

TITLE PAGE**EFFECT OF CAPITAL STRUCTURE ON PROFITABILITY OF QUOTED
MANUFACTURING FIRMS IN NIGERIA (2010-2024)****BY****EZEMONYE-OKWARA FRANKLIN CHIBUIKE
GOU/U22/ACC/418****A PROJECT PRESENTED TO THE DEPARTMENT OF ACCOUNTING, FACULTY OF
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DECLARATION

1. Ezemonye-Okwara, Chibuike Franklin with registration number GOU/U22/ACC/418 and a bonafide student in the Department of Accounting under the Faculty of Management and Social Sciences in Godfrey Okoye University. Hereby declare that the project titled "Effect of Capital Structure on return on assets of Quoted Manufacturing Firms in Nigeria (2010-2024)" submitted by me in partial fulfillment of the requirements for the award of Bachelor of Science (B.Sc.) degree in Accounting and Finance is my original work and has not been submitted either in part or full for any other degree or diploma either in this or any other tertiary institution.

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CERTIFICATION

This is to certify that this project titled "Effect of Capital Structure on return on assets of Quoted Manufacturing Firms in Nigeria (2010-2024)" was undertaken by Ezemonye-Okwara, Chibuike Franklin registration GOU U22 ACC 418 of Department Accounting and Finance, Faculty of Management and Social Science. Godfrey Okoye University, Enugu State has been assessed and approved for oral examination defense by the Department of Banking and Finance, Godfrey Okoye University. Enugu.

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Abstract

*This study examines the effect of capital structure on the profitability of quoted manufacturing firms in Nigeria from 2010 to 2024. Manufacturing firms in Nigeria operate in a challenging macroeconomic environment characterized by high interest rates, exchange-rate volatility, inflationary pressures, and frequent supply-chain disruptions, all of which significantly influence capital structure decisions and profitability outcomes. Despite the growing body of research in this area, empirical evidence remains inconclusive, particularly regarding the separate effects of short-term debt, long-term debt, and total debt on firm profitability. The study specifically investigates the effects of short-term debt ratio (STDR), long-term debt ratio (LTDR), and total debt ratio (TDR) on profitability, measured using return on assets (ROA), return on equity (ROE), and net profit margin (NPM). An ex-post facto research design was adopted, utilizing secondary time-series data sourced from the Central Bank of Nigeria Statistical Bulletin and World Bank Development Indicators for the period 2010–2024. Multiple regression analysis was conducted using E-views version 12 econometric software. The study is grounded in the Trade-Off Theory and Pecking Order Theory, which provide frameworks for understanding how Nigerian manufacturing firms prioritize financing sources and how these choices influence profitability. The findings reveal that short-term debt ratio (STDR) has a significant negative effect on ROA and NPM, indicating that over-reliance on short-term financing erodes profitability. Long-term debt ratio (LTDR) shows a positive but statistically insignificant relationship with ROE, while total debt ratio (TDR) exerts a significant negative influence on overall firm profitability. These results suggest that excessive leverage, particularly short-term debt, undermines the financial performance of Nigerian manufacturing firms. *The study recommends that financial managers adopt optimal capital structures that minimize dependence on costly short-term debt while leveraging long-term financing strategically. Policymakers and regulators are advised to create an enabling environment that reduces borrowing costs and encourages long-term investment financing. These findings provide empirical guidance for investors, financial managers, and regulators in formulating financing strategies that enhance firm performance and support sustainable growth in Nigeria's manufacturing sector.*

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

Capital structure represents the combination of debt and equity a firm employs to finance its operations and long-term investments (Uche, 2021). It is the mix between owners' capital and borrowed capital, examining the optimal mix of these financing sources is one of the most critical managerial decisions because it influences the firm's cost of capital, level of financial risk, investment capacity, and ultimately its profitability. For manufacturing firms which are generally capital-intensive, require substantial funds for raw materials, machinery, and technology upgrades capital structure decisions are especially important for sustaining operational efficiency and competitive performance (Ngwu, 2024).

The capital structure of a firm is one of the central decisions confronting managers and investors. For manufacturing firms, which are typically capital-intensive and exposed to cyclical demand, the choice between debt and equity has direct implications for financial risk, cost of capital, and the capacity to finance long-term productive assets (Anyanwu, 2023). In Nigeria, quoted manufacturing firms occupy an important place in the economy; they provide employment, support the value chain for agriculture and raw materials, and contribute to GDP and export potential. How these firms finance growth and absorb shocks therefore matters for firm-level performance and for broader industrial development (Udeh, 2023).

Between 2010 and 2024 Nigerian manufacturing firms faced several structural and cyclical challenges that could influence the leverage profitability link, such as exchange-rate volatility,

fluctuating energy supply and costs, changes in monetary policy and interest rates, the 2016 economic recession and recovery, the 2020 COVID-19 shock and supply-chain disruptions, and periods of fiscal and regulatory adjustment. These events altered the cost and availability of external finance, the risk environment for lenders and investors, and managers' preferences for internal versus external funding (Nnadi, 2023). At the same time, reforms in the banking sector, development finance initiatives, and evolving corporate governance practices among listed firms may have shifted financing behaviour and its impact on profit outcomes. Studying on capital structure on profitability captures several policy and market cycles and provides richer variation to test how capital structure choices translate into profitability under different economic conditions (Oke, 2022).

In Nigeria, manufacturing firms operate in an environment characterised by macroeconomic instability, high interest rates, exchange-rate volatility, inflation, unstable power supply, and dependence on imported inputs. These factors significantly influence firms' cost of funds and their ability to service debt obligations (Obi, 2023). Over the years, many quoted manufacturing firms have relied heavily on short-term borrowings to support working capital needs, owing to limited access to affordable long-term financing. This pattern increases exposure to liquidity risks and may weaken profitability, especially during periods of economic downturn (Chukwu, 2025).

The period 2010–2024 is particularly important for analysing the capital structure–profitability relationship due to major economic events that profoundly affected financing conditions in Nigeria (Attamah, 2021). These include the aftermath of the global financial crisis, the 2016 economic recession, persistent exchange-rate adjustments, rising inflation, tightening monetary policy, the COVID-19 pandemic, and reforms within the Nigerian banking and capital markets. Each of these

events altered the cost and availability of debt, investor confidence, and the financial structure of firms. As a result, understanding how capital structure affected profitability during this period offers valuable insights into how firms responded to changing financial environments (Agbo, 2025).

Given the strategic importance of manufacturing to Nigeria's economic diversification agenda, it is essential to empirically evaluate whether current financing patterns support or hinder profitability. A rigorous examination covering 2010–2024 provides an opportunity to identify leverage trends, assess firm resilience during economic shocks, and provide evidence-based recommendations for sustainable capital structure management. Hence, this study seeks to examine the effect of capital structure on profitability of quoted manufacturing firms in Nigeria.

1.2 Statement of the Problem

Despite the importance of capital structure decisions to firm performance, the relationship between leverage and profitability among quoted manufacturing firms in Nigeria remains unclear and contested. Manufacturing firms in Nigeria operate in a challenging macroeconomic environment characterised by high interest rates, exchange-rate instability, inflationary pressures, rising production costs, and frequent supply-chain disruptions (Ukwu, 2022). These conditions increase the cost of borrowing and heighten financial risk, making debt-financing decisions more complex. Yet many quoted firms continue to rely heavily on external debt to finance working capital and long-term investments, raising concerns about whether existing capital structure patterns are optimal for sustaining profitability (Ibeh, 2024).

Furthermore, despite the growing body of research on capital structure in Nigeria and other emerging economies, important gaps remain. Many prior studies focus on broad samples of firms or short time windows, pay limited attention to firm heterogeneity across manufacturing sub-sectors, or do not fully account for macroeconomic regime shifts and firm-level dynamics simultaneously. There is also limited consensus on whether optimal leverage differs for export-oriented manufacturers versus those serving the domestic market, or how firm size, asset tangibility and corporate governance interact with leverage to determine profits in the Nigerian context. For policymakers and practitioners, evidence that disentangles these effects across a longer span (2010–2024) and among quoted manufacturing firms is valuable for designing financing policies, capital market interventions, and corporate strategies that enhance competitiveness and resilience.

More so, many quoted manufacturing firms face persistent challenges such as low asset utilisation, dependence on imported raw materials, and limited access to long-term financing. These conditions can compel firms to take on unsustainable levels of short-term debt, potentially exposing them to liquidity pressures and declining earnings (Nneni, 2021). The lack of consensus on whether Nigerian manufacturing firms are over-leveraged or under-leveraged raises an important practical concern: managers lack empirical guidance on the mix of debt and equity that maximises profitability under Nigeria’s evolving economic conditions.

