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Effect Of Debt Financing On Financial Performance Of Listed Consumer And Industrial Goods Firms In Nigeria

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Abstract

Given the important role that debts currently play in constructing the financial structure of large companies, the notion of debt financing has gained significant prominence in recent years. The comparison between debt financing and financial performance in the debt finance literature is quite clear and implies that debt financing may have an impact on financial performance. To evaluate the effects of debt financing on financial performance of listed Consumer and Industrial goods firms in Nigeria, the data was gathered from the audited annual reports of twenty-four consumer and industrial goods firms listed in the Nigerian Exchange Group for the period of 2013 to 2022. Panel regression results showed that debt financing has a significant impact on the financial performance of listed consumer and industrial goods firms. Thus, Nigerian listed consumer and industrial products companies must weigh the advantages of debt against the dangers of bankruptcy in order to maintain the traditional benefit of leverage ratios.

Keywords: Debt financing, Long term debt, Net profit margin.

Introduction

The importance of a firm's capital structure decision as it concerns growing a company's value cannot be overemphasized. Capital structure is the mix of debt and equity used by a company in financing its business operations. It is very critical for the survival of any firm and the financial managers of such firms are responsible for the capital structure mix decision (Ohaka et al., 2020). This decision is concerned with the

determination of the optimal capital structure that an organisation should hold. The decision is of utmost importance not only because of the need to maximize the returns of the investors and owner's equity, but also because of the potentially great impact such a decision has on an organization's ability to deal with its competitive business environment (Alslehat, & Altahtamouni, 2014). Generally, increase in leverage results in an increase in return and risk (Tally, 2014). However, the use of leverage is often associated with two different possible outcomes either positive such as maximizing the profit or negative such as minimizing the profits. Financing leverage is determined by profitability, corporate size, liquidity, cash flows, tax and dividend policy (Rajin, 2012).

The Nigerian financial system is characterized by underdeveloped debt market; most firms' external debt finance is majorly short-term finance and places greater reliance on banks or other specialized financial institutions that provide most of the external funds, imposing extra burdens at very exorbitant cost on the firms. It is interesting to differentiate short-term debt, long-term debt and total debt effects since they have different risk and return profiles (Zuraidah et al., 2012).

Every corporate organization exists to maximize its shareholders wealth. This operational philosophy depended on internal factors of the firms such as their financing decisions and external factors such as monetary and macroeconomic variables. Financial leverage is traditionally viewed as the use debt components in the capital structure, through the use of fixed income securities, such as loans and bonds. It has a significant influence on the company's ability to achieve its ultimate goals, such as maximizing its shareholders wealth (Taani,2012).

The role played by consumer goods firms in the Nigerian economy cannot be over emphasized. Their contribution to the creation of employment and reduction in poverty has also been acknowledged by the Nigerian government at various levels (Otunba, 2019). The main objective of the study is to evaluate the effects of debt financing on financial performance of listed Consumer and Industrial goods firms in Nigeria.

Various researchers have examined the effect of debt financing on financial performance with contradicting results. Studies by Ohaka et al. (2020) and Orji et al. (2021) found positive and significant relationships between debt financing and financial performance. On the other hand, studies by Usman (2019) Nwude et al. (2016) Chukwuma et al. (2023) discovered negative relationships between debt financing and financial performance.

Notably, there is a lack of research that focuses especially on Nigerian listed consumer and industrial goods companies. Most studies have examined different industries leaving a gap in understanding how debt financing influences the financial performance of firms in these specific sectors in Nigeria. For example, a study by Odebode and Yunisa (2020)

explored Debt Financing and Financial Performance of Manufacturing Firms in Nigeria, but did not specifically delve into the consumer and industrial goods sectors.

This research was motivated by the need to close this gap and offer insightful information about the impact of debt financing on the financial performance of Nigerian listed consumer and industrial goods companies. With their substantial contributions to GDP and employment, these industries are essential to the Nigerian economy. Understanding the relationship between debt financing and financial performance in these sectors is essential for optimizing capital structure decisions, enhancing firm value, and supporting sustainable growth.

The study aims to offer beneficial knowledge for investors, financial managers, and policymakers in Nigeria by examining this link. Financial managers can gain knowledge about the optimum debt levels for companies operating in these sectors and investors can make better investment choices by knowing more about the ways in which debt financing affects financial performance. Policymakers can also use the findings to develop policies that promote the growth and competitiveness of consumer and industrial goods firms in Nigeria.

Research Hypothesis

In order to direct the direct flow of this study, the following hypothesis were formulated in line with objectives of the study

H_{01} Long-Term Debt to Total Asset ratio has no effect on Net Profit Margin of listed Consumer and Industrial goods firms in Nigeria.

H_{02} Total Debt to Total Asset ratio has no effect on Net Profit Margin of listed Consumer and Industrial goods firms in Nigeria.

H_{03} Total Debt to Total Equity ratio does not influence Net Profit Margin of listed Consumer and Industrial goods firms in Nigeria.

H_{04} Current ratio does not affect Net Profit Margin of listed Consumer and Industrial goods firms in Nigeria.

