FIRM CAPITAL STRUCTURE AND CORPORATE FINANCIAL PERFORMANCE IN NIGERIA

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DEPARTMENT OF ACCOUNTING

FACULTY OF MANAGEMENT SCIENCES

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BEING A RESEARCH PROJECT WRITTEN AND SUBMITTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN, EDO STATE, NIGERIA, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (B.Sc.) DEGREE IN ACCOUNTING.

MAY, 2025.

DECLARATION

I, **AIGHOBAHI, MERCY ITOHAN,** declare that this project work is entirely my own work and composition. The work embodied in this project has not been submitted in candidature for any degree and is not concurrently being submitted for any other degree. All references made to the works of other persons have been duly acknowledged.

_____- _____

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CERTIFICATION

This is to certify that this project research was carried out by **AIGHOBAHI, MERCY ITOHAN,** Matriculation number: **MGS1813622** in the Department of Accounting, Faculty of Management Science, University of Benin, Benin City, Edo state, Nigeria. It is adequate in scope and quality in partial fulfilment of the requirement for the award of bachelor of science (BSc.) degree in accounting.

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DEDICATION

I express my profound gratitude and heartfelt appreciation to the Almighty God for His grace upon me, enabling the successful completion of this endeavour.

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ABSTRACT

This study investigates the relationship between capital structure components and corporate financial performance in Nigerian firms, focusing on the consumer goods sector listed on the Nigerian Exchange (NGX). Specifically, it examines the influence of equity capital, short-term debt, long-term debt, and working capital on financial performance, using Return on Assets (ROA) as a key performance indicator. The study adopts a descriptive research design, utilizing secondary data from audited annual reports of 13 consumer goods firms over a five-year period (2019-2023). Findings indicate that equity capital and short-term debt have a significant positive impact on firm profitability, suggesting that a strong equity base and effective short-term debt management are crucial for financial stability and growth. However, long-term debt showed a negative but statistically insignificant relationship with performance, while working capital had a positive but insignificant effect. The study recommends that firms strengthen equity financing, optimize short-term debt, and reduce excessive long-term debt reliance. It also calls for improved working capital management and government policies to reduce borrowing costs for SMEs. The study contributes to capital structure theory in emerging markets, offering insights for financial managers, policymakers, and investors in Nigeria.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The capital structure of a firm is an essential element of corporate financing decisions. It has a direct influence on both the financial performance of the firm and the returns provided to its capital providers. Given its significant role, how a firm manages its capital structure can have a profound impact on its profitability, risk exposure, and ability to grow. Muhammad (2019) makes a distinction between capital structure and financial structure, noting that while financial structure refers to all the ways a firm raises capital, capital structure specifically addresses the proportion of long-term debt relative to equity. This distinction is important because it helps to understand the ways in which debt and equity affect a firm's financial position and performance.

The debate surrounding capital structure has been central to finance theory and practice for many years. Financial experts and scholars have long attempted to identify the optimal mix of debt and equity that would maximize firm value while reducing the cost of capital. Boh et al. (2020) argue that firms achieving an optimal capital structure are in a better position to capitalize on economic opportunities and maintain financial stability. The long-term debt-to-equity ratio is a common indicator of a firm's financial structure, providing a straightforward way to assess how much leverage a firm uses in its operations (Abdulkader, 2020). Vatavu (2020) further emphasizes the importance of managing debt and equity financing separately, as each of these capital sources has distinct advantages and risks.

Capital structure is more than just a number on the balance sheet; it represents a strategic decision that affects the firm's ability to raise funds for both daily operations and future expansion. By carefully considering the mix of debt, equity, and preference shares, a firm can

strengthen its financial flexibility and improve its risk management, especially during periods of economic uncertainty.

In today's competitive business environment, maximizing shareholder wealth remains the primary goal for most firms. To achieve this, companies must develop strategies that optimize the use of available capital in a way that ensures both operational efficiency and long-term growth. According to Muhammad (2019), capital structure decisions should be assessed based on their impact on a firm's performance. For example, when market conditions are favourable, financial leverage—such as the use of debt—can increase earnings per share (EPS) and drive profitability. However, increasing leverage also introduces more financial risk. This risk may affect shareholders if the firm's returns do not exceed the cost of debt (Boh et al., 2020).

For firms considering raising funds through debt, it is crucial that the returns generated from those funds are greater than or at least equal to the cost of debt. If the returns fall short, debt holders, who have priority claims over earnings, will reduce the available returns for equity holders. This situation underscores the need for careful planning in determining the optimal capital structure. Additionally, firms must take into account various external factors, such as industry conditions, the overall economic environment, and the competitive landscape, when deciding how to structure their capital. A well-optimized capital structure allows firms to maintain favourable credit ratings, secure lower financing costs, and ultimately improve financial performance (Abdulkader, 2020).

Despite efforts by financial managers in Nigeria and other developing economies to optimize capital structure decisions, the question of how best to balance debt and equity remains a challenging one. Many firms are faced with difficult trade-offs when determining the appropriate mix of capital to fund long-term investments. Achieving an optimal capital structure is essential

for enhancing firm performance and maximizing shareholder wealth, particularly in emerging markets like Nigeria.

1.2 Statement of the Problem

Capital structure decisions are fundamental to a firm's financial strategy, influencing its overall health, risk profile, and profitability. A well-balanced mix of debt and equity financing is crucial for firms to optimize their performance. However, despite substantial academic interest in the relationship between capital structure and financial performance, many aspects remain unresolved, particularly within the context of emerging markets like Nigeria. The connection between various components of capital structure, namely equity capital, short-term debt, long-term debt, and working capital, and firm performance continues to be a point of debate among scholars and practitioners alike.

The capital structure theory, which includes the trade-off theory, pecking order theory, and agency theory, proposes that firms should strike a balance between the benefits of debt financing (such as tax shields) and its associated risks (such as bankruptcy costs). However, empirical findings have been inconsistent. Some studies suggest that equity financing has a positive effect on firm performance, as it provides flexibility and reduces financial risk (Abdulkader, 2020). Conversely, other researchers argue that an overreliance on equity capital can lead to increased agency costs and lower performance (Boh et al., 2020). Debt financing, while often used to leverage growth, carries its own challenges. Excessive debt can negatively affect performance due to its high associated costs and the financial burden it imposes on firms. This contradiction becomes more pronounced in developing economies, where firms often face difficulties in accessing both debt and equity capital.

In the case of Nigeria, these issues are further compounded by economic factors such as high inflation rates, economic instability, and limited access to financial markets. While there is a body of literature that examines the link between capital structure and firm performance, most studies focus on general financial metrics or aggregate capital structure measures. Few studies have broken down capital structure into its individual components, such as short-term debt, long-term debt, equity capital, and working capital, and explored their specific impacts on performance. Additionally, much of the existing research has predominantly focused on large firms, leaving a significant gap in the understanding of how capital structure decisions affect smaller and medium-sized enterprises (SMEs) in Nigeria.

Despite the wealth of existing research, a comprehensive understanding of how the specific elements of capital structure, equity capital, short-term debt, long-term debt, and working capital, affect firm performance is still lacking. The unique economic and business environment of Nigeria presents an ideal opportunity to address this gap. This study seeks to contribute to the existing body of knowledge by exploring the individual impact of these elements on firm performance in the Nigerian context. In doing so, it will provide valuable insights that can aid financial managers and policymakers in making more informed and strategic decisions regarding capital structure.

Furthermore, this study will focus on the granular relationships between the components of capital structure and firm performance, rather than relying on aggregate measures. By examining firms from different sectors across Nigeria, the study aims to identify the most optimal capital structure for enhancing firm performance in the Nigerian market.

Based on the identified research gap and the need for deeper insights into the capital structure-performance relationship, the following research questions have been formulated to guide this study:

1. What is the effect of equity capital on the financial performance of firms in Nigeria?
2. How does short-term debt influence the financial performance of firms in Nigeria?
3. What is the association between long-term debt and the financial performance of firms in Nigeria?
4. What is the relationship between working capital and the financial performance of firms in Nigeria?

1.3 Objectives of the Study

The primary objective of this study is to examine the relationship between the various components of capital structure namely, equity capital, short-term debt, long-term debt, and working capital, and the financial performance of firms in the consumer goods sector of the Nigerian Exchange Group (NGX). The specific objectives of this study are to:

1. Investigate the effect of equity capital on the financial performance of firms in Nigeria.
2. Analyse the impact of short-term debt on the financial performance of firms in Nigeria.
3. Evaluate the relationship between long-term debt and the financial performance of firms in Nigeria.
4. Explore the effect of working capital on the financial performance of firms in Nigeria.

1.4 Research Hypotheses

Based on the research questions, the following null hypotheses are proposed:

1. **H_{01}:** There is no significant relationship between equity capital and the financial performance of firms in Nigeria.

2. **H_{02}:** There is no significant relationship between short-term debt and the financial performance of firms in Nigeria.
3. **H_{03}:** There is no significant relationship between long-term debt and the financial performance of firms in Nigeria.
4. **H_{04}:** There is no significant relationship between working capital and the financial performance of firms in Nigeria.

1.5 Scope of the study

This study aims to investigate the relationship between capital structure and firm performance, focusing specifically on companies listed within the consumer goods sector of the Nigerian Exchange Group (NGX). A total of 21 firms from this sector have been selected as the study's population. The choice of the consumer goods sector is based on its crucial role in the Nigerian economy, where firms in this sector face unique capital structure challenges due to varying economic factors, including inflation and market volatility. The study will cover a five-year period from 2019 to 2023, providing a contemporary and relevant dataset to assess how capital structure decisions influence firm performance under current market conditions. The use of panel data allows for a comprehensive analysis, accounting for both the time-series and cross-sectional variations inherent in the data. This methodological approach provides a robust framework for understanding dynamic relationships over time.

The data for this study will be sourced from the audited annual reports of the selected firms. These reports are publicly available and required by law, offering an accurate and reliable account of the financial performance and capital structure of these firms. The inclusion of these reports ensures that the study uses verified, credible, and transparent sources of data that align with the regulatory standards for listed companies in Nigeria. This scope not only provides a

clear focus on a well-defined group of firms, but also ensures the inclusion of the most current and comprehensive financial data available.

This study's emphasis on firms in the consumer goods sector, coupled with its focus on recent data from 2019 to 2023, will offer valuable insights into the capital structure-performance relationship in a rapidly evolving Nigerian market. The focus on panel data also enables the study to capture both short-term and long-term variations in capital structure decisions and their impacts on firm performance.

1.6 Significance of the study

This study contributes to the growing body of literature on capital structure by examining its relationship with corporate financial performance in the Nigerian context. Given the unique economic challenges of emerging markets, the findings will provide valuable insights for key stakeholders, including managers, boards of directors, investors, and policymakers.

Managers: This research will empower managers to understand how capital structure decisions, particularly the balance between debt and equity financing, impact financial performance. The study offers practical insights on minimizing financial risk while maximizing profitability and growth, enabling managers to make informed decisions for sustainable business success.

