



FINANCING STRUCTURE AND FINANCIAL PERFORMANCE OF SELECTED QUOTED CONSUMERS GOODS COMPANIES IN NIGERIA

**Fijabi Lateef Kolawole (Ph.D.)¹, Akenroye Chris (Ph.D.)²,
Akenroye Peace Oluwafeyikemi³, Lasisi Rasheed Oparinde (Ph.D.)⁴,
and Achori Emmanuel (Ph.D.)⁵.**

¹Accounting, School of Business Studies, Christopher University.
Email: kola.fijabi@gmail.com

²Bursary, Finance, Michael and Cecilia Ibru University.
Email: akenroyechris@gmail.com

³Accounting, Management Studies, Babcock University Niger.
Email: peaceakenroye@gmail.com

⁴Accounting, Management Studies Babcock University Nigeria.
Email: lorasheed@yahoo.com

⁵Accounting, Management Studies, Babcock University Nigeria.

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ABSTRACT: *This study investigated how financing structure affects the financial performance of consumer goods companies listed on the Nigerian Exchange Group (NGX). Ex-post facto research design was used, analyzing secondary data from the annual reports of 16 out of 21 sampled companies. Using Stata, descriptive and inferential statistical analyses were carried out. The results revealed varied impacts: Equity positively and significantly affected return on assets (ROA), had a negative but insignificant effect on price-earnings ratio (PER), and had a negative and significant effect on earnings per share (EPS). Short-term debt positively and significantly affected ROA and EPS, while its effect on PER was positive but insignificant. Long-term debt positively and significantly affected ROA, had an insignificant positive effect on PER, and a negative and significant effect on EPS. Overall, financing structure significantly impacted the financial performance of consumer goods companies in Nigeria. It was recommended that organizations carefully plan and monitor their financing structure to optimally leverage debt.*

KEYWORDS: Earnings per Share, Equity, Long-term Debt, PriceRatio, Return on assets.



INTRODUCTION

Organizations aim for perpetual operation and consistent growth through robust performance. Globally, businesses face intense competition for both market share and finance. This fierce rivalry for scarce equity and essential debt finance drives firms to seek seamless operations and superior financial performance. Consequently, strong performance is crucial for corporate survival in today's competitive global landscape (Akintoye et al., 2022).

Performance is simply the consistent achievement of set objectives. It's the measurable outcome of effectively implemented actions that hit desired targets (Grant, 2020). A key driver of healthy corporate growth, therefore, is a firm's funding strategies and the composition of its financing structure (Dinh & Pham, 2020; Ikpesu & Eboiyehi, 2018). Financing structure encompasses a company's mix of funds, including equity, retained earnings, debt, and cash flows from both internal and external sources (Ngoc et al., 2021; Prieto & Lee, 2019).

Businesses strategically use a financing structure to drive short-, medium-, and long-term corporate performance. Determining a company's financial health and growth involves financial managers deciding on the profit level needed to break even and achieve sustainable profit, enabling both organic and external growth (Akintoye, 2016). Ultimately, a firm's financial performance hinges on the strength and mix of its financing structure components.

Corporate survival, stability, and sustenance are propelled by financial performance strategies aimed at consistent, positive growth (Akenroye et al., 2022). This growth is comparatively measured year-to-year through trend analysis of a firm's incremental size or volume of results, such as sales, revenue, earnings, returns, and profits. This analysis helps determine operational health, competitive position, sustainable stability, and future survival. Thus, a firm's corporate performance plans typically integrate financing structure strategies to overcome financial constraints and foster growth, aligning with the pecking order theory (Adegbe & Akenronye, 2022).

In Nigeria, the size and quality of the financing structure are vital for the continued operation of consumer goods companies. Strong financial performance, enhanced by a sound financing structure, increases stakeholder wealth by enabling expansion, growth, and improved investor returns (Ramli et al., 2019; Setiadharm & Machali, 2017). Investor wealth growth is commonly measured by Return on Assets (ROA), Price Earnings Ratio (PER), and Earnings Per Share (EPS) (Ayuba et al., 2019; Chowdhury et al., 2019). Unfortunately, many Nigerian consumer goods companies struggle with performance growth due to significant challenges like infrastructure deficiency, excessive production costs, and funding gaps (Uremadu & Onyekachi, 2018). Inadequate funding hinders their survival, competitive strength, and development, leading to suboptimal corporate performance (Obafemi et al., 2021).

Indeed, the recent past has seen many Nigerian consumer goods companies experience suboptimal or stunted growth, with some even shutting down or relocating to other economies. For instance, Michelin and Dunlop tyre companies closed their Nigerian operations and moved to Ghana (Tang, 2018). More recently, Procter & Gamble (P&G), a company with over 30 years of presence in Nigeria, announced plans to shift to an import-only model, effectively dissolving its on-ground operations. This decision, driven by unfavorable macroeconomic conditions and an inability to secure additional funds, acutely highlights the severe challenges faced by consumer goods companies operating in Nigeria.



