

Financial Structure and the Financial Performance of Quoted Consumer Goods Firms in Nigeria

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ABSTRACT

The study investigated the effect of financial structure on the financial performance of quoted consumer goods firms in Nigeria. The study used profit after tax (PAT) to represent financial performance as the dependent variable while financial structure was disintegrated into Short Term Debt (STD), Long Term Debt (LTD), share capital (SC) and retained earnings (RE) as the independent variable. The data for the study were obtained from the Financial Statement and Annual Reports of the selected firms. The data set comprised fifty (50) observations comprising five-year time series data spanning 2010 to 2019 from ten firms in the consumer goods sector. The panel regression technique based on Fixed and Random Effects were used for data analyses. The Hausman test showed that the Fixed Effect model is more suitable for the study. The findings revealed that STD and SC have significant positive effects on the PAT of consumer goods firms in Nigeria; while LTD and RE were found to have positive but no significant effect on the PAT of consumer goods firms in Nigeria. The study concludes that working capital management is an efficient tool for the consumer goods subsector in Nigeria. Among the contributions of the study is the use of all the four sources of funds and the use of profit after tax that tends to capture the overall effect of the various fund sources on the holistic profitability of the consumer goods firms. The recommendations included use of share capital for long term investment and working capital management for operations.

Keywords: Financial structure, financial performance, Profit after Tax, Consumer Goods Sector, Nigeria

INTRODUCTION

Financial decision is a major factor every business enterprise must consider at start-up and during operations. This decision will however affect the survival and sustainability of such business entity (Foyeke, Olusola & Aderemi, 2016). At start-up of every enterprise, after generating the business idea, it is expedient that the owners of the business consider the various factors of production that will be relevant to the successful execution of the business idea. In the process of doing this, the owners will need to answer the question: "How do we finance the project at hand?" In an attempt to find an answer to this question, all the available sources of finance are then explored and this is reflected in the business plan or the feasibility report prepared. Finance is a very important issue every business organisation must put into consideration at the start-up or expansion of a business venture.

The financing option for business differ greatly; swinging between a proportion of debt and equity interests. Debt capital is received from credit investors and paid back over time with some form of interest. Equity capital is raised from shareholders giving them ownership in the business for their investment and a return on their equity that can come in the form of market value gains or distributions. Each business has a different mix of debt and equity depending on its needs, expenses, and investor demand (Young, 2019).

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Financial structure is the combination or mixture of company's equity and debt, which ensures financial stability, profit generation, growth, and expansion. Financial structure means the approach a firm uses in financing her assets through the mixture of debt, equity or hybrid securities (Saad, 2010). Hybrid securities in this context mean a group of securities that combine the elements of both debt and equity, which have fixed or floating rate of return, and the holder has the option of converting it into the underlying company's share. Financial structure is a mixture of a company's debts (long-term and short-term), common equity and preferred equity (San & Heng, 2011).

However today, apart from investment decision, financial structure decision has become one of the important financial decisions of business organizations. This is because it has a long-term financial impact on its operations specifically on return maximization and value of the firm. A firm can issue a large amount of debt or a large amount of equity; hence, it is important for a firm to deploy the appropriate mix of debt and equity that can maximize its overall market value. One of the strategies used by corporate managers to improve their financial performance is through utilization of debt and equity levels (Maina & Ishmail, 2014). This, therefore, requires much attention by corporate entities on their capital structure contents to achieve a reasonable financial performance and firm's value.

One uphill task of businesses is the sources of finance. The various sources of funds and the management efficacy of the funds could affect the business survival and profitability (Robert, 2012). Some researchers have argued for and some against equal mix of finance i.e. equal mix of equity and debt finance, while some have attributed the mix to some factors, which are seen as determinants of finance mix. It is presumed that an organization with a strong capital base may have better returns and value. Some commonly believe that a better mixture of an organization's capital is the oil that lubricates its performance and growth. The very significant question that managers of corporate entities provide an imprecise answer to is; "What will be our best mixture of debt and equity to attain optimality?" in trying to provide an answer to this question, various studies have been conducted by different scholars. The recent discussions evolving on the topic 'Capital structure' originated from the works of Modigliani and Miller in 1958. Modigliani and Miller (1958) came up with irrelevance theory that assumes that a firm's value is independent of its capital structure, but this presumption is in a world with no taxes, bankruptcy and transaction costs. However, the recent empirical evidence clearly points out that capital structure does matter (Myers & Majluf, 1984). Evaluating the importance of finance to business enterprises as well as the role performance plays in the survival and going concern of business enterprises, Ogbulu and Emeni (2012) argued that most profitable firms prefer the internal sources of funding or equity while low profitable firms use debt financing due to insufficient internal funds.

Conversely, firm performance is an element that ensure the concerning concern of a business organisation. Profitability is the foremost objective of profit-oriented organizations. A profitable business is often one that is effective and efficient in securing it a long-term success. Managers of corporate entities are much concerned on how to achieve high profitability as it has a long-term effect on their corporate set-ups which ranges from management efficiency (utilization of limited resources at their disposal); investors goal (wealth maximization) and lenders driven (repayment of debt and interest charge thereon).

In Nigeria, consumer goods sector is in its growing phase and as well performing significantly in contributing to the economic growth of the country. This is evidenced by the analogy of the state of growth of the sale volume of the consumer market. According to the report published by News Agency of Nigeria (NAN) through business day online (press), "The McKinsey Global Institute (MGI), reports that the Nigeria's consumer market is worth more than \$400 billion. In the report is entitled, "Nigeria's renewal: Delivering Inclusive Growth in Africa's Largest Economy". The MGI estimated that the value of Nigeria's consumer market could reach \$1.4 trillion by 2030 with food and non-food consumer goods accounting for one trillion of the total" (Osagie (2014).

The above report shows prospects for the consumer good market. However, reports from Renaissance Capital (2014), indicated that the consumer goods market can suffer a scarcely marginal development from 2014 of the challenging years like 2012 and 2013, consumer companies are not likely to proceed into full recovery in the year 2014, with just a minimal improvement possible in the year ahead. Therefore, this report is an indication that consumer goods companies in Nigeria need a shield for financial survival and their managers also need to understand the best combination of debt and equity that will maximize their financial performance. In this regard, this study will examine the impact of capital structure on the profitability of listed consumer goods companies in Nigeria.

