

**MODERATING EFFECT OF INVESTMENT DECISION ON THE RELATIONSHIP BETWEEN CAPITAL STRUCTURE FIRMS FINANCIAL PERFORMANCE IN NIGERIA: FOCUS ON CONSUMER GOODS COMPANIES**

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**Abstract**

Today's corporate establishment's capital structure and investment decisions are critical to its survival. Previous studies have found mixed results when it comes to capital structure decisions and financial success. Using data from yearly audited financial statements of firms in Nigeria from 2010 to 2020, this article looked at the moderating influence of investment decisions on capital finance decisions and consumer products company financial performance. The link between the variables of 16 specified sample enterprises out of 27 populations was investigated using ex-post factor design, and inferential statistical techniques. The result of the study revealed that Total debt to total assets has a significant and positive relationship with firm performance as assessed by Tobin's q, whereas Total debt to Total equity has a negatively significant relationship with firm financial performance as evaluated by Tobin's q. Furthermore, investment decisions moderate the relation between capital financing structure and financial performance as measured by Tobin's q. The study's conclusion and recommendation are that consumer goods companies seeking to maximize sales and profits can consider making sound investment decisions and relate same to shareholders, allowing them to reach a higher amount of financial results, In addition, a decision should be made and that the regulatory authorities should promote the consumption of domestic products and Nigerian brand to support the country's infrastructural expansion.

**Keywords:** Investment Decision, Capital Structure, Financial Performance, Total Debts, Shareholders' Equity, Consumer goods companies.

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**1.1 Introduction**

Firms are faced with two major decisions which can ensure their survival; these decisions are financing and investment (Ogebe, Ogebe & Alewi 2013). The firm is always concerned with ascertaining the best optimal financing mix which is also referred to as the capital structure. Financing is a crucial area in a firm (Akeem, Terer, Kiyanjui, & Kayode, 2014; 2014), and for a firm to survive the dynamic nature of the business environment and outperform its competitors, the financial manager will need to understand the best optimum mixture of debts and equities which increases the value of stakeholders' resources.

Capital structure, according to Aghajari and Espireh (2014), can have two implications: enterprises in a similar risk category may have a greater cost of capital and indebtedness. Second, capital structure may have an impact on how companies rate their assets, with more indebted companies considered riskier and hence being valued lesser than less indebted companies. If the goal of a corporation's management is to maximize shareholder wealth, capital structure is a critical choice because it can contribute to an appropriate investment mix that optimizes the business's market price per share.

As a result, organizational managers pick the finest and most appropriate means of funding company operations that are

directly or indirectly connected to corporate success (Woldemariam, 2016). In many contexts, several researchers have conducted investigations concerning the maximizing of business performance through the foremost picked acceptable way of capital structure (Chowdbury & Paul, 2010; Bandyopadhyay & Barua, 2016; Montaya., 2016; Aggarwal & Chandra 2017; Ajibola, Wisdom & Qudus, 2018; Ghayas & Akhter 2018; Odusanya et al. 2018; Santoso, 2019; Maria, & Udeh, 2019; Thanh & Nguyen, 2020).

Despite Modigliani and Miller's (1958) investigation, which proved the illegitimacy of capital structure decisions, numerous researchers disputed the aforementioned authors based on their observations. Among the investigations undertaken by (Sebastain & Onuegbu, 2018), and (Santoso, 2019). Jensen and Meckling (1976) revealed in their theory of agency that financing business operations with external debt might very well end up serving as a limitation and impact managerial behaviour of financial profit, trying to enforce them to operate with shareholders' preferences subject to compensation on the debt collected, the decline in unimportant investment opportunities, and, ultimately, a lessen in cash flow in the institution. Market dynamics, industry type, internal regulations, company size, revenue, corporation tax, and insolvency expenses all influence a company's capital structure (Akeem, et al. 2014). The corporation's earnings are optimized by investing in the right sorts of assets and using the right forms of finance. It reflects the company's great performance as well as its future opportunities. In addition, a high rate of return is a good sign for investors. A company's value increases when it performs well (Santoso, 2019)

Consequently, the sole goal of this study is to examine the moderating influence of investment decisions on the relationship between capital structure and financial

performance of Nigerian consumer products businesses. The introduction, the research problem, research aims, and research hypotheses were all included in the first section of the study. As a result, section two is devoted to a literature review, which includes an empirical analysis as well as a theoretical foundation. The methodology of the study was presented in section three, while data analysis, hypothesis testing, and discussion of the findings were presented in section four, and finally, the conclusion, summary, and recommendation were presented in section five.