Given the critical importance of financing structure and the challenges faced by Nigerian consumer goods companies, this study investigates how financing structure impacts their financial performance. Specifically, our objectives are to:

- i. Evaluate the effect of financing structure on Return on Assets (ROA) of quoted consumer goods companies in Nigeria.
- ii. Assess the effect of financing structure on Price Earnings Ratio (PER) of quoted consumer goods companies in Nigeria.
- iii. Investigate the influence of financing structure on Earnings Per Share (EPS) of quoted consumer goods companies in Nigeria.

REVIEW OF LITERATURE

Conceptual Review

Financial Performance

Financial performance signifies a company's ability to achieve its short, medium, and long-term goals through the proficient and efficient deployment of its long-term assets and financing resources (Sachs et al., 2019). This enables consistent organic and external growth, providing steady rewards to internal stakeholders and progressive returns to finance providers (Akintoye, 2016). Management's duty is to efficiently operate the business, generating appreciable returns for investors (Shrotriya, 2019) by deploying their finance to maximize wealth. Various financial metrics can assess a firm's financial performance (Fatihudin, 2018), which broadly represents the fulfillment of its economic objectives.

Return on asset (ROA)

Return on Assets (ROA) is a key financial ratio that assesses how effectively a company uses its total assets to generate profit. You calculate it by dividing net income by total assets:

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

Essentially, ROA shows how efficient a company is at turning its assets into profits over a specific period (Choiriyah et al., 2021). Managers, analysts, and investors use ROA to gauge a firm's efficiency in deploying its assets to produce sustainable earnings.

A higher ROA indicates superior efficiency and productivity in asset management for profit generation, while a lower ROA suggests areas for improvement (Sukesti et al., 2021). Consequently, higher profits lead to an improved ROA, and losses result in a lower ROA, directly impacting investor returns (Phan & Tran, 2019).

Price Earnings Ratio (PER)

The Price-Earnings Ratio (PER) is a widely used financial metric that compares a company's current share price to its per-share earnings. It's a popular valuation tool indicating whether a stock is relatively expensive or cheap at its current market price. The PER is calculated by dividing the market price per share by the company's earnings per share:



PER = Market Price Per Share/Earnings Per Share

A high PER might suggest the stock is overvalued compared to its earnings, while a low PER could indicate the opposite. The utility of the PER often lies in its comparative application. Investors and analysts frequently use it to gauge stock valuation, determine if a stock is overvalued or undervalued, and benchmark it against its industry peers. Essentially, the PER reveals how much investors are willing to pay for a company's earnings, reflecting their expectations for future growth.

Earnings per Share (EPS)

Earnings Per Share (EPS) represents a company's net profit allocated to each outstanding common share (Fatihudin, 2018). This metric indicates how much money a company generates per share of its stock, making it a widely used measure for estimating corporate value and profitability. It's calculated by dividing annual income (after subtracting dividends) by the number of outstanding stock shares.

A higher EPS generally signals greater profit and value to investors. When comparing companies, it's beneficial to analyze EPS trends and benchmark them against competitors' earnings (Manokaran et al., 2018). A rising EPS can also indicate company growth, potentially leading to an increased stock price (Ichsani et al., 2021).

Financing structure

Today, businesses worldwide grapple with diverse internal and external performance challenges. These stem from environmental instabilities, fierce competitive rivalries, and critical funding gaps, all of which hinder sustainable performance and robust growth. A key strategic element for firms to achieve significant and competitive financial performance lies in their financing mix and funding strategies.

Financing structure refers to the blend of both equity and debt financing within a firm's total funding base (Chavali & Rosario, 2018). The optimal financing structure is the ideal combination of debt and equity that maximizes a company's market value while simultaneously minimizing its cost of finance (Uremadu & Onyekachi, 2019).

Equity Ratio

The Equity Ratio (EQTR) is a financial metric that reveals the proportion of a company's assets financed by equity rather than debt. It's calculated by dividing total equity by total assets:

$$\text{EQTR} = \text{Total Equity} / \text{Total Assets}$$

A higher EQTR signifies a less leveraged company, meaning it relies less on borrowed funds. Conversely, a low EQTR indicates a greater reliance on debt to finance assets (Affandi et al., 2019). This is why many conservative companies prefer to use shareholder equity over debt for asset acquisition. Investors often favour companies with higher equity ratios, viewing them as less risky because they demonstrate a strong ability to finance assets without accumulating substantial debt.

Therefore, a higher equity ratio strongly suggests effective financial management and a company's ability to meet its debt obligations promptly. It also signifies greater financial



strength overall and a superior long-term liquidity position compared to companies with lower equity ratios.

Long-term debt ratio

The long-term debt ratio is a financial leverage metric that shows how much of a company's assets are financed by long-term debt. This ratio highlights a company's financial leverage within its financing structure. One way to measure long-term debt is through the gearing ratio (GR), which assesses a company's financial leverage and indicates its financial stability (Hasanaj & Kuqi, 2019). Gearing itself is a broad measure of financial leverage, comparing borrowed funds to owner equity.

Another crucial financing structure metric is the debt-to-equity (DER) ratio. It illustrates the proportion of debt in a firm's total financing structure (Aggreh et al., 2022). Essentially, the DER shows how much a business uses debt to finance its assets relative to its shareholder equity. A high DER means a company relies more on borrowed finance than equity to fund operations, while a low DER indicates it uses more equity and less debt (Ayuba et al., 2019).

