Chapter Fifteen

Financial Leverage and Market Value Added in the Development of Nigerian Economy

John D. Ekpoese
Nsikan J. Umanah

Introduction

As long as businesses are formed, a firm's market value added measures its financial performance and indicates how much added value investors' capital has invested. The difference between a company's equity market value and equity book value is represented by market value added. Investor returns will benefit from the company's added value if the market value of equity exceeds the book value of equity. Conversely, if the book value of equity dominates the market value, investor returns would suffer. It seems that the best metric to determine whether a business is successful or unsuccessful in generating money for its owners is market value added. This is done in a way that ignores the importance of financial decisions in the highly competitive business world of today's globalized world, where they maintain the market value added by the firms. The goal of any stable investor, institutional or individual, is to maximize expected returns on their investments within a reasonable risk tolerance, which is the fundamental justification for financial leverage.

The amount of debt a company utilizes to finance its assets is measured by its financial leverage. It illustrates the use of borrowed money to finance the purchase of assets with the hope that the capital gain or income from the new assets will outweigh the cost of borrowing. Leverage in finance rises with debt levels. To improve a company's operations and profitability, financial leverage depicts the use of borrowed capital and debt financing (Ahmad *et al*., 2015).When a company is financed primarily by debt, it is said to be leveraged. Most companies maintain a high level of liquidity, which is primarily made possible by using debt. This is why companies use debt in their capital structures. The more debt a company uses, the higher the risk of financial distress and the likelihood that it will file for bankruptcy in the event of default. Financial leverage influences the profitability of the company, which in turn has an impact on management effectiveness, capital structure, stock price, shareholder wealth, and the interests of all stakeholders (Ahmad *et al*., 2015).

Finding the right capital structure rarely requires the use of financial leverage. Every manager and the board of directors in the company seem baffled by the idea

of an ideal capital structure, and neglecting to take this into account can result in low profitability, insolvency, a failure to engage in projects with greater returns, and eventually a decline in the market value added of businesses. A company can use fixed-charged funds to finance its investments through debt, even though doing so has costs and benefits of its own (Dera and Sola, 2010). Leverage influences annual profit or earnings per share, which prompts finance managers to consider the optimal financing mix and debt contribution for their company. By choosing the leverage section of the capital structure, a company's capital structure demonstrates the significance of leverage (Muhammad, 2015). The debt component lowers the risk for owners by representing their claims. Since debt influences a company's financial performance and management effectiveness is determined by a firm's market value added, managers of businesses continue to be mindful of this aspect of their organization. Since businesses employ creditors' money, which must be repaid with interest, managing debt financing is essential to the operation of the business.

Although financial leverage seems to be cost-effective and lowers owner risk, when businesses are unable to employ it effectively, it becomes expensive. Businesses must pay financial fees for using leverage, and since interest costs must be incurred to repay the leverage, ineffective use of leverage will generate numerous problems for the organization. Leverage is a strategy used by profitable businesses because it lowers owner risk and increases shareholder savings. Financial leverage influences how well a company performs in terms of market value added and profitability, which directly affects the wealth of shareholders and all stakeholders as well as management effectiveness, capital structure, and stock price (Ahmad *et al*., 2015).

While earlier studies conducted by Ogiriki *et al*. (2018) indicated a favourable correlation between financial leverage and financial performance in Nigeria, Abdul and Badmus (2017) found the opposite. This is based on the idea that, when managed well, financial leverage raises a company's net worth. The notion could only be confirmed by the extensive use of financial leverage across numerous businesses.. This study assesses the pecking order perspective of financial leverage as it relates to the market value added in the development of the Nigerian economy regarding consumer goods firms in Nigeria, given the efficaciousness with which borrowed funds might be utilized to actualize the market value added.

Research Problem

Market value added is still an essential component of any profitable business. The usage of financial leverage in the initial years may not have contributed to the success of a firm in terms of profit and shareholder wealth maximization; rather, improvements in market value added in later years may have been vital. Market

value added in organizations may increase if the borrowed money is used wisely within the enterprise. High interest rates and a negligent mix of borrowed funds in corporate organizations seem to be endangering the market value added. If the enterprises had been making sufficient use of their resources, the market value added would have been rising due to the observation that financial leverage seems to be associated with the effective use of borrowed cash.

