Enhancing Corporate Performance through Debt Financing: Evidence from Nigerian Consumer Goods Firms

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Abstract

Background: Consumer goods firms play a significant role in any economy, like other businesses, require a mix of financing methods to amplify their performance.

Aim: The study examined enhancement of corporate performance of Nigerian Consumer Goods Firms through debt financing for a period of eleven (11) years from 2011 to 2022.

Methods: The data obtained were estimated using descriptive statistics and panel regression model of fixed effect.

Results: The study found a positive and significant impacts of long-term debt (β=0.469729, P=0.0311) and firms' size (β=0.154547, P=0.0251) on the performance of Nigerian consumer goods firms' but negative and significant impacts of loan quality (β=−0.037431, P=0.0241) and short-term debt (−0.023417, P=0.0124) on their performance.

Recommendation: The study recommends financing through Long-term debt for businesses in Nigeria.

Keywords

Corporate Performance, Debt Financing, Long-term Debt, Short-term Debt, Consumer goods firms, Nigeria

JEL Codes

H63, F34, G51

DOI

http://dx.doi.org/10.37355/acta-2024/1-01

Introduction

Consumer goods firms play a significant role in the economies of Nigeria and other African countries. They are a vital and rapidly growing sector characterized by high production capacity and a substantial market share (Chaleeda, et al, 2019). These firms are engaged in the manufacturing and distribution of essential consumer products that households rely on for their daily needs. The growth in a consumer goods firm's turnover is a key indicator of its performance. It reflects how well the firm has harnessed its assets to generate returns (Onoja & Ovayioza, 2015). Therefore, the corporate performance of these consumer goods firms is not only essential for their long-term sustainability but also plays a crucial role in driving economic growth through their economic activities within the country. In essence, the success and effective operation of consumer goods firms not only ensure their survival but also contribute significantly to the overall economic development of Nigeria and other African economies.

Consumer goods firms, like other businesses, require a mix of financing methods, including both equity and debt, to sustain their operations and replace aging assets. Ali (2020) suggests that an increase in the proportion of debt in a firm's capital structure can potentially lead to improved profitability. Therefore, the adequacy and appropriateness of corporate financing, including debt, are crucial factors that can significantly impact their performance. Such access can strengthen their financial position, boost productivity, and contribute to better overall performance (Olowe & Abubakar, 2019). Conversely, a lack of access to financing can hinder their growth potential. To avoid financial mismatches and ensure strong corporate performance, it is imperative for consumer goods firms to effectively mobilize debt capital. Proper debt management and utilization are essential to maintain a healthy balance between equity and debt, thereby supporting sustainable growth and avoiding potential financial challenges.

From the foregoing, using debt to run a business may be highly risky but an advantage of it is the tax saving (Abeywardhana & Magoro, 2017). Optimization of a firm' value and minimization of its borrowing costs required financing through debt by increasing it to reduce equity until the optimal level is reached. Debt financing of a firm may be short--term, long-term but each form of debt may not have similar impact on corporate performance due to differences in their risk profiles and returns (Chaleeda, et al., 2019). Short-term debt is more economical to use than long-term debt as it covers a greater proportion of total debts of small and medium businesses (Harelimana, 2017). Most of the firms prefer using short-term loan in developing countries are numerous in number than those using long-term debt because it is easier to settled faster, less risky and a less-interest bearing debt financing than long-term loan, and it is most widely being used by most of the newly incorporated small firms struggling for survival (Ikapel & Kajirwa, 2017). However, using long-term loan source of capital improves firms' productivity (Micah, et al, 2014). In the past, companies raised long-term debt simply to increase their capital base in order to gain ground in the market and improve their financial performance (Omete & Isabwa, 2017). Therefore, the use of both short and long-term debt financing is important in determining corporate performance.

Prior research, including studies by Olowe and Abubakar (2019), Sohail and Ulfat (2019), Uzokwe (2019), and Ali (2020), has explored the link between debt financing and corporate performance in various industries such as oil and gas, agriculture, financial services, wholesale and retail, education, industrial goods, and healthcare. However, these studies have not specifically investigated the consumer goods sector. Furthermore, a significant financial challenge affects the effective performance of many global corporate organizations (Abeywardhana & Magoro, 2017). Many firms face constraints in their ability to secure sufficient and suitable debt capital, leading to adverse effects on their performance. Hence, the primary objective of this study is to contribute further by researching and identifying appropriate sources of debt capital that can enhance the corporate performance of the consumer goods sector in Nigeria. This research aims to fill the gap in the literature by shedding light on how debt financing can be optimized within this specific sector, ultimately promoting better business performance in the Nigerian context.

