(REVIEW ARTICLE)

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Funding Structure and Performance of Manufacturing Firms in Nigeria

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Abstract

Despite of the theoretical and empirical information extant to the topic of funding structure of a firm, the existing literature focuses mostly on the funding structure itself as it does not affect overall firm performance and there is an inherent neglect of the sector-specific features on market-based measure of the valuation such as the Market value added. The difference in the operational and financial environment in different industries such as consumer goods, industrial goods, conglomerates, natural resources and healthcare industries, that is the need for tailored approach. The paper analysed the correlation between the funding structure and the market value of the quoted manufacturing firms between the years 2014 and 2023. Particularly, the research analysed the relationship between short-term debt, long-term debt, share capital and retained earnings and the market value added and Market value added. The positivist research paradigm has been presumed in the study and ex- post facto research design has been adopted. The information used in the research was the central bank of Nigeria statistical bulletin, the annual audited financial reports of the quoted companies used in the research. Descriptive statistics, Hausman test and random effect panel ordinary least square at 5% level of significance were used in the study. The Hausman test came up with correct outcome which justified the use the random effect panel regression method. The research established that short-term debt had a positive significant relationship with the Market value added, the long-term debt showed significant negative relationship with the Market value Added, the share capital had a positive significant relationship with the Market value Added, the retained earning had a positive but not significant relationship with the Market value Added. This research concluded that the percentage of funding play a very important role in decision making process of financial performance of quoted manufacturing companies in Nigeria. The study among others admonished manufacturing companies in Nigeria when listed publicly in the stock exchange, to have a strategic decision to increase their dependence on short-term debt in order to finance their operations. This will help in management of cash flow in an effective manner and timely repayments which are important in mitigating the liquidity risks. Another good contribution in the study is that it is focused on the manufacturing industry in Nigeria. This study is also different to the past studies in respect that the target industry was the manufacturing industry.

Keywords: Capital Structure; Market Value; Industrial; Earnings; Quoted

1. Introduction

Market value concept is an important concept in financial economics and corporate finance because it captures the perception of investors with regards to the prospective of earning and profitability of a company and its health in terms of strategy. The market worth of the firm, which is normally measured in terms of indicators like Market value added which illustrates the extent to which the firm creates wealth to its stockholders. Market value added measured the extent of value created or destroyed in a company for its investors over a period of time (Oh and Kim, 2025; Lee et al., 2017).

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Understanding of what influences market value is very important for companies, investors and to some extent policy makers. This knowledge is more in the emerging markets like Nigeria where capital market is only developing. The Nigerian Exchange (NGX) companies find themselves in the middle of a rough financial environment with volatility of the economy, change of regulations and inability to finance their operations long term. In the case of manufacturing companies, which operate within a capital hectic framework, and in most cases, demand a good deal of financing, the preference of a financing framework can have a significant impact on its market. In this regard, the funding structure would be relevant in the different sources through which a firm gets its capital. These sources are broadly grouped into retained earnings, short term debt, long term debt and share capital. The ideal mix of these sources of finance has a major influence on the cost of capital of the firm as well as it will have an effect on the perception of investors to the company and consequently its valuation in the market (Sike et al., 2023).

This paper involves the analysis of market value and funding structure of some sectors of the Nigerian manufacturing industry. The past studies (Sunday and Wobo, 2025; Uwuigbe et al., 2021; Uwalomwa et al., 2020; Okere et al., 2021; Olulu-Briggs and Wobo, 2023; Olulu-Briggs, 2024; Olaoye and Adesina, 2022; Omokore et al., 2024; Okafor and Anichebe, 2023) have been more focused on the issue of total corporate financial performance than the individual impact of the components of funding structure on the market valuation of various industrial industries. This paper takes into consideration a diverse research sample of seven companies in the consumer goods industry, two companies in the conglomerates industry, four companies in the industrial goods industry, one company in the natural resources industry and two companies in the healthcare industry. With the help of this stratification, different business models and operational backgrounds impact of their correlation with financing decision and the market outcomes can be analysed.

1.1. Statement of the Problem

Despite the fact that the manufacturing sector is strategically important for the attainment of economic growth, employment, and industrialization, yet, the performance of manufacturing firms in Nigeria has not been favourable over the years. The poor performance persistence of these firms is reflected in the decrease of contributions to gross domestic product (GDP), the poor capacity utilisation and low competitiveness, both at the national and international levels. According to National Bureau of Statistics (2023), manufacturing sector's contribution to the nation's GDP has been oscillating below expectations in the country which reflects a presence of structural inefficiencies and financial shortcomings hindering growth and sustainability. One of the major underlying causes of this weak performance is the ineffectiveness of management of funding structure, which dictates how the firms finance their operations and investments.