Prior research has shown that borrowing resources appropriately mix could boost market value added. Some have been carried out with a focus on business performance and firm value. With generalized least squares as research methods, further studies examined financial leverage variables such as the short and long-term debt ratios to as certain their influence on the market value added of businesses. Despite the use of a range of analytical methods, demographic factors, concepts and theoretical frameworks, the findings of these studies remain inconclusive. Research on financial leverage and its influence on market value added is not commonly conducted for consumer goods organizations in Nigeria. Financial leverage has not been openly acknowledged as influencing the market value added of listed consumer goods organizations in the development of the Nigerian economy. The main problem, therefore, is the influence of financial leverage as measured by interest gearing ratio and debt to equity ratio on market value added as measured by market to book value ratio of Nigerian consumer goods organizations.

The objectives of the study were to examine Financial Leverage and Market Value Added in the development of the Nigerian Economy of consumer goods organizations in Nigeria; assess the influence of interest gearing ratio on market to book value ratio of consumer goods organizations in Nigeria, and to establish the influence of debt to equity ratio on market to book value ratio of consumer goods organizations in Nigeria.

Research Hypotheses

The fundamental hypothesis of this research is that financial leverage has no substantial influence on the market value added of the consumer goods organizations in the Nigerian Economy. This is further put into the postulation for analytical detail.

$Ho_{1:}$ There is no significant influence of interest gearing ratio on market to book value ratio of consumer goods organizations in Nigeria.

$Ho_{2:}$ Debt to equity ratio does not have a significant influence on market to book value ratio of consumer goods organizations in Nigeria.

Literature Review

Understanding the basic causes of a geared capital structure and how it affects an organization's market value added is crucial, especially in light of the rising levels of corporate debt profiles and the issuance of corporate debt instruments. One of the most important ways to do this is through financial leverage, which is the use of debt financing and borrowed funds to increase a business's operations and profitability (Khan (2012). A company is considered leveraged if a sizable portion of its funding comes from debt. Most successful businesses have high levels of liquidity, and debt is the main source of this liquidity. Many businesses can raise their capital and revenue by taking on debt. This suggests that businesses would most likely incur debt to purchase more assets, which will increase output and profitability. In the world of finance, leverage is the degree to which a business uses debt as a component of its capital structure. A company is considered leveraged if some of its activities are funded by loans.

Most successful businesses have high levels of liquidity, and debt is the main source of this liquidity. An increased use of debt in a company's capital structure raises the possibility of insolvency and financial troubles due to default. Businesses frequently employ debt as a tactic to increase capital and revenue. This suggests that companies would most likely incur debt to finance the purchase of new assets, which will increase output and profitability. Financial leverage is the term used to describe the amount of debt that a company uses as part of its capital structure. An increased amount of debt in a company's capital structure increases the likelihood of default-related insolvency and other financial problems. A company is deemed leveraged if it uses debt to finance a portion of its operations. When a company has a lot of liquidity, which is primarily acquired through debt, it typically performs well. Debt is a common strategy used by businesses to boost capital and income. This implies that businesses will probably take on debt to pay for the acquisition of new assets, which will boost output and profits.

The amount of debt a firm uses as part of its capital structure is referred to as financial leverage. A corporation that uses a higher percentage of debt in its capital structure is more likely to have financial difficulties and insolvency related to default. Ekpoese (2022) established several financial leverage measures, such as the debt ratio, proprietary ratio, interest gearing ratio, debt-equity ratio, and interest cover ratio. Pandey and Sahu (2017) argued that since a highly leveraged capital structure does not carry a significant financial risk, businesses should profit from the overall tax savings. Lowering elevated financial risk, especially in ignorance-based scenarios, undermines investor confidence and may lead to higher funding expenses. It was suggested by Khan (2012); Abor and Bokpin (2010) that companies with higher debt profiles are seen as riskier and have a harder time

getting loans. Salawu and Awolowo (2009) stated that debt may make up as much as 60% of the capital of a Nigerian company.

