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DEBT STRUCTURE AND FINANCIAL PERFORMANCE OF LISTED INDUSTRIAL GOODS MANUFACTURING FIRMS IN NIGERIA

Dr. Okpolosa Matthew Onyebuchi & Dr. Nwodimkpa Given Igochukwu
Department of Accounting, Faculty of Administration and Management,
Ignatius Ajuru University of Education, Rumuolumeni, Port Harcourt, Rivers State, Nigeria

Email: *onyebuchi,okpolosa55@gmail.com*
Given.nwodimkpa@iaue.edu.ng

ABSTRACT

This study investigated the effect of debt structure on financial performance of listed industrial goods manufacturing firms in Nigeria. The specific objectives were to determine debt structure dimensions (short-term debt and long-term debt) on financial performance measures (return on assets and return on equity) of listed industrial goods manufacturing firms in Nigeria, and evaluate how risk committee moderate the relationship between debt structure and financial performance of listed industrial goods manufacturing firms in Nigeria. The study adopted positivism philosophy and ex-post facto research design. The population of the study consists of twelve (12) industrial goods manufacturing firms listed on the Nigerian Exchange Group were sampled to six using purposive sampling technique. The data used in this study were sourced from annual reports and statement of accounts of the selected companies. This study employ descriptive statistics and Panel Least Square (PLS) estimate using panel data from 2015 to 2024 covering a period of ten (10) years for eight listed industrial goods manufacturing firms. The study result disclosed that the effect of short-term debt on return on assets and return on equity of listed industrial goods manufacturing firms in Nigeria is significant, the effect of long-term debt on return on assets of listed industrial goods manufacturing firms in Nigeria is significant, and amongst others. Based on the findings, the study concluded that effect of debt structure on financial performance of listed industrial goods manufacturing firms in Nigeria is significant. It was suggested amongst others that to curb the significant effect of debt financing on financial performance, the management of the listed industrial goods firms should maximize the functions of the risk committee formed to measure the risks involved in debt financing. This would ensure the right choice of the components of corporate debt and their full utilization towards the right angle.

INTRODUCTION

There are merits and demerits for using more of debt to finance operational activities. Holding all other factors constant, an increased proportion of debt is expected to raise the performance level of firms which in turn enhances the overall market value of shares. This is because debt lowers the overall cost of capital and enhances firms' value since tax shield benefit is obtained as interest expense is tax-deductible. On the other hand, using a high proportion of debt increases the financial risk and financial distress of firms because too much debt reduces debt repayment capacity which might downgrade the creditworthiness of firms (Jabar & Akinadewo, 2023; Andre, 2020). The extreme consequence of financial distress is bankruptcy. Firms may become insolvent because operating income may not be sufficient to cover fixed financial obligations.

Therefore, one of the main challenges facing managers of industrial goods companies is determining the right blend of equity and debt to get the ideal capital needed for operational activities. According to Ngwoke and Sergius (2019), long-term debt is preferable for managing businesses even though it is occasionally healthier to have more short-term debt. A balanced combination of the two, according to Jabar and Akinadewo (2023), long-term debt can improve performance and ensure

that shareholders receive their rewards on time and in full. Since short-term debt reduces their risk exposure, it is expected that risk-averse managers are happier with it. On the other hand, risk taking managers prefer to work with long-term loans since they will have room for new company projects (Waweru, 2016).

Henry et al (2020) reported that in the past few years, access to debt financing remains a basic challenge facing the industrial sector in Nigeria due to a high rate of interest for both short- and long-term debt ranging from 17-28% on annual basis. In view of this, Ahmed (2017) explained that those firms that have access to corporate debt have themselves caught up in a loan cycle. Some of these firms are out of the industry due to their inability to recover the debt incurred. In Nigeria, financial analysts have also argued on debt usage and concluded that corporate debt is good in enhancing a firm's performance provided the right form of debt is incurred to cater for the right needs of the firm. The difficulty companies' face when structuring their finance is in determining the relationship with financial performance. But managers have numerous opportunities to exercise their financial performance with respect to debt structure decisions. The debt structure employed may not be for value maximization of the firm, or for protection of the manager's interest especially in organizations where corporate decisions are dictated by managers and shares of the company closely held.

