

Effect of Capital Structure on the Financial Performance of South African Consumer Goods Firms

Ayeni-Agbaje AR, Ogunmakin AA, Adebayo IA and Olaoye AA*

Accounting Department, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria

ABSTRACT

This study examined the effects of capital structure on the financial performance of South African consumer goods firms. The study focused on the consumer goods sector and covered a period of eleven (11) years (2011-2021). A sample of ten (10) firms was purposively selected from the study's population of twenty (20) consumer goods firms listed on the Johannesburg Stock exchange of South Africa. The study employed secondary data sources obtained from the annual accounts and reports of the selected firms. The data obtained were analyzed using random effects model. Findings from the study showed that the coefficient of share capital on return on equity is negative (-1.86262) and insignificant ($p=0.7961 > 0.05$) and the beta value of short-term debt on return on equity is positive (5.08662) and insignificant ($P=0.0516 < 0.05$). The coefficient of long-term debt on return on equity is also positive (6.78568) and statistically significant ($p=0.0298 < 0.05$) and the beta value of retained earnings on return on equity is positive (3.55649) and significant ($p=0.0017 < 0.05$) for consumer goods firms in South Africa. The study concluded that share capital has a negative effect on the firms' financial performance, while retained earnings, short-term debt and long-term debt have positive effects on the firms' performance. The research also concluded that retained earnings, short-term debt and long-term debt are the appropriate capital sources that could be considered for effective financial performance of consumer goods firms in South Africa. The study recommended that the firms should avoid financing their operations with share capital in South Africa without taking remedial actions on its persistence negative effect on their performance.

Corresponding author

Olaoye AA, Accounting Department, Faculty of Management Sciences, Ekiti State University, Ado-Ekiti, Nigeria.

Received: March 07, 2023; **Accepted:** March 15, 2023; **Published:** March 21, 2023

Keywords: Capital Structure Components, Financial Performance, South African Consumer Goods Firms

Introduction

Capital structure is the combination of share capital, short-term debt, long term debts and retained earnings. Capital structure is the firms' mix of finance. Capital structure decision is an integral part of organizations' financial decisions that focused on forms the capital of a firm will take. Consumer goods firms require appropriate sources of finance to run their activities which must be properly utilized to avoid their negative effects on performance. Determining the effects of the sources of capital on the firms' performance is imperative during the companies' financing decisions [1]. The sources of capital through which various the companies are being financed are the share capital, retained earnings, short-term debt and long-term loans [2]. Selecting the suitable sources of finance may positively impact the companies' performance but if they were not properly utilized, it may result into financial backwardness [3]. Using different capital sources to finance the activities of the enterprises will help in reducing the cost of capital; bringing up their net returns and improving their performance [4]. Although employing only one capital sources can still increase the companies' profitability but in the long run may become unreliable as the application of loan capital alone may create a high financial risk to the firms, while placing too much reliance on only equity capital may as well increase the cost of finance [5]. The corporate financing modes include the share capital, retained earnings, short-term debt and long-term debt.

Selecting suitable capital sources will positively impact the companies' performance but if they are not properly utilized, this may cause performance backwardness [3]. Using different mix of capital like retained profits, short and long-term loans and share capital to finance the activities of an enterprise will help in optimizing its capital structure bringing up the net returns and improving its performance [4]. Although employing one capital source can still increase the companies' profitability but in the long run may become unreliable as using loan capital alone may create a high financial risk. But placing too much reliance on only equity capital may increase the cost of finance [5]. To improve the performance, firms' finance managers should employ the appropriate mix of capital to finance a business [6]. However, the two major modes of financing a business are equity and debts [2].

A capital source for financing the business activities is the retained earnings. Using it doesn't however impose any financial obligation like costs of equity mobilization, loan redemption, and interest payments among others on the enterprises. Firms with enough reserved profits will be well off and be able to invest its excess on profitable projects for their expansions and performance improvement than those firms with inadequate of it [7]. Short-term debt is the next economic mode of financing to the business organizations after the retained profits. It constitutes a great percentage of the total debts of most of the small and medium firms in the world due to the restricted access to long-term one [8]. Long-term debt is an external financing mode for most of the medium enterprises around the world and serves as a mechanism

of closing the gaps of finance deficiency in the business arena especially in the absence of the sufficient financial resources [9]. Share capital is a source of finance involves issuing of shares. Shares may be issued through the public subscription, offer for sale, right issues, bonus issue, private placement, debt conversion, and offer for sales by tender [3].

