

CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS FIRMS IN NIGERIA

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Abstract

This study investigated the influence of capital structure on the financial performance of listed consumer goods firms in Nigeria. Using an ex post facto research design, secondary data were obtained from fifteen (15) firms over a ten-year period (2014–2023). Diagnostic tests were conducted to validate model assumptions, and the Ordinary Least Squares (OLS) regression technique was applied to assess the effect of capital structure on return on assets (ROA), return on equity (ROE), and net profit margin (NPM). The findings show that capital structure has no significant effect on ROA ($\beta = 0.1683$; $p = 0.691$), indicating that leverage does not enhance asset utilisation efficiency. Conversely, capital structure has a significant negative effect on ROE ($\beta = -0.5898$; $p = 0.010$) and NPM ($\beta = -0.0224$; $p = 0.005$), suggesting that higher debt levels erode profitability and shareholder returns. The study concludes that firms should adopt more balanced financing strategies to optimise performance.

Keywords: Capital Structure, Return on Assets, Return on Equity, Net Profit Margin.

Introduction

Financial performance is widely used to measure how well a firm generates returns and manages its resources. In the consumer goods sector, especially in developing economies, financial performance is strongly influenced by how firms structure their financing through debt and equity. A firm's capital structure affects its ability to remain stable, manage risks, and achieve long-term growth (Shubita, 2024; Hayati et al., 2022). In Nigeria, listed consumer goods firms operate in a challenging environment marked by inflation, exchange-rate instability, and high operating costs, making capital structure decisions even more important (Akinleye & Fakorede, 2025).

Poorly managed capital structures often lead to liquidity problems and weakened performance, while balanced financing improves cash flow and strengthens firm outcomes (Abdullahi et al., 2023). Although capital structure is central to firm performance, many studies in Nigeria have examined it separately from other financial indicators, creating a gap in understanding its direct influence (Yisau et al., 2024; Oke & Fadaka, 2021). This study examines how capital structure affects the financial performance of listed consumer goods firms in Nigeria, providing evidence from a sector that plays an important role in the economy.

Statement of Problem

The Nigerian consumer goods industry plays a major role in serving a population of over 216 million people, yet firms in the sector continue to face unstable financial outcomes despite periods of revenue growth. Recent economic pressures including rising inflation, high production costs, weak consumer demand, and the lingering effects of global and domestic disruptions—have contributed to declining profitability, even when sales appear to expand (Oladehinde, 2024; Izuaka, 2024). Many firms record increases in revenue without corresponding improvements in net profit margin because of inefficient cost structures, intense competition, and escalating operating expenses. At the same time, the capital structure decisions of these firms, particularly their reliance on debt financing, further influence financial performance. While debt can enhance returns through financial leverage, excessive borrowing exposes firms to high interest costs and liquidity risks, often weakening return on equity and overall profitability (Ullah et al, 2020; Ugbu, 2025). Despite these challenges, empirical evidence on how capital structure shapes the financial performance of listed consumer goods firms in Nigeria remains limited and inconclusive. The persistence of declining margins, rising financial risk, and inconsistent performance signals the need to examine how revenue dynamics and debt financing jointly influence the financial outcomes of firms in this vital sector.

Research Questions

1. What is the effect of capital structure on the return on assets of listed consumer goods firms in Nigeria?
2. What is the effect of capital structure on the return on equity of listed consumer goods firms in Nigeria?
3. What is the effect of capital structure on the net profit margin of listed consumer goods firms in Nigeria?

Objectives of the Study

The main objective of the Study is to examine the impact of capital structure on the financial performance of listed consumer goods firms in Nigeria, while the specific objectives are;

1. To assess the effect of capital structure on the return on assets of listed consumer goods firms in Nigeria.
2. To examine the effect of capital structure on the return on equity of listed consumer goods firms in Nigeria.
3. To assess the effect of capital structure on the net profit margin of listed consumer goods firms in Nigeria.

Research Hypotheses

The study will test the hypotheses in their null form:

H0₁: Capital structure has no significant impact on return on Assets of listed consumer goods firms in Nigeria.

H0₂: Capital structure has no significant impact on the return on equity of listed consumer goods firms in Nigeria.