The challenge is further deepened by Nigeria’s volatile macroeconomic environment. Between 2010 and 2024, manufacturing firms experienced multiple economic shocks, including exchange-rate devaluations, high inflation, rising production costs, elevated interest rates, the 2016 recession, COVID-19 disruptions, and unpredictable government policies (Attamah, 2021). These events

significantly altered the cost of borrowing and the availability of funds, making capital structure decisions more complicated and potentially more impactful on profitability.

Therefore, the problem confronting this study is the lack of comprehensive, long-term empirical evidence on how capital structure influences profitability among quoted manufacturing firms in Nigeria. Addressing this gap is crucial for guiding managers, investors, and policymakers in formulating financing strategies that enhance firm performance and support the sustainable growth of the manufacturing sector.

1.3 Objectives of the Study

The main objective of the study is to examine the effect of capital structure on the profitability of quoted manufacturing firms in Nigeria from 2010 to 2024.

The specific objectives are to:

1. Determine the effect of short-term debt ratio (STDR) on the profitability of quoted manufacturing firms in Nigeria.
2. Examine the effect of long-term debt ratio (LTDR) on the profitability of quoted manufacturing firms in Nigeria.
3. Assess the effect of total debt ratio (TDR) on the profitability of quoted manufacturing firms in Nigeria.

1.4 Research Questions

This study will be guided by the following research questions

1. What effect does short-term debt ratio have on the profitability of quoted manufacturing firms in Nigeria?
2. How does long-term debt ratio influence the profitability of quoted manufacturing firms in Nigeria?
3. What is the effect of total debt ratio on the profitability of quoted manufacturing firms in Nigeria?

1.5 Research Hypotheses

This study will be guided by the following research question

H01: Short-term debt ratio has no significant effect on the profitability of quoted manufacturing firms in Nigeria.

H02: Long-term debt ratio has no significant effect on the profitability of quoted manufacturing firms in Nigeria.

H03: Total debt ratio has no significant effect on the profitability of quoted manufacturing firms in Nigeria.

1.6 Significance of the Study

This study is significant because it provides empirical evidence and practical insights into how capital structure decisions influence the profitability of quoted manufacturing firms in Nigeria over

a long and economically dynamic period (2010–2024). Its importance is highlighted in several ways:

Practical Benefits to Financial Managers: Manufacturing firms in Nigeria often struggle with determining the appropriate balance between debt and equity, especially in an environment characterised by high borrowing costs and unstable macroeconomic conditions. Findings from this study will help financial managers make more informed financing decisions, reduce exposure to excessive debt burdens, improve capital budgeting, and enhance profitability through strategic capital structure management.

Relevance to Investors and Shareholders: Investors rely on profitability signals and financial structure patterns to assess firm risk and long-term viability. This study provides insights into how leverage influences return on assets and equity, enabling investors and shareholders to better evaluate firm performance, risk tolerance, and investment decisions.

Implications for Policy Makers and Regulators: Regulators such as the Central Bank of Nigeria (CBN), Securities and Exchange Commission (SEC), and Nigerian Exchange Group (NGX) may use the study's findings to design policies that support sustainable financing practices. Evidence on how capital structure affects profitability can guide reforms in interest-rate policies, corporate governance guidelines, credit access, and incentives for long-term financing to strengthen the manufacturing sector.

Importance to the Manufacturing Sector: Manufacturing is central to Nigeria's industrialisation goals. Understanding how financing choices affect profitability helps identify barriers that may be limiting the sector's growth. The results can guide firms toward more financially sustainable

strategies that enhance productivity, competitiveness, and overall contribution to national economic development.

Guidance for Future Researchers: This study serves as a valuable reference for future research on capital structure, profitability, and firm performance in Nigeria and other emerging economies. Its methodological approach, extended time frame, and focus on quoted manufacturing firms create a foundation for comparative studies and more advanced financial modeling.

Contribution to Academic Literature: The study expands existing knowledge by covering a 15-year period marked by major economic events such as the 2016 recession, exchange-rate volatility, COVID-19 disruptions, and shifts in monetary policy. Many previous studies in Nigeria focused on shorter periods or broader firm samples. By concentrating specifically on quoted manufacturing firms, this research provides updated and sector-specific evidence that enriches scholarly debates on optimal leverage and firm performance in emerging markets.

1.7 Scope of the Study

This study focuses on examining the effect of capital structure on the profitability of quoted manufacturing firms in Nigeria within the period 2010–2024. The choice of the time period is particularly appropriate because it captures major structural changes in Nigeria’s economy and financial system that are likely to influence firms’ capital structure decisions and profitability outcomes. From 2010 onward, Nigeria intensified efforts to diversify the economy away from oil through industrialization policies, such as import substitution strategies, local content policies, and manufacturing incentives. These policies affected the financing needs and capital structures of manufacturing firms, making the period particularly relevant for sector-specific analysis. From

2010 onward, quoted manufacturing firms in Nigeria have more reliable, standardized, and publicly accessible financial statements, especially following the adoption of International Financial Reporting Standards (IFRS) in Nigeria around 2012. This improves the accuracy and comparability of capital structure and profitability measures used in the study. The inclusion of data up to 2024 enhances the contemporary relevance of the study. Using recent data allows the findings to reflect current financing realities, policy conditions, and market dynamics faced by quoted manufacturing firms in Nigeria. This makes the study more useful to policymakers, investors, corporate managers, and academics.

The study centres on evaluating how different components of capital structure influence profitability. The study addresses both the individual and joint effects of these capital structure variables on firm profitability. It also considers relevant firm-level characteristics such as asset tangibility, liquidity, and growth which may influence financing decisions.

The research is geographically limited to Nigeria, focusing specifically on firms quoted on the Nigerian Exchange Group (NGX). These firms are chosen due to the availability of reliable and consistent financial information, as well as their significant role in the industrial and economic landscape of Nigeria.

1.8 Operational Definition of Terms

Operations and long-term investments (OLTI): In this study, capital structure is measured using short-term debt ratio, long-term debt ratio, and total debt ratio

Short-Term Debt Ratio (STDR): This is the proportion of a firm's total assets financed with debt obligations that are due for payment within one year. It is used to assess the impact of short-term leverage on profitability.

Long-Term Debt Ratio (LTDR): This represents the percentage of total assets financed through long-term borrowings, such as bonds or long-term bank loans. It captures the influence of long-term leverage on a firm's performance.

Total Debt Ratio (TDR): This is the ratio of all debt (both short-term and long-term) to total assets. It shows the overall level of financial leverage of the firm.

Profitability: Profitability refers to a firm's ability to generate earnings from its operations. In this study, it is measured using indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).

Return on Assets (ROA): ROA measures how efficiently a firm uses its total assets to generate profit. It is calculated as net profit after tax divided by total assets.

Return on Equity (ROE): ROE indicates the return generated on shareholders' funds. It shows how well a company uses investors' money to generate earnings.

Net Profit Margin (NPM): NPM is the percentage of revenue that remains as profit after all expenses have been deducted. It shows overall profitability efficiency.

CHAPTER TWO

LITERATURE REVIEW

2.1 CONCEPTUAL REVIEW

2.1.1 Concept of Capital Structure

Capital structure refers to the composition and proportion of various long-term financing sources employed by a firm to fund its assets, operations, and expansion activities. It reflects the strategic decision of management regarding the optimal combination of equity and debt that minimizes the overall cost of capital while maximizing the value of the firm. Broadly, capital structure comprises equity capital (ordinary shares, preference shares, and retained earnings) and debt capital (long-term loans, bonds, debentures, and other interest-bearing liabilities) (Pandey, 2015; Ross, Westerfield & Jordan, 2019).

The capital structure decision is one of the most critical financial management decisions because it has far-reaching implications for a firm's risk profile, profitability, liquidity, and survival. A firm that relies heavily on equity financing tends to face lower financial risk but may suffer from diluted ownership and reduced earnings per share. Conversely, a firm with a higher proportion of debt financing benefits from tax shields due to the deductibility of interest expenses, which can enhance shareholders' returns. However, excessive use of debt increases fixed financial obligations and exposes the firm to higher financial distress and bankruptcy risk (Brealey, Myers & Allen, 2020).

From a theoretical perspective, Modigliani and Miller (1958) postulated that under perfect market conditions—where there are no taxes, transaction costs, or information asymmetry—the value of a firm is independent of its capital structure. This proposition implies that financing decisions do not affect firm value. Nevertheless, subsequent studies incorporating real-world market imperfections have demonstrated that capital structure is indeed relevant. When corporate taxes are considered, the use of debt creates value through tax shields, making leverage beneficial up to

a certain point (Modigliani & Miller, 1963). Beyond this point, the increasing costs of financial distress and agency problems may outweigh the benefits of debt.

