Article

Enhancing the Performance of Food and Beverage Manufacturing Companies through Debt Capital in Nigeria (2012-2021)

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Olaoye Festus Oladipupo
Olaoye Ayoola Azeez

Abstract

This study examined how to enhance the performance of food and beverage companies through the debt capital in Nigeria. The study used secondary data sourced from the financial statements of the selected foods and beverages companies between 2012 and 2021. A sample of four (4) listed firms was purposively selected from the study population of eight (8) listed foods and beverage listed manufacturing companies on the Nigerian Exchange Group Plc as of 31st December, 2021 based on availability of data. The study employed panel models of the fixed effect and random effect for data analysis. Findings from the study revealed that the coefficient of –0.008 with a P-value of 0.94 > 0.05 showed a negative and insignificant impact of short-term debts on the performance of the firms, while the coefficient of 0.032 with a P-value of 0.76 > 0.05 found a positive and insignificant impact of long-term debt on the performance of the companies. The study also found that the firms' total assets were finance by the 40 % of short-term debt and 16% of long-term debt. The study concluded that the results were mixed as the application of short term debt negatively enhanced the performance of the foods and beverage manufacturing companies in Nigeria, while the usage of long term debt positively enhanced the performance of the similar firms. The study therefore recommended long-term debt usage for food and beverage manufacturing companies in Nigeria to finance their activities.

Keywords: *Debt capital, enhancing performance, foods and beverages companies*

Introduction

Enhancing the performance of food and beverage manufacturing companies by financing their operations through debts is achievable if the proceeds from the loans are properly utilized. Firms with better performance are likely to attract more foreign investors to their countries than those with lower performance (Abubakar & Olowe, 2019). In a business, recording a higher performance indicates how efficient and effective a firm has engaged its available resources to attract foreign investors into its country and contribute to the economy growth (Mathewos, 2016). Firms that have recorded high performance appeared to have utilized their financial resources effectively and efficiently (Ali, 2020).

Any company struggling for survival cannot do away from financial risk resulting from debt usage (Abeywardhana & Magoro, 2017). However, financing enterprises through debts may expose them to bankruptcy risk, but they will still enjoy tax saving associated with debt usage (Aniefor & Onatuyeh, 2019). Akinruwa, Awolusi and Ibojo (2013) affirm that the effective application of short-term and long term loans at reduced costs will improve firms' performance. Similarly, Sohail and Ulfat (2019) are of the opinion that grasping how debt sources of capital enhance firms' performance is a global corporate issue of interest to the business men and women, firms' managers and the researchers not minding the associated financial risk or fear of going concern problems. After all, the problems of going concern may be avoided if the funds are properly used (Ali, 2020).

Indeed, food and beverages companies play tremendous roles in the economic growth of Nigeria and in the wellbeing of her citizenry (Akhtar, Javed, Maryam, & Sadia, 2012). However, the survivals of such companies in Nigeria and other countries in terms of profitability and revenue growth depend on their effective financial management. Thus, recording better performance by food and beverage manufacturing firms is imperative to their shareholders and other potential investors to ensure the security of their investments. Edori, Ekweozor and Ohaka (2020) claim that assessing the funding of companies' operations through debts to enhance performance is necessary in order to enlighten the stakeholders on what may lead to a success or failure of the business.

The fact that financing the companies through the loans can expose them to financial risk does not mean they may face going concern problems or end up in liquidation, but depends on the ability of their managers to judiciously and prudently apply the proceeds from the credit facilities in such the ways that will improve performance. Debt financing may involve financial risks but yet may still yield good returns to the firms (Aniefor & Onatuyeh, 2019). However, a wrong choice of debt capital sources can cause business failure (Eleje, Okechukwu & Chikanele, 2020). Both short-term and long-term loans have no similar effect on the firms' performance because of the differences in their financial risks and returns (Atambo, Muturi & Onchonga, 2016).

Many stakeholders of business organizations believe that using debts to run the business activities is not advisable due to the financial risk involved (Ali, 2020). Similarly, Denis (2017) gives an advice that firms should minimize or avoided debt financing or consider it as the last alternative because the danger of using it beyond the benefits from it, but, corporate organizations just like individuals may find it difficult to survive without incurring a debt. Meanwhile, the stakeholders and potential investors of food and beverage manufacturing firms in Nigeria and other countries need adequate financial information that will assist them in making economic and financing decisions that will enhance their firms' performance, hence this study.