### **1.2 Statement of the Research Problem**

With an increasing customer population, many global corporations take advantage of the potential to provide consumer-packaged products to fulfil their requirements (Aluko, 2017; Yinka, 2019). However, the growth of the Nigerian manufacturing industry remains poor compared with past performances, and other countries, especially in terms of its contributions to national growth. According to Director General of Manufacturers Association of Nigeria, (2018), reveals that, in 2017, more than 50 per cent of the manufacturing sub-sectors recorded a decline in their profitability in which majority of the companies ended up with a negative financial position led to the massive factory closures and retrenchment of about 10,291 employees (NBS, 20217). Notwithstanding that most of the business transactions are done in the informal sector, revenue from consumer goods sales is estimated to be 16 per cent of GDP in the Nigerian, ranking the country the 3rd biggest consumer. In addition, the food and beverage sector in Nigeria accounts for 65 per cent of production and 8.7% of GDP.

The average contribution of the manufacturing segment of the Nigerian economy to GDP growth in the last quarter of 2020 was evaluated to 24.60 per cent, dropping 1.69 per cent levels from the same time in 2019 (26.29) but increasing 11.06

per cent levels from the preceding quarter's 13.54 per cent (NBS, 2021). Consequently, Nigeria's manufacturing industry, according to these numbers, is underperforming, which might have a detrimental influence on the nation's economic sustainability.

Granted that several empirical kinds of research have been undertaken on capital structure and firm performance relationship, however, there are contradictory findings from recent surveys both in industrialized and developing economies, particularly in Nigeria. Most of these researches have only investigated the potential impact of capital structure on firm performance. The outcome of these studies revealed that some findings report a significant positive relationship between the variables, while some contradictory and few mixed findings were affirmed (Chowdbury & Paul, 2010; Antwi Fiifi, Mills & Zhao, 2012; Nwankwo, 2014; Bandyopadhyay & Barua, 2016; Montaya., 2016; Aggarwal & Chandra 2017; Sebastian & Onuegbu, 2018; Santoso, 2019; Akeem, Edwin, Kiyanjui & Kayode, 2014; Ajibola, Wisdom & Qudus, 2018; Ajibola, Wisdom & Qudus, 2018; Ghayas & Akhter 2018; Odusanya et al. 2018; Santoso, 2019; Maria, &Udeh, 2019; Thanh & Nguyen, 2020) without taking into consideration the moderating effect of investment decisions on the choice of the optimum capital structure mix for maximizing corporation performance. However, the purpose of this research is to fill a gap in the literature by examining whether investment decisions influence the impacts of capital structure on the profitability of Nigerian consumer products businesses listed on the stock exchange.

### **1.3 Research Objectives**

The primary goal of this research is to investigate the moderating influence of investment decisions on the link between capital structure and the performance of

consumer products in Nigeria. The research specific objectives are as follows;

- i. To investigate the effect of total debts ratio on the financial performance of consumer goods firms in Nigeria
- ii. To assess the effect of total debts to equity ratio on the financial performance of consumer goods firms in Nigeria
- iii. To assess the extent to which investment decisions moderate the relationship between total debts ratio and financial performance of consumer goods firms in Nigeria
- iv. To investigate the extent to which investment decisions moderate the relationship between total debts to equity ratio and financial performance of consumer goods firms in Nigeria.

### **1.4 Empirical Review and Theoretical Framework**

Mutua and Atheru (2020) examined the impact of capital structure on the financial performance of manufacturing and allied firms quoted on the Nairobi Securities Exchange. The collected data were evaluated through multiple regression by adopting a descriptive research approach. The findings of the study indicated that retained earnings have a negative impact on the financial performance of companies in Kenya's manufacturing and allied industry, but long-term debt has a positive effect on the financial performance as evaluated by Return on Equity. According to the report, manufacturing and allied sector management boards should reform their policies by implementing measures that provide an optimal capital structure.