Another challenge facing industrial goods firms is that, in recent time, the Nigerian economy and its markets at large have undergone structural economic imbalances principally due to factors such as acute fluctuations in exchange rate movement between 2016 and 2023 with attendant effect of rising inflation and interest rates which consequently led to economic recession in 2016. Therefore, rising exchange rate coupled with global pandemic Covid-19 has affected the debt structure of firms due to high interest payment. These led lead to some administrator and financial managers of large industrial goods manufacturing firms find it difficult to choose debt financing option rather than equity financing. Usman (2019) posited that, when the economic environment in which the company operates presents a high degree of instability in-term of exchange rate (like the case of Nigeria). The firm can issue dozens of distinct securities in countless combination, but it attempts to find the particular combination that maximizes its overall market value.

Hypothesis

H_{01}: The moderating effect of risk committee size on the relationship between total debt structure and returns on assets of listed industrial goods manufacturing firms in Nigeria is not significant.

H_{02}: The moderating effect of risk committee size on the relationship between total debt structure and returns on equity of listed industrial goods manufacturing firms in Nigeria is not significant.

Debt Structure

Generally, capital is one of the basic resources required to start-up and run a business successfully. Capital is required to initiate other forms of resources into operation. For instance, funds are needed to acquire materials, equipment, and other running expenses. The life blood of any business is said to be finance, without which businesses cannot carry out activities needed to achieve its objective (Jonah et al, 2021). According to Wambua (2019), the two basic sources of capital to fund a business are debt and equity. Equity involved the sharing of the ownership, control and management of a business entity with individuals who contributes financially to the success of the entity. On the other hand, debt simply means borrowing from the external body to run or expand a business. Debt structure is one of financing options available to companies for running and growing its business

concern. Debt structure, in financial terms, means the way a firm finances its assets through the combination of short-term and long-term debt (Sanusi et al, 2020).

Henry et al (2020) defined debt structure as a formalized loan obtained from external bodies to run an organization. This loan could be obtained from corporate bodies such as commercial banks, corporative society, mortgage banks and other relative international corporations. Debt structure involves an action that is bound by time for the repayment of debt and the debt's interest at an agreed end of the period. It occurs when a firm borrows needed cash resulting to debt to a lender or an investor for a short-term or for long-term capital needs of the firm (John et al, 2020). Debt structure is the use of external funds to finance the activities of an organization to increase the profitability of the organisation; it is the proportion of debt in the capital Structure (Racheal et al, 2017). External debt structure plays an important role to increase future productivity of firms and more important for future growth. Debt structure is the use of fixed cost of assets or sources of fund to magnify returns accruing to the owners of a firm (Onyenwe & Glory., 2017).

Ahmed (2017) opined those corporate debts in most cases are monetary in nature that is, they are based on cash at hand or cash at banks. But in some cases, debts could be in form of other utilities such as materials, equipment, tools and equipment and many more. Olaniyan et al (2017) stated that when debt financing is resorted by a firm, it means that the firm gets its cash needs from additional business or sources, resulting to debt acquired to the "original lender for either short-term needs or long-term capital expenditure." It is a policy that borrowing money involves having a consideration that the total amount borrowed with the interest will be paid back in the future. Furthermore, studies on debt structure under capital structure dates back to more than six decades ago when the two American Economics -Modigliani and Miller (1958) published their seminar work. They proved that, under certain assumptions (existence of perfect market and the absence of taxes and transaction costs), costs of capital does not affect capital structure. That is; debt in a firm's capital structure does not affect the firm's value. This theory is normally referred to as irrelevant theory. However, they later, reviewed the irrelevant theory. Modigliani and Miller (1963) modified the irrelevant theory by presenting proof that cost of capital affect capital structure and thus the value of the firm when the assumptions that there are no taxes or transaction cost were removed. They then opined that borrowing give a tax advantage, where the tax deducted from the interest results in tax shields, which in turn reduces the cost of borrowing and maximizes the firm performance (Nguyen & Nguyen, 2020). Joshua (2018) described corporate debts as a complementary source of funds to corporate firms. Corporate firms maintain an effective and efficient record-keeping system for the debts incurred to maximize its utilization. This practice is simply referred to as "corporate debt profile".