A review of related studies such as Akhtar et al., 2012); Akinruwa et al, 2013); Mathewos (2016); Onchong et ak., 2016); Atambo et al., 2016); Ikapel and Kajirwa (2017); Abeywardhana and Magoro (2017); Omete and Isabwa (2017); Abubakar and

Olowe (2019); Uzokwe (2019); Aniefor and Onatuyeh (2019); Sohail et al., 2019); Ali (2020); Eleje et al, 2020); Edori et al, 2020) among other researchers have concentrated their investigations on the other industries like toil and gun, Breweries, oil and gas and household goods and fuel industries apart from food and beverage manufacturing industries which is the focus of this study.

The results of some previous work such as Taiwo (2020); Sohail and Ulfat (2019); (Uzokwe, 2019) among others are conflicting as the studies confirmed that some firms in Nigeria usually recorded negative impact of debt financing on the performance more often than its positive impacts and vice versa. Again, the results of most of the reviewed studies in this study area such as Taiwo (2012); Hayam (2013) among others were mixed and could not be applied for the present economic situation in the country necessitating this research. All these conflicting and mixed results have created some gaps in knowledge which require further research.

Besides, studies are still ongoing on the kinds of debts that can better improve the companies' performance between short-term and long term loans in Nigeria (Uzokwe, 2019) as most of the reviewed previous studies such as Sohail and Ulfat (2019) and Eleje et al (2020) among others confirmed that using a particular type of debt to finance firms may or may not enhance their performance. More so, the studies like Taiwo (2012) and Hayam (2013) among others that have distinguished between the effects of short-term debt and long-term debt on the performance of companies are very few in Nigeria. All these issues required further research to know whether using short-term debt or long-term debt will better enhance the firms' performance.

However, this study has filled a lacuna as the studies that have investigated enhancing the performance of foods and beverage manufacturing companies through debt capital in Nigeria between 2012 and 2021 are rare in literature.

1.2 Research Questions

Based on the study's identified problems, the following questions are raised:

a. What is the impact of short-term debt in enhancing the performance of food and beverage manufacturing companies in Nigeria?
b. What is the impact of long-term debt in enhancing the performance of food and beverage manufacturing companies in Nigeria?

1.3 Objectives of the Study

The main objective of this study is to investigate the impact of debt capital in enhancing the performance of listed food and beverage manufacturing companies in Nigeria between 2012 and 2021. Specifically, the study

a. evaluates the impact of short-term debt in enhancing the performance of food and beverage manufacturing companies in Nigeria;
b. determines the impact of long-term debt in enhancing the performance of food and beverage manufacturing companies in Nigeria.

2. Literature Review

2.1 Performance

Performance is the level of success a firm has achieved during the course it operates (Taiwo, 2012). Performance indicates how well a business has utilized its assets to generate profit (Akinruwa, Awolusi & Ibojo, 2013). Performance is a business outcome showing the overall financial health of a business at a particular period (Akhtar, Javed, Maryam & Sadia, 2012). Performance shows how well a firm has utilized its resources to maximize the shareholders' wealth and firms' profitability (Edori, Ekweozor & Ohaka, 2020).

Performance is the firms' abilities to acquire new resources from its business at a particular time period (Ali, 2020). Performance means the abilities of the firms to effectively utilize their financial resources to achieve their goals (Akinruwa, Awolusi & Ibojo, 2013). Performance exhibits how a company judiously utilizes its total assets from its main operations to generate revenues (Abubakar & Olowr, 2019). Performance is a measure of firms' profitability (Mathewos, 2016). Performance measures the company's financial health condition in a given period (Mathewos, 2016). Measuring performance is very imperative to the users of accounting information as it reflects the firms' going concern (Edori, Ekweozor & Ohaka, 2020)). Firms' performance could be measured using different criteria Aniefor, & Onatuyeh, 2019), but this study used return on assets as a measure of foods and beverages manufacturing firms' performance.

2.2 Debt capital

Debt capital is the use of short-term and long-term debts to finance the operations of the company (Ikapel & Kajirwa, 2017). Debt capital is the application of short-term and long-term loans to finance a business (Taiwo, 2012). Debts in the firms' liabilities accounts are usually made up of both long-term and short-term loans (Omete & Isabwa, 2017). Edori, Ekweozor, and Ohaka (2020) highlighted that both long-term and short term debt ratios are a good measure of performance in developing countries because of the funds mismatch caused by limited access to capital sources. Long-term loan limits the managerial discretion of having access to new funds (Denis, 2017). Debt capital is a financial based of some firms in Nigeria as the country's financial market system is characterized with the restricted access to equity (Harelimana, 2017). The two modes of debt capital are short-term debts and long-term debts (Sohail & Ulfat, 2019).