Manufacturing factories in Nigeria are still experiencing dire challenges in accessing sufficient and cheap financing. Many firms use short-term borrowing to finance long-term projects extensively and thus risk exposure to liquidity risks and financial distress (Okere et al., 2021; Olulu-Briggs, 2022; Odi & Olulu-Briggs, 2019). Others face high rates of interest, lack of access to credit and volatile macroeconomic conditions, which add to the cost of capital and result in lower profitability. Inefficient capital structure decision such as overindulging in debt financing or failed to exploit equity sources to the best has always resulted in suboptimal financial performance and decline in investor confidence (Oino & Ukaegbu, 2015; Sunday & Etugbo, 2023; Olulu-Briggs & Orowhuo, 2024). This disproportion in funding structure influences the capacity of firms to increase production, invest in innovation and keep themselves competitive in an increasingly globalized market. In addition, many manufacturing firms in Nigeria have not availed themselves of the advantages associated with using retained earnings as a source of internal financing. Instead of reinvesting the profits in productive venture, the retained earnings are often underutilised or misallocated, hence, that leads to low growth in the value of the firm (Olokoyo, 2013). Similarly, variation in share capital and insufficient financing through equity reflects poor participation of capital markets and thus the inability of firms to attract investment in long projects. Inability to find a best possible balance between short-term debt, long-term debt, retained earnings and share capital has led to unstable financial structures that are incapable of sustainable value creation and growth in the market.

2. Literature Review

2.1. Theoretical Framework

The theory of Modigliani and Miller (MM) constitutes the source of foundation the literature of funding structure. Proposition I by MM (1958) claims that when a firm operates in a perfect market where tax exists, bankruptcy costs don't exist and no asymmetric information is involved, the value of the firm is independent of the financing structure of the firm. However with the introduction of taxes (Proposition II, 1963), MM realised that there were tax advantages of debt, and this encourages firms to use leverage. This theory confirms that, the value of a firm is determined by individual

financing structure as well as externalities, including taxes, which in practise may influence financing behaviour. Irrespective of the flaws of the Nigerian markets, the MM Theory can be used as an important reference point in understanding the deviations of the theoretical efficiency in financing structure decision.

The Trade-Off Theory is developed taking into account the real costs of financial distress and bankruptcy on the basis of the Modigliani-Miller theorem. It assumes that the business makes a balance of interest between the benefits of debts, which primarily consists of tax shelters, against the potential cost due to default, in determining the most appropriate type of financing mechanism (Kraus and Litzenberger, 1973). The theory is of particular relevance to the manufacturing companies in Nigeria, most of whom are exposed to a varying economic environment. The Nigerian companies are therefore required to compare the financial benefits of borrowing and the also high financial stress of the high interest rates, currency and political unrest. In turn, the trade-off model upholds the idea that firms are striving to achieve strategic and measured balance in the use of debt and equity.

The Pecking Order Theory is a theory developed by Myers and Majluf (1984), which postulates that companies internal financing (retained earnings) is followed by debt which is followed by the last option of issuing new equity. This pecking order comes because of the asymmetry of information between managers and investors whereby equity issue can be a pointer of overvaluation. Nigeria is a country with a poor transparency level and low investor confidence and as such the firms may increasingly rely on the internal financing method to control or curb adverse selection and control, especially in manufacturing industries which require continuous investment and long term financial commitment.

Baker and Wurgler (2002) suggest that the market conditions influence the change in funding structure of the firms by arguing that companies raise equity in the period of high levels of stock prices and debt in a period of high market values. With the erratic change in the dynamics in the stock market and the optimism of the investors, Nigerian companies are often interested in the favourable scenarios in the capital market. This theory explains reason why certain firm are able to exhibit their inconsistent pattern in its funding structure which are dependent on time not on the optimal leverage factors.

The Agency Theory is used to study the conflicts between the shareholders (the principals) and the managers (the agents) when the former are interested in the selfish interest of the former rather than that of the former (Jensen and Meckling, 1976). Agency costs can be minimised by means of funding structure as a method of governance. Making use of debt imposes financial discipline on managers by reducing the free cash flows and increases the control by creditors. The agency theory can be used in explaining why leverage plays a role in countering managerial excesses, and enhancing shareholder value in the corporate environment in Nigeria, which is characterised by sometimes weak governance mechanisms.

A combination of these theories provide a holistic approach in the study of the decisions concerning the Nigerian manufacturing firms in relation to their funding structure. Both theories establish a particular aspect of corporate finance: MM Theory emphasises the irrelevance of capital in the perfect world; the Trade-Off Theory defines the balance between the risk and reward; the Pecking Order is used to explain financing preferences in asymmetry; the Market Timing explains opportunistic behaviour while the Agency Theory is concerned with governance and control. Altogether, they give comprehensive starting point to the study of the influence of funding structure on the market value in real life situations.

2.2. Conceptual Framework

2.2.1. Funding Structure

Capital structure of any company is a critical dimension of corporate finance since it is associated with the different methods through which a company obtains finance to finance its operations as well as enhance growth. This entails equity and debt financing which is used to finance the assets, operations and strategic direction of the company. The choice of funding structure in the corporate finance area is a very important issue because it influences the financial risk of a company, the cost of capital, profitability and ultimately its value at the capital market (Brealey et al., 2020). The key sources of funding structure are retained earning, short-term debts, long-term debts and share capital (Sunday & Wobo, 2025). Its internal financial policies, the existing macroeconomic environment, the perceptions of the market about it and the stage of business life cycle that it is in normally affect the decision that a firm makes on their financing options. This would help us to realise how a company incorporates different sources of funding together, to increase its value and minimise its risk in order to ensure financial sustainability and maximisation of its shareholders wealth. The pertinence of capital structure choice in both academia and business remains one of the key points of interest in the academic literature and especially in firms in underdeveloped countries such as Nigeria where the nature of access to capital as well as negotiation of financial market processes is especially acute (Akintoye and Olowolaju, 2022).