Financial performance

Binh and Tram (2020) proclaimed that performance is the indicator of sustainability and progressive achievement of specific, tangible, worthwhile, personal and measurable goals. He further explained that performance is a vital construct in management that mirrors the best way to manage an organization. Also, performance reflects the heterogenous nature, objectives and circumstances and objectives of an organization at a given period. Fundamentally, the actual performance of the manufacturing companies can either be financial and non-financial performance (Olarewaju, 2019). Performance is the actual result of a set of activities. It is the effective and efficient utilization of scarce resources towards the achievement of the desired. Financial performance is defined as the ability of business organization to meet up with the standardized objective with the effective and efficient management of the available limited resources (Lilian et al., 2020). Nwede (2016) defined financial performance as the ability of organizations to generate more returns for their shareholders.

In every organization, resources (human and materials) are required to be utilized effectively at the right time to enhance the return expected by the various shareholders. According to (Simplilearn, 2021), financial performance examines the extent to which the financial objectives of the company have been accomplished, which is very essential in financial risk management of the organization.

Financial performance predominantly show the sector of a business outcome as well as results, showing the overall financial health condition of the business sector over a particular time period (Naz et al., 2016). They further asserted that it shows how well a firm utilizes her resources in minimizing the wealth and profitability of the shareholders. It measures a company's health condition financially over a given period (Matar & Eneizan, 2018). It is very important to users of financial information as it reflects the going concern of the firm. A firm with higher financial performance is likely to attract more investors that the one with lower financial performance. When a firm records high financial performance, it means that the firm effectively and efficiently utilized her resources well. Financial Performance is the measuring of results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added. The term corporate performance refers to the benefits emanating from shares and those from the functioning and operational activities of a firm. Performance is the most imperative measure for profitable of a company (Matar & Eneizan, 2018). Almajali et al (2012) opinioned that a higher financial performance of a company means more effective and efficient the firm is using its available resources and afterward contributes at the macro in the country's economy. A total assessment of financial performance of a firm takes into consideration various methods of measurement. Naz et al (2016) opined that though diverse ways are used in measuring financial performance, financial ratio is the most common one been used in finance and statistical inference fields.

Return on Equity

Return on equity is a financial ratio which measures the profitability of a firm in relation to the shareholder investment, or equity. Return on equity is generally considered as the most appropriate measure of profitability in accounting and is mostly the preferable by investors in evaluating a firm's profitability. In using this ratio, it is best to consider the average equity in the denominator for the period under review, because equity possibly changes during the period (Abuamsha & Shumali, 2022). Within and between industry groups, the return on equity is highly influenced by the capital structure and financial leverage of the firms involved. likewise, in a perfect market situation, the higher the financial leverage by long-term debts, the higher the return on capital. Higher leverages can also result a level of risk associated with earnings(Gillingham, 2015).

The rate of return on equity (ROE) provides useful information about the performance of debt in the capital structure. ROE is calculated by dividing net income by shareholder's equity. ROE should exceed ROA for firms that borrow money. If ROE doesn't exceed ROA, it means that borrowed capital isn't earning enough to pay its cost (Jabar & Akinadewo, 2023). Alternatively, ROE may be way higher than ROA and may indicate potential to benefit from additional investments in the firm. ROE is also a very useful measure of the performance of the firm owners' invested or equity capital. Investors generally have other alternatives to investing in the farm operation and need a basis for evaluating their investment alternatives. ROE is not a risk-adjusted return measure (Orlu et al., 2022). So ROE should be adjusted for differences in the perceived riskiness of alternative investments when making head-to-head comparisons. ROE is related to and heavily influenced by ROA. Increasing ROA by taking management action that will either increase operating profit margin and/or asset turnover should have a favorable impact on ROE.

Risk Committee Size

Risk committee is an effective internal audit function, in addition to which the risk management control and compliance system operates efficiently. The objectives of the company risk management is to maximize the benefit from new opportunities, challenges and initiatives, take appropriate risk appropriate return while improving shareholders value. To effectively control the possible connectivity between corporate debt profile and financial performance, this study employed risk committee outside directors and risk committee independence as the control variables. There is a high level of uncertainty in obtaining loans from external bodies either short or long term to finance business operations. The result of every business is uncertain as many forces both internal and external influence the success of the business either positively or negatively depending on the management strategy put in place (Jabar & Akinadewo, 2023).