Board of Directors: For board members, the study will offer insights on aligning capital structure decisions with the firm's broader strategic goals. It will assist boards in making data-driven decisions regarding financing strategies, risk management, and shareholder value.

Investors: The study will provide investors with a better understanding of the risk-return trade-off associated with capital structure. It will help identify firms with optimal capital

structures that align with their investment goals, facilitating informed decision-making and effective portfolio diversification in the Nigerian market.

Policymakers: This study is relevant for policymakers focused on corporate governance and financial market regulation. Its findings can inform the development of policies that create optimal financing conditions, ensure transparency, and improve the efficiency of capital markets in Nigeria.

Theoretical Contribution: This research enhances the theoretical understanding of the capital structure-performance relationship, particularly in emerging markets. It builds on established theories, such as the Trade-Off Theory and Pecking Order Theory, while offering new empirical evidence from the Nigerian market, which can be compared with findings from developed economies.

Practical Implications: The study provides actionable recommendations for firms in emerging economies to optimize their capital structure, attract investment, and manage risk. It highlights the importance of sound financing decisions and offers lessons for firms, especially in the consumer goods sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews existing literature on firm capital structure and corporate financial performance, focusing on key variables such as equity capital, short-term debt, long-term debt, and working capital. It explores relevant financial theories that explain the relationship between capital structure and firm performance while analysing empirical studies to highlight existing findings and gaps. Additionally, it examines how different capital structure components influence financial performance indicators such as return on assets (ROA), return on equity (ROE), and earnings per share (EPS). By synthesizing past research, this chapter provides a foundation for the current study and identifies areas requiring further investigation.

2.2 Financial Performance

Financial performance refers to a company's ability to generate revenue and sustain profitability from its core operations over a specific period. It serves as a critical measure of corporate success and provides insights into a firm's operational efficiency, financial stability, and long-term viability. Scholars have examined financial performance from multiple perspectives, emphasizing its role in investment decisions, strategic planning, and corporate sustainability. Poudel (2012) describes financial performance as the ability of a firm to generate new financial resources from its operations, primarily indicated by net income and cash flow from operations. This definition underscores financial performance as a key determinant of a firm's sustainability and overall financial health. Similarly, the Inter-American Institute (2016) defines corporate financial performance as the efficient management and allocation of resources to maximize profitability and shareholder value. According to Ijaz et al. (2016), financial performance is a

reflection of a company's financial stability over time, emphasizing the importance of sustained revenue generation, operational efficiency, and effective resource utilization in achieving long-term financial success.

The assessment of financial performance has attracted significant attention from scholars, financial analysts, and corporate executives due to its direct implications for business growth and market competitiveness. Ali and Stanley (2016) argue that financial performance is an essential aspect of corporate decision-making, influencing the strategies adopted by firms to enhance shareholder value and improve market positioning. Managers now recognize the need to evaluate both financial and non-financial performance indicators to achieve a holistic understanding of business success (Weldeghiorgis, 2004). The evaluation of financial performance is critical in determining a firm's ability to generate value, sustain competitive advantage, and adapt to changing market conditions. The accurate disclosure of financial results, including net profit and other key performance indicators, plays a vital role in ensuring transparency and accountability in corporate financial reporting.

The financial performance of a firm is shaped by various internal and external factors that influence its profitability and sustainability. External factors include macroeconomic conditions such as political stability, inflation, interest rates, and overall economic growth (Hosny, 2017). The stability of financial markets, exchange rate fluctuations, and access to credit facilities also contribute to the financial performance of firms, particularly in emerging economies. Internal factors include firm-specific attributes such as liquidity management, financial leverage, corporate governance, and operational efficiency (Muturi & Omondi, 2013). Effective liquidity management enables firms to maintain financial flexibility and meet short-term obligations without disrupting long-term investment plans. Skandalis et al. (2008) emphasize that managerial

effectiveness, decision-making efficiency, and leadership competence are crucial determinants of financial performance, as they influence how firms allocate resources and pursue growth strategies. Moreover, financial performance is influenced by corporate governance structures, regulatory compliance, and stakeholder relationships. Companies that maintain strong corporate governance practices tend to experience better financial performance, as governance mechanisms help mitigate agency costs and ensure responsible financial management (Baah et al., 2020). The effectiveness of financial disclosure policies also plays a significant role in shaping investor confidence and market valuation, with greater transparency enhancing financial credibility and shareholder trust (Wang et al., 2020). Additionally, firm size has been identified as a key determinant of financial performance, with larger firms often benefiting from economies of scale, stronger market influence, and better access to financial resources (Lin et al., 2019).

Financial performance is a crucial indicator of a company's ability to meet its economic objectives, achieve sustainable growth, and create value for stakeholders. It influences investor confidence, access to capital, and overall market success. Companies that consistently demonstrate strong financial performance tend to attract more investors, secure better credit ratings, and maintain a competitive edge in their industries. Myskova and Hajek (2017) emphasize that financial performance can be effectively assessed through the analysis of financial statements and key financial ratios, which provide valuable insights into a company's profitability, efficiency, and liquidity. Financial ratios such as return on assets (ROA), return on equity (ROE), earnings per share (EPS), and return on capital employed (ROCE) are widely used in evaluating financial performance, allowing firms to benchmark their performance against industry peers and historical trends. The ability to generate positive financial performance is not

only beneficial for the firm itself but also contributes to broader economic development by fostering job creation, business expansion, and market stability (Abba et al., 2016).

The importance of financial performance extends beyond profitability, as it serves as a foundation for strategic decision-making, investment planning, and risk management. Firms with strong financial performance are better positioned to withstand economic uncertainties, adapt to industry changes, and invest in long-term growth initiatives. The relationship between financial performance and corporate sustainability has been widely studied, with researchers emphasizing the need for firms to balance short-term profitability with long-term value creation. Effective financial management practices enable firms to optimize capital allocation, minimize financial risks, and enhance shareholder returns. Companies that continuously monitor and improve their financial performance can achieve sustainable growth, maintain financial resilience, and enhance their overall market credibility.

The assessment of financial performance is integral to understanding the financial health and sustainability of firms in various industries. It encompasses a range of financial and operational factors, including revenue generation, cost efficiency, asset utilization, and financial risk management. The ability to achieve strong financial performance is influenced by both internal and external dynamics, requiring firms to adopt sound financial management practices, robust corporate governance structures, and effective strategic planning. As businesses navigate an increasingly complex and competitive environment, financial performance remains a central determinant of corporate success and long-term sustainability.

2.2.1 Measures of Financial Performance

Measuring financial performance involves assessing a firm's ability to meet its objectives and generate value over time. A variety of financial ratios and performance metrics are used to

evaluate corporate success, with each providing unique insights into a company's operations. While no single measure can fully capture a firm's overall financial performance (Govindarajan, 1988), certain key indicators are widely recognized in academic research and corporate practice. This section discusses four essential measures of financial performance: Return on Assets (ROA), Return on Equity (ROE), Earnings Per Share (EPS), and Return on Capital Employed (ROCE).

Return on Assets (ROA)

Return on Assets (ROA) is a crucial profitability ratio that evaluates a company's ability to generate earnings from its total assets. It is calculated as follows:

ROA = (Net Income / Total Assets) × 100

A higher ROA indicates greater efficiency in utilizing assets to generate profits. It is widely used to compare firms within the same industry, as asset-intensive sectors often exhibit lower ROA values than service-based industries (Haniffa & Hudaib, 2006).

Several studies highlight the importance of ROA. Al-Matari et al. (2021) state that firms with higher ROA tend to experience better financial stability and reduced risk exposure. Similarly, Gupta and Mahakud (2022) found that companies with strong ROA ratios are more resilient during economic downturns due to efficient asset management. However, ROA has limitations. It is highly sensitive to industry variations, meaning capital-intensive businesses often report lower ROA compared to firms in less asset-heavy industries (Wang et al., 2020). Furthermore, ROA does not account for a company's financial leverage, which can distort profitability comparisons (Hirsch et al., 2019). Accounting policies, such as asset valuation methods and depreciation techniques, also influence ROA, making direct comparisons across firms challenging (Chen et al., 2022).

Despite these limitations, ROA remains a fundamental indicator of financial performance, particularly when complemented with other financial ratios.

Return on Equity (ROE)

Return on Equity (ROE) is a key metric that measures a company's profitability relative to shareholder equity. It is expressed as:

ROE = (Net Income / Shareholder's Equity) × 100

A high ROE suggests that a firm effectively utilizes shareholder funds to generate profits. Investors commonly use ROE to assess a company's ability to provide returns on their investments (Berman et al., 2013). Moussa et al. (2020) found that firms with consistent ROE growth often outperform competitors in terms of investor confidence and stock valuation. Harris and Oliver (2021) also observed that companies with strong ROE ratios attract more institutional investors, increasing their market credibility.

However, ROE has limitations. It can be inflated by excessive debt, leading to misleading profitability figures (Copeland et al., 1996). Over-reliance on ROE may also encourage short-term profit maximization at the expense of long-term growth (Dey et al., 2022). Moreover, ROE does not distinguish between operational efficiency and financial leverage, making it less reliable for companies with high debt levels (Wang et al., 2020). Despite these concerns, ROE remains a valuable measure when analysed alongside leverage-related ratios.

Earnings Per Share (EPS)

Earnings Per Share (EPS) is one of the most widely used indicators of corporate profitability. It is calculated as follows:

EPS = (Net Income - Preference Dividends) / Weighted Average Shares Outstanding

EPS measures the profit attributable to each outstanding share of common stock. Investors and analysts rely on EPS to determine a company's profitability and earnings growth potential (Graham et al., 2014).

Zhou et al. (2021) found that firms with strong EPS growth tend to achieve higher stock market valuations. Similarly, Ali et al. (2022) emphasize that consistent EPS increases reflect effective management and financial stability. However, EPS has limitations. One significant issue is its vulnerability to earnings manipulation. Companies may use accounting techniques to artificially inflate EPS, misleading investors (Jiang & Kim, 2023). Additionally, EPS does not account for company size, making it difficult to compare firms with different capital structures (Gul et al., 2020). To address these limitations, analysts often use EPS in combination with other performance metrics, such as Price-to-Earnings (P/E) ratio and Return on Assets (ROA).

Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) assesses how efficiently a company utilizes its total capital to generate earnings. The formula is:

ROCE = (Earnings Before Interest and Tax (EBIT) / Capital Employed) × 100

ROCE provides a broader perspective on profitability than ROA and ROE by accounting for both equity and debt (Elliot & Elliot, 2011). It is particularly useful for assessing long-term profitability and investment efficiency.

Gupta and Singh (2022) found that firms with high ROCE ratios tend to have lower capital costs and greater long-term sustainability. Additionally, Sadiq et al. (2021) highlight that ROCE is a reliable measure for comparing companies with different capital structures.

However, ROCE has drawbacks. It is influenced by short-term earnings fluctuations, making it less reliable during periods of economic uncertainty (Fried et al., 1998). It also depends on

historical cost data, which may not reflect current financial realities. As a result, firms with older assets may report misleadingly high ROCE ratios compared to newer firms with significant capital investments (Sadiq et al., 2021).