It is referred to the funding structure or simply the amount of debt to equity that is used to fund assets of a firm. Brealey, Myers and Allen (2020). The debt/equity ratio or leverage ratio is commonly utilised to convey a company funding structure. This is because the strategic decision with regard to the optimal debt equity mix is influenced by a number of internal and external factors which include profitability, taxation, size of the company, industry and the macroeconomic environment. In equity financing, shares are issued which creates capitals leading to a loss of partial ownership of company and in debt financing, funds are borrowed, usually with a fixed interest rate, and repaired over a period of time.

2.2.2. Market Value Added

Market Value Added (MVA) is one of the core concepts in corporate finance and value-based management and refers to the difference between a firm's current market value and the capital invested by the shareholders and debt holders. It is a measure of performance that measures the extent to which the company has created or destroyed value for holders of its stocks over a period of time. A positive MVA means that a company has created wealth beyond the capital invested by the shareholders, whereas a negative MVA means a decline in value. MVA has become an important means of evaluating the performance of companies and people regarding whether or not financial strategies are effective, investment decisions are right, and management is efficient (Ehrbar, 1998; Brigham & Daves, 2019). MVA is defined in a quantitative sense as the difference between the market value of equity and debt against the total capital invested. The market value of equity represents the firm's market capitalisation, which is the share price multiplied by the number of shares outstanding in the company, whereas the market value of the debt was usually estimated as the book value in the absence of available market valuations. Total capital invested comprises of equity capital (both common and preferred stock) and long-term debt which are utilised in the firm's operations. A high MVA implies not only profitability but the capacity of a firm to improve the value of shareholders over the years. The concept of MVA is interlinked in a complex way with another common metric, Economic Value Added (EVA). EVA stresses value created in one financial period by deducting the cost of capital from the firm's net operating profit after taxes (NOPAT) while on the other hand, MVA is accumulated value, showing the total wealth created or destroyed during the whole operation of the company (Stewart, 1991). EVA is the base of MVA and constant positive EVA results in an increase in MVA, indicating an ongoing process of value creation.

2.3. Empirical Review

Awaliyah etal. (2025) determined the impact of profitability and capital structure on the company value. The secondary sources were used in data collection in a form of the documentation namely money trail reports. The results of the analysis have shown that partial profitability has a very big influence on the value of the company. The capital structure has a great impact on the value of the company. Profitability and capital structure will play a big role in determining the value of companies. Sunday and Wobo (2025) tested the impact of the funding structure on the performance of quoted manufacturing firms (QMFs) in Nigeria between 2012 and 2022 in their research. The Fixed Effect POLS model shows that LFLE and TPE are positively and significantly correlated with LGPT and the effect of LLE is negative and significant. On the other hand, there is a negative but not significant relationship between SFLE and LGPT. According to the Panel Causality test, LFLE, SFLE and TPE have one-way influences on the QMFs in Nigeria.

Onyia et al. (2025) examined how the capital structure impact on the firm value and these influences were heterogeneous and including firm specific, industry specific and country specific. The study established that the capital structure of a company positively and significantly influences its market value which also differ depending on the heterogeneity of the industries. Singh et al. (2025) present a study of the impact of financial performance and firm characteristics on leverage based on panel data of 77 FMCG companies listed on BSE Index on the time frame of twelve years (2012-2023). The results show that firm age, size, tangibility and liquidity have a negative significant impact on SDR. As far as LDR is concerned, the negative impact on firm size is quite significant, whereas tangibility and growth show a significant number of positive effects. These factors as the effective tax rate, size of firm, liquidity and tangibility have a high negative impact on TDR.

The data used by Abuafefah et al (2025) comes in the form of aggregate data of 4 Moroccan banks from 2010 to 2023. The research was empirical in the study of relationship between capital structure and performance of four Moroccan banks, which was measured using return on equity and return on assets. The results of the practicalised generalised least squares analysis indicate that there are some ambivalent relations obtained between capital structure and performance because some of the proxies of capital structure are positively and negatively correlated. Lamichhane and Dhungel (2024) have analysed the effect of capital structure (CS) on financial performance. The correlation analysis is the test of positive correlation between financial performance and the debt to common equity. There is an inverse relationship that is noted with ratios in debt-to-assets, long term debt to equity and long term debt to capital. The result of regression shows that the higher the level of debt to equity ratio the better the financial performance indicators like

ratio of returns to capital employed and profit margin. The results of regression show that higher use of debt as a source of assets, long-term debt equity ratios and long-term debts to capital have negative effects on the financial performance.