A plethora of extant studies has been done to determine to extent to which financial structure could determine the financial performance of firms. Researchers has not found a lasting answer due to conflicting findings. The divergent views ranges from negative effects (Appah, *et al* 2013; Muchiri, *et al* 2016; Nassar, 2016; Nwude, *et al* 2016 and Kerim, *et al* 2019), to positive effect (Foyeke, *et al* 2016; Offiong & Ajaude, 2017; and Abubakar & Olowe, 2019). However, studies also indicated that different proxies for financial performance posited divergent views (Ajibola, Wisdom & Qudus, 2018). It becomes pertinent to re-examine the much debated topic of financial structure and financial performance nexus from the perspective of the consumer goods firms in Nigeria.

The main objective of the study is to examine the effect of financial structure on the financial performance of quoted consumer goods firms in Nigeria. The specific objectives are to;

1. Investigate the effect of short term debt on the profit after tax of quoted consumer goods firms in Nigeria.
2. Examine the effect of long term debt on the profit after tax of quoted consumer goods firms in Nigeria.
3. Determine the effect of share capital on the profit after tax of quoted consumer goods firms in Nigeria.
4. Ascertain the effect of retained earnings on the profit after tax of quoted consumer goods firms in Nigeria.

CONCEPTUAL REVIEW

The concepts of this study is premised on the fact that firms are at liberty to employ funds from varying sources to finance their investment. Employment of these sources connote a structure of combination of fund types called financial structure. Each source of fund has implications on capital formation, stake of investors and investors' returns. The nature of stakeholder involvements might affect agency relationship and managers performance. Hence this study is conceptualised on the premise that financial structure has effect on firm performance.

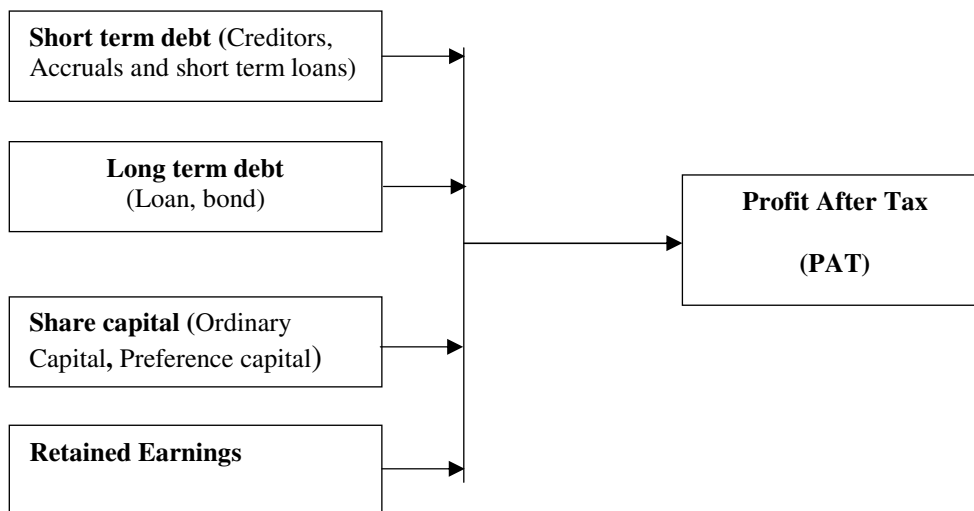


Figure 1: Conceptual framework of the link between financial structure and firm performance

Financial Structure

The structure is an engineering term that connotes patterns which something takes. Financial structure refers to the mix of debt and equity that a company uses to finance its operations (Young, 2019). It is a terminology that explains the component sources of funds for financing a business venture. It derives from the items on the left hand side of the balance sheet of the firm comprising Equity, Retained Earnings, Long Term and Short Term Capital. Hence, financial structure of a firm explains how a firm finances its assets with all its available resources (Moyer, McGuigan & Kretlow, 1999, cited in Muchiri, Muturi & Ngumi, 2016). All in all, firms financing option for their assets include the equity (ordinary, preference and retained earnings) capital, long term financial debt or liabilities (like bonds, bank loans and other loans) and short term liabilities for example trade payables (Muchiri, Muturi & Ngumi, 2016).

Young (2019) noted that financial structure of a company can also be referred to as the capital structure. Capital structure as a financial terminology define the pattern of the sources of funds used to finance a business. In the opinion of Pandey (2005), capital structure is the debt level of a firm in relation to its equity on the balance sheet. This explains that capital structure is the proportion of the various sources of funds that make up the total capital of the firm. Nassar (2016) notes that capital structure captures the totality of “the value and types of capital a firm obtained, and the method of financing used to carrying out corporate growth initiatives such as research and development or acquiring assets.

The above definitions show that financial structure explains that combinations of sources of fund such as debts, equities and some forms of hybrid sources of funds such as preference shares, as well as retained earnings (Offiong & Ajaude, 2017; Uremadu & Onuegbu, 2018). From the definitions, “debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the firm”. Both of these sources of funds have different levels of risk, benefits, and control (Ogebe, Ogebe & Alewi, 2013). The debt holders are investors which buy credit interest which grant them lower control over the firms with fixed rate of interest for their investment. Debts financing can be short term or long term. Short term comes in forms of debt liabilities incurred in the

course of day-to-day activities or financing needs of firms. This include inventory, supplies of raw material and paying of employees’ salaries or money owed to them (Uremadu & Onuegbu, 2018). These funds are regarded as short term debt as they are expected to be repaid within one year. The Long term debt financing segment are repayable for periods above ne year, and may expend to over 10 years. The finance are usually invested in such projects as equipment, land, buildings and machineries. However, the equity holder buy ownership interest are therefore regarded as having owners interest in the firm. Thus, they share in the gains and loss of the business. What they receive as yields are residuals from the profit after settling other stakeholders including creditors, taxation and other financial obligations.

The concept of financial structure reveals that firms uses a combination of certain forms of debts, equities and a blend of debt and equity. Managers uses their discretion to decide the proportion of debt and equity to holder in their equity and debt portfolio. This combination is known as capital mix. The main of essence of managing financial structure is to mix the financial sources in order to maximize the wealth of shareholders and minimize the company’s cost of capital.

