limited to debt finance by using descriptive, correlation and regression analysis and discovered that there is a statistically significant effect between long and short-term liability on Return on Assets (ROA) and Return on Equity (ROE). However, a study by Nwude, and Anyalechi, (2018) revealed from the regression estimations showed that debt structure has a negative and significant impact on the performance of Nigerian quoted firms within the period under review. Sadiq, Kachollom, Dasuki, and Yusuf, (2017) tested the leverage predictions of the trade-off and pecking order models using Swiss data. According to them, the race between the trade-off theory and the pecking order theory is undecided; in fact, on many issues there is no conflict. In their study, firms with more investment opportunities apply less leverage, which supports both the trade-off model and a complex version of the pecking order model. Confirming the pecking order model but contradicting the trade-off model, more profitable firms use less leverage. Leverage is also closely related to tangibility of assets and the volatility of a firm's earnings. They also find that Swiss firms tend to maintain target leverage ratios.

Kachollom, Dasuki and Yusuf (2017) conducted a study on the effect of capital structure on the performance of Deposit Money Banks in Nigeria. The objective was to examine the effect of capital structure on the financial performance of Deposit Money Banks in Nigeria. Secondary data was obtained from the financial statements of Deposit Money Banks listed in the Nigerian Stock Exchange. Four banks were selected as samples and data from their financial statements for a period of 10 years (2006 to 2015). The study has employed the use of Pearson correlation coefficient and general least squares (GLS) regression model to analyze the effect of capital structure on the performance of some selected banks. The performance variables used in the study were, ROA, ROE and ROCE. Findings from the study showed that capital structure has positive and significant effect on the financial performance of listed deposit money banks in Nigeria. The study of Anarfo, and Appiahene, (2017) sought to examine the effect of capital structure on the financial performance of firms in Nigerian manufacturing sector. The population of the study was all the listed manufacturing companies listed on the Nigerian Stock Exchange, a sample of 10 listed companies was selected. The research design adopted was ex-post facto using four models to analyze the impact of capital structure on firms' performance. The study used balanced panel data of 100 observations from the 10 listed companies for the periods ranging from 2007 - 2016. Descriptive statistics and regression were used as tools of analysis. The study revealed that there are statistically significant and non- significant effects of capital structure on performance variables. Finally, the study recommended that manufacturing companies should adopt balanced capital structure strategy that would optimise company's performance and corporate value.

Nwude & Anyalechi (2018) conducted a study on impact of capital structure on performance of commercial Banks in Nigeria. The study evaluated the influence of financing mix on the performance of commercial banks, and the causal link between debt-equity ratios. Data collated were analysed using correlation analysis, ordinary least squares regression analysis, fixed effect panel analysis, random effect panel analysis, granger causality analysis, as well as post estimation test such as restricted f-test of heterogeneity and Hausman test. The findings show that while debt finance exert negative and significant impact on return on asset, the debt-equity ratio has positive and significant influence on return on equity.

Adeoye and Olojede (2019) conducted a study on the effect of capital structure on the financial performance of quoted deposit money banks in Nigeria. To achieve the objective of the study, they used a cross sectional time series secondary data covering the period of seven years (2012-2018) was extracted from the audited financial statement of ten (10) banks listed on the floor of stock exchange. The descriptive statistics, Pearson moment correlation and multiple linear regressions were used. The correlation results showed that capital structure is negatively correlated with financial performance (ROA and ROE). Result from panel regression revealed that debt to equity though significant, impacted negatively on return on assets and return on equity, asset tangibility significantly impacted return on asset but insignificantly impacted return on shareholder's equity and also Age have a significant impact on return on asset and insignificant effect on return on equity.

The aim of the study of Berger, and Banaccorsi, (2020) was to examine the relationship between capital structure and financial performance of firms listed in the Nigerian stock exchange between 2012 and 2017. Data were extracted from 40 companies out of 169 companies which are listed on the Nigerian Stock Exchange as at 2018. Consequently, ordinary pooled least square was adopted to analyze the objective of study. The principal findings that originate from this study is that capital structure has a negative impact on return on equity and return on asset of the firm listed on the Nigerian stock exchange. In view of the above important findings that originated in this work, one of the recommendations was that all hands must be on deck by the Nigerian policy makers to embark on policy measure to reduce double digit interest rate in the financial sector in order to ensure self-liquidating debt capital in the listed firms in the Nigerian stock exchange. In another research by Serwadda (2019) on the effect of capital structure on banks' performance on Ugandan banks for a ten-year period, 2006 – 2015, panel regression models were used to determine the effects of capital structure on bank performance. Results portrayed that there was a positive relationship between capital structure variables and bank performance. It is between long term debts, total debt with net interest margin. There was also a positive relationship between total debt and return on assets. It was still the same between total debt and returns on equity. However, there was a negative relationship between short term debt and return on assets. Adekunle, and Sunday, (2020) examined the impact of capital structure choice on firm performance in Egypt, using a multiple regression analysis in estimating the relationship between leverage level and firms' performance, the study covered between 1997 and 2005. Three accounting based measures of financial performance (return on Equity, return on Assets and gross profit margin) were used. The result revealed that capital structure choice decision in general, has a weak-to-no impact on firms' performance.