Banabo and Aganaba (2024) Capital Structure and Financial Performance of publix tradings Brewery Companies in Nigeria. The results show that equity financing has a positive impact on the return on investment but very weak to the point that it has insignificant impact on the return on investment. Similarly, the debt financing shows the positive but weak and insignificant relationship on return on assets and return on investment. Omokore et al., (2024)., the effect of capital structure on the financial performance of healthcare companies listed on the Nigerian Stock Exchange (NSE) from the year 2012 to 2021. These data consisted of a short-term and long-term liability, equity (valuation of stock of a company), the speed of return on equity, and size. The study has utilised correlation and regression in its study. The results were that short-term debt, long-term debt and equity had negative but significant relationship with the return on equity. On the other hand, return on equity have positive and significant correlation with size of the company.

Sofi and Baig (2024) have studied the impact of capital structure on the financial performance of Indian Banks in India. The results of this research prove that the debt-to-equity ratio proves statistically significant results than the net profit margin and the size. The performance of the public sector banks have not been satisfactory when compared with the performance of the other banks in the private and foreign sector due to its big size and high debt-equity ratio. Ambrose and Inuwa (2024) Capital structure, capital structure and its impact on financial performance of consumer goods companies in Nigeria. The study has indicated that there is a very good relationship between the firm capital structure and its financial performance. The result implies that total debt to total equity ratio, short term debt to total assets ratio and long term debt to total assets ratio are not a major factor in the financial performance of the publicly listed consumer goods in Nigeria.

3. Methodology

The research design that will be used in this study is quantitative research design namely correlational and ex-post facto research design in order to determine the relationship between funding structure (short term debt, long term debt, equity capital and retained earning) and the market value (measured using Market value added) in the selected Nigerian manufacturing companies. The ex-post facto design is suitable given the fact that it utilises past information and the researcher will not be able to manipulate some variables.

The research sample is going to be made up of all manufacturing companies that are listed on the Nigerian Exchange Group (NGX) on December 31, 2024. The number of manufacturing companies that got registered on the NGX at the given time exceeded 51 in the five mentioned sub-sectors (NGX, 2024). The sample size in this study is 16 manufacturing companies that are listed on the Nigerian Exchange Group (NGX), within the period (2014 - 2023). These firms were purposely selected from five major sub-sectors of the Nigerian manufacturing industry seven (7) in the consumer goods sector, two (2) in the conglomerates sector, four (4) in the industrial goods sector, one (1) in the natural resources sector and two (2) in the healthcare sector. The chosen companies are good examples of the most prolific companies as well as most open in terms of financial in the manufacturing industry, as they have available financial information and uniform financial information in the period of study. The research took the purposive sample approach as a result of the availability of data.

The methods adopted in this research are solely quantitative and secondary data in which the analysis focuses on quantitative and measurable variables that are able to make the analysis objective and empirical. The secondary data is suitable in this study because it is historical, reliable and systematic compilation particularly in cases of listed companies that are required to adhere to the international financial reporting standards. As Bloomberg, Proshare Nigeria, National Bureau of Statistics and the Central Bank of Nigeria (CBN) were used in the data collection.

The analysis of the collected data was done through the following ways. The research would involve the usage of descriptive statistics. Descriptive statistics gives an overview of the main characteristics of the dataset applied in this research to give an summary of the central tendency, dispersion and distribution of the variables. Such statistics are necessary in order to know the nature of such data before subjecting it to the regression analysis. In order to choose the most suitable methodology to solve the problem of unobserved effects, we thus use the Hausman test (Hausman, 1978). Therefore, fixed and random effects modelling decision was done on the basis of the Hausman model selection criteria. The Hausman selection test is on the basis that individual effects and the regressors she are not correlated to one another. Under in this condition, the interpretation of the random effects model is centre of attention; however, the fixed effect was presented in a way that is empirically robust. On the other hand, the analyses of the study were focused on the fixed effect model. Hausman test: the idea of this test shall be to test whether we can accept null hypothesis that is, the random effects is the most appropriate solution and in the case of rejection, the estimation of fixed effects shall

be the most appropriate model. The decision to be made, where the P-value of the Hausmann test is less than 0.05, we reject the null hypothesis and then conclude that the fixed effects model will be most suitable to the study otherwise random effects model will be most suitable.

This study adopts similar model as Muhammed et al (2024), Asola (2024) and Truong and Dang (2024) with minor differences in this research work on the impact of funding structure on the market value of quoted manufacturing companies in Nigeria. Therefore, the model in this study is as under:

$$MVA_{it} = f (STD_{it}, LTD_{it}, SHC_{it}, REE_{it}, FIZ_{it}) \qquad 3.1$$

The mathematical form of the model is given below:

$$MVA_{it} = \alpha_0 + \alpha_1 STD_{it} + \alpha_2 LTD_{it} + \alpha_3 SHC_{it} + \alpha_4 REE_{it} + \alpha_5 FIZ_{it} \qquad 3.2$$

The econometric form of the model is written with the introduction of the error term as follows:

$$MVA_{it} = \alpha_0 + \alpha_1 STD_{it} + \alpha_2 LTD_{it} + \alpha_3 SHC_{it} + \alpha_4 REE_{it} + \alpha_5 FIZ_{it} + \mu_{it} \qquad 3.3$$