The right proportion of debt and equity in the financial structure is known as optimal capital structure (Uremadu & Onuegbu, 2018). Firm with the optimal capital structure enjoys minimum cost implications and maximizes the total value of the firm. The amount of debt contained in a firm’s optimal capital structure is referred to as its debt capacity. The debt capacity has implications on the borrower. Borrowed funds usually carry fixed charge interest expense. The borrower is under obligation to pay interest to debt-instrument holders irrespective of whether profits or losses are made. If a borrower fails to pay the fixed interest charges in time, the creditors are at liberty to take legal action against the borrower to get the payments and in extreme circumstances, it may force the borrower into liquidation (Nude, 2003).

The strategic mixtures of equity and debt adopted by management of firms helps to ensure financial stability, profit generation, growth, and expansion (Kakanda, Bello & Abba, 2016). Managers retain abundance of opportunities to exercise their discretion on capital structure decisions. The capital structure maintained by managers may not

necessarily aim to maximize firm value but could be for protection of the interest of managers (Ogebe, Ogebe & Alewi, 2013). This is common in firms where corporate decisions are dictated by managers and shares of the company closely held (Dimitris & Psillaki, 2008). Even where shares are not closely held, owners of equity are generally large in number and an average shareholder controls a minute proportion of the shares of the firm. This gives rise to the tendency for such a shareholder to take less interest in the monitoring of managers who left to themselves pursue interest different from owners of equity.

Four major components of financial structure are the short term debt, long term debt, share capital and retained earnings.

Short Term Debt

Short term debt is the current liabilities of firms that arises out of the normal operations of a business. Ganti (2020), defined short term debt as "a firm's financial obligations that are expected to be paid off within a year". In the balance sheet of a company, the short term debt is reported under the current liabilities portion of the total liabilities section. Being an operating debt, the short term debt arises from the primary activities that are required to run a business, such as accounts payable, and is expected to be resolved within 12 months, or within the current operating cycle, of its accrual (Ganti, 2020).

The value of the short-term debt account is very important when determining a company's performance. Simply put, the higher the debt to equity ratio, the greater the concern about company liquidity (Langager, 2020). If the account is larger than the company's cash and cash equivalents, this suggests that the company may be in poor financial health and does not have enough cash to pay off its impending obligations. The most common measure of short-term liquidity is the quick ratio which is integral in determining a company's credit rating that ultimately affects that company's ability to procure financing.

Long Term Debt

Unlike the short term debt that arises out of business operations, the long term debt is a financing debt (Langager, 2020). Long-term debt is the term given to those obligations the firm does not have to pay for at least a year. They are also called funded debt or fixed liabilities. Items that may be classed as long-term debt are bonds, debentures, term loans, or, in small firms, mortgages on buildings. Issuing debt raises capital for firm growth and expansion without possibly lessening current stockholder control.

The use of long term debt has enormous benefits to business over certain types of funds. Among these is the floatation costs which are less on debt than on equity, and the cost of debt is less than the expected shareholder return on equity (GFDR, 2015). The long term debt instrument enables businesses to adequately match maturity of assets and liabilities to the purchase fixed assets or equipment (Hart & Moore 1995). Long-term debt minimizes risk of having to refinance in bad times. For instance, the long term debt circumvents the liquidity risk of short-term debt in which lenders may be reluctant to refinance if borrower experiences a negative shock or credit market conditions

deteriorate (Graham & Harvey 2001). Firms that expect to experience positive shocks may want to refinance debt frequently to obtain better loan terms later (Barclay & Smith 1995; Guedes & Opler 1995).

Share Capital

Share capital is the money a company raises by issuing common or preferred stock. The amount of share capital or equity financing a company has can change over time with additional public offerings (Tuovila, 2020). The two types of share capital are common stock and preferred stock. Companies that issue ownership shares in exchange for capital are called joint stock companies.

The amount of share capital reported by a company includes only payments for purchases made directly from the company. The later sales and purchases of those shares and the rise or fall of their prices on the open market have no effect on the company's share capital.

Retained Earnings

Retained earnings is the amount of net income left over for the business after it has paid out dividends to its shareholders (Kenton, 2020). Corporate earnings can be positive (profit) or negative (loss). A positive profit creates the opportunity for firms to utilise the surplus money earned for a number of purposes. The firm has the prerogative of determine whether to pay out the surplus to the shareholders or to re-invest it back into the company for growth purposes. The portion of the surplus profit not paid to shareholders counts as retained earnings. Thus, Retained earnings (RE) can be succinctly defined as the amount of net income left over for the business after it has paid out dividends to its shareholders.

Firm Performance

The performance of a firm reflects how effectively the firm has been managed and resources utilized (Ogebe, Ogebe & Alewi, 2013). The performance of a firm is measured in terms of profitability or efficiency ratio such as Return on Investment, Return on Equity, Operating expenses ratio or Asset turnover (return on asset).

This study employed profitability as the measure of firm performance. Profitability signals the propensity of the financial success of a firm (Eljelly, 2004). Profitability analysis focuses on the relationship between revenues and expenses. It is the measure of the input-output relationship of management efficiency in maximizing value of the funds employed in running the business (Akani & Sweneme, 2016). Thus, profitability is the operational concern of every profit-making organization.

Despite investment decision that expels out the most viable investment outlet that ensure low risk and higher return for firms, financial structure decision has become one of the important financial decisions of business organizations. The management of firms are often at liberty to issue any amount of debt or equity; hence, it is important for a firm to deploy the appropriate mix of debt and equity that can maximize its overall profitability. One of the strategies used by corporate managers to improve firm profit is utilisation of the appropriate combination of debt and equity levels (Maina & Ishmail, 2014).

THEORETICAL FRAMEWORK

The theoretical framework is anchored on the Pecking Order Theory developed by Myers (1984). The theory states that there should be hierarchy in choosing sources of financing. It identifies the various sources of funds as equity, and debts financing and then advocates that the internal sources of funds be preferred to the external sources. Thus the pecking order theory is if the view that internal sources of fund retained earnings and excess liquid assets should be used more than the external source like short term and long term funds.

The theory is an off-shoot of the argument to the signalling theory. This means that the more a firm uses of external sources of fund, the more it needs to be examined by the general public and other interests. As this may put pressure on the firm, it is capable of affecting its profitability negatively. Internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage. If a firm must use external funds, the preference is to use the following order of financing sources: debt, convertible securities, preferred stock, and common stock (Myers, 1984). According to Hawawini and Viallet (2011), this array reflects the motivations of the financial manager to retain control of the firm (since only common stock has a "voice" in management), reduce the agency costs of equity, and avoid the seemingly inevitable negative market reaction to an announcement of a new equity issue.