Despite these limitations, ROCE remains a fundamental measure of capital efficiency and is widely used in investment analysis.

2.3 Concept Firm Capital Structure

Firm capital structure is a fundamental aspect of corporate finance that influences a company's financial performance, investment capacity, and risk exposure. It represents the mix of financial resources used by a firm to fund its operations and investments, primarily consisting of equity capital, short-term debt, long-term debt, and working capital (Brealey, Myers, & Allen, 2022). The composition of capital structure determines a company's financial leverage, cost of capital, and overall stability, making it a critical decision area for financial managers and stakeholders (Frank & Goyal, 2020).

Corporate finance theories provide various perspectives on how firms structure their capital to achieve an optimal balance between risk and return. The Modigliani-Miller theorem initially argued that capital structure is irrelevant in a perfect market, but later refinements introduced the importance of tax benefits and bankruptcy costs (Modigliani & Miller, 1963). The Trade-Off Theory suggests that firms should balance the benefits of debt financing, such as tax shields, with the risk of financial distress and bankruptcy (Myers, 2021). The Pecking Order Theory proposes that firms prioritize internal financing (retained earnings) over external debt and equity due to information asymmetry (Baker & Wurgler, 2022). The Agency Cost Theory emphasizes that capital structure affects managerial decision-making and agency conflicts between shareholders and debt holders (Jensen & Meckling, 1976).

In developing economies like Nigeria, capital structure decisions are influenced by macroeconomic instability, inflation, exchange rate volatility, and access to financial markets (Adeyemi & Oboh, 2022). Many Nigerian firms rely heavily on short-term debt due to limited access to long-term financing, which can increase liquidity risks and operational challenges (Owolabi & Adegbite, 2021). This section explores the key components of capital structure—equity capital, short-term debt, long-term debt, and working capital—and their implications for corporate financial performance.

2.3.1 Equity Capital (EC)

Equity capital represents the funds contributed by shareholders in exchange for ownership stakes in a company. It is considered a permanent source of financing that does not require repayment, making it an essential component of a firm's capital structure. Firms raise equity capital through initial public offerings (IPOs), retained earnings, and rights issues, among other means (Brealey et al., 2021). One of the key advantages of equity financing is that it reduces financial risk since it does not generate fixed interest obligations like debt. Additionally, companies with strong equity capital bases tend to experience greater financial stability, particularly during economic downturns (Ahmed & Usman, 2022). According to Kim and Rasheed (2021), firms with higher equity capital ratios are more resilient to financial shocks and have greater access to strategic investments.

However, excessive reliance on equity capital has significant drawbacks. Raising funds through equity issuance can lead to ownership dilution, reducing existing shareholders' control over decision-making (Chen et al., 2020). Additionally, investors expect higher returns from equity compared to debt, leading to a higher cost of capital (Berk & DeMarzo, 2021).

In emerging economies like Nigeria, equity financing is less accessible due to underdeveloped capital markets and low investor participation (Adeyemi & Owolabi, 2022). Many Nigerian firms rely more on retained earnings than external equity financing, limiting their growth potential (Oladipo & Olamide, 2023). Despite these challenges, equity capital remains a fundamental element of financial strategy, offering financial flexibility and long-term growth potential.

2.3.2 Short-Term Debt (STD)

Short-term debt consists of obligations that mature within one year, including bank loans, trade credit, commercial paper, and overdrafts. It is commonly used for working capital financing, inventory purchases, and short-term liquidity management (Kumar & Sharma, 2023).

The reliance on short-term debt varies across industries and firm sizes. In Nigeria, many firms depend heavily on short-term debt due to difficulties in accessing long-term financing (Adeyemi & Owolabi, 2022). However, high reliance on short-term borrowing exposes firms to liquidity risks and higher refinancing costs, particularly in volatile economic conditions (Musa & Adamu, 2021).

Empirical evidence suggests that the impact of short-term debt on financial performance is mixed. While moderate use of short-term debt enhances liquidity and improves operational efficiency, excessive short-term borrowing can increase financial distress risks (Mahmud & Musa, 2020). A study by Okoro and Chukwuma (2023) found that Nigerian firms with high short-term debt ratios experienced lower profitability due to increased interest burdens and frequent refinancing challenges.

The Trade-Off Theory posits that firms should balance short-term and long-term debt to optimize capital structure, ensuring financial flexibility while minimizing bankruptcy risks (Frank &

Goyal, 2020). Therefore, short-term debt plays a critical role in firm financing, but its proportion must be carefully managed.

2.3.3 Long-Term Debt (LTD)

Long-term debt refers to financial obligations with maturities exceeding one year, including corporate bonds, bank term loans, and lease financing. It is a significant component of firm capital structure, used for funding capital expenditures, acquisitions, and expansion projects (Baker & Wurgler, 2022).

One advantage of long-term debt is its ability to provide stable financing at fixed interest rates, allowing firms to make strategic investments without liquidity constraints (Chowdhury & Maung, 2023). However, excessive long-term borrowing can increase financial leverage, leading to higher interest expenses and greater risk of bankruptcy (Jensen & Meckling, 1976).

In Nigeria, firms face significant challenges in accessing long-term financing due to underdeveloped debt markets, high borrowing costs, and economic uncertainties (Owolabi & Adegbite, 2021). Studies show that firms with a well-balanced mix of long-term debt and equity perform better financially than those overly reliant on short-term borrowing (Oladipo & Olamide, 2023).

The Trade-Off Theory suggests that firms should use long-term debt strategically to benefit from tax advantages while mitigating financial distress risks (Frank & Goyal, 2020). Therefore, firms must strike a balance between debt and equity to maintain financial stability and growth prospects.

2.3.4 Working Capital (WC)

Working capital represents the difference between a firm's current assets and current liabilities. It is a critical measure of a firm's liquidity, operational efficiency, and short-term financial health (Brealey et al., 2021).

Effective working capital management ensures that firms have sufficient liquidity to meet short-term obligations while maintaining efficient operations. Poor working capital management can lead to cash flow constraints, affecting a firm's ability to pay suppliers, employees, and creditors (Singh & Kaur, 2022).

Empirical research suggests that firms with strong working capital management practices tend to experience higher profitability and lower financial distress (Ahmed & Usman, 2022). However, excessive working capital may indicate inefficiencies, such as holding too much inventory or delayed receivables collection (Kumar & Sharma, 2023).

A study by Adeyemi and Oboh (2022) found that working capital efficiency significantly impacts firm performance in Nigeria, particularly among small and medium-sized enterprises. Firms must balance liquidity and profitability by optimizing their receivables, inventory, and payables to enhance financial performance.

2.4 Review of Literature on Variables

2.4.1 Equity Capital and Financial Performance

Equity capital represents the financial resources contributed by shareholders in exchange for ownership stakes in a firm. As a fundamental component of a firm's capital structure, equity capital provides businesses with a stable source of financing that does not necessitate periodic repayment, thereby reducing financial risks and promoting long-term financial stability (Brealey, Myers, & Allen, 2021). Unlike debt financing, which imposes interest obligations and requires

timely repayments, equity capital allows firms to focus on sustainable growth without the immediate financial pressure of debt servicing. Firms raise equity capital through various channels, including initial public offerings (IPOs), rights issues, private placements, and retained earnings. Each of these financing methods has significant implications for a firm's financial flexibility, investment capacity, and overall stability in dynamic economic environments.

Empirical research underscores the critical role of equity capital in shaping corporate financial performance. Firms with strong equity positions tend to demonstrate greater financial resilience, as their reliance on internal financing reduces their vulnerability to credit market fluctuations and economic downturns (Ahmed & Usman, 2022). Additionally, companies with robust equity capital bases are more likely to secure investor confidence, facilitating access to new funding opportunities and strategic partnerships. A study by Oladipo and Olamide (2023) revealed that firms with high equity capital ratios exhibit lower bankruptcy risks and more stable profitability, as their ability to generate internal funds enhances operational sustainability. Similarly, Kim and Rasheed (2021) argue that firms with strong equity positions attract institutional investors and experience improved market valuation, given the perception of lower financial risk and greater growth potential. The positive relationship between equity capital and financial performance suggests that firms prioritizing equity financing can strengthen their competitive position and mitigate financial distress.

Despite its advantages, excessive reliance on equity capital presents notable challenges. One significant concern is the potential for ownership dilution, where the issuance of additional equity reduces the proportional ownership stake of existing shareholders. This dilution effect can weaken shareholder control and influence over strategic decision-making, leading to conflicts in corporate governance (Chen, Huang, & Lin, 2020). Moreover, equity financing often comes at a

higher cost compared to debt financing, as investors expect a return on their investment in the form of dividends or capital gains. This cost of equity can place pressure on firms to maintain consistent profitability and shareholder value, influencing corporate financial strategies and dividend policies (Berk & DeMarzo, 2021).

In emerging economies such as Nigeria, access to equity financing remains constrained due to underdeveloped capital markets, limited investor participation, and macroeconomic uncertainties (Adeyemi & Owolabi, 2022). The Nigerian Stock Exchange, while serving as a critical platform for equity financing, has not yet reached the level of depth and liquidity observed in more advanced markets. Consequently, many Nigerian firms depend heavily on retained earnings rather than seeking external equity financing, which may limit their ability to pursue large-scale expansion and investment opportunities. The lack of robust institutional frameworks and corporate governance regulations further complicates equity market participation, creating barriers for firms seeking to raise capital through public offerings.

Despite these challenges, equity financing remains a key determinant of long-term financial success, particularly for firms aiming to sustain operations, reduce financial risk exposure, and enhance market credibility. The strategic balance between equity financing and debt financing is essential in optimizing capital structure and achieving financial sustainability. Firms that effectively manage their equity financing strategies are better positioned to navigate economic fluctuations, attract investment, and maintain financial stability in both local and global markets.

2.4.2 Short-Term Debt and Financial Performance

Short-term debt represents financial obligations that are due within a one-year period and serves as a crucial component of a firm's capital structure. It encompasses various forms of financing, including bank loans, trade credit, commercial paper, and overdraft facilities, which firms utilize

to meet working capital needs, inventory purchases, and short-term liquidity requirements (Kumar & Sharma, 2023). Due to its lower cost relative to long-term debt, short-term borrowing is often preferred by firms seeking immediate cash flow relief without the burden of long-term financial commitments. However, the implications of short-term debt on financial performance depend largely on how well it is managed, as excessive reliance on short-term financing can increase financial instability and expose firms to liquidity constraints (Musa & Adamu, 2021).

The relationship between short-term debt and financial performance remains a subject of extensive debate in corporate finance literature. Some studies suggest that the moderate use of short-term debt enhances financial performance by improving liquidity and ensuring the smooth operation of business activities. When firms strategically employ short-term debt, they can capitalize on growth opportunities, maintain production efficiency, and avoid cash flow shortages, all of which contribute to sustained profitability (Mahmud & Musa, 2020). However, firms that excessively depend on short-term debt may encounter high refinancing costs, increased interest expenses, and frequent repayment obligations, which may ultimately erode profitability. Okoro and Chukwuma (2023) found that Nigerian firms with high short-term debt levels experienced lower financial performance, largely due to the compounding effects of frequent loan repayments and the rising cost of borrowing in volatile economic environments.

