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EFFECT OF LEVERAGE ON FINANCIAL PERFORMANCE: A STUDY OF LISTED FAST-MOVING CONSUMER GOODS COMPANIES IN NIGERIA

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ABSTRACT: *This study examines and compares the impact of financial leverage on the financial performance of listed Fast-Moving Consumer Goods companies in Nigeria. An ex-post facto research design was adopted, Short-Term Leverage Ratio (SLR), Long-Term Leverage Ratio (LL), with Return on Equity (ROE) serving as the dependent variable to measure financial performance. Panel data were analyzed using a fixed effect model to control for individual firm-specific factors and to capture variations within the data. The results revealed that SLR significantly improves ROE in fast consumer goods companies, emphasizing the importance of short-term financial management. The Long-Term Leverage Ratio showing a statistically significant negative impact on performance. The study concludes that financial leverage plays a critical role in determining the financial performance of Fast-Moving Consumer Goods companies. These findings suggest the companies should therefore consider increasing their use of short-term debt to capitalize on immediate growth opportunities and enhance returns. However, this strategy requires careful monitoring to avoid liquidity risks and ensure that debt obligations are met.*
Keywords: *Short-Term Leverage Ratio, Long-Term Leverage Ratio and Return on Equity*

Introduction

In Nigeria's rapidly evolving business landscape, the strategic use of financial leverage has become a crucial determinant of corporate success (Olokoyo, 2016). By utilizing debt to fund operations strategically, entities can enhance their financial leverage, which offers various advantages including stable interest rates, increased financial flexibility, and tax deductions (Santos, Silva & Martins 2023). Firms face numerous challenges in their pursuit of sustainable growth, profitability, and competitive advantage. One critical aspect of corporate strategy is the optimal utilization of financial leverage, which can significantly influence firm performance. Financial leverage, defined as the strategic use of debt financing to amplify shareholder returns and enhance financial efficiency (Frank & Goyal, 2019), has been a topic of intense debate and research in corporate finance. While some studies suggest that

judicious use of financial leverage can improve firm performance and create shareholder value (Kayhan & Titman, 2007), others argue that excessive debt can lead to financial distress, increased risk, and diminished firm value (Almeida, Campello &Weisbach 2019).

Financial leverage can also provide firms with enhanced financial flexibility, enabling them to respond swiftly to changing market conditions and capitalize on new opportunities (Almeida et al., 2019). By utilizing debt financing, firms can rapidly raise capital to invest in new projects, acquire competitors, or respond to unexpected expenses, thereby facilitating strategic growth initiatives (Graham & Harvey, 2001). Moreover, financial leverage can enable firms to take advantage of investment opportunities that may arise unexpectedly, such as acquiring a competitor or investing in a new technology (Merton, 2013). According to a study by Almeida et al. (2019), firms with higher debt levels are more likely to invest in research and development (R&D), indicating that financial leverage can facilitate innovation and growth. Another study by Aghion, Howitt & Murtin (2019) finds that debt financing can enable firms to invest in new projects and expand their operations, leading to increased innovation and entrepreneurship. Financial leverage can provide firms with the flexibility to adjust their capital structure in response to changing market conditions. For example, firms can use debt financing to reduce their equity base and increase their financial leverage during periods of high growth, and then reduce their debt levels during periods of slow growth (Welch, 2011). Financial leverage can provide firms with the financial flexibility to respond to changing market conditions, capitalize on new opportunities, and facilitate innovation and growth.

Fast-Moving Consumer Goods companies sectors are essential to Nigeria's economy. The Fast-Moving Consumer Goods companies is vital for providing essential consumer goods, while the logistics industry plays an important role in ensuring efficient supply chain operations, enabling goods to move from manufacturers to consumers. While financial leverage has been studied extensively in other sectors, the Fast-Moving Consumer Goods companies industries have unique characteristics that make them particularly sensitive to leverage decisions. The Fast-Moving Consumer Goods companies, deals with high product turnover, requiring efficient working capital management, while the logistics industry is capital intensive, often relying on debt for infrastructure development. Exploring the impact of financial leverage on these specific sectors will provide industry specific insights, helping managers and policymakers to develop strategies that optimize financial performance in these industries.