1 Literature Review

1.1 Conceptual Review

1.1.1 Corporate performance

Corporate performance is an assessment of firms' ability to maintain and control their investment opportunity and strategies to achieve stability objective (Chaleeda, et al., 2019). Thus, measuring corporate performance is a significant way of satisfying the interests of all business stakeholders as it is going to serve as a yard stick for comparisons within an industry or among industries (Olayemi & Fakayode, 2021). Return on assets is a measure of corporate performance and it is estimated as the net profit after tax and interest divided by total assets (Sohail & Ulfat, 2019). Return on assets is used by investors to determine how well the firms' managers have employed their financial resources to generate returns for them (Abubakar, 2016). It is a firm's return on its investment in total assets (Abeywardhana & Magoro, 2017).

From the forgoing, corporate performance simply means a result from conducting a business activity. Hence, corporate performance is the firms' expected outcomes to be accomplished in a particular period. Similarly, it is apparent that return on assets measures how a business has employed its assets from ordinary course of business to generate revenue and or profits.

1.1.2 Debts financing

Debt capital refers to the funds acquired through loans intended to support a firm's operations (Atambo, et al, 2016). Debt can take the form of short-term or long-term financing options (Ali, 2020). Short-term debt typically involves loans that are expected to be repaid within a period of ninety to one hundred and twenty days (Olowe & Abubakar, 2019). This type of debt is commonly used to finance various business activities, such as the acquisition of necessary raw materials and covering administrative expenses (Hayam, 2013). It serves as a source of capital for corporate entities with a repayment timeline of

one year or less (Denis, 2017). Short-term debt typically incurs lower interest charges and results in reduced tax liability (Edori, et al, 2020). Ali (2020) has affirmed that Nigeria's business financing landscape is characterized by underdeveloped debt markets, which is why many companies primarily rely on short-term debt as their preferred form of debt capital.

Long-term debt represents a type of financing that becomes due for repayment after a period exceeding one year (Kajirwa, 2015). It serves as a means for businesses to save on taxes, consequently reducing the tax liability of taxpaying companies. Long-term debt encompasses a firm's capital that is repayable after one year and is often used to fund expansion and capital investment requirements. An illustrative example of such a loan is a debenture. Debentures have played a significant role in enhancing the financial capabilities of small businesses, enabling them to compete effectively with larger enterprises in open markets (Onoja & Ovayioza, 2015). Based on the perspectives of these researchers, debt represents a financial resource obtained with an obligation for repayment in the near future. It can be categorized into short-term debt, which must be repaid within a year, and long-term debt, which has a repayment period extending beyond a year. It is a common practice to finance long-term investments using long-term capital sources like debentures to ensure financial alignment and avoid financial mismatches.

1.2 Theoretical Framework-Trade-off theory

This research work is pinned on Trade-off Theory propounded by Kraus and Litzenberger in 1973 (Rahman, et al, 2020). The theory established that firms with high level of profits will enjoy tax shield benefit by increasing their debt financing. Trade-off Theory assumed that there exist firms' optimal capital structures. Thus, to maximize firms' present value and reduce their average cost of capital, they need to reduce their equity to switch up their debt for reduce debts to switch up their equity till the marginal cost is researched. The theory also assumed that trading-off implies that firms will benefits from the cost of financing their activities though debt because their asset will remain constant. Debt determines firms' optimal equity-debt ratio. More so, the trade-off theory is of the opinion a major benefit of debt financing is tax saving which can be used to off-set cost of bankruptcy or liquidation (Olayemi & Fakayode, 2021).

Based on the theoretical analysis provided earlier, the concept of trade-off involves making a choice where something is exchanged for something else. In the context of a firm's capital structure, this trade-off occurs when weighing the advantages and disadvantages of using debt financing. Utilizing debt financing depends on comparing its associated benefits against its costs. Therefore, when making financing decisions, it is crucial to conduct a cost-benefit analysis of a loan facility. The optimal debt ratio is achieved when the tax advantages offset the distress costs, as investors perceive investment in debt capital as less risky than equity. Given these assertions, it is essential to regularly assess and document a company's debt profile and returns. This rationale has led to the initiation of a study on improving corporate performance through debt financing, focusing on evidence from Nigerian consumer goods firms. Consequently, the trade-off theory aligns well with the objectives of this research.