Financial performance is a measure of how well a business has utilized its assets to generate revenues. Financial performance is an outcome that needs to be accomplished in organization. Assessing financial performance will serve as a criterion for making an inter firms comparisons. Financial performance can be evaluated in terms of growth in turnover, assets growth and efficiency, profitability growth, higher liquidity position, and stock prices improvement while lack of performance is generally assessed in terms of too high expenditures poor profitability, poor liquidity position, persistence corporate loss, and absence of self-reported innovations [10]. Return on equity is one of the most widely fitted models that have been used by various researchers in the past to measure firms' financial performance across the globe [11].

Statements of the Problem and Gaps in Literature

Debates are still on-going among various researchers on what should be the optimal capital structure that will improve firm's performance [12]. Besides, criteria that determine the optimal capital structures that will maximize South African consumer goods firms' value and performance are still widening in literature [13]. In South Africa, firms engaging in consumer goods need appropriate capital to move upward and improve their profitability, but only little attention is being paid to the rightful combination of capital sources that can be employed to finance their activities [13]. A review of previous related studies disclosed that the studies that have determined the appropriate capital sources among the available alternatives that can be considered effective performance of consumer goods firms in South Africa have not been explored and this requires further research.

More so, several related studies such as Tally Saad, Ghani, Ahmad, and Salim, Denis, Abeywardhana and Magoro and Edori, Ekweozor and Ohaka [10, 12-15]. only used variables like financial leverage, source of funds via equity and leverage, effect of debt financing, debt capital to determine firm's financial performance, But this study uses capital structure to determine the effect of share capital, retained earnings, short-term debt and long-term debts on the financial performance of listed consumer goods firms in South Africa. This study also has filled a gap as most of the reviewed related studies only concentrated their investigations on other sectors like agriculture, oil and gas, financial services, Small and Medium Enterprises, education, health care services and industrial sectors apart from consumer goods sector which is the focus of this study.

Noted from the review of the related studies is the fact that none of the reviewed studies have combined the explanatory variables of retained earnings, short-term debt, long-term debt and share capital to investigate the effect of capital structure on the financial performance of listed consumer goods firms in South Africa as used in this research. Another gap identified is that some reviewed related studies have not covered the periods between 2011 and 2021, but this research is unique having being carried out within the periods. Above all, the studies that have investigated the effect of capital structure on financial performance of South African consumer goods firms between 2011 and 2021 are rare in literature, hence this study.

Arising from the above gaps is the need to proffer better alternative approach to conduct this research by focusing on the listed consumer goods sector in South Africa to discover the effect of share capital, short-term debt, long-term debt and retained earnings on the performance of listed consumer goods firms in the country using the appropriate methods and techniques of data estimations in order to arrive at the better and robust results for achieving the study' stated objectives.

Objectives of the Study

The main objective of this study is to investigate the effects of capital structure on the financial performance of listed South African consumer goods firms. Specifically, the study:

- i. Evaluate the effect of share capital on the financial performance of listed South African consumer goods firms;
- ii. Determine the effect of short-term debt on the financial performance of listed South African consumer goods firms;
- iii. Evaluate the effect of long-term debt on the financial performance of listed South African consumer goods firms;
- iv. Assess the effect of retained earnings on the financial performance of listed South African consumer goods firms;
- v. Determine the appropriate modes of capital among the available alternatives that can improve the financial performance of listed South African consumer goods firms.

Research Hypotheses

The following null hypotheses guide this study:

- i. Share capital has no effect on the financial performance of listed South African consumer goods firms;
- ii. There is no effect of short-term debt on the financial performance of listed South African consumer goods firms;
- iii. Long-term debt has no effect on the financial performance of listed South African consumer goods firms;
- iv. There is no effect of retained earnings the financial performance of listed South African consumer goods firms;

Literature Review

Corporate Financing

Corporate financing is the application of external and internal sources of funds to finance the operations of corporate organizations. It is a collective use of equity capital and debt capital to fund the business' activities. Corporate financing is all about mobilization of mix-funds to run the firms' activities [16]. It is the application of some specific mix of capital such as retained earnings, share capital, short and long-term debts and retained earnings to fund the operations of a business [17]. Corporate financing is an important aspect of firms' financial decisions involving concerted companies' capital funding [18].

