



Assessment of Debt Structure on Financial Performance of Listed Consumer Goods Firms in Nigeria

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Abstract

This study addresses the impact of debt structure on the financial performance of listed consumer goods companies in Nigeria from 2012 to 2022. A sample size of twenty-seven (27) consumer goods firms listed on the Nigerian Stock Exchange as at 31st December, 2022, was drawn from a population of seven companies from the industry. This study adopted ordinary least square fixed effect multiple regression technique in analyzing the data extracted. Results from data analyzed showed that LTD has negative impact on ROA while STD has positive impact on ROA. Consequently, it is concluded in this study that STD were found to be positively, statistically and significantly impact on ROA while LTD on the other hand was found to be negatively, statistically and significantly related with ROA. Thus, the study recommends that listed consumer goods firms should, therefore, develop a favorable credit financing that will facilitate proper usage of long term debt and also the management of Nigerian listed consumer goods firms should source more of cheaper external short term financing in order to boost their financial performance in trying to combine external financing.

Keywords: Agency Theory, Capital Structure, Financial performance, Consumer goods Firms and Return on Asset

I. INTRODUCTION

One of the main decisions that need to be considered by firms is how to finance its day to day operations. The financial policies of firm often differ from one firm to the other Pandey, (2010). This is because the decision taken by a firm's management has a direct or indirect impact on the value of the companies. A well-developed financial policy is able to assist firms obtain funds and to finance its investment and operative needs at the same time. It is therefore very important for every firm to have access to finance for survival and maintain their financial performances that will increase the company's shareholder's wealth.

The business world will always require management of firms to formulate financial policy in an attempt to improve performance of the firms they run. This financial policy should have the ability and can take advantage of any opportunities to improve company performance.

Generally, firms will invest more on current assets and uses more current liabilities in its day to day operation (Song, 2005) compared to non-current assets and long term financing.

Long term debt is money that is owed to lenders for a period of more than one year from the date of current balance sheet. The study by EBaid (2009) found that there was no significant relationship between long term debt and return on assets. Long term debts are most preferable sources of debt financing among well-established corporate institution mostly by virtue of their asset base and collateral is a requirement many deposit taking financial institutions.

A great predicament for management and investors alike is whether there exists an optimal debt structure. The objective of all financing decisions is wealth maximization and the immediate way of measuring the quality of any financing decision is to examine the effect of such a decision on the firm's performance. Debt structure has for long been regarded as an important parameter from a financial economics standpoint since it is linked with a firm's ability to meet the demands of various stakeholders (Flannery, 2014). Firms can obtain funds from either external or internal sources. Internal sources of funds include retained earnings while external sources include loans from financial institutions, trade credit, issuance of loan stock, and issuance of equity shares. The creation of a debt structure, therefore, can influence the performance of a firm which, in turn, may influence the ability of a firm to make strategic choices (Flannery, 2014).

There is an argument that corporate firms carrying heavy short-term debt burdens (risk), long term loan portfolio and huge dividend payout ratio can pose a threat to firms' performance and the



economy, this has implication on the financing choice and performance of listed consumer good firms in Nigeria (Andow, 2016). Due to these peculiarities of Nigerian consumer goods sector, the study becomes imperative and worthy of further research on the impact of debt structure on the corporate performance using the sector as a domain.

Financial performance is a complex valuation of how well an organization achieves its financial targets by surmounting financial market constraints and investor performance expectations. Financial performance of consumer goods firms can be measured using proxies like return on asset, return on equity, liquidity, solvency, and sales growth and all these can be extracted from the financial statements and/or reports (Balagobei, 2017).

Furthermore, several other studies such as that of Salawu (2009); Chandrasekharan (2012); Lawal, Edwin, Monica Wanjiru and Adisa (2014); Chuke, Idam, Bamidele and Sergius (2016); Daniya, Adeyeye, Leonard and Yahaya (2016) are all conducted before 2018, as such some of the findings needs to be updated in view of the fact that the studies have been over taken by some changes. This time discrepancy creates a periodic gap which this study intends to fill by investigating the period of work from 2010 to 2019. This study would be different from previous studies in the sense that it will not only used very recent data but covers the period where most Consumer goods firms were affected negatively due to the recent economic recession that has affected Nigerian business climate from 2015 to 2017 fiscal year.

In order to realize the main purpose of this study, the specific objectives and hypotheses in a null form:

H₀₁: Long-term Debt has no significant impact on financial performance of listed consumer goods firms in Nigeria.

H₀₂: Short-term Debt has no significant impact on financial performance of listed consumer goods firms in Nigeria.

