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PREFERENCE SHARE CAPITAL AND FINANCIAL PERFORMANCE OF LISTED CONSUMERS GOODS MANUFACTURING COMPANIES IN NIGERIA

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ABSTRACT

The study examined the relationship between preference share and financial performance of listed consumer goods manufacturing companies in Nigeria. Descriptive research design was employed, and the population of the study was 27 consumer goods manufacturing companies listed on the Nigeria Exchange Group (NXG) and obtained from the Fact book on a time series of 2011-2020, while a sample size of 25 consumer goods manufacturing companies listed on the Nigerian Stock Exchange Group (NXG) was used. Historical data was obtained from the annual reports of the companies and the tools of analyses were Correlation and Regression analysis with the aid of E-views version 10.0 econometric package. The findings revealed that there is a strong significant relationship between preference share capital and financial performance metrics (return on assets and return on equity). The study therefore concluded that optimum capital structure boost financial performance of listed consumer goods manufacturing companies in Nigeria; companies should capitalize on good capital structure mix. This is in line with the findings of this study that the short-term debt of listed manufacturing firms in Nigeria influences their financial performance positively. The study recommended that the management of Nigerian listed Consumer Goods Manufacturing Companies should work very hard to optimize the capital structure of their listed manufacturing firms to increase the financial performance. They can do that through ensuring that their capital structure is optimal; the Management of Nigerian listed Consumer Goods Manufacturing Companies should increase their commitments into short term debt to total asset to improve financial performance from their business operation.

Keywords: Preference Share Capital, Financial Performance, Consumers Goods

INTRODUCTION

A firm's financial performance is of importance to investors, stakeholders and the economy at large. Investors are interested in the returns for their investment. A business that is performing well can bring better reward to their investors. Financial performance of a firm can increase the income of its staff, rendering quality product or services to its customers and creating more goodwill in the environment it operates. A company that has good performance can generate more returns which can lead to future opportunities that can in turn create employment and increase the wealth of people. Firm's performance is the ability of a firm to achieve its objectives resources. According to Mbaeri (2021) a company's performance is its ability to achieve its target objectives from its available resources.

Suleiman (2014) viewed a firm's performance as the result of a company's assessment or strategy on how well a company accomplished its goals and objectives. Financial performance provides a deductive measure of how well a company can use assets from business operations to generate revenue. Mbaeri (2021) defined financial performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term according to Pandey (2017) is used as a general measure of the overall financial health of a business. Research on the firm's financial performance

emanates from organizations theory and strategic management. The notion of financial performance is used to describe performance of an entity with the legal status of a company.
Capital structure plays a serious part which supports an organization address the problem of whether an optimum capital structure can be attained. Abor (2005), state that a firm wishes to finance its operations and in doing so, they will need to choose a particular combination of equity and debt which forms a capital structure. Therefore, total capital of a firm is composed of both debt and equity which makes up firm's capital structure. Capital structure decisions are a vital managerial decision as it influences the shareholder risk and return. According to Bradley et al. (1984) one of the most critical issues for companies and has become one of the most contentious issues in finance is capital structure. Capital structure as the contribution of debt, equity, and other securities that a business has as its capital. Capital structure refers to the volume of business capital that is made up of debt and the amount made up of equity with the object of minimizing the cost of capital to the business (Jami & Koloukhi, 2018).
Jaffe et al (2004) also defined capital structure as the mix of different debt and equity kept in the business. Capital structure can also be referred to as the composition of different securities used by a company to finance its investment activities. The capital structure includes both short-term debts, long-term debts, and equity. Capital structure has also been called the financial structure of the business (Jaffe et al, 2004). Two types of capital exist in all businesses; they are debt capital and equity capital. Each capital type has its advantages and disadvantages to the company employing it. When a business uses debt to finance its operations, that business is described as leveraged (Pahuja & Sahi, 2012). An unlevered company is one that has no debts on its books (Pahuja & Sahi, 2012). Jami and Koloukhi (2018) provided that the decisions on capital structure involve selecting first the amount of capital required and second considering the financing combination that is available to the business. Capital structure is critical to the management of any business because both the financial risk and cost of capital of the company are affected by the capital structure. Abor (2005) described capital structure as a precise mix of debt and equity which is normally used to finance the firm's operations. Abor (2005) further added that a firm can select among several alternative sources of capital with different mix of securities. This definition provides itself for review to firms because it emphasizes on specific proportion of debt and equity used for financing organizations. Naveed et al (2015) defined the capital structure concept as the relationship between the various forms of financing. Hence, the term signifies the proportion between equity and debt capital that some firm targets to attain as part of the firm's objectives. However, they did not propose clearly on the proportion of the capital structure concept.
Therefore, it is against this backdrop that this research work was conducted to address the research gap to know if there is a possibility of a reverse causality in financial performance and preferential share capital of the firms listed in NSE in the face of the two competing hypotheses.