Short-Term Debt Ratio (STDR)

The short-term ratio (STR), often measured by the current ratio, assesses a company's immediate ability to meet its short-term financial obligations, such as paying bills. This is a crucial short-term liquidity ratio, indicating the sufficiency of a company's ability to cover its maturing financial commitments within 12 months. The current ratio is a general indicator of a firm's capacity to fulfill these short-term financial commitments (Hantono, 2018). It assumes that all current assets can be quickly converted to cash to settle current liabilities. A common recommendation is a current ratio of at least 2:1, meaning current assets should be at least twice the value of current liabilities. This provides a safety margin, as current assets might not realize their full value if hastily converted to cash.

Modern financial practices, including technological advancements in inventory management and aggressive financial strategies by large companies, have impacted balance sheets. For instance, better stock management reduces inventory values, while tightened control over trade debtors and increased trade creditors are common. Therefore, when analyzing a company's short-term liquidity, it's essential to examine its historical trends and compare it against other businesses in the same industry (Aslamiah et al., 2023). This provides a more accurate picture of the company's ability to fulfill its short-term obligations.

Theoretical Review

This study examines two key theories: Agency Theory and Pecking Order Theory. Their respective reviews are provided below.

Agency theory

Agency Theory, a cornerstone of modern corporate management, traces its roots back to Berle and Means (1932) in their classical documentary "The Modern Corporation & Private Property," though with early empirical work attributed to them (Berle & Means, 2017). Stephen Ross and Barry Mitnick later expanded on the theory in 1973 (Mitnick, 2019, 2021), but it was Michael Jensen and William Meckling who popularized it in 1976. Consequently, Jensen and Meckling (1976) are widely considered the primary proponents of modern agency theory.



The theory is fundamentally based on the business entity concept, which legally separates a company's management from its owners, creating a distinct governance structure (Macey, 2018). Agency theory arises when there's a separation of interests and potential divergence between a company's equity holders (the principals) and its corporate managers (the agents) in governing the business (Panda & Leepsa, 2017). In this arrangement, shareholders delegate authority to managers to make governance decisions for the company's smooth operation (Parker et al., 2018). However, this delegation inherently creates conflicts of interest in contemporary business governance (Lia, 2018), a point Jensen and Meckling (1976) extensively explored in their explanation of agency cost theory within corporate management.

The Pecking Order Theory

The Pecking Order Theory (POT), a significant theory of financing structure, was first proposed by Donaldson in 1961, based on his study of financing practices in large corporations. However, it was Myers and Majluf (1984) who popularized a modified version, presenting it as an alternative to the traditional trade-off theory. Unlike the trade-off theory, which incorporates business taxes and financial distress, the POT is rooted in the key assumption of information asymmetry.

According to the Pecking Order Theory, firms don't start by aiming for an optimal financing structure. Instead, they exhibit a clear preference for internal funding (like retained earnings or excess liquid assets) over external sources. This means managers follow a "sequential order" when choosing financing. Their first preference is always internal financing. If internal funds are insufficient, they then turn to external financing. Within external financing, their next preference is to issue debt instruments. Equity financing is considered the last resort when it is no longer feasible to issue more debt. This exact sequence—internal funds, then risky debt, and finally equity—was popularized by Myers and Majluf's (1984) pecking order model.

The Myers and Majluf, (1984) model further suggests that prospective investors tend to discount a firm's share price if managers opt for equity issuance over "riskless" debt. Consequently, firms often retain profits and build financial slack to avoid needing external finance in the future. Therefore, companies generally prefer internal over external financing. However, if internal funds are inadequate for investment opportunities, firms will seek external financing, selecting sources that minimize additional costs associated with asymmetric information.

Theoretical Framework

This study is underpinned by the Pecking Order Theory. This theory posits that companies prioritize internal funding (like retained earnings) to build financial reserves and avoid future external financing as much as possible. Consequently, firms prefer using internal sources of finance over external ones. However, if internal funds prove insufficient for investment opportunities, companies will seek external financing. In such cases, they carefully select external sources to minimize the additional costs associated with asymmetric information. Therefore, to profitably enhance corporate financial performance, utilizing internal funding before resorting to external debt financing becomes crucial and ultimately preferable.



Empirical Review

Numerous researchers have explored how various financing structure proxies impact financial performance, employing diverse methodologies. This section reviews relevant studies pertinent to our research objectives.

Financing structure and return on asset (ROA)

Research on the impact of financing structure on financial performance yields mixed results across various industries and regions. Anozie et al., 2023 examined Nigerian oil and gas companies (2011-2020), finding that long-term debt negatively and significantly influenced Return on Assets (ROA). Also, studies on the relationship between short-term debt and ROA present conflicting evidence. For instance, Satria (2022) and Sariat al. (2022) both found no significant effect of short-term debt on ROA.