Existing literature on the impact of financial leverage on firm performance reveals several gaps. These include a lack of comparative analysis across different sectors or regions, limited focus on specific variables like interest coverage ratios, absence of longitudinal studies tracking long-term trends, neglect of industry dynamics in influencing leverage effects. Addressing these gaps could lead to more comprehensive research that provides insights into the relationship between financial leverage and

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firm performance across diverse contexts and over extended periods. However, this study is unique in that, it empirically examined the most crucial measure of financial leverage. Specifically, examine and compare the impact financial leverage has on the financial performance of listed Fast-Moving Consumer Goods companies in Nigeria. The main objective of this study is to examine and compare the impact financial leverage has on the financial performance of listed Fast-Moving Consumer Goods companies in Nigeria. Specifically, the study sought to:

1. Ascertain the impact of short-term leverage ratio on the financial performance of listed Fast-Moving Consumer Goods companies in Nigeria.
2. Determine the impact of long-term leverage ratio on the financial performance of listed Fast-Moving Consumer Goods companies in Nigeria.

Conceptual Review

Financial Leverage

Moreover, financial leverage can impact the company's flexibility in managing its operations and pursuing new opportunities. High levels of debt may limit the company's ability to take on additional financing or invest in new projects, as it may already be burdened with significant fixed obligations. This lack of financial flexibility can be particularly problematic in volatile industries or during economic downturns, where the ability to adapt and respond to changing market conditions is crucial (Brealey et al., 2020). While financial leverage can be a powerful tool for increasing returns on equity and providing tax benefits, it also introduces substantial risks related to financial stability and operational flexibility. Companies must carefully consider these factors when deciding on the appropriate level of leverage to use in their capital structure, balancing the potential for higher returns with the increased risk of financial distress (Ross et al., 2019).

Long-Term Leverage

The use of long-term leverage varies across sectors. In the Fast-Moving Consumer Goods (FMCG) sector, firms may use long-term leverage to finance expansion, new product development, or capital-intensive production facilities (Harris & Raviv, 2019). However, the sector's focus on rapid turnover and market fluctuations means that high long-term leverage needs to be managed carefully to avoid financial strain (Brigham & Ehrhardt, 2019). In the logistics sector, companies often use long-term debt to finance large-scale infrastructure investments, such as warehouses and fleets (Chung, 2022). Given the capital-intensive nature of the logistics industry, long-term debt can provide necessary funds but also adds financial obligations that must be managed over time (Berger & Udell, 2021).

Long-term leverage provides essential funding for significant investments and expansion, offering stability and potential tax benefits. However, it also entails risks related to interest rate fluctuations, financial distress, and reduced operational flexibility. Effective management of long-term debt is crucial to balance these benefits and risks.

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Short Term Leverage

Short-term leverage refers to a company's reliance on short-term debt instruments to finance its operational needs or to bridge temporary gaps in cash flow. This type of leverage typically includes obligations that are due within a year, such as short-term loans, credit lines, trade credit, and commercial paper. According to Brigham and Ehrhardt (2021), businesses often utilize short-term loans or revolving credit lines to maintain liquidity, especially during periods of low cash flow or increased operational expenses. Trade credit, which is credit extended by suppliers, also plays a significant role in short-term leverage, as companies can defer payment for goods and services, providing flexibility to manage working capital (Brealey, Myers, & Allen, 2020).

While short-term leverage can be advantageous due to its lower interest rates and easier retirement compared to long-term debt, it also carries risks. Short-term obligations must be repaid or refinanced quickly, and failure to manage them properly can lead to liquidity problems, as noted by Ross, Westerfield, and Jaffe (2019). Firms that over-rely on short-term debt may find themselves vulnerable to fluctuations in cash flow or changes in market conditions. Therefore, companies must carefully balance their short-term leverage to avoid financial strain while still taking advantage of its benefits for operational flexibility and working capital management.

ROE

However, while a high ROE is generally favourable, it is essential to consider the influence of financial leverage. High levels of debt can artificially inflate ROE by reducing the equity base, which is why analysts must consider ROE alongside other financial ratios, such as the debt-to-equity ratio, to get a comprehensive understanding of a company's financial stability (Ibe & Pibowei, 2022). Additionally, industry norms play a significant role in interpreting ROE, as different industries have varying standards for what constitutes a good ROE (Olagunju et al., 2022). Despite its usefulness, ROE has limitations, such as not accounting for earnings quality and being less informative for companies at different growth stages. Therefore, it should be used in conjunction with other metrics to make well-rounded financial assessments.