The risk involved requires the introduction of risk committee outside the directors of the organization. The members of risk committee are involved in the evaluation of the level of uncertainty and certainty involved in the management of debt towards a positive outcome (Mushipe, 2017). The shareholders being part of the organization are justifiably concerned with the motivation of risk taking whether for shareholders or management's interest. The members of the risk committee should be independent and not create any existing relationship with either the management of the corporation or financial institutions, in order not to influence the report of the committee (Mushipe, 2017).

The link between debt structure and financial performance

The links between debt structure and financial performance has indicated a positive, negative, significant and insignificant effect from prior studies. Studies that indicated positive and significant include; Orlu et al (2022) study found that debt capital has significant effect on the financial performance of the quoted commercial banks. It recommends that management of quoted commercial banks should work very hardtop optimize the capital structure in order to increase the returns on equity and assets through ensuring that their capital structure is optimal and management of commercial banks should increase their commitments into capital structure in order to improve earnings from their business transaction. Akaji et al (2021) findings of the study show that Debt Financing has significant and positive effect on Firms Performance in Nigeria at 5% significant level. The study concludes that debt financing has improved firms performance over the years. Lwidiko and Esther (2021) results indicate that access to debt finance influences the profitability of SMEs. Also, it was revealed further that the effects were greater for ROA compared to GPM and ROE. Amankwah et al (2021) results of the study, debt-financed through both short and long term have a detrimental impact on SMEs' financial performance. Udisifan et al (2021) study revealed a positive and significant relationship between long term debt and ROA. It also shows that board financial literacy moderate capital structure significantly and increase firm performance. Nyamwanza et al (2020) findings from the research indicated that debt financing was significantly and statistically negatively affecting the return on assets of the company. Aniefor et al (2019) results of the panel regression technique revealed that total debt, long-term debt and short-term debt to asset ratios positively influence the performance of consumer goods firms in Nigeria.

However, the following prior studies indicated negative and insignificant and they include; Nnajieze et al (2021) findings revealed that corporate debt exert significant negative effect on the financial performance of pharmaceutical firms in Nigeria. The implication of this result is that debt of any sort is not favourable to pharmaceutical firms in Nigeria. Pham and Nguyen (2020) study finds that debt financing has a significantly negative effect and that board independence reduces the adverse impact of debt financing on accounting profitability. Abina and Akinola (2020) result of the Error

Correction Model indicated that the debt ratio has negative and insignificant relationship to the return on assets. Sohail and Ulfat (2019) results of the study indicated that debt financing have impact on firm performance in Pakistan.

The link between short-term debt and financial performance

The links between short-term debt and financial performance has indicated a positive, negative, significant and insignificant effect from prior studies. Studies that indicated positive and significant include; Horsfall (2023) study disclosed that short term debt (STD) was found to have significant effect on financial performance on ROCE, with a positive relationship on NPM of listed oil and gas firms in Nigeria. The study therefore, concluded that short term debt is one of the strong determinants of the financial performance of listed oil and gas firms in Nigeria. Hassan et al (2022) results indicate a significant but negative relationship between short term debt and return on assets. Aamir et al (2021) results indicated that long-term debt has significant impacts on firm performance in profitability. Efeeloo (2021) findings revealed that short term debt had positive influence on book value per share while firm size had positive and significant relationship. It was recommended that financial managers of oil and gas companies should ensure optimal financing mix that will ensure greater shareholders wealth at all times. Aniefor et al (2019) results of the panel regression technique revealed that short-term debt to asset ratios positively influence the performance of consumer goods firms in Nigeria.

However, the following prior studies indicated negative and insignificant and they include; Jabar and Akinadewo (2023) discovered that short-term debt profile has a negative insignificant effect on financial performance captured with earnings per share of listed consumer goods firms in Nigeria. Dian et al (2022) result of the study state that the Short term debt ratio (STDA) has no effect on Return on Assets. Adam et al (2021) results indicated that long-term debt (LTD) have positive and insignificant effects on return on asset (ROA), which means that the increase in the long-term debt will lead to an increase in the return on assets. Diana and Doni (2021) results found that short term debt has a negative effect on company profitability. Edward et al (2020) result indicated that short tenured debt finances do not positively and significantly impact return on assets. Also, findings indicated that short tenured debt finances do not positively and significantly impact return on equity