The fact that the debt levels in the aforementioned companies have continued to rise sharply suggests a trend in corporate capital structures that should be taken into account. The problem has to do with determining the effect that these debt levels have on the functioning of businesses in a developing country such as Nigeria. Demirguc-Kunt and Maksimovic (1999) suggested that significant structural differences exist between developing and emerging countries, rendering cross-national comparisons of research findings in these domains invalid. For instance, the stock markets of developing countries have challenges from institutional inadequacies and a deficiency of a thorough risk management system (Salawu & Awolowo, 2009). Because the market for debt instruments is smaller and less developed in developing nations, businesses have historically relied on long-term bank loans to finance their long-term operations and investment needs.

Due to inflationary trends and severe economic risk, the majority of the nation's deposit money institutions are only able to offer loans at unconscionable interest rates. The majority of companies depend on having a lot of liquidity, which is primarily obtained through loans. Consumer goods organizations utilize debt as a tool to increase their capital and profitability. Because of this, companies are more inclined to take on debt to grow their holdings and boost output and profits (Kithandi and Katua, 2020). Financial leverage describes the quantity of debt utilized in a company's capital structure. Higher debt levels in a company's capital structure put it in danger of default and other financial problems. The use of debt financing has benefits and drawbacks. By adding more debt to their capital structure, enterprises can profit from the tax advantages of debt. In contrast to equity, interest on debt is tax-deductible, and industrial companies' debt-heavy capital structures retain their value for shareholders.

Debt financing results from companies' inability to meet their loan obligations on time and is associated with fixed interest payments, costs associated with financial troubles, and expenditures associated with bankruptcy. As a result, businesses must balance the tax advantages of borrowing against the risks associated with debt-related financial difficulties and bankruptcy (Abubakar, 2016). Reinvesting the financial leverage proceeds yields a higher profit margin than paying interest and debt acquisition fees. The measures of financial leverage and market value added of a firm in the study include the following; namely; Interest gearing ratio, debt to equity ratio, market to book value ratio.

Interest Gearing Ratio is a measure of the proportion of a company's borrowed funds to its equity. Ekpoese (2022) claimed that the ratio illustrates the degree of financial risk that an organization bears since excessive debt might lead to debt

issues. Interest gearing ratios are financial ratios that compare a company's capital or owner equity to its debt or borrowed funds. The entity's financial leverage is measured by indicating the proportion of a company's operations that are funded by shareholder funds as opposed to cash from creditors or payables. This study divides total liabilities by total capital to get the interest gearing ratio, where the total capital is represented by the sum of equity and debt capital.

Debt to Equity Ratio is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets (Okoye *et al.*, 2016). According to Ekpoese (2022), a firm's debt-to-equity ratio is the ratio that is utilized to assess how leveraged its finances are. An essential statistic in corporate finance is the debt-to-equity ratio. Debt financing occurs when a company sells corporate bonds, trade bills, or notes to private or institutional investors to raise money for working capital or capital outlay. The people or organizations that lend the money become creditors in exchange for a guarantee that the principal and interest will be paid back. Even while obtaining debt financing might be challenging, many companies discover that it offers capital at lower costs than equity financing, especially when interest rates are historically low.

A company's debt-to-equity ratio indicates how much of its entire funding is made up of debt to shareholders' funds. Before being utilized as the denominator to account for things like deferred expenses and cumulative losses, the money belonging to the shareholders is removed from its total. The ratio indicates how much debt was raised in Naira for every #1 in equity. The debt-to-equity ratio in this analysis is computed by dividing the total liabilities by the percentage of shareholders' equity.

Market to Book Value Ratio is a measurement of the correlation between a security's carrying value and its current share price. It calculates whether an investment is overvalued or undervalued by dividing the book value by the market value (ICAN, 2010). According to Ekpoese (2022), a low ratio of less than one may indicate that the inventory is inexpensive or a bad investment, while a high ratio of more than one may indicate that the inventory is costly or has performed well. The market value added in this study was represented by the market to book value ratio, which is computed as market value per share divided by book value per share. This is where the book value is the quotient of total assets to the number of shares issued.

