INTERNATIONAL JOURNAL OF SOCIAL SCIENCE HUMANITY & MANAGEMENT RESEARCH

ISSN (print) 2833-2172, ISSN (online) 2833-2180

Volume 02 Issue 08 August 2023

DOI: 10.58806/ijsshmr.2023.v2i8n03

Page No. 764-767

Corporate Financial Problems: A Case Study of Listed Manufacturing Companies in Nigeria

Hassan, Ismaila[1], Hassan Alhaji, Tanko[2]

[1, 2]Department of Accounting, Faculty of Management Sciences Kaduna State University, Kaduna, Nigeria

ABSTRACT: A number of manufacturing firms in Nigeria are folding up. Although, there are several reasons why this is happening, the study investigated the corporate financial problems: A case study of listed manufacturing firms in Nigeria because of the crucial roles they play in the Nigerian economy. The results of the previous studies reviewed showed that equity financing had a positive significant impact on the financial performance of listed manufacturing firms in Nigeria. However, the findings on debt financing were not consistent. While some studies reported that debt financing had a positive significant impact on the financial performance of listed manufacturing firms in Nigeria, some revealed that debt financing had a negative significant impact on the financial performance of listed manufacturing firms in Nigeria. Thus, the study recommends that the listed manufacturing firms in Nigeria should continue to use the optimal level of equity in financing their operations because by using equity, they have directly avoided the payment of high interest that may impact negatively on their performance. In using equity to finance their activities, the excess profits can either be paid as dividend or they can be reinvested into the business for better performance if the management considers it that it is better do so.

KEYWORDS: Corporate, Problem, firms, performance, financial, Nigeria.

1.0 INTRODUCTION

Financing is one of the important aspects of business functions. It is a process of raising capitals for investments, making purchases and business activities. Businesses obtain finances from financial institutions like banks in order to meet their target objectives (Olamide & Paul, 2021). In any economic system, the utilization of financing is key because it affords firms opportunities to buy products that are out of their immediate reach. Financing comprises equity and debt capitals which are used for making acquisitions, carrying out capital investments and support the business generally (Dada & Ghazali, 2016)

Equity financing is one of the major means through which a company can raise capitals to grow its operations. The owner of the business can sell a certain percentage of the shares of his company to raise capital but when this is done, the ownership is diluted. The business likes to raise funds through the sale of equity because if the firm fails, the investor bears all the risk. An equity investor would like to have a say in how the business is run most especially in rough times and they have the right to votes on based the percentage of shares held. Thus, the investor receives some claim benefit on future profits for giving his money to a company in exchange for ownership.

Debt financing is another main method of raising money for the operations of the company. It is a method that businesses commonly use to raise capitals for different business purposes. It has to do with obtaining loans from lenders or issuing of bonds in exchange for a promise to repay the loan amount and as well as the interest on the principal amount over an agreed period. Debt financing affords the company the opportunities to access a large amount of money, retain ownership and control of assets and flexibility in repayment terms. Nevertheless, the debt financing has certain risks like the obligation to make principal payment and interest, the impact on credit ratings and potential debt burden.

The equity and debt financings of a firm are determined by the decision between equity and debt financing (CFI Team, 2020). The ideal equity and debt financings for a company are usually considered that which results in the lowest weighted cost of capital. In theory this is true but in practice managers of companies tend to have preferences depending on how risk averse they are.

Firms are usually but not always use the weighted average cost of capital in consideration of whether to use equity or debt financing. The weighted average cost of capital is the costs of all kinds of financings each of which is weighted by its percentage use in a given situation. The financial manager can determine how much interest a firm owes for each naira it funds by taking the weighted average in this way. Companies decide the suitable combination of equity and debt financing by optimizing the weighted average cost of capital of each category of finance while putting into consideration the risk of bankruptcy or default on one hand and the amount of ownership owners are willing to forgo on the other.