Empirical Review

Jabar and Akinadewo (2023) examined the connectivity between corporate debt profile and financial performance of consumer goods firms in Nigeria. Expo-facto design was adopted and covered 16 listed consumer goods firms in Nigeria based on the availability of data spanning from 2011 to 2020. Descriptive statistics were used to describe the variables of the study while the inferential statistics cover Pearson correlation and panel regression (random and fixed effect estimations) to analyze the proposed hypotheses of the study. Firstly, it was discovered that short- and longterm debt profile have a negative insignificant effect on financial performance captured with earnings per share of listed consumer goods firms in Nigeria. Also, it was discovered that total debt profile has a positive significant effect on earnings per share of listed consumer goods firms in Nigeria. From the findings of this study, it was concluded that there is a statistical relationship between corporate debt profile and financial performance of listed consumer goods firms in Nigeria. Thus, it was recommended that the management of the listed consumer goods firms should maximize the functions of the risk committee formed to measure the risks involved in debt financing.

Sidra (2023) determined debt financing and performance of firms in Pakistan. The descriptive method was used, in addition to model measurement, to analyze the panel data using the multiple-regression method. The result of the study shows that the no other variable has any significant

impact on the profitability of firms accept long term debt. This means that the companies should go for equity financing and not for the debt financing. All variables of debt financing that are considered for this study are, short term debt, long term debt and accounts payable suggests that companies should go for equity financing. The control variables of the study do not have any effect on the profitability of the firm but for the SMEs the size of the firms impacts the profitability. The managers of the firms should go for the internal financing for the higher profitability.

Horsfall (2023) determined the relationship between long term debt structure and financial performance of listed oil and gas firms in Nigeria for the period 2008-2017. The aim of the study was to empirically ascertain the effect of debt structure on profitability of listed oil and gas firms in Nigeria. The study has contributed to the empirical body of literature on debt structure and financial performance of listed oil and gas firms in Nigeria. It aids to understanding the relationship between institutional factor on Nigerian firms debt structure and the proportionate effect on financial performance. More so, short term debt (STD) was found to have negative significant effect on financial performance on ROCE, with a positive relationship on NPM of listed oil and gas firms in Nigeria. The study therefore, concluded that short term debt is one of the strong determinants of the financial performance of listed oil and gas firms in Nigeria. The study recommends that further work is necessarily required in other sectors in Nigerian economy along with developing new hypothesis and also to design new variables to reflect the institutional influences. In addition, another work is needed urgently to lay a solid foundation on the resultant relationship between the use of equity and financial performance of list firms (oil & gas) in Nigeria using the same period of study along with different proxies as measures of financial performance.

Statement of Hypothesis

H_{01}: The moderating effect of risk committee size on the relationship between total debt structure and returns on assets of listed industrial goods manufacturing firms in Nigeria is not significant.

Based on the results of the F change statistic value 13.005 with Prob. ** value of 0.001 < 5% chosen decision criterion for return on assets model. The study to accept the null hypothesis (**H_{05}**) and concluded that the moderating effect of risk committee size on the relationship between total debt structure and returns on assets of listed industrial goods manufacturing firms in Nigeria is significant.

Moderated Multiple Regression (MMR) Estimates of Model (4) in ROE

The moderating effect of risk committee size on the relationship between total debt structure and returns on equity was tested using Moderated Multiple Regression **(**MMR) technique. The overall strength of moderation is summarized in table 4.11 and 4.12.

Table 1 Summary of Moderation Analysis of RCS in ROE Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	37.775	1	37.775	61.553	.000[b]
	Residual	35.595	58	.614		
	Total	73.370	59			
2	Regression	37.873	2	18.936	30.406	.000[c]
	Residual	35.498	57	.623		
	Total	73.370	59			

a. Dependent Variable: ROE

b. Predictors: (Constant), TDS
c. Predictors: (Constant), TDS, RCS
Source: SPSS Output 2025
Table 1 provides information on the unmoderated and moderated results obtained from return on equity model. The model has F-statistic values 61.553 and 30.406 in its unmoderated and moderated specifications with respective Prob. ** value 0.000[b] and 0.000[c] indicated that both unmoderated and moderated models are properly fitted since the Prob. ** value is less than the decision criterion of 5%.