The study investigates the impact of debt structure on financial performance of the listed consumer goods firms in Nigeria. The explanatory variables are capital structure proxy by Long Term Debt and Short term Debt while the dependent variable is financial performance proxy by returns on assets (ROA). The study covers all consumer goods firms listed on the floor of the Nigerian Stock Market (NSE) as at 31st December, 2021. The study covers a period of ten years (2012-2022). This

period was selected due to the recent economic recession that has affected Nigerian business climate 2020 COVID 19 fiscal year in which Nigerian consumer goods Industry was negatively affected.

The result of this study will be of practical importance to Stakeholders in the consumer goods sector which includes the management, shareholders, investors, financial analyst as they will find this research resourceful in that it will help them in taking various decisions and judgment such as investment and financing.

II. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Conceptual Review

Financial performance is the result of harnessing the resources of an organization judiciously to achieve its desired goal (Nzioka, 2013) Different measures are used to gauge financial performance, in both finance and accounting like return on equity, return on assets, and capital employed etc (Shoukat and Nadeem, 2014). Return on Assets calculated by dividing a company's annual earnings by its total assets measures the performance of the firm and is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. The higher the ROA number, the better, because the company is earning more money on less investment (Brealey, 2012). This study will adopt return on asset as the proxy for firm's financial performance.

Review of Empirical studies

Bassey, Aream and Okpukpara (2014) examined the determinants of capital structure of agro-listed firms in Nigeria, using data generated from the financial statements of twenty eight (28) agro-allied firms. They found that profitability was positively related to long-term debt ratio. Barclay and Smith (2005) also assessed the association of between leverage and performance. They results have shown positive and significant relationship between the Long term debt and performance. While Abor, (2005) reported a significantly negative relationship between Long term debt and performance. However, Afrasiabi and Ahmadinia, (2011) in their research found no statistical significant relationship between Long term debt and performance of the firms.



Theoretical Framework

This study, adopts the agency cost theory has been used to underpin this study. The theory emanates from the principal-agent relationship (Jensen & Meckling, 1976). In order to moderate managerial behavior, debt financing can be used to mediate the conflict of interest which exists between shareholders and managers on one hand and also between shareholder and bondholders, on the other hand. The conflict of interest is mediated because managers get debt discipline which will cause them to align their goals to shareholders goals. Jensen and Meckling (1976) and Jensen and Ruback (1983) argue that, managers do not always pursue shareholders interest. To mitigate this problem, the leverage ratio should increase (Brealey, Myers & Allen, 2006). This will force the managers to invest in profitable ventures that will be of benefit to the shareholders.

III. Methodology

This section explains the methodology to be use for the study. It contained the research design, the method of data collection, method of data analysis and interpretation for the purpose of studying the relation between the variables under this study. It also discusses population of the study, sampling technique, sample size and, measurement of variables of the study, model specification, research instruments and techniques for the analysis of data, the statistical computer software for the analysis and robustness tests to improve validity of findings of the study.

Research Design:

Predicated on the objectives of this study, it was believed that this study is quantitative in nature. Therefore, the worldview will be post-positivism paradigm and research design is quasi experimental and the study approach is quantitative. Correlational research design was used to describe the statistical association between variables in the study. This study involves the measurement of three (3) independent variables to one dependent variable as well as examining the relationship between or among those variables., in order to study the impact of debt structure on the profitability of listed

consumer goods firms in Nigeria covering a ten years' period (2012-2022).

The design is considered appropriate for examining the relationship between the variables and the impact of one of the variable (independent variables) on another (dependent variable).

Population and Sample:

The population of this study is all the twenty-seven (27) consumer goods firms listed on the floor of Nigerian Stock Exchange as at 31st December, 2022. The sample size is all the firms in the population constituting 100% sample using Census sampling techniques. Therefore, all twenty-seven (27) consumer goods firms will be use as sample size of this study. Appendix 1.

Sources and Method of Data Collection

The study uses secondary data only, which was obtained from the financial statements of all the sampled firms of the study, Nigerian Stock Exchange Fact books and Nigerian Stock Exchange as at 31st December, 2022.

Techniques and Tool for Data Analysis

To investigation the impact of debt structure on the financial performance of listed consumer goods companies in Nigeria, Ordinary least square and fixed effect multiple regression will be adopted, as Panel data to account for individual heterogeneity of the sample firms. The assumptions of linearity, normality, stability of variance and independence of the observations will be observed and considered for the purpose of good conduct for this research work.