The trade-off theory of capital structure further explains that firms seek an optimal capital structure by balancing the benefits of debt financing against the associated costs of bankruptcy and financial distress. According to this theory, firms with stable cash flows and tangible assets are more likely to employ higher levels of debt, while firms with volatile earnings tend to rely more on equity financing (Myers, 1984). In contrast, the pecking order theory suggests that firms prefer internal financing through retained earnings, followed by debt, and only issue equity as a last resort due to information asymmetry and issuance costs (Myers & Majluf, 1984).

Capital structure is also influenced by firm-specific factors such as profitability, asset tangibility, firm size, growth opportunities, and business risk, as well as external factors including interest rate levels, inflation, tax policies, and the development of financial markets. In developing economies like Nigeria, capital structure decisions are often constrained by limited access to long-term capital, underdeveloped bond markets, high interest rates, and macroeconomic instability. These challenges compel many firms to rely excessively on short-term debt, which may adversely affect their financial performance and sustainability (Akinyomi & Olagunju, 2013; Salawu & Agboola, 2008).

Empirical studies in Nigeria have shown that capital structure significantly influences firm performance, investment decisions, and market value. Firms that maintain an appropriate balance between debt and equity tend to achieve better financial performance and long-term stability than highly leveraged firms operating in volatile economic environments (Onaolapo & Kajola, 2010). Consequently, effective capital structure management is essential for enhancing corporate performance, competitiveness, and shareholders' wealth.

In summary, capital structure represents a vital financial policy decision that determines how firms finance their operations and investments. The optimal capital structure varies across firms and industries and is shaped by both internal characteristics and external economic conditions. Sound capital structure decisions enable firms to achieve financial flexibility, reduce the cost of capital, and improve overall corporate performance.

2.1.2 Concept of Manufacturing Companies

Manufacturing companies are business organizations primarily engaged in the transformation of raw materials or semi-finished goods into finished products through the use of labor, machinery, technology, and systematic production processes. These finished goods are produced in large quantities for sale to wholesalers, retailers, or directly to final consumers. The manufacturing sector plays a vital role in economic development by creating value, generating employment, enhancing technological advancement, and contributing significantly to gross domestic product (GDP) (Adesina, 2017; Krajewski, Malhotra & Ritzman, 2019).

Manufacturing companies operate within a structured production system that involves a sequence of activities such as product design, sourcing of raw materials, processing, assembly, quality control, packaging, and distribution. The efficiency and effectiveness of these processes determine the cost structure, product quality, and competitiveness of manufacturing firms. According to Slack, Brandon-Jones, and Burgess (2022), manufacturing operations focus on achieving optimal use of resources to meet customer requirements in terms of quality, speed, flexibility, dependability, and cost.

A distinguishing feature of manufacturing companies is their intensive use of physical assets such as plants, machinery, equipment, and inventories. These firms incur significant fixed costs, making capacity utilization and economies of scale crucial determinants of profitability. Manufacturing companies also require effective working capital management to ensure uninterrupted production, as large amounts of funds are tied up in raw materials, work-in-progress, and finished goods inventories (Atrill & McLaney, 2020).

From a financial perspective, manufacturing companies are characterized by complex cost structures involving direct materials, direct labor, and manufacturing overheads. These costs influence pricing decisions, profit margins, and financial performance. Efficient cost management and investment in modern production technologies are therefore essential for improving productivity and sustaining competitive advantage (Drury, 2018).

Manufacturing companies can be classified into various categories based on the nature of their products and production processes. These include consumer goods manufacturing firms (such as food and beverages, textiles, and household products), industrial goods manufacturers (such as cement, steel, and chemicals), and capital goods manufacturers (such as machinery and equipment). Each category faces unique operational, financial, and market challenges (Kotler & Keller, 2021).

In developing economies like Nigeria, manufacturing companies are regarded as engines of industrialization and economic diversification. They contribute to employment generation, export earnings, and technological transfer. However, Nigerian manufacturing firms face numerous challenges, including inadequate infrastructure, high cost of energy, limited access to finance, exchange rate volatility, and dependence on imported raw materials. These constraints often affect their productivity, competitiveness, and long-term sustainability (MAN, 2023; Akinwale, 2020).

Despite these challenges, manufacturing companies remain critical to national development strategies. Government policies such as industrialization programs, local content initiatives, and import substitution strategies aim to strengthen the manufacturing base and enhance value addition within the economy. Consequently, improving the operational efficiency, financial management, and policy environment of manufacturing companies is essential for achieving sustainable economic growth and industrial development.

2.1.3 Profitability of Quoted manufacturing firms in Nigeria

Profitability represents the ability of a firm to generate earnings from its operations and efficiently utilize its resources to maximize shareholders' wealth. In the context of quoted manufacturing firms in Nigeria, profitability is a critical indicator of financial performance, corporate sustainability, and investor confidence. Quoted manufacturing firms are those manufacturing companies whose shares are listed and traded on the Nigerian Exchange Group (NGX), thereby subjecting them to regulatory oversight, disclosure requirements, and market discipline. Common measures of profitability used in evaluating the performance of these firms include return on assets (ROA), return on equity (ROE), net profit margin (NPM), gross profit margin, and profit after tax (PAT) (Pandey, 2015; Ross, Westerfield & Jordan, 2019).

The profitability of quoted manufacturing firms in Nigeria is largely influenced by their operational efficiency, cost structure, and financial management practices. Manufacturing firms typically incur high production costs due to intensive use of machinery, energy, labor, and raw materials. Efficient utilization of these inputs is therefore essential for enhancing profit margins.

Firms that are able to control production costs, minimize waste, and improve capacity utilization tend to record higher profitability than those with operational inefficiencies (Drury, 2018).

Financial factors also play a significant role in determining profitability among quoted manufacturing firms in Nigeria. Effective working capital management, optimal capital structure decisions, and prudent liquidity management enhance firms' ability to meet short-term obligations while sustaining profitable operations. Empirical studies have shown that excessive reliance on debt financing increases interest expenses and financial risk, which may adversely affect profitability, especially in periods of high interest rates common in the Nigerian economy (Onaolapo & Kajola, 2010). Conversely, firms with balanced financing structures and adequate liquidity positions are better positioned to achieve stable and sustainable profits.

In addition to firm-specific factors, the profitability of quoted manufacturing firms in Nigeria is significantly affected by macroeconomic conditions. Challenges such as unstable power supply, high energy costs, exchange rate volatility, inflationary pressures, and inadequate infrastructure increase the cost of production and reduce profit margins. Many Nigerian manufacturing firms depend heavily on imported raw materials and machinery, making them vulnerable to fluctuations in foreign exchange rates. These external constraints often erode profitability despite improvements in internal efficiency (Akinwale, 2020; MAN, 2023).

Market competition and pricing strategies further influence profitability in the manufacturing sector. Quoted manufacturing firms operate in highly competitive markets where price sensitivity, consumer preferences, and the presence of imported substitutes affect sales volumes and margins. Firms that adopt effective pricing strategies, product differentiation, and quality improvements are more likely to enhance profitability and maintain market share (Kotler & Keller, 2021).

Despite these challenges, quoted manufacturing firms remain vital contributors to Nigeria's economic development through employment generation, industrial output, and tax revenue. Profitability is therefore not only important for firm-level performance but also for sustaining industrial growth and attracting both domestic and foreign investment. Improving profitability among quoted manufacturing firms requires a combination of sound financial management, operational efficiency, supportive government policies, and a stable macroeconomic environment. In summary, the profitability of quoted manufacturing firms in Nigeria reflects their capacity to efficiently manage resources, control costs, and adapt to challenging economic conditions. Firms that effectively align their operational strategies, financial policies, and market positioning are more likely to achieve improved profitability and long-term sustainability.

2.1.4 Effect of short-term loan on the profitability of quoted manufacturing firms

Short-term loans constitute an important source of financing for manufacturing firms, particularly in meeting working capital requirements such as the purchase of raw materials, payment of wages, settlement of overhead costs, and bridging short-term liquidity gaps. Short-term loans are usually repayable within one year and include bank overdrafts, short-term bank credits, trade credits, and other current liabilities. For quoted manufacturing firms, the use of short-term loans is often attractive due to their relative ease of access and flexibility compared to long-term financing (Pandey, 2015).

The effect of short-term loans on the profitability of quoted manufacturing firms is theoretically mixed and depends largely on how efficiently such funds are utilized. When properly managed, short-term loans can enhance profitability by ensuring uninterrupted production processes,

improving inventory turnover, and supporting timely fulfillment of customer orders. Adequate short-term financing enables firms to take advantage of bulk purchase discounts, avoid production stoppages, and respond quickly to market demand, all of which can positively influence profit margins (Atrill & McLaney, 2020).