Literature Review

This section conducts a review of the literature on effects of debt financing on financial performance of listed manufacturing firms in Nigeria, as established by other scholars. Specifically, this study enumerates the conceptual review/ framework, theoretical framework on which it is grounded before presenting empirical literature by various scholars seeking to establish the relationship between the two variables. The chapter further identify the gap in existing literature.

Debt Financing

The life blood of any business is said to be finance, without which businesses cannot carry out activities needed to achieve its objective.

Debt financing is one of financing options available to companies for running and growing its business concern. Optimal debt capital of firms has always been a crucial issue in analysing its financial performance vis-a-vis other factors relating to its growth such as the firm's size, its sales growth, the asset structure and tangibility. Debt financing involves an action that is bound by time for the repayment of debt and the debt's interest at an agreed upon end of the period. It occurs when firms borrow needed cash resulting to debt to a lender or an investor for a short-term or for long-term capital needs of a firm. Debt financing is the use of external funds to fund the activities of an organization to increase the profitability of the organization; it is the proportion of debt in the capital Structure (Racheal et al., 2017). According to Miller (2019), when debt financing is resorted to by a firm, it means that the firm gets its cash needs from additional business or sources, resulting to debt acquired to the "original lender for either short-term needs or long-term capital expenditure." It is a policy that borrowing money involves having a consideration that the total amount borrowed with the interest will be paid back in the future. The rate of interest charged on the amount borrowed shows the risk level undertaken by the lender for providing the needed funds. In debt financing, both ownership and control are not given up at any time. And the interests paid are tax deductive.

Long Term Debt to Total Asset Ratio

The percentage of the company's resources that are owed to third parties and are due over a period longer than one financial year is known as long-term debt (Abeywardhana, 2017). The ratio of all long-term debt to all of the entity's assets is used to calculate long-term debt. The ratio displays the percentage of assets that are long-term debt financed. The ratio of non-current liabilities to the total assets of the company during an accounting period is used in this study to calculate the long-term debt to total asset ratio. This is how the formula is stated:

$$\frac{Non - Current\ Liabilities}{Total\ Assets}$$

Total Debt to Total Asset Ratio

Total debts to total assets is a ratio that expresses how much of the company's total funds came from outside sources or creditors as a ratio of the assets of the firm (Nazir et al.,2021). The quantity of debt used to finance assets is determined by the debt to asset ratio (Olaoye et al., 2020). One financial measure that's utilized to assess the relationship between a company's assets and external financing is the debt to asset ratio (Aziz & Abbas, 2019). In this study, debt to asset ratio is measured as the ratio of total liabilities to total assets of the firm in an accounting period. The formula is expressed thus:

$$\frac{Total\ Liabilites}{Total\ Aseets}$$

Total Debt to Total Equity Ratio

According to Putri et al. (2022) the ratio used to evaluate debt to equity is the debt equity ratio. How much of a company's assets are financed by debt, or how much of the company uses debt instead of its own capital, is determined by looking at the debt equity ratio (Lasrya et al., 2021). The quantity of money provided by borrowers (creditors) to business owners can be determined with the help of this ratio (Suyono et al., 2020). In this study, debt to equity ratio is measured as the ratio of total liabilities to total equity of the firm in an accounting period. The formula is expressed thus:

$$\frac{Total\ Liabilities}{Total\ Equity}$$

Current Ratio

A ratio called the current ratio is used to assess a company's capacity to fulfill short-term commitments and debt that is coming due shortly when taken as a whole. The most widely utilized ratio to assess a company's capacity to fulfill its immediate obligations is the current ratio. An excessively high current ratio suggests that there are idle cash, whereas a low current ratio suggests that the company is having liquidity issues. This ratio is a form of measuring the security level of a company (Kasmir, 2018). The current ratio is measured as the ratio of current liabilities to current assets of the firm in an accounting period. The formula is expressed thus:

$$\frac{Current\ Liabilities}{Current\ Asstes}$$

Financial Performance

Financial performance is the business outcome and results attained over a given time period that contribute to illustrating the general financial health of a business. It serves as a gauge of how successfully a company is using its resources to achieve wealth maximization, the objective set forth by its shareholders (Farah et al, 2016). The most important indicator of a company's profitability is its performance (Matar & Eneizan, 2018). According to Naz, Ijaz, and Naqvi (2016), financial performance primarily displays the business sector's outcome as well as the overall financial health of the business sector throughout a specific time period. They went on to say that it demonstrates how well a company uses its resources to maximize the wealth and profitability of the shareholders. It is the task that needs to be completed in any human organization. Performance is a corporate accomplishment that needs to be properly and sufficiently assessed. Performance is the firm's assessment of how well it succeeded in achieving its goals (Denis, 2017).