The Trade-Off Theory offers valuable insights into the role of short-term debt in corporate finance. It suggests that firms must carefully balance their short-term and long-term debt obligations to optimize their capital structure while minimizing liquidity risks (Frank & Goyal, 2020). Firms that maintain an optimal level of short-term debt benefit from lower financing costs and increased financial flexibility, but those that overuse it may face credit restrictions and heightened bankruptcy risks (Adeyemi & Owolabi, 2022). The management of short-term debt is

particularly critical in economies characterized by high inflation and fluctuating interest rates, as firms operating in such environments are more vulnerable to credit shocks and unpredictable borrowing costs (Oladipo & Olamide, 2023).

In the context of emerging economies, including Nigeria, firms often struggle with limited access to long-term financing, making short-term debt a more viable but riskier alternative (Adeyemi & Oboh, 2022). The inability to secure long-term financing forces many businesses to roll over short-term loans frequently, exposing them to rising interest rates and unstable credit conditions (Owolabi & Adegbite, 2021). This dependence on short-term debt increases financial distress risks, particularly when firms fail to generate sufficient earnings to cover their repayment obligations. Research suggests that firms in developing economies must enhance their financial management strategies by adopting efficient cash flow management, proper credit risk assessment, and strategic debt planning to mitigate the potential downsides of short-term debt (Kim & Rasheed, 2021).

Despite its risks, short-term debt remains an essential financing tool for firms looking to maintain liquidity and sustain day-to-day operations. The key to maximizing its benefits while minimizing its risks lies in effective debt management, ensuring that firms use short-term borrowing strategically without overextending their financial obligations. Firms that implement robust financial planning and risk mitigation strategies are better positioned to leverage short-term debt as a performance-enhancing financial instrument while avoiding financial distress.

2.4.3 Long-Term Debt and Financial Performance

Long-term debt refers to financial obligations that extend beyond one year, including corporate bonds, bank term loans, lease financing, and debentures. It is a crucial component of corporate financing, allowing firms to fund capital-intensive projects such as infrastructure development,

business expansion, technology upgrades, and strategic acquisitions (Baker & Wurgler, 2022). By securing long-term debt, firms can invest in growth-oriented initiatives without experiencing immediate liquidity pressures. Long-term debt provides companies with structured repayment schedules, reducing the need for frequent refinancing while offering tax advantages through interest deductibility (Brealey, Myers, & Allen, 2021).

The primary advantage of long-term debt is that it enables firms to secure stable financing at fixed interest rates, which facilitates financial planning and long-term investment decisions (Chowdhury & Maung, 2023). Companies with access to long-term debt can allocate capital more efficiently, leading to higher asset utilization and sustainable revenue generation. Additionally, debt financing is often cheaper than equity financing because interest payments are tax-deductible, thereby reducing a firm's taxable income and lowering the overall cost of capital (Brealey et al., 2021). This tax shield effect provides firms with greater financial flexibility in managing their investment portfolios while ensuring continued access to credit markets.

However, the use of long-term debt also presents significant risks. A firm that relies excessively on long-term debt may experience increased financial leverage, leading to higher interest expenses, greater risk exposure, and potential solvency issues (Jensen & Meckling, 1976). High leverage often results in reduced financial flexibility, limiting a firm's ability to respond to market changes and economic downturns (Frank & Goyal, 2020). In cases where firms struggle to generate sufficient cash flows to meet long-term debt obligations, credit rating downgrades may occur, raising borrowing costs and reducing investor confidence (Owolabi & Adegbite, 2021).

Empirical research highlights the complex relationship between long-term debt and financial performance. While some studies argue that firms with moderate levels of long-term debt

experience enhanced profitability due to capital investment efficiency, others caution that excessive debt accumulation can lead to financial distress and declining returns (Oladipo & Olamide, 2023). In Nigeria, access to long-term financing remains challenging due to high-interest rates, underdeveloped debt markets, and macroeconomic instability (Adeyemi & Owolabi, 2022). Many Nigerian firms face capital constraints, forcing them to rely more on short-term debt, which can increase refinancing risks and liquidity shortages (Owolabi & Adegbite, 2021).

The Trade-Off Theory provides a theoretical framework for understanding long-term debt decisions, suggesting that firms should balance the tax benefits of debt financing with the risks associated with financial distress (Frank & Goyal, 2020). Firms that strategically integrate long-term debt into their capital structure can achieve an optimal balance between risk and return, ensuring sustainable financial growth. Additionally, capital market development and regulatory support play critical roles in enhancing access to long-term financing in emerging economies (Ahmed & Usman, 2022).

Overall, the ability of firms to manage long-term debt effectively is crucial for maintaining financial stability, investment capacity, and long-term profitability. Companies must carefully evaluate their capital structure strategies, ensuring that long-term debt is used to support productive investments rather than creating financial burdens. Policymakers and financial institutions also have a role in improving credit accessibility and market conditions, enabling firms to harness long-term debt as a strategic financing tool for economic growth and corporate success.

2.4.4 Working Capital and Financial Performance

Working capital represents the difference between a firm's current assets and current liabilities, serving as a fundamental measure of liquidity, operational efficiency, and overall financial health (Brealey, Myers, & Allen, 2021). It reflects a firm's ability to meet short-term obligations while sustaining day-to-day operations without experiencing financial distress. Effective working capital management ensures that firms maintain adequate cash flow to finance operational expenses, invest in growth opportunities, and avoid excessive reliance on external financing (Singh & Kaur, 2022). Firms that efficiently manage their working capital can enhance financial stability, improve operational performance, and optimize shareholder value.

The management of working capital involves monitoring and optimizing key financial components, including accounts receivables, inventory levels, and accounts payables. Proper management of these elements enables firms to reduce liquidity risks, improve cash conversion cycles, and maximize financial performance (Kumar & Sharma, 2023). Firms that successfully optimize their working capital processes tend to experience higher profitability, lower debt dependency, and increased market competitiveness. Conversely, firms with inefficient working capital management may suffer from cash flow shortages, operational disruptions, and financial distress (Ahmed & Usman, 2022).

Poor working capital management can have significant negative consequences for a firm's financial performance. Firms that fail to properly align their short-term assets and liabilities may encounter liquidity crises, delayed supplier payments, and increased borrowing costs. These challenges can lead to higher financial risk, reduced profitability, and strained relationships with creditors and suppliers (Adeyemi & Oboh, 2022). In contrast, firms that optimize their working

capital cycles can achieve greater operational efficiency, improve cost control, and strengthen their ability to withstand economic fluctuations.

Empirical studies emphasize the crucial role of working capital in enhancing corporate financial performance. Research conducted by Oladipo and Olamide (2023) found that firms that implement strong working capital management strategies tend to outperform those with poor liquidity control, particularly in highly volatile economic environments. Their findings suggest that firms that efficiently manage their accounts receivables, inventory turnover, and short-term liabilities are more likely to maintain stable financial performance and long-term sustainability.

Working capital management is particularly important in emerging economies, where firms often struggle with unstable credit markets, limited access to external financing, and fluctuating interest rates (Ahmed & Usman, 2022). In Nigeria, small and medium-sized enterprises (SMEs) that adopt efficient working capital practices tend to achieve higher financial resilience and competitive advantage (Adeyemi & Oboh, 2022). The ability to optimize cash flow cycles, minimize excess inventory, and negotiate favourable supplier terms significantly contributes to improving financial performance and reducing financial risk exposure.

Overall, the importance of working capital management cannot be overstated, as it directly affects a firm's profitability, liquidity, and financial stability. Firms that implement sound working capital strategies can achieve greater financial efficiency, reduced dependency on short-term debt, and improved operational effectiveness. Ensuring an optimal balance between liquidity and profitability is essential for firms seeking long-term financial sustainability and growth in competitive business environments.

Summary of Literature Review on Variables

The literature review suggests that firm capital structure, including equity capital, short-term debt, long-term debt, and working capital, plays a critical role in determining financial performance. While equity capital enhances financial flexibility, excessive reliance on it may lead to higher costs of capital. Short-term debt provides liquidity, but overuse may cause financial distress. Long-term debt enables strategic investments, but excessive borrowing can increase bankruptcy risks. Lastly, working capital efficiency improves liquidity and profitability, emphasizing the need for effective financial management.

Firms must balance debt financing, equity contributions, and working capital management to optimize financial performance while minimizing risks and ensuring long-term sustainability.

2.5 Theoretical Review

Theoretical perspectives in accounting and finance provide a fundamental basis for understanding the impact of capital structure on corporate financial performance. Several theories attempt to explain how firms determine their financing mix and how different capital structures affect firm performance. Among these theories are the Agency Theory, Modigliani and Miller Theory, Trade-Off Theory, and Pecking Order Theory. These theories offer diverse viewpoints on the relationship between debt, equity, and financial decision-making, shaping corporate strategies in capital structure management.

This study is underpinned by the Trade-Off Theory, which provides a balanced approach to understanding capital structure decisions and their implications for firm performance. The Trade-Off Theory explains how firms strategically balance the tax benefits of debt financing with the financial distress costs associated with excessive leverage (Myers, 1977). Given the focus of this study on equity capital, short-term debt, long-term debt, and working capital, the Trade-Off Theory provides the best theoretical foundation, as it accounts for the cost-benefit trade-offs

associated with different financing decisions. Firms must find an optimal balance between debt and equity to maximize value while minimizing financial risks, a principle central to the research on capital structure and corporate financial performance. The following sections review the key theories relevant to capital structure decisions, with particular emphasis on the Trade-Off Theory as the study's underpinning theoretical framework.

2.5.1 Trade-Off Theory

The Trade-Off Theory (Kraus & Litzenberger, 1973) is the underpinning theory of this study, providing a theoretical foundation for understanding how firms strategically determine their capital structure to optimize financial performance. This theory offers a structured explanation of the cost-benefit trade-offs associated with different financing decisions, emphasizing the importance of balancing debt and equity in corporate finance. Given that this study focuses on equity capital, short-term debt, long-term debt, and working capital, the Trade-Off Theory presents the most suitable framework for explaining how firms manage their financial structure to achieve long-term profitability and sustainability.

The core proposition of the Trade-Off Theory is that firms make financing decisions by weighing the advantages of debt financing against the risks of financial distress. One of the primary benefits of debt is the tax shield effect, which allows firms to reduce taxable income through interest deductions, thereby increasing firm value (Modigliani & Miller, 1963). Debt financing provides an opportunity for firms to lower their cost of capital, making it an attractive option for companies seeking to enhance their financial efficiency. However, debt also introduces potential risks, particularly when firms accumulate excessive leverage. High debt levels increase financial distress costs, raise the probability of bankruptcy, and result in higher interest expenses, which can ultimately erode firm value if not properly managed (Myers, 1977).