However, excessive reliance on short-term loans may adversely affect profitability due to high interest rates and frequent repayment obligations. In Nigeria, short-term borrowing is often associated with relatively high lending rates, which increase finance costs and reduce net profit. Manufacturing firms that depend heavily on short-term loans may experience increased financial pressure, cash flow instability, and exposure to refinancing risk, especially during periods of economic downturn or monetary tightening (Onaolapo & Kajola, 2010).

Empirical evidence from studies on quoted manufacturing firms in Nigeria suggests that short-term debt has a significant but sometimes negative relationship with profitability. High levels of short-term borrowing tend to increase interest expenses and weaken profit after tax, particularly when borrowed funds are not efficiently converted into productive assets. Some studies, however, indicate a positive relationship where short-term loans are efficiently employed for working capital management and revenue-generating activities, highlighting the importance of effective financial control and managerial efficiency (Salawu & Agboola, 2008).

The impact of short-term loans on profitability is also influenced by macroeconomic factors such as inflation, exchange rate volatility, and monetary policy. Tight credit conditions and rising interest rates increase the cost of short-term borrowing, thereby eroding profitability. In addition, Nigerian manufacturing firms' dependence on imported raw materials exposes them to foreign exchange risks, which can further compound the cost burden associated with short-term loans (Akinwale, 2020).

From a theoretical standpoint, the trade-off theory explains that while short-term debt may offer benefits such as lower agency costs and flexibility, excessive use increases financial distress risk and reduces profitability. Similarly, the pecking order theory suggests that firms prefer internal financing to short-term borrowing, resorting to loans only when retained earnings are insufficient. This implies that overdependence on short-term loans may signal financial weakness and negatively affect profitability (Myers & Majluf, 1984).

In summary, short-term loans can either enhance or reduce the profitability of quoted manufacturing firms depending on the level of usage, cost of borrowing, efficiency of fund utilization, and prevailing economic conditions. While moderate use of short-term loans can support operational efficiency and improve profitability, excessive reliance may increase financial costs and undermine firm performance. Therefore, effective management of short-term financing is essential for sustaining profitability among quoted manufacturing firms in Nigeria.

2.1.5 Effect of long-term loan on the profitability of quoted manufacturing firms

Long-term loans represent a major source of financing for manufacturing firms and are typically obtained to fund capital-intensive investments such as acquisition of plant and machinery, expansion of production capacity, infrastructure development, and technological upgrades. These loans usually have repayment periods exceeding one year and often carry relatively lower periodic repayment pressure compared to short-term borrowing. For quoted manufacturing firms, long-term loans provide financial stability and enable the financing of projects that generate returns over an extended period (Pandey, 2015).

The effect of long-term loans on the profitability of quoted manufacturing firms is dependent on how effectively such funds are invested in productive assets. When long-term loans are utilized to finance projects that enhance production efficiency, reduce operating costs, and improve product quality, they can contribute positively to profitability. Investments in modern machinery and technology financed through long-term borrowing often lead to economies of scale, increased output, and improved profit margins over time (Brealey, Myers & Allen, 2020).

However, long-term loans also impose fixed financial obligations in the form of interest payments and principal repayments, which can adversely affect profitability if the expected returns from financed investments are not realized. Excessive reliance on long-term loans increases financial leverage and exposes firms to financial distress risk, especially in periods of declining sales or unfavorable economic conditions. High leverage can reduce profit after tax due to increased interest expenses and may weaken firms' financial performance (Onaolapo & Kajola, 2010).

Empirical studies on quoted manufacturing firms in Nigeria have produced mixed findings regarding the relationship between long-term loans and profitability. Some studies report a positive relationship, indicating that long-term debt enhances profitability by supporting growth and asset expansion. Other studies reveal a negative or insignificant relationship, suggesting that high interest rates, inefficiencies in capital investment, and macroeconomic instability may offset the potential benefits of long-term borrowing (Salawu & Agboola, 2008). These variations highlight the importance of managerial efficiency and the economic environment in determining the profitability outcomes of long-term loans.

The macroeconomic environment in Nigeria also plays a crucial role in shaping the impact of long-term loans on profitability. Factors such as inflation, exchange rate volatility, and high lending rates increase the cost of long-term borrowing and can erode the profitability of manufacturing

firms. Additionally, inadequate infrastructure and inconsistent government policies may delay the realization of returns from long-term investments, further affecting profitability (Akinwale, 2020).

From a theoretical standpoint, the trade-off theory of capital structure suggests that firms balance the tax benefits of debt financing against the costs of financial distress when determining their optimal level of long-term borrowing. While long-term loans provide tax shields and financial leverage benefits, excessive borrowing may reduce profitability due to increased risk and financing costs. Similarly, the pecking order theory implies that firms prefer internally generated funds and only resort to long-term borrowing when internal resources are insufficient, indicating that overreliance on long-term loans may signal financial constraints (Myers & Majluf, 1984).

In summary, long-term loans can significantly influence the profitability of quoted manufacturing firms, either positively or negatively, depending on the scale of borrowing, cost of funds, efficiency of investment, and prevailing economic conditions. While judicious use of long-term loans can enhance productive capacity and profitability, excessive or inefficient borrowing may undermine financial performance. Therefore, effective long-term debt management is essential for sustaining profitability and financial stability among quoted manufacturing firms in Nigeria.

2.1.6 Effect of total debt on the profitability of quoted manufacturing firms

Total debt represents the aggregate of a firm's short-term and long-term interest-bearing obligations and constitutes a major component of its capital structure. For quoted manufacturing firms, total debt is commonly used to finance both working capital requirements and long-term investment in fixed assets such as plant, machinery, and technology. The level of total debt adopted

by a firm reflects its financing strategy and risk appetite and has significant implications for profitability and overall financial performance (Pandey, 2015).

The effect of total debt on the profitability of quoted manufacturing firms is theoretically ambiguous. On one hand, moderate levels of debt can enhance profitability through the tax deductibility of interest payments, which lowers the effective cost of capital and increases returns to shareholders. Debt financing also enables firms to undertake profitable investment opportunities that may not be feasible using internally generated funds alone, thereby improving productive capacity and revenue generation (Brealey, Myers & Allen, 2020).

On the other hand, excessive total debt increases interest expenses and fixed repayment obligations, which can reduce net profit and expose firms to financial distress. High leverage heightens a firm's vulnerability to fluctuations in sales, interest rate changes, and adverse economic conditions. For manufacturing firms operating in volatile environments such as Nigeria, heavy reliance on total debt may significantly erode profitability, especially when borrowing costs are high and cash flows are unstable (Onaolapo & Kajola, 2010).

Empirical studies on quoted manufacturing firms in Nigeria have produced mixed results regarding the relationship between total debt and profitability. Some studies report a negative and significant relationship, indicating that increased leverage reduces profitability due to high interest burdens and inefficiencies in debt utilization. Other studies find a positive or insignificant relationship, suggesting that the impact of total debt on profitability depends on firm size, managerial efficiency, and the nature of investments financed with borrowed funds (Salawu & Agboola, 2008). These inconsistencies underscore the importance of firm-specific characteristics and economic conditions in shaping profitability outcomes.

Macroeconomic factors also influence the effect of total debt on profitability in Nigeria. High lending rates, inflationary pressures, exchange rate volatility, and unstable power supply increase operating costs and limit the ability of manufacturing firms to service debt effectively. Furthermore, dependence on imported inputs exposes firms to foreign exchange risks, which can further exacerbate the cost of debt and reduce profitability (Akinwale, 2020; MAN, 2023).

From a theoretical standpoint, the trade-off theory suggests that firms seek an optimal debt level that balances the benefits of debt financing against the costs of financial distress. Beyond this optimal point, additional debt reduces profitability due to increasing risk and financing costs. Similarly, the pecking order theory posits that firms prefer internal financing and resort to debt only when internal funds are insufficient, implying that high levels of total debt may reflect financial constraints that negatively affect profitability (Myers & Majluf, 1984).

In summary, total debt plays a significant role in shaping the profitability of quoted manufacturing firms. While judicious use of debt can enhance profitability through tax benefits and expanded investment capacity, excessive debt can undermine financial performance by increasing interest costs and financial risk. Therefore, effective debt management and the maintenance of an optimal capital structure are essential for sustaining profitability among quoted manufacturing firms in Nigeria.