Net Profit Margin

Net Profit Margin (NPM) measures the ability of an organization to turn a profit on sales. Net Profit Margin measures the percentage of each dollar of sales that remains over after all costs and charges, including interest, taxes, and dividends on preferred stock, have been subtracted (Markonah & Cahaya, 2023). In the book Fundamentals of Financial Management (Eugene et al., 2018), it is stated that Net Profit Margin is a ratio or measuring tool that the company uses to determine its Net Income in terms of currency value from sales. The ratio of the company's profit after taxes to its revenue during an accounting period is known as the net profit margin. This is how the formula is stated:

$$\frac{Profit\ After\ Tax}{Revenue}$$

Theoretical Review

There are several theoretical paradigms which highlight the influence of debt financing on financial performance, such as the Agency Cost Theory (ACT), Trade-Off Theory (TOT), Pecking Order Theory (POT) and Market Timing Theory (MTT). These are discussed as follows.

Agency Cost Theory (ACT)

Jensen and Meckling (1976) built on the work Miller and Modigliani (1958) by developing agency costs theory. They said that when there is a separation of ownership and management, there is a principal-agent conflict. They assume that agency problems arise when shareholders (principals) and managers (agents) have divergent objectives or conflict of interest. That is, managers not accommodating the interests of shareholders. According to Morri and Beretta (2008), shareholders may be required to pay agency expenses in order to keep an eye on management and rein in their excesses. Agency costs are expenses incurred to support whether managers continually operate in accordance with the terms of the company's shareholder contract (Jensen & Mackling, 1976). For an optimal debt level in the capital structure to be achieved, agency costs arising from the different interests of managers, debt holders and shareholders should be minimized (Jensen & Mackling, 1976).

Trade-Off Theory (TOT)

Advanced by Modigiliani and Miller (1963), trade-off theory presents a modified position of the Modigliani and Miller 1958 proposition. According to the authors, the trade-off theory postulates that the optimal level of debt is attained at a point where the marginal benefit of debt finance is equal to the marginal cost of debt finance. The trade-off theory refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. Trade-off theory permits the existence of the bankruptcy cost. It says that there are expenses associated with financing with debt (the costs of

bankruptcy and financial misery associated with debt), as well as benefits associated with it (the tax benefit). When deciding how much debt and equity to utilize for financing, a company that is optimizing its overall value will consider this trade-off because the marginal benefit of additional debt grows as debt increases while the marginal cost increases.

Pecking Order Theory (POT)

The theory of Pecking order was first suggested by Donaldson (1961) and was modified by Myers and Majluf (1984). The theory states that while choosing their sources of funding, businesses adhere to a specific hierarchy. The agency dilemma that resulted from information asymmetry between managers, shareholders, and potential investors spurred the theory's proponents (Serrasqueiro & Caetano, 2015). The market may undervalue the company's new shares in comparison to the value that would be determined if all stakeholders had equal access to the manager's information regarding the firm's investment opportunities due to information asymmetry (Abor & Biekpe, 2009). This would imply that when an entity issues shares to new investors; the old shareholders are disadvantaged by transferring share value from old to new shareholders. Hence, firms choose to finance their operation using their retained earnings first, if these are not sufficient, they use debt and lastly, equity (Javier & Juan, 2012).

Market Timing Theory (MTT)

One of the newest theories about capital structure is the market timing theory. In 2002, Baker and Wurgler presented their interpretation of market timing theory, building on the research of Modigliani and Miller (1958). According to their idea, businesses often repurchase shares at lower prices while issuing equity when their market-to-book value exceeds market value (Baker & Wurgler, 2002). According to Modigliani and Miller's 1958 theory of efficient markets, investors are logical, hence there is no benefit to alternating between different types of capital. Inefficient markets, however, can benefit companies from market timing at the expense of illogical shareholders who enter and quit at the "wrong" moment. As a result, the business may take advantage of brief variations in its market-to-book ratio to raise funds more affordably via equity rather than debt (Baker & Wurgler, 2002).

Empirical Review

Several researchers have carried out a study on the effects of debt financing on financial performance in both Nigeria and other parts of the world. These studies have generated different results and conclusions. Some of the empirical evidence on this subject is stated below

Debt Financing and Net Profit Margin of Quoted Consumer Goods Manufacturing Firms in Nigeria were studied by Akani (2024). All twenty consumer goods manufacturing companies quoted on the Nigerian

Exchange Group as of December 31, 2022, made up the study's population. Ten (10) Nigerian consumer products manufacturing companies made up the sample size for this study, which used convenience sampling procedures. Panel least squares regression analysis was then used to examine the data. The study's conclusions demonstrated that the net profit margin of listed consumer goods manufacturing companies in Nigeria was positively and significantly impacted by the long-term, short-term, and total debt ratios.

Ajose et al (2023) study investigated the effect of debt financing and financial stability of listed deposit money banks in Nigeria. Purposive and convenient sampling technique was employed and 10 banks were used as sample size. Data were obtained from the annual published reports of the sampled banks for a period of 10 years (2012-2021). Panel Least Square (PLS) approach was used to analyse the data. The study found that Short Term Debt (STD), Asset Tangibility (AT), and Debt to Equity Ratio (DER) had a significant and positive effect on net profit margin.

Lidovolo and Atieno (2023) examined the Effect of Long-Term Debt Financing on Profitability of Commercial Airlines in Kenya. The study's target demographic consisted of all commercial airlines in Kenya. The census-sampling technique was used for this research. Thus, every commercial airline was used to establish the effect of long-term debt management on profitability and secondary data was obtained from their audited financial statements. The study employed a panel data regression analysis model. The study results showed that long-term debt financing has a negative and statistically significant effect on the net profit margin of commercial airlines in Kenya.