1.3 Empirical review

The view of researchers need to be sought on corporate performance and debt financing as the study conducted by Abeywardhana and Magoro (2017) to determine the "relationship between debt capital and financial performance Companies between 2011 and 2015 in Sri Lankan and South African and used fixed effects for data analysis, and found that short-term debt positively impact firms; performance in South Africa but negatively in Sri Lanka. Denis (2017) investigates "the effect of debt financing on the private secondary schools' financial performance in Nairobi" and employed multiple regression models for the analysis and found a positive significant impact of long-term debt and revenue growth on the schools' financial performance. In addition, Uzokwe (2019) found that financial leverage that is, loan quality has positive influence on performance of quoted firms in Nigeria using data set from 2000 to 2017 which were analyzed using the multiple regression analysis.

Furthermore, Olowe and Abubakar (2019) and Ali (2020) in their respective studies discovered that firm size, financial leverage, and combined leverage have positive and significant impact on the return on assets (ROA) of the companies. Mukumbi, et al (2020) used regression analysis on relationship between capital structure and performance of non-financial firms in Nairobi from 2013 to 2017 and found that debts improve firm performance. Also, Olayemi and Fakayode (2021) carried out a study on "the effect of capital structure on quoted manufacturing companies' financial performance in Nigeria and used panel regression models for data analysis, the results revealed that both short-term and long-term debts have significant and positive effect on ROA. Segun et al. (2021) used random effect model to analyze the relationship between capital structure and financial performance of oil and gas firms in Nigeria from 2010 to 2019 and found that total debt, Long-term, and Short-term debts have negative relationship with performance.

Moreover, Aliyu (2022) used panel regression analysis to examine the effect of capital structure on commercial banks performance in Nigeria from 2010 to 2019 and found that debt to equity ratio, total debt and firm size has negative relationship with return on assets, while debt to total capital has positive relationship with banks performance. Bawa (2022) found negative relationship between long-term debts, short-term debt to total assets on financial performance of industrial goods companies in Nigeria from 2003 to 2018 using multiple regression analysis. Similarly, Ibrahim, et al. (2022) used data of listed deposit money banks in Nigeria from 2012 to 2020 which were analyzed using random effect model, and it was found that long term debt to assets and total debt to assets have positive effect on banks performance. Nwafor, Yusuf and Shuaibu (2022) examined the relationship between capital structure and profitability using pharmaceutical companies in Nigeria from (2011-2020) using pooled ordinary least square and found that total debt ratio has negative relationship with profitability. More so, examining the relationship between capital structure and deposit money banks performance in Nigeria, Idolor and Omehe (2022) used pooled regression to analyzed data from 2015 to 2021 and found that debt to equity has negative relationship with performance. Olaoye (2023) utilized pooled ordinary least regression and found that short-term debt and Long-term debt has positive effect performance of South African consumer goods firms from 2011 to 2021.

2 Methodology

2.1 Model specification

This study adapted the work of Olowe and Abubakar (2019) shown below:

$$ROA_{i,t} = f(STD_{i,t}, LTD_{i,t}, DE_{i,t}, FS_{i,t}) \quad (1)$$

The model adapted was modified to form this research's model specified as follow:

$$ROA_{i,t} = f(LONQ_{i,t}, LTD_{i,t}, STD_{i,t}, FS_{i,t}) \quad (2)$$

Where:

$ROA_{I,t}$ = *Return on assets of Nigerian consumer goods firms i in year* $_t$;

$LONQ_{i,t}$ =*The quality of loan which is the ratio of total debt to total asset of Nigerian consumer goods firms* $_i$ *in year* $_t$;

$LTD_{i,t}$ = *Long-term debt which is the ratio of long term debt to total asset of Nigerian consumer goods firms* $_i$ *in year* $_t$;

$STD_{i,t}$ = *Short-term debt which is the ratio of short term debt to total asset of Nigerian consumer goods firms* $_i$ *in year* $_t$;

$FSIZE_{i,t}$ = *Nigerian consumer goods firms' size in year t measured as the natural log of total assets.*

2.2 Research design

The use of an expo facto research design was suitable for this study because it focused on analyzing existing information without any intervention or manipulation. The choice of an ex post facto research design was deemed appropriate for this study because it centered on investigating naturally occurring events and conditions, where the researcher had no control over the variables being studied.