2.2.1 Short-term Debt

Short-term debt is the loan facility which is repayable within a year employed to finance the operations of the company (Onchong, Muturi & Atambo, 2016). Short-term loan is superior to long term one as it can limit the managerial discretion and minimize moral hazard of the firms (Tally, 2014). Short-term debts include bank overdrafts and other soft loans that are repayable within a year (Omete & Isabwa, 2017). Short-term debt is a good measure of a firm's financial health (Kajirwa, 2015). Short-term debt is the financing source perceived to be less cost and risk to firms (Mathewos, 2016). According to Ikapel and Kajirwa, (2017), short-term loan is a credit facility that is due for repayment within a year. Short-term debts are the current obligations appearing in the liabilities side of the companies' statement of financial position (Mathewos, 2016). Short-term debt may positively or negatively impact performance or correlate or uncorrelated with firm's growth opportunities (Onchong, Muturi & Atambo, 2016). This study therefore hypothesized that short term debt has no impact in enhancing the performance of listed and beverage manufacturing companies in Nigeria.

2.2.1 Long-term debt

Long-term debts are the fixed- charged credit facilities like debenture that are repayable after more than one year (Atambo, Muturi & Onchonga, 2016). Long-term debt shows the percentage of assets financed with debt that is payable after more than one year (Ali, Badruldeen, Alisha & Tim, 2020). Long-term loans include bonds and long-term loans (Hayam, 2013). These bonds or debentures may carry higher interest rates because the lenders will want to demand for a higher return in exchange for their greater risks taking on giving out their money over a long period of time (Akhtar, Maryam, and Sadia, 2012). This study also hypothesized that long-term debt has no impact in enhancing the performance of foods and beverages manufacturing companies in Nigeria.

2.3 Theoretical Review

2.3.1 Agency theory

Agency theory was coined by Jensen and Meckling (1976) in Mathewos (2016) who initially the theory with the model of Agent- principal relationship. The theory assumed that the ownership of the business is separated from control by leaving the shareholders in a conflict with the managers. According to theory, a company is interconnected with the relationships between the individuals where a party pursues selfish goals at the expense of others parties using the available information in his disposal which may create agency conflicting interest and affect the firms' performance which will eventually affect the shareholder maximization objective (Mathewos, 2016).

Agency problem and cost arises due to some factors like asymmetry information between the agent (managers) and the principal (shareholders) and between the managers and the debt providers (other stakeholders). To reduce the agency problems, it is necessary for the managers (agents) to convince and assure the shareholders (principals) that the application of debt capital will not adversely affected their establishments and can only assist in enhance their performance by making funds available for the replacement of their firms' assets which in the long run may stabilize the finances of the companies and ensure their survival and continuity. In the same vein, the agency problem may be minimize by also convincing and assuring the debt providers (other stakeholders) that their money invested in the companies will yield positive returns and all their entitlements will be met as at when due. Thus. Agency theory is relevant to this study.

2.4 Empirical Review

Eleje, Okechukwu and Chikanele (2020) conducted a research on 'Debt finance and corporate performance: firm level empirical evaluation'. The study used secondary source of data to obtain data from the annual accounts and reports of the selected firm for a period of 12-year period (2007-2018). The data obtained was analyzed using multivariate linear regression. The study concluded that long-term debt and short-term debt sources of finances have no significant positive impact on the corporate performance measured in terms of return on assets and return on equity. The study recommended that the financial managers of corporate firms should design optimum capital-mix for debt financing based on their varied impact on the corporate performance.

Denis (2017) investigated the effect of debt financing on the financial performance of private secondary schools in Nairobi, Kajiado County'. The study adopted a descriptive research design and made use of secondary data. Multiple regression analysis was employed to analyze data. The study 'found that there exist a positive insignificant relationship between debt financing and financial performance and between revenue growth and financial performance of private secondary schools in Kajiado County'. The study concluded that debt financing does not affect the financial performance of private secondary schools in Kajiado County'.