Research Hypotheses

The following null hypotheses were formulated in the study

$H0_1$ There is no significant relationship between Preference Share Capital and Returns on Assets of Consumer Goods Manufacturing Companies in Nigeria.

$H0_2$ There is no significant relationship between Preference Share Capital and Returns on Equity of Consumer Goods Manufacturing Companies in Nigeria.

Preference share capital

Preference shares, or preferred stock as they are known in the United States, are a class of shares that entitle the holder to preferences over those of the company's ordinary shares. The most usual preference concerns dividend rights, but other provisions may sometimes be included. They are non-equity shares but are also described sometimes as equity. They are not debt instruments although they trade like certain types of debt, and often

the preference share market making desk is located within the bond division of a bank. Preference shares rank below debt instruments in the event of a wind-up of a company, but above ordinary shares. They have a long history; the market in preference shares was well established in both the United Kingdom and United States in the nineteenth century. The main types of preference share are fixed-dividend, adjustable-rate, and auction market preference shares. These main variations will be reviewed later in the chapter. Preference shares may be defined as shares which provide their holders an entitlement to receive a dividend, but only up to a specific limit, which is usually a fixed amount every year. They may also give their holders a limited right to participate in any surplus in the event of a winding up, should there be a liquidation and sale of the company's assets. Preference shares may also be redeemable on fixed terms or on terms dictated by the issuing company. Despite their name however preference shares are like debt capital, and therefore it is necessary to review their characteristics here. However, preference shares are not debt, but are a form of ownership in a company, even though most forms of preference stocks do not grant their holders a voting right.
The instruments might be fairly described as a peculiar cross between shares and bonds and share some but not all characteristics of both. For example, certain preference shares are unlike ordinary shares in that if a dividend is not paid in one year, it will accumulate and must be paid before ordinary share dividends. Unlike bonds however a failure to pay dividends is not a default, although there are several negative implications associated with such an action. They are like bonds in that they do not entitle holders a vote in the company (usually, if the dividend is paid), although voting rights are usually granted if a dividend is not paid. The preference share market making desk in a bank is usually situated in the fixed interest division, rather than in the equity division. This reflects that the valuation of preference shares fluctuates with the yield curve.