Corporate Financial Problems: A Case Study of Listed Manufacturing Companies in Nigeria

Finance is the pillar of a business. Thus, it is almost impossible for manufacturing firms in Nigeria to survive if they cannot have easy access to finances. Manufacturing firms in Nigeria play key roles in the Nigerian economy because they provide employment opportunities for the people and contribute to the country's gross domestic product (GDP). They need capitals to purchase resources such as raw materials, machinery etc. Freshbook (2023) has reported that many businesses had failed because of poor corporate finance. This is the reason why funds are the lifeblood of any firm. No manufacturing firm in Nigeria will function well except it has an enough amount of money to run its operations.

Although several studies were conducted on the impact of equity financing and debt financing on the financial performance of listed manufacturing firms in Nigeria, their findings were not consistent. The studies conducted By Chukwuma (2022), Arikekpa (2020) found a positive correlation between debt financing and financial performance of listed manufacturing firms in Nigeria but the study carried out by Akeem et al. (2014), showed that debt financing had a negative significant impact on the financial performance of listed manufacturing firms in Nigeria. Adeoye and Olojede (2022), Olaoye and Adesina (2022) in their studies revealed a negative insignificant impact of debt financing on the financial performance of listed manufacturing firms in Nigeria.

Okojie (2023) has stated that manufacturing firms in Nigeria had the potential, to take millions of individuals out of poverty via wealth and job creation but it had been bedeviled with the high costs of borrowing that had continued to hamper industrialization in Africa's biggest economy. Many manufacturers had complained that they could not raise funds especially long-term, single-digit funds because of their high costs. The increase in the monetary policy rate signifies negative consequences for the manufacturing industry in Nigeria (Kadir, 2023). The Central Bank of Nigeria raised the monetary policy rate which is the benchmark for interest rates in Nigeria from 17.5% to 18%, the sixth consecutive increase since May 2022. According to BusinessDay's findings on 12 April, 2023, the commercial banks in Nigeria charge rate is now between 20% and 35%.

Eromosele (2023) has also reported on 17 May in Bussinesday that many Nigerian manufacturers were finding it difficult to obtain the money that they needed to invest in new equipment, upgrade facilities as well as to expand their activities as a result of high cost of borrowing and the unwillingness of banks to loan the manufacturing firms to due perceived risks. Adeola (2023) in Guardian Newspaper says the manufacturing sector in Nigeria was faced with difficulty of accessing credit, double- digit credit facilities from banks.

2.0 LITERATURE REVIEW

The literatures relating to equity financing, debt financing and financial performance of listed manufacturing firms in Nigeria are reviewed in this section.

Equity Financing and Financial Performance

Owolabi et al. (2021) examined the effect of equity financing on financial performance of listed manufacturing companies in Nigeria form 2008 to 2017. The sample of the study was 60 listed manufacturing firms in Nigeria and the source of data was secondary. Panel data regression was used to analyze the data. The results showed that the equity financing had a positive significant effect on the financial performance of listed manufacturing firms in Nigeria.

Chikweendu and Nyeche (2022) studied the effect of equity financing on net book value of quoted manufacturing firms in Nigeria from 2010-2019. The sample of the study was 15 quoted manufacturing firms in Nigeria and the source of data was secondary. After analyzing the data by means of panel data regression, the findings showed equity financing had a positive significant effect on net book value of quoted manufacturing firms in Nigeria.

Miko and Para (2019) examined the effect of capital structure on profitability of listed manufacturing firms in Nigeria from 2008-2017. The sample of the study was 10 listed manufacturing firms in Nigeria. The technique of data analysis and source of data were multiple regression and secondary respectively. The results showed that equity financing had a positive significant effect on profitability of listed manufacturing firms in Nigeria.

Arikekpa (2020) evaluated the impact of capital structure on the firm performance of listed manufacturing firms in Nigeria from 2014 -2018. The source of was secondary and the technique of data analysis was panel data regression. The findings showed that the equity and debt financings had a positive significant impact on firm performance of listed manufacturing firms in NAdeoye at al. (2021) examined the impact of capital structure on financial performance of listed manufacturing firms in Nigeria 1997-2017. The study used balanced data regression technique and secondary data. The sample of the study was 10 listed manufacturing firms in Nigeria. The results showed that equity financing had a positive significant impact on financial performance of listed manufacturing firms in Nigeria.