IV. SPECIFICATION OF MODEL

The model that examines the hypotheses of the study and is specified as follows:

$$ROA_{it} = \beta_0 + \beta_1 LTDR_{it} + \beta_2 STDR_{it} + \beta_3 FSIZ_{it} + \mu_{it}$$

Where; ROA: Return on Assets of firm at year t; LTDR = Long-term Debt of firm at year t; STDR = Short- term Debt of firm at year t; FSIZ: Firm Size of firm at year t. β_0 = Constant parameter/Intercept, β_1 - β_3 = Coefficients of independent variables, i = cross sectional data, t = time series data and μ = Error term.

Table 3.1 Variables Measurement

S/N	Variables	Variables Acronyms	Measurement	Sources
1	Return on Assets	ROA	Measured, as earnings before interest and tax divided by total assets	Rehman et.al. (2015)



2	Long term debt	LTDR	Measured as long term debts divided by total assets	Habib, Khan & Wazir (2016) and Shehu & Aitimon (2017)
3	Short term debt	STDR	Measured as short term debts divided by total assets	Baum et.al (2007) and Shehu & Aitimon (2017)
4	Firm Size	FSIZ	Total assets of company Natural Log	AL-Sraheen (2014)

Source: Researchers compilation, 2024.

V. Results and Discussion

Table 4.1: Descriptive Statistics of the variables (In Naira)

Variable	Mean	Std. Dev	Minimum	Maximum	Kurtosis	Skewness
ROA	0.1822	0.1699	-0.3051	0.5186	4.1666	-1.0158
LTDR	0.4356	0.1069	0.1819	0.6098	2.7486	-0.8534
STDR	0.5644	0.0670	0.3888	0.7465	4.1028	-0.4924
FSIZE	17.5950	1.1301	14.845	19.351	2.5343	-0.7233

SOURCE: Stata Output 2024

From the Table 4.1 above, ROA ranges from the minimum of -3.3051 to a maximum of 0.5186, while the mean is 0.1822. This shows that on average, the sampled firms got 18% from its operations. The standard deviation of 0.1699 signifies that the data depart from the mean value from both sides with 16.9% implying that the data is not widely dispersed from the mean. The skewness value of -1.0158 implies that the data is negatively skewed. While the observed data have a kurtosis of 4.166 which suggests that majority of the data are higher than the mean, as such, the data does not meet the Gaussian distribution requirement. Long term debt ratio LTDR has a mean of 0.4356 whilst the minimum and maximum are 0.1819 and 0.6098 respectively. The standard deviation of 0.1069 depicts that the data are centred on the mean area of the distribution, which depicts that there is not much dispersion away from the mean figure. Kurtosis value of 2.7486 suggests that most of the values are less than mean, and therefore, the data meet normal distribution assumption because it is within the ± 3 region benchmark. While the skewness value of -0.8534 shows that the data are negatively skewed. Furthermore, Short term debt ratio has a mean of 0.5644 while the minimum and maximum are 0.3888 and 0.7465 respectively. The standard deviation of 0.0670 depicts that the values are

centred on the mean region, which depict that there is not much dispersion away from the mean. The Coefficient of skewness -0.4924 shows that data is negatively skewed, while the kurtosis value of 4.1028 suggests that, majority of the data are higher than the mean more than expected under the assumptions of the normal distribution.

Lastly, Firm Size has a mean of 17.595, while minimum and maximum value of smallest firms over years had profit of 14.845 naira and the biggest firms also had profit of 19.351 respectively. This implies that, there were an average increase of 18% of firms 'performance. The deviation of 1.130 is a suggestion that there is much dispersion around the average size by approximately 113%. The coefficient of skewness -0.7233 shows that data is negatively skewed. While the kurtosis value of 2.534 suggests that the data meets the normal distribution requirement as most of the data is within the ± 3 region benchmark. The descriptive statistics analysis of the variables of the study shows the nature and extent of dispersion of the data, which suggests that majority of the data did not conform with the normal curve. But we are going to rely on the arguments put forward by Guas (1929) and Shoa (2003) that the abnormality of data should not affect the inferential statistic of regression.