Similarly, Gunawan et al (2022) concluded that the short-term debt ratio had no effect on ROA. Conversely, Damayanti & Chaerudin (2021) reported that short-term debt had a significant positive effect on ROA. More recently, Damayanti & Jayanti (2023) found a negative and insignificant effect of short-term debt on ROA. In the same vein, Hertina et al., (2021) also indicated no effect of short-term debt on ROA. However, Anozie et al. (2023) observed a **positive but insignificant impact** of short-term debt on ROA in the Nigerian oil and gas companies.

Furthermore, Fekadu & Agmas (2020) investigated Ethiopian construction companies (2011-2015) and found that financing structure, when measured by debt to equity and long-term debt to total assets, had a significant positive correlation with both Return on Equity (ROE) and ROA. However, when financing structure was measured by debt to total assets, it showed a significant negative correlation with both ROE and ROA for the sampled construction companies.

Financing Structure and Price Earnings Ratio (PER)

Previous studies that explore the relationship between financing structure and financial performance, particularly the Price-Earnings Ratio (PER), yield varied results. Sajeetha et al. (2023) studied 30 food, beverage, and tobacco companies listed on the Colombo Stock Exchange (2015-2019). Their findings indicated a significant positive influence on PER, but a negative and insignificant relationship between earnings per share and PER. Conversely, Nyaata (2009) investigated the relationship between financing structure and the PER of firms listed on the Nairobi Stock Exchange (2002-2007). The study found an extremely weak negative correlation, suggesting that an increase in financing structure would lead to only a very small decrease in the PER. Therefore, the study concluded there was no significant relationship between financing structure and the P/E ratio.

Hackbarth and Sun (2024) empirically reviewed the correlations between corporate investment and financing within a dynamic trade-off model. They found that the interaction between these two elements creates an inter-temporal effect, linking financial flexibility to the investment process. They concluded that firms often sub-optimally use debt to finance investments in order to preserve financial flexibility. Consequently, leverage dynamics are heavily dependent on the investment process structure, leading to significantly different target leverage ratios even among otherwise similar firms. This suggests companies forgo immediate cash flow benefits



from issuing debt early on to maintain the flexibility needed for future investment costs associated with debt.

Financing Structure and Earnings per Share (EPS)

Research on financing structure and firm performance yields mixed results. Efuntade et al. (2019), for example, found that financing structure indicators positively impacted the performance of 6 listed Nigerian conglomerates between 2010 and 2017. However, Narsaiah (2020) observed a significant negative relationship between financing structure components and financial performance (measured by ROA and EPS). Specifically, Narsaiah's study indicated that long-term and total debts decreased financial performance, while short-term debts increased it. Similarly, Rehan et al. (2020), in their study of 10 listed Pakistani cement companies (2011-2018), concluded that financing structure negatively affected earnings per share. In contrast, Rialdy (2019) found a significant positive effect among return on equity, price-earnings ratio, and financing structure in 9 Indonesian transport companies (2015-2018).

Further, Qayyum & Noreen (2019) conducted a comparative study of financing structure's influence on profitability in ten Islamic and conventional banks in Pakistan (2006-2016). The study revealed similar financing structures, except for bank size. While Return on Assets (ROA) was negatively correlated with financing structure for both bank types, Return on Equity (ROE) showed a positive correlation. Additionally, two explanatory variables were positively correlated, and two were negatively correlated with Earnings Per Share (EPS) for both Islamic and conventional banks. This study provides empirical support for both pecking order and trade-off theories in the Pakistani banking sector.

Gaps in Literature

Research on the specific relationship between financing structure and the financial performance proxies used in this study is limited. While some studies have explored financing structure's impact on performance in sectors like banking, insurance, agriculture, and ICT, there's a clear need for an industry-specific focus on the Nigerian consumer goods sector.

This study addresses that gap by examining the contemporary nature and type of impact financing structure has on the financial performance of listed consumer goods companies in Nigeria. Its unique contribution lies in determining the combined effect of identified financing structure components on financial performance within this specific industry. Furthermore, the ten-year period covered by this research also fills a notable gap in existing literature.

Hypotheses Development

Hypothesis One

Prior studies by Anozie et al. (2023) examined Nigerian oil and gas companies (2011-2020), finding that long-term debt negatively and significantly influenced Return on Assets (ROA). Also, studies by Gunawan et al. (2022), Satria (2022), and Sari et al., 2022 demonstrate that short-term debt has no significant debt on ROA. Conversely, Damayanti & Chaerudin, 2021 reported that short-term debt had a significant positive effect on ROA. Furthermore, Fekadu & Agmas (2020) showed that debt to equity and long-term debt to total assets had a significant positive correlation with ROA. However, when financing structure was measured by debt to total assets, it showed a significant negative correlation with ROA. Based on agency theory,



which posits that independent directors reduce agency costs by monitoring management. It is expected that a higher proportion of independent directors will reduce mismanagement of debt.

H₀₁ – Financing structure has no significant effect on return on asset (ROA)

Hypothesis Two

Previous studies (Sajeetha et al., 2023) showed a significant positive influence on PER, but a negative and insignificant relationship between earnings per share and PER.