The pecking order theory marshalled out two key assumptions about financial managers. The first is the existence of asymmetric information or the prospect that firm's managers know more about the firm's current earnings and future growth opportunities than do outside investors. The availability of such vital information to financial managers may exclude potential investment by public investors. This is due to financial manager's vehement appeal to keep such information underground, to keep it secret from public usage. The use of internal funds precludes managers from having to make public disclosures about the company's investment opportunities and potential profits to be realized from investing in them. Secondly, financial managers will act in the best interests of the firm's existing shareholders.

This theory does not pay much attention to optional mix of capital, but rather to the use of sources that gets the management off the demands of the external public. This theory is relevant to the present as the study tends to look at the effect of the various array of sources of funds on firm profitability. The present study employs the holistic value for equity, short term and long term source of funds as against the ratio of debt to equity which implies optimising the mix.

EMPIRICAL STUDIES

Muchiri, Muturi and Ngumi (2016) investigated the relationship between financial structure and financial performance of listed firms at the East Africa Securities Exchanges. The data covered a period of nine years spanning 2006 to 2014 comprising panel 61 firms from the securities exchanges hand books. Feasible Generalized Least Squares method, random effect for models without moderator and fixed effect for models with moderator, based on Hausman specification test were used. The study found out that in

isolation, short term debt, long term debt, retained earnings and external equity had insignificant negative relationship with return on assets but insignificant positive relationship with return on equity. While combined, financial structure had a significant positive and negative relationship with return on equity and return on assets respectively. On moderation of the relationship between financial structure and financial performance, it was found out that gross domestic product growth rate had a significant moderating effect.

Foyeke, Olusola and Aderemi (2016) examined the effects of financial structure on the profitability of manufacturing companies in Nigeria. Financial structure was captured as equity, leverage; short term debt controlled by firm size, whereas profitability as the dependent variable. Data were obtained from a sample of 25 manufacturing companies quoted on the Nigerian Stock Exchange for the period 2008-2012. The Spearman's Rank correlation and regression techniques were used for analysis. The results showed that equity and firm size have significant positive relationship with the profitability of manufacturing companies in Nigeria. Leverage and short term capital were positive but not statistically significant.

Abubakar and Olowe (2019) investigated impact of capital structure on financial performance of selected quoted firms in Nigeria within the period covering 2012 to 2018. The study capital structure variables are ratio of short term debt to total assets (STD), ratio of long term debt to total assets (LTD), ratio of total debt to equity (DE), and one control variable (firm size) are the explanatory variables while return on equity was the proxy for firm performance and the dependent variable. The result of the multiple regressions based on Ordinary Least Square technique revealed that STD, LTD and DE showed a positive significant impact on financial performance.

Kerim, Alaji and Idachaba (2019) examined the effect of capital structure on profitability of selected 15 listed insurance firms in Nigeria for the period 2013 to 2017. The study employed short term debt (STD) and long term debt (LTD) as independent variables, Premium growth (PG) as the control while return on equity was the dependent variable. The data comprising a 75 firm-year panelled observations was analysed using OLS multiple regression technique. The result revealed that short-term debt had a negative and significant effect on the profitability of listed insurance firms in Nigeria; whereas long-term debt and premium growth had significant positive effect on profitability.

Ajibola, Wisdom and Qudus (2018) examined the impact of capital structure on financial performance of quoted manufacturing firms in Nigeria over the period 2005-2014. Panel data regression was employed to analyse the variables which are short term debt (STD) long term data (LTD), total debt (TD) as independent and return on asset (ROA) and return on equity (ROE) as dependent. The findings from the two models revealed as follows: LTD and TD have significant positive relationship with ROE; and an insignificant positive relationship between ROE and STD. Furthermore, there was also a negative insignificant relationship between all the proxies of capital structure (LTD, STD and TD) and ROA which makes ROE a better measure of performance. It

therefore posited that capital structure has a positive impact on financial performance and more of long term debts is better capital structure for firms.

Appah, Okoroafor and Bariweni (2013) used a panel of thirty two quoted firms for a period of seven years spanning 2005 to 2011 to examine the effect of capital structure on the performance companies in Nigerian Stock Exchange. Performance was measured using two variables of return on asset (ROA) and return on equity (ROE) while capital structure variables was captured as short-term debt, long-term debt and total debt; and controlled with tangibility, liquidity, non-debt tax and efficiency. Data were analysed with pooled least square regression and granger causality. The result showed that short term debt, long term debt and total debt have significant negative effect on return on asset and return on equity.

Offiong and Ajaude (2017) investigated the effect of capital structure on the performance of quoted Nigerian companies. The study employed debt equity ratio and debt asset ratio as proxy for capital structure and examined its relationship with performance indices such as the net profit margin, return on assets and return on equity. Data gathered from a cross section of 94 Nigerian quoted companies was analysed using panel least square regression. Three models were developed using performance indices as dependent variable. The findings showed that capital mix has a significant relationship with the earnings per share of quoted firms in Nigeria. Debt equity ratio has a significant positive effect on the return on assets of quoted companies in Nigeria and debt asset ratio has a significant inverse relationship with the return on assets of quoted companies in Nigeria. Also debt equity ratio has a significant inverse impact on the return on equity of quoted companies in Nigeria and debt asset ratio has a significant positive impact on return on equity of quoted companies in Nigeria.

Nassar (2016) examined the effect of capital structure on the financial performance of industrial companies in Istanbul Stock Exchange of Turkey. Data were obtained from 136 industrial firms spanning a period of 8 years from 2005 to 2012, and analysed based on simple regression analysis is applied to test the relationship between capital structure and firm performance. The performance of the quoted firms were measured with Return on Asset (ROA), Return on Equity (ROE) and Earning per Share (EPS) while capital structure was captured as Debt Ratio (DR). The results revealed that capital structure has a negative and significant effect on all the firm performance indicators.

Mahmoud (2017) examined the determinants of capital structure of quoted firms in Nigeria using a panel of 20 manufacturing firms spanning 2012 to 2016. The study regression eight selected explanatory variables of capital structure on firm value (measured by Tobin's Q). The model was developed as a conditional probability model and estimated using the probit regression model. The result showed that profitability, firm size, liquidity and leverage have significant negative relationship with firm value while growth, age, and tangibility are have significant positive effect on firm value.