The Trade-Off Theory argues that firms must balance the benefits of debt with its associated risks to determine an optimal capital structure. Firms with strong financial positions tend to borrow more debt to maximize tax benefits, while financially weaker firms limit their debt exposure to avoid the risk of insolvency (Dawar, 2014). The theory suggests that moderate levels of debt can improve financial performance by enforcing financial discipline, as firms are required to meet debt obligations, which discourages excessive managerial spending. According to Jensen (1986), high debt levels can enhance firm performance by mitigating agency conflicts between managers and shareholders, ensuring that free cash flow is directed toward productive investments rather than being misused.

Empirical studies further validate the Trade-Off Theory's practical relevance. Research by Frank and Goyal (2020) confirms that firms in highly competitive markets with stable cash flows often maintain higher debt levels to take advantage of tax benefits, whereas firms in volatile industries rely more on equity financing to reduce the risks associated with uncertain revenue streams. Additionally, a study by Harris and Raviv (1991) found that firms with significant tangible assets are more likely to use debt financing, as these assets provide collateral for borrowing, thereby reducing financial distress risks. Conversely, firms with high growth opportunities and intangible assets tend to favour equity financing, as they require financial flexibility to invest in innovation and expansion without the burden of fixed debt repayments.

The relevance of the Trade-Off Theory in the Nigerian context is particularly significant. Firms operating in emerging economies like Nigeria face unique challenges, including limited access to long-term financing, fluctuating interest rates, and macroeconomic instability (Oladipo & Olamide, 2023). Many Nigerian firms rely on a combination of debt and equity financing, making capital structure decisions crucial for financial sustainability. Empirical evidence

suggests that firms in Nigeria adjust their capital structures dynamically, considering factors such as interest rate volatility, government tax policies, and the availability of credit in financial markets (Adeyemi & Owolabi, 2022). Firms with greater financial stability often use moderate levels of debt to benefit from tax savings, while those with weaker financial positions tend to reduce debt exposure to minimize financial distress risks (Owolabi & Adegbite, 2021).

Given the study's emphasis on equity capital, short-term debt, long-term debt, and working capital, the Trade-Off Theory provides the best framework for understanding how firms determine their optimal financing mix. It explains why firms must strike a balance between using debt to reduce tax liabilities and maintaining sufficient equity to ensure financial flexibility and risk mitigation. By integrating the principles of the Trade-Off Theory, this study provides a comprehensive examination of how firms in Nigeria manage their capital structures to enhance corporate financial performance.

2.5.2 Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), provides a theoretical framework for understanding the relationship between principals (shareholders or owners) and agents (company managers) in corporate governance. The theory postulates that conflicts arise when managers, who control the daily operations of a company, pursue their personal interests rather than maximizing shareholder value. This conflict, known as the agency problem, can lead to inefficiencies, mismanagement, and reduced firm performance if left unchecked. The agency problem is particularly relevant in modern corporations where ownership is separated from control, creating a divergence of interests between shareholders and managers (Clarke, 2004).

One of the primary concerns of Agency Theory is how to align managerial decisions with shareholder interests to minimize conflicts. The theory suggests that corporate governance

mechanisms, such as debt financing and incentive-based compensation, play a crucial role in mitigating agency conflicts (Watts & Zimmerman, 1986). Debt financing, in particular, is seen as an effective tool for enforcing financial discipline on managers, as firms with high debt levels must prioritize efficiency to meet interest and principal repayment obligations (Jensen, 1986). This financial constraint reduces the likelihood of excessive managerial spending, inefficient investment decisions, and unproductive asset accumulation.

However, excessive reliance on debt can also create new financial risks. While debt imposes discipline, it increases financial leverage, making firms more susceptible to financial distress, credit downgrades, and insolvency risks (Harris & Raviv, 1991). A firm with excessive debt obligations may struggle to meet its financial commitments, leading to liquidity crises that negatively impact financial performance (Myers, 1977). Therefore, firms must strike a balance between using debt to mitigate agency conflicts and maintaining financial flexibility to avoid excessive risk exposure.

In the context of this study, Agency Theory helps explain the role of capital structure in aligning managerial incentives with shareholder interests. Firms that rely heavily on equity financing may experience higher agency costs, as managers have greater discretion over retained earnings and may engage in unproductive activities such as empire-building or excessive executive compensation (Chen, Huang, & Lin, 2020). On the other hand, a moderate use of debt can improve financial performance by enforcing discipline on managers, ensuring that corporate resources are utilized efficiently.

Empirical evidence supports the application of Agency Theory in capital structure decisions. Studies by Oladipo and Olamide (2023) indicate that firms with well-managed debt financing experience higher profitability and reduced agency conflicts, while those that excessively depend

on equity financing may face governance issues due to lack of managerial oversight. In the Nigerian financial environment, where many firms have limited access to long-term financing, Agency Theory suggests that an optimal capital structure should integrate both equity and debt financing to balance financial flexibility with managerial discipline (Adeyemi & Owolabi, 2022).

2.5.3 Modigliani and Miller Theory

The Modigliani and Miller (MM) Theory (1958) is one of the most fundamental and influential contributions to corporate finance, asserting that under certain ideal conditions, a firm's value is independent of its capital structure. This theory, which introduced the concept of capital structure irrelevance, suggests that the way a firm finances its operations—whether through equity or debt financing—has no bearing on its overall market value or financial performance. Instead, a firm's investment decisions, cash flows, and profitability determine its value, rather than its financing choices (Modigliani & Miller, 1958).

The MM Theory is based on several strict assumptions, including perfect capital markets, no taxes, no bankruptcy costs, no transaction costs, and symmetric information (Brealey, Myers, & Allen, 2021). Under these assumptions, it is postulated that a firm's value should be the same regardless of its debt-equity mix, as investors can achieve the same leverage independently through personal borrowing. In other words, if a firm issues more debt to finance its operations, investors can adjust their own leverage to offset this change, ensuring that the overall value remains unchanged. This proposition led to the conclusion that capital structure decisions are irrelevant in determining firm value, given the existence of a frictionless market.

However, in real-world financial markets, these assumptions do not hold due to the presence of market imperfections, agency conflicts, transaction costs, and bankruptcy risks (Frank & Goyal, 2020). Recognizing these limitations, Modigliani and Miller (1963) later revised their model to

account for corporate taxes, demonstrating that debt financing provides tax advantages due to interest expense deductibility. This revision, known as the tax shield effect, suggests that firms can increase their value by incorporating more debt into their capital structure, as long as financial distress risks remain manageable. The tax shield effect implies that firms with higher debt levels may experience lower after-tax costs of capital, enhancing financial efficiency and firm profitability.

Despite its theoretical contributions, the MM Theory has several limitations when applied to real-world corporate finance. Firms do not operate in a world of perfect capital markets, as they face agency costs, transaction costs, bankruptcy risks, and asymmetric information (Harris & Raviv, 1991). While the theory advocates for maximizing debt usage to take advantage of tax shields, it fails to fully consider the risks associated with financial distress, credit constraints, and market volatility (Myers, 1977). Excessive debt levels can lead to higher borrowing costs, reduced creditworthiness, and an increased likelihood of bankruptcy, all of which can erode firm value rather than enhance it.

For the present study, the MM Theory offers valuable insights into capital structure decisions, particularly in highlighting the significance of tax benefits in debt financing. However, given the imperfections of financial markets, firms must adopt a more balanced approach to capital structure management, as explained by the Trade-Off Theory (Myers, 1977). This is especially relevant in emerging economies such as Nigeria, where firms face high borrowing costs, limited access to long-term financing, and macroeconomic uncertainties (Owolabi & Adegbite, 2021). In such markets, firms must carefully assess the trade-offs between tax advantages and financial distress risks to develop an optimal capital structure that enhances long-term financial stability and corporate performance.

2.5.4 Pecking Order Theory

The Pecking Order Theory, originally introduced by Donaldson (1961) and later refined by Myers and Majluf (1984), explains corporate financing behaviour based on the presence of asymmetric information between managers and investors. The theory posits that managers, due to their superior knowledge of the firm's financial health, risks, and future profitability, follow a specific order of financing preferences. Rather than selecting an optimal debt-equity mix, firms make financing decisions based on the accessibility and cost-effectiveness of funds. The theory suggests that firms first rely on internally generated funds, such as retained earnings, as this source of financing does not require external approval, incur additional costs, or lead to ownership dilution. When internal funds are insufficient, firms turn to debt financing, which is perceived as less costly than issuing new equity. Only as a last resort do firms opt for equity issuance, as this decision may send negative signals to investors regarding the firm's valuation, potentially leading to a decline in share prices and reduced market confidence (Brealey, Myers, & Allen, 2021).

A fundamental argument of the Pecking Order Theory is that firms avoid equity issuance whenever possible due to the potential misinterpretation of management's intentions by investors. According to Myers and Majluf (1984), external investors often assume that managers are issuing new equity when they believe the firm is overvalued. This perception leads to adverse selection problems, where investors demand a discount on newly issued shares to compensate for the risk of investing in an overvalued firm. Consequently, managers prefer to use internal funds and, when necessary, take on debt before resorting to equity issuance. This financing hierarchy challenges traditional capital structure theories, such as the Trade-Off Theory, which assumes

that firms determine an optimal debt-equity mix by balancing tax benefits and bankruptcy risks (Myers, 1984).

Empirical research supports the Pecking Order Theory's assertion that firms with strong profitability tend to rely less on external debt. Profitable firms generate sufficient cash flows and, as a result, have reduced dependency on debt financing. This leads to an inverse relationship between profitability and leverage, where firms with higher retained earnings maintain lower debt ratios (Muritala, 2012). The theory further suggests that the degree of information asymmetry influences financing choices. Firms facing significant information asymmetry are more likely to rely on internal funds and debt financing, while firms with lower levels of asymmetric information may be more open to issuing equity (Frank & Goyal, 2020).

Despite its insights, the Pecking Order Theory has several limitations. It does not provide a structured framework for determining an optimal capital structure but rather explains financing decisions based on managerial behaviour and fund availability. Unlike the Trade-Off Theory, which explicitly considers the trade-offs between tax benefits and financial distress, the Pecking Order Theory assumes that firms make financing decisions reactively rather than strategically (Myers, 1984). Moreover, while the theory is useful in explaining corporate financing preferences, it does not fully account for cases where firms deliberately use equity financing for strategic growth, market expansion, or corporate restructuring (Berk & DeMarzo, 2021).

In the context of developing economies, the Pecking Order Theory is particularly relevant in explaining why firms prefer internal financing over external funding. Empirical studies suggest that firms in Nigeria and other emerging markets often avoid issuing new equity due to concerns about ownership dilution, investor scepticism, and high transaction costs (Adeyemi & Owolabi, 2022). Instead, businesses rely on retained earnings and short-term debt to finance their

operations, a practice consistent with the hierarchical financing structure proposed by the Pecking Order Theory (Oladipo & Olamide, 2023). Research further indicates that, due to macroeconomic instability and high borrowing costs, many Nigerian firms are reluctant to take on long-term debt, preferring instead to utilize short-term loans or internal reserves (Ahmed & Usman, 2022). While this financing preference helps firms avoid excessive financial risk, it may also limit their ability to undertake large-scale investments, affecting their long-term growth potential.