Tally (2014) examined the effect of financial leverage on firms' financial performance in Saudi Arabia's public listed companies'. The study 'sampled 57 publicly trading firms listed in Saudi Stock Exchange for the years 2002 to 2010'. The study used some techniques such as ANOVA maximum, value, standard deviation, and mean factor analysis, using the SPSS software for analysis. The study found a 'positive relationship between financial leverage and the firms' performance'. The studies concluded that there is a positive effect of financial leverage on the performance of the company'.

Hayam (2013) conducted a research on the 'debt and financial performance of Small Medium Enterprises: the missing role of debt maturity structure' in Egypt. The panel data was collected and analyzed using random effects. The study found that short-term debt has a positive effect while long-term debt has a negative effect on the financial performance. The study concluded that the level of leverage does not determine financial performance, but rather by the debt maturity structure.

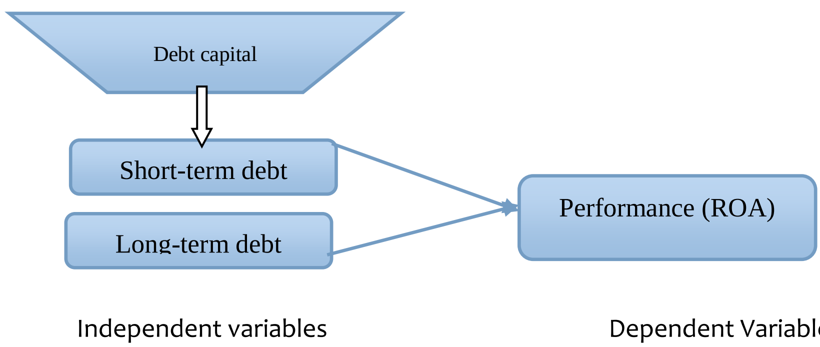
Akhtar, Maryam, and Sadia (2012) examined the 'relationship between financial leverage and financial performance: evidence from the fuel and energy sector of Pakistan'. The study used twenty public companies from the Fuel and Energy sector listed on Karachi Stock Exchange. The study employed regression analysis to analyze the data collected. Finding from the study showed that 'financial leverage has a positive relationship with financial performance'.

3. Methodology

This study's population is made up of eight (8) foods and beverages manufacturing companies listed on the Nigerian Exchange Group Plc as at 31st December, 2021 which include "the Flour Mills Plc, Cadbury Nigeria Plc, Honeywell Flour Mill Plc, Dangote Sugar Plc, Multi-trex Integrated Foods Plc, Northern-Nigerian Flour Mills Plc, Union Dicon Salt Plc and National Salt Corporation of Nigeria Plc". The study covered a period of ten years (2012-2021) and focused on the foods and beverages industries to examine the impact of debt capital in enhancing the performance of the selected firms in Nigeria. The study use secondary data to source for panel data from the annual financial statements of the four (4) purposively selected firms based on the availability of data.

The selected foods and beverage firms are "Dangote Sugar Plc, Cadbury Nigeria Plc, Honeywell, Flour Mills Plc and Flour Mill Plc". The descriptive and inferential statistical tools such as means, standard deviation, fixed effect and random effect model were used for data estimation, Hausman test was employed to select the appropriate model between the fixed effect and random effect. The study used the dependent variable of return on asset as the proxy for performance and two explanatory independent variables of debt capital measured in term of short-term debts to total assets and long term loan measured in term of long-term debts to total assets, as the proxies for the independent variable.

Figure 1: Conceptual Model of the Study



Source: Author's Design (2021)

The conceptual model in figure 1 showed the effects of debt capital on the performance of selected listed foods and beverage firms in Nigeria. The independent variable of debt capital is measured in terms of short-term debt and long-term debt, while the dependent variable of performance is measured in term of return on assets.

3.1 Model Specification

This study adopted the work of Eleje, Okechukwu and Chikanele (2020) who examined "Debt finance and corporate performance: firm level empirical evaluation".