Using a cross-section of 43 firms for a period of 12 years spanning 2001 to 2012, Nwude, Itiri, Agbadua and Udeh

(2016) investigated the effect of debt structure on the performance of firms quoted on Nigeria Stock Exchange. Three models were developed using short term debt, long term debt and total debt, respectively with combination of controls for size and age of firm. The data were analysed using three regression estimations (Pooled OLS, Fixed Effects and Random Effects) selected based on Hausman criteria. The results showed that all the debt structure variables have negative and significant effect on firm performance.

Echekoba and Ananwude (2016) examined the effect of financial structure on the performance of quoted consumer goods firms in Nigeria. Financial structure was measured as total debt to total equity ratio, and short term debt to total equity ratio; and controlled for tangibility, firm size, growth and risk as variables capable of influencing performance. Two models were developed using earnings per share and return on equity as dependent variables. The data randomly generated from twenty three firms for the period 1993 to 2013, were analysed based on pooled ordinary least square regression, fixed effect and random effect models. The results revealed that financial structure captured by total debt to total equity ratio and short term debt to total equity ratio have significant negative effects on financial performance variables (earnings per share and return on equity) for consumer goods firms in Nigeria.

Ogebe, Ogebe and Alewi (2013) investigated the effect of capital structure on the performance in Nigerian firms from 2000 to 2010. The study used return on investment (ROI) as proxy for firm performance while capital structure as captured as leverage and controlled for inflation and Gross Domestic Product. The pooled ordinary least square and fixed effect regression models were used. He results showed that capital structure represented by firm leverage has negative and significant effect on firm performance.

Uremadu and Onuegbu (2018) examined the effect of capital structure on corporate performance among consumer goods firm sector in Nigeria. The study employed return on asset as proxy for corporate performance while capital structure was measured as Long term debts to total assets ratio and Total debts to equity capital ratio. The data were obtained for Nigerian Bottling Company, and, Seven-up Bottling Company covering 2002 to 2016. The result from multiple regression of Ordinary Least Square (OLS) analytical technique revealed that both long-term debt ratio to total asset and total debt ratio to equity had a negative and insignificant impact on returns on assets.

Alalade, Oguntodu and Adelakun (2015) carried out to determine whether there is any relationship between capital structure and profitability performance of quoted firms that specialised in production of food items in Nigeria. A simple regression model was developed to regress firm gearing on return on asset (ROA), return on equity (ROE) and return on capital employed (ROCE). A non-probabilistic purposive sampling was adopted to selected six food product companies (flour and pasta) quoted on the floor of Nigeria Stock Exchange over five (5) years between 2009 and 2013. Results obtained from OLS regression showed that gearing has negative and insignificant effects on ROA and ROE and positive and insignificant effect on ROCE. Thus the study

conclude that capital structure has no significant effect on firm performance.

From the Agency Cost Theory perspective, Ishaya and Abduljeleel (2014) examined the relationship between capital structure and profitability of listed Nigerian firms. Capital structure was captured as debt ratio and equity and profitability as the dependent variable. Data obtained from a panel of seventy (70) listed firms covering period of ten (10) years from 2000 to 2009 were analysed using fixed-effects, random-effects and Hausman Chi Square estimations. The result revealed that debt ratio has a significant negative relationship with firm profitability while equity had a positive but insignificant effect on profitability, which did not support the Agency Cost Theory.

Akinyomi (2013) examined the effect of capital structure on firm performance in Nigeria within 2007 and 2011. Capital structure was represented as long term debt to capital (DC), debt to capital (DCE), debt to common equity, short term debt to capital (SDTD) and firm age as control variable. The dependent variables are return on asset and return on equity. The data were analysed using correlation and OLS regression analyses. The findings revealed that DC, DCE, SDTD and AGE is significantly and positively related to ROE. Meanwhile, LDC is significantly but negatively related to ROE. Similarly, each of DC, DCE, SDTD and AGE is significantly and positively related to ROA. However, LDC is significantly and negatively related to ROA. The hypotheses tested confirmed that there is significant relationship between capital structure and financial performance using both ROA and ROE.

Kakanda, Bello and Abba (2016) examined the effect of capital structure on the financial performance of listed Consumer goods companies in Nigerian. A panel data from seven firms covering six year period from 2008 to 2013 were obtained from the African Financial website and official website of Nigerian Stock Exchange. Financial performance was represented by return on equity while capital structure variables are Short-term ratio, and long-term debt ratio, with sales growth rate, size, asset tangibility and efficiency of firm as control variables. The data were analysed using the hierarchical multiple regression technique. The findings showed that there is a positive and significant relationship between firm's capital structure and corporate financial performance. The specific results were that short-term debt had positive and insignificant effect on return on equity while Long-term debt had positive and significant effect on return on equity.

Birru (2016) investigated the effect of capital structure on financial performance of selected commercial banks in Ethiopia for a period of five (5) years spanning 2011 to 2015. The study developed two multiple regression models from two financial performance which are return on equity (ROE) and return on assets (ROA) as dependent variable and five capital structure measures (including debt ratio, debt to equity ratio, loan to deposit, bank's size and asset tangibility) as independent variable. The results indicate that financial performance, which is measured by both ROA, is significantly and negatively associated with capital structure proxies such as DER, SIZE and TANG whereas DR have negative impact.

Abor (2015) examine the influence of capital structure on profitability of listed companies on the Ghana Stock Exchange during a five-year period. The study was guided by three research questions and descriptive survey design was adopted. The data used was a secondary data collected through Ghana stock exchange. The data collected was analysed using ordinary least square regression. The study found out that there is significant positively interrelated between SDA and ROE and shows that firms which earn a lot use more short-term debt to finance their business. In other words, short-term debt is an essential source of financing in favour of Ghanaian companies, by representing 85 percent of total debt financing.

Babatunde (2014) investigate the relationship between capital structure and profitability of conglomerate, consumer goods, and financial services firms quoted in Nigeria Stock Exchange. The study was guided by three research questions. Data was collected from the ten randomly selected firms among the three industries were from 2000 to 2011 and sample size of 120. However, there was a significant relationship in almost all firms between return on equity and debt to equity. To their findings, the nature of the industry also determines the effect of capital structure on their profitability.

Tharmila (2013) studied the impact of capital structure on firm's performance using a sample of thirty companies listed on the Colombo Stock Exchange and a period of (5) five years from 2007 to 2011. The study was guided by three research questions. The data collected was analysed using ordinary least square regression. The study used Return on capital employed (ROCE), Return on Equity (ROE) and Net Profit ratio as performance proxies and total debt (TD) and Total Equity (TE) were used as capital structure proxies. The relationship between independent variable capital structure and dependent variable financial performance were tested by correlation analysis. The results indicated that, there is a negative relationship between the capital structure and financial performance.

