Financial Intermediation Role of the Nigerian Capital Market and Performance of Manufacturing Firms

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ABSTRACT

This paper assesses the role of the Nigerian capital market in the provision of funds to the manufacturing sector, which by its productive nature has the greatest potential to impact on the economic growth and development of a country by examining the relationships between the mobilization and allocation functions of the capital market and the performance of the 24 manufacturing firms included in the study. Using a micro-level approach, firm-level panel data for a 12-year period (2003-2014) were analyzed using a multiple regression model and ordinary least squares estimation technique. Return on equity (ROE) was adopted as the proxy for firm performance, while firms' share capital and annual market capitalization of the firms were proxies for funds raised and supplied to the firms. Equity market turnover ratio was proxy for capital market allocation efficiency. The results showed that there was a negative and significant relationship between share capital and ROE and a positive and significant relationship between market capitalization and ROE. This implies that the manufacturing firms have not accessed fresh funds from the capital market, even as the market has shown the potential to supply funds to the manufacturing firms during the period under study. The positive but insignificant relationship between market turnover ratio and ROE shows the market was generally illiquid and points to the inefficiency of the market to effectively allocate funds to the manufacturing sector of the economy. The policy implication of these findings is that efforts should be geared at removing all identified impediments to capital market operations especially on the demand side to make it more attractive and accessible to entrepreneurs.

Keywords: Financial Intermediation Role, Nigerian Capital Market, Manufacturing Firms

1. Introduction

Capital markets provide the mechanism for intermediation over the long term between financial surplus units and financial deficit units. The capital market mobilizes the funds in the hands of savers (investors) and channels same to the users (firms) through the mechanism of the stock exchange which provides the platform for bringing them together. By this they form the channel for the flow of financial resources among the economic sectors. The extent to which the capital market can intermediate between surplus and deficit units depends on the level of development of the financial sector as well as the savings habit of the populace.

The financial intermediation role of capital markets involves the mobilization and allocation of capital. Capital mobilization refers to obtaining and pooling of funds from savers or surplus units such as individuals, households and business firms and making these funds available to users or deficit units who are mainly businesses and government. The degree to which the capital market is able to achieve this depends on how efficient the market is, which in turn depends on the level of development of the market.

Capital allocation refers to the channeling of the mobilized funds to those areas where the best returns can be realized. The capital market provides the mechanism by which the nation's financial resources are mobilized and allocated to those industries and companies that will make the best use of them. The capital market through the stock exchange provides the avenue to organize securities trading by bringing buyers and sellers together. Through its competitive pricing mechanism, investors will invest in those stocks which are seen to be promising and where they would obtain high returns at low risk, and liquidate their holdings in those stocks which they perceive to be overvalued. However, for this to occur, stock prices must incorporate firm-specific information for efficient allocation.

The interaction of the participants - the buyers and sellers - allow for the determination of the price of the traded securities in the capital market based on the demand and supply. Through this price discovery mechanism, the generation and consequent dissemination of information to the various segments of the market is realized. It is this fundamental role of prices in aggregating information in stock markets that help to allocate resources efficiently, as funds will then flow to those firms with promising returns. Thus in the financing channel, prices enable good firms to raise funds more cheaply as the prices act as signals to investors or lenders of the potential of the company in which they wish to invest. The efficiency of the capital market thus depends on the extent or degree to which it is able to provide adequate information to guide investors on where to channel their resources. This can be seen in how efficiently the stock prices in the market impound firm-specific information.

The manufacturing sector has been playing a major role in the economic growth and development of

many countries and this link can be seen directly in the way manufacturing contributes to the Gross Domestic Product (GDP) through its output of goods. In most advanced countries, high overall growth has been positively associated with the share of manufacturing activity. The sector is dynamic, offering opportunity for wealth creation and employment generation. Also growth in the manufacturing sector enables growth in other sectors, and as a result creates more jobs and investment. Thus, developing or underdeveloped countries can substantially improve their relative position by accelerating growth through increase in the rate of investment in manufacturing.