Empirical Studies

Nakamura and Sato (2024) studied the impact of financial leverage on the profitability of Japanese automotive companies, aiming to understand how leverage influences profitability, particularly in terms of its role in enabling higher investment in technology. The study analyzed data from 2018 to 2023 using a fixed-effects model, which controlled for firm-specific factors that might affect profitability. The findings revealed that leverage positively impacts profitability by allowing companies to invest more in technological advancements, but excessive leverage poses risks of financial distress. Although the study offers valuable insights into the automotive sector, its sector-specific focus may limit the generalizability of the findings to other industries. Additionally, while the

research highlights the benefits and risks of leverage, it does not explore cross-sectoral comparisons, which could have broadened the scope of the findings and enhanced their relevance beyond the automotive industry. Overall, while the study makes a significant contribution to understanding leverage in the automotive sector, its narrow focus restricts its broader applicability.

Hassan and Ibrahim (2024) investigated the relationship between financial leverage and firm performance in Nigerian agricultural firms, aiming to evaluate how leverage impacts performance. Using a panel data analysis methodology with a sample of 50 firms and data from 2018 to 2023, they examined variables such as debt-to-equity ratio (leverage) and return on assets (performance). The findings revealed that financial leverage positively affects firm performance by supplying necessary growth capital, although excessive leverage increases financial risk. The study's robust sample size and sector-specific focus were appropriate; however, it was just on a single sector and generalization cannot be made.

Li and Zhang (2024) analyzed the effects of financial leverage on the performance of Chinese pharmaceutical companies. They used financial leverage (measured by the debt-to-equity ratio) and profitability (measured by return on equity) as key variables. Employing a dynamic panel data approach with data from 2019 to 2023, their research found that financial leverage positively impacts profitability by offering tax advantages and additional capital for research and development. However, they also noted that high levels of debt increase financial risk. While the study provides valuable insights specific to the pharmaceutical sector, its findings may have limited general applicability beyond this industry. The study's findings are specific to the pharmaceutical sector, which may limit their general applicability.

Alvarez and Martinez (2023) conducted a study on the impact of financial leverage on the profitability of European SMEs, aiming to understand how leverage affects profitability. They utilized a random-effects model with data from 2018 to 2022. The study found that financial leverage significantly enhances firm profitability by lowering the cost of capital and boosting investment capacity. However, it also noted that high leverage ratios are linked to increased bankruptcy risk. While the research emphasizes the need for careful debt management, it lacks a comparative analysis across different firm sizes, which could provide a broader perspective on leverage's impact.

Wang et al. (2023) investigated the impact of financial leverage on the performance of Chinese real estate companies, aiming to assess how leverage affects performance. They employed a panel data regression analysis using data from 2019 to 2023. Their findings revealed that higher leverage positively influences firm performance by utilizing tax shields and providing capital for growth opportunities. However, the study also found that excessive leverage is associated with liquidity problems and financial instability. While the research highlights the benefits of leverage within the

real estate sector, its sector-specific focus may limit the generalizability of the findings to other industries.

Kumar and Patel (2023) analyzed the impact of financial leverage on the performance of Indian manufacturing firms, aiming to understand the relationship between leverage, profitability, and growth. Utilizing a panel data approach with data spanning from 2018 to 2022, the researchers found that financial leverage positively affects both profitability and growth up to an optimal point. Beyond this threshold, however, increased leverage negatively impacts performance, underscoring the importance of maintaining a balanced approach to leverage. Despite these valuable insights, the study does not account for the potential influence of macroeconomic variables, which could provide a more comprehensive understanding of the factors affecting firm performance in the manufacturing sector.

Miller and Davis (2023) examined the effects of financial leverage on the profitability of Australian retail firms, focusing on how leverage influences financial outcomes within this sector. Utilizing data from 2018 to 2022 and employing a fixed-effects model, the researchers found that financial leverage positively impacts profitability by reducing the cost of capital, thereby enhancing operational efficiency. However, they also identified that high leverage ratios are linked to increased financial distress, highlighting the importance of careful debt management. While the study underscores the benefits of leverage in the retail sector, it does not account for the potential impact of economic cycles, which could affect the broader applicability of the findings across varying economic conditions.

Nguyen Minh and Tran Anh (2022) investigated the impact of financial leverage on firm performance in the Vietnamese manufacturing sector, aiming to understand how leverage affects key performance metrics. Utilizing panel data from 2015 to 2021 and applying the Generalized Method of Moments (GMM) approach, the study found that financial leverage negatively impacts both return on assets (ROA) and return on equity (ROE). The researchers concluded that higher levels of debt increase financial risk and diminish profitability, emphasizing the need for firms to optimize their capital structure to mitigate these adverse effects. However, the study's focus on a single sector may limit the generalizability of the findings to other industries, suggesting that further research across various sectors would be beneficial for a more comprehensive understanding of the relationship between financial leverage and firm performance.