Thanh and Nguyen (2020) examined the impact of capital structure on business performance in public and private enterprises quoted on the Vietnam stock exchange for six years, from 2013 to 2018, sampling 488 non-financial publicly-traded companies on the Vietnam stock exchange. The Generalized Least Square (GLS) approach is used to solve

econometric challenges and improve the quality of regression results. Return on equity (ROE), earnings per share (EPS) and return on assets (ROA) were used to evaluate firm performance in this research (EPS). According to the data, capital structure has a statistically significant negative influence on firm performance. Also according to the research, this impact is higher in publicly-owned businesses in Vietnam than in private businesses. These results provide government and private company executives with a new viewpoint on how to optimize a firm's productivity using capital structure.

Adeoye and Olojede (2019) investigated how to finance decisions affect company performance in Nigeria. The study used an explorative research approach. To analyze the data, the study used both descriptive and inferential techniques. The research revealed that capital structure influenced business performance in Nigeria. In a similar line, Maria and Udeh (2019) investigated the impact of capital structure on the financial performance of Nigerian public food and beverage firms. From 2007 to 2016, it looked examined the impact of short-term debt, long-term debt, and leverage on the profitability of Nigerian food and beverage enterprises. To evaluate the data, multiple regression analysis was used with the help of the E-view statistical program. The findings revealed that, among other things, the short-term debt had a large and favourable impact on return on equity as a measure of company success. Based on the literature analysis, the following null hypotheses were constructed for this investigation.

**Ho1:** Total Debts Ratio has no significant effect on the financial performance of consumer goods firms in Nigeria

**Ho2:** Total Debts to Equity Ratio has no significant effect on the financial performance of consumer goods firms in Nigeria

**Ho3:** The relationship between Nigerian consumer goods firms' financial performance and their total debt ratio is not considerably moderated by investment decisions.

**Ho4:** Investment decisions do not significantly moderate the relationship between the Total Debts to Equity Ratio and the financial performance of consumer goods firms in Nigeria

### **The Q Theory of Investment**

Brainard and Tobin developed this hypothesis in 1968, and Tobin proposed it in 1969. According to the idea, one of the primary determinants of new investments in the market valuation of shares in proportion to the substitution cost of the physical assets they represent (Ma'in & Ismail, 2011). The Q hypothesis goes on to say that when market equity yields are low compared to the real returns on physical assets, investment can be encouraged (Dang, 2012). According to the theory, corporations may indeed conduct a comparison of their "net marginal product of capital" with the cost of funds. A change in the corporate tax only influences the sound state of capital stock but does not influence the sound state of q for the reasons being that the change does not manipulate the cost to the firms to obtain new capital goods from the market because as the capital accumulates, the marginal product of capital falls and the structure converges up to a point where q is equivalent to the equilibrium worth (Peric & Durkin, 2015). The speed of investors in enhancing their capital base should be related to q, where market value is equivalent to the capital replacement cost, according to the theory. The higher the Q in a company's investment, the more likely it is that the company can expand its investment by borrowing money from banks. And if the company spends heavily on capital projects because their worth exceeds the cash expenditure that initially paid off the loans. In general, a high Tobin's Q encourages businesses to expand their lending capacity

and, as a result, boost total investments (Ma'in & Ismail, 2011).

In contrast, if Q is below 1.0, the market value of the firm's assets is below the asset book value recorded, discouraging enterprises from borrowing from banks and investing in capital markets in general (Peric & Durkin, 2015). The Q hypothesis is based on the notion that when the market value of capital is higher than the cost of generating it, the investment will be raised (cost of capital).

**1.5 Methodology**

The paper objectively adopted the ex-post facto research technique which is considered more appropriate for achieving the research objectives aforementioned since the data collected for this study is not based on primary data on the financial performance of all the listed consumer goods firms and is, therefore, historical panel data were used. All firms listed under the consumer goods firms sectors form a population which is 27 in number going by the 2020 NSE fact book and purposive sampling was used to form a 16 sample size which is considered enough to generalize the findings on the total. Secondary data as extracted from the NSE fact book covering the period of 2010 – 2020, eleven years was used and analyzed using the multiple regression techniques. The general multiple linear regression models were adapted from Mutua and Atheru (2020) and are presented as follows:

$$Z_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \mu \dots \dots \dots \text{Equation (i)}$$

Alternatively, based on the above general multiple linear regression models, the equation was modified to reflect the panel regression model for the study. This study focused on two econometric models, one of which is shown in equation 1 and investigates the direct link between capital structure and financial performance.