Manufacturing industries are generally involved in the production of goods and so require capital goods or fixed assets which include land, buildings, plants, machines and equipment, to add value to raw materials. All these require funds – specifically long-term funds, because of the long gestation period of industrial production which the capital market is best suited to provide. Thus, the need for a developing country like Nigeria to increase its capacity to mobilize funds effectively and allocate them efficiently in order to achieve high levels of industrialization cannot be over-emphasized.

The importance of capital market development in the growth process of the developed countries of the world has been highlighted in a number of empirical studies. These studies by Atje & Jovanovic, 1993; Levine & Zervos, 1996, 1998; Rousseau & Wachtel, 2000; Beck & Levine, 2002) which focused on the finance-growth link show that industries and firms located in economies with well-developed capital markets have grown faster than those located in economies with weak capital markets. The study of Demirguc-Kunt and Levine (1996) using data from 41 countries for the period 1986 – 2003 shows that the three most developed capital markets are in the United States, United Kingdom and in Japan. They also find that the most underdeveloped markets are in Columbia, Nigeria, Venezuela and Zimbabwe. These countries with the most developed capital markets are also the most developed countries in the world.

The Nigerian capital market came into formal existence through the establishment of the Nigerian Stock Exchange in 1961 primarily to provide the machinery for mobilizing private and public savings and making them available for productive investment through stocks and shares (Onyido, 1994). The use of the capital market reduces over-reliance on the money market, assists in promoting a solvent and competitive financial sector as well as fostering a healthy stock market culture (Ojo, 1998). The fact that the Nigerian capital market has made some modest contributions to the growth of the economy has been attested to by several authors (Alile & Anao, 1986; Onyido, 1994; Ojo, 1998; Ekineh, 2003; Elakama, 2004; Aguwamba, 2005; Ariyo & Adelegan, 2006; Ndanusa, 2006; Okereke-Onyiuke, 2006; Ezenwe, 2006; Oladele, 2007 and Ibru, 2009). They acknowledge that the involvement of the Nigerian Stock Exchange in the privatization exercise increased the volume of activities and hence the absorptive capacity, and also that the few listed companies provide over 85% of all corporate taxes in Nigeria. However, they all agree that the market is still very small when compared with the size of the economy. Other authors like Ayagi (2006), Adedipe (2006), Oluwatosin, Adekanye and Yusuf (2013) and Okonkwo, Ogwuru and Ajudua (2014) insist that the Nigerian capital market has not been able to mobilize substantial capital for real sector growth and development

Although a large volume of literature exists on the role of capital markets, majority of these studies have been conducted at the macroeconomic level using aggregate macroeconomic data. Most of these studies found a positive relationship between capital market development and economic growth. A number of studies (Mieno, 2006; Liu & Hsu, 2006 and Hussain, 2011) have examined the relationship between capital markets and the industrial sector to see if the relationship existing at the macro-level can be corroborated with industry-level data. Mieno (2006) and Hussain (2011) specifically examined the relationship between capital markets and the manufacturing sector in various countries and found a positive relationship. In Nigeria Obiakor and Okwu (2011) and Okoye, Nwisienyi and Eze (2013) also found a positive relationship between the capital market and industrial output. More recently, Kwode and Buzugbe (2015), using macro-economic data reported that the Nigerian capital market has not impacted the manufacturing sector significantly.

Other studies have started to focus attention using firm-level data at the firm level. As earlier noted with industry-level studies, these studies were also carried out to determine the nature of the relationship between capital markets and the manufacturing sector using firm-level data. For example, Ganesh-Kumar, Sen and Vaidya (2002), Giannetti, Guiso, Japelli, Padula, and Pagano (2002), Liu and Hsu (2006) and Hussain (2011) used firm-level data of listed manufacturing companies to examine the impact of capital market on the performance of the companies. These studies found positive relationships using firm-level data.

From the foregoing, and despite the positive relationship recorded by various authors, the researchers did not come across studies using firm-level data to examine the relationship or impact of the Nigerian capital market in the channeling of funds to the manufacturing sector. The question is to what extent has the Nigerian capital market been able to carry out its financial intermediation role with reference to the manufacturing sector? The specific objectives are to determine the extent to which the Nigerian capital market has been able to mobilize and efficiently allocate funds to the manufacturing firms. Therefore, this present study is aimed at making major contributions to knowledge by examining the financial intermediation role of the Nigerian capital

market and the performance of listed manufacturing companies using firm-level data. The findings would be beneficial for capital market development policy in Nigeria.