H0₃: Capital structure has no significant impact on the net profit margin of listed consumer goods firms in Nigeria.

Scope of the study

This study focuses on listed consumer goods firms in Nigeria and covers the period 2014–2023. It examines 15 firms on the Nigerian Exchange Group (NGX), selected based on data availability and their relevance to the sector. The study assesses how capital structure influences financial performance within an industry that is highly sensitive to macroeconomic fluctuations.

2.0 Literature Review

Conceptual Review

Financial Performance

Financial performance reflects how efficiently a firm uses its financial and operational resources to generate profit and create value for stakeholders. Recent studies show that financial performance is strongly influenced by a firm's capital structure, as debt and equity choices determine its cost of financing, risk exposure, and earnings capacity (Prenaj et al., 2024). Boshnak (2023) reported that optimal use of debt improves firm performance plays a significant role in shaping corporate profitability, while in emerging markets. These findings highlight that financial performance cannot be separated from capital structure decisions, especially in

industries facing high operating costs and volatile economic conditions. Profitability indicators such as ROA, ROE, and NPM remain essential tools for evaluating the financial outcomes of these capital structure choices.

Return on Assets (ROA)

Return on Assets (ROA) measures how effectively a firm converts its asset base into profits. It is widely used to assess operational efficiency and investment effectiveness. In relation to capital structure, high leverage can either enhance or weaken ROA depending on how efficiently borrowed funds are used. Rodríguez (2025) emphasizes that ROA reflects a firm's ability to generate returns from asset investments, while Choiriyah et al. (2023) argue that excessive debt reduces ROA when interest obligations outweigh productivity gains. Recent evidence shows that firms with balanced capital structures tend to achieve stronger ROA because they maintain lower financing costs and higher asset efficiency (Sumarsan et al., 2022). Thus, ROA serves as a critical measure of how capital structure decisions impact asset utilization and profitability.

Return on Equity (ROE)

Return on Equity (ROE) assesses a firm's capacity to generate profit for its shareholders. It is highly sensitive to capital structure decisions because financial leverage directly affects equity returns. Mohsin (2024) found that higher leverage increases ROE when debt is used efficiently to support growth, while Ugbo (2025)

observed that excessive borrowing erodes profitability by increasing financial distress. Rodríguez (2025) further showed that firms with strong ROE tend to create higher firm value, emphasizing its role as a key indicator of financial performance. These findings confirm that ROE is not only a measure of shareholder returns but also a reflection of how debt and equity financing strategies shape firm outcomes.

Capital Structure

Debt Financing

Debt financing refers to raising funds through borrowing, either in the short or long term. In FMCG firms, which rely heavily on continuous production and distribution, debt is important for maintaining stable cash flow. Short-term debt can support liquidity and improve performance when efficiently managed, but excessive short-term borrowing may increase liquidity risk (Bendjazia, 2023). Long-term debt increases leverage and creates regular interest obligations that may reduce profitability over time. Several studies report that high long-term debt tends to weaken financial performance because interest costs reduce available earnings (Jibrin & Usman, 2024; Sumilat et al., 2023). However, moderate and well-structured borrowing can support production expansion and help firms increase sales capacity, especially in competitive markets (Ariyibi et al., 2024). The effect of debt therefore depends on how well the firm can manage cash flow during periods of revenue fluctuation (Rahmiyati et al., 2023).

Equity Financing

Equity financing involves raising capital by issuing ownership shares instead of borrowing. This provides funds without interest costs and reduces financial risk, giving FMCG firms more flexibility during periods of unstable revenue. Equity sources include ordinary shares, preference shares, and retained earnings. Research shows that equity financing generally supports financial performance because it strengthens the capital base and reduces the likelihood of financial distress (Hamam et al., 2020). Retained earnings are especially important because they provide a low-cost internal funding option (Almanaseer, 2024). External equity investors such as venture capitalists or angel investors may also provide capital and strategic support that enhances firm growth (Ahmed et al., 2023; Ofulue et al., 2022). Although equity may dilute ownership, it improves long-term financial stability and helps firms avoid the heavy interest burdens associated with high debt levels.