$$Z_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \mu \dots \dots \dots \text{Equation (i)}$$

$$TQ_{it} = \alpha + \beta_1 TDTA_{it} + \beta_2 TDTE_{it} + \beta_3 INDEC_{it} + \beta_4 AU_{it} + \beta_5 FZ_{it} + \beta_6 AGE_{it} + \beta_7 PROF_{it} + \mu \dots \dots \dots \text{Equation (1)}$$

$$TQ_{it} = \alpha + \beta_1 TDTA_{it} + \beta_2 TDTE_{it} + \beta_3 INDEC_{it} + \beta_4 TDTA * INDEC_{it} + \beta_5 TDTE * INDEC_{it} + \beta_6 AU_{it} + \beta_7 FZ_{it} + \beta_8 AGE_{it} + \beta_9 PROF_{it} + \mu \dots \dots \dots \text{Equation (2)}$$

The second model above, equation 2, explains the role of investment decision as a moderator variable in the relationship between capital structure and firms' financial performance in the study based on (Baron & Kenny, 1986).

**Where:**

- FP= Tobin's Q, TDTA= Total debt to total assets,
- TDTE= Total debt to Total equity
- INDC= Total asset growth
- AU= Assets utilization
- FZ = Firm size
- AGE = Firm age
- β = Slope
- α = Intercept,
- μ = Error term
- it = Panel data indicator

## 1.6 Results and Discussions of the findings

### Moderation Model Result

Variables	Coefficients	Std. Err.	z-Statistics	p-value
Tdta	.6209681***	.0617139	10.06	0.000
Tdte	-.0939052***	.0108862	-8.63	0.000
Indec	-.0008085	.0007754	-1.04	0.299
Tdtaindec	-.0039358*	.001836	2.14	0.034
Tdteindec	.0006413	.0005849	1.10	0.275
Prof	.0317064**	.0486209	0.65	0.515
Au	-.0032141**	.0012384	-2.60	0.010
Firmssize	-.737464*	.0414958	-1.78	0.077
Age	.0120032	.0311958	0.38	0.701
_cons	1.010342	.439179	2.35	0.020
Wald chi <sup>2</sup>	54.28			
Prob > chi <sup>2</sup>				0.0000
R-Squared	0.7464			
Panels:	Correlated(Balanced)			
Autocorrelation:	No autocorrelation			

**Source STATA Output, 2021**) using Stata version 14; Tobins' q = Financial Performance; TDTA and TDTE = Capital Structure; P/E R = Investment Decision; AU = Asset Utilization; Prof = profitability of the firms; Fsize = Firm Size; LAGE = Logarithm of Firm Age.

The R-Square value of 0.7464 indicates that 74.64 per cent of the variance in the dependent variable (TBQ) can be explained by variation in exploratory variables, whereas around 35 per cent of the variation in the independent variable may be explained by other factors. Furthermore, the F-statistic and Wald chi<sup>2</sup> are both significant at 1%, indicating that the test is appropriate and effective, as evidenced by the P-value of 0.0000.

### Total debt ratio and financial performance of Listed Consumer Goods Companies in Nigeria

There is a statistically significant positive link between the total debt ratio and the financial performance of Listed Consumer Goods Companies in Nigeria, according to the data. This suggests that any increase in total debt ratio could lead to a similar increase in a firm financial performance, implying that the greater a company's total debt ratio is, the better its performance in the industry will be. This is because companies with a larger total debt to total assets ratio are better equipped to withstand

shocks during economic downturns, such as the covid 19 epidemic.

This finding corroborates that of Adeoye and Olojede (2019), and Jacob, Adeniran and Philip (2017) who found a significant relationship between total debt ratios and a firm's performance which leads to higher profitability. This is in contrast to the findings of Sebastain and Onuegbu (2018), Vye Le and Thi Bich (2017), Daud, Normani, Mansor and Endut (2016), Ogbonnaya and Chimara (2016) who found a negative relationship between TDR and firm's performance.

### Total Debt to Equity ratio and financial performance of Listed Consumer Goods Companies in Nigeria

The study found that the total debt/equity ratio is negatively related to financial performance and the relationship is statistically significant. This implies that the relationship is supported with enough evidence. This means that any increase in the total debt/equity ratio could lead to a decrease in the firm financial performance which implies that the higher the firm's total debt/equity ratio, the less its performance

becomes. This finding is consistent with that of Ogbonnaya and Chimara (2016), Sinha (2017), Basit and Irwan (2017), Oreoluwa, Samuel and Damilare (2017), Ekwueme and Ogbogbo (2018) also found a significant negative effect on firm's performance. This is in contrast to the findings of Sebastain and Onuegbu (2018).