On apriori, $\alpha_1 > 0$, $\alpha_2 > 0$, $\alpha_3 > 0$, $\alpha_4 > 0$, and $\alpha_5 > 0$

Where:

MVA = Market value added, STD = Short-term debt, LTD = Long-term debt, SHC = Share capital, REE = Retained earnings, i = Quoted manufacturing companies, t = Time period, α_1, α_2, α_3, and α_4 = Coefficient terms, α_0 = Constant terms, μ = Error terms

4. Results

Table 1 Descriptive Statistics Result

	MVA	STD	LTD	SHC	RET
Mean	0.745008	13292775	21902938	1691086.	30287092
Median	0.756304	1999003.	4044742.	862617.0	13949341
Maximum	0.830083	1.64E+08	3.69E+08	8053899.	2.46E+08
Minimum	0.670635	176.1637	55329.00	8520.000	-78633227
Std. Dev.	0.055538	28023029	51272326	1986676.	46396660
Skewness	0.010160	3.312315	3.966465	1.726537	2.121859
Kurtosis	1.345207	14.14272	21.27257	5.325236	8.498696
Jarque-Bera	18.25834	1120.307	2645.455	115.5363	321.6320
Probability	0.000108	0.000000	0.000000	0.000000	0.000000

Source: E-view Output

The Market value added (MVA) that is much used in account in describing the market value is being equal to equal 0.745 (on average). This implies that overall the market values the worth of these firms to be marginally less than the value of replacement of its assets. The SD=0.0555 connotes that the market value added are likely to be rather similar for various companies. A skewness of 0.01 indicates that the distribution is almost symmetric and a kurtosis of 1.34 indicates that the distribution is flatter than a normal distribution indicating that this is a platykurtic distribution. The Jarque-Brau value is 18.26 with a significance value of 0.0001 which implies that MVA variable is not normally distributed but the deviation is not that much. The mean Short-Term Debt (STD) of the fantasies is about N13.29 million and the median stands at N1.99 million implying skewed distribution positively. The skewness is found to be 3.31 with a kurtosis of 14.14 which is highly skewed and leptokurtic hence indicating that some firms are more likely to heavily rely on short term borrowing. N164 million is the maximum standard deviation and N176 is the minimum standard deviation with N28 being the standard deviation. This is an indication of a high degree of dispersion amongst the firms. Performing Jarque-Bra Test There is violation of normality according to Jarque-Bra test as p-value is less than 0.001.

Long-Term Debt (LTD) analysis reveals that the mean value of the Long-Term debt is N21.9 million and the median is N4.04 million that shows that there is a significant distribution of the debt levels. This distribution has a value for skew of 3.97, which is positive, and for kurtosis is 21.27. This means that most of the firms are likely to have modest long term

commitments, but there are others which have quite large debts. The maximum of N369 million is compared to the minimum of N55329 and the standard deviation of N5127million, this result reveals that there is a lot of variation. A Jarque-Bra statistic of 2645.46 which is very large with a p-value of 0.000 indicates that there was significant deviation of normality. The Share Capital (SHC) which indicates the equity financing structure of the companies give an average figure of N1.69 million and median figure of N862,617. The values of the skewness and kurtosis which are 1.73 and 5.33 respectively indicate that the distribution is right skew with sharp peak. The standard deviation more than N2 million is quite big and the range between the highest (N8.05 million) and the lowest (N8,520) capital structure is very high and it shows that the variation in capital structure is quite high. The Jarque Bera statistics has a very significant (p 0.001), which means that it is not normally distributed. The Retained Earnings (RET) has very specific peculiarities in its distribution. The mean is N30.29 million but with N-78.63 million as the minimum value there is an indication that some companies are operating at loss rather making profits. The standard deviation is N46.39 million and skewness of 2.12 and kurtosis of 8.50 value is a good sign of the strong right tail and good peak in the data distribution. The mean and the median differ significantly with the difference of N13.94 million which shows that there are great outliers in the given data. The Jarque Berra test again indicates that the normality is rejected using 1 percent level of significance.

Table 2 Hausman Test Result

Correlated Random Effects - Hausman Test			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	8.017165	5	0.1553
Period random effects test comparisons:			
Variable	Fixed	Random	Var(Diff.)	Prob.
STD	-0.004529	-0.002500	0.000004	0.2928
LTD	-0.001079	0.001902	0.000004	0.1492
SHC	0.034976	0.038699	0.000184	0.7839
RET	-0.000000	-0.000000	0.000000	0.2922
FIZ	0.004322	0.004809	0.000000	0.3342

Source: E-views 10

The Hausman test of the optimum model selection between the random and fixed effect model has been presented in Table 4.2. Table 4.2 shows that Hausman Test value is in favour of random effect model as compared to fixed effect model. This is attributed to the fact that the cross-section random effect of the hausman test of 0.1553, is greater than the 5 percent significant value. It is on this that the random effect ordinary least square was used in this research in conducting the research to make conclusions and recommendations.