The effect of retained earnings on firms' financial performance may be immense. Retained earnings are the firm's cumulative retained profits, reserves, share premium and other available internal financing sources [19]. It is the earnings after tax and dividends retained by a company Ahad & Ghazalat, 2019. It is an internal model of finance referring to the cumulated profits reserved available for business re-investment [10]. It is the profit plugged back to finance a enterprise. The most common internal equity source of fund is the retained earnings or reserved profits [20]. Retained profits are the internally generated long-term funding sources meant for running firms' activities [21]. Retained earnings are the long-term internal equity fund in forms of revenue and other reserves [22]. The most common internal source of financing a firm is the retained earnings [22].

Share capital is expected to affect the profitability of firms. Share capital is the funds mobilized by selling of variety of shares to the existing or potential stockholders [23]. Share capital is the funds generated by the firms by issuing ordinary shares (common stock) or preferred stock (preference share) and other external equity [7]. Share capital is the mangle value of the funds a firm has acquired through the public or private issue of the common or other stock [22].

Measuring the effect of short-term debt on financial performance of firms is also important. Short-term debt is a capital that is repayable within a year to the lenders [21]. Loans that have short terms maturities assist corporate organizations to meet their immediate financial needs without resulting into long-term debt commitment [18]. Short-term financial obligations attracts lowers interest charges to the entities as most of the lenders may decide not to charge the borrowers too much of interest if the repayments agreed periods are not breached [13].

The need to determine the effect of long-term debt on the firms' performance is also necessary. Long-term debt is a long-term debt instrument that imposed an obligation on its user to pay regularly the interests and the principal as at when due [23]. The interest on debenture is tax-free as the corporate tax is chargeable on the profit after loans interests [10]. Tax saving is the reduction of the amount of tax payable by corporate organizations [5]. In the other hand, preference shares carried a fixed dividend percentage which is payable to the holders before the ordinary shareholders get theirs [18].

Financial Performance

Financial performance is an indication of how well a business has perfectly applied its assets from its ordinary course of doing business to generate revenue [1]. Financial performance is a way of evaluating firms' healthy financial condition over a given accounting period [7]. It is what to be accomplished in any human organization. Financial performance is a business achievement that requires adequate and appropriate evaluation using some valid criteria Fan, Titman, & Twite, 2012. Financial performance is the firm's assessment outcome of how it has succeeded in attaining its objectives [10]. Measuring financial performance is a financial evaluation method of knowing the wellbeing of the corporate organizations [4]. Return on equity is therefore a measure of financial performance. It is the earnings after corporate tax and loan interest divided by shareholder's equity [19].

Theoretical Approach

This study is anchored on the Theory of Corporate Financing propounded by Tirole [24]. The theory is one of the oldest finance theories that analyze the relationship between the firms' financing modes and firms' performance [8]. The theory explained that firms financing deals with funds generation through the various sources to run the operations of a business entity [8]. The theory affirmed that running an establishment with debts alone might result into incurring more liabilities and exposing companies to some credits obligations that must be unfailingly met [8]. Therefore, business managers should wisely make positive financial sourcing decisions during the mobilization of capital in a way that would improve performance [8]. Firms' managers must therefore try to weigh the financing modes against the assets being financed in terms of cash flows by managing any potential asset and liability against mismatch [8].

The theory assumed that the primary purpose of effective financing-mix is to maximize the shareholders' wealth and

increasing firms' profitability [25]. The theory asserted that among the inter-related company financing decisions is the proper identification of the most appropriate modes of finance that will improve their performance and streamlining of the long-term fuse of funding with the financed assets [25]. The theory focused on how to achieve effective performance using the appropriate modes of capital and judicious investments in assets [25]. Based on the assumption of the theory, achieving the firms' objectives of greater performance requires that any capital employed must be correctly be utilized. The theory clarified that for a firm to achieve its goals of better performance and continuity in business requires effective capital mobilization and judicious investment. The theory's is concerned about the application of the correct combination of sources of finance that would enhance the firms' performance. Thus the theory fits this study.

Review of Related Studies

Tally examined "the effect of financial leverage on firms' financial performance in Saudi Arabia's public listed companies" between 2002 and 2010 [12]. The study used techniques such as analysis of variances, maximum, value, and standard deviation for the analysis of data. The study found a 'positive relationship between financial leverage and performance'. Robert and Mohamed investigated the "relationship between financial leverage and the financial performance of the listed firm' in Kenya" between 2007 and 2011 by employing a panel data regression to analyze data. The research study found a positive significant relationship between the financial leverage and the financial performance of the listed firm [9].