Nazir et al., (2021) researched on Debt financing and firm performance: empirical evidence from the Pakistan Stock Exchange. The study used pooled ordinary least squares regression to analyse a cross-sectional sample of 30 Pakistani companies operating in the automobile, cement and sugar sectors during 2013–2017. The results show that short term debt to total assets and long-term debt to total assets both impact net profit margin negatively, as their coefficients are negative, but short-term debt to total assets is insignificant. The long-term debt to total assets coefficient is significant at the 5% level.

The 2015 study by Aransiola and Oluwadetan examined the relationship between capital structure and profitability of quoted manufacturing companies in Nigeria that are publicly traded. The study demonstrated a negative correlation between total debt to total assets ratio and financial performance. Akaji et al. (2021) investigated the impact of debt-equity financing on the productivity of Nigerian companies. Equity financing (EF) and debt equity financing (DEF) were used to quantify the two forms of debt equity financing while Return on equity (ROE) was utilized to measure business performance in the study. Two hypotheses were developed to help guide the investigation, and parameter estimations

were statistically evaluated using the OLS Regression Model. The NSE Factbook, Annual Reports, and Accounts provided the study's data, and an Ex Post Facto approach was used in the investigation. The study discovered that Debt Equity Financing has a significant and positive impact on the performance of Nigerian enterprises at the 5% level of significance.

Ahmed & Siddiqui (2019) examined the impact of Debt Financing on Performance: Evidence from Textile Sector of Pakistan. The goal was to look at how capital structure, particularly debt financing, affected the performance of 70 Pakistani textile enterprises. From 2010 to 2015, panel data from 70 textile firms in Pakistan were analyzed, and data was gathered via the State Bank of Pakistan's Financial Position Analysis statement. The Fixed Effects Model was utilized to ascertain the correlation between capital expenditure (Debt to Total Assets, Long Debt to Assets, and Short-Term Debt) and company performance (Return on Assets). The results show that the debt-to-asset ratio and return on assets are positively correlated.

The Effect of Debt Financing on Firm Performance: A Study on Pakistan's Non-Financial Sector was examined by Aziz and Abbas (2019). This study looks at the relationship between various forms of debt financing and a company's performance across 14 industries in Pakistan. A total of nine years' worth of secondary data regarding fourteen distinct sectors of the Pakistan Stock Exchange are gathered (2006 to 2014). The study's findings showed that debt financing has a negative and significant effect on Pakistani businesses' performance. The study's findings indicate that both short- and long-term debt have a negative impact on performance.

Hayati et al. (2022) look into the relationship between debt financing and manufacturing firm performance. For the years 2016–2020, twenty-one companies that were listed on the Indonesia Stock Exchange were used as a sample. Panel data regression was used for analysis after purposeful sampling was used to gather data. The information provided here indicates that short-term debt ratio (STDA) and return on assets (ROA) have no correlation, but there is a statistically significant negative correlation between the LTDA and ROA as well as a positive correlation between ROA and sales growth (GROWTH). Similarly, the STDA has no influence on the net profit margin (NPM), while the LTDA has a negative and statistically significant effect on the NPM.

Sovaniski (2020) researched on Capital Structure Impact on Financial Performance of Kurdistan Manufacturing Firms. The goal of the study was to determine how capital structure affected Kurdistan's manufacturing companies' financial performance. Multiple linear regression was used, return on equity as dependent variable and liquidity, size and growth as the independent variables. These variables were utilized to determine whether capital structure choices have an impact on Kurdistan's manufacturing companies' profitability. The regression equations' results

showed a negative relationship between total debt, size, and financial performance, indicating that using more debt or assets is associated with a decline in performance from a financial standpoint.

Using secondary data collected from the Nigerian stock exchange, Umobong and Ayebanengiyefa (2019) analysed the capital structure composition and financial performance of food and beverage companies. As proxies for capital structure composition, total debt to total assets, long term debt to total assets and debt to equity were employed while earnings yield, price-earnings ratio, and Tobin Q proxied Financial Performance. The data was analyzed using the Hausmann test to choose the model that fit the data the best. The findings indicate that there is a statistically significant and positive correlation between the ratio of short-term debt to total assets and Tobin Q, as well as a statistically significant and positive correlation between ratio of long-term debt to total assets and Tobin Q. There exists a strong positive correlation between the yield on investment and the debt to equity ratio. The P/E ratio was found to be negatively correlated with long-term debt, while the debt-to-equity ratio was found to be negatively correlated with Tobin Q.

Empirical evidence by Ahmed and Siddiqui (2019) indicates existence of positive nexus between debt financing and financial performance. The impact of debt-equity financing on the productivity of Nigerian companies was also studied by Akaji et al. (2021) who also found a positive relationship between debt financing and profitability. However, studies by Aziz and Abbas (2019) on The Effect of Debt Financing on Firm Performance: A Study on Pakistan's Non-Financial Sector and Sovaniski (2020) on Capital Structure Impact on Financial Performance of Kurdistan Manufacturing Firms both found negative relationships between debt financing and profitability. Based on this, it was asserted that debt financing has mixed relationship with financial performance which can either be positive or negative. This inconsistence in literature provide inconclusive evidence and calls for further studies.