Table 3 Random Effect Ordinary Least Square Result

Dependent Variable: MVA			
Method: Panel EGLS (Period random effects)			
Sample: 2014 2023			
Periods included: 10			
Cross-sections included: 16			
Total panel (balanced) observations: 160			
Swamy and Arora estimator of component variances			
Variable	Coefficient	Std. Error	t-Statistic	Prob.
STD	0.002857	0.001387	2.060243	0.0411

LTD	-0.006443	0.002383	-2.703336	0.0076
SHC	0.018582	0.003206	5.796829	0.0000
RET	0.004024	0.002533	1.588406	0.1142
FIZ	0.004809	0.002359	2.038183	0.0434
C	0.197880	0.313644	0.630906	0.5291
	Effects Specification			
			S.D.	Rho
Cross-section fixed (dummy variables)				
Period random			0.000000	0.0000
Idiosyncratic random			0.042365	1.0000
	Weighted Statistics			
R-squared	0.794483	Mean dependent var		0.745008
Adjusted R-squared	0.721747	S.D. dependent var		0.055538
S.E. of regression	0.042232	Sum squared resid		0.247917
F-statistic	6.798315	Durbin-Watson stat		1.651723
Prob(F-statistic)	0.000000			
	Unweighted Statistics			
R-squared	0.794483	Mean dependent var		0.745008
Sum squared resid	0.247917	Durbin-Watson stat		1.651723

Source: E-views 10 Output

The goodness of fit is great since the R-squared of the model, 0.794, implies that the independent variables in the model can account about 79.4% of the variance in the market value added. This explanatory power is further strengthened by the adjusted R-squared value which sees that the degrees of freedom are considered at 0.721. The F-statistic is 6.798 (p-value = 0.000) which indicates that the model is statistically significant which means that the variables are being used in conjunction with one another to explain the fluctuations in the dependent variable. The value of 1.65 of the Durbin-Watson implies that the problem of autocorrelation is not a great matter in this model, but the closer to 2 the better.

When the individual coefficients are analysed it is noticed that short-term debt (STD) reveals a positive and statistically significant coefficient (b = 0.002857, p = 0.0411). This means that, other things being held constant, an increase in the short-term debt is associated with an increase in the Market value added. Such a good rapport can be construed to mean that short-term debt is profitably used to help fund productive activities that help to increase the market value of a firm in the short term.

Long-term debt (LTD), on the contrary, has a negative and a statistical significant relation with the Market value added with its coefficient value b = -0.006443 and statistical significance p-value = 0.0076. This observation implies that the higher is the long-term debt, the lesser is the value of the firms on the market. This may reflect the long term monetary obligation and the risks of the debt maturity structure is giving the investors concern. This has been in consensus with past studies that have proved how much excessive dependency on long-term debt can decrease the worth of a company mainly due to the high interest payments and lack of financial flexibility.

The share capital (SHC) has a significant and positive correlation with the Market value added (b = 0.018582, p = 0.0000) which means an increase in the market value is contributed by an increase in the equity financing. The view is also in line with the pecking order theory which suggests that the more a firm would prefer internal funding to equity and the attempt to issue equity signalling a sign of power.

The retained earning (RET) coefficient is also positive and equal to b=0.004024, but this is not significant (p-value=0.1142). Although the findings are within the 5 percent of level of statistical significance, the positive trend is

encouraging that retained earnings might still be a factor in determining market valuation, although, of course, the effect may be relatively small. This result can be taken to mean a divergent reaction on the part of the investors as far as internal financing is concerned and this is due to the profitability and growth prospects of the company.

These results indicate that different factors in terms of funding structures have different impact on the market worth. In particular, share capital, short-term debt and long-term debt appeared to have a positive and negative impact on and impact market value respectively. The effect of retained earnings though is ambiguous. The significance of the firm size as a moderator plays out the need to consider the individual attributes of firms when analysing the correlation between capital structure and market value. Results have shown that financing decisions are critical towards the valuation of a firm and when properly organised they can go a long way in enhancing shareholder wealth in the Nigerian manufacturing industry.

5. Discussion of Findings

Positive and significant relationship are found among short term debt and the Market value added of publicly listed manufacturing firms in Nigeria. The positive and significant correlation between short-term debt (STD) and market value added of the aforementioned companies in the manufacturing sector that have gone well in the market means that the use of short-term financing options could help in increasing firm value as observed in the performance of the companies in the market. Market value added is an important parameter which indicates the relationship between the value of a company in the market and the value of replacing the assets (Tobin, 2005). This is an important ratio that shows investors about the potential of a firm in the growth of business and the ability to utilise the resources in an efficient manner. An increase in Market value added suggests that the firm is in the opinion of the market using its assets effectively in order to make a superior return. These positive contributions of short term debt to the Market value added imply that the Nigerian manufacturing companies are rationally using short term debts to foster operations that increase their value (Frank and Goyal, 2009). Short-term debt may turn out to be a feasible and cost-effective solution to operation and working capital needs that are obligatory in the manufacturing operations. These debts are usually lower interest rates and short period period of repayment and hence they are less costly as compared to long term debts. This will help in reducing financial pressure on the businesses and increase their profitability (Myers, 2001). Underdeveloped financial markets Hence, where the little availability of long-term capital in Nigeria, is used to finance the firm tend to make firms rely more upon the short-term financing to meet their immediate production and distribution costs. This form of financing when well administered, can add to an improved liquidity and also help to make the acquisition of raw materials timely and operations run smoothly and eventually this may lead to better market valuation (Abor, 2005). Also, short-term debt could be utilised as a means to keep the management on its feet. This frequent need to settle or to roll over short term debts increases creditor's scrutiny which may result in lessening of agency costs and also encourage for a more efficient disposition of resources (Jensen and Meckling, 1976). This better monitoring might boost the confidence of investors and this in turn may have a positive effect on the market valuations as expressed through the Market value added. Moreover, since short-term debt involves an inadequate number of commitments then businesses have a greater level of financial freedom and as a result they can respond quickly to changes in the economic environment which is an indispensable advantage in Nigeria with its volatile macroeconomic environment (Akpan and Ime, 2017). Finally, the significant and positive relationship between short term debt and the Market value added, this suggest the significance of prudent short term borrowings in creating value amongst the manufacturing companies in Nigeria. This indicates well perceived capital structure strategies which will ensure operations are efficient and trust the market.