2.3 Population and sample size of the study

This research work covered a period of eleven (11) years (2012-2022) to investigate "Enhancing corporate performance through debt financing: evidence from Nigerian Consumer Goods Firms". This research purposively sampled ten (10) firms that have required data from the population of twenty-one (21) listed consumer goods firms on Nigerian Exchange Group plc. The selected firm include: Honey-well Flour Mill plc (HWFM), Flour Mills Nigeria plc (FMN), Champion Breweries plc (CB), Nigerian Breweries plc (NB), Vitafoam plc (VITAFOM), Guinness Nigeria plc (GN), Unilever Nigeria plc (UN), Nestle Nigeria plc (NN), Cadbury Nigeria plc (CN) and Dangote Sugar Refinery Plc (DSR).

2.4 Variables measurement

The study's independent variable of debt financing is represented by three (3) explanatory

variables of loan quality (LONQ) measured in term of total debt to total assets (TD.TA); long-term debt (LTD) measured as long-term debt to total assets (LTD/TA) and short-term debt (LTD) measured as a short-term debt to total assets (STD/TA). The dependent variable of corporate performance (CPFM) is represented by return on assets (ROA) while firm size (FZISE) stood as a control variable as previously used by various researchers like Olowe and Abubakar (2019): Sohail and Ulfat (2019): Uzokwe (2019) among others. All the above methods and procedures were put in place to achieve the research objectives.

2.5 Data sources and method of data analysis

The study utilized secondary data sourced from the annual reports and accounts of the firms. Descriptive statistics and panel regression models, including random effect (RE), fixed effect (FE), and pooled ordinary least square (POLS), were employed for data analysis. Additionally, the Breusch-Pagan test was applied to choose between the RE and POLS techniques. These estimation techniques were deemed appropriate, as they have been previously utilized by other researchers such as Uzokwe (2019), Olowe and Abubakar (2019), and Ali (2020), among others, to assess the impact of explanatory variables on the study's dependent variable.

3 Data presentation and discussion

This section contains the results of panel models analysis, descriptive analysis and their explanations.

Table 1: Descriptive analysis results

Variables	ROA	LONQ	LTD	STD	FSIZE
Mean	0.1260	0.9330	0.2370	0.6580	0.6340
Median	0.0400	0.9000	0.0400	0.9500	0.5300
Maximum	0.3800	2.4600	0.7800	0.9800	0.9500
Minimum	0.0100	0.0500	0.0100	0.0400	0.2900
Std. Dev.	0.1560	0.8500	0.3340	0.4110	0.2730
Observations	110	110	110	110	110

Source: Data Analysis (2023)

Table 1 shows the outcome of descriptive statistics on the variables of loan quality (LONQ), long-term debt (LTD), short-term debt (STD) and firms' size (FSIZE). Based on the findings, the average of LONQ is 0.93 which above its standard deviation (SD) of 0.85 implying a cluster around the mean. The mean percentage of LTD is 0.24 and its SD is 0.34 greater than its mean value meaning that LTD is far from the mean. The average value of STD is 0.66 while its SD stood at 0.33 indicates that STD deviation from the mean is lower.

Table 2: Random effect model result
SERIES: ROA, LONQ, LTD, STD, FSIZE

Model 2: Random-effects (GLS), using 110 observations Included 10 cross-sectional units Time-series length = 11 Dependent variable: ROA				
Variables	Co-efficient	Std. Error	z-Statistic	P-value
Constant	0.163163	0.00406184	40.17	0.0001
LONQ	−0.037431	0.00118486	−31.59	0.0241
LTD	0.469729	0.00161698	290.5	0.0311
STD	−0.023417	0.00155241	−15.08	0.0124
FSIZE	0.154547	0.00416485	37.11	0.0251
Breusch-Pagan test: R2 Adjusted R2 Pesaran CD test	Chi-square (1) = 5.5, P = 0.019 0.999813 0.999805 Z stat. = -2.22486, P = 0.087			