Theoretical Review

Tradeoff theory

The Trade-Off Theory, developed by Modigliani and Miller (1958), posits that firms seek an optimal capital structure by balancing the benefits of debt financing, such as tax advantages, against the costs of financial distress and bankruptcy. The theory suggests that an appropriate mix of debt and equity can enhance firm value and improve financial performance.

The theory provides a useful framework for examining the relationship between capital structure and the financial performance of listed Consumer Goods Firms (CGFs). It underpins this study by suggesting that firms can improve performance by using debt up to an optimal level where its benefits outweigh its costs. Consequently, the study investigates how financing decisions influence financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) among listed CGFs.

Agency Theory

Agency Theory, developed by Jensen and Meckling (1976), explains the conflicts of interest that may arise between shareholders and managers. These agency conflicts can influence financing and investment decisions, thereby affecting a firm's financial performance.

The theory suggests that debt can reduce agency costs by disciplining managers and encouraging efficient use of resources. While moderate leverage may improve profitability and shareholder value, excessive debt can increase financial distress and weaken performance. Therefore, Agency Theory underpins this study by providing a framework for examining how capital structure influences the financial performance of listed Consumer Goods Firms (CGFs) through its effect on managerial behavior and resource allocation.

Empirical Review

Leverage, reflecting the proportion of a firm's assets financed by debt, offers crucial insights into capital structure and financial

risk (Sahoo & Bishnoi, 2023; Sriyono & Andesto, 2022). Empirical studies show that excessive long-term debt can undermine firm performance, particularly when revenue is unstable. Nkansah (2025) reported a 2.55% decline in profitability with higher debt levels, while Meshack et al. (2022) found reduced ROE and Tobin's Q among Nigerian manufacturing firms. Similarly, Oshota (2024) and Ariyo-Edu (2023) observed that high debt ratios negatively affected ROI and profitability, highlighting the risks associated with over-leveraging. These findings emphasize the critical role of a balanced capital structure in sustaining profitability and financial stability.

Equity financing, especially through retained earnings or share capital, generally enhances performance by reducing debt-related costs and supporting growth. Yator and Gitagia (2023) found that internal equity improved ROA in Kenyan manufacturing firms, while studies in Jordan and Nigeria (Almanaseer, 2024; Adelabu & Adelabu, 2025) reported positive effects on ROE and growth potential. However, in some contexts, such as Nigerian insurance firms, retained earnings did not significantly affect returns (International Policy Brief, 2025). Long-term debt can still be beneficial when managed effectively and combined with stable sales revenue, with firm size moderating its impact (Shikumo et al., 2020; Dsouza et al., 2025; Nakatani, 2023). Collectively, these studies underscore the importance of balancing debt and equity to

optimize profitability, asset efficiency, and shareholder value.

Empirical studies suggest that capital structure significantly influences financial performance. While excessive debt, particularly long-term debt, tends to reduce profitability and ROA due to increased financial risk and interest obligations (Olayemi et al., 2021; Hayati et al., 2020; Tesema, 2024; Omoruyi & Eguavoen, 2022), moderate leverage can enhance returns when properly managed (Bendjazia, 2023). Evidence also indicates that equity financing, especially through retained earnings, improves firm performance by reducing dependence on costly external debt (Almanaseer, 2024; Adelabu & Adelabu, 2025; Yator & Gitagia, 2023). Overall, the findings suggest that maintaining an optimal balance between debt and equity is essential for maximizing profitability and ensuring long-term financial stability.

Empirical evidence on the relationship between debt financing and firm performance is mixed. Several studies (Yazdanfar & Öhman, 2015; Githire & Muturi, 2015; Pontoh, 2017; Daud et al., 2016) suggest that debt can enhance growth and profitability by providing funds for investment in profitable projects. Similarly, Pradhan and Khadka (2017) and Habib et al. (2016) found that leverage positively influences performance, particularly in environments with low borrowing costs.