### **Moderating Effect of Investment Decision on the relationship between Total debt ratio and Financial Performance of Listed Consumer Goods Companies in Nigeria**

The study also found that moderating effect of investment decisions on the total debt ratio is negatively related to financial performance but the relationship is also statistically significant. This implies that a unit increase in investment by debt ratio would bring about a decrease in the financial performance of the companies. It is in line with evidence that investing in highly profitable business opportunities can decrease agency costs and, consequently, a high investment decision on non-promising businesses is linked to lower financial performance. The result supports the findings of those who documented significant and negative relationships between investment decisions and a firm's financial performance (Zhang & Yu, 2016; Nazri et al., 2016; Efni, 2017; Dekimpe & Hanssens, 2010; Arafat, et al., 2014; Shahwan, 2018).

### **Moderating Effect of Investment Decision on the relationship between Total debt ratio and Financial Performance of Listed Consumer Goods Companies in Nigeria**

The findings also found that moderating effect of investment decisions on the total debt/equity ratio is positively related to the financial performance of the listed sampled companies but the relationship is also statistically insignificant. This means that any increase in investment by debt/equity ratio would increase the financial performance of the companies. Therefore, it

can be concluded that investment decision is not a significant determinant between the debt/equity ratio and financial performance of the listed consumer goods companies.

This finding is highly consistent with that of (Awang, 2014; Shahwan, 2018). The research hypothesis was rejected in the case of TDTA but supported in the case of TDTE, which is consistent with McConnell & Servaes (1995) and Sharma (2006) findings that investment decisions moderated the effect of capital structure on corporate financial performance in Nigeria's listed consumer goods companies.

### **Control Variables**

Finally, some control variables were used in the study to account for differences among the units of analysis. Profitability (Prof), Asset Utilization (AU), Firm Size (FSize), and Firm Age are the control variables (Age). The study's findings reveal a statistically small positive association between profitability (Prof) and financial performance measured by TBQ for the controllable variables in the above table 4.7 and 4.8, respectively. The results of the analysis of the influence of asset utilization (AU) on financial performance demonstrate that asset utilization and financial performance as measured by TBQ have a negative statistically significant relationship. The findings show that firm size (Fsize) has a negatively but statistical significance relationship with TBQ-measured financial performance. Finally, the impact of company age on financial performance was investigated, and the findings revealed that it had a statistically insignificant impact.

### **1.7 Conclusion and Recommendation**

The primary goal of this research was to look at the moderating influence of investment decisions on capital structure and financial performance of Nigerian consumer products businesses from 2010 to 2020. According to the conclusions of the study, the total debt to total asset ratio has a

significant and positive impact on financial performance. This suggests that any rise in total debt ratio might result in a similar rise in corporate profitability, implying that the greater a company's total debt ratio is, the better its performance in the industry would be. The study also discovered that the overall debt/equity ratio has a negative impact on financial performance and that the link is statistically significant. This indicates that there is sufficient evidence to establish the association. This means that any increase in the total debt/equity ratio could possibly lead to a decrease in the firm financial performance which implies that the higher the firm's total debt/equity ratio, the less its performance becomes.

According to the outcome of this research, the investment decision has a statistically significant moderating effect on the link between capital structure and financial performance of consumer products companies. In other words, the interplay between capital structure and financial performance has been affected by the inclusion of investment choice as a moderating element, indicating that the consumer goods sector is performing well as a result of the implementation and focus on investing in profitable ventures, which allows firms to use a good and optimal level of capital structure, resulting in improved financial performance.

According to the survey, because the total debt to total asset ratio has a significant and positive effect on financial performance, it constitutes a substantial component of managerial financial and economic risk, and the inability to control it adequately will lead to a reduction in organizational performance and perhaps even lead to insolvency. Consumer goods firms that are publicly traded should be mindful that the higher the total debts to total assets ratio, the healthier the company's performance, and vice versa. Their decisions will boost the company's competitiveness and, as a result, its profitability. Finally, performance

standards should be established and presented to shareholders, which would assist investors in meeting the standard and making better investment selections, which would aid in achieving the high level of financial performance that the firm desires. Furthermore, regulators should be encouraged to create more debt financial instruments to provide a variety of options that could help reduce borrowing costs as a result of competition, and the government should promote the consumption of local products to help the nation's infant industries expand.

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