Financial performance is firm's ability to generate new resources, from its daily procedures, for a certain time. Financial performance may also refer to the firm's ability to make good use their resources in an effective and efficient manner for achievement of the firm's objectives and goals (Sovaniski, 2020). According to Kagoyire and Shukla (2016) financial performance is the firm's ability to efficiently operate, be more profitable, to grow and survive for a long period of time. All organizations strive to utilize it resources effectively to achieve a high-performance level especially in financial terms. Thus, financial performance is the outcome of any of many different activities undertaken by an organization (Fujo & Ali, 2016). Measuring is a simple task despite its specific complications with many researchers preferring to use market measures and others opting for accounting measures. Accounting as a measure usually use historical information of firms' performance which may be subject to managerial manipulation and as such it becomes difficult to compare firms' performance using accounting information especially if different firms use different accounting procedures. When using accounting measures, different sectors of economy features or characteristics and risk associated with such sectors need to be considered (Al-Hubaity and Thabit, 2012). Ratio is used to summarize large quantities of financial data which can be used as a benchmark to make both qualitative and quantitative judgment about the firm performance. Measures of a firm's financial performance are ROE and ROA (Tharmila and Arulvel, 2013).
Boateng et al (2016) suggested two broad measures of financial performance namely absolute measure and relative measure. The absolute measure assesses performance based on the absolute quantum of profit. Profit-equivalent connotes varied forms of profit (profit before tax, profit after tax, residual income and economic value added). One weakness of the absolute measure is its inability to relate the profit to the resources used to generate profit. Absolute measure may not provide quality information for performance comparison decisions. Return on asset (ROA) not only does it measure profitability but also the related assets used or employed in profit generation. On breaking down ROA, we get two important measures, that is, profitability ratio and asset turnover ratio. ROA determines the ability a firm to generate enough returns on its assets. For Return on

Equity (ROE), it does not show how a 4 firm uses its resources, but a firm can manage to deliver a very impressive ROE without necessarily being effective at asset utilization to grow the firm. The other measure that can be used is the market which is a future oriented and focus more on performance of the market and less vulnerable to different accounting procedures. It is a representation of investor's evaluation of the firm's ability to generate more earnings. This measure can determine the firm's future earnings rather than looking at the past performance of the firm. The greatest shortcoming of this measure is that investors' perception about a firm may not be enough to gauge a firm's performance in financial perspective (Kubai 2016).

The Agency Cost Theory

Jensen and Meckling in 1976 propounded the Agency cost theory. This theory of capital structure states that an optimal capital structure will be determined by minimizing the costs arising from conflicts between the parties involved. Benlemlih (2017) argue that agency cost plays an important role in financing decisions due to the conflict that may exist between shareholders and debt holders. If companies are approaching financial distress; shareholders can encourage management to take decisions, which in effect, expropriate funds from debt holders to equity holders. Sophisticated debt holders will then require a higher return for their funds if there is potential for this transfer of wealth. Debt and the accompanying interest payments however may reduce the agency conflict between shareholders and management. Debt holders have legal redress if management fails to make interest payments when they are due, hence, managers concerned about potential loss of job, will be more likely to operate the firm as efficiently as possible to meet the interest payments, thus aligning their behavior closer to shareholder wealth maximization.

Panda and Leepsa (2017) see agency costs as the sum of the monitoring expenditure by the principal, bonding costs by the agent, and a residual loss. They also argue that the use of secured debt might reduce the agency cost of debt. Agency Theory demonstrates that in the decision about a firm's capital structure, the agency conflicts between shareholders and managers are affected by the level of leverage, as it encourages or constrains managers to take decisions in the interest of shareholders and their operation decisions and behaviors affect the firm performance. Thus, the use of debt capital will minimize the agency cost since the payment of debt interest reduces the surplus cash.

Empirical Review

Ngoc et al (2021) determined the impact of capital structure on profitability (represented by ROA and ROE indicators) of 30 logistics enterprises listed on Ho Chi Minh City Stock Exchange (HOSE) in the period of 2012-2019. Applying the quantitative method (with models of Pool OLS, FEM, REM and FGLS), the research results have proven that capital structure has a negative impact on profitability represented by ROA of firms. For the case of profitability represented by ROE, the study has not found statistical evidence to support the impact of capital structure of logistics enterprises in this period

Orichom and Omeke (2021) examined the relationship between capital structure, credit risk management and financial performance of microfinance institutions (MFIs) in Uganda based on agency theory. The study adopted a cross–sectional research design to examine 64 MFIs in Uganda. Correlation and multiple regression analysis were performed to analyze the data. The results reveal that credit risk management significantly contributes to sound financial performance. Second, capital structure is not significantly related to financial performance. Therefore, credit risk appraisal, credit risk monitoring and credit risk mitigation are essential in achieving sound financial performance of MFIs. However, the structure of debt or equity does not necessarily affect financial performance. Hence, managers should endeavor to instill risk preventive and control mechanisms so as to mitigate credit risks and achieve positive financial performance of MFIs.