Source: Authors' Analysis, 2023

The adjusted R^2 value of 0.999805 indicates that when other variables are accommodated in the error term, *loan quality, long-term debt, short-term debt* and *firms' size* will still enhance the firms' performance by 99%. From the RE results, the beta value (Co-efficient) of *loan quality* (LONQ) is negative and significant (β=−0.037431, P=0.0241) implying that LONQ has no impact or influence in enhancing the performance of Nigerian consumer goods firms (NCGFs). Also, the co-efficient of *long-term debt* (LTD) is statistically significant and positive (β=0.469729, P=0.0311) implying that LTD enhances the performance of NCGFs. More so, the beta value of *short-term debt* (STD) is negative but statistically significant (β=−0.023417, P=0.0124) indicating that STD cannot enhance the performance of the firms in Nigeria. And also the Co-efficient of *firms' size* (FSIZE) is positive and significant statistically (β=0.154547, P=0.0251) meaning that the size of the firms has a great impact or influence in enhancing the firms' performance. Besides that, the result of Peseran CD test shows that the z-statistics of 2.22486 with a p-value of 0.087 implying no fundamental error committed in the value of all the probabilities used for the study, thus no cross-section dependent in the data residual value.

Table 3: POLS result
SERIES: ROA, LONQ, LTD, STD, FSIZE

Model 2: Random-effects (GLS), using 110 observations Included 10 cross-sectional units Time-series length = 11 Dependent variable: ROA				
Variables	Co-efficient	Std. Error	z-Statistic	P-value
Constant	0.163163	0.00406184	40.17	0.0231
LONQ	−0.037431	0.00118486	−31.59	0.0162
LTD	0.469729	0.00161698	290.5	0.0321
STD	−0.023417	0.00155241	−15.08	0.03401
FSIZE	0.154547	0.00416485	37.11	0.04121
R2 Adjusted R2	0.999813 0.999805			

Source: Authors' Analysis, 2023

Pooled ordinary lease square result (POLS) result in table 3 discloses that the Co-efficient of *loan quality* (LONQ) is statistically significant and negative (β=−0.037431, P=0.0162). That means LONQ does not enhance the *firms' performance*. Again, the beta value of *long-term debt* (LTD) is statistically significant and positive (β=0.469729, P=0.0321) showing that LTD enhances the performance of Nigerian consumer goods firms (NCGFs). Besides, the Co-efficient of *short-term debt* (STD) is statistically significant but negative (β=−0.023417, P=0.03401) meaning that STD does not enhance the firms' performance in Nigeria. Also the beta value of *firms' size* (FSIZE) is statistically significant and positive (β=0.154547, P=0.04121) indicating that the firms size enhances the firms' performance. Finally, R-square disclose that 99% (0.999813) changes in corporate performance (ROA) is explained by LONQ, LTD, STD and FSIZE, while the remaining 0.01% changes in ROA is explained by error term.

Table 4: Fixed effect model result
SERIES: ROA, LONQ, LTD, STD, FSIZE

Model 2: Random-effects (GLS), using 110 observations Included 10 cross-sectional units Time-series length = 11 Dependent variable: ROA				
Variables	Co-efficient	Std. Error	z-Statistic	P-value
Constant	0.163163	0.00424797	38.41	0.0341
LONQ	−0.037431	0.00123916	−30.21	0.0423
LTD	0.469729	0.00169108	277.8	0.0350
STD	−0.023417	0.00162354	−14.42	0.0212
FSIZE	0.154547	0.00435570	−5.48	0.0321
R2 Adjusted R2	0.999813 0.999805			

Source: Authors' Analysis, 2023

Table 4 shows fixed effect model result where the beta value (Co-efficient) of *loan quality* (LONQ) is statistically significant and negative (β=−0.0374317, P=0.0423) meaning that 1% increase in *loan quality* will reduces the performance of Nigerian consumer goods firms (NCGFs) by 3.7%. Additionally, the co-efficient of *long-term debt* (LTD) is positive and statistically significant (β=0.469729, P=0.0350) showing that 1% increase in long-term debt will enhances the performance of NCGFs) by 46.9%. Similarly, the co-efficient of *short-term debt* (STD) is negative and significant (β−0.0234174, P=0.0212). That means 1% increases in the short-term debt will cause decline in the performance of the Nigerian consumer goods firms (NCGFs) by 2.3%. Furthermore, the Co-efficient of *firms' size* (FSIZE) is positive and significant statistically (β=0.154547, P=0.0321) meaning that the size of the firms increment by 1% will enhances the performance of Nigerian consumer goods firms (NCGFs) by 15.4%.