A study was conducted by Saad, Ghani, Ahmad, and Salim to investigate "the association between the source of funds via equity and leverage, and the performance of Small and Medium Enterprises in Malaysia" [9]. The study used secondary data and the 'ordinary least squares method' for data analysis and found that 'equity has a positive impact on performance. However, the study concluded that ' Small and Medium Enterprises in Malaysia should engage more equity sources of financing as it has the potentiality of improving firms' performance.

Denis investigated the effect of debt financing on the financial performance of private secondary schools in Nairobi of Kajiado County" [10]. The study used multiple regression models for data estimation. The study discovered a positive insignificant impact of debt financing on financial performance and a positive insignificant impact of revenue growth on the financial performance of the schools.

Abeywardhana and Magoro examined "the relationship between debt capital and financial performance: a comparative analysis of South African and Sri Lankan Listed Companies" between 2011 and 2015 [14]. The research work obtained a secondary source of data which was analyzed using a fixed-effects regression model. Findings from the work revealed that short-term debt harms the performance of wholesale and retail sector companies in South Africa while the long-term debt has a positive impact, but the short-term debt of similar companies in Sri Lanka hurts firm performance while long-term debt has a positive impact. The study recommended that in South Africa, the wholesale and retail sectors are advised to use equity capital and retained earnings efficiently to minimize conflicting interests between the managers and shareholders to remain independent of external financiers. While in the case of Sri Lanka, the owners and managers of the retail companies should consider reducing the use of short-term debt because of its negative impact, and increasing long-term

debt which seems to have positively influenced the financial performance of their companies.

Research Methods

The study employed an ex-post facto research design and made use of secondary data sourced from the annual financial accounts and reports of listed consumer goods firms in South Africa. Using the source of data is justifiable as it is uneasy to get the required data for analysis on the study's variables through the primary data sources. This study's population comprised twenty (20) consumer goods firms listed on the Johannesburg Stock of Exchange of South Africa. The sample size of ten (10) consumer goods firms which includes Astral Foods Limited (ARL), Crookes Brothers Limited (CKS), Distell Group Holdings (DGH), Libstar Holdings Limited (LBR), Metair Investments Limited (MTA), Nu-World Holdings Limited (NWL), Oceana Group Limited (OCE) Premier Fishing and Brands (PFB), RCL Foods Limited (RCL) and RFG Holdings Limited (RFG) was purposively selected based on the availability of data. The study's dependent variable is financial performance measured in terms of return on equity (ROE), while the independent variables of the study are the share capital (SCP), short-term debt (STD), long-term debt (LTD) and retained earnings (REs). SCP, STD, LTD and REs are expressed as their ratios to total assets. The firms' size is measured in term of log of total assets. The inferential statistics which include pooled ordinary least square, fixed effect and random effect modes were used for data estimation together with some post data analysis tests like F-test, Lagrange Multiplier test and Husaman test among others.

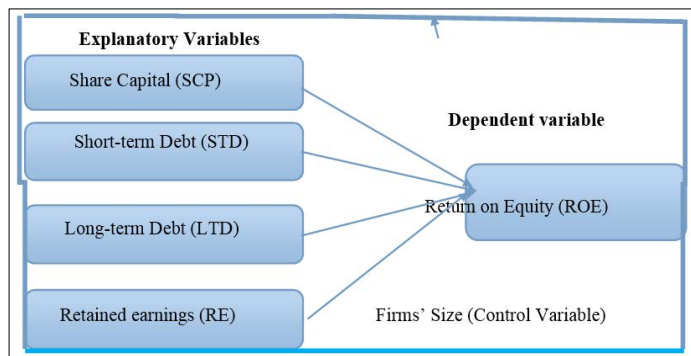


Figure 3.1: Conceptual Model of the Study
Source: Author's Design, 2020

Figure 3.1 exhibits this study's conceptual model developed which describe the study's explanatory independent variables of short-term debt, share capital, long-term debt and retained earnings, the proxies for corporate financing modes and the dependent variable of return on equity, the proxy for financial performance and firms' size as a control variables.