However, other studies (Vatavu, 2014; Fang, 2016; Acheampong et al., 2014; Naranjo et al., 2014; Olalade et al., 2017; Olayemi &

Olamide, 2021; Adeoye & Olojede, 2019) report that excessive debt increases financial risk, reduces liquidity, and negatively affects profitability. While Arikekpar (2020) and Akinrinola et al. (2023) found positive effects of debt on performance, the overall evidence suggests that the impact of leverage depends on firm-specific factors such as size, asset structure, and growth opportunities. Therefore, maintaining a balanced capital structure remains essential for achieving sustainable financial performance.

Gaps in Literature

Despite extensive research on capital structure and financial performance, important gaps remain. Existing studies provide mixed evidence on the effects of debt and equity financing, while the influence of industry characteristics, firm size, regulatory environments, and operational factors such as sales revenue and efficiency remains underexplored (International Policy Brief, 2025; Dsouza et al., 2025; Shikumo et al., 2020; Bannerman & Fu, 2019). Furthermore, most studies focus on traditional financing sources, with limited attention given to alternative equity instruments, particularly in emerging markets (Almanaseer, 2024; Adelabu & Adelabu, 2025). These gaps highlight the need for more sector-specific and comprehensive studies to better understand how capital structure affects firm performance (Nkansah, 2025; Meshack et al., 2022; Nakatani, 2023).

3.0 Methodology

Research Design

This study employed an ex post facto research design to achieve its objectives. This approach is appropriate as it focuses on events that have already occurred, as highlighted by Nwala et al. (2020). Quantitative data was collected from each sampled firm over a ten-year period (2014–2023) to examine capital structure impact Return on Assets (ROA), Return on Equity (ROE), and/or Net Profit Margin (NPM).

Population

The population for this study consists of 21 consumer goods firms listed on the Nigerian Exchange Group (NGX). According to the Nigerian Exchange Group's Directory of Listed Companies (2023), these 21 firms were listed on the NGX as of December 2023. Although the NGX includes over 153 companies across various sectors, this study specifically focuses on the 21 consumer goods firms.

Samples Size and Sampling Technique

The study purposively selected 15 out of the 21 consumer goods firms listed on the Nigerian Exchange Group (NGX). The selection was based on the availability of complete financial data for the period 2014–2023, as the remaining six firms had incomplete records. To ensure data reliability, only firms listed on the NGX as of December 2022 with up-to-date financial information were included in the sample.

Sources of Data

Secondary data was utilized for this study. Information on capital structure, and

financial performance was obtained from the corporate annual reports of the 15 selected consumer goods firms. The study focuses on the period from 2014 to 2023 to examine the effects of capital structure on the financial performance of consumer goods firms. The corporate annual reports are chosen as they provide reliable, valid, and appropriate data necessary for addressing the research objectives.

Method of Data Analysis

The study employed regression analysis. The Ordinary Least Squares (OLS) estimation technique was used for this purpose. Key diagnostic tests within the OLS framework include the multicollinearity test, which detects correlations among independent variables that can inflate standard errors, typically assessed using the Variance Inflation Factor (VIF); the Breusch-Pagan test for heteroscedasticity, which examines whether the variance of errors remains constant across observations; and the t-test, which evaluates whether each independent variable has a statistically significant relationship with the dependent variable. Additionally, the F-test was used to assess the overall significance of the regression model. The Durbin-Watson test was applied to detect the presence or absence of autocorrelation among the residuals.

Measurement and Description of Variables

The variables in the study include the independent variables, sales revenue and capital structure, the dependent variable,

financial performance. Capital structure is proxied by the debt-to-equity ratio while financial performance is measured using

return on capital employed (ROA), return on equity (ROE), and net profit margin (NPM).

Table 3.1 Measurement and Description of Variable

Variables	Definitions and Measurement	Scale	source
1. Debt to equity Ratio	Total debt /total equity	Ratio	Ariyo-Edu (2023)
Return on Asset	EAT/Total Asset X 100%	Ratio	Nur et al.(2022), Fatoki et al (2021)
2. Return on Equity	EAT/Total Equity X 100	Ratio	Choiriyah et al.(2020)
3. Net Profit Margin	EAT/sales X 100	Ratio	Choiriyah et al.(2020)

Source: Researcher's Measurement and Description of Variable, 2025.