Ahmed *et al*. (2024) examined corporate capital structure effects on corporate performance pursuing a strategy of innovation in manufacturing companies. Capital structure, a mathematical depiction of a corporation's debt to preference share to common stock ratio, has long been a source of controversy in the financial sector. To maximize a business's current resource use and simultaneously increase stakeholders' revenue streams, this structure is necessary. With a focus on 78

publicly traded companies that are a part of the Dhaka Stock Exchange (DSE), this study examines the intricate relationship between capital structure and corporate performance. Bangladesh's purchasing power is ranked 29th in the world, which adds significant weight to this analysis. To fully assess this association, panel data for these 78 sample companies operating within the DSE was collected for the years 2017 to 2021. Many significant capital structure parameters were included in this analysis, such as the debt-to-equity ratio, total debt ratio, short-term leverage ratio, and long-term leverage ratio. The performance of these organizations was evaluated in the interim using key performance metrics such as Return on Equity (ROE), Return on Assets (ROA), and earnings per share (EPS).

To provide a robust analysis, a comprehensive control of variables such as inflation, liquidity, growth rate, tax rate, and firm size was put in place. The data told a compelling story: debt ratios significantly reduced return on assets (ROA) at a substantial level of 1%, regardless of the kind of debt ratio long-term, short-term, or total. However, other debt ratios demonstrated a substantial positive correlation with ROE at the 1% significance level, including the short-term total debt and the total debt-to-total-asset ratio. It's noteworthy to notice that the long-term total debt ratio had a negative and insignificant effect on ROE. It was demonstrated that the liquidity ratio did not significantly affect the spectrum of predictors influencing a firm's performance. This result is significant because it shows how capital structure and performance in these companies have a complicated relationship.

Ugwuene *et al.* (2023) studied the effect of accounting ratios on the effective management of foreign companies in Nigeria. The study examined the impact of accounting ratios on foreign corporations' capacity to efficiently manage their operations in Nigeria. The data came from the annual reports and financial statements of a sample of foreign companies that did business in Nigeria between 2011 and 2020. In the study project, the multiple regression method was applied. Ex post facto research design was utilized. The Debt Equity Ratio (DER), Time Interest Earned Ratio (TIER), Long Term Debt Ratio (LTDR), and Liquidity Ratio (LQR) are used as a stand-in for accounting ratios. The E-view 9.0 software package and the multiple regression technique were utilized to quantify Earning Per Share (EPS) to evaluate the performance of foreign companies that operate in Nigeria. The debt-to-equity and liquidity ratios have a substantial effect on the earnings per share of foreign companies that operate in Nigeria. Neither the temporal interest ratio nor the long-term ratio has a substantial effect on the earnings per share of foreign firms in Nigeria.

The results show that while the time interest ratio and the long-term ratio have a negative effect, the debt-to-equity ratio and the liquidity ratio have a positive influence on the earnings per share of foreign enterprises in Nigeria. Based on the

study's findings, the researcher recommended that management of multinational corporations should optimize the debt-to-equity ratio to increase profitability. When utilizing time interest ratios and long-term debt ratios, one must exercise caution because they have the potential to force a company into bankruptcy if it is unable to pay its debts. Furthermore, the liquidity ratio ought to be applied in the checkmate process since it helps ascertain the entity's debt capacity and structure. Considering its significance, it shows that the company can pay off all of its outstanding debts.

Oko and Elemi (2023) examined the effect of financial leverage on the financial performance of quoted industrial goods firms in Nigeria. The goal of the study was to determine whether variations in financial leverage had a substantial impact on the financial performance of Nigerian industrial goods companies that are listed. The study aimed to ascertain the impact of debt-to-equity ratio on stock returns of quoted industrial products firms in Nigeria, as well as evaluate the influence of long-term debt ratio on stock returns of the same firms. Following the aforementioned goals, the following null hypotheses were developed: there is no significant impact of the debt-to-equity ratio and the long-term debt ratio on the financial performance proxy measured by the stock returns of quoted industrial goods firms in Nigeria, respectively, and on the financial performance proxy. The study examined financial statement data from 14 (fourteen) Nigerian industrial goods companies that were quoted between 2010 and 2022. A straightforward regression analysis and an *ex post* facto research approach were employed. The results showed that there was a significant but negative correlation between the cash value added of quoted industrial goods firms in Nigeria and the debt-to-equity ratio at the 5% significance level.

Additionally, there was a significant but negative correlation between the long-term debt ratio and the cash value added of Nigerian industrial goods firms at the 5% significance level. The recommendations that followed included trying to reverse the negative relationship that existed between the debt-to-equity ratio and cash value added; additionally, businesses should pay closer attention to how well-positioned the company is to pay its debts by managing cash flows and asset utilization to lower the risk of loss that could result from failing to make a timely payment. To counteract the negative correlation between the long-term debt ratio and cash value added, industrial goods companies should choose a financing mix that increases market capitalization, earnings per share, and firm value for the benefit ofshareholders.