Mohammad (2013) investigate the impact of capital structure on firm performance using multiple regression with a pool panel data procedure as well as four accounting-based measures of financial performance (i.e. return on equity (ROE), return on assets (ROA), market value of equity to the book value of equity (MBVR), Tobin's Q) and capital structure measures (short-term debt to total assets (SDTA), long-term debt to total assets (LDTT), total debt to total assets (TDTA) and total debt to total equity (TDTQ)) and based on a sample of 85 firms listed in Tehran Stock Exchange from 2006 to 2011. The study was guided by three research questions. The data collected was analysed using ordinary least square regression with the aid of E-view 7. The results indicated that, firm performance which is measured by (ROE, MBVR & Tobin's Q) is significantly and positively associated with capital structure, while report a negative relation between capital structure and (ROA, EPS).

Ahmed (2015) investigated the impact of capital structure on about 17 nonfinancial firms' performance listed in the Bahrain Bourse from 2009 to 2013. Using the OLS multiple regression technique, key macroeconomic variables (inflation rate, gross domestic product growth) on the financial performance variables (return on asset, return

on equity, earnings per share, and dividend yield)). The results indicated that capital structure had a positive and significant effect on the firms' performance proxied return on equity.

Summary and Gap in Literature

The effect of financial structure on firm performance has been widely studied in Nigeria. The review showed that the variables for financial structure and capital structure were used inter-changeably. This surmises that both terms means same for researchers. IN terms of proxies for firm performance, some of the studies that studied firm profitability equally used similar proxies as those that studied firm performance. Most of the studies used Profit After Tax, return on equity (ROE), return on asset (ROA), return on capital employed (ROCE), Earnings per share (EPS), return on investment (ROI), among other measures of firm performance. Among these measures, ROE and ROA are the most popular. However, these variables normally restrict profitability to benefit of specific stakeholder like ROE for investors and ROA for management efficiency. This simply suggests that financial performance and firm profitability could be used interchangeably in financial structure research as this. The broad concept of firm performance is profit after tax on which all the divisions to connote returns are employed.

The reviewed empirical study has shown conflicting findings. The nature of the conflict is such that some of the studies posited negative effects (Appah, *et al* 2013; Muchiri, *et al* 2016; Nassar, 2016; Nwude, *et al* 2016 and Kerim,*et al* 2019). On the other hand, some of the studies found positive effects (Foyeke, *et al* 2016; Offiong & Ajaude, 2017; and Abubakar & Olowe, 2019). A perusal of the findings showed that various proxies for financial performance could result in differently findings as in the study of Ajibola, Wisdom and Qudus (2018) where return on equity showed positive while return on asserts indicated negative effects on capital structure variables.

METHODOLOGY

The study employed the ex-post-facto research design to examine the effect of financial structure on the performance of quoted consumer goods firms in Nigeria. The data for the study be collected from secondary source. The data will be generated from the Annual Reports and Statement of Accounts of companies quoted consumer goods firms on the Nigerian Stock Exchange. The data formed a panel data set covering five-year time series (2015 to 2019) and a cross-section of 10 firms.

The study is premised on the perking order theory such that firms select a financing mix based on order of benefits to management gaols. The sources of funds on which the study was anchored on premised on the study of Muchiri, Muturi and Ngumi (2016), which shows that financing options are short term capital (STC), long term capital (LTC), share capital (SC) and retained capital (RC). Thus, the model posit that financial structure variables has effect on firm performance. The present employed profitability measured as Profit After Tax (PAT) as used in Ishaya and Abduljeleel (2014), Nwude, *et al* (2016) and Foyeke, *et al* (2016), as proxy for financial performance of firms.

The functional relationship is shown as $FP = f(FS)$, where FP is firm performance and FS is financial structure. The expanded model is given as:

$$PAT = f(STD, LTD, SC, RE) \quad (1)$$

The equation of the relationship in the model is given as follows:

$$PAT_{it} = \alpha_0 + \beta_1 STD_{it} + \beta_2 LTD_{it} + \beta_3 SC_{it} + \beta_4 RE_{it} + \mu_{it} \quad (2)$$

Where:

PAT = Profit After Tax as proxy for financial performance and the dependent variable.

FS = Financial Structure is the independent variables disintegrated is the as follows:

- Short term debt (STD),
- long term debt (LTD), and
- Share capital (SC).
- Retained earnings (RE)

α = Constant

i = the notation to represent five firms in selected for the study.

t = the time period of the time series to represent the five years chosen for the study (2015 to 2019)

β_{1-4} = is the coefficients of the regression equation representing those of STD, LTD, SC and RE respectively.

The apriori expectation of the model is that any of the sources of funds (STD, LTD, SC and RE) can take negative or positive values, depending on the management efficiency and market situation.

The analyses is based on panel data regression techniques. The two key methods for estimating panel data set are the Fixed Effects (FE) Model and Random Effects (RE) model. The assumption for which method to adopt in data analyses for each model was analysed using the Hausman test.

The Hausman's specification test is that fixed and random effects models do not differ substantially. Hausman Test has the following hypothesis:

Ho: Random effects would be consistent and efficient

Hi: Fixed effects would be consistent and efficient

Decision Rule: At 0.05 level of significance, if the probability value of the chi-square is greater (less) than 0.05, the estimation based on the Random effects (Fixed effects) will be better.

The FEM is adopted when there is an unobserved heterogeneity in Nigerian industry which may lead to firm-specific unobserved characteristics that may be correlated with the explanatory variables in the model. Thus, the Fixed Effects (FE) can be used to control the unobserved effects (Wooldridge, 2002).The REM assumes that firm specific effects are not constant and the time effects are absent.