The result of random effect is shown in table 4.2 where Breusch-Pagan Lagrange multiplier test result discloses a X2 of 5.5 with a probability value of 0.019 < 0.05 significant level, thus the research accepts that fixed effect is the most suitable estimator for panel models than random effects model. The adjusted R^2 value of 0.999805 implies that if other variables are accommodated in the error term, LONG, LTD, STD and FSIZE will still enhance the firms' performance by 99% in Nigeria.

3.1 Discussion of results

This study investigated enhancing corporate performance through *loan quality*, *Long-term debt*, *Short-term debt*, and *firms' size*: with evidence from Nigerian consumer goods firms. The study's results found positive and significant impacts of *Long-term debt* and *firms' size* on the performance of Nigerian consumer goods firms. This means that as the amount of *Long-term debt* held by Nigerian consumer goods firms' increases, their performance also improves. Consumer goods firms often use Long-term debt to finance their operations, invest in growth opportunities, or manage their capital structure. When firms can effectively manage their *Long-term debt* and use it to fund productive investments, it can lead to improved performance. This was in line with the findings of Denis (2017), Mukumbi et al. (2020), Olayemi and Fakayode (2021), and Olaoye (2023) but contrary with the findings of Segun et al (2021) and Bawa (2022) that long term debt has negative relationship with performance.

More so, the *size of the consumer goods firms* in Nigeria also positively affects their performance. In general, this means that the firms tend to have more resources, diversified product portfolios, and greater market reach compared to smaller firms. These factors can contribute to improved performance. It may also have better bargaining power with suppliers and retailers, allowing it to secure favorable terms. Additionally, a consumer goods firms may have a stronger brand presence, which can lead to increased consumer trust and loyalty. This contradicts the findings of Aliyu (2022) which found that firm size has negative impact on banks. This may be as result of using banks whereas this study used consumer goods firms. Study by Ali (2020) agreed with this finding that size of firm impact positively on performance.

Furthermore, *loan quality* and *Short-term debt* has negative and significant impacts on the performance of consumer goods firms in Nigeria. This suggests that as the ratio of

total debt to total assets increases, the performance of consumer goods firms in Nigeria tends to deteriorate. Consumer goods firms in Nigeria have higher ratio and it indicates that larger portion of the firm's assets are funded by debt, which can increase financial risk and interest expenses. Therefore, the firms may be heavily leveraged, and if it cannot generate sufficient income to cover its debt obligations, it may lead to financial instability or poor performance. this aligns with the findings of Segun et al (2021), Aliyu (2022), and Idolor and Omehe (2022) but contrary to findings of Olayemi and Fakayode (2021) that loan quality has positive impact on performance.

Lastly, *Short-term debt* has a negative impact on the performance of consumer goods firms in Nigeria. Consumer goods firms with elevated levels of *Short-term debt* may face challenges in managing their liquidity and cash flow. If they are unable to meet their *Short-term debt* obligations, it can lead to financial distress and negatively impact their overall performance. *Short-term debt* may also come with higher interest rates compared to *Long-term debt*, which can increase interest expenses and reduce profitability. The generated result was contrary with the outcomes of previously reviewed related studies like Abeywardhana and Magoro (2017), Ali (2020), Olayemi and Fakayode (2021) and among others, which found the positive impact of short-term debts on the firms' performance. This finding however aligned with the findings of Idolor and Omehe (2022), Segun et al. (2021), and others.

Conclusions

Based on the findings, this research concluded that *Long-term debt* and *firms' size* enhance the Nigerian consumer goods firms' performance while *Short-term debt* and *loan quality* do not enhance Nigerian consumer goods firms' performance. These results implying those consumer goods firms in Nigeria and other countries can enhance their performance through *Long-term debt* as against the firm *Short-term debt*. The study therefore recommends financing through *Long-term debt* for business entities in Nigeria and other Africa countries to enhance their performance. Similarly, the stakeholders of consumer goods firms should be aware of how *Short-term debt* and *loan quality* as *Short-term debt* may come with higher interest rates compared to *Long-term debt*, which can increase interest expenses and reduce profitability. This will help the firms' managers during their financing decision if the recommendations are complied with.

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