Theoretical Framework

This study is guided by the Pecking Order Theory developed by Donaldson (1961) who surveyed twenty-five large American enterprises. He found that the finance procedures and management choices of those companies favour the use of retained

earnings over external financing sources, unless internal funding sources are unavailable. Myers (1984) and Myers and Majluf (1984) popularized the theory by coining the finance methods adopted by Donalson as "Pecking Order". Myers (1984);Myers and Majluf (1984) assert that information is essential to managers' and investors' financing decisions. Managers exhibit market timing behaviour when it comes to financing decisions and will be reluctant to issue shares if they think the market has undervalued it. Investors also know that when new equity is priced too low, managers will be reluctant to issue it. Because of this, managers and investors react in accordance with the information available to them (information asymmetry). If managers have a propensity to issue discounted shares, as previously mentioned, then investors will receive wealth transferred against the benefits and wealth of shareholders. After that, outside equity will be subordinated to debt and retained earnings. Myers (1984) gave this idea in finance the moniker "pecking ordertheory".

The theory, therefore, assume that companies would choose to use retained earnings to finance new investments first, debt second, and new stock issuance as a last resort. It is consequently expected that financial leverage will negatively affect performance. According the theory, there is no clearly defined optimal financial leverage since there are two sorts of equity. Internal and external, with one at the top and the other at the bottom of the pecking order. Because profitable businesses typically have strong cash flows and may not require external financing which could expose them to riskier financial outcomes in the case of debt or ownership dilution in the case of equity, the theory also supports the idea that profitable businesses prefer debt financing.

Methodology

An *ex-post facto* design was adopted for this study. This design permits the use financial leverage and market value added data for the ascertainment of its influence. The entire 21companies in the consumer goods organizations were the population of this research. A sample size of 17 companies in this sector was obtained from the population using purposive sampling technique. The researchers relied on secondary sources of data for this study and data were obtained through the annual report from 2013 to 2022. In testing the influence of financial leverage and market value added of the sector, a simple econometric model was utilized and the formula was stated as follows:

$Y = f(x)$ Equation 3.1

Where:
Y is the market value added measured by market to book value ratio. X is the financial leverage (FL). In a functional form, it was stated as:
MBVR = f(IGR) Hypothesis one
MBVR = f(DER) Hypothesis two
Substituting market value added and financial leverage variables in a regression statistics equation, the following model were developed thus:

$MBVR_{it} = ¥_o + ¥_1(IGR)_{it} + e_{it}$ Equation 3.1

$MBVR_{it} = £_o + £_1(BER)_{it} + e_{it}$ Equation 3.2

Where:

MBVR	=	Market to Book Value Ratio
$¥_0$, $£_o$	=	Constant Terms
$¥_1$, $£_1$	=	Estimated Coefficients of the Independent Variables
IGR	=	Interest Gearing Ratio
DER	=	Debt to Equity Ratio
e	=	Error Term
i	=	Number of Companies
t	=	Number of Years

Results

The hypothesis was tested through simple regression analysis using Statistical Package for Social Science (SPSS) version 20.0 at 5% level of significance. However, results were stated as follows.

Table 15.1: Descriptive Statistics of the variables

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistics	Statistics	Statistics	Statistics	Statistics	Statistics	Std. Error	Statistics	Std. Error
Market to Book Value Ratio	170	.01	19.34	1.7988	3.34641	3.338	.186	11.954	.370
Interest Gearing Ratio	170	.17	19.56	1.3812	3.30887	4.267	.186	17.606	.370
Debt to Equity Ratio	170	-2.98	47.92	2.1741	4.54659	7.559	.186	68.233	.370
Valid N (listwise)	170								

Source: Researcher's Computation (2024)

From table 15.1, market to book value ratio has a minimum of 0.01 and a maximum of 19.34 Also was a mean of 1.7988 with a standard deviation of 3.34641 of the market to book value ratio. This signifies that the mean and standard deviation rate deviated by 1.54761. However, the coefficient of skewness of 3.338 implies that the data is positively skewed and meets the symmetrical or normal distribution of the data set and tilted towards the right tail of the distribution, hence leptokurtic as the kurtosis value stood at 11.954 but is visualized to be highly peak with a thin bell and a heavy-tailed and meet the acceptable criteria.