Adaramola, Sulaiman, and Fapetu, (2022) noted that debt can have both a positive and negative effect on the value of the firm (even in the absence of corporate taxes and bankruptcy cost). He built a model in which over investment and under investment can be can be alleviated by debt financing. His model assumes that managers have no equity ownership in the firm and receive utility by managing a larger firm. The "power of manager" may motivate the self-interested managers to undertake negative present value project. In order to solve this problem, shareholders force firms to issue debt. The research objective of the study carried out by Adeoye, and Olojede, (2019) was to establish effects of capital structure on the performance in financial perspective of Kurdistan manufacturing firms. Theoretically it is assumed that the capital mix a firm uses to finance its operations does not matter and that its future operating income generated by its asset is what determines its value. Multiple linear regression which included return on equity as independent variable, capital structure, liquidity, size and growth as the independent variables. These variables were used to establish whether capital structure decisions affect profitability of manufacturing firms in Kurdistan. The results obtained from the regression equations established a negative relation between total debt, size and financial performance which indicates using more of debt or assets are linked to a decrease in performance in financial perspective. The study further found out that financial performance increased with increase in liquidity and sales growth. From the findings outlined above, the study recommended that companies should consider borrowing less funds and use internal funds economically.

METHODOLOGY

This study adopts economic study design which would utilize primary and secondary data collected from questionnaire and information in their reported financial statement at the Nigeria Stock Exchange. Under the design, the data related to the variables are all collected from the financial statement of the same financial period. the first analysis was tested using a statistical tool - multiple regression while the second analysis was done using a non-probability method. The same set of dependent variables were used as

measure of leverage, multiple regression analysis and non-parametric techniques were employed for analysis 1 and 2 respectively, while the test statistic was used to test the significance, the statistical and mathematical tools used For the purpose of testing the hypotheses, the use of regression technique is made obvious because it helps to clarify relationships between two or more variables.

The multiple regression model is given as follows:

$$Y=a+bixi+b2x2 + bxn$$

Y-Dependent Variable

Where
X-Independent Variable A = Intercept
And
b= The slope of the regression line.

For the purpose of confirming the results from the secondary data, the primary data generated shall be analyzed by use of chi-square (x) test expressed as:

$$X^2 = \frac{E\,(f_0 - f_e)^2}{f_e}$$

Where x^2 = chi-square
F0 = observed frequency
Fe = Expected frequency.

The chi-square is employed because it tests how well an observed set of data fits an expected set.

DATA PRESENTATION

In this section a display of the data set and summary as obtained through the secondary and primary sources are provided. Table 1 below is the data set used for this part of the analysis (1) which is to be employed for analysis involving two further subjects A and B hypotheses (1) indicates the variables of the study namely, Earnings per Share as (Y) and Standard deviation of earnings before interest and Tax as (Y) as independent variables while debt-Equity Ratio as (x), Interest coverage ratio as (x2) and (x) dummy variables are the dependent variables,

The table 1 would be used to perform two regression analyses. This table contains data derived from secondary sources.

SN	Y1	Y2	X1	X2	X3
1.	29.84	43592.48	.12	7.95	1.00
2.	4.45	21559	.00	1.67	.00
3.	47.20	6746.57	.17	2.66	1.00
4.	25.05	584.27	.00	1.99	1.00
5.	1.23	-6105.00	-.01	1.94	1.00
6.	-24.55	-5387.66	-1.55	1.63	1.00
7.	41.10	120630.00	1.89	2.01	1.00
8.	212.00	162934.10	5.27	2.35	1.00
9.	3.23	107743.20	.07	1.97	1.00
10.	316.00	23238.43	.20	15.32	1.00
11.	50.77	48199.35	.15	1.82	1.00
12.	28.77	378.77	.08	1.18	1.00
13.	23.40	2069.80	.01	1.08	1.00
14.	81.30	2086.67	.86	1.86	1.00
15.	36.80	4242.34	.44	1.49	1.00
16.	9.52	1664.10	.12	1.18	1.00
17.	103.00	84609.07	2.83	4.39	1.00
18.	8.39	27956.08	.85	3.00	1.00
19.	187.40	34511.72	4.13	4.69	1.00
20.	84.98	1507.13	3.29	1.76	1.00
21.	27.60	390.89	2.46	1.36	1.00
22.	23.54	97.27	.46	1.01	1.00
23.	46.77	4225.74	1.08	10.59	1.00
24.	-1.77	641.43	.05	1.57	1.00
25.	25.01	115.24	.01	17.59	1.00

Source: Annual Reports
Table 1-Data Set

Also, following, the summary of the research data representing data collected from primary sources in a cross sectional survey using questionnaire administration and contains responses from the sample of respondents in the study. This table concerns positions held by management ranking executives on project financing using debt.