There is a negative and significant correlation between the long term debt and the Market value added and among the listed manufacturing firms in Nigeria. The negative and significant relationship that was observed between long-term debt and the Market value added among the quoted manufacturing companies in Nigeria can be attributed a number of causes which are inter-related with each other comprising of financial, institutional and macroeconomic factors. The Market value added which is a ratio of the market value of a company and the replacement value of their assets are measures which serve as an indicator of how the investors see the prospects of future growth of a firm. When the Market value added decreases, this can be viewed as an index that investors have developed the view that the companies that are high long-term debt have lower value or are risky. To start with, significant amount of long-term debt may be an indication of financial risk and potential debt safely among investors. This is particularly so on the developing economies such as Nigeria where high rate of interest and economic instability add to the cost of borrowing (Akintoye 2020). It could be challenging to realise enough returns on committed capital into manufacturing companies with a long-term debt, especially in fluctuations of revenues or in inflation and fluctuation impact of foreign exchange (Oladeji and Akinwamide, 2021). This reduces the confidence of investors and the market valuation go down. Secondly, many manufacturing enterprises in Nigeria have a tendency of using long-term debt that is not profitable or venturing in any investment project that is inefficient, usually, due to insufficient corporate governance and planning. This leads to the

low profitability of the activity and the deterioration of the expectation of investors as to the future return of the invested capital when not invested in profit generating activities (Ezeoha, 2011). This finding reflects with the pecking order theory which postulates that firms are more likely to use internal sources of funds as opposed to external borrowing mainly due to the cost and risk associated with the latter (Myers and Majluf, 1984). Moreover, the negative effect of long term debt may be compounded by the weaknesses inherent in the structure of the capital markets in Nigeria. The inability of businesses to find easy and efficient refinancing sources and the immaturity of bond markets often put many businesses in rigid debt structures, which affect business financial flexibility (Afolabi and Darma, 2020). This rigidity prohibits the growth and imaginations out gassing to a dull perception of the market and reduced Q ratios of Tobin. Long term debt does have negative impacts on the Market value added meaning that the Nigerian investors are cautious of business entities that have heavy debts. This is the warning in view of the possible financial strains, misplaced use of funds and the issue of poor institutional structures.

There is positive and significant relationship between share capital and Market value added in the environment of quoted Manufacturing firms in Nigeria. The significant and significant relationship that exists in the share capital and the Market value added among the Manufactures that are publicly listed in Nigeria can be explained by some strategic and structural factors. The share capital is a good measure of the equity financing that is done through issuance of common or preferred shares, an indicator of the investor confidence as well as the general stability of the corporation. For example, according to the transverse of Tobin, the Q which measure the connexion of monetary between the market's worth of assets held by a company and the cost of substituting it, the higher the share capital base, the more probable of getting a better impression of the worth of a company. This is attributed mostly to reduction in the financial risk and improved growth potential (Modigliani and Miller, 1958). Equity financing helps in reducing the fixed interest payments made on the debts and it gives companies greater flexibility in the manner they utilisation their funds. Flexibility is also needed in the uncertain world of the Nigerian economy whereby an increase in inflation and fluctuations in the value of the currency can have a great effect on the profitability of the business as well as the repayment of debts. As firms rely more on equity, as opposed to debt, they are able to withstand economic shocks and be resilient. Investors have a tendency of recognising this strength which may then be met by higher market valuations (Frank & Goyal, 2009). This is in line with the pecking order theory which shows that firms are more likely to prefer internal sources of finance, then equity before settling on the debt mainly due to the issue of cost and risk (Myers and Majluf, 1984). Also, increasing share capital may be a signalisation of high growth for example, growing in business expansion, adoption of new technologies or product innovation. Such activities increase the effectiveness of operation and the future profit expectation as well, which affects positively on the market value. The recent development in the availability of capital market in Nigeria offers a strong opportunity, to a great extent, in issuing shares as a funding source. By doing so, companies are able to raise funds without raising financial leverage hence enabling them to maintain favourable debt-equity ratios (Abor, 2005). Large share capital base is also viewed as way of increasing corporate governance and transparency by investors and analysts. This is especially necessary when it is with regard to complying with the stock market listings and conforming to the regulatory standards. This contributes to the credibility of firms and increases their attractiveness by institutional investors which subsequently boosts the market value and the Market value added (Demirguc-Kunt and Maksimovic, 1999).