Methodology

In this chapter, the researcher explains the methodology use in the study. It handles the research design, population of the study, sample size, method of data collection, method of data analysis and model specification.

Research Design

Ex-post facto research design is used in the study. Ex-post facto research design is deemed the most acceptable research design, according to Kramer (2020), because the study used secondary data that was already in existence and had been approved by the right authorities without any manipulation.

Population of the study

For purposes of this study, population of interest consisted of thirty-four (34) consumer and industrial goods firms listed by Nigerian Exchange Group (NGX) between 2013 and 2022. The 34-listed consumer and industrial goods firms are shown in below table 3.1

Table 3.1: Number of firms in each sector

S/N	Sector	Number of Firms
1	Consumer Goods	21
2	Industrial Goods	13
	Total	34

Source: Nigerian Exchange Group, 2024

Sample size and sampling techniques

The census-sampling technique was used for this research. The technique was preferred in this study since it provides more accurate and exact information as no unit is left out hence objective results. Census is a collection of information on all units in the population. Census ensures accurate information is collected from the entire population (Cooper & Schindler, 2017). Thus, the study's sample size comprised of 24 selected firms listed in the Nigerian Exchange Group (NGX). The justification for selected 24 firms is that their annual financial statements were available and accessible over the sample period between 2013 and 2022. In addition, firms that had less than 10 years' annual financial statements records were excluded to enhance comparability and allow for valid generalizations. Thus, the final sample had 24 listed manufacturing firms as shown in below table 3.2

Table 3.2: Number of firms sampled in each sector

S/N	Sector	Number of Firms
1	Consumer Goods	19
2	Industrial Goods	13
	Total	24

Source: Nigerian Exchange Group, 2024

Sources and Method of Data Collection

The study used secondary source of data that were extracted from annual published reports submitted to the NSE for a period of 10 years (2013-2022). Secondary data usage provides systematic, empirical and unambiguous answers to research questions, since such data were independently provided by statutory auditors in audited financial statements. These reports are reliable, verifiable, and less prone to

research manipulation. The published annual financial reports were obtained from the annual reports.

Model specification

Given the nature of the variables, the study employed multiple linear regression analysis to examine the link between debt financing and financial performance of listed Consumer and Industrial goods firms in Nigeria. The study specifies the following model to depict the relationship between debt financing variable represented by total debt to total assets ratio, total debt to total equity ratio, current ration and long-term debt to total assets ratio; and financial performance represented by net profit margin (NPM) with control variable represented by firm size:

$NPMit = \beta 0 + \beta 1\ (LTDTA)it + \beta 2\ (TDTA)it + \beta 3\ (TDTE)it + \beta 4\ (CR)it + \beta 5\ (FS)it\ \varepsilon it$------- (i)

Where:

NPM = Net Profit Margin

LTDTA = Long Term Debt to Total Assets

TDTA = Total Debt to Total Assets

TDTE = Total Debt to Total Equity

CR= Current Ratio

FS= Firm Size

B0 = A constant

β1, β2, β3 = regression Coefficients

ε = Error term

Method of data analysis

The data collected was processed and cleaned using Microsoft Excel before exporting to STATA Version 13. Panel data was analyzed using descriptive and inferential statistics. Descriptive statistics comprised mean, minimum value, maximum value and standard deviation, and inferential statistics included panel linear regression, correlation analysis, robustness test and the Hausman test for a fixed and random effect. The study employed a panel data regression analysis model. The Hausman specification test established that random effect model was appropriate for the study. Findings were presented in tables and figures.

Diagnostics/ post estimate test

Several diagnostic tests such as the tests of normality and multicollinearity tests were carried out. To ensure the data collected is free from biasness and one variable data is not related to another variable data, the study conducted a multicollinearity test. Multicollinearity is

detected when two variables have same linear relation. The variance of Inflation is used to test multicollinearity. VIF ranging from 1 to 10 indicated absent of multicollinearity while presence of multicollinearity is detected when VIF is more than 10 or less than 1. When the test fails you should standardize the continuous variables by choosing on a standardization method on the regression dialog box. For instance, you may choose variable centering approach (Cohen et al., 2013). The test for normality was conducted using the skewness and kurtosis statistics. The data in a series does exhibit a normal distribution if it has skewness that is the range of -0.8 to +0.8, and a kurtosis within the range of - 3 to +3. (Ghasemi & Zahediasl, 2012).

Data presentation and analyses of result

This section contains the data that were used to perform the analysis. Data regarding the impact of debt financing on the financial performance of Nigerian listed consumer and industrial goods companies is being collected. However, debt financing (an independent variable) is measured by the ratios of long- term debt to total assets, total debt to total assets, current ratio and total debt to total equity. Also, financial performance (a dependent variable) is measured by Net profit margin. The empirical data came from listed manufacturing companies' yearly published reports that were filed with the NSE over a ten-year period (2013–2022).