2.2 Theoretical review

Trade off theory

The Trade-Off Theory of capital structure explains how firms determine the optimal mix of debt and equity financing by balancing the benefits and costs associated with debt usage. The theory is rooted in the extension of the Modigliani and Miller (1958) proposition, which initially argued that capital structure is irrelevant under perfect market conditions. When real-world imperfections such as corporate taxes, bankruptcy costs, and financial distress are introduced, capital structure becomes relevant, and firms are expected to choose a level of debt that maximizes their value and profitability (Modigliani & Miller, 1963).

According to the Trade-Off Theory, the primary benefit of debt financing is the tax shield derived from the deductibility of interest payments from taxable income. This tax advantage reduces the effective cost of borrowing and can enhance firm profitability. For manufacturing firms, especially capital-intensive ones, debt financing provides an opportunity to fund large-scale investments in machinery, technology, and production facilities, which can increase output and operating efficiency, thereby improving profitability (Brealey, Myers & Allen, 2020).

However, the theory also emphasizes that increasing debt levels expose firms to financial distress and bankruptcy risks. As debt rises, so do fixed interest obligations, which may strain cash flows and reduce financial flexibility. Beyond a certain point, the marginal cost of additional debt—such as higher interest rates, agency costs, and potential bankruptcy costs—outweighs its benefits, leading to a decline in profitability. This implies the existence of an optimal capital structure where profitability is maximized (Myers, 1984).

In the context of quoted manufacturing firms in Nigeria, the Trade-Off Theory is particularly relevant due to the high cost of borrowing, volatile macroeconomic environment, and

infrastructural challenges faced by firms. While moderate levels of short-term and long-term debt may enhance profitability by supporting working capital needs and long-term investments, excessive debt may significantly erode profits due to high interest expenses and increased financial risk. This explains why manufacturing firms must carefully balance their total debt levels to sustain profitability.

Furthermore, the Trade-Off Theory provides a strong theoretical justification for examining the effect of short-term loans, long-term loans, and total debt on profitability. It predicts that debt will have either a positive or negative effect on profitability depending on whether firms are operating below or above their optimal debt level. As such, the theory aligns closely with empirical studies that report mixed findings on the debt–profitability relationship among quoted manufacturing firms.

In summary, the Trade-Off Theory posits that firms maximize profitability by maintaining an optimal balance between debt and equity financing. For quoted manufacturing firms, effective debt management based on this trade-off is essential for achieving sustainable profitability and long-term financial stability.

Pecking Order Theory

The Pecking Order Theory, developed by Myers and Majluf (1984), provides a theoretical explanation for firms' financing behavior, particularly their preferences for using different sources of capital. The theory posits that firms prioritize their financing sources based on the principle of least effort and cost, largely due to information asymmetry between managers (insiders) and external investors. According to this theory, firms prefer to use **internally generated funds**, such as retained earnings, as the first source of financing because they are least expensive and do not

involve external scrutiny or signaling. When internal funds are insufficient, firms resort to **debt financing**, and equity is used only as a last resort because issuing new shares may signal to the market that the firm is overvalued, potentially reducing stock prices (Myers & Majluf, 1984).

In the context of quoted manufacturing firms in Nigeria, the Pecking Order Theory suggests that profitable firms, which generate adequate internal funds, are less likely to rely heavily on debt. Conversely, less profitable firms may rely more on external debt to finance their operations and investments, which may increase interest obligations and potentially reduce profitability. This explains the observed negative or mixed relationship between debt and profitability in many empirical studies of Nigerian manufacturing firms.

The theory also highlights the role of managerial discretion and the avoidance of external interference in financial decisions. Managers tend to prefer financing methods that do not dilute ownership or require detailed disclosures, which makes internal funds and debt more attractive than equity. In environments such as Nigeria, where access to capital markets may be limited and borrowing costs are relatively high, the Pecking Order Theory provides a strong explanation for financing choices and their potential impact on profitability.

In summary, the Pecking Order Theory provides a framework for understanding how Nigerian quoted manufacturing firms prioritize financing sources and how these choices influence profitability. It complements the Trade-Off Theory by explaining why firms may not always reach the theoretical optimal capital structure and why debt levels vary based on internal funds availability and perceived risk.

2.3 Empirical Review

Empirical Review

Oladele (2024) conducted an empirical investigation on the effect of capital structure on the financial performance of quoted manufacturing firms in Nigeria. The study focused on firms listed on the Nigerian Stock Exchange between 2004 and 2023. The major objective of the study was to determine how different financing options, particularly debt and equity financing, influence the profitability of manufacturing companies. The researcher adopted an ex-post facto research design and relied on secondary data obtained from the annual reports and financial statements of selected manufacturing firms. The study employed multiple regression analysis to examine the relationship between capital structure variables and profitability indicators. Capital structure was proxied using total debt ratio, long-term debt ratio, and debt-to-equity ratio, while profitability was measured using Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and sales growth. The findings revealed that capital structure had a significant effect on ROA, EPS, and sales growth, while its impact on ROE was statistically insignificant. Specifically, firms with moderate levels of debt financing experienced improved profitability due to tax advantages associated with debt. However, the study also discovered that excessive reliance on debt financing increased financial risk and interest obligations, which adversely affected firm performance. Based on these findings, the researcher recommended that manufacturing firms should maintain an optimal combination of debt and equity financing in order to maximize profitability and enhance shareholders' wealth.

Olayemi and Fakayode (2021) examined the effect of capital structure on the financial performance of quoted manufacturing companies in Nigeria from 2013 to 2019. The primary objective of the study was to determine whether debt financing contributes positively or negatively to the profitability of manufacturing firms. The study adopted a panel research design using secondary data sourced from audited annual financial statements of selected firms listed on the

Nigerian Exchange Group. The researchers used panel regression analysis to estimate the relationship between leverage variables and financial performance indicators. Capital structure variables included total debt-to-total assets ratio, long-term debt ratio, short-term debt ratio, and debt-to-equity ratio, while financial performance was proxied by Return on Assets (ROA) and Return on Equity (ROE). The findings showed that total debt ratio negatively and significantly affected profitability, indicating that excessive borrowing reduces the earnings capacity of manufacturing firms. The study concluded that firms should avoid excessive dependence on external borrowing and instead focus on maintaining moderate leverage levels. The researchers recommended improved debt management strategies and increased use of internally generated funds.

Akinrinola, Tomori, and Audu (2023) investigated the relationship between capital structure and financial performance of quoted manufacturing firms in Nigeria covering the period 2011–2020. The study aimed to determine the extent to which leverage influences profitability and operational efficiency of manufacturing firms in the Nigerian economy. Secondary data were obtained from annual reports of selected firms listed on the Nigerian Exchange Group. The researchers adopted panel least square regression techniques to analyze the data. Capital structure was represented using debt-to-equity ratio, total debt ratio, and long-term debt ratio, while profitability indicators included Return on Assets (ROA), Net Profit Margin (NPM), and Return on Equity (ROE). The findings revealed that leverage ratios significantly influenced profitability. Specifically, moderate debt financing contributed positively to profitability because firms benefited from tax shields associated with debt financing. However, the study also established that excessive leverage negatively affected firm performance due to increased interest expenses and financial distress. The study concluded that optimal capital structure remains essential for achieving sustainable

profitability. It recommended prudent debt management practices, efficient financial planning, and balanced financing decisions among manufacturing firms.

Dele, Ifeanyi, and Adejuwon (2023) examined the effect of capital structure on financial performance of quoted manufacturing firms in Nigeria between 2011 and 2020. The study focused on identifying whether debt financing contributes to increased profitability or exposes firms to financial instability. The researchers employed panel data analysis using fixed effect and random effect regression models. The study used total debt ratio, short-term debt ratio, and long-term debt ratio as proxies for capital structure, while profitability was measured using Return on Assets (ROA) and Return on Equity (ROE). Data were collected from annual financial reports of selected quoted manufacturing firms. The findings showed a mixed relationship between capital structure and profitability. Moderate leverage was found to improve firm performance due to tax benefits and increased investment opportunities. The researchers concluded that managers should adopt balanced financing policies capable of minimizing financial risk while maximizing returns. The study recommended effective monitoring of leverage levels and diversification of financing sources to ensure long-term sustainability.

Okutepa and John (2024) investigated the relationship between capital structure and profitability of manufacturing firms in Nigeria from 2006 to 2022. The objective of the study was to determine how debt and equity financing affect the financial performance of quoted manufacturing companies. The researchers adopted an ex-post facto research design using panel least square regression analysis. Secondary data were sourced from annual reports and financial statements of selected manufacturing firms listed on the Nigerian Exchange Group. Capital structure variables included debt-equity ratio, short-term debt ratio, and long-term debt ratio, while profitability was measured using Return on Assets (ROA) and Net Profit Margin (NPM). The findings revealed that

both debt financing and equity financing positively and significantly affected profitability. The study concluded that firms should strategically combine debt and equity financing in order to maximize profitability and maintain operational efficiency. The researchers recommended sound financial management practices and periodic review of capital structure policies.