VI. Correlation Matrix

Table 4.2: Correlation Matrix

Variables	ROA	LTDR	STDR	FSIZE
ROA	1.0000			
LTDR	-0.0457 (0.7072)	1.0000		
STDR	0.1889 (0.1173)	0.7205* (0.0000)	1.0000	
FSIZE	0.4368* (0.0002)	0.0891 (0.4632)	0.2034 (0.0912)	1.0000

P-Values in parentheses

Source: STATA Output (2024)

Table 4.2 shows that Long term debt ratio (LTDR) of the consumer goods firms is negatively associated to ROA with the coefficient value of -0.0457 and p-value of 0.7072 which is not significant at any level of significance. Also, Short term debt (STDR) is also positively correlated with the financial performance with a coefficient of 0.1889 and p-value of 0.1173 which is also not significant at any level of significance. The table further indicates a positive and strong association between firm size (FSIZE) and profitability, from correlation coefficient of 0.4368 at 1% level of significance (p-value 0.0002). Lastly, the association between independent variables themselves suggest being mild as all coefficients are below the threshold of 0.80 as suggested by Gujarati (2003). This point to the fact that the variables are well selected and they can fit in the same regression model because there is the absence of exact correlations among pairs of independent variables, which is a requirement for regression analysis.

VII. Presentation and Discussion of Regression Results

Table 4.3: Robustness Test Results

Variable	VIF	TV
STDR	2.17	0.461401
LTDR	2.09	0.477499
FSIZ	1.05	0.951751
Mean VIF	1.77	
Hetest Chi2		7.33
Prob>Chi2		0.0068
Hausman Chi2		2.67
Prob>Chi2		0.4459
LMTRE		1.10
Prob>Chi2		0.1467
R-Squared		0.2535
F-Statistics		5.73
F-Sig		0.0015

Source: STATA Output (2024)

Note: Ordinary least square regression (OLS) is adopted for this study based on the model result. The results from Table 4.3 indicate that F-Stat value of 5.73 with probability value of 0.0015 is significant at 1%, confirms that the study model is fitted with all the selected variables of this study. Also, coefficient of determination of R^2 which is at 25.35% indicates the percentage of total variations of endogenous variable that is explained by exogenous variables (LTDR, STDR and FSIZ). The statistical implication is that, 25% of the total variability in return on asset of the whole listed Nigerian consumer goods firms is caused by the collective effort of all the selected proxies of debt structure; while the remaining 73% is caused by factors outside the model of this study.

In addition, Multicollinearity and hetroskedasticity tests were conducted for the study in order to see their existence or otherwise. The multicollinearity test shows a variance inflation factor and tolerance values of less than 10 and 1 respectively, this signifies the absent of multicollinearity problems in the study. The hetroskedasticity test shows a Chi2 value of 7.33 and a probability value of 0.0068 that is 1% significant. Hence, confirming the existence of hetroskedasticity in the data used for the study. Because of the existence of hetroskedasticity associated with the data of the study, fixed and random effect models were tested while hausman specification test was employed for the selection of the model among the two to be adopted for the study. The hausman specification test reveals a Chi2 value of 2.67 with probability value of 0.4459 which is not significant at any level of significance; thus random effect model was selected for interpreting the study's result. Following the selection of random effect model, langrangian multiplier test was carried out to assist in selecting between random effect model and OLS, and the result reveals a Chi2 value of 1.10 with probability value of 0.1467 which is not



significant at any level significance, thus suggest that ordinary least square regression model is adopted for the study. However, in view of the presence of heteroskedasticity in our results, the

study used robust OLS (heteroskedasticity error corrected model). Therefore, the hypotheses testing of the study are presented in the following section.

Table 4.4. The Fixed Effect model Result

Variables	Coefficients	t-values	p-values
LTDR	-0.5256	-2.62	0.011
STDR	0.8790	2.11	0.039
FSIZE	0.0595	3.01	0.004
Intercept	-1.1879	-3.21	0.002

SOURCE: Stata Output 2024

The regression result also reveals that long term debt ratio (LTDR) has a t-value of -2.62, coefficient value of -0.5256 with a p-value of 0.011. This implies that long term debt ratio has negative effect on return on asset of Nigerian Pharmaceutical firms. This means that for every 1% increase in the long term debt, the return on asset will decrease 53%. This is surprising considering the fact that in practice, consumer goods companies will choose long-term financing that aligns internal incentives of firms' managers, such as potential gains obtained from renegotiations with debt-holders, to enhance their profitability (Lawrenz, 2013). Thus, the study rejects the null hypothesis 1 (H_{01}) which state that long term debt ratio has no significant impact on the ROA of listed consumer good firms in Nigeria. The outcome of this study is in line with the findings of Mohammad and Jafer (2012), Ebaid (2017) and Dwilaksono, (2016) but not consistence with that of Tan and Hamid (2014), Garcia-Terul & Martinez-Solano (2017) and Kumar et al. (2012).