Descriptive Statistics

Descriptive analyses were carried out to determine the distribution of the data used in this analysis. Table 4.1 shows the descriptive result of the variables that were used.

Table 4.1 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ID	240	12.5	6.936653	1	24
YEARS	240	2017.5	2.878284	2013	2022
NPM	240	.0588554	.1894979	-1.2154	.8641
LTDTA	240	.2034987	.3996101	.0069	.34387
TDTA	240	1.090338	2.786892	.0323	19.5571
TDTE	240	1.683403	3.901653	-2.9828	47.923
CR	240	6.041821	45.02579	.0058	525.6642
FS	240	3.30482	.0006286	3.3038	3.3058

Research Computation Using STATA 13

The table above describes the features and characteristics of the study's variables in terms of Net Profit Margin (NPM), Long Term Debt to Total Assets (LTDTA), Total Debt to Total Assets, Total debt over total equity (TDTE), Current ratio (CR) and Firm size (FS). The corresponding variables

have average scores of 0.05, 0.20, 1.09, 1.68, 6.04, and 3.30. According to the study, the firm size had the greatest minimum attained of 3.3 and the lowest maximum obtained of 3.3, but the current ratio had the highest maximum reached of 525.66.

Ultimately, the findings of the standard deviation analysis show that the firm size is 0.00062, indicating a low level of variability in their values as suggested by the low standard deviation. On the other hand, the standard deviations of NPM, LTDTA, TDTA, TDTE, and CR are moderate at 0.18, 0.39, 2.78, 3.90, and 45.02.

Correlation Matrix

To investigate the correlation between variables, the correlation matrix for the variables is provided in Table 4.2 below.

Table 4.2: Correlation Matrix

VAR.	NPM	LTDTA	TDTA	TDTE	CR	FS
NPM	1.0000					
LTDTA	-0.0450	1.0000				
TDTA	-0.0792	0.9001	1.0000			
TDTE	-0.3267	-0.0980	-0.1161	1.0000		
CR	0.0322	-0.0171	-0.0412	-0.0385	1.0000	
FS	-0.1300	-0.0795	-0.0021	-0.1378	-0.1386	1.0000

Research computation Using STATA 13

The correlation matrix between the dependent and independent variables is shown in the above table. The negative correlation between LTDTA, TDTA, TDTE, FS, and NPM is well shown in this table. The coefficients of -0.0450, -0.0792, -0.3267, and -0.1300 demonstrate this. On the other hand, CR displays a positive correlation with a coefficient of 0.0322 with NPM.

Regression Analysis

The study utilised pooled Ordinary Least Squares (OLS), Fixed Effects (FE), and Random Effects (RE) regression models to examine the effect of four debt financing components Long-Term Debt to Total Asset ratio (LTDTA), Total Debt to Total asset ratio (TDTA), Total Debt to Total Equity ratio (TDTE) and Current Ratio (CR) on firm performance as assessed by Net Profit Margin (NPM), while accounting for Firm Size (FS).

Table 4.3: Regression Analysis Result (Random Effects)

Variables	Coefficients	Std. Err	z-stat	P-value
Constant	84.65861	43.14521	1.96	0.050
LTDTA	.32234	.0493691	0.65	0.514

TDTA	-.0112991	.0097849	-1.15	0.248
TDTE	-.0132204	.0023059	-5.73	0.000
CR	.0000785	.0001954	0.40	0.688
FS	-25.59057	13.05518	-1.96	0.050
R^2				0.1653
W-Stat				44.41
P-sig				0.0000

Research computation Using STATA 13

The above table depicts the random effect regression result. Thus, the regression line of NPM = -84.65 +0.32 -0.01 -0.01 +0.0000785 -25.59. LTDTA indicates that, NPM of quoted consumer and industrial goods companies in Nigeria increases by 32% for every 1% increase in LTDTA, while CR shows that, NPM of quoted consumer and industrial goods companies in Nigeria increases by 0.007% for every 1% increase in current ratio. However, TDTA, TDTE and FS decreases by 1%, 1% and 25.59% for every 1% increase in Net Profit Margin respectively. The respective p-values indicate significant effect of only TDTE and FS on NPM, given by 0.000 and 0.050 respectively. However, insignificant effects of LTDTA, TDTA, and CR are found.

The R-Squared of 0.1653 indicates that about 16% of variation in NPM of quoted consumer and industrial goods companies in Nigeria can be explained by LTDTA, TDTA, CR, TDTE, and FS The remaining 84% is captured by the disturbance or error term. The W-statistics of 44.41 with its p-value of 0.0000 indicates fitness of the model.

Long Term Debt to Total Assets and Net Profit Margin

The respective p-values indicate positive insignificant effect of LTDTA on NPM with coefficient of 32% and p-value of 0.514. These findings are constant with those of Abdulrahman (2017) who researched on The Relationship between Solvency Ratios and Profitability Ratios: Analytical Study in Food Industrial Companies listed in Amman Bursa. The study population consisted of all food industrial companies listed in Amman Bursa during the period (2012-2014), which were 11 companies. Statistical Package for Social Sciences was used to answer study questions and test their hypotheses using Simple Pearson correlation coefficient. The study found an insignificant negative relationship between long-term debt/assets ratio and net profit margin.