2. Review of Related Literature
Gurley and Shaw (1955) pointed out that one of the major differences between the developed countries and the less developed ones is the attainment of a higher level of financial system development in developed countries. A number of empirical studies (King & Levine, 1993; Levine & Zervos, 1996; Levine & Zervos, 1998 and Beck, Levine & Loayza, 2000) have shown that most developed countries have well-developed financial systems and their capital markets have been able to mobilize domestic savings and allocate them efficiently to the real sector. Arestis, Denetriades and Luintel (2001) analyzed data for Germany, the United States, Japan, France, and the United Kingdom covering a period of 25 years. Similarly, Vazakidis and Adamopoulos (2009) analyzed data for France for the period 1965 to 2007. These results indicate that these countries have been able to mobilize capital effectively for the development of their economies. In some less developed countries, capital markets have been shown to mobilize domestic savings and allocate funds efficiently. Shabaz, Ahmed and Ali (2008), using time series data from 1971 to 2006, showed that Pakistan has been able to mobilize capital for real sector investment. Anwar, Shabir and Hussain (2011) similarly showed that Pakistan has also been able to effectively mobilize capital via its capital market for its economic development.

Levine and Zervos (1998) examined the link between capital market development and economic growth. They employed data from 47 countries from 1976 to 1993. They used stock market liquidity (measured as turnover of shares and value traded), size (market capitalization), volatility (twelve months rolling standard deviation), integration with world markets and bank credit for private sector (bank credit to the private sector to GDP) as predictors of economic growth, capital accumulation, improvement in productivity, and savings growth rates. They found that stock market liquidity is strongly correlated to the rate of economic growth. They however, show that capital market size, volatility and international integration are not robustly linked with growth.

Mishra, Mishra, Mishra and Mishra (2010) examined the impact of capital market efficiency on the economic growth of India using time series data on market capitalization, total market turnover and stock price index over the period spanning from the first quarter of 1991 to the first quarter of 2010. Their study revealed that there is a linkage between capital market efficiency and economic growth in India.

Havranek, Horvath and Valickova (2013) analyzed 67 studies and found that capital markets support faster economic growth than other financial intermediaries, but that the effect seemed weaker in poor countries. Hailemariam and Guotai (2014) using data for 17 emerging markets and 10 developed market economies from 2000 to 2011, found that the capital markets have been able to effectively mobilize capital for economic growth.

A few studies have also been carried out in Africa. Agarwal (2001) using simple correlation analysis on 9 African countries from 1992 to 1997 found that capital market development is correlated with investment and in turn with economic growth. He noted however, that the results obtained suggest that value of shares traded ratio (TR) is not an effective measure of stock market liquidity. He explained that this may be especially so in the context of African countries where stock markets are highly volatile, causing the turnover ratio to be a misleading indicator of liquidity. Adjasi and Biekpe (2006) from their study of 14 African countries found that positive influence of stock market development on economic growth is significant for countries classified as upper middle-income economies. Similarly Nzue (2006), using data for Ivory Coast found that there is a unidirectional causality running from capital market development to economic growth. Yartey and Adjasi (2007) examined the economic importance of capital markets in Africa and they found out that capital markets have contributed to the financing of large corporations in certain African countries, specifically, South Africa, Ghana, Zimbabwe and Mauritius. They used 3 capital market indicators- market capitalization relative to GDP, value of shares traded relative to GDP, and the turnover ratio (value traded/ market capitalization). The modeling and estimation follow the framework of Levine and Zervos (1998). The macroeconomic variables include GDP, investment (gross domestic fixed capital formation as proxy) and trade openness (sum of exports and imports relative to GDP). The three capital market indicators enter the model separately in order to determine which indicator is the best channel through which stock markets influence growth. The analysis failed to show conclusive evidence on the impact of capital markets on growth, even though market value traded seemed to be positively and significantly associated with growth.