Model Specifications

$$FP_{it} = \beta_0 + \beta_1 SG_{it} + \mu_{it} \dots\dots\dots (eqn1)$$

$$ROA_{it} = \beta_0 + \beta_1 CS_{it} + \mu_{it} \dots\dots\dots (eqn i)$$

$$ROE_{it} = \beta_0 + \beta_1 CS_{it} + \mu_{it} \dots\dots\dots (eqn ii)$$

$$NPM_{it} = \beta_0 + \beta_1 CS_{it} + \mu_{it} \dots\dots\dots (eqn iii)$$

Independent variable CS = Capital Structure

β_0 = Intercept/constant;

$\beta_1, \beta_2, \beta_3$ = Coefficients for the independent variable that estimate the impact of structure on financial performance.

μ = the residual/error term

it = Panel data

Where:

FP = Dependent variable (Financial Performance, measured as ROA, ROE, NPM)

4.0 Data Presentation, Analysis and Interpretation

Summary of Descriptive statistics

Table 4.1 Descriptive statistics results

Variable	Observations	Mean	Std. dev.	Minimum	maximum
ROE	150	0.1138884	0.5197691	-3.723443	2.93071
ROA	150	0.0402398	0.0882179	-0.3009522	0.3005281
NPM	150	0.0641766	0.6270159	1.215387	7.417728
C.S	150	2.496003	4.984116	-10.73813	47.92299
F.AGE	150	54.66667	19.2656	13	100

Source: Descriptive Statistics Result using STATA 13: Researcher (2025)

The descriptive statistics in Table 1 summarize key metrics. The mean ROA was 0.0402 (SD = 0.0882), ranging from -0.3010

to 0.0301, indicating wide variation and occasional losses relative to assets. The mean ROE was 0.1139 (SD = 0.5198), with

a range of -3.7234 to 2.9307, showing significant differences in shareholder returns. Net profit margin averaged 0.6418 (SD = 0.6270), with values from -1.2154 to 7.4177, suggesting firms generally experienced losses. The average capital structure value was 2.496003, with a

standard deviation of 4.9841 indicating significant differences in how firms structure their financing through debt and equity. The maximum capital structure recorded was 47.9223 while the minimum was -10.7381.

Correlation Analysis

Table 4.1.1 *Correlation Analysis*

	ROA	ROE	NPM	CS	F.AGE
ROA	1.0000				
ROE	0.3275	1.0000			
NPM	0.5264	0.1918	1.0000		
C.S	-0.0730	-0.5400	-0.3498	1.0000	
F.AGE	-0.2601	0.0175	-0.0704	-0.0281	1.0000

Source: STATA 13: Researcher's computation (2025)

The correlation analysis was carried out to check the strength of the statistical relationship between the independent variable capital structure and the dependent variable proxied by (return on asset, return on equity and net profit margin). In table 4.1.1 above, ROA and NPM have a strong positive correlation (0.5264), meaning firms with higher margins tend to also have better returns on assets. ROE vs CS = -0.5400

indicating a strong negative correlation that is, more debt in the capital structure tends to lower equity returns in this dataset.

Examining the Impact of Capital Structure on Financial Performance of Listed Consumer Goods Firms in Nigeria
Model 1: $FP_{it} = \beta_0 + \beta_1 CS_{it} + \mu_{it}$
 (eqn 1)

Table 4.2.1 *Diagnostic Test for Model Validity in Panel Data Regression*

	Tests	χ^2	P-value
Heteroskedasticity	Breusch-Pagan / cook -Weisberg test	400.55	0.0000
Normality	Jacque Bera test		0.0000
Autocorrelation	Wooldridge test	1.270	0.279
Hausman	Hausman Specification test	3.28	0.5123
Specification			
Panel Test	Breusch and Pagan Lagrangian	0.00	1.0000
	Multiplier test for random effect		

Authors Computations, 2025.

The diagnostic tests indicate mixed results for the regression model. Initial heteroscedasticity tests showed p-values below 0.05, suggesting non-constant error variance and potential inefficiency in OLS estimates. However, the Breusch–Pagan test later supported homoskedasticity with a p-value of 1.0000, indicating no statistical evidence of heteroscedasticity. The autocorrelation test returned a p-value of 0.2787, confirming that residuals are independent and free from serial correlation.