Model Specifications

This study adapted the work of Abubakar and Olowe (2019) which investigated "The impact of capital structure on the financial performance of selected quoted firms in Nigeria" as specified below:

$$ROE_{i,t} = f(STD_{i,t}, LTD_{i,t}, DE_{i,t}, FS_{i,t}) \dots \dots \dots (3.1)$$

This study's model after the modification of the adapted is this below:

$$ROE_{i,t} = f(SCP_{i,t}, STD_{i,t}, LTD_{i,t}, RE_{i,t}, FS_{i,t}) \dots \dots \dots (3.2)$$

Where

- $ROE_{i,t}$ = Return on equity of the quoted firms I in year t;
- $STD_{i,t}$ = The ratio of short term debt to the total asset of the quoted firms i in year t;
- $LTD_{i,t}$ = The ratio of long term debt to the total asset of the quoted firms i in year t as a control variable;
- $SCP_{i,t}$ = The ratio of short term debt to the total asset of the quoted firms i in year t;
- $RE_{i,t}$ = The ratio of short term debt to the total asset of the quoted firms i in year t;
- $FS_{i,t}$ = Firms; size i in year t;

Results and Discussion

Table 4.1: Pooled Ordinary Least Square Estimation Result
SERIES: ROE, SCP, STD, LTD, RE, DE, FS

Total panel (balanced) observations: 110 Included 10 cross-sectional units Time-series length = 11				
Variables	Co-efficient	Std. Error	t-Statistic	Probability
Constant	-1.77077	4.45052	-0.3979	0.6915
SCP	-1.86262	7.20948	-0.2584	0.7966
STD	5.08662	3.61714	1.4060	0.0007
LTD	6.78568	3.12380	2.1720	0.0321
RE	3.99209	3.55649	1.1220	0.0043
FS	-0.73566	0.26337	-2.7930	0.0062
Model Parameters:				
R-squared	0.806104			
Adjusted R-squared	0.79480			

Source: Author's Analysis, 2022 and 5% level of significant

Table 4.1 exhibits the result of the pooled ordinary least square (OLS). The R-square result shows that 81% (0.806104) of the total changes in return on equity (ROE) is jointly accounted for by short-term debt, share capital (SCP), long-term debt (LTD), retained earnings (REs), debt-equity (DE), and firms' size (FS), while other variables in the error term accounted for the remaining 19% changes in the value of the ROE. The adjusted R-square value of 0.794809 measured in terms of the ROE implies that even if other variables accounted for in the stochastic parameter were included in the model, the explanatory variables would still account for an 80% increase in the financial performance of the firms in South Africa. This indicated that the study's explanatory variables have a joint significant effect on the financial performance of the firms. The result of the coefficient of SCP is negative (-1.86262) and statistically insignificant (p=0.7966>0.05) meaning that the variable shows a negative and insignificant impact on the ROE. The beta value of STD is positive (5.08662) and statistically significant (p=0.0007<0.05) implying that it shows a positive significant effect on the ROE. The beta value of LTD is positive (6.78568) and statistically significant (p=0.0321<0.05) meaning that the variable reveals a positive significant effect on the ROE. The coefficient of REs is positive (3.99209) and statistically significant (p=0.0043<0.05) meaning it shows a positive significant effect on the ROE.

Table 4.2: Fixed Effect Estimation Result (Cross-sectional period-specific)

SERIES: ROE, SCP, STD, LTD, RE, DE, FS

Total panel (balanced) observations: 110 Included 10 cross-sectional units Time-series length = 11				
Variables	Co-efficient	Std. Error	t-Statistic	Probability
Constant	-1.77077	4.65871	-0.3801	0.7047
SCP	-1.86262	7.54673	-0.2468	0.0056
STD	5.08662	3.78634	1.3430	0.0024
LTD	6.78568	3.26992	2.0750	0.0407
RE	3.99209	3.72285	1.0720	0.0063
FS	-0.73566	0.27569	-2.6680	0.0090
R-squared	0.806104			

Source: Author’s Analysis, 2022 and 5% level of significant

Table 4.3 exhibits the fixed effect model result. The R-square result reveals that 81% (0.806104) of the total changes in the value of return on equity (ROE) is jointly accounted for by the explanatory variables, while other variables in the error term accounted for the remaining 19% changes in the ROE. The coefficient of share capital is negative (-1.86262) and statistically significant ($p=0.0056 > 0.05$) showing that it negatively and significantly affect the ROE. The beta value of short-term debt is positive (5.08662) and statistically significant ($p=0.0024 > 0.05$) implying that it positively and significantly affect ROE. The beta value of long-term debt is positive (6.78568) and statistically significant ($p=0.0407 < 0.05$) meaning that it has a positive and significant impact on the ROE. The coefficient of retained earnings is positive (3.99209) and statistically significant ($p=0.0063 > 0.05$) showing that its impact is positive significant effect on the ROE.