The interest gearing ratio was represented by total liabilities divided by the total capital of the firm. Where total capital is expressed by the sum of equity and debt capital in the study. Table 6.1 indicates that the minimum and the maximum values of interest gearing ratio were 0.17 and 19.56 respectively with the mean value of 1.3812 and standard deviation of 3.30887. This shows a dispersion of the mean and standard deviation of donations. The coefficient of skewness of 4.267 implies that interest gearing ratio is positively skewed and the data set meet the symmetrical distribution and tilted towards the right tail of the distribution. The kurtosis value of 17.606 suggest that, interest gearing ratio is visualized to be highly peak with a thin bell and a heavy tail, leptokurtic in nature and meet the acceptable criteria.

The debt to equity ratio was represented by total liabilities divided by the shareholders equity of a firm in the study. Table 6.1 indicates that the minimum and the maximum values of debt equity ratio were -2.98 and 47.92 respectively with the mean value of 2.1741 and standard deviation of 4.54659. This shows a dispersion of the mean and standard deviation of donations. The coefficient of skewness of 4.54659 implies that interest gearing ratio is positively skewed and the data set meet the symmetrical distribution and tilted towards the right tail of the distribution. The kurtosis value of 68.233 suggest that, interest gearing ratio is visualized to be highly peak with a thin bell and a heavy tail, leptokurtic in nature and meet the acceptable criteria.

Test of Hypotheses

The research hypotheses were tested in this section of the study. The test was carried out using ordinary least square regression with the model specification showed below using Statistical Package for Social Science version 20.0 software. The result of the analysis is shown in the study below.

Ho$_{1:}$ There is no significant influence of interest gearing ratio on market to book value ratio of consumer goods organizations in Nigeria.

Table 15.1, present the summary of the influence of interest gearing ratio on market

Table 15.2: Regression Summary on the influence of IGR on MBVR of listed consumer goods organizations in Nigeria

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.738[a]	.544	.541	2.26658	1.304

a. Predictors: (Constant), Interest Gearing Ratio. b. Dependent Variable: Market to Book Value Ratio.
Source: Researcher's Analytical Output (2024)

Table 15.3: ANOVA Summary on the influence of IGR on MBVR of listed consumer goods organizations Nigeria.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1029.456	1	1029.456	200.386	.000[b]
	Residual	863.079	168	5.137		
	Total	1892.536	169			

a. Dependent Variable: Market to Book Value Ratio. b. Predictor:(Constant), Interest Gearing Ratio
Source: Researcher's Analytical Output (2024)

Table 15.4: Regression Coefficient of the influence of IGR on MBVR of listed consumer goods organizations in Nigeria.

a. Dependent Variable: Market to Book Value Ratio

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.769	.188		4.078	.000		
	Debt Ratio	.746	.053	.738	14.156	.000	1.000	1.000

Source: Researcher's Analytical Output (2024).

to book value ratio of listed consumer goods organizations in Nigeria. The R-square of 0.544 indicated that 54.4% of the interest gearing ratio really contributed to the market to book value ratio of the listed consumer goods organizations in Nigeria and is explained in the regression model. Table 15.2 showed a p-value of 0.000 < 0.05. This implies that null hypothesis one was rejected and the alternate hypothesis accepted. This implies that, there is a significant influence of interest gearing ratio on market to book value ratio of the listed consumer goods organizations in Nigeria. This is in line with the decision rule of the study. This was further confirmed by the t calculated of 14.156against the critical value of t which was represented by 1.962. Table 15.3 showed a beta coefficient of 0.738 for interest gearing ratio implying that,

if other variables are held constant, as interest gearing ratio increases, market to book value ratio increases respectively in that magnitude. A N1 increase in interest gearing ratio would lead to a N0.738 increase in market to book value ratio.

Ho_2: Debt to equity ratio does not have a significant influence on market to book value ratio of consumer goods organizations in Nigeria.

Table 15.5: Regression Summary on the influence of DER on MBVR of listed consumer goods organizations in Nigeria

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.146[a]	.021	.015	3.32052	.476

a. Predictors: (Constant), Interest Gearing Ratio. b. Dependent Variable: Market to Book Value Ratio.