The adopted model is specified as follow:

ROA = f (LTD, STD)……………………………………………………………………..(3.1)

Where: ROA= Return on assets

LTD = Long term debt

STD= Short term debt

β_0 = Constant of the regression

$\beta_1 \ldots 2$ = Coefficient of the explanatory variables

e = Random error term

4.0 Data and Results

The data obtained was analysis as presented below:

4.1 Descriptive Statistics

Table 1: Summary Statistics Result

Variable	Mean	Median	S.D.	Min	Max
ROA	0.116	0.0910	0.0929	-0.0190	0.400
STD	0.405	0.411	0.0951	0.17300	0.632
LTD	0.164	0.144	0.127	0.00500	0.665

Table 1 shows that the means value of return on assets (ROA) is 11% with a corresponding standard deviation of 9%, the median of 9%, minimum value of 1% and maximum value of 40% implying that the selected firms achieved only 11% performance using debt capital. The average value of short-term debt to total assets is 40% with a corresponding standard deviation of 9%, the median of 41%, minimum value of 17% and maximum value of 63% implying that the firms' assets were finance by the 40 % of short-term debt. The mean value of long-term debt is 16% with a corresponding standard deviation of 12%, the median of 14%, minimum value of 5% and maximum value of 67% meaning that the firms' assets were finance by the 16% of long-term debt using debt capital.

4.2: Panel Model Estimations

Using 40 observations Included 4 cross-sectional units Time-series length = 10,

Dependent variable: ROA

Table 2: Fixed Effect Models Results

	Coefficient	**Std. Error**	**t-ratio**	**p-value**	
Const	0.100665	0.0572624	1.758	0.0878	*
STD	0.008396	0.117587	0.07141	0.9435	
LTD	0.075188	0.109384	0.6874	0.4965	

Mean dependent var	0.116375	S.D. dependent var	0.092930
Sum squared resid	0.146141	S.E. of regression	0.065561
LSDV R-squared	0.566092	Within R-squared	0.014554
LSDV F(5, 34)	8.871529	P-value(F)	0.000018
Log-likelihood	55.48375	Akaike criterion	−98.96749
Schwarz criterion	−88.83421	Hannan-Quinn	−95.30362
Rho	0.189099	Durbin-Watson	1.355858

Joint test on named regressors – Test statistic: F(2, 34) = 0.25107 with p-value = P(F(2, 34) > 0.25107) = 0.779398 Test for differing group intercepts - Null hypothesis: The groups have a common intercept Test statistic: F(3, 34) = 12.585 with p-value = P(F(3, 34) > 12.585) = 1.08093e-005

Table 2 reveals the results of the fixed effect to determine the relationship between short-term debt (STD) and long-term debt (LTD) and the performance of the selected foods and beverages companies measured in term of return on assets (ROA). The results of fixed effect model revealed the short-term debt's co-efficient of 0.008396 and P-value of 0.9435 > 0.05 level of significant is negatively and insignificantly related to performance. Also, the long-term debt's co-efficient of 0.075188 and P-value of 0.4965 > 0.05 level of significant is positively and insignificantly related to performance.

Using 40 observations Included 4 cross-sectional units, Time-series length = 10, Dependent variable: ROA

Table 3: Random Effect Models (GLS) Results

	Coefficient	Std. Error	z	p-value	
Const	0.1146390	0.0664615	1.725000	0.0845	*
STD	−0.0089263	0.1195680	−0.07466	0.9405	
LTD	0.03271190	0.1084920	0.301500	0.7630	

Mean dependent var	0.116375	S.D. dependent var	0.092930
Sum squared resid	0.345337	S.E. of regression	0.095330
Log-likelihood	38.28476	Akaike criterion	−70.56953
Schwarz criterion	−65.50289	Hannan-Quinn	−68.73759
Rho	0.189099	Durbin-Watson	1.355858

'Between' variance = 0.00411777

'Within' variance = 0.00429826

theta used for quasi-demeaning = 0.692564

Joint test on named regressors -

Asymptotic test statistic: Chi-square (2) = 0.125076

with p-value = 0.939377

<u>Breusch-Pagan test –</u>

Null hypothesis: Variance of the unit-specific error = 0

Asymptotic test statistic: Chi-square(1) = 23.4562

with p-value = 0.001277

<u>Hausman test -</u>

Null hypothesis: GLS estimates are consistent

Asymptotic test statistic: Chi-square(2) = 4.01947

with p-value = 0.134024

Wooldridge test for autocorrelation in panel data -

Null hypothesis: No first-order autocorrelation (rho = -0.5)

Test statistic: F(1, 3) = 10.7221

with p-value = P(F(1, 3) > 10.7221) = 0.06662

Table 3 presented the results of random effect models to establish the relationship between short-term debt (STD) and long-term debt (LTD) and the performance of the selected foods and beverages companies measured in term of return on assets (ROA). The results of random effect model revealed that the short-term debt's co-efficient of −0.0089263 and P-value of 0.9405 > 0.05 level of significant is negatively and insignificantly related to performance. Also, the long-term debt's co-efficient of 0.03271190 and P-value of 0.7630 > 0.05 level of significant is positively and insignificantly related to performance.