The Hausman test yielded a p-value of 0.5123, supporting the use of the Random Effects model over Fixed Effects and indicating no endogeneity concerns in the panel regression. Overall, the Random Effects model is appropriate and reliable for analyzing the impact of sales growth on financial performance.

$$\text{Model 1: } ROE_{it} = \beta_0 + \beta_1 CS_{it} + \mu_{it} \dots\dots\dots (\text{eqn i})$$

Table 4.2.2 Feasible GLS Analysis: Capital Structure and Return on Equity of Listed consumer goods firms in Nigeria.

ROE	COEF.	ROBUST STD.ERR.	Z	P> Z	(95%CONF. INTERVAL)
CS	-.0589766	.0228888	-2.58	0.010	-.1038379 -.0141153
F.AGE	.0017918	.0027784	.64	0.519	-.0036537 .0072374
CONS	.2452329	.1297347	1.89	0.059	-.0090424 .4995082
Wald χ^2	20.76			0.0004	
Observation	150/15				

Authors Computations, 2025.

$$\text{Model 2: } ROA_{it} = \beta_0 + \beta_1 SG_{it} + \mu_{it} \dots\dots\dots (\text{eqn i})$$

Table 4.2.3 Feasible GLS Analysis: Capital Structure and Return on Asset of Listed consumer goods firms in Nigeria.

ROA	COEF.	ROBUST STD.ERR.	Z	P> Z	(95%CONF. INTERVAL)
CS	-.0008054	0.0020243	-0.40	0.691	-0.004773 .0031621
F.AGE	-.0011155	.0006746	-1.65	0.098	-.0024378 .0002067
CONS	.1682534	.0421978	3.99	0.000	.0855471 .2509596
Wald χ^2	25.31			0.000	
Observation	150/15				

Authors Computations, 2025.

$$\text{Model 3: } NPM_{it} = \beta_0 + \beta_1 SG_{it} + \mu_{it} \dots\dots\dots (\text{eqn i})$$

Table 4.2.3 Feasible GLS Analysis: Capital Structure and Return on Net Profit Margin of Listed consumer goods firms in Nigeria.

NPM	COEF.	PANELCORRECTED STD.ERR.	Z	P>/Z/	(95%CONF.	INTERVAL)
CS	-.022412	.0079752	-2.81	.005	-.0380433	-.0067813
F.AGE	.0010363	.0004635	-2.24	0.025	-.0019447	-.001279
CONS	.1748147	.0384754	4.54	0.000	.0992044	.250025
Wald χ^2	12.67			0.0130		
Observation	150/15					

Authors Computations, 2025.

Discussion of findings

The analysis of the impact of capital structure on financial performance of listed consumer goods firms in Nigeria reveals mixed effects. Using the Random Effects GLS regression model, capital structure was found to have no significant influence on Return on Assets (ROA), suggesting that leverage does not materially affect asset efficiency. This aligns with previous studies indicating that short-term debt may not directly influence operational profitability (Hayati et al., 2022; Chukwuma, 2023).

In contrast, capital structure significantly and negatively affects Return on Equity (ROE) and Net Profit Margin (NPM), indicating that higher leverage erodes shareholder returns and overall profitability. These results are consistent with the pecking order theory, which posits that excessive reliance on external debt can undermine financial performance (Tesema, 2024; Adeoye & Olojede, 2019). Therefore, while capital structure may not impact asset returns, its composition, particularly high debt levels, has a pronounced adverse effect on equity returns and profit margins, highlighting the importance of judicious

debt management in enhancing firm profitability.

5.0 Summary, Conclusion and Recommendation

This study investigates the impact of capital structure on the financial performance of listed consumer goods firms in Nigeria. Specifically, it focuses on fifteen firms selected from the twenty-one consumer goods companies listed on the Nigerian Exchange Group, covering a ten-year period. Drawing on data from audited annual reports and employing rigorous statistical analysis, the study identifies key factors influencing the improvement or lack thereof in financial performance within the sector. The following sections present a summary of the major findings, the conclusions drawn, and a set of recommendations considered essential based on the insights gained throughout the course of the research.