A number of scholars in Nigeria have undertaken empirical studies and have also recorded positive relationship. These include Nwokoma (2002 and 2006), Osinubi (2004), Nwaogwugwu (2008) and Akinlo (2008). Whereas Nwokoma and Nwaogwugwu revealed that there is a strong feedback relationship between capital market variables and industrial output and economic growth in Nigeria, Akinlo found unidirectional causality running from GDP (economic growth) to capital market capitalization. The difference in results may be due to the different methods and time periods used. For example Akinlo worked with data covering 1980 to 2006, while Nwaogwugwu covered the period 1989-2007. The difference notwithstanding, they all stressed on the need for a deliberate effort at boosting economic activities as this will have a positive effect on the development

of the capital market.

More recent studies in Nigeria such as Okpara (2010), Okafor and Arowoshegbe (2011), Josiah, Adediran, Ogungbenle and Akpeti (2012), Oluwatosin et al. (2013), Odita and Oghoghomeh (2013) and Okonkwo, Ogwuru and Ajudua (2014) found that the capital market has a positive but insignificant impact on real sector growth.. They noted however that the capital market has great potential to impact the economy more than it has done. However, Okoye and Nwisienyi (2013) reported that the capital market has impacted significantly on the Nigerian economy. Kwode and Buzugbe (2015), using macro-economic data reported that the Nigerian capital market has not impacted the manufacturing sector significantly. These conflicting conclusions may be as result of the differing time periods in which the studies were carried out.

A number of challenges have been found to confront African capital markets in their effort to mobilize domestic resources and attract foreign capital. Khamfula (2005) identified challenges such as finding a way to increase the supply of securities in the markets, increasing returns to shareholders and liquidity of shares in the market and making firms go public. Mala and White (2006) reported that for many other developing countries, however, the equity markets until the mid-1980s generally suffered from the classical defects of bank-dominated economies, that is, shortage of equity capital, lack of liquidity, absence of foreign institutional investors and lack of investor confidence in the stock market. Another challenge identified is that most of Africa's equity markets have inadequate government regulation and inefficient private information gathering and disseminating firms compared to the more developed stock markets in developed countries (Yartey and Adjasi, 2007). Other impediments to capital market development such as legal, regulatory and tax barriers have also been identified. Khamfula (2005) pointed out that as a result the legal and regulatory environment lacks the required operational ingredients such as accepted standards of accounting and the disclosure of information.

Igbatayo (2011) highlighted the effect of the global financial crisis of 2008 to 2010, and pointed out that the resulting loss of confidence and financial contagion greatly limited the ability of the global capital markets, including the Nigerian capital market to mobilize funds. Okoye et al. (2013) indicated that capital mobilization has been severely limited by adverse economic environment such as poor economic infrastructures, bureaucratic bottlenecks, corruption and poor corporate governance, regulatory and supervisory frameworks. Recent reports of transactions in the market indicate that investors are yet to recover from the crisis and this has greatly affected the ability to mobilize capital from the market. This has also been compounded by the recent drop in oil prices and the exiting of foreign investors as a result of declining foreign exchange rates. Added to these is the lingering insecurity in the country as a result of terrorism and insurgency.

Ikeobi (2015) identified a number of factors that prevented investors from increasing their investment in the capital market thus hindering the flow of funds into the Nigerian capital market. These ranged from inefficiencies of capital market operators, lack of information about quoted companies, paucity of investible funds, low returns on investment and lack of transparency in the market, among others. Ikeobi and Jat (2016) noted that low level of income has adverse effects on the level of funds that can be mobilized by the Nigerian capital market. They also found that high price of manufacturing shares limited the level of investment in that sector. Similarly, Ikeobi and Arinze (2016) reported that the level of income of investors influenced their investment objectives.

In general, the level of development of a capital market and how it is organized and regulated have much to do in terms of its ability to effectively and efficiently mobilize capital for economic development. While the level of development of a country may determine the level of development of its capital market, some emerging economies have relatively well-developed capital markets and so there is no reason why Nigeria cannot have a more developed and efficient capital market.

3. Methodology
3.1 Data
In order to examine the relationships between the capital market functions and the performance of the manufacturing sector, 24 manufacturing firms from several industrial sectors and with consistent results were selected for the study covering a 12-year period from 2003-2014. The firms were from industrial sectors which included agriculture/agro-allied, breweries, building materials, food/ beverages and tobacco among others.