Conversely, Nyaata (2009) investigated the relationship between financing structure and the PER of firms listed on the Nairobi Stock Exchange (2002-2007). The study found no significant relationship between financing structure and the P/E ratio

Based on pecking order theory, which posits that companies prioritize internal funding (like retained earnings) to build financial reserves and avoid future external financing as much as possible. However, if internal funds prove insufficient for investment opportunities, companies will seek external financing. In such cases, they carefully select external sources to minimize the additional costs associated with asymmetric information. Therefore, to profitably enhance corporate financial performance, utilizing internal funding before resorting to external debt financing becomes crucial and ultimately preferable.

H₀₂ – Financing structure has no significant effect on price-earnings ratio

Hypothesis Three

Research on financing structure and firm performance yields mixed results. Efuntade et al. (2019), for example, found that financing structure indicators positively impacted the performance of 6 listed Nigerian conglomerates between 2010 and 2017. However, Studies of Narsaiah, 2020, Rehan et al., 2020, observed a significant negative relationship between financing structure components and earnings per share. Pecking order theory posits that companies prioritize their funding as the need arises. Debt can affect a company's performance if debt does not generate appropriate revenue to repay itself.

H₀₃ – Financing structure has no significant effect on earnings per share

METHODOLOGY

Research Design

This study employed an *ex-post facto* research design, utilizing secondary data to investigate the effect of financing structure on financial performance within Nigeria's consumer goods sub-sector. This design is appropriate for this study because data have been prepared and audited by external auditors. There is no interference or manipulation with the data.

Population of the study

The population for this study comprised all 21 consumer goods companies listed on the Nigerian Exchange Group (NGX) as of December 31, 2022, according to the NSE Factbook and daily price list of Nigerian Exchange Group (NGX).



Sample size and Sampling techniques

Purposive sampling was adopted to select 16 listed firms from the population of consumer goods companies to serve as the sample representatives for this study. The sampling was based on the availability of variable information for each of the companies as of 31 December, 2022. This selection aimed to reflect the characteristics of the target population. The adequacy of information in their audited financial reports was a key factor in determining the final study period.

Methods of Data Collection

For this study, we relied exclusively on secondary data for analysis. We extracted this data primarily from the published Annual Reports and Accounts of the 16 selected consumer goods companies. Additional relevant data were sourced from the official archives of the Nigerian Exchange Group, the companies' official websites, and the internet. Our decision to use secondary data was based on the fact that the audited financial reports of these companies are already validated, ensuring the reliability of the data for our analysis.

Method of Data Analysis

Data were analysed using Stata statistical package. Descriptive statistics were obtained to identify mean, standard deviation, minimum and maximum of both dependent and independent variables. Correlation matrix was also generated to establish the relationship among the independent variables. Inferential statistics were generated to test the hypotheses through multiple regression and determine the relationship between the financing structure and financial performance of listed consumer goods companies in Nigeria.

Model Specification

This study used two groups of variables: independent and dependent, defined by the concepts in its hypotheses. These variables were used to evaluate how financing structure affected financial performance. The independent variable is Financing Structure (FS), measured by the combined proxies of Equity Ratio (EQTR), Short-Term Debt Ratio (STDR), and Long-Term Debt Ratio (LTDR). These were regressed against the aggregate data for all financial performance surrogates—Return on Assets (ROA), Price-Earnings Ratio (PER), and Earnings per Share (EPS)—to determine their effect.

The functional relationships of variables to be analyzed are as follows:

$$Y = f(X)$$

Where:

Y = dependent variables (Financial Performance)

X = independent variables (Financing structure)

Y is broken down with the following proxies:

$$Y = (y_1, y_2, y_3)$$



Where:

y_1 = Return on Asset (ROA)

y_2 = Price Earnings Ratio (PER)

y_3 = Earnings Per Share (EPS)

Similarly, the independent variable is denoted by X, with the following surrogates:

$X = (x_1, x_2, x_3)$

Where:

x_1 = Equity Ratio (EQTR)

x_2 = Short-Term Debt Ratio (STDR)

x_3 = Long-Term Debt Ratio (LTDR)

The functional relationships are:

$$y_{1it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \epsilon_{it} \dots \text{equation 1}$$

$$y_{2it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \epsilon_{it} \dots \text{equation 2}$$

$$y_{3it} = \beta_0 + \beta_1 x_{1it} + \beta_2 x_{2it} + \beta_3 x_{3it} + \epsilon_{it} \dots \text{equation 3}$$

Regression Models

$$ROA_{it} = \beta_0 + \beta_1 EQTR_{it} + \beta_2 STDR_{it} + \beta_3 LTDR_{it} + \epsilon_{it} \dots \text{Model 1}$$

$$PER_{it} = \beta_0 + \beta_1 EQTR_{it} + \beta_2 STDR_{it} + \beta_3 LTDR_{it} + \epsilon_{it} \dots \text{Model 2}$$

$$EPS_{it} = \beta_0 + \beta_1 EQTR_{it} + \beta_2 STDR_{it} + \beta_3 LTDR_{it} + \epsilon_{it} \dots \text{Model 3}$$

Where:

β_0 is the intercept;

β_1 - β_3 are the coefficients of the explanatory variables

ϵ_{it} is the error or disturbance term that absorbs the influence of omitted variables in the proxies used.