Usman (2019) examined the impact of capital structure on the financial performance of the consumer goods industry in Nigeria. The population of the study comprised of the consumer goods companies listed on the Nigerian Stock exchange with a Sample size of six (6) companies, using filter as a sampling technique of which a period of five (5) years was used from 2012-2016. The Dependent variable of the study is financial performance proxied by return on asset (ROA), while the independent variables of the study are Long term debt (LTD), Short term debt (STD) and shareholders' funds (ROE). The data generated from annual report and accounts of the selected companies were analyzed by means of descriptive statistics, correlation and regression analysis using E-views 8.0. The result of the analysis was tested at 0.05 (5%) level of significance. The findings of the study show that Short term debts have no significant impact on the financial performance of listed firms in the Nigeria consumer goods industry. It was also discovered that Long term debts have no significant impact on the financial performance of listed firms in the Nigeria consumer goods industry. It was also discovered that Equity has significant impact on the financial performance of listed firms in the Nigeria consumer goods industry. The study recommended that in making a decision on what the composition of their capital structure will be, companies should look critically and make comparison between the cost of obtaining a particular source of capital and the benefit that can be derived from it instead of making capital structure decisions on baseless generalizations. This will help managers ensure that there will be a gain at the end of the day
Muhammad (2019) examined the impact of capital structure on the financial performance of the consumer goods industry in Nigeria. The population of the study comprised of the consumer goods companies listed on the Nigerian Stock exchange with a Sample size of six (6) companies, using filter as a sampling technique of which a period of five (5) years was used from 2012-2016. The Dependent variable of the study is financial performance proxied by return on asset (ROA), while the independent variables of the study are Long term debt (LTD), Short term debt (STD) and shareholders' funds (ROE). The data generated from annual report and accounts of the selected companies were analyzed by means of descriptive statistics, correlation and regression analysis using E-views 8.0. The result of the analysis was tested at 0.05 (5%) level of significance. The findings of the study show that Short term debts have no significant impact on the financial performance of listed firms in the Nigeria consumer goods industry. It was also discovered that Long term debts have no significant impact on the financial performance of listed firms in the Nigeria consumer goods industry. It was also discovered that Equity has significant impact on the financial performance of listed firms in the Nigeria consumer goods industry. The study recommended that in making a decision on what the composition of their capital structure will be, companies should look critically and make comparison between the cost of obtaining a particular source of capital and the benefit that can be derived from it instead of making capital structure decisions on baseless generalizations. This will help managers ensure that there will be a gain at the end of the day.

Research Design

A research design represents a framework or arrangement of action for a study. Research design refers to plan that guide a researcher on how to organize the research activities (Bryman and Bell 2003). Research design as posited by Trochim (2006), provides the glue that holds the research project together. It is used to structure the research, to show how all the major parts of the research project work together to try to address the central research questions.
This study adopted a descriptive research design. Descriptive research provides a comprehensive picture of a circumstance or a situation. It is normally done to determine and be in a position where one can describe features or characteristics of the given variable of interest for a certain situation.

Population of Study

The study population was twenty-seven (27) consumer goods manufacturing companies which are listed under the Nigerian exchange Group (NEG) as of 31st December 2020 (NEG fact book, 2020).

The NEG fact book, 2020; considered a ten -year period from 2011 to 2020. Listed companies were preferred because financial statements were readily available at Nigerian exchange group (NEG) fact book.
Saunders et al (2009), refer to it as an entire group that allows data to be sourced and investigated. Appendix A of this study shall show the consumer goods manufacturing companies which are listed under the Nigerian exchange group (NEG) as of 31st December 2021.

Sample and Sampling Technique
According to Neuman (2000), a sample is defined as a set of individuals selected from a population with the aim of representing the population in a research study. Sampling refers to the systematic selection of a limited number of elements out of a theoretically specified population of elements.