Smith and Jones (2022) analyzed the effects of financial leverage on the performance of U.S. technology firms, focusing on how leverage influences financial outcomes in this sector. The researchers employed a fixed-effects model on data collected from 2016 to 2021 and found that moderate leverage positively influences firm performance by providing tax benefits and essential capital for growth. However, they also identified that excessive leverage can lead to financial distress and reduced profitability, highlighting the importance of maintaining an optimal debt level. While the study emphasizes these crucial insights, it does not account for industry-specific factors that may

affect leverage outcomes, suggesting that further research could enhance understanding by considering the unique dynamics of the technology sector.

Doan (2020) provided empirical evidence from Vietnam regarding the impact of financing decisions on firm performance, utilizing data from 102 non-financial firms listed on the Ho Chi Minh Stock Exchange. The study employed the Generalized Method of Moments (GMM) approach and used Return on Assets (ROA) as the primary performance metric. The findings revealed that increased debt usage negatively affects firm performance, specifically highlighting a significant correlation between financing decisions and overall firm performance. However, the study primarily focused on ROA and did not provide independent results for each dimension of financial performance, suggesting that further research could explore additional metrics to gain a more comprehensive understanding of the relationship between financing decisions and performance.

Njoroge et al. (2020) explored the impact of financial leverage on the performance of SMEs in Kenya. They used survey data and regression analysis to assess the relationship between financial leverage and profitability. The study found that financial leverage negatively affects the profitability of SMEs, with high debt levels constraining their ability to generate profits. The results highlight the challenges that excessive leverage poses to SME performance. However, the study's small sample size and exclusive focus on SMEs limit the generalizability of the findings to larger firms, which may experience different impacts from financial leverage.

Usman and Zubairu (2019) explored the relationship between financial leverage and firm performance among Nigerian listed companies. They utilized panel data regression analysis to assess this relationship, focusing on return on equity (ROE) as a primary performance metric. Their study found that financial leverage negatively impacts firm performance, with high levels of debt increasing financial risk and thereby reducing profitability. This suggests that excessive leverage can lead to diminished returns for shareholders. However, a key limitation of the study is its focus on a single performance metric ROE which may not capture the full spectrum of financial impacts and could limit the breadth of insights into how leverage affects overall firm performance. Incorporating additional performance metrics could provide a more comprehensive understanding of the effects of financial leverage.

METHODOLOGY

For this study, an ex-post facto research design. The choice of this design was justified due to the reliance on historical data that researchers cannot manipulate (Okoye & Adeniyi, 2018). This design allows for the investigation of relationships between variables without the need for direct manipulation, aligning with the objectives of the study to analyze the impact of financial leverage on firm performance using historical data. The population study constitutes the entire Fast-Moving Consumer Goods companies listed on the Nigeria Stock Exchange.

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Population of the Study

As at 12th of June, 2024 Nigeria has a total number of fourteen (14) listed Fast-Moving Consumer Goods companies on the Nigeria Exchange Group and this constitute the population size of this study.

Sample Size and Sampling Technique

Four (4) of the listed Fast-Moving Consumer Goods companies where; selected on the bases of highest share prices were selected as the sample for the study. Eleven years (2013 to 2023) financial statements of selected firms as also used.

Table 3.1 List of sampled firms

FMCG
Nestle Nigeria Plc
Bua Foods Plc
Flour Mills Nigeria Plc
Dangote Sugar Refinery Plc

Source: Researcher's Compilation, 2024

Sources and Method of Data Collection

The data of the study have been collected from secondary sources only. The data used for the analysis were extracted from the audited financial statements and reports of the sampled firms for the period of 2014 to 2023. The various data were soured based on the parameters of the variables. The use of secondary data in this study was chosen because the study is based on the quantitative research methodology that requires quantitative data to test the research hypotheses. The Method of data collection is the process adopted in collecting the first-hand data. The secondary data used includes financial reports of the sampled companies which were downloaded from the website of the companies.

Techniques of Data Analysis

Two data analysis techniques were used namely: descriptive statistics and panel regression method. With the aid of E-views 10 software for windows the study utilized the descriptive statistics because it summarized the collected data in a clear and understandable way using numerical approach. The descriptive statistics includes the mean, madian, standard deviation, minimum, maximum, skewness and kurtosis. The skewness and kurtosis explain the shape of the data distribution. Also, panel regression method was used. The panel was developed and used for the study as it increases efficiency by combining time series and cross-section data.