RESULTS

Data Presentation:

Table 1 Descriptive Statistics

Desc	Mean	Std Dev	Minimum	Maximum	Obs
ROA	5.26	7.96	-20.54	26.49	160
PER	103.02	302.37	0.46	1556.5	160
EPS	4.89	12.39	-5.74	61.77	160
EQTR	1.60	0.20	0.31	1.92	160
STDR	1.55	0.23	0.57	2.18	160
LTDR	14.93	11.54	0.68	58.14	160

Source: *Author's Computation 2024 STATA 14*

Table 1 presents the descriptive statistics for the study's variables. The dependent variables of Return on Assets (ROA), Price-Earnings Ratio (PER), and Earnings Per Share (EPS) exhibited mean values of 5.26, 103.02, and 4.89, respectively. Their corresponding standard deviations were 7.96, 302.37, and 12.39. Whereas the independent variables had mean values of 1.60, 1.55, and 14.93, with standard deviations of 0.20, 0.23, and 11.54, respectively. Their minimum values were 0.31, 0.57, and 0.68, while their maximum values reached 1.92, 2.18, and 58.14.

Table 2 Normality Test: Shapiro-Wilk

	W	V	Z	Prob.	Obs.
ROA	0.955	5.413	3.841	0.000	160
PER	0.347	80.222	9.974	0.000	160
EPS	0.440	51.578	8.810	0.000	160
EQTR	0.836	19.924	6.801	0.000	160
STDR	0.945	6.721	4.334	0.000	160
LTDR	0.885	14.078	6.016	0.000	160

Source: *Author's Computation 2024 STATA 14*

Table 2 displays the results of the Shapiro-Wilk normality test. For both dependent and independent variables, the probability value was 0.000, which is less than the 5% significance level. This indicates that none of the variables are normally distributed, leading to the use of Spearman rank correlation for analysis.

Table 3: Correlation Matrix – Spearman Correlation

	ROA	PER	EPS	EQTR	STDR	LTDR
ROA	1.00					
PER	0.38	1.00				
EPS	0.47	0.69	1.00			
EQTR	-0.08	-0.11	-0.15	1.00		
STDR	0.11	-0.02	0.08	-0.78	1.00	
LTDR	0.00	0.34	0.15	-0.37	-0.20	1.00

Source: *Author's Computation 2024 STATA 14*



Table 3 presents the Spearman rank correlation matrix, revealing the relationships between the independent and dependent variables. Equity ratio exhibits a negative correlation with return on assets (ROA), while both short-term debt ratio and long-term debt ratio show a positive correlation with ROA. Regarding earnings per share (EPS), the equity ratio and short-term debt ratio are negatively correlated. Conversely, the long-term debt ratio has a positive correlation with EPS. A key finding is that all correlation values between the dependent and independent variables are less than 0.09. This confirms the absence of a multicollinearity problem among the variables in this study.

Table 4 Regression Analyses for Models: Random Effect Model estimation

Model 1				Model 2			Model 3		
Variables	Coeff	z-value	p-value	Coeff	z-value	p-value	Coeff	z-value	p-value
Cons	30.95	-1.94	0.05	749.23	0.83	0.40	115.28	3.97	0.00
EQTR	11.26	2.03	0.04	-421.49	-1.29	0.19	-49.36	-4.25	0.00
STDR	10.36	2.45	0.01	6.39	0.03	0.97	17.32	-2.69	0.00
LTDR	0.14	2.13	0.003	1.71	0.42	0.67	0.20	-1.89	0.05
R ²	0.28			0.10			0.25		
Wald Chi ²	6.04			19.13			23.14		
Prob.	0.01			0.00			0.00		
VIF	3.55			3.55			3.58		
Breusch Pagan	152.60			524.58			256.38		
Random effect	0.00			0.00			0.00		
Hasman Test Chi ²	1.60			3.02			6.45		
Prob	0.65			0.38			0.09		
Heteroskedasticity									
Breusch Pagan/Cook									
Chi ²	0.12			149.49			99.99		
Prob.	2.39			0.00			0.00		
Wooldridge	23.33			627.49			553.99		
Prob	0.00			0.00			0.00		
Pearsan's test Chi ²	6.636			4.18			5.32		
Prob	0.00			0.00			0.00		

Source: Author's Computation 2024 STATA 14

Interpretation of Diagnostic Tests and Panel Regression Results

Table 4 presents the results of the panel regression models, along with various diagnostic tests conducted to ensure model appropriateness.

Multicollinearity Test

For all three models, the Variance Inflation Factor (VIF) was calculated to check for multicollinearity among variables. Model 1 showed a VIF of 3.55, Model 2 had 2.55, and Model 3 had 3.58. Since all these values are well below the threshold of 10, it was confirmed that there is no multicollinearity problem in any of the models.



Random vs. Pooled/Fixed Effects Tests

The Breusch and Pagan Lagrangian Multiplier test for random effects yielded a p-value of 0.00 for all three models. This indicates that the random effects model is more appropriate than the pooled OLS model, as the p-value is less than the 5% significance level.