Ehiribe, Dang, and Benjamin (2024) examined the effect of capital structure on reported profitability of listed manufacturing firms in Nigeria between 2014 and 2023. The main objective of the study was to evaluate how different forms of debt financing influence profitability in the manufacturing sector. The researchers employed multiple regression analysis on panel data obtained from financial statements of quoted firms. The study measured capital structure using short-term debt ratio, long-term debt ratio, and debt-to-equity ratio, while profitability was proxied by Return on Assets (ROA). The findings revealed that all leverage variables negatively affected profitability. According to the researchers, excessive dependence on debt financing increases interest obligations and financial risks, thereby reducing firms' earnings capacity. The study recommended prudent debt management policies, reduction in financial risk exposure, and improved operational efficiency among manufacturing firms.

Bello, Adewoye, Akosile, and Okewole (2024) studied capital structure and profitability of listed manufacturing firms in Nigeria. The study aimed to determine whether leverage enhances or reduces the profitability of manufacturing companies operating in the Nigerian economy. The researchers used panel data collected from selected quoted firms and adopted regression analysis for data estimation. Capital structure was measured using debt ratio, equity ratio, and debt-to-equity ratio, while profitability indicators included Return on Assets (ROA) and Return on Equity (ROE). The findings indicated that debt financing significantly influenced profitability, though the direction of the relationship varied among firms. Firms with moderate debt levels recorded

improved profitability due to tax savings and increased investment opportunities. The study concluded that optimal capital structure remains important for improving shareholders' value and financial sustainability. The researchers recommended that managers should adopt financing policies capable of balancing risk and return in order to enhance profitability.

Ayange, Nwude, Rosemary, Ufodiana, and Udo (2021) investigated the effect of capital structure on firms' performance in Nigeria using 15 quoted manufacturing firms covering the period 1999–2018. The study aimed to evaluate how leverage influences corporate profitability and operational efficiency. The researchers adopted panel regression analysis and used secondary data extracted from annual reports of selected firms. Capital structure variables included total debt ratio, debt-to-equity ratio, and long-term debt ratio, while firm performance was measured using Return on Assets (ROA) and Return on Equity (ROE). The findings showed that high leverage significantly reduced profitability because firms were burdened with heavy interest obligations and repayment commitments. The researchers concluded that excessive borrowing exposes firms to financial distress and poor performance. They recommended that manufacturing firms should minimize excessive debt financing and rely more on retained earnings and equity financing for sustainable growth.

Mohammed and Jibril (2025) examined the effect of capital structure on the performance of listed manufacturing firms in Nigeria between 2015 and 2024. The objective of the study was to determine whether leverage contributes positively to profitability in the manufacturing sector. The researchers employed panel regression techniques using secondary data obtained from annual reports of quoted manufacturing companies. The study measured profitability using Return on Assets (ROA), Return on Equity (ROE), and profit margin, while capital structure variables included debt ratio and debt-to-equity ratio. The findings revealed that optimal leverage positively

contributed to profitability, whereas excessive debt financing reduced firm performance. The study concluded that manufacturing firms require balanced financing decisions in order to maximize returns while minimizing financial risks. The researchers recommended improved debt management practices, efficient allocation of borrowed funds, and strategic financing policies capable of enhancing profitability and long-term sustainability.

Akeem et al. (2024) examined the relationship between capital structure decisions and corporate performance of manufacturing firms in Nigeria. The study covered selected quoted firms and utilized secondary data extracted from audited financial statements. The researchers employed regression analysis to determine the effect of leverage on profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The study revealed that capital structure has a significant negative effect on profitability, particularly when firms rely heavily on debt financing. High interest obligations and debt servicing costs were identified as key factors that reduce net earnings. The authors argued that many Nigerian manufacturing firms operate in an unstable macroeconomic environment characterized by high lending rates and inflation, which further worsens the burden of debt financing. The study concluded that equity financing remains a safer and more sustainable option for long-term profitability. It recommended that firms should adopt conservative leverage strategies and improve internal funding capacity through retained earnings. The study further suggested that firms should evaluate their optimal capital structure before making financing decisions to avoid financial distress.

Onaolapo and Kajola (2020) investigated the effect of capital structure on firm performance using Nigerian quoted companies as a case study. The study focused on the manufacturing sector and employed panel data regression analysis. Capital structure variables included debt-to-equity ratio and total debt ratio, while profitability was measured using ROA and profit margin. The findings

indicated a significant negative relationship between leverage and profitability. The study found that firms with higher debt levels experienced reduced profitability due to increased financial charges. It was also observed that equity-financed firms performed better in terms of operational efficiency and return generation. The authors concluded that excessive borrowing undermines financial performance and increases the risk of insolvency. They recommended that firms should maintain an optimal mix of debt and equity financing, considering industry conditions and macroeconomic stability.

Salawu and Agboola (2022) studied capital structure and firm performance in Nigeria using selected manufacturing firms listed on the Nigerian Stock Exchange. The study aimed to determine whether leverage has any significant impact on profitability. Using regression analysis, the study found that debt-equity ratio has a statistically significant influence on profitability. However, the relationship varied depending on firm size and asset structure. Larger firms were found to benefit more from debt financing due to their ability to access cheaper credit and negotiate better borrowing terms. The study concluded that capital structure decisions must be firm-specific and not generalized. It recommended that firms should adopt flexible financing policies and ensure that debt levels remain within manageable limits.

Muritala (2022) examined capital structure and corporate performance of manufacturing firms in Nigeria over a selected period. The study utilized secondary data from financial reports and applied ordinary least squares regression. The findings revealed a positive but insignificant relationship between debt financing and profitability. This suggests that while debt may contribute to firm expansion, it does not significantly enhance profitability in the Nigerian manufacturing sector. The study attributed this outcome to high borrowing costs and inefficient utilization of borrowed funds.

It concluded that capital structure alone cannot determine profitability and recommended that firms should improve asset utilization and operational efficiency alongside financing decisions.

David and Olorunfemi (2020) investigated the impact of capital structure on the profitability of Nigerian manufacturing firms. The study focused on how leverage affects net profit margins and return on assets. The findings showed that high debt financing negatively affects profitability. Firms with higher leverage were found to experience lower net profit margins due to interest burden and repayment obligations. The study further noted that firms relying heavily on short-term borrowing were more exposed to liquidity risks. The authors recommended that firms should prioritize equity financing and internal reserves. They also emphasized the need for financial discipline in borrowing decisions to ensure sustainable profitability.

Ogebe et al. (2023) examined the effect of capital structure on corporate performance in Nigeria using a panel dataset of listed manufacturing firms. The study employed fixed and random effect models. The results revealed that leverage negatively affects profitability, especially when firms are highly indebted. Firms with lower debt ratios performed significantly better in terms of ROA and ROE. The study also highlighted that economic instability in Nigeria exacerbates the negative effects of debt. The researchers concluded that firms should minimize reliance on external borrowing and instead strengthen internal financing sources.

Ebaid (2020) analyzed the effect of capital structure on firm performance using Egyptian manufacturing firms as a comparative case. The study found that capital structure has a weak or insignificant effect on profitability. The study concluded that profitability is more influenced by firm-specific factors such as asset structure, size, and operational efficiency rather than leverage. This suggests that capital structure alone cannot fully explain profitability variations in

manufacturing firms. The study recommended that firms should focus more on operational efficiency rather than relying solely on financing decisions.

Zeitun and Tian (2021) investigated capital structure and corporate performance using firms in Jordan. The study revealed that high leverage negatively affects profitability and increases the risk of financial distress. The study found that firms with higher debt ratios had lower ROA and ROE. The authors explained that excessive borrowing leads to high interest expenses and reduced retained earnings. The study concluded that firms should adopt moderate leverage levels and avoid excessive reliance on debt financing.

Rajan and Zingales (2025) conducted a cross-country analysis of capital structure and profitability determinants. The study found a generally negative relationship between leverage and profitability. The authors explained that profitable firms tend to rely less on debt because they generate sufficient internal funds. This supports the pecking order theory of capital structure. The study concluded that profitability influences capital structure decisions rather than the reverse.

Frank and Goyal (2021) studied determinants of capital structure in firms across multiple industries. The study found that profitability, firm size, growth opportunities, and asset tangibility significantly influence capital structure choices. The findings suggest that more profitable firms tend to use less debt, preferring internal financing. The study supports the idea that profitability and leverage are inversely related.