The Pecking Order Theory is particularly significant for small and medium-sized enterprises (SMEs), which face greater financing constraints in developing economies. Due to high interest rates, economic volatility, and underdeveloped capital markets, many SMEs rely primarily on internally generated funds or short-term credit rather than seeking external equity financing (Ahmed & Usman, 2022). While this approach helps firms maintain financial autonomy and avoid ownership dilution, it may also restrict their capacity for expansion and innovation. Firms that strictly adhere to this financing hierarchy may miss opportunities to leverage capital markets for strategic investments, ultimately affecting their competitive positioning in the industry.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

Research methodology forms the foundation of any academic inquiry, outlining the structured process through which data is collected, analysed, and interpreted to answer the research questions. A robust methodology enhances the credibility, reliability, and validity of the research outcomes, ensuring that the findings are both meaningful and applicable to real-world scenarios. In this study, the methodology guides the exploration of how capital structure components, namely equity capital, short-term debt, long-term debt, and working capital, influence the financial performance of consumer goods firms in Nigeria. By employing a rigorous and transparent approach, this study contributes to the existing body of knowledge on capital structure and provides valuable insights for financial managers and policymakers in Nigeria's evolving market.

3.2 Research Design

The research design for this study is ex-post facto, which is particularly suitable for analysing existing conditions based on historical data. Ex-post facto research design does not involve manipulation of variables but relies on secondary data from the financial reports of the selected companies. The secondary data is gathered from audited annual reports, which are publicly available and align with the regulatory requirements for listed companies in Nigeria. By using historical data from 2019 to 2023, this study focuses on real-world evidence of how capital structure decisions have influenced firm performance in the Nigerian context.

This design allows the researcher to examine relationships between variables without intervening in the natural flow of events, making it an effective approach for assessing the impact of capital

structure on financial performance. The study's use of secondary data from financial statements ensures that the analysis is based on authentic, credible sources that reflect actual corporate practices and outcomes within the industry.

3.3 Population and Sampling Techniques

The population for this study consists of all consumer goods manufacturing companies listed on the Nigerian Exchange Group (NGX) as of December 2023. Specifically, the study focuses on firms that have financial data available for the period from 2019 to 2023. The consumer goods sector was selected due to its significant role in the Nigerian economy, contributing to industrial output, employment, and product consumption. Furthermore, this sector has undergone notable shifts in tax policies and economic conditions, making it an ideal area for examining the influence of capital structure decisions on financial performance.

To ensure that only companies with reliable and consistent financial data are included, the study adopts a purposive sampling technique. This sampling method was chosen because it allows for the selection of firms based on specific criteria, ensuring that only companies with available annual reports for the period under review are included. The purposive sampling technique is also beneficial because it eliminates the possibility of selection bias, providing a clear focus on firms that meet the study's specific data requirements.

A total of 13 consumer goods firms were selected from the population. These firms were chosen based on the availability of their annual reports for the years 2019 to 2023. The selected firms are:

i. Cadbury Nigeria PLC
ii. Champion Breweries PLC
iii. Dangote Sugar Refinery PLC
iv. Guinness Nigeria PLC

v. Honeywell Mill PLC
vi. Nestlé Nigeria PLC
vii. PZ Cussons Nigeria PLC
viii. Unilever Nigeria PLC
ix. Vitafoam Nigeria PLC
x. Nigerian Breweries PLC
xi. Flour Mills Nigeria PLC
xii. Nascon Allied Industries PLC
xiii. McNichols PLC

The purposive selection of these companies ensures that only those firms with adequate data across the entire five-year period are included in the study, providing a balanced panel for analysis. By using firms from different segments of the consumer goods industry, the study captures a comprehensive view of how various capital structure components impact financial performance across a range of firms operating in the same economic context.

The study uses panel data for analysis, which is ideal for examining both cross-sectional (firm-level) and temporal (over time) variations in capital structure decisions and their effects on financial performance.

3.4 Sources and Method of Data Collection

This study adopts a secondary data collection method, using data from the annual reports and financial accounts of 13 consumer goods firms listed on the Nigerian Exchange Group (NGX) for the period 2019 to 2023. The choice of secondary data is driven by its accessibility, reliability, and alignment with the study's objectives. By leveraging publicly available annual financial

reports, this research ensures that the data accurately reflects the real-world corporate financial strategies and outcomes of the selected firms.

The annual reports offer detailed insights into the financial performance of the firms, specifically focusing on the impact of capital structure elements: equity capital, short-term debt, long-term debt, and working capital on profitability. These reports include comprehensive financial statements, notes, and management discussions, which provide credible data for assessing the relationship between capital structure and financial performance. The selected time frame of 2019 to 2023 is significant as it captures recent changes in business strategies, tax policies, and market conditions, allowing the study to reflect contemporary trends in corporate financial management. This period ensures that the data is relevant, up-to-date, and reflects the dynamic nature of business operations in the Nigerian market.

3.5 Model Specification

This study adopts the econometric model of Hasan and Hussainey (2022) to examine the impact of capital structure on corporate financial performance in Nigeria. In this study, capital structure serves as the independent variable, while corporate financial performance represents the dependent variable. The independent variable is broken down into four components: equity capital, short-term debt, long-term debt, and working capital. The dependent variable, corporate financial performance, is measured using Return on Assets (ROA), as it provides a clear indication of how efficiently a firm uses its assets to generate profits, which is not captured as effectively by other performance metrics.

The econometric model for this study is expressed as:

$$ROA_{it} = \beta_0 + \beta_1 EC_{it} + \beta_2 STD_{it} + \beta_3 LTD_{it} + \beta_4 WC_{it} + \mu_{it}$$

Where:

ROA = Return on Assets

EC = Equity Capital

STD = Short-term Debt

LTD = Long-term Debt

WC = Working Capital

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$ = Parameters to be estimated through regression

μ = Error Term

Apriori Expectations

It is expected that the coefficients of the capital structure components (equity capital, short-term debt, long-term debt, and working capital) will be positive. Therefore, the following is expected from the regression analysis:

$\beta_1, \beta_2, \beta_3, \beta_4 > 0$: An increase in any of the capital structure proxies is anticipated to result in a positive relationship with corporate financial performance, as measured by Return on Assets (ROA).

3.6 Operationalization of Variables

This study categorizes the variables into dependent and independent variables. The dependent variable, firm profitability, is assessed through the Return on Assets (ROA) metric. The independent variables are related to key corporate tax planning strategies, such as equity capital, short-term debt, long-term debt, and working capital. These variables are operationalized as follows:

Table 3.1: Operationalization of Variables

S/N	Variables	Measurement	Type of Variable	Used By
1.	**Return on Assets**	Ratio of net income (profit) to total assets at the end of the year.	Dependent	Olarewaju et al. (2019)

	(ROA)			
2.	**Equity Capital (EC)**	Natural log of total shareholders' equity.	Independent	Fagbemi et al. (2019)
3.	**Short-Term Debt (STD)**	Natural log of total current liabilities (short-term debt obligations due within one year).	Independent	Nnubia & Okolo (2018)
4.	**Long-Term Debt (LTD)**	Natural log of total non-current liabilities (debt obligations due after one year).	Independent	Ado et al. (2021)
5.	**Working Capital (WC)**	Natural log of the difference between current assets and current liabilities (Working Capital = Current Assets - Current Liabilities).	Independent	Ahmed & Usman (2022)

Source: Author's Compilation (2025)

3.7 Method of Data Analysis

The data will be analysed using descriptive statistics, Pearson's correlation, and multiple regression analysis with panel data. Descriptive statistics will summarize the data, including mean, standard deviation, and range, offering an overview of the key characteristics of the dataset. This will help identify trends, central tendencies, and variability in the data.

To assess the relationships between the independent variables (equity capital, short-term debt, long-term debt, and working capital) and the dependent variable (return on assets), Pearson's correlation analysis will be conducted. This will examine the strength and direction of linear relationships among variables.

The primary analysis will utilize multiple regression with panel data methodology to explore the impact of the independent variables on firm profitability over the period from 2019 to 2023. Panel data regression allows for the analysis of both cross-sectional and time-series data, offering a robust approach to understanding the influence of capital structure decisions on firm performance.

This combined approach will enable a comprehensive analysis of the data, allowing the study to make reliable inferences about the relationships between capital structure components and firm financial performance in the Nigerian context.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

In this chapter, the various variables employed in this study are tested, presented and interpreted in order to give meaningful results that can be used for decision purposes and policies.

The major sections in this chapter include: Data presentation and interpretation, Test of Hypothesis and Discussion of findings.

4.2 Data presentation and Interpretation

4.2.1 Descriptive Analysis

Descriptive analysis basically gives a descriptive coefficient that summarizes a given set of variables. It includes measures of central tendency and measures of variability (spread). Measures of central tendency include the mean, median and mode. While measures of variability include standard deviation, variance, minimum and maximum variables, kurtosis and skewness. Table one shows the summary statistics for the variable of the study:

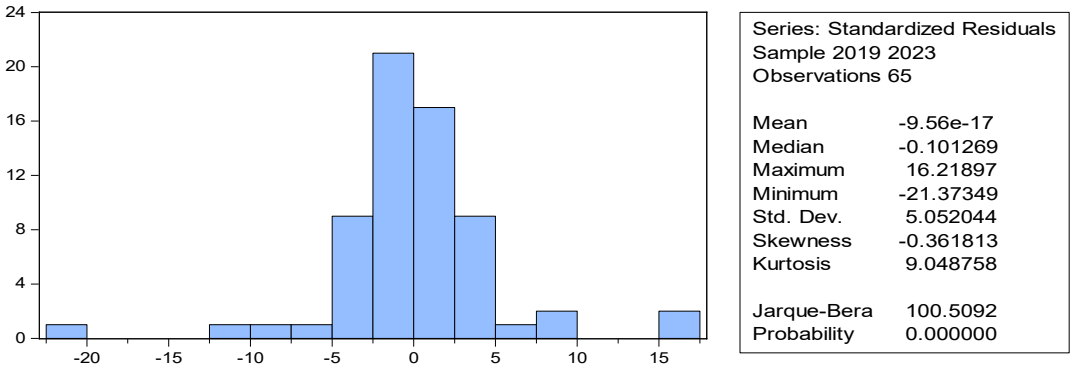
Table 1: Results of the Descriptive Analysis of the Regression Variables

	ROA	EC	STD	LTD	WC
Mean	8.369782	25083404	86388619	41927626	52475511
Median	6.035000	1985238.	43007084	6425691.	10575594
Maximum	45.43000	1.79E+08	5.84E+08	3.69E+08	3.97E+08
Minimum	0.160000	89100.00	898809.0	245987.0	31081.00
Std. Dev.	8.991363	54254136	1.11E+08	82335075	89749318
Skewness	1.859428	2.046569	2.392517	2.741128	2.150767
Kurtosis	6.748434	5.372337	9.558399	10.07395	6.848991
Jarque-Bera	90.61210	72.74070	214.2048	260.3116	108.2832
Probability	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	652.8430	1.96E+09	6.74E+09	3.27E+09	4.09E+09
Sum Sq. Dev.	6225.035	2.27E+17	9.44E+17	5.22E+17	6.20E+17
Observations	65	65	65	65	65

Source: Researcher's Compilation (2025)

Table 1 above shows the mean values of the variables considered. Return on assets has an average of 8.369782, equity capital has an average of 25,083,404, and short-term debt has an average of 86,388,619. Long-term debt shows an average of 41,927,626 while working capital has an average of 52,475,511. The median values which are the middle values of each variable are 6.035, 1985238, 43007084, 6425691, and 10575594 for ROA, EC, STD, LTD and WC respectively. The maximum value shows the highest record for the variables. The minimum values show the lowest values for each of the variables in the table above. The table revealed that the lowest return on assets is 0.16, this is similar to variables such as equity capital, short-term debt, long-term debt, and working capital. The standard deviation is the deviation from the sample mean of each variable. Return on assets has a deviation of 8.991363 from its mean. Equity capital has a deviation of 54254136 from its mean, short-term debt has a standard deviation of 1.11. Long-term debt has a deviation of 82335075. While the deviation of working capital from its mean is 89749318. The result revealed that ROA, EC, STD, LTD and WC are all positively skewed. The mean skewness, kurtosis and Jarque-Bera statistics are reported in the result of the histogram normality test in Fig 1 below.