The study employed a multiple regression model using panel data and analyzed with the ordinary least squares technique. Data were put in panel form because they were both cross-sectional and times series in nature. Panel data estimation technique provides more variability and less co-linearity among variables and takes care of the problem of heterogeneity among variables (Gujarati and Sangeetha, 2007). Secondary data used for the analysis were obtained from the financial statements of the selected companies, the Nigerian Stock Exchange Factbook for the relevant years and the Statistical bulletins of the Securities and Exchange Commission.

3.2 Model specification
Following a review of previous studies, the model adopted for this study is based on the models of Levine and

Zervos (1998), Hussain (2011) and Ewah, Esang and Bassey (2009) and modified to achieve the objectives of this study. Thus, firm performance is expressed as a function of capital market intermediation. In principle, we expect a positive relationship between firm performance and the various proxies of capital market intermediation if indeed the capital market has been channeling funds to the manufacturing firms.

The study employs return on equity (ROE) as the dependent variable and measure of firm financial performance. ROE is chosen because it is an important accounting-based and widely used and accepted measure of firm performance. The general form of our firm's performance model is as follows:

Firm Performance = F (Capital market intermediation) … (1)

The general model for this study using panel data analysis is in the following form:

$$Perf = \beta_0 + \beta_1 X_{it} + \beta_2 Z_t + \varepsilon_{it} \ldots (2)$$

Where Perf indicates firm performance and subscript i specifies cross section dimension (firms) and t specifies time dimensions of the data set. β_0, β_1, and β_2 are unknown constants. X_{it} represents the set of firm-specific explanatory variables which vary across firms as well as over time. Z_t is institutional (capital market) explanatory variable that vary over time only, which in this study is the allocation efficiency and also information efficiency of the capital market. ε_{it} is the composite error term comprising of firm-specific component, time-specific component and a component varying over time and across firms.

Specifically, when the above model is adopted, equation (2) can be written as

$$ROE_{it} = \beta_0 + \beta_1 SCAP_{it} + \beta_2 MCAP_{it} + \beta_3 TOR_t + \varepsilon_{it} \ldots (3)$$

Where:

ROE_{it} = Return on Equity of firm i in period t. It is proxy for firm performance

$SCAP_{it}$ = Share capital of firm i in period t. It is proxy for capital raised at firm level

$MCAP_{it}$ = Market capitalization of firm i in period t. It is a proxy for supply of funds to firms.

TOR_t = Turnover ratio in period t. It is a proxy for capital market efficiency in terms of information provision and allocation efficiency.

ε_{it} = Composite error term

β_0 = Constant term (intercept)

β_1, β_2, β_3, and are the coefficients to be estimated.

i = 1,2, ,…, 24

t = 1,2, …, 12

The model is further transformed to a log model as follows:

$$ROE_{it} = \beta_0 + \beta_1 LNSCAP_{it} + \beta_2 LNMCAP_{it} + \beta_3 LNTOR_t + \varepsilon_{it} \ldots (4)$$

The objective is to improve the validity of the estimates and conclusions based on them. This is in line with Ekpo (1997) and Uremadu and Efobi (2012) that the use of log-transformed equations aim at reducing , if not completely removing heteroscedasticity, which may result from un-scaled magnitudes on both sides of the equation.

From theoretical expositions and conventions, each model parameter estimate is expected to have a positive sign. Thus, a priori expectations from the model were as follows:

β_1, β_2, and $\beta_3 > 0$. The model specified was estimated using the statistical software STATA 12.0. The model was used to test the following hypotheses at the 5% level of significance;

Hypothesis 1: There is no significant relationship between the funds raised by the manufacturing firms in the capital market and their performance.

Hypothesis 2: There is no significant relationship between the funds supplied to the manufacturing firms and their performance.

Hypothesis 3: There is no significant relationship between the capital market allocation function and firm performance.

4. Results and Discussions

The result of the panel regression is presented in Appendix 2 and summarized in table 1.