Debt Financing and Financial Performance

Akeem et al. (2014) examined the impact of capital structure on firm performance of listed manufacturing firms in Nigeria from 2003 to 2012. The source of data was secondary while the sample of the study was 10 listed manufacturing firms in Nigeria. The technique of data analysis was multiple regression. The results showed that debt financing had a negative significant impact on financial performance of listed manufacturing firms in Nigeria.

Chukwuma (2022) examined the impact of debt financing on the performance of listed manufacturing firms in Nigeria from 2011-2020. The sample of the study was five listed manufacturing firms in Nigeria and the source of data for the study was secondary. The study used panel data regression. The findings showed that debt financing had a positive significant impact on the performance of listed manufacturing firms in Nigeria.

Olaoye and Adesina (2022) studied the influence of capital structure on financial performance of listed manufacturing companies in Nigeria from 2009-2020. The technique of data analysis was panel data regression but the study used secondary data. Findings revealed the debt had a negative insignificant influence on financial performance of listed manufacturing firms in Nigeria.

Adeoye and Olojede (2022) examined the influence of capital structure on financial performance of selected quoted food and beverages manufacturing industries in Nigeria from 2012-2017). The study used multiple regression and secondary data. The findings revealed that debt financing had a negative and insignificant impact on financial performance of selected manufacturing companies in Nigeria.

Theoretical Framework

(i) Pecking Order Theory

Myers and Majluf (1984) propounded the Pecking Order Theory. The theory stresses that there should be a particular sequence of raising capitals and that preference should first be given to internal source of financing like internal reserve and the next best alternative should be debt financing. It asserts that equity financing should be a last option.

(ii) Modigliani and Miller Theory

Modigliani and Miller (1958) propounded Modigliani and Miller Theory. The theory can be referred to as capital structure irrelevance. It is based on the idea that the relationship between the cost of capital and capital structure is insignificant which means that the increase in debt has no effect on cost of capital. This theory is based on the assumptions like homogeneous expectations, no taxes, transaction costs and perfect capital market.

3.0 METHODOLOGY

The researchers reviewed the previous empirical studies on the impact of equity financing, debt financing known as capital structure on the financial performance of listed manufacturing firms in Nigeria 2014-2022. The equity financing and debt financing are the two components of financing reviewed in this study. The sources of data for the study are past studies on equity financing, debt financing and financial performance of listed manufacturing firms in Nigeria.

4.0 DISCUSSIONS OF THE REVIEWED STUDIES

Several studies on the relationship between equity financing, debt financing and financial performance of listed manufacturing firms were reviewed in this study. However, the empirical findings of the studies were mixed. While studies conducted By Chukwuma (2022), Arikekpa (2020) found a positive correlation between debt financing and financial performance of listed manufacturing firms in Nigeria, the studies carried out by Akeem et al. (2014), showed that debt financing had a negative significant impact on the financial performance of listed manufacturing firms in Nigeria. Adeoye and Olojede (2022), Olaoye and Adesina (2022) in their studies revealed a negative insignificant impact of debt financing on the financial performance of listed manufacturing firms in Nigeria.

Concerning the relationship between equity financing and financial performance of listed manufacturing firms in Nigeria, the results were consistent. This consistence is evident in the studies conducted by Owolabi et al. (2021), Chikweendu and Nyeche (2022), Miko and Para (2019), Adeoye at al. (2021), Arikekpa (2020) in which their findings showed that equity financing had a positive significant impact on financial performance of listed manufacturing firms in Nigeria.

Financing is the processing of raising capitals for business operations and it has two major components namely equity financing and debt financing. The mix of equity and debt is known as capital structure. While equity financing has to do with the sale of shares, debt financing has to do with borrowing of funds.

CFI Team (2020) has stated that ideal equity financing and debt financing for a company are usually considered that which results in the lowest weighted cost of capital. In theory this is true but in practice managers of companies tend to have preferences depending on how risk averse they are.

Finance is the lifeblood of any business because no business can survive with funds. Nigerian manufacturers are in need of capitals for their businesses. However, they are finding it difficult to access loans from commercial banks because of the high interest charged by banks. Apart from the high interest rate, commercial banks in Nigeria are not willing to give loans to Nigerian manufacturers because of perceived risks. According to BusinessDay’s findings on 12 April, 2023, the commercial banks charge rate in Nigeria is now between 20% and 35% which are too high.