Table 2: Model Summary[c] Moderation Analysis RCS in ROE Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.718[a]	.515	.506	.78339	.515	61.553	1	58	.000	
2	.718[b]	.516	.499	.78916	.001	.156	1	57	.694	1.403

a. Predictors: (Constant), TDS
b. Predictors: (Constant), TDS, RCS
c. Dependent Variable: ROE
Source: SPSS Output 2025
Table 2 provides information on the unmoderated and moderated results obtained from return on equity (ROE) model. The Durbin-Watson statistic value 1.403 is within the acceptable range of 1 to 3 specified by Field (2009) and this affirmed that the problem of autocorrelation is unlikely to exist in the series. The unmoderated and moderated R^2 for the return on equity (ROE) specifications are 0.515 and 0.516 respectively that accounted for only 51.5% and 51.6% of the variations in return on equity (ROE) while 48.5% and 48.4% was explained by unknown variables that were not included in the Moderated Multiple Regression model in return on equity (ROE). However, for purposes of testing the set hypothesis on the change statistics and other valuable information resulting from the interaction effect of risk committee size. The unmoderated and moderated R^2 for return on equity (ROE) model are 0.515 and 0.516 respectively resulting to R^2 change of 0.001 (0.516 - 0.515). This indicated an increase of 0.1% (0.001 x 100) in the variation explained by the addition of the interaction term in the return on equity (ROE) model.

Statement of Hypothesis

H_{02}: The moderating effect of risk committee size on the relationship between total debt structure and returns on equity of listed industrial goods manufacturing firms in Nigeria is not significant.

Based on the results of the F change statistic value 0.156 with Prob. ** value of 0.694 > 5% chosen decision criterion for return on equity model. The study to accept the null hypothesis (**H_{06}**) and concluded that the moderating effect of risk committee size on the relationship between total debt structure and returns on equity of listed industrial goods manufacturing firms in Nigeria is not significant.

Risk Committee Size, Debt Structure and Financial Performance Measures

The results in table 4.10 reported the effect of risk committee size on the relationship between debt structure and return on assets of listed industrial goods manufacturing firms in Nigeria. Based on the results of the Prob. ** value of 0.001 < 5% chosen decision criterion for return on assets model. The study to rejected the null hypothesis (H_{05}) and concluded that the moderating effect of risk committee

size on the relationship between total debt structure and returns on assets of listed industrial goods manufacturing firms in Nigeria is significant. Also, based on the results of the Prob. ** value of 0.694 > 5% chosen decision criterion for return on equity model. The study to accepted the null hypothesis (H_{02}) and concluded that the moderating effect of risk committee size on the relationship between total debt structure and returns on equity of listed industrial goods manufacturing firms in Nigeria is not significant. To the best of the researcher knowledge, there was no prior studies to link the result because, none of the prior studies have employed risk committee size as a moderator in evaluating the effect of risk committee size on the relationship between debt structure and return on assets of listed industrial goods manufacturing firms in Nigeria or any other sectors in Nigeria and outside Nigeria.

Conclusion

This study established empirical evidence assessed the effect of debt structure and financial performance of listed industrial goods manufacturing firms for the period 2015 to 2024 in Nigeria. Based on the data obtained from the annual financial reports of listed industrial goods manufacturing firms for the period 2015 to 2024 in Nigeria from Nigeria Exchange group; the data were presented and analyzed, findings were discussed in chapter four and summary of findings are presented above. The moderating effect of risk committee size on the relationship between total debt structure and return on assets of listed industrial goods manufacturing firms in Nigeria is significant

Recommendation(s)

Based on the findings and conclusion of the study, the following recommendations were made:

4. Investors and stakeholders of the industrial goods manufacturing firms should also consider the leverage level of any firm before committing their hard earned money as the strength of a firm financing mix determine the quantum of their returns.
5. Industrial goods manufacturing firms should increase their commitment to long-term as a source of finance and ensure it is used optimally to finance the assets in order to enhance their net profit margin.
6. Risk committee members of listed industrial goods manufacturing firms should be concerned with the level of short-term debt and include financially literate members who will contribute to the company's financing decisions in order to make the debt structure optimal for better financial performance. This is because the results of this study revealed that risk committee size had moderating relationship with debt structure and financial performance.

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