This is needed to carry out non-parametric statistical analysis using the chi-square to determining the degree of association in the information supplied by the respondents and test its significance.

DATA ANALYSIS AND RESULTS

Calculations using the data as presented in table 1 were performed with the stipulated data analysis techniques, which was facilitated by the aid of a computer statistical software package (SPSS version 10). The results from this empirical studies shown below in table 2 and 3 respectively for the first and second regression models (of analysis 1) for the non-parametric statistical analysis and (analysis 2).

ANALYSIS OF RESULTS

The results of the data analysis shown in previous section of this stud is interpreted below in order to provide meaningful information.

ANALYSIS 1A

The estimated regression model obtained by fitting model I to a set of historical data on the variable o the study for analysis I produced:

$$Y\text{-}17.118\ 27.959X, + 12.969X + 3.600X$$

Thus, the estimated regression model above indicates that on the average, the dependent variables, Earnings per Share (Y) within the duration of the study responds to changes in the independent variables, Debt-Equity Ratio (X), Interest coverage Ratio (X) and dummy variables (X) as follows:

b_{10}: This shows that the shareholders income will be N17.118 when (X), and (X) and (X) are zero each.

The figures are given in naira value only.
B_{11}: This indicates that Y1 will increase by N27.959 if X, increases by NI and X, and X, remains constant.
B_{12}: This explains that Y1 will increase by 12.969 if X, increases by N1 and X, and X, remains unchanged.
B_{13}: This shows that Y1 will increase by N3.600 if X, increases by NI and X, and X2 remains constant.

The estimated model is consistent with the theoretical criteria about the sign and size of the coefficients as established by financial theory as signs of both coefficients by and b12 corresponded with the expectations. The result as measured by the multiple coefficient of determination (R^2) also showed that about 65.8% of total variation in the dependent variable (Y_1) is explained by variations in both independent variables X_1, X, and X. This is a highly impressive performance by the model as it gives a good fit to the data on the variables. Furthermore, another measure of goodness of fit of the regression line as measured b the adjusted multiple coefficient of determination (R2) indicated that approximately 60.9% of total variation in the dependent variable (Y) is explained by the independent variables X,, X, and Xy jointly after taking account of the relevant degrees of freedom (adjusted R^2).

ANALYSIS 1B

The regression model obtained by fitting model 2 to the historical data on the variables of the study for analysis I section 'B' was estimated as

$$Y_2\text{-}114.151+15886.374X,+ 197.450X_2+12003.120X,$$

The above estimated model shows that on the average the dependent variable (Y) standard deviation of Earnings before Interest and tax within the duration of the study, responds to movement in the explanatory variables Debt - Equity Ratio (X), Interest coverage Ratio (X2) and dummy variable (X3) as follows: b_{20}: This indicates that the risk of returns to shareholders (Y_1) will be: N114.151 where the explanatory variables X1, X2, and X, are cach zero. B_{21}: This explanations that (Y) will rise by N15886.374 if X, rises by NI and X and X, remains the same. B_{22}: This shows that Y, will rise by N197.450 if X2 increases by NI and X, and X, B_{23}: This shows that Y_2 will increase by N12003.120 if X, increase by N1 and X, and X2 remains the same. The theoretical criteria on the sign and size of the coefficients as established by financial theory were satisfied as the signs of ba, b, and by corresponded with theoretical expectations. The measure of goodness of fit of the regression line as measured by the multiple coefficient of determination (R) shows that about 30.8% of total variation in the dependent variable Y: is explained jointly by XI. X and Xs. This indicates a fair performance of the model. Another measure of goodness of fit of the regression model line as measured by the adjusted multiple coefficient of determination (R) shows that about 20.9% of the total variations in the dependent variables Y is explained by the explanatory variables X1, X and X, jointly after taking into consideration the relevant degrees of freedom. This indicates a fair performance of the model.

DECISIONS OF THE HYPOTHESIS OF THE STUDY

The decisions reached on each one of the tests of hypothesis conducted in this study would be presented in this section.

Decision Rule (or criterion)

Reject the null hypothesis (H.) and accept the alternative hypothesis (Hi) of the computed value of the appropriate statistics exceeds the critical value. Otherwise accept the null hypothesis and reject the alternative hypothesis.