5.0 CONCLUSIONS

The study concludes that equity financing has a positive significant impact on the financial performance of listed manufacturing firms in Nigeria because the results of all the previous studies on the impact of equity financing on financial performance of listed manufacturing firms in Nigeria reviewed by the researchers showed a positive significant impact on financial performance and the findings were consistent but debt financing has a negative significant impact on the financial performance of listed manufacturing firms in Nigeria or a negative insignificant impact on the financial performance of listed manufacturing firms in Nigeria.

6.0 RECOMMENDATIONS

In line with the findings above, the study recommends that the listed manufacturing firms in Nigeria should continue to use the optimal level of equity in financing their operations because by using equity, they have directly avoided the payment of high interest that may impact negatively on their performance. In using equity to finance their activities, the excess profits can either be paid as dividend or they can be reinvested if the management considers it that it is better do so.

The listed manufacturing firms in Nigeria should avoid raising too much debt for their operations as that can result in high interest payable to lenders. In this way the profits made can be used as dividend or they can be reinvested into the firms for better performance instead of paying them to lenders as interest.

REFERENCES

1) Adeola. A. (2023). Travails and struggles of the Nigerian manufacturing sector, The Guardian Newspaper
2) Adeoye, I, O., Enyi, E,P., Nwaobia, A,N., & Ogundajo, G,O. (2021). Capital structure and financial performance of listed manufacturing companies in Nigeria. *Journal of Accounting and Business, 8(*1), 184-189.
3) Adeoye, S,D., & Olojede, S,O. (2022). Impact of capital structure on financial performance of selected quoted food and beverages manufacturing industries in Nigeria. *Journal of Economics, Management and Trade, 28*(1), 1-14.
4) Akeem, L,B, Edwin, T,K., Kiyanjui, M, W., & Kayode, A,M. (2014). Effect of capital structure on firm performance: Empirical study of manufacturing companies in Nigeria. *Journal of Finance and Investment Analysis, Sciences Ltd, 3* (4), 1-4.
5) Arikekpa, O,A. (2020). Capital structure and firm performance: An empirical study of manufacturing companies in Nigeria. *World Journal of Finance and Investment Research, 5*(1), 48-60.
6) CFI Team (2020). The methods and types of funding used by a business to sustain and grow its operations
7) Chikwendu, A,F., & Nyeche, E. (2022). Financing policy and net book value of quoted manufacturing firms in Nigeria: A multi- variant study. *African Journal of Business and Economic Development, 2*(2), 7-27.
8) Chukwuma, E.E. (2022). Influence of debt financing on the financial performance of listed manufacturing firms in Nigeria.
9) Dada, A,O., & Ghazali, Z,B. (2016). The impact of capital on firm performance: Empirical evidence from Nigeria. *Journal of Finance and Economics, 7,* 23-30.
10) Freshbook (2023). Business Finance: Definition and Importance
11) Miko, N,U., & Para, I. (2019). Capital structure and profitability of listed manufacturing firms in Nigeria. *Journal of Accounting and Management, 2(*2),134-140.
12) Modigliani, F., & Miller, M,H. (1958). The cost of capital, corporation finance and the theory of investment. *American Economic Review, 48*, 261-291.
13) Myers, A., & Majluf,N,S.(1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics, 13*(2), 187-221.
14) Okojie, J. (2023). Nigeria's manufacturing woes worsen joblessness. Business Day.
15) Olamide, O,O., & Paul, FO. (2021). Effect of capital structure on financial performance of quoted manufacturing companies in Nigeria. *European Journal of Accounting, Auditing and Finance Research, 9(*5), 73-89.
16) Olaoye, C,O., & Adesina, O, D. (2022). Capital structure and financial performance of manufacturing companies in Nigeria. *Journal of Applied and Theoretical Social Sciences, 4* (4), 1-10.
17) Owolabi, O,A., Kolawale, A,D., Ogungbade, O,I., & Adekoya, A,C. (2021). Equity financing options and financial performance of listed manufacturing in Nigeria. *PalArch's Journal of Archaeology of Egpt/ Egyptology, 18(*7), 1730-1741.