Table 4.4: Random Effect Estimation Result (Cross-sectional period-specific)

SERIES: ROE, SCP, STD, LTD, RE, DE, FS

Total panel (balanced) observations: 110 Included 10 cross-sectional units Time-series length = 11				
Variables	Co-efficient	Std. Error	t-Statistic	Probability
Constant	-1.77077	4.45052	-0.3979	0.6907
SCP	-1.86262	7.20948	-0.2584	0.7961
STD	5.08662	3.61714	1.4060	0.0516
LTD	6.78568	3.12380	2.1720	0.0298
RE	3.99209	3.55649	1.1220	0.0017
FS	-0.73566	0.26337	-2.7930	0.0052
R-squared				
Adjusted R-squared	0.806104			
F-Stat	0.775163			
P (f-stat)	26.05307			
Durbin-Watson =	0.000000			
Post Data Analysis Tests:	1.929278			
F-tests				
F-stat.				
P-value	0.000345			
Lagrange multiplier test	1.000			
statistical value				
P-value	5.500			
Hausman test	0.019			
chi-square stat				
P-value	0.000			
Ward test for hetero:	1.000			
Chi-square				
P-value	0.0003			
Wooldridge Test:	1.000			
t-Statistical				
P-value	7.86356			
	2.5120			

Source: Author’s Analysis, 2022 and 5% level of significant

Table 4.4 presents the result of the random effect model. The R-square result shows that 81% (0.806104) changes in the value of return on equity (ROE) will be jointly accounted for by the study's explanatory variables, while other variables in the error term will account for the remaining 19% changes on ROE. The adjusted R-square value of 0.775163 implies that even if other variables accounted for in the stochastic parameter were included in the model, the retained earnings (REs), short term debt (STD), share capital (SCP), long term debt (LTD), debt-equity (DE) and firms' size (FS) would still account for a 78% increase in the financial performance of the firms in the country. This indicates that the study's explanatory variables have joint and global significant effects on the financial performance of the firms. The F-statistics result is 26.05307 with a probability value of 0.000000 at a 5% level of significance implying that the study's model is statistically significant and suggests that the significant linear relationship between the explanatory variables and return on equity (ROE) does not exist. That is, there is the overall significance of the study's parameters, the appropriateness of the model used for data analysis, and the probability values employed are valid enough to explain the outcome of the ROE.

The result of the coefficient of SCP is negative (-1.86262) and statistically insignificant ($p=0.7961 > 0.05$) meaning that the variable shows a negative and insignificant effect on the ROE. The beta value of STD is positive (5.08662) and statistically significant ($p=0.0516 < 0.05$) implying that it has a positive significant effect on ROE. The beta value of LTD is positive (6.78568) and statistically significant ($p=0.0298 < 0.05$) indicating that it has a positive and significant impact on the ROE. The coefficient of retained earnings is positive (3.99209) and statistically significant ($p=0.0017 < 0.05$) meaning that the variable show a positive significant effect on the ROE. Durbin-Watson Statistics of 2 indicates the absence of serial autocorrelation between the successive units of the error terms and the study explanatory variables.

The results of post-data estimation tests show that the F-tests between POLS and fixed effect with a statistical value of 0.000345 and probability value of 1.000 goes against the null hypothesis that POLS is not adequate in favor of fixed effects for listed consumer goods firms (LCGFs) in South Africa. Thus, the null hypothesis of no fixed effect is accepted in favor of POLS. The Lagrange multiplier test result between POLS and random effect model reveals a statistical value of 5.500 and probability value of $0.019 < 0.05$ supporting the null hypothesis that POLS is not appropriate in favor of the random effect alternative. Thus the null hypothesis of no random effect is rejected. To confirm the result of the second test, the Hausman test was conducted between fixed effect and random effect models with a chi-square statistical value of 0.000 and a probability value of $1.000 > 0.05$ level of significant which supports the null hypothesis of no fixed effect in favor of random effects alternative, thus the alternative hypothesis is accepted. Therefore, random effect was considered the most suitable model for data analysis and confirmation of hypotheses. The findings from other post data estimation tests show that the Ward test with a chi-square of 0.0003 and probability value of 1.000 is greater than 0.05 level of significant, thus the null hypothesis is insignificant indicating there is absence of heteroscedasticity in the series. The Wooldridge t-Statistical result of 7.86356 with a probability value of $2.5120 > 0.05$ level significant implies that there is no autocorrelation.