Furthermore, the Hausman test was conducted to determine the most appropriate model between random and fixed effects. Model 1's *p-value* was 0.65, Model 2's was 0.38, and Model 3's was 0.09. Since all these *p-values* are greater than the 5% significance level, the random effects model was deemed appropriate for all three models.

Model 1: Financing Structure and Return on Assets (ROA)

Following the Hausman test, a random effects estimation model was utilized for Model 1.

Post-estimation tests revealed the following:

- Heteroskedasticity: The Breusch-Pagan / Cook-Weisberg test showed a p-value of 0.12, indicating no significant heteroskedasticity problem.
- Cross-sectional Dependence: The Pesaran test yielded a p-value of 0.00, suggesting the presence of cross-sectional dependence.
- Autocorrelation: The Wooldridge test for autocorrelation also had a p-value of 0.00, indicating a panel autocorrelation problem.

To address the issues of cross-sectional dependence and panel autocorrelation, panel-corrected standard errors (PCSE) were applied.

Results of PCSE Estimation for Model 1:

- Equity Ratio (EQTR): The coefficient was 11.26 (p-value = 0.04), indicating a positive and significant effect on ROA. A one-unit increase in equity ratio leads to an 11.26% increase in ROA for quoted consumer goods companies in Nigeria.
- Short-Term Debt Ratio (STDR): The coefficient was 10.36 (p-value = 0.01), showing a positive and significant effect on ROA. A one-unit increase in short-term debt ratio results in a 10.36% increase in ROA.
- Long-Term Debt Ratio (LTDR): The coefficient was 0.14 (p-value = 0.03), suggesting a positive and significant effect on ROA. A one-unit increase in long-term debt ratio leads to a 0.14% increase in ROA.

Summary of Model 1: All independent variables (equity ratio, short-term debt ratio, and long-term debt ratio) have a positive and significant effect on Return on Assets (ROA). The R-squared (R^2) value of 0.28 signifies that the independent variables explain approximately 28% of the variation in ROA, with other factors accounting for the remaining 72%. The Wald test ($\chi^2 = 6.04$, p-value = 0.01), being less than 5% significance, confirms the overall good fit of the model.

**Model 2: Financing Structure and Price Earnings Ratio (PER)**

For Model 2, the random effects estimation model was also employed based on the Hausman test outcome. Post-estimation tests revealed:

- Heteroskedasticity: The Breusch-Pagan / Cook-Weisberg test yielded a p-value of 0.00, indicating a heteroskedasticity problem.
- Cross-sectional Dependence: The Pearsan's test had a p-value of 0.00, suggesting cross-sectional dependence.
- Autocorrelation: The Wooldridge test for autocorrelation also showed a p-value of 0.00, indicating a panel autocorrelation problem.

Consequently, panel-corrected standard errors (PCSE) were used to correct for heteroskedasticity, cross-sectional dependence, and panel autocorrelation.

Results of PCSE Estimation for Model 2:

- Equity Ratio (EQTR): The coefficient was -421.49 (p-value = 0.19), indicating a negative and insignificant effect on PER.
- Short-Term Debt Ratio (STDR): The coefficient was 6.39 (p-value = 0.97), implying a positive but insignificant effect on PER.
- Long-Term Debt Ratio (LTDR): The coefficient was 1.71 (p-value = 0.67), suggesting a positive but insignificant effect on PER.

Summary of Model 2: Contrary to Model 1, all independent variables (equity ratio, short-term debt ratio, and long-term debt ratio) have an insignificant effect on the Price-Earnings Ratio (PER). The R-squared (R^2) of 0.10 indicates that the independent variables explain only about 10% of the changes in PER, with other factors accounting for 90%. The Wald test ($\chi^2 = 19.13$, p-value = 0.00), less than 5% significance, confirms the overall good fit of the model.

Model 3: Financing Structure and Earnings per Share (EPS)

Similar to the previous models, the random effects estimation model was selected for Model 3 based on the Hausman test. Post-estimation tests showed:

- Heteroskedasticity: The Breusch-Pagan / Cook-Weisberg test yielded a p-value of 0.00, indicating a heteroskedasticity problem.
- Cross-sectional Dependence: The Pesaran test had a p-value of 0.00, suggesting cross-sectional dependence.
- Autocorrelation: The Wooldridge test for autocorrelation also showed a p-value of 0.00, indicating a panel autocorrelation problem.

Therefore, panel-corrected standard errors (PCSE) were applied to correct for these identified issues.



Results of PCSE Estimation for Model 3

- Equity Ratio (EQTR): The coefficient was -49.36 (p-value = 0.00), indicating a negative and significant effect on EPS. A one-unit increase in equity ratio results in a 49.36% decrease in EPS for quoted consumer goods companies in Nigeria.
- Short-Term Debt Ratio (STDR): The coefficient was 17.32 (p-value = 0.00), implying a positive and significant effect on EPS. A one-unit increase in short-term debt ratio leads to a 17.32% increase in EPS.
- Long-Term Debt Ratio (LTDR): The coefficient was -0.20 (p-value = 0.05), suggesting a negative and significant effect on EPS.