Hypothesis 1

Concerning whether there is a significant structural change on financial leverage and shareholders risk on returns taken separately

Ho: b311= 0; b32ı = 0

Hi: b31; 0; b32; 0

&= 0.05 (using 2 - tailed test i.e &/2)

Test statistics = 't' Test

Critical value = t (0.05/2; df=n- k = 25-4=21)=2.08

The computed values of 't' test statistic were 3.600 and 12003.120 respectively. Both b13 and b23 fell above the critical value (i.e 2.080). We therefore, reject the null hypothesis for biз and b23 and accept the alternative hypothesis that there is a significant structural change on the financial leverage and shareholders risk on returns.

Hypothesis 2

Concerning the relationship total variation in returns to shareholders risks in returns, explained separately by joint variations in debt/equity leverage ratio, Interest coverage leverage ratio and leverage status.

Ho: $R^2_{11} = 0$; R^2 2; = 0

H_1: R^2 1; 0; R^2 2; +0

&= 0.05 (using 2-tailed test)

Test statistics=F Test

Critical value-F (0.05/2; df-k-1-3, n-k-25-4-21)-F-3.07

The research indicated that the computed values of the 'F' test statistics produced 13.451 and 3.113 respectively. Both R'li and R' at both exceeded the critical value (f.c. 3.07). We therefore, reject the null hypothesis and accept the alternative hypothesis that the total variation in returns to shareholders risk in returns, explained separately by joint variations in debt/equity leverage ratio, interest coverage leverage ratio and leverage status of companies is significant

Analysis 2

Calculation using the data as presented in the table was performed with the chi-square data analysis technique. For the purpose of testing hypothesis I which states that there is no difference in the opinion of respondents on the relationship between structural change on leverage and shareholders risk of returns question 16, responses which states what benefits or impact has the use of borrowed funds made on your company's general profitability and survival was used.

Respondent	Accountant	Admin Manager	Total
Yes	24	8	32
No	6	12	18
Total	**30**	**20**	**50**

Table 2

Source: Questionnaire respondents

Respondents	Accountant		Admin Manager		Total	% Total
	F0	Fe	F0	Fe		
Yes	24	19	8	12	32	64
No	6	10	12	7	18	36
Total	30	29	20	19	50	100

Table 3

Source: Questionnaire responses

$$X^2 = \frac{E\,(f_0 - f_e)^2}{f_e}$$

$$x^2 = \frac{(24-19)^2}{19} + \frac{(8-12)^2}{12} + \frac{(6-10)^2}{10} + \frac{(12-7)^2}{7}$$

X=1.32+1.33+ 106+ 3.57-7.82

To determine the level of significance of the computed value of X^2

df (R-1) (C-1)

=(2-1) (2-1)=1

at &= 0.05 and d.f=1 critical value of $X^2 = 3.84$

since computed X2> critical value of X?

i.e 7.82>3.84, we reject Ho and accept the alternative hypothesis H_1,

To test hypothesis 2 which states that there is no difference in the opinion of respondents on the relationship between total variation in returns to shareholders risks in returns question 7, which states was used.

Respondent	Accountant	Admin Manager	Total
Yes	32	3	35
No	4	11	15
Total	**36**	**14**	**50**

Table4

Source: Questionnaire respondents

Respondents	Accountant		Admin Manager		Total	% Total
	F0	Fe	F0	Fe		
Yes	32	25	3	9	35	70
No	4	10	11	4	15	30
Total	36	35	14	13	50	100

Table 5

Source: Questionnaire responses

$$x^2 = \frac{(32-25)^2}{25} + \frac{(3-9)^2}{9} + \frac{(4-10)^2}{10} + \frac{(11-4)^2}{4}$$

= 1.96+4+3.6+ 12.25 = 21.81

df = 1 and & = 0.05 level of significance critical $X^2 = 3.84$

Since computed X^2 > critical X^2

i.e 21.81 > 3.84

We reject the null hypothesis and accept the alternative hypothesis

CONCLUSION AND RECOMMENDATIONS

The findings of this study make it obvious that firms generally cannot completely avoid using structural changes in financial leverage for the survival and growth of their business. The firms or business are part of the important section of the economy and its survival and growth are exposed to a number of risk or uncertainties ranging from uncertainty of the economic conditions, such as internal and external economic and political situations, monetary and fiscal policies, social conditions etc. Secondly, industrial factors and also company factors could have an effect on the firm and consequently returns to shareholders, as they constitute risk in business. Thus, it can be concluded from this study that structural changes in financial leverage have a positive effect on shareholders risk in returns. With the evidence shown in this study which goes to prove that structural change in financial leverage has a significant effect on shareholders risk of returns, it becomes important for organizations in employing the use of leverage in their capital budget or project financing should carry out a proper analysis of the cash flow and the relevant factors of the environment that could increase the risk element involved.

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