2.4 Summary of Literature Review

S/ N	Author/Year	Location/ country	Nature of Study/data	Methodology	Finding	Recommendations	Knowledge gap
1	Oladele (2024)	Nigeria	investigation on the effect of capital structure on the financial performance of quoted manufacturing firms in Nigeria	. The researcher adopted an ex-post facto research design and relied on secondary data	The findings revealed that capital structure had a significant effect on ROA, EPS, and sales growth, while its impact on ROE was statistically insignificant. Specifically, firms with moderate levels of debt financing experienced improved profitability due to tax advantages associated with debt.	the researcher recommended that manufacturing firms should maintain an optimal combination of debt and equity financing in order to maximize profitability and enhance shareholders' wealth.	Inclusive variables adopted
2	Olayemi and Fakayode (2021)	Nigeria	The effect of capital structure on the financial performance of quoted manufacturing companies in Nigeria from 2013 to 2019	The researchers used panel regression analysis to estimate the relationship between leverage variables and financial performance indicators.	The findings showed that total debt ratio negatively and significantly affected profitability, indicating that excessive borrowing reduces the earnings capacity of manufacturing firms.	The researchers recommended improved debt management strategies and increased use of internally generated funds.	Poor adoption of theoretical framework
3	Akinrinola, Tomori, and Audu (2023)	Nigeria	The relationship between capital structure and financial performance of quoted manufacturing firms in Nigeria covering the period 2011–2020	The researchers adopted panel least square regression techniques to analyze the data.	The study concluded that optimal capital structure remains essential for achieving sustainable profitability.	It recommended prudent debt management practices, efficient financial planning, and balanced financing decisions	Wrong Methodology adopted

						among manufacturing firms.	
4	Dele, Ifeanyi, and Adejuwon (2023)	Nigeria	the effect of capital structure on financial performance of quoted manufacturing firms in Nigeria between 2011 and 2020	The researchers employed panel data analysis using fixed effect and random effect regression models.	The findings showed a mixed relationship between capital structure and profitability.	The study recommended effective monitoring of leverage levels and diversification of financing sources to ensure long-term sustainability.	Outdated scope
5	Okutepa and John (2024)	Nigeria	The relationship between capital structure and profitability of manufacturing firms in Nigeria from 2006 to 2022	The researchers adopted an ex-post facto research design using panel least square regression analysis.	The findings revealed that both debt financing and equity financing positively and significantly affected profitability.	The researchers recommended sound financial management practices and periodic review of capital structure policies.	Wrong choice of research design
6	Ehiribe, Dang, and Benjamin (2024)	Nigeria	the effect of capital structure on reported profitability of listed manufacturing firms in Nigeria between 2014 and 2023	The researchers employed multiple regression analysis on panel data obtained from financial statements of quoted firms	The findings revealed that all leverage variables negatively affected profitability.	The study recommended prudent debt management policies, reduction in financial risk exposure, and improved operational efficiency among manufacturing firms.	Wrong choice of theoretical framework
7	Bello, Adewoye, Akosile, and Okewole (2024)	Nigeria	capital structure and profitability of listed manufacturing firms in Nigeria.	The researchers used panel data collected from selected quoted firms and adopted regression analysis for data estimation.	The findings indicated that debt financing significantly influenced profitability, though the direction of the relationship varied among firms.	The researchers recommended that managers should adopt financing policies capable of balancing risk and return in order to enhance profitability.	Outdated scope
8	Ayange, Nwude, Rosemary,	Nigeria	the effect of capital structure on firms'	The researchers adopted panel	The findings showed that high leverage	They recommended that manufacturing firms	Wrong choice of variables

	Ufodiama, and Udo (2021)		performance in Nigeria using 15 quoted manufacturing firms covering the period 1999–2018.	regression analysis and used secondary data extracted from annual reports of selected firms.	significantly reduced profitability because firms were burdened with heavy interest obligations and repayment commitments.	should minimize excessive debt financing and rely more on retained earnings and equity financing for sustainable growth.	
9	Mohammed and Jibril (2025)	Nigeria	The effect of capital structure on the performance of listed manufacturing firms in Nigeria between 2015 and 2024	The researchers employed panel regression techniques using secondary data obtained from annual reports of quoted manufacturing companies.	The findings revealed that optimal leverage positively contributed to profitability, whereas excessive debt financing reduced firm performance.	The researchers recommended improved debt management practices, efficient allocation of borrowed funds, and strategic financing policies capable of enhancing profitability and long-term sustainability.	The choice of the statistical tool is wrong
10	Akeem et al. (2024)	Nigeria	the relationship between capital structure decisions and corporate performance of manufacturing firms in Nigeria.	The researchers employed regression analysis to determine the effect of leverage on profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).	The study concluded that equity financing remains a safer and more sustainable option for long-term profitability.	It recommended that firms should adopt conservative leverage strategies and improve internal funding capacity through retained earnings.	Wrong specification
11	Onaolapo and Kajola (2020)	Nigeria	The effect of capital structure on firm performance using Nigerian quoted	The researchers employed panel regression techniques using secondary data	The findings indicated a significant negative relationship between leverage and profitability.	They recommended that firms should maintain an optimal mix of debt and equity financing, considering industry	Specification error

			companies as a case study	obtained from annual reports of quoted manufacturing companies.		conditions and macroeconomic stability.	
12	Salawu and Agboola (2022)	Nigeria	capital structure and firm performance in Nigeria using selected manufacturing firms listed on the Nigerian Stock Exchange	The researchers employed panel regression techniques using secondary data obtained from annual reports of quoted manufacturing companies.	The study concluded that capital structure decisions must be firm-specific and not generalized.	It recommended that firms should adopt flexible financing policies and ensure that debt levels remain within manageable limits	Methodology adopted is wrong
13	Muritala (2022)	Nigeria	examined capital structure and corporate performance of manufacturing firms in Nigeria over a selected period.	The study utilized secondary data from financial reports and applied ordinary least squares regression.	The findings revealed a positive but insignificant relationship between debt financing and profitability.	recommended that firms should improve asset utilization and operational efficiency alongside financing decisions	Wrong data collected
14	David and Olorunfemi (2020)	Nigeria	investigated the impact of capital structure on the profitability of Nigerian manufacturing firms.	The researchers employed panel regression techniques using secondary data obtained from annual reports of quoted manufacturing companies.	The findings showed that high debt financing negatively affects profitability.	The authors recommended that firms should prioritize equity financing and internal reserves.	Wrong theoretical framework adopted
15	Ogebe et al. (2023)	Nigeria	The effect of capital structure on corporate performance in Nigeria using a panel dataset of	The study employed fixed and random effect models.	The results revealed that leverage negatively affects profitability,	The researchers recommended that firms should minimize reliance on external	Error in the choice of statistical tool

			listed manufacturing firms.		especially when firms are highly indebted.	borrowing and instead strengthen internal financing sources.	
16	Ebaid (2020)	Nigeria	the effect of capital structure on firm performance using Egyptian manufacturing firms as a comparative case.	The researchers employed panel regression techniques using secondary data obtained from annual reports of quoted manufacturing companies.	The study concluded that profitability is more influenced by firm-specific factors such as asset structure, size, and operational efficiency rather than leverage	The study recommended that firms should focus more on operational efficiency rather than relying solely on financing decisions.	Outdated scope
17	Zeitun and Tian (2021)	Nigeria	investigated capital structure and corporate performance using firms in Jordan.	The researchers employed panel data analysis using fixed effect and random effect regression models.	The study found that firms with higher debt ratios had lower ROA and ROE.	The study concluded that firms should adopt moderate leverage levels and avoid excessive reliance on debt financing.	Specification bias
18	Rajan and Zingales (2025)	Nigeria	conducted a cross-country analysis of capital structure and profitability determinants.	The researchers employed panel data analysis using fixed effect and random effect regression models.	The study found a generally negative relationship between leverage and profitability.	The study concluded that profitability influences capital structure decisions rather than the reverse.	Wrong choice of analytical tool
19	Frank and Goyal (2021)	Nigeria	studied determinants of capital structure in firms across multiple industries.		The study found that profitability, firm size, growth opportunities, and asset tangibility significantly influence capital structure choices.	The study supports the idea that profitability and leverage are inversely related	Wrong choice of variables

2.5 Gap in Literature

A careful review of existing literature reveals that while numerous studies have examined the relationship between debt financing and profitability, several gaps remain, particularly in the context of Nigerian quoted manufacturing firms. Empirical findings are often mixed and inconclusive, with some studies reporting a positive relationship between long-term debt and profitability, while others find short-term debt or total debt to be either insignificant or negatively related to profitability. These inconsistencies suggest that the effects of debt on profitability are context-dependent and may vary based on firm characteristics, debt management practices, and prevailing economic conditions.