Fig 1: Result of the Histogram Normality Test



Source: Researcher's Compilation (2025)

The result of the histogram normality test reported a negative mean skewness of -0.361813, which means a leftward-tailed distribution.

4.2.2 Correlation Analysis

Covariance Analysis: Ordinary
Date: 03/07/25 Time: 23:39
Sample: 2019 2023
Included observations: 65

Correlation t-Statistic Probability	ROA	EC	STD	LTD	WC
ROA	1.0000 ----- -----				
EC	-0.1785 -1.4395 0.1549	1.0000 ----- -----			
STD	0.0536 0.4257 0.6718	0.4632 4.1479 0.0001	1.0000 ----- -----		
LTD	-0.0942 -0.7512 0.4553	0.4159 3.6300 0.0006	0.6938 7.6476 0.0000	1.0000 ----- -----	
WC	0.0825 0.6573 0.5134	0.5254 4.9011 0.0000	0.7397 8.7259 0.0000	0.6481 6.7565 0.0000	1.0000 ----- -----

Table 2: Result of the Correlation Analysis

Source: Researcher's Compilation (2025)

Table 2 shows the results of the correlation analysis. The correlation coefficient is mixed, with some reporting negative correlation coefficients while other variables show a positive correlation. The result shows a weak negative relationship between equity capital and return on assets. Short-

term debt has a weak positive relationship with return on assets and equity capital. Long-term debt has a negative correlation with return on assets and a weak positive relationship with equity capital and short-term debt. Working capital which is the last variable considered has a weak positive relationship with return on assets. While maintaining a strong relationship with short-term debt, long-term debt, and equity capital

4.2.3 Regression Diagnostics

Test of Heteroskedasticity

Table 3: Results of the Breusch-Pagan-Godfrey Test of Heteroskedasticity

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	1.519297	Prob. F(4,60)	0.2080
Obs*R-squared	5.978119	Prob. Chi-Square(4)	0.2008
Scaled explained SS	16.20152	Prob. Chi-Square(4)	0.0028

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 03/07/25 Time: 23:45
Sample: 1 65
Included observations: 65

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	716.9740	312.4051	2.295014	0.0252
EC	-19.81314	13.61186	-1.455579	0.1507
STD	-25.37039	27.28020	-0.929993	0.3561
LTD	-16.33835	18.81432	-0.868400	0.3886
WC	22.37653	16.16995	1.383834	0.1715

R-squared	0.091971	Mean dependent var	74.73816
Adjusted R-squared	0.031436	S.D. dependent var	189.9686
S.E. of regression	186.9588	Akaike info criterion	13.37346
Sum squared resid	2097216.	Schwarz criterion	13.54072
Log likelihood	-429.6374	Hannan-Quinn criter.	13.43945
F-statistic	1.519297	Durbin-Watson stat	0.960721
Prob(F-statistic)	0.208007		

Source: Researcher's Compilation (2025)

Table 4 presents the result of the Breusch-Pagan-Godfrey test of heteroskedasticity. The result revealed a probability value of 0.2080 > 0.05. This indicates the absence of the problem of

multicollinearity. The alternative hypothesis of homoskedasticity residual is accepted for the null hypothesis, which signifies that the variance of the residual of the regression model is constant.

Test of Serial Correlation

Table 4: Results of the Breusch-Godfrey Test of Serial Correlation

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.336179	Prob. F(2,56)	0.2711
Obs*R-squared	2.915017	Prob. Chi-Square(2)	0.2328

Test Equation:
Dependent Variable: RESID
Method: Least Squares
Date: 03/07/25 Time: 23:46
Sample: 2 65
Included observations: 64
Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.167816	13.69979	0.523206	0.6029
EC	-0.426747	0.621765	-0.686349	0.4953
STD	-0.143891	1.133126	-0.126986	0.8994
LTD	0.006683	0.772741	0.008649	0.9931
WC	0.307306	0.696044	0.441504	0.6605
ROA(-1)	-0.402970	0.269012	-1.497960	0.1398
RESID(-1)	0.464777	0.288461	1.611232	0.1128
RESID(-2)	0.250339	0.200470	1.248762	0.2169

R-squared	0.045547	Mean dependent var	5.68E-15
Adjusted R-squared	-0.073759	S.D. dependent var	7.356012
S.E. of regression	7.622474	Akaike info criterion	7.016548
Sum squared resid	3253.718	Schwarz criterion	7.286408
Log likelihood	-216.5295	Hannan-Quinn criter.	7.122859
F-statistic	0.381765	Durbin-Watson stat	1.956547
Prob(F-statistic)	0.909212		

Source: Researcher's Compilation (2025)

Table 5 presents the result of the Breusch-Godfrey test of serial correlation of the variables of regression. The significant probability value of 0.2711 > 0.05 shows the absence of serial

correlation in the variables of regression. The lag of the dependent variable was introduced to solve the problem of serial correlation.

Ramsey Reset Test

Table 5: Results of the Ramsey RESET of Model Specification

Ramsey RESET Test
Equation: UNTITLED
Specification: ROA C EC STD LTD WC
Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	1.399948	57	0.1669
F-statistic	1.959855	(1, 57)	0.1669
Likelihood ratio	2.163553	1	0.1413

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	113.3164	1	113.3164
Restricted SSR	3408.988	58	58.77565
Unrestricted SSR	3295.671	57	57.81879

Source: Researcher's Compilation (2025)

Table 6 revealed the results of the Ramsey RESET model specification test reported a probability value of 0.1669 > 0.05 which could not sustain the null hypothesis of a mis-specified model of regression. Therefore, the alternate hypothesis of a well-specified- model is accepted for the study.

4.2.4 Regression Estimate

Table 6: Results of the Regression Analysis

Dependent Variable: ROA
Method: Panel Least Squares
Date: 03/07/25 Time: 23:37
Sample: 2019 2023
Periods included: 5
Cross-sections included: 13
Total panel (balanced) observations: 65

Variable	Coefficient	Std. Error	t-Statistic	Prob.
EC	4.211982	1.876553	2.245623	0.0272

STD	1.504378	0.835747	1.799215	0.0358
LTD	-2.006745	1.248879	-1.606595	0.1152
WC	0.902763	0.726883	1.243362	0.2203
C	-20.00107	106.5082	-0.187200	0.8519

R-squared	0.701333	Mean dependent var	8.194815
Adjusted R-squared	0.601777	S.D. dependent var	9.244288
S.E. of regression	5.833598	Akaike info criterion	6.585036
Sum squared resid	1633.481	Schwarz criterion	7.153722
Log likelihood	-197.0137	Hannan-Quinn criter.	6.809419
F-statistic	7.044629	Durbin-Watson stat	1.663562
Prob(F-statistic)	0.000000		

Source: Researcher's Compilation (2025)

The result of the regression analysis is presented above. The preliminary analysis shows a coefficient of multiple determination (R-squared) of 0.701333 and an adjusted R-squared of 0.601777. This implies that 70.13% of the variation in Return on Assets (ROA) is explained by the independent variables considered in this study, which include Equity Capital (EC), Short-Term Debt (STD), Long-Term Debt (LTD), and Working Capital (WC). The remaining 29.87% of the variation is attributed to other factors not captured in this model.

The F-statistic value of 7.044629, with an associated probability value of 0.000000, confirms that the overall regression model is statistically significant at the 1% level. This suggests that, collectively, the independent variables have a significant influence on financial performance (ROA). Individually, the results indicate that Equity Capital (EC) and Short-Term Debt (STD) have a positive and statistically significant impact on ROA, with p-values of 0.0272 and 0.0358, respectively. This implies that firms with higher equity financing and optimal short-term debt usage experience improved financial performance. Conversely, Long-Term Debt (LTD) has a negative but statistically insignificant effect on ROA ($p = 0.1152$), indicating that excessive long-term borrowing may not enhance profitability. Lastly, Working Capital (WC) has a positive but

statistically insignificant relationship with ROA (p = 0.2203), suggesting that while efficient working capital management supports liquidity, its direct effect on profitability remains limited.

4.3 Test of Hypotheses

Hypothesis One: There is no significant relationship between Equity Capital and Firm Performance

The regression results indicate that Equity Capital (EC) has a positive and statistically significant impact on firm performance (measured by Return on Assets, ROA). The coefficient of 4.211982 suggests that a 1% increase in equity capital leads to a 4.21% increase in ROA, demonstrating a positive relationship between the two variables.

The t-statistic of 2.245623 is greater than 2, indicating that the relationship is statistically significant, which is further confirmed by the p-value of 0.0272 (< 0.05). Therefore, the null hypothesis of no significant relationship between equity capital and firm performance is rejected at a 5% level of significance. This implies that higher equity capital enhances firm profitability by providing financial stability and reducing financial distress.

Hypothesis Two: There is no significant relationship between Short-Term Debt and Firm Performance

The analysis reveals that Short-Term Debt (STD) has a positive and statistically significant impact on ROA. The coefficient of 1.504378 implies that a 1% increase in short-term debt leads to a 1.50% increase in ROA, suggesting that moderate use of short-term debt improves firm performance.

The t-statistic of 1.799215 is close to 2, and the p-value of 0.0358 (< 0.05) confirms that the relationship is statistically significant at the 5% level. Therefore, the null hypothesis of no significant relationship between short-term debt and firm performance is rejected. This suggests

that firms effectively utilizing short-term debt for liquidity management and operational efficiency experience better financial performance.

Hypothesis Three: There is no significant relationship between Long-Term Debt and Firm Performance

The regression results indicate that Long-Term Debt (LTD) has a negative but statistically insignificant relationship with firm performance. The coefficient of -2.006745 suggests that a 1% increase in long-term debt leads to a 2.00% decrease in ROA, indicating that higher long-term debt reduces profitability due to increased financial burden and interest costs.