To select the right model estimator, the Hausman test etween the fixed effect and random effect models was conducted showing the Chi-square of 4.01947 and a p-value of 0.134024 > 0.05 level of significant implying that the null hypothesis that the fixed effect is not appropriate in favour of random alternative cannot be rejected. Thus, random effect is considered the suitable model and is reported for data analysis. Also, Wooldridge test for autocorrelation with F-statistics value of 10.7221 and a p-value of 0.06662 cannot reject the null hypothesis of no auto correlation meaning the absence of autocorrelation in the series.

4.3 Discussion of Findings

The results from descriptive statistics in table 4.1 found that the selected firms achieved only 11% performance by using debt capital. The firms' assets were finance by the 40 % of short-term debt and by 16% of long-term debt.The results from random effect models discovered that the co-efficient of short term debt for food and beverage manufacturing companies in Nigeria is negative (−0.0089263) and statistically insignificant (P=0.9405 > 0.05). This means a unit increase in the value of short-term loan will cause 0.0089 (0.1%) decreases in the performance of foods and beverages companies in Nigeria. The study's result affirmed that short-term debt negatively but insignificantly enhanced the performance of the companies in Nigeria. The result implied that using short-term loan to finance the activities of the firms will not improve their performance. The stakeholders of foods and beverage manufacturing companies are therefore not advisable to place much reliance on short term debt usage. This result supported the outcome of the studies conducted by Taiwo (2012) and Eleje et al, (2020) showing negative effects of short-term debt modes of finances on the corporate performance. The result serve as a basis of accepting the study's null hypothesis one that short term debt has no impact in enhancing the performance of food and beverage manufacturing companies in Nigeria.

Also, the co-efficient of long term debt for food and beverage manufacturing companies in Nigeria is positive (0.03271190) and insignificant (P=0.7630 > 0.05) implying that long-term debt positively but insignificantly enhanced the performance of the selected firms. This means a unit increase in the application of long term debt to finance the firms' activities will enhance and improve the performance of the companies by 0.03271190 (32%) in Nigeria. That is, using long-term debt to finance the operation of foods and beverages manufacturing companies in Nigeria will enhance their performance. This result also supported the result of the study carried out by Hayam (2013) which found a positive effect of long-term debt on the firms' performance. Thus, the result serves as a basis of rejecting the null hypothesis two that long term debt has no impact in enhancing the performance of foods and beverages manufacturing companies in Nigeria.

Generally based on the study' findings, both short term debt and long term debt sources of financing did not similarly enhance the firms' performance implying that debt tenure or repayment periods determine the enhancement level of any form of loan on the companies' performance. The outcome of the study however is in line with the result of the studies conducted by Taiwo (2012) and Hayam (2013) which found that short-term debt and long-term debt have an opposite effect on the financial performance. The studies claimed that the value of debts does not determine the level of financial performance, but rather by the debt maturity structure.

5. Conclusion and Recommendations

The results from this study were mixed as the study found that short-term debt negatively enhanced the performance of foods and beverages manufacturing companies in Nigeria, while long-term debt positively enhanced the firms' performance of the similar companies in Nigeria indicating that reducing the value of short-term debt or increasing the value of long-term debt, the performance of foods and beverages manufacturing companies in Nigeria will still improve. However due to the discovered mixed results, further research should be conducted to cover another periods range using another industry in Nigeria. Also based on the results from the study, long-term debts usage is recommended for foods and beverage manufacturing companies in Nigeria.

5.1 Practical Implication of the Study

The study discovered that even if the food and beverage manufacturing companies increase their investments in long-term debt or reduce their investments in short-term debt, their financial performance would still improve.

5.2 Limitations and Future Scope of Research

The study did not cover more than two industries (foods and beverages) and the coverage periods are just between 2012 and 2021. Also the scope of the study is limited to Nigeria. Therefore, further studies should be conducted to cover another coverage period using the same variable composition and in other industries to cover Nigeria and some other African Countries.

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About the Authors

Dr. Olaoye, Festus. Oladipupo, Department of Accounting, Ekiti State University, Ado-Ekiti. <oladipupo.olaoye@eksu.edu.ng >

Mr. Olaoye, Ayoola Azeez, Accounting Department, Ekiti State University. <olaoyeazeez@gmail.com>