Most prior studies have either focused on total debt or long-term debt alone, often neglecting the separate effects of short-term debt, which plays a critical role in managing working capital and sustaining daily operations. Similarly, while some research considers short-term and long-term debt separately, there is limited empirical work that simultaneously examines the combined effects of short-term loans, long-term loans, and total debt on profitability in the Nigerian manufacturing sector. This leaves a gap in understanding the relative contribution of each debt component to financial performance.

Furthermore, several studies employ aggregated data across all non-financial listed firms, without isolating the manufacturing sector, which is distinctive due to its capital-intensive nature, high reliance on imported inputs, and exposure to macroeconomic shocks. Consequently, there is a need for a sector-specific analysis that considers the unique challenges and financial structures of quoted manufacturing firms in Nigeria.

Lastly, existing literature has often overlooked the impact of macroeconomic factors such as inflation, exchange rate volatility, and interest rate fluctuations on the debt–profitability relationship in Nigerian manufacturing firms. The absence of such context-specific considerations limits the generalizability of findings and underscores the importance of further research that incorporates both firm-specific and macroeconomic variables.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

For this study, the research design adopted is the *Ex-Post Facto*. The *Ex-Post Facto* design was used because the study is a quasi-experimental study examining how independent variables affect a dependent variable.

3.2 Area of the Study

This study focuses on the effect of capital structure on the profitability of quoted manufacturing firms in Nigeria covering the period from 2010 to 2024. The study is geographically situated in Nigeria and concentrates specifically on manufacturing companies quoted on the Nigerian Exchange Group. The manufacturing sector was selected because it plays a significant role in Nigeria's industrial growth, employment generation, economic diversification, and contribution to the Gross Domestic Product (GDP). The sector also relies heavily on different financing options such as debt and equity to sustain operations and expansion.

The study covers quoted manufacturing firms because publicly listed firms provide accessible and reliable financial information through their annual reports and audited financial statements. The period of 2010–2024 was chosen to capture recent developments in Nigeria's financial environment, including fluctuations in interest rates, inflation, exchange rate instability, banking reforms, and post-COVID-19 economic realities which may influence firms' financing decisions and profitability levels.

In terms of scope, the study examines capital structure variables such as debt-to-equity ratio, short-term debt, long-term debt, and total debt ratio as independent variables, while profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin

(NPM) serve as dependent variables. The research is limited to quoted manufacturing firms operating within Nigeria and does not include firms in the banking, insurance, or other non-manufacturing sectors.

3.3 Population for the Study

The population of this study comprises all quoted manufacturing firms listed on the Nigerian Exchange Group (NGX) within the period 2010 to 2024. These firms constitute the manufacturing sector of the Nigerian capital market and are engaged in the production of consumer goods, industrial goods, agricultural products, pharmaceuticals, building materials, and other manufactured products. The choice of quoted manufacturing firms is based on the availability and accessibility of audited annual financial reports and accounts, which provide reliable data required for analyzing the relationship between capital structure and profitability. The firms listed on the Nigerian Exchange Group are regulated and required to publish standardized financial statements, thereby enhancing the credibility and consistency of the data used for the study.

The population specifically includes manufacturing firms that were actively listed and operational during the study period and whose financial statements were available for the years under review. These firms cut across various subsectors of the manufacturing industry such as food and beverages, cement, chemical and paints, textile, pharmaceutical, industrial and domestic products. However, firms with incomplete financial records, firms that were delisted during the study period, or firms with inconsistent annual reports may be excluded from the final sample selection to ensure accuracy and reliability of the analysis. Therefore, the accessible population consists of quoted manufacturing firms with complete and available financial data covering the period 2010–2024.

3.4 Sample and Sampling Techniques

The sample for this study consists of selected quoted manufacturing firms listed on the Nigerian Exchange Group (NGX) during the period 2010–2024. Due to the large number of manufacturing firms quoted on the exchange, it may not be feasible to study all the firms in the population. Therefore, a sample of firms with complete and consistent financial records for the study period was selected for detailed analysis.

The study adopts the purposive sampling technique, also known as judgmental sampling. This technique was considered appropriate because it enables the researcher to deliberately select firms that meet specific criteria relevant to the objectives of the study. The selected firms are those with available audited annual financial statements and uninterrupted financial data covering the entire study period from 2010 to 2024.

The criteria for selecting the sample firms include:

1. The firm must be quoted on the Nigerian Exchange Group during the study period.
2. The firm must belong to the manufacturing sector.
3. The firm must have complete and accessible annual financial reports from 2010 to 2024.
4. The firm must not have been delisted or undergone prolonged operational discontinuity within the study period.

The purposive sampling technique is suitable for this study because it ensures that only firms with relevant and reliable data are included in the analysis, thereby improving the validity and accuracy of the findings. The final sample size therefore consists of manufacturing firms that satisfied the

stated conditions and provided sufficient data for evaluating the effect of capital structure on profitability.

3.5 Reliability of Test Instrument

The accuracy of data largely depends on the data collection instruments (Mugenda and Mugenda 2003). Validity is the degree to which results obtained from analysis of data actually represents the phenomenon under study (Robinson, 2002). Reliability is the measure of the degree to which research instruments yields consistent results after every repeated trial. Validity and reliability were ensured by pre-testing the sample to establish the reliability of coefficients. The information from sample selected was tested for accuracy and comparisons were made to conventional record keeping.

3.6 Validity of Test Instrument

The instrument for this study was validated by three experts from the Department of accounting in Faculty of management and social sciences. The face and content validity will be determined through the judgments of these experts. Criticisms, corrections and suggestions from the research experts was used to modify and improve the instrument before it was used for data collection.

3.7 Model Specification

Model One

Determine the extent to which cashless policy adoption affects the SMEs contributions to GDP in Nigeria.

This study is built on a multiple regression model and made use of econometrics procedure in estimating the relationship between the economic variables

The fundamental relationships between the dependent variable and independent variables are specified as follows:

The functional form of the model is specified as:

$$RGDP = f(POS, ATM, MMT) \dots\dots\dots (3.1)$$

The mathematical form of the model is specified as:

$$RGDP_t = \beta_0 + \beta_1 POS_t + \beta_2 ATM_t + \beta_3 MMT_t \dots\dots\dots (3.2)$$

This econometric form of the model is specified as:

$$RGDP_t = \beta_0 + \beta_1 POS_t + \beta_2 ATM_t + \beta_3 MMT_t + \mu_t \dots\dots\dots (3.3)$$

$$\beta_1 > 0, \beta_2 > 0, \beta_3 > 0$$

Where

RGDP= Real Gross Domestic Product (Proxy of economic growth)

f= functional relationship

POS = Number of POS transaction

ATM = Number of ATM transaction

MMT = Mobile money transaction

β_0 = Constant

$\beta_1, \beta_2, \beta_3$ = are the relative slope coefficients and partial elasticity of the parameters.

μ_t = stochastic error term

Model Two

Examine the influence of cashless policy on the liquidity position of SMEs in Nigeria.

The functional form of the model is specified as:

$$\text{OCFR} = f(\text{POS}, \text{ATM}, \text{MMT}) \dots\dots\dots (3.1)$$

The mathematical form of the model is specified as:

$$\text{OCFR}_t = \beta_0 + \beta_1 \text{POS}_t + \beta_2 \text{ATM}_t + \beta_3 \text{MMT}_t \dots\dots\dots (3.2)$$

This econometric form of the model is specified as:

$$\text{OCFR}_t = \beta_0 + \beta_1 \text{POS}_t + \beta_2 \text{ATM}_t + \beta_3 \text{MMT}_t + \mu_t \dots\dots\dots (3.3)$$

$$\beta_1 > 0, \beta_2 > 0, \beta_3 > 0$$

Where

OCFR = Operating cash flow ratio (proxy of liquidity position of SMEs in Nigeria)

f= functional relationship

POS = Number of POS transaction

ATM = Number of ATM transaction

MMT = Mobile money transaction

β_0 = Constant

$\beta_1, \beta_2, \beta_3$ = are the relative slope coefficients and partial elasticity of the parameters.

μ_t = stochastic error term

3.8 Sources of Data

In this study, the researcher used secondary data. The data is sourced from the Central Bank of Nigeria Statistical Bulletin 2024 edition. The data required for this study are secondary time series data on OCFR, POS, ATM, MMT and real gross domestic product (RGDP) ranging from 2010-2024.

3.4 Data Analysis Techniques

The study shall employ regression techniques in examining the relationship between the dependent and independent variables. The regression techniques will be carried out using E-views econometric software package.

Decision Rule

If the probability (or significant) of the t-calculated is less than 0.05, we accept the alternative hypothesis but if otherwise, we then should accept the null hypothesis.

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