Discussion of Findings

Based on the random effect model results, the study found a negative of share capital on the financial performance of the firms. The result implies that a unit increase in the value of share

capital will reduce their financial performance by 186%. From these results, there is a signal that the listed consumer goods establishments in South Africa should not dare to continually use share capital to finance their activities to avoid future poor financial performance. That might be the reason only one (1) percent of the total assets of the companies based on descriptive statistics were finance by the share capital in the country. Thus, if the mode of finance is increased further by the companies, their financial performance will also drop and become worst. These findings therefore serve as a basis for rejecting the null hypothesis one that there are no differences in the impact of share capital on the financial performance of listed consumer goods firms in Nigeria and South Africa.

Further to this is a discovery from the study that short-term debt positively and significantly effect on the financial performance of the firms in South Africa. This implies that a unit increase in the value of short-term debt will improve their financial performance by 508% in South Africa. The result agreed with the results of the studies conducted by Ahmed et al [16]. and Ahmad and Ghazalat, Edori et al [17, 15]. confirming a positive effect of short-term debt on the profitability and financial performance of the firms. Furthermore, the study found that the co-efficient of long-term debt of listed consumer goods firms positively and significantly impact the performance in South Africa implying that an increase in the value of long-term debt will consequently improve the performance of the firms by 679% in South Africa. These results are in line the results of the studies conducted by Ahmed et al, and Ahmad and Ghazalat revealing a positive effect of long-term liabilities on the financial performance of the studied companies [16, 17].

Findings from the study also discovered that retained earnings have a positive effect on the performance of firms in South Africa. The results indicate that a unit increase in the value of retained earnings will aftermath improve their financial performance by 356%. That is, the more the profits of the firms are retained the greater and better their financial performances will become. The result supports the study' outcome of Basseyy et al that retained earnings positively and significantly impact the firms' performance and they are a reliable and available capital source for boosting future earnings of any company [25].

The result of hypothesis one shows that share capital is negative (-1.86) and has an insignificant ($p=0.800 > 0.05$) effect on the financial performance. Thus, the null hypothesis cannot be rejected. The result of hypothesis two shows that the coefficient of short-term debt is statistically positive (5.087) and has an insignificantly ($p=0.1596 > 0.05$) effect on the financial performance. Thus the null hypothesis cannot be rejected. The result of hypothesis three reveals that the coefficient of long-term debt is statistically positive (6.786) and has a significant ($p=0.0298 < 0.05$) effect on the financial performance of the firms. Thus, the null hypothesis 3 is rejected. The hypothesis four shows that the coefficient of retained earnings is positive (3.992) and has an insignificant ($p=0.2617 > 0.05$) effect on the financial performance of the firms. Thus, the null hypothesis cannot be rejected. From the study's results, the results of F-statistics statistics discovered that there is overall significance of the study's parameters, the appropriateness of the models employed for data analysis and that the probability values are sufficient enough to explain the outcome of return on equity. Both Wooldridge and Durbin-Watson statistical tests results confirmed the absence of autocorrelation. Finally, the Ramsay reset test results supported correct specification of the study's models implying that the study's models are fit.

Conclusions and Recommendation

The study concluded that retained earnings, short-term debts and long-term debt have positive effects on the financial performance of South African consumer goods firms, while share capital has a negative effect. The finding is implicative because the failure on the part of the firms to raise additional equity will switch up their gearing position which is financially risky. This result implied that any attempt to raise additional shares to finance the activities of the companies will negatively affect their financial performance. The study also discovered that the appropriate modes of finance that could be considered for the effective performance of the firms are the retained earnings, short-term and long-term debts.

Based on the results, the study recommended that South African governments should formulate new industrial policies or implement any existing one to rebrand the dead local enterprises including any affected consumer goods firms instead of insisting on the annual corporate tax hike. The study also recommended that the firms should avoid financing their operations with share capital in South Africa without taking remedial actions on its persistence negative effect on their performance. The study contributed to knowledge having discovered that only retained earnings, short-term debts and long-term debt are the appropriate capital sources for the effective financial performance of consumer goods firms in South Africa.

Limitations of the Study

The coverage of this study is limited to listed consumer goods firms in South Africa and only used the independent variables of share capital, short-term debt, long-term debt and retained earnings to investigate the effect of capital structure on the financial performance of the selected firms in the country. The periods covered were between 2011 and 2021. Further research should therefore cover the period up to 2022 and be conducted in Nigeria and other African Countries using similar variables combinations and consumer goods sectors.