RESULTS AND DISCUSSION

Table 1: Analysis of the Variables to the Study

	PAT	STD	LTD	SC	RE
Mean	5775.44	16850.84	9571.960	22146.96	17589.44
Maximum	33723.00	121033.0	28232.00	87588.00	45653.00
Minimum	-2015.00	2.00	236.0000	1041.000	2535.000
Std. Dev.	9537.61	33668.00	9260.329	23059.11	16015.94
Skewness	1.71	1.96	0.550635	1.031304	0.648874
Kurtosis	4.70	5.52	2.003602	3.439469	1.634982
Jarque-Bera	15.1300	22.5554	2.2975	4.6327	3.6952
Probability	0.0001	0.0000	0.3170	0.0986	0.1576
Observations	50	50	50	50	50

The Descriptive statistics of the variables are shown on Table 1. The statistics include mean, standard deviation, Maximum, minimum, Skewness and Kurtosis, as well as the Jarque bera statistics. The descriptive statistics covered the 5 year time series and 10 number of cross-section making up 50 observations for data analysis.

The mean of the variables computed are PAT (₦5,77.44 million), STD (₦16,850.84 million), LTD (₦9,571.96 million), SC (₦22,146,96 million) and RE (₦17,589.44 million). The corresponding standard deviation for the variables are PAT (₦9,537.61 million), STD (₦33,668.00 million), LTD (₦9,260.329 million), SC (₦23,059.11 million) and RE (₦16,015.94 million). The results show that the standard deviation for PAT, STD and SC are relatively larger than their respective means, an indication of wide variation and instability of the series.

The Jarque-Bera Statistics and its corresponding probability values examined the normality of the distributions. The Jarque-Bera statistics are PAT = 5.4702 (p 0.0648), STD = 22.5554 (p 0.0000), LTD = 2.2975 (p 0.3170), SC = 4.6327 (p 0.0986) and RE = 3.6952 (p 0.1576). The null hypothesis is that the variables are normally distributed. Thus, p.value less than 0.05 rejects the null hypothesis while p.value greater than 0.05 accepts the null hypothesis. The p.values for STD is less than 0.05 (p < 0.05) thus we rejected the null hypothesis while that of PAT, LTD, SC and RE are greater than 0.05 (p > 0.05), and we accepted the null hypothesis. This means that PAT, LTD, SC and RE have normal distribution while STD does not have normal distribution.

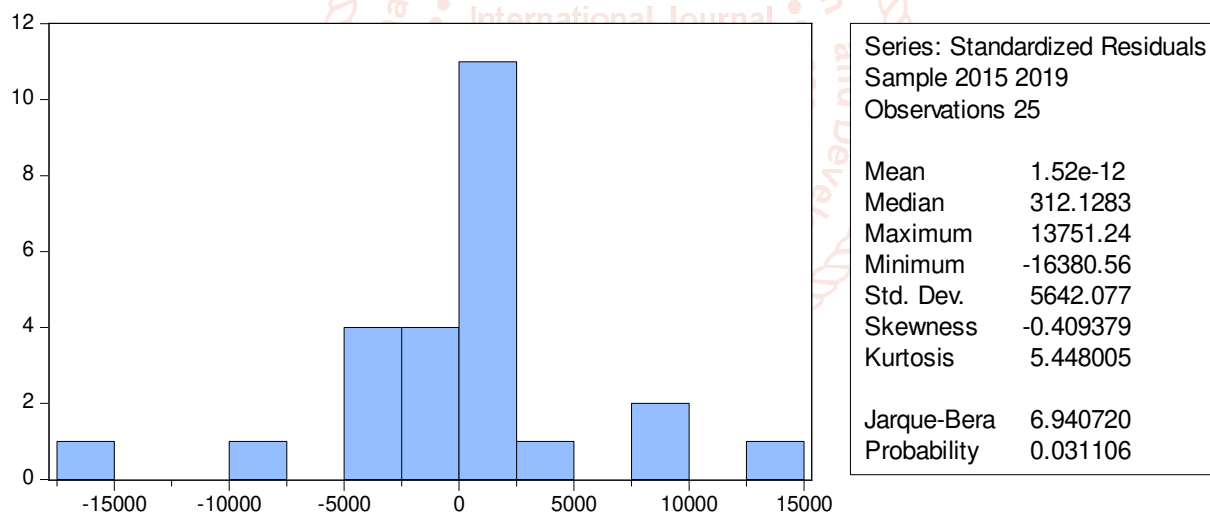


Figure 1: Normality Test of the Model

At the model level, the result on Figure 1 depicts the normal distribution which is used to determine whether the result from the specified model can be used for predictions. The Jarque bera statistics is 6.9407 which probability of 0.0311. Since the p.value is less than 0.05, the study rejected the null hypothesis that the variables are normally distributed. This shows that the variables as employed in the model do not have normal distribution and not fit for time serial prediction of future trends.

Table 2: Correlation analysis of the variables

	PAT	STD	LTD	SC	RE
PAT	1.0000				
STD	0.7399	1.0000			
LTD	0.6480	0.6220	1.0000		
SC	0.5738	0.3879	0.6565	1.0000	
RE	0.6877	0.7011	0.8085	0.6899	1.0000

Source: EView output.

The result on Table 6 is the correlation statistics of the variables. The result can be used to analysis the multicollinearity of the model. This occurs when two or more of the independent variables have correlation higher than 0.7.

From the results on Table 6, PAT has positive correlation with all the sources of funds including STD (0.7398), LTD (0.6480), SC (0.5738) and RE (0.6877). This means that as financial structure increases, profitability will tend to increase as well. However, the variables of the independent variable also have positive correlation: LTD and STD = 0.6220; SC and STD = 0.3879; RE and STD = 0.7011; SC and LTD = 0.6564; RE and LTD = 0.8085; and RE and SC = 0.6899. From the results however, only RE and SC has correlation value above 0.8 suggesting presence of co-linearity. Thus, the model is not suspected as having multicollinearity. It is therefore adjusted that the result from the model will be robust and reliable.

Model Estimation

Table 3: Panel regression result of the effect of financial structure on the consumer goods in Nigeria

Dependent Variable: PAT

Sample: 2015 2019

Periods included: 5

Cross-sections included: 10

Total panel (balanced) observations: 25

Independent Variables	Fixed Effect Model *Preferred			Random Effect Model		
	Coefficient	t-Statistic	Prob.	Coefficient	t-Statistic	Prob.
STD	0.1549	4.9925	0.0001	0.1548	2.8475	0.0100
LTD	0.1045	0.7568	0.4580	0.1045	0.4317	0.6706
SC	0.1119	2.4600	0.0231	0.1119	1.4031	0.1759
RE	0.0213	0.2294	0.8209	0.0213	0.1308	0.8972
C	-686.7706	-0.6137	0.5463	-686.7706	-0.3500	0.7300
Adjusted R-Squared	0.5801			0.5801		
F-statistic (Prob)	9.2879 (0.0002)			9.2879 (0.0000)		
Durbin Watson (DW)	2.8748			2.8748		
Hausman test	32.4807 (0.0000)					

The results in Table 3 the results of the least square models based on Fixed Effect and Random Effect. The most suitable model for the analyses was determined using the Hausman test. The result of the Hausman statistics is 32.4807 with 0.000 probability value. Since the p-value is less than 0.05 level of significance, the study rejected the null hypothesis that the random effect model is preferred. Thus the fixed effect model is adopted for the analysis. The study therefore adopted the Fixed Effect Model to explain the effect of financial structure variables on firm performance amongst consumer goods firms in Nigeria. The result indicates that only period effect will influence the outcome of the analysis.