The correlation between retained and Market value added of quoted manufacturing companies in Nigeria indicates a positive correlation and not significant. Though the positive correlation existing between retained earnings and the Market value added used among quoted manufacturing firms in Nigeria is not statistically significant, it is attributed to a number of economic, financial and structural reasons. The retained earnings represent the income that a business generates and spends on the operations of the business thus considered as a good and cheap source of funds. In Nigerian setting, such a financing sources might not always result in an improved market valuation since such a method is usually influenced by various factors including economic volatility, inefficient use of capital as well as the asymmetry of information (Myers and Majluf, 1984). First, retained earnings are an indication of the profits and the ability of a company to finance its growth by itself. The effectiveness of the reinvestment of these earnings is however a big determinant of their influence on market value. The problem of reinvesting the profits in many manufacturing companies in Nigeria is typically channelled into non-strategy or low yielding investments. This can also reduce the possibilities of maximising the future cash flows and consequently the effects of such practise on the Market value added as well as problems of bad governance and lack of transparency can hinder the investors ability to give a good assessment about the productivity of retained earnings and thus bring down its effects on market valuation (Demirguc-Kunt & Maksimovic, 1998). Also, the weak effect of retained earnings on the Market value added could also be indicating the market inclinations of the investors in the Nigerian capital market. Financing sources are usually focused by the investors about those that are more visible such as share capital or long term debt as opposed to internal resources, which may not be as externally validated. The signalling theory, which suggests capital sources that are external are likely to have strong market signals regarding possible growth than retained earnings, is supportive of this claim (Ross, 1977). Also, changes in the macroeconomic environment such as high inflation rate and volatile exchange rates could

cause downturn in the real value of retained earnings as well as skewing their potential to effect the value of a firm. This is a problem that is prevalent in Nigeria where the increasing inflation rates and the uncertainty levels of their policies prevent the companies to enforce future-oriented investment decisions with funds they have created themselves (Ogebe, Ogebe, & Alewi, 2013). Retained earnings are important in financing the company. Nonetheless, the fact that they positively but non-significantly associated with the Market value added among the manufacturing companies in Nigeria demonstrate some issues. These are challenges of reinvestment efficiency, perception of the situation by investors and the macroeconomic situations involved.

6. Conclusions

The study concludes that there is a significant impact of funding structure on the financial performance quoted manufacturing firms in Nigeria. The result is consistent with the concept of the trade-off theory. According to this theory, the firms are trying to balance the tax benefits of debt financing against the costs of financial distress incurred by them (Kraus and Litzenberger 1973). In case of agency theory of Jensen and Meckling, (1976) the implication may be the longer-term debt amounts in the Nigerian manufacturing companies are increasing and in this case the investors may be perceiving this as the level of increased financial risk and possible misallocation of resources leading to the reduction in the market value.

On the management dimension, the paper recommended that long-term debt could be employed successfully to increase shareholder value provided employed in strategic manner. This is in accordance to the theory of trade-offs which states that companies may benefit due to the advantage of debt financing due to the tax shelter that comes with it, but only to an optimal point (Kraus and Litzenberger, 1973). Long-term debt has to be perceived by managers as financial liability but as an essential resource to encourage long-term investment and growth especially in capital intensive sectors such as manufacturing. One should take great care when dealing with the expenses of debts and make sure that the money that is borrowed should be invested in a productive enterprise that should also give more returns than the amount spent.

Recommendations

According to the result of the research the following are the recommendations proposed. Nigeria manufacturing companies that are publicly traded are advised to focus on the strategic decision on the more depending on short-term debt to fund their running procedures. This strategy would be helpful in the successful cash flow management and make repayments on time, which would be of huge importance in reducing the liquidity risks. The publicly traded manufacturing companies in Nigeria should consider easing off with the long term debt. This is possible through better financing solutions within their internal environments, as well as polishing their decisions on capital budgets. Nigeria manufacturing companies that are publicly traded ought to contemplate measure strategically increasing their capital base through the use of public offering and rights issues. This strategy results in flexibility of the finances, the confidence by the investors and strengthening of market value as indicated in the Market value added. The manufacturing firms in Nigeria should consider embracing strategic investment planning models to ensure that the retained earnings are channelled to venture into projects which yield high returns and promote growth. This strategy will stimulate the trust of investors, increase the efficiency of operation, and strengthen the positive effects of internal financing on the market value.

Limitations

To begin with, the study is taking a limited perspective for geographical and industry coverage. The research is particularly focused on quoted manufacturing companies in Nigeria and thus it limits the generalisation of the results to other sectors such as banking, telecommunications and oil and gas. Secondly, the study makes a lot use of the secondary data, derived from the published financials statements and info about stock markets. These sources are usually reliable but they may not completely capture qualitative factors affecting the decision on funding and the worth of a firm like managerial prowess, reputation of the firm or feelings of the investors.

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