References

1. Mwangi JK (2013) The effect of funding structure on the financial performance of deposit taking microfinance institutions in Kenya. Master Thesis, University of Nairobi 1-55.
2. JM, Willy M, Agnes N (2019) Effect of equity finance on financial performance of Small and Medium Enterprises in Kenya. *International Journal of Business and Social Science* 10: 112-130.
3. Abubakar Y, Olowe GJ (2019) Capital structure and financial performance of selected quoted firms in Nigeria. *International Journal of Research and Scientific Innovation* 6: 75-85.
4. Ali M (2020) Impact of leverage on financial performance: evidence from Pakistan Food and Fertilizer Sectors. *Journal of Critical Reviews* 13: 447-456.
5. Anizawati AM, Wan-Mohd NWD, Norlia MN, Wan-Anisah E (2016) Does finance decision influence corporate performance in Malaysia? *International Journal of Economics and Financial Issues* 6: 1165-1171.
6. Micah ON, Hari LG, Nirmala D (2014) Factors influencing debt financing within state-owned corporations in Kenya'. *Journal of Economics and Behavioral Studies* 6: 884-905.
7. Oyetade M (2014) Determinants of capital structure of Nigerian non-financial firms. Master Thesis, University of Northern British Columbia 1-59.
8. Onoja EE, Ovayioza SP (2015) Effects of debt usage on the performance of small-scale manufacturing firms in Kogi State of Nigeria. *International Journal of Public Administration and Management Research* 2: 74-84.
9. Robert KM, Mohamed SM (2015) Financial leverage and performance of listed firms in a frontier market: panel evidence from Kenya. *European Scientific Journal* 11: 534-550.
10. Denis WN (2017) The effect of debt financing on financial performance of private secondary schools in Kajiado county. Master Dissertation, University of Nairobi 1-52.
11. Kornom-Gbaraba ME, Ugwuoke CJ (2019) Implications of equity capital financing on corporate financial performance of Deposit Money Banks in Nigeria. *Research Journal of Finance and Accounting* 10: 86-93.
12. Tally H (2014) An Investigation of effect of financial leverage on firm financial performance in Saudi Arabia's Listed Companies. Victoria Graduate School of Business, Melbourne, Australia 30-38.
13. Saad RM, Ghani MDAHA, Ahmad S, Salim SMNS (2015) Effects of equity and debt financing on SME performance in Malaysia. Universiti Utara Malaysia e45671.
14. Abeywardhana DKY, Magoro KMR (2017) Debt capital and financial performance: a comparative analysis of South African and Sri Lankan listed companies. *Asian Journal of Finance & Accounting* 9: 103-127.
15. Edori DS, Ekweozor UC, Ohaka J (2020) Debt financing and firms' financial performance in Nigeria, *Account and Financial Management Journal* 5: 2106 -2113.
16. Ahmed M, Ahmed I, El-Maude M (2016) Capital structure and financial performance: evidence from Nigeria. *Journal of Economics and Business* 2: 1-23.
17. Ahmad TST, Ghazalat ANM (2019) The effects of corporate financing decisions on firm value in Bursa Malaysia. *International Journal of Economics and Finance* 11: 127-135.
18. Musila P (2015) The relationship between equity financing and financial performance of the energy and petroleum companies listed at the Nairobi securities exchange. Master Degree of, School of Business, Nairobi, University 1-49.
19. Mwangi L (2018) Relationship between capital structure and performance of non-financial companies listed in the Nairobi Securities Exchange, Kenya. *Global Journal of Contemporary Research in Accounting, Auditing and Business Ethics* 1: 72-90.
20. Mutie JM, Willy M, Agnes N (2019) Effect of equity finance on financial performance of Small and Medium Enterprises in Kenya. *International Journal of Business and Social Science* 10: 112-130.
21. Ravi T (2013) Firm growth and retained earnings behavior: a study on Indian firms. *European Journal of Business and Management* 5: 40-58.
22. Kariuki S, Maina KE, Njagi IK (2017) Equity financing and financial performance of small and medium enterprises in Embu town, Kenya. *International Academic Journal of Economics and Finance* 2: 74-91.
23. Fan JPH, Titman S, Twite G (2012) An international comparison of capital structure and debt maturity choices. *Journal of Financial and Quantitative Analysis* 47: 23-56.
24. Tirole J (1956) The theory of corporate finance. New Jersey: Prentice Hall Publisher.
25. Bassey EB, Godwin OE, Aganyi A (2016) Assessing the impact of retained profit on corporate performance: empirical evidence from Niger Mills Company, Calabar, Nigeria. *European Journal of Business and Innovation Research* 4: 36-47.

Copyright: ©2023 Olaoye AA. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.