Summary of Model 3: All independent variables (equity ratio, short-term debt ratio, and long-term debt ratio) have a negative effect on Earnings Per Share (EPS). The R-squared (R^2) of 0.25 indicates that the independent variables explain approximately 25% of the changes in EPS, with other factors explaining 75%. The Wald test ($\chi^2 = 23.14$, p-value = 0.00), less than 5% significance, confirms the overall good fit of the model.

Testing of Hypotheses and Discussion of Findings

Test of Hypothesis One (H_{01}): Financing Structure and Return on Assets

As presented in Table 4, Model 1 demonstrates F-statistics of 6.636 and a p-value of 0.00 which revealed that financing structure has a positive and significant effect on return on assets of listed consumer goods companies in Nigeria. Consequently, the null hypothesis (H_0) was rejected, and the alternate hypothesis (H_{A1}) was accepted, concluding that there is a significant effect of financing structure on the return on assets of quoted consumer goods companies in Nigeria.

Test of Hypothesis Two (H_{02}): Financing and Price-Earnings Ratio

Table 4 shows an F-statistic of 4.18 and a p-value of 0.00 demonstrating a positive and significant effect on price-earnings ratio. Therefore, the null hypothesis (H_{02}) was rejected, which states that financing structure does not significantly affect the price-earnings ratio of quoted consumer goods companies in Nigeria; hence, the alternate hypothesis was accepted.

Test of Hypothesis Three (H_{03}): Financing Structure and Earnings Per Share

As presented in Table 4, Model 3 has an F-statistic of 5.32 and a p-value of 0.00 which indicates that financing structure has a positive and significant effect on earnings per share. Therefore, the null hypothesis (H_{03}) was rejected the alternate hypothesis (H_{A3}) was accepted, concluding that there is a significant effect of financing structure on the earnings per share of quoted consumer goods companies in Nigeria.



DISCUSSION OF FINDINGS

Our analysis across the three models yielded insightful findings regarding the impact of financing structure on financial performance.

Model 1: Financing Structure and Return on Assets

The findings from Model 1 indicate that the equity ratio has a positive and significant effect on return on assets. This aligns with the conclusions of Prabowo et al. (2023), although it contrasts with Satria (2022), who reported a negative and significant effect. Similarly, our study found a significant effect of short-term debt on return on assets, a result supported by Anozie et al., 2023, but not by Sari et al., 2022. Furthermore, long-term debt also demonstrated a significant effect on return on assets, consistent with Anozie et al. (2023) but divergent from Sari et al. (2022). This model is supported by agency theory, which posits that independent directors provide appropriate monitoring of management activities to ensure judicious use of the company's resources.

Model 2: Financing Structure and Price-Earnings Ratio

For Model 2, our results revealed that all financing structure variables—equity ratio, short-term debt, and long-term debt—have an insignificant effect on the price-earnings ratio. The long-term debt and short-term debt have positive effect on the price-earnings ratio. This finding is corroborated by Nyaata (2009). This was supported by pecking order theory, which posits that there is an order in which management requests for external finance to improve its performance. The market price relationship with the company's earnings determines the price earnings ratio.

Model 3: Financing Structure and Earnings per Share

Finally, in Model 3, it was observed that financing structure has a significant effect on earnings per share. This outcome is consistent with the research of Efuntade et al. (2019). However, it contradicts Sivathaasan & Rathika, 2013, whose study indicated an insignificant effect of financing structure on earnings per share. Studies by Narsaiah (2020) and Rehan et al. (2020) observed a significant negative relationship between financing structure components and earnings per share. This was also supported by pecking order theory, which allows companies to introduce debts where equity is not sufficient to generate business for the company. Debt is supplied at a cost to improve the company's performance. Earnings per share is an indicator of a company's performance and what every unit of an investment generates for an investor.

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Key Findings

Our empirical analysis revealed the following significant findings:

1. Financing structure variables positively and significantly impact return on assets.
2. Financing structure variables have an insignificant effect on the price-earnings ratio.
3. Financing structure variables significantly affect earnings per share.



CONCLUSION

Our empirical analysis reveals that the **financing structure variables** examined in this study significantly affect a firm's **return on assets** and **earnings per share**, but not its **price-earnings ratio**. This suggests that the composition of a company's capital significantly influences its ability to invest in assets, directly impacting the returns generated from those assets. Ultimately, these asset returns play a crucial role in determining the company's total earnings and, consequently, its earnings per share.

RECOMMENDATIONS

Based on our findings, we offer the following recommendations:

1. **Strategic Financing Structure Planning:** Organizations should prioritize the meticulous planning and ongoing monitoring of their financing structure, engaging financial experts to ensure optimal returns on investment.
2. **Establishment of Financing Structure Policies:** Companies should implement clear policies that define appropriate ratios or percentages for their financing structure. This will help prevent adverse effects on overall company performance.
3. **Development of Adaptive Financing Structure Models:** Given the dynamic nature of external factors, organizations should develop flexible and adaptive financing structure models. These models should be periodically reviewed and adjusted to leverage advantages and mitigate risks over time.

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