Alternatively, Nirajini & Priya, (2013) researched on Impact of Capital Structure on Financial Performance of the Listed Trading Companies in Sri Lanka. In this study, an attempt was made to analyze the Capital structure and financial performance during 2006 to 2010 financial year of listed trading companies in Sri Lanka. For the purpose of this study, the data was extracted from the annual reports of sample companies. Correlation and

multiple regression analysis are used for analysis. The results revealed there is a significant relationship between long-term debt ratio and net profit margin.

Total Debt to Total Asset and Net Profit Margin

The p-value of 0.248 and coefficient of -1% indicates a negative insignificant effect of TDTA on NPM. These findings concur with that of Sudirman et al., (2020) who examined The Effect of Current Ratio and Debt to Asset Ratio on Net Profit Margin and Stock Prices: A Study of Basic Industry and Chemicals Companies. The research subjects were companies in the basic industry and chemicals sector, which were listed on the Indonesia Stock Exchange in the period of 2015 to 2019 with a total of 60 companies. The study used secondary data derived from the monthly statistics published by the Indonesia Stock Exchange and the analysis technique of path analysis equation models in the time series data. They found that DAR variable has a negative and not significant effect on Net Profit Margin.

Whereas Abdulrahman (2017) who researched on The Relationship between Solvency Ratios and Profitability Ratios: Analytical Study in Food Industrial Companies listed in Amman Bursa. The study population consisted of all food industrial companies listed in Amman Bursa during the period (2012-2014), which were 11 companies. Statistical Package for Social Sciences was used to answer study questions and test their hypotheses using Simple Pearson correlation coefficient. The study found a negative significant relationship between debt to asset ratio and net profit margin.

Total Debt to Total Equity and Net Profit Margin

Based on the p-value of 0.0000 and coefficient of -0.13%, the relationship between ROE and TDTE is negative and significant. The results align with the study conducted by Abdulrahman (2017), who examined The Relationship between Solvency Ratios and Profitability Ratios: Analytical Study in Food Industrial Companies listed in Amman Bursa. The 11 companies that were listed as food industrial companies in Amman Bursa between 2012 and 2014 made up the study population. The study questions were addressed and the Simple Pearson correlation coefficient was utilized to assess the hypotheses using the Statistical Package for Social Sciences. The findings showed that the debt-to-equity ratio and NPM had a negative significant relationship.

However, a contradictory result was found by Cecilia Riau Ekowati et al., (2023) who studied The Influence of Capital Expenditure, Total Debt to Total Assets, Total Debt to Equity and Long-Term Debt to Total Equity on Profitability in Manufacturing Companies Listed on The Indonesian Stock Exchange In 2014-2018. The research was an explanatory research that explains the causality relationship using secondary data with the population of all Manufacturing Companies Listed on the Indonesia Stock

Exchange in 2014-2018. The analytical method used was linear regression panel data. The results showed that Total Debt to Equity has no significant effect on the profitability of manufacturing companies listed on the Indonesian Stock Exchange.

Current Ratio and Net Profit Margin

The p-value and coefficient of 0.688 and .0000785 respectively shows a positive insignificant relationship between CR and NPM. The outcome is consistent with that of Warrad (2014) who researched on The Effect of Current ration on Jordanian real estate sector's Net profit margin. The study aimed to investigate the effect of liquidity through current raio on profitability expressed by net profit margin. A simple linear regression used to cover a period from 2005 to 2008 to test the extent that current ratio effect net profit margin among Jordanian real estate sector. The study found an insignificant positive effect of current ratio on net profit margin.

The result contradicts Sudirman et al.'s (2020) study who researched on The Effect of Current Ratio and Debt to Asset Ratio on Net Profit Margin and Stock Prices: A Study of Basic Industry and Chemicals Companies, contradicts this finding. The research subjects were 60 firms that were listed on the Indonesia Stock Exchange between 2015 and 2019 and belonged to the basic industry and chemicals sector. The research employed secondary data obtained from the Indonesia Stock Exchange's monthly statistics route and analysis technique of path analysis equation models in the time series data. The study concluded that the Current Ratio (CR) variable has a positive and significant effect on the Net Profit Margin (NPM)

Firm Size and Net Profit Margin

The respective p-values indicate negative significant effect of FS on NPM with coefficient of -25% and P-value of 0.050. This finding agrees with Azhar and Ahmed (2019) who researched on the Relationship between firm size and profitability: Investigation from textile sector of Pakistan. In this study, data from top 10 listed textile firms on Pakistan Stock Exchange from 2012 to 2016 was used. Empirical analysis was conducted using correlation methods and regression analysis and the findings revealed a negative and significant relationship between log of total assets and net profit ratio.

The findings however do not agree with Niresh and Velnampy (2014) who researched on Firm Size and Profitability: A study of listed manufacturing firms in Sri Lanka. In this study, data of 15 companies which were active in Colombo Stock Exchange (CSE) between the years 2008-2012 has been used. Correlation and regression methods have been used for empirical analysis and they revealed a positive insignificant relationship between firm size and net profit margin.