Instrument of Data Collection
There are basically two sources of data collection namely, primary and secondary sources of data collection (Olaogun, 2010). For this study, the secondary method of data collection was utilized. According to Kothari (2014), secondary data defined as data that is already available or which have already been collected and analyzed by someone else. The data, specifically market and accounting data required in this study were obtained from the financial statements of listed consumers goods manufacturing companies and Nigerian Stock Exchange Market. This includes, published Annual Financial Reports of companies quoted on the Nigerian Exchange Group, Central Bank of Nigeria Statistical Bulletin, Nigerian Exchange Group Fact-books, and the Nigerian Stock Market Bulletin.

Methods of Data Analysis
The data collected, was first be cleaned, sorted, and coded using numerical numbers. Then, it was entered in the Statistical Package for Social Sciences (SPSS) software for analysis to be done. Descriptive and inferential statistics in the form of pie charts, contingency tables and bar graphs and regression models was used to describe the data. A measure of association was used to examine the relationship between the independent and dependent variables. The mean score for each attribute was calculated and the standard deviation used to interpret the data deviation from the mean. The result was presented on frequency distribution tables, pie charts and bar charts. Here the interest was focused on frequency of occurrence across attributes of measures. This followed inferential analysis using regression analysis and Pearson project correlation to examine the relationship between variables.

Test of Hypothesis 1
HO_1 There is no significant relationship between preference share capital and return on equity.
Table of significant relationship between preference share capital and return on equity

Direct relationship between	Coefficients	t-statistic	p-value	Sig. level
Preference shares capital and Return on Equity	0.032014	4.193080	0.0000	0.05
R^2 = 0.853909	R^2_{adj} = 0.853102	DW-Statistics = 1.95		

The above table indicated that the p-values for the relationship between preference share capital and return on equity was lower than the specified confidence level of 0.05 (p-value 0.0000 <0.05). This meant that there was a significant relationship between preference share capital and return on equity and was statistically significant in the financial explanation of the performance of the companies. Therefore, we rejected the null hypothesis.

Test of Hypothesis 2

HO_2 There is no significant relationship between preference share capital and return on asset.

Table of significant relationship between preference share capital and return on asset.

Direct relationship between	Coefficients	t-statistic	p-value	Sig. level
Preference share capital and return on asset.	0.697315	3.307956	0.0009	0.05
R^2 = 0.621242	R^2_{adj} = 0.620407	DW-Statistics = 2.110270		

Given the results in table above, we rejected the null hypothesis and concluded that there was a significant relationship between preference share capital and return on asset, as the probability was less than the specified confidence level ($p = 0.0009 < 0.05$).

CONCLUSIONS

The researcher had a major objective of establishing the relationship between preference shares and financial performance of listed consumer goods manufacturing companies in Nigeria. The regression results presented depicted that preference shares of the companies positively affected the financial performance measure of return on assets and return on equity of listed consumer goods manufacturing companies in Nigeria. This implied that companies should capitalize on good capital structure mix. The following conclusions were reached

1. The relationship between preference share capital and return on equity was lower than the specified confidence level of 0.05 (p-value 0.0000 <0.05). This meant that there was a significant relationship between preference share capital and return on equity and was statistically significant in the financial explanation of the performance of the companies. Therefore, we rejected the null hypothesis.
2. There was a significant relationship between preference share capital and return on asset, as the probability was less than the specified confidence level ($p = 0.0009 < 0.05$).

RECOMMENDATIONS

In line with the findings of the study, the following recommendations were made

1. The researcher suggest caution should be exercised in concluding differences in industry structure and other factors not captured by this study may affect the position of each firm.

2. Furthermore, there may be other external factors which affect the profitability of the firm which is ignored by most studies such as the quality of Human Resources, environmental factors, organizational structure, and operational procedures as opined by Asian (2015).

Management of consumer goods manufacturing companies should do thorough research in optimum capital structure mix.

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