Table 1: Summary of Regression Result

	Expected Sign	Actual Sign	Pooled Coefficient	P-value
SCAP	+	-	-17.22	0.000**
MKTCAP	+	+	17.88	0.000**
TOR	+	+	0.37	0.962
Constant			-6.87	0.690

Dependent Variable: ROE. Note: * ** show significance at 5% and 1% respectively

Source: STATA 12.0 output

Based on the output of STATA 12.0, the relationship between firm performance (ROE) and the explanatory variables can be determined by the equation:

$ROE_{it} = -6.87 - 17.22CAP_{it} + 17.88MCAP_{it} - 0.37TOR_t$

The p-value (0.000) of the F statistic for the model is significant. This shows that the regression model is valid and the data fitted the model well. The coefficient of determination, R^2 is 19.67%. This means that 19.67% change (variance) in the dependent variable can be explained by the independent variables in the model. Thus other factors not included in the model accounted for the remaining variance in the performance of the firms.

For hypothesis 1 at 5% significance level, the coefficient for share capital (SCAP) is negative and significant (p-value less than 0.05) contrary to the a priori expectation, which is that the coefficient be positive. Thus, the hypothesis that there is no significant relationship between the funds mobilized by the manufacturing firms and their performance is rejected, which leads us to accept the alternative that there is a negative and significant relationship between the funds mobilized and the performance of the manufacturing firms. The negative relationship between share capital which is the proxy for funds raised, and firm performance indicates that the firms did not access fresh funds from the primary market during the period under study. Using a micro-level approach with firm-level data, the results from the first hypothesis agree with those of Okafor and Arowoshegbe (2011), who using industrial level data, found that gross capital formation in Nigeria is not financed significantly by the capital market. It also agrees with Ariyo and Adelegan (2006), Ewah et al. (2009), Ojo and Adeusi (2012), Maduka and Onwuka (2013) and Kwode and Buzugbe (2015) who also found that the Nigerian capital market has not contributed meaningfully to the Nigerian economy.

In the second hypothesis the relationship between market capitalization (MCAP) and firm performance is positive and significant (p-value less than 0.05). We reject the null hypothesis that there is no significant relationship between the funds supplied to the manufacturing firms and firm performance and accept the alternative that there is a significant relationship between funds supplied to the manufacturing firms and their performance. This shows the potential of the capital market to mobilize and channel funds to the manufacturing firms as it indicates the willingness of investors to supply funds to the firms. Again, although this study was carried out with firm-level indicators, the results agree with those of Nwokoma (2002, 2006), Akinlo (2008) and Nwaogwugwu (2008), who found positive relationship between the Nigerian capital market and industrial output. These findings from the first two hypotheses using firm-level data have shown that although the Nigerian capital market has the potential to mobilize funds from the economy, it has not translated into fresh capital for manufacturing firms. The Nigerian capital market has demonstrated that it has the potential to mobilize and channel fresh funds to the manufacturing sector, even though the firms have not made use of the opportunities available in the capital market.

In the third hypothesis the coefficient for turnover ratio (TOR) which is proxy for both allocation and information efficiency is positive but insignificant (p-value is more than 0.05). Therefore the null hypothesis is upheld. We accept the hypothesis that there is no significant relationship between capital market allocation efficiency and manufacturing firm performance. This indicates that the Nigerian capital market has not been efficient in the allocation of funds to the manufacturing firms and also indicates the lack of liquidity in the market which signals inefficient information provision. This result agrees with the findings of Olowe (1996), Okafor and Arowoshegbe (2011) and Nneji (2013) who attribute the low efficiency to the low level of development of the Nigerian capital market.

5. Conclusion

The findings of this research work using firm-level data has provided empirical evidence that although the Nigerian capital market demonstrated the potential to mobilize funds for the manufacturing sector; this did not translate into capital formation as firms did not make use of the market to source for funds during the period under study. We can safely conclude that the Nigerian capital market has not impacted positively on the ailing economy by providing the much needed funds to the manufacturing sector which has the greatest potential to impact the economic development of any nation. The low level of development as indicated by the low level of liquidity in the market is responsible for this state of affairs. There is therefore the need to critically look into the activities and operations of the capital market to identify any restrictions or constraints hindering entrepreneurs and firms from accessing funds from the capital market which is not only a cheaper source of funds when compared to the money market, but is also a permanent source of funds.