Source: Researcher's Analytical Output (2024)

Table 15.6: ANOVA Summary on the influence of DER on MBVR of listed consumer goods organizationsin Nigeria.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	40.196	1	40.196	3.646	.058[b]
	Residual	1852.340	168	11.026		
	Total	1892.536	169			

a. Dependent Variable: Market to Book Value Ratio. b. Predictor:(Constant), Interest Gearing Ratio

Source: Researcher's Analytical Output (2024)

Table 15.7: Regression Coefficient of the influence of DER on MBVR of listed consumer goods organisations in Nigeria.

a. Dependent Variable: Market to Book Value Ratio

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.032	.282		7.194	.000		
	Debt Ratio	-.107	.056	-.146	-1.909	.058	1.000	1.000

Source: Researcher's Analytical Output (2024)

Table 15.5, presents the summary of the influence of debt equity ratio on market to book value ratio of listed manufacturing firms in Nigeria. The R-square of 0.021 indicated that 2.10% of the debt-equity ratio contributed to the market-to-book value ratio of the listed manufacturing firms in Nigeria and is explained in the regression model. Table 15.6 showed a p-value of 0.058 > 0.05. This implies that null hypothesis two was accepted and the alternate hypothesis rejected. This infers that there is no significant positive influence of the debt-equity ratio on market to book value ratio of the listed consumer goods organizations in Nigeria. This is not in line with the decision rule of the study. This was further confirmed by the t calculated of -1.909 against the critical value of t which was represented by 1.962. Table 15.7 shows a beta coefficient of -0.146 for the debt-equity ratio implying that if other variables are held constant, as the debt-equity ratio increases, market to book value ratio decreases respectively in that magnitude. AnN1 increase in the debt-equity ratio would lead to a -N0.146 decrease in market-to-book value ratio.

Discussion of Findings

Inspired by the quest to find out if financial leverages influence the market value added of listed consumer goods organizations in Nigeria, financial leverage was stratified into interest gearing ratio and debt-equity ratio dimensions. In line with these classifications, two hypotheses were developed and analyzed. Data for the variables across seventeen listed consumer goods organizations for ten years were computed and analyzed and the results are discussed below.

In line with hypothesis one, interest gearing ratio, with a t-statistics of 14.156 and a probability value of 0.000 less than 0.05, with a regression coefficient of 0.738 demonstrated a significant positive influence on market to book value ratio. This indicates that interest gearing ratio has a positive influence on the market value added of listed consumer goods organizations in Nigeria. The analysis implies that a unit increase in interest gearing ratio will cause about N73.80 increase in market to book value ratio of the sectors. This supposes that, combining the company debt efficiently would move the firm towards the part of growth in the long run. In line with the finding of Sulaiman and Khalid (2024), the research asserted moderating effect of firm size on debt capital and financial performance of listed agricultural firms in Nigeria from 2013 to 2022.

Hypothesis two with a t-statistics of -1.909, a probability value of 0.058 greater than 0.05, and a regression coefficient of -0.146 demonstrated an insignificant negative influence of debt equity ratio on market to book value ratio.

This implies that, debt equity ratio has a negative influence on the market to book value ratio of listed consumer goods organizations in Nigeria. The analysis of this result implies that a unit increase in debt equity ratio will cause about -N14.60 decrease on market to book value ratio of the sector. This assumes that, for a firm to have a safe landing end, it must judiciously mix the borrowed resources at its disposal. This finding is in line with that of Wu (2023) who asserted a negative relationship between leverage and how leverage affects performance of companies in America for the period of 2020.

Conclusion

Drawing from the test results, the chapter concluded that, there was a significant positive influence of interest gearing ratio on market to book value ratio of consumer goods organizations in Nigeria. There was a negligible influence of the debt-to-equity ratio on the market-to-book value ratio of consumer goods organizations in Nigeria. It is advisable that liquidation can be avoided by making sure that businesses made appropriate mix of debt financing in order to boost the Nigerian economy. Rather than depending exclusively on returns from owners' equity, capital acquired through debt instruments should be properly managed with appropriate mixture administration in the economy. Prioritizing other areas of productivity development could be possible by concentrating on the proper mix of debt capital.

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