Summary of findings

The findings of this study offer important understanding into the determinants of financial performance among listed consumer goods firms in Nigeria. The

analysis indicates that capital structure has a significant negative impact on Return on Equity (ROE) and Net Profit Margin (NPM), suggesting that higher leverage diminishes shareholder returns and overall profitability. This observation aligns with previous studies, which note that short-term debt may not directly affect operational performance (Hayati et al., 2022;

Chukwuma, 2023). While capital structure appears not to influence asset returns (ROA), the composition of financing—particularly elevated debt levels—exerts a notable adverse effect on equity returns and profit margins, underscoring the need for prudent debt management to enhance firm profitability.

Summary of the Hypotheses Results

Obj	Hypothesis	Regression coefficient	P-value	Result
1.	Capital structure has no significant impact on the return on asset.	0.1683	0.691	Accept
2	Capital structure has significant impact on the return on equity.	-0.5898	0.010	Reject
3	Capital structure has significant impact on the net profit margin.	-0.0224	0.005	Reject

Authors Computations, 2025.

Conclusion

The study examined the effect of capital structure on the financial performance of listed consumer goods firms in Nigeria using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The findings reveal that capital structure has no significant effect on ROA, suggesting that financing decisions do not directly influence firms' ability to generate returns from their assets. However, capital structure has a significant negative effect on ROE and NPM, indicating that higher debt levels reduce shareholder returns and profitability.

These findings support the Trade-Off Theory, which posits that excessive debt

increases financial distress costs and diminishes firm value (Kraus & Litzenberger, 1973; Frank & Shen, 2023). The results are consistent with studies by Meshack et al. (2022), Tesema (2024), Nkansah (2025), Adeoye and Olojede (2019), and Hayati et al. (2022), which found that excessive leverage negatively affects profitability. The study therefore concludes that listed consumer goods firms in Nigeria may not have achieved an optimal capital structure and should adopt more prudent debt policies to enhance long-term financial performance.

Contribution to Knowledge

This study makes several important contributions to the existing body of knowledge on capital structure and financial performance, particularly within the context of emerging markets and the Nigerian consumer goods sector:

1. **Differential impact of capital structure on performance:** The study shows that capital structure has no significant effect on ROA but negatively affects ROE and NPM, demonstrating that leverage influences profitability differently across performance measures.
2. **Validation of the Trade-Off Theory:** The findings provide sector-specific evidence that listed consumer goods firms in Nigeria may be operating beyond their optimal debt level, where the costs of debt exceed its benefits, thereby supporting the Trade-Off Theory.
3. **Recent evidence from the Nigerian consumer goods sector:** Using recent panel data, the study contributes current empirical evidence on how capital structure affects firm performance under contemporary economic conditions.
4. **Resolution of inconsistent findings:** The study helps explain conflicting results in previous research by showing that the effect of leverage varies depending on the profitability measure used.
5. **Practical implications for stakeholders:** The findings provide useful insights for managers,

investors, and policymakers by highlighting the importance of prudent debt management for improving profitability and long-term financial performance.

Recommendations

1. Consumer goods firms should reduce excessive reliance on debt financing, particularly long-term debt, to improve profitability and shareholder returns.
2. Firms should prioritize internal financing sources, such as retained earnings, and enhance operational efficiency to reduce dependence on external borrowing.
3. Management should maintain an optimal capital structure by balancing the benefits of debt with the costs of financial distress.
4. Firms should strengthen debt management through effective monitoring of cash flows, debt levels, and repayment capacity.
5. Existing debt portfolios should be reviewed and restructured where necessary to lower financing costs and improve financial performance.

Suggestions for Further Studies

- i. Future studies should examine the effects of alternative financing instruments, such as convertible debt, preference shares, and crowdfunding, on firm performance.
- ii. Research should be extended to other sectors to compare the capital

structure–performance relationship across industries.

- iii. Future studies should incorporate variables such as firm size, sales growth, corporate governance, and macroeconomic factors.
- iv. Alternative performance measures and advanced econometric

techniques should be employed to enhance the robustness of findings.

- v. Further research should separately assess the effects of short-term and long-term debt on financial performance.

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