Diagnostic Test

The following pre-diagnostic tests were done to select the appropriate regression model as shown in table 4.3 (Random Effect Regression Model)

Hausman Test

These is used to select between Fixed and Random Effect. If the P-value is significant at 0.05, fixed effect will be selected or else random effect is selected. Table 4.4 shows result of Hausman specification test, which guides to choose between the fixed and the random effects model. Fixed effect model is chosen when the probability value is less than the t-value of 0.05. Given the P-value of 0.8474 in table 4.4 which is more than the t-value of 0.05, the random effect model is chosen.

Table 4.4: Hausman Specification Test

Variable	Fixed	Random	Var(Diff.)	Prob.
LTDTA	.0304541	.032234	-.0017799	.0056403
TDTA	-.0107599	-.0112991	.0005392	.006381
TDTE	.0129558	-.0132204	.0002646	.0003447
CR	.0000849	.0000785	6.45e-06	.0000257
FS	-25.83777	-25.59057	-.2472075	.4114324
P-value				0.8474

Research computation Using STATA 13

Variance Inflation Factor (VIF) Test

This test is used to detect the presence of multicollinearity. The purpose of multicollinearity test is to see whether the regression model has discovered any relationships or correlations among the independent variables. To avoid spurious regression analysis, the regression result was subjected to multicollinearity (to see if the independent variables were suffering from multicollinearity and heteroscedasticity tests). As shown in table 5 (VIF test for multicollinearity).

Table 4.5: VIF Test

Variable	**VIF**	**1/VIF**
TDTA	5.46	0.183203
LTDTA	5.45	0.183328
FS	1.07	0.932796
TDTE	1.04	0.965368
CR	1.02	0.977961
Mean VIF	2.81	

Research computation Using STATA 13

The residual of the regression analysis was subjected to a multicollinearity test to detect the presence of collinearity among the variables. An elevated Variance-Inflation-Factor (VIF) indicates the presence of multicollinearity. If the value of VIF is less than 10 and the tolerance value is more than 0.100, then multicollinearity is not present. The result shows the VIF of TDTA at 5.46, LTDTA at 5.45, FS at 1.07, TDTE at 1.04, CR at 1.02 and that the mean of the Variance Inflation Factor (VIF) was 2.81, which are all much lower than the threshold of 10. The VIF for individual variables was also very low. This indicates that the explanatory variables included in the model were not correlated, indicating an absence of multicollinearity between the variables.

Heteroscedasticity Test

The purpose of the heteroscedasticity test is to determine whether there are significant variations in the residuals and variance of the observations in the regression model. The heteroscedasticity was tested in the residuals of the estimations using the Breusch-Pagan/Cook-Weisberg test. One of the statistical assumptions of regression analysis is that the error terms for all observations have a common variance (homoscedastic). On the contrary, varying variance errors are said to be heteroscedastic. This test is shown in table 4.6.

Table 4.6: Heteroscedasticity Test

Chi^2	Probability
101.35	0.0000

Research computation Using STATA 13

The result shows the probability value of 0.0000 which is less than 5%. This indicate that there is no heteroskedasticity problem in the model. Therefore, the model is fit.

The results from table 3 represents the fixed effect regression outcome. Thus, the regression line for NPM is: -84.65 +0.32 -0.01 -0.01 +0.0000785 -25.59. LTDTA shows that the NPM of quoted consumer and industrial goods businesses in Nigeria rises by 32% for every 1% increase in LTDTA, while the CR reveals a 0.007% increase in NPM for every 1% increase in CR. On the other hand, for every 1% increase in NPM, TDTA, TDTE, and FS decline by 1%, 1%, and 25.59%, respectively. Just TDTE and FS have a significant impact on NPM, as indicated by the corresponding p-values of 0.000 and 0.050, respectively. However, little impacts of TDTA, CR, and LTDTA are discovered.

Conclusion and Recommendations

The primary objective of this study was to investigate the effect between debt financing on financial performance. To achieve this objective, we used 240 firm-year observations in a panel data form for 24 consumer and industrial goods firms listed on the Nigerian Stock Exchange from 2013 to

2022. Based on the data analysis and discussions carried out, we conclude that debt financing has a significant impact on the financial performance of listed consumer and industrial goods firms. The outcome is in consonance with Trade-Off Theory (TOT) which states that the firm value of a company can be maximized by determining its optimal mix of debt and equity. The theory that suggests that a company should balance the costs and benefits of the sources of financing, namely debt and equity. The trade-off model assumes that there is an optimal capital structure where the benefits of debt and equity financing are balanced, and that a company should aim to achieve this optimal balance. Therefore, in order to ensure conventional benefit of leverage ratios, there is need for Nigerian quoted consumer and industrial goods firms to balance the trade-off between the benefits of debt and bankruptcy costs. This implies that a firm needs to choose debt ratio at certain proportion to be better off.

In view of the aforementioned, the study recommends that:

I. The debt finance of consumer and industrial goods firms should be at an optimal level to enjoy its benefits and curtail the costs associated.

II. In taking financial decisions, the management of consumer and industrial firms should adhere to shareholders' wealth and profit maximization of the firm.

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