The regression result in Table 4.5 revealed that short term debt ratio (STDR) has a t-statistic of 2.11, coefficient value of 0.8790 and significant at 5% (p-value of 0.039). This signifies that short term debt ratio has positive and significant impact on return on asset of listed consumer goods firms in Nigeria. This implies that for every additional 1unit increase in the amount invested in STDR, the return on asset of the sampled firms will increase by 88%. This is not surprising and meets the study's expectation, considering the fact that in reality, as firm's short term debt ratio increases, profitability is supposed to also increase because the firm will have more investment in cheap fund (Tan & Hamid, 2014). Owing to this, the study reject null hypothesis 2, which state that Short term debt has no significant impact on the profitability of listed consumer good firms in Nigeria. The finding from this study is in line with the study conducted by Tan & Hamid (2014), Khan (2012) and Zuraidah *et al.*

(2012) but contrary to the findings of Ebaid (2009), Mohammad and Jafer (2012) and Wali, Fatima, and Mehboob (2012).

Firm size (FSIZE) introduced as control variable shows that it has a significant positive impact on ROA at 1% level of significance. This is confirmed by the value of the beta of 0.0595 and a t value of 3.01 with a probability value of 0.004. Suggesting that firm size has a strong positive influence on the return on total assets of consumer goods firms listed in Nigeria, this point to a direct correlation linking firm size and profitability, one percent increase in firm size will likely cause a six percent increase in ROA. The finding is in line with the study of Marsh (2008) and Rajan and Zingales 1995.

8. Conclusion and Recommendation

The research investigated impact of debt structure on financial performance of listed consumer goods firms in Nigeria. The study concluded that long term debt ratio is negatively and significantly impacting on corporate performance of the listed consumer goods firms in Nigeria while short term debt ratio and firm size are positively and significantly impacting on corporate performance of the listed consumer goods firms in Nigeria.

Following the findings and conclusion from the study, the study makes the following recommendation that: In order for the listed consumer goods firms in Nigeria to improve on their profitability, managers should reduce their firm's long term debt financing since it impacted on their profitability negatively. It is, therefore, imperative for the listed pharmaceutical firms in Nigeria to develop a favorable credit policy that will facilitate proper usage of long term debt. Lastly, with a positive relationship between short term debt and financial performance, listed consumer good firms in Nigeria should source more of external cheap short term financing in order to boost its



profitability in combination to using internal financing.

This study is not without limitations. Some of the study limitation is that the study only made use of capital structure (Long term debt ratio and Short term debt ratio) variables. Therefore, the study suggests to future researchers who might be interested in this area to include retained earnings, differed payments etc. The study was also restricted to only one sector of the economy. Using more related sectors and larger population may give a different result. Notwithstanding this limitation, the viability of the methodology used and the validity of the finding remain unaffected.

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APPENDIX

LISTED CONSUMER GOODS FIRMS IN NIGERIAN STOCK EXCHANGE AS AT 31ST DEC. 2022.

S/N.	LISTED DIVPSSUMER GOODS FIRMS IN NIGERIA	REMARK
1	ELLAH AKES PLC	SELECTED
2	CHAMPION BREWERIES PLC	SELECTED
3	GOLDEN GUINEA BREWERIES PLC	SELECTED
4	GUINNESS NIGERIA PLC	SELECTED
5	INTERNATIONAL BREWERIES PLC	SELECTED
6	FT COCOA PROCESSOR PLC	SELECTED
7	NIGERIAN BREWERIES PLC	SELECTED
8	LIFE STOCK FEEDS PLC	SELECTED
9	7-UP BOTTLING COMPANY PLC	SELECTED
10	MCNICHOLS PLC	SELECTED
11	DANGOTE FLOUR MILLS PLC	SELECTED
12	DANGOTE SUGAR REFINERY PLC	SELECTED
13	FLOUR MILLS NIGERIA PLC	SELECTED
14	HONEYWELL FLOUR MILLS PLC	SELECTED
15	MORISON INDUSTRY PLC	SELECTED
16	MULTY-TREX INTERGRATED PLC	SELECTED



17	NASCO ALLIED INDUSTRIES PLC	SELECTED
18	NORTHERN NIGERIA FLOUR MILLS PLC	SELECTED
19	UNION DIDIVPS SALT PLC	SELECTED
20	OKOMU OIL PALM PLC	SELECTED
21	CADBURY NIGERIA PLC	SELECTED
22	NESTLE NIGERIA PLC	SELECTED
23	NIGERIAN ENAMELWARE PLC	SELECTED
24	VITAFOAM NIGERIA PLC	SELECTED
25	PRESCO PLC	SELECTED
26	P.Z CUSSONS NIGERIA PLC	SELECTED
27	UNILEVER NIGERIA PLC	SELECTED