The analyses is thus based on the fixed effect model: From the results, the Adjusted R-square is 0.58 which indicates that about 58% of the changes in firm financial performance can be explained by financial structure of the consumer goods firms in Nigeria. The F-statistics which explains the overall effect of financial structure variables (STD, LTD, SC and RE) on firm performance has a value of 9.2879 with 0.0002 level of probability. Since the p-value is less than 0.05 level of significance, the study concludes that financial structure mix of the consumer goods firms determines about 58% of the variations in the financial performance of quoted firms in the sector.

The results of the coefficient of independent variables are used to address the specific objectives of the study from the research questions and hypotheses testing. The coefficient of regression answered the research questions while the t-statistics tested the hypotheses at 0.05 level of significance.

The equation of the relationship from the model is given below:

$$PAT_{it} = -686.7706 + 0.1549STD^* + 0.1045LTD + 0.1119SC^{**} + 0.0213RE$$

**significant at 5%, *significant at 1%

Short term debt and PAT Nexus

The coefficient of STD is 0.1549. This indicate that short term debt has positive relationship with financial performance. This means that a unit change in short term debt may lead to 15% increase in financial performance. To answer the research question, the study posit that short term debt has 15% positive effect on the financial performance of consumer goods firms in Nigeria. The t-statistics and its corresponding p-values are 4.9925 and 0.0001, respectively. Since the p-value is less 0.05, the study reject the null hypothesis and thus posit that short term debt has significant effect on the financial performance of consumer goods firms in Nigeria.

Long term debt and PAT Nexus

The coefficient of LTC is 0.1045. This indicate that long term debt has positive relationship with financial performance. This means that a unit change in long term debt may lead to 10% increase in financial performance. To answer the research question, the study posit that long term debt has 10% positive effect on the financial performance of consumer goods firms in Nigeria. The t-statistics and its corresponding p-values are 0.7568 and 0.4580, respectively. Since the p-value is greater 0.05, the study reject the null hypothesis and thus posit that long term debt does not have significant effect on the financial performance of consumer goods firms in Nigeria.

Share capital and PAT Nexus

The coefficient of SC is 0.1119. This indicate that share capital has positive relationship with financial performance. This means that a unit change in share capital may lead to 11% increase in the financial performance of consumer goods firms in Nigeria. To answer the research question, the study posit that share capital has 11% positive effect on the financial performance of consumer goods firms in Nigeria. The t-statistics and its corresponding p-values are 2.4600 and 0.0231, respectively. Since the p-value is less 0.05, the study reject the null hypothesis and thus posit that share

capital has significant effect on financial performance of consumer goods firms in Nigeria.

Retained earnings and PAT Nexus

The coefficient of RE is 0.0213. This indicates that retained earnings has positive relationship with financial performance. This means that a unit change in retained earnings may lead to 21% increase in financial performance. To answer the research question, the study posits that retained earnings has 21% positive effect on the financial performance of consumer goods firms in Nigeria. The t-statistics and its corresponding p-values are 0.2294 and 0.8209, respectively. Since the p-value is greater than 0.05, the study rejects the null hypothesis and thus posits that retained earnings does not have significant effect on the financial performance of consumer goods firms in Nigeria.

DISCUSSIONS AND CONCLUSION

The study investigated the effect of financial structure on the financial performance of consumer goods firms in Nigeria. A panel model involving five firms and time series covering five years has been employed. The panel model selection determined by the Hausman test showed that only time periods influence the variables in the model which prompted the use of the Fixed Effect Model for the model estimation. The results have shown that all the sources of funds have positive effects on the financial performance of quoted consumer goods firms in Nigeria. This means that any source of capital employed by the firm yields positive performance to the firms in the consumer goods sector. Thus, a sound financing management is a veritable means to enhancing the financial performance of firms. All the sources of funds have been adjudged to have the potential to improve the financial performance of firms, however, in the consumer goods subsector of the Nigeria market, the share capital and short-term capital are significant crucial to improving the financial performance. Specifically, the short term capital is more statistically significant higher level of effect. This suggests that working capital management is ideal for consumer goods firms in Nigeria.

From the perspective of financial structure, the firms in the consumer goods sector can enhance their financial performance by using a financial mix with more short term debt and share capital. This study tends to suggest that the use of short term capital is more beneficial than other sources of funds. However, the share capital was found to be statistically significant and veritable for financing firm investments. Placing short term debt above share capital seems to negate the pecking order theory, which posits that owners' capital such as share capital retained earnings should most benefit to firms. In the instance of this study however, the use of short term sources of funds such as trade credit, overdraft, and delayed financial obligations like taxation are suitable for enhancing financial performance of the consumer goods firms.

All financial structure variables are positive to firm performance amongst the consumer goods firms in Nigeria. Hence, financing decision can be a veritable strategic management tool for enhancing the financial performance of corporate firms in Nigeria. A financial structure with high proportion of short term debt and share capital is the most sustainable financial mix for firms in the consumer goods

sector in Nigeria. Thus working capital management is an efficient tool for the consumer goods subsector in Nigeria.

Recommendations

The following recommendations are made for the study:

1. Firms in the consumer goods sector of Nigeria should employ share capital in long term business financing than the long term borrowing pattern as this will assist their financial performance.
2. Consumer goods firms should only use the long term debt in events of capital drought. This decision should be critically evaluated and efforts should be made to replace them with share capital by using the capital market window as soon as practicable.
3. Firms in the consumer goods sector should use the short term debt in managing their working capital needs, as this would boost their profitability.
4. Though retained earnings can be positively related with financial performance of firms, firms are advised to adopt wholesome distribution of dividend since retained earnings is not significantly impacting on firm performance.

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