To encourage capital market development and make it more accessible and attractive to investors and entrepreneurs, policy makers should as a matter of urgency take a number of steps so as to take full advantage of the potential of the market to mobilize and also efficiently channel long-term funds for the development of the ailing economy through the provision of funds for the manufacturing sector. First, all identified impediments to accessing the capital market both from the supply side and the demand side should be removed. From the supply side, constraints faced by investors especially in the receipt of dividends, ease of transacting in the market, signature verification, certificate dematerialization, among others should be addressed so as to make investing in the market more attractive. On the demand side, there is need for the relaxation of the stringent requirements of

the Nigerian Stock Exchange so as to enable indigenous companies to get listed and consequently raise fresh funds from the market when the need arises.

There is a need for the Nigerian Stock Exchange (NSE) as well as the Securities and Exchange Commission to create more awareness and educate the public on the opportunities available to entrepreneurs in the capital market. A conscious effort should be made to periodically organize road shows specifically targeted at the manufacturers, possibly through the Manufacturers' Association of Nigeria (MAN) as was the case during the Bank consolidation exercise of 2004/2005 under the leadership of the then Director-General of the NSE, Professor Ndi Okereke-Onyiuke. Also, the public should be educated on the benefits of investing in the country rather than investing in other countries thereby boosting those economies to the detriment of our economy.

The NSE to ensure that firms which are already listed be more responsible by living up to the expectation of investors who part with their hard-earned money, by way of paying dividends as and when due. This is very important as the impression of many investors is that the promoters of many of the firms engage in abuse of office and sharp practices, and divert a good percentage of their profits, instead of making same available to be appropriated as dividends to investors.

Lastly, and most importantly, Government should ensure macroeconomic stability and provide the infrastructure necessary to stimulate investment and production, most especially adequate power supply, as this singular factor will go a long way in improving the investment climate of the country.

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APPENDIX 1
Manufacturing Firms used in the Study

S/No	Company
1	Okomu Oil Plc
2	Presco Oil Plc
3	Guinness Nigeria Plc
4	Nigerian Breweries Plc
5	Ashaka Cement Plc
6	Chemical and Allied Products Plc
7	PZ Cussons Nigeria Plc
8	Flour Mills of Nigeria Plc
9	Nestle Nigeria Plc
10	Nigeria Enamelware Plc
11	Vitafoam Nigeria Plc
12	Avon Crowncaps
13	Beta Glass
14	7-UP Bottling Company Plc
15	AG Leventis (Nigeria) Plc
16	Glaxo Smithkline Nigeria Plc
17	UAC of Nigeria Plc
18	B.O.C. Gases plc
19	Chellarams Plc
20	Berger Paints Plc
21	May and Baker Nigeria Plc
22	Northern Nigeria Flour Mills Plc
23	Unilever Nigeria Plc
24	Cement Company of Northern Nigeria Plc

Source: Nigerian Stock Exchange Factbook (2010)

APPENDIX 2
Regression Result

```
. regress ROE SHARE_CAPTAIL MAK_CAP TURNOVER
    Source |    SS      df      MS              Number of obs =    288
    Model | 35888.348    3  11962.7827         Prob > F      = 0.0000
  Residual | 146592.146  284  516.169527        R-squared     = 0.1967
------------+------------------------------     Adj R-squared = 0.1882
    Total | 182480.494  287  635.820535         Root MSE      = 22.719

-----------------------------------------------------------------------------
       ROE |   Coef.  Std. Err.    t   P>|t|   [95% Conf. Interval]
--------------+--------------------------------------------------------------
SHARE_CAPTAIL | -17.22371  3.623092  -4.75  0.000   -24.35523  -10.09219
     MAK_CAP |  17.87932   2.16412   8.26  0.000    13.61956   22.13907
    TURNOVER |  .372765   7.896782   0.05  0.962   -15.17088   15.91641
       _cons | -6.865347  17.20032  -0.40  0.690   -40.72163   26.99094
-----------------------------------------------------------------------------
. xtset COMPANYS YEARS
    panel variable:  COMPANYS (strongly balanced)
     time variable:  YEARS, 2003 to 2014
          delta:  1 unit
```
Source: STATA 12.0 Output