The t-statistic of -1.606595 has an absolute value less than 2, confirming that the relationship is statistically insignificant. This is further validated by the p-value of 0.1152 (> 0.05). Therefore, the null hypothesis of no significant relationship between long-term debt and firm performance is accepted at a 5% level of significance. This suggests that excessive reliance on long-term debt does not significantly contribute to profitability and may instead lead to financial distress.

Hypothesis Four: There is no significant relationship between Working Capital and Firm Performance

The regression results reveal that Working Capital (WC) has a positive but statistically insignificant relationship with firm performance. The coefficient of 0.902763 indicates that a 1% increase in working capital leads to a 0.90% increase in ROA, implying that firms with better working capital management tend to have improved liquidity.

However, the t-statistic of 1.243362 is less than 2, and the p-value of 0.2203 (> 0.05) confirms that the relationship is not statistically significant. Therefore, the null hypothesis of no significant relationship between working capital and firm performance is accepted at a 5% level of

significance. This suggests that while effective working capital management enhances liquidity, its direct effect on profitability remains limited.

4.4 Discussion of Findings

The findings of this study suggest that the relationship between capital structure and financial performance of firms in Nigeria is multidimensional, influenced by various economic and firm-specific factors. The regression analysis reveals that Equity Capital (EC), Short-Term Debt (STD), Long-Term Debt (LTD), and Working Capital (WC) play distinct roles in shaping firm profitability (ROA), though their effects differ in terms of significance and direction.

Equity Capital and Firm Performance

The results indicate that Equity Capital (EC) has a positive and statistically significant effect on ROA ($p = 0.0272$), with a coefficient of 4.211982. This suggests that an increase in equity capital contributes positively to financial performance, supporting the notion that firms with strong equity bases tend to be more financially stable and less exposed to debt-related risks. These findings align with the conclusions of Ogunbiyi and Hassan (2023), who observed that firms relying on higher equity financing often experience greater financial stability and enhanced investor confidence, particularly in emerging economies.

However, Adekunle and Olaniyan (2022) argue that while equity financing reduces financial risk, it does not always guarantee higher profitability, especially in markets characterized by capital market inefficiencies. The results of this study reinforce the idea that access to equity capital alone is not enough—firms must also implement effective corporate governance and strategic investment decisions to fully leverage the benefits of equity financing.

Short-Term Debt and Firm Performance

The study finds that Short-Term Debt (STD) has a positive and statistically significant impact on ROA (p = 0.0358), with a coefficient of 1.504378. This suggests that firms that utilize short-term debt efficiently can enhance their liquidity and operational capacity, leading to improved profitability. The results are consistent with Balogun and Oke (2023), who found that firms in the Nigerian manufacturing sector often depend on short-term borrowing to finance working capital and sustain operations, especially during periods of economic volatility.

However, Fashola and Omodara (2022) caution that over-reliance on short-term debt can expose firms to high refinancing costs and liquidity risks, particularly in economies with unstable interest rates. Despite these concerns, the findings of this study indicate that moderate and well-managed use of short-term debt can serve as a valuable financing strategy for firms in Nigeria.

Long-Term Debt and Firm Performance

The regression results reveal that Long-Term Debt (LTD) has a negative but statistically insignificant effect on ROA (p = 0.1152), with a coefficient of -2.006745. This implies that higher long-term debt levels do not significantly contribute to firm profitability and may, in fact, reduce financial performance due to higher interest expenses and financial distress risks. The findings are in line with Nwosu and Salami (2022), who found that Nigerian firms with high long-term debt burdens often struggle with profitability due to the cost of debt servicing and the impact of macroeconomic instability.

According to Agency Theory (Jensen & Meckling, 1976), excessive long-term debt can also create conflicts between shareholders and creditors, leading to suboptimal financial decisions that weaken firm performance. This argument is supported by Obafemi and Aluko (2023), who observed that firms in emerging economies often face higher borrowing costs and less favourable lending conditions, which further diminishes the potential benefits of long-term debt financing.

Working Capital and Firm Performance

The study finds that Working Capital (WC) has a positive but statistically insignificant relationship with ROA ($p = 0.2203$), with a coefficient of 0.902763. This suggests that efficient management of working capital improves liquidity and operational efficiency, but its direct impact on profitability is not substantial. This is consistent with Adewale and Fagbemi (2022), who found that while working capital efficiency enhances firms' ability to meet short-term obligations, it does not always translate into significant profitability gains.

Similarly, Oseni and Yusuf (2023) argue that market volatility, inflationary pressures, and regulatory challenges often dilute the benefits of working capital optimization, particularly in economies with unstable financial systems. However, the positive coefficient in this study suggests that firms that effectively manage their current assets and liabilities tend to perform better than those with poor liquidity management strategies.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusion, recommendations, and suggestions for further research, based on the updated results of this study. The objective of this research was to examine the relationship between capital structure and corporate financial performance in Nigerian firms, focusing on the consumer goods sector listed on the Nigerian Exchange (NGX). By analysing the effects of Equity Capital (EC), Short-Term Debt (STD), Long-Term Debt (LTD), and Working Capital (WC) on financial performance (Return on Assets - ROA), this study provides empirical evidence on the optimal capital structure strategies that firms can adopt to enhance profitability and financial stability in Nigeria's evolving economic landscape.

5.2 Summary of Findings

This study assessed the impact of various capital structure components on the financial performance of Nigerian firms. The major findings of the study are summarized as follows:

1. The relationship between equity capital and financial performance was found to be positive and statistically significant. The results indicate that firms with a strong equity base experience improved financial stability, higher investor confidence, and enhanced profitability. This suggests that equity financing plays an essential role in corporate financial success in the Nigerian context.
2. The study revealed that short-term debt had a positive and statistically significant relationship with financial performance. The findings suggest that firms that effectively utilize short-term debt to manage liquidity and operational efficiency tend to experience

better profitability. However, reliance on short-term debt should be carefully managed to avoid excessive refinancing risks.

3. A negative but statistically insignificant relationship was observed between long-term debt and financial performance. The findings suggest that excessive reliance on long-term debt may not necessarily enhance firm performance and, in some cases, may contribute to financial distress due to high-interest obligations and increased financial risk.
4. The effect of working capital on financial performance was found to be positive but statistically insignificant. This indicates that while effective management of working capital improves liquidity and operational efficiency, its direct impact on overall profitability is limited in the Nigerian market environment.

Overall, the findings of this study suggest that capital structure decisions significantly influence financial performance, but their effectiveness is moderated by external factors such as economic instability, market volatility, inflation, and financing constraints. Nigerian firms must adopt a well-balanced and strategic capital structure approach to optimize performance while mitigating financial risks.

5.3 Conclusion

This study provides empirical evidence on the relationship between capital structure and financial performance in Nigerian consumer goods firms. The findings reveal that while capital structure decisions play a fundamental role in shaping firm performance, not all components have the same level of influence. The results indicate that equity capital and short-term debt positively and significantly affect financial performance, suggesting that firms should prioritize these financing options for sustainable profitability. On the other hand, long-term debt has a negative but statistically insignificant impact on financial performance, implying that excessive

borrowing does not necessarily translate to better firm performance and may even increase financial risk. Similarly, working capital has a positive but insignificant effect on profitability, emphasizing the need for efficient liquidity management rather than over-reliance on working capital as a driver of firm success. These findings underscore the importance of strategic financial management, debt optimization, and equity financing in enhancing firm performance. The study concludes that Nigerian firms should focus on financial flexibility and capital efficiency rather than rigid adherence to traditional capital structure models. To maximize financial performance, firms must integrate adaptive financial strategies, market responsiveness, and risk mitigation frameworks into their decision-making processes.

5.4 Recommendations

Based on the findings of this study, the following recommendations are proposed to assist Nigerian firms in making optimal capital structure decisions:

1. Firms should aim to strengthen their equity base as a means of enhancing financial stability and improving profitability. Since the study found a significant positive relationship between equity capital and financial performance, firms should prioritize internal financing through retained earnings, seek equity investments, and explore options such as public offerings or private placements to enhance capital adequacy.
2. The effective use of short-term debt should be emphasized to improve liquidity management and operational efficiency. Given that short-term debt positively and significantly affects financial performance, firms should strategically manage their short-term obligations to ensure they do not result in excessive refinancing costs. It is essential for financial managers to negotiate favourable loan terms and seek cost-effective credit facilities to minimize interest expenses.

3. Firms should reduce excessive reliance on long-term debt, as its impact on financial performance was found to be negative and statistically insignificant. High levels of long-term debt can increase financial distress risks due to interest obligations and macroeconomic uncertainties. Firms should consider alternative financing mechanisms such as corporate bonds, government-backed loans, or strategic partnerships to support long-term investment needs while minimizing financial risks.
4. The study highlights the importance of effective working capital management in sustaining firm operations. While working capital was found to have a positive but insignificant effect on financial performance, firms should still focus on optimizing cash flow, improving inventory management, and reducing accounts receivables and payables to enhance liquidity. Efficient working capital practices can contribute to improved financial stability, even if their direct impact on profitability is limited.
5. Government policies should support firms in accessing affordable financing options, particularly for small and medium-sized enterprises (SMEs) that may struggle with capital acquisition. Policymakers should develop strategies to reduce borrowing costs, stabilize exchange rates, and encourage foreign investment to create a more enabling business environment for firms in Nigeria.

5.5 Suggestions for Further Studies

While this study provides valuable insights into the relationship between capital structure and financial performance, several areas remain open for further research:

1. Future studies could explore the capital structure-financial performance relationship across different industries in Nigeria, beyond the consumer goods sector. Sector-specific

analyses would provide a more detailed understanding of how industry characteristics influence capital structure decisions.

2. Further research could focus on small and medium-sized enterprises (SMEs) in Nigeria, as this study primarily examined large firms listed on the NGX. SMEs face unique financing challenges, and understanding their capital structure dynamics could provide valuable insights for policymakers and financial managers.
3. The role of corporate governance in capital structure decisions should be investigated in future studies. Examining how governance mechanisms, board structures, and managerial decision-making affect capital structure choices could contribute to a deeper understanding of financial strategy formulation.
4. The impact of economic shocks and external disruptions on the capital structure-financial performance relationship should be explored. Given the volatility of Nigeria's economy, future studies could examine how firms adapt their capital structures in response to economic recessions, exchange rate fluctuations, and global financial crises.

5.6 Contribution to Knowledge

This study contributes to the growing body of literature on capital structure and financial performance in the Nigerian context by providing empirical evidence on the effects of individual capital structure components on firm profitability. The findings expand theoretical discussions on capital structure theories, particularly the Trade-Off Theory and Pecking Order Theory, in an emerging market setting. Furthermore, this study bridges the gap between traditional capital structure models and real-world financial dynamics in a developing economy. By examining capital structure decisions in the Nigerian consumer goods sector, this research provides valuable insights for corporate managers, investors, and policymakers seeking to optimize financing

strategies in volatile economic environments. The study also offers practical recommendations for firms to balance equity financing, debt management, and financial flexibility to sustain long-term profitability.

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