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Each sector i.e. Fast-Moving Consumer Goods companies would be analyzed separately thereafter, the results from each sector would be used to carry out a detailed comparative analysis among the two sectors. Multicollinearity – there should be no exact collinearity among predictors.

From the regression results, the p-value statistics was used to test the hypotheses stated in chapter one (1.5) at 5% level of significance ($\propto$). A P-value less than α=0.05 indicates that there is enough statistical evidence to reject the null hypothesis, and thereby accept the alternative hypothesis.

Model Specification

The model for this study is a multiple regression model. The panel methodology was adopted since the data to be analyzed has panel attributes. The model is as follows:

$ROE_{it}=\beta_0+ \beta_3SLR_{it} +\beta_2LL_{it}+\beta_5SCR_{it} +\beta_6PR_{it}+e_{it}$ 1

Where:

ROE_{it} = Return on Equity

β_o- β_2 = Coefficients of the independent variables

SLR_{it} = Short Term Leverage Ratio

LL_{it} = Long term Leverage

e_{it} = error term

Data Analysis

Table 1: Descriptive Analysis

	ROE	C	SLR	LL
Mean	0.774853	1.000000	0.196251	0.847565
Median	0.215651	1.000000	0.152287	0.867869
Maximum	16.16437	1.000000	0.706248	0.977973
Minimum	-0.88008	1.000000	0.022523	0.586081
Std. Dev.	2.543897	0.000000	0.154644	0.093118
Skewness	5.735108	NA	1.652839	-1.13933
Kurtosis	35.23208	NA	5.290364	3.678461
Jarque-Bera	1950.789	NA	26.95546	9.420933
Probability	0.000000	NA	0.000001	0.009001
Sum	30.99412	40.00000	7.850044	33.90258
Sum Sq. Dev.	252.3850	0.000000	0.932670	0.338165
Observations	40	40	40	40

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Table 4.1 present the descriptive statistics of four proxies of financial leverage (SLR, LL) and performance measures (ROE,) containing mean, median, standard deviation, minimum and maximum. The descriptive statistics reveal significant insights into the financial performance and leverage ratios of the companies in the sample. The Return on Equity (ROE) shows an average of 0.7749, indicating that companies generally deliver a 77.49% return on equity. However, the median ROE is much lower at 0.2157, highlighting a skewed distribution where a few companies with high returns are inflating the mean. This skewness is confirmed by a high skewness value of 5.7351 and a kurtosis of 35.2321, indicating the presence of outliers. The ROE distribution is non-normal, as reflected by the Jarque-Bera test, with a probability of 0.000000.

The Short-Term Leverage Ratio (SLR) reveals that, on average, 19.63% of companies' liabilities are short-term, with a median of 0.1523. The high skewness (1.6528) and kurtosis (5.2904) indicate that some companies heavily rely on short-term debt, as reflected by the maximum SLR of 0.7062. The distribution is non-normal, as confirmed by the Jarque-Bera test probability of 0.000001.

The Long-Term Leverage (LL) Ratio shows that, on average, companies have a long-term debt ratio of 84.76%, with a relatively low standard deviation (0.0931). The distribution is slightly left-skewed (-1.1393), suggesting most companies have LL ratios below the mean. While the distribution is close to normal, the Jarque-Bera test probability of 0.0090 indicates a slight deviation from normality.

Test of Hypotheses

(a) Regression Result for the Return on Equity (ROE)

Panel data method was used to analyse the regression result of this study. For analysis, the Hausman test was used to compare the estimation method of fixed and random effects.

H_0: Regression is based on the random effects; there is a relationship between individual effects and description variables.

H_1: Regression is based on the fixed effects; there is no relationship between individual effects and description variables.

Table 2 Hausman Test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	6	1.0000

Source: Eviews 10 Output, 2024

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Results of the Hausman test for the ROE model was given in Table 4.2 above. The Hausman chi-square test for the ROE model (0.000000) shows that the Hausman test is significant at 5% level. The findings demonstrate the rejection of the null hypothesis; hence, the analysis is based on the results of the fixed effect estimates. The fixed effects model is used in this study because, if there are omitted variables, and these variables are correlated with the variables in the model, then fixed effects models may provide a means for controlling for omitted variable bias.

Table 3: Regression Result (Panel Least Squares)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.883889	4.603891	-1.495233	0.1453
SLR	5.623473	2.682907	2.096038	0.0446
LL	7.507721	4.702655	1.596486	0.1209
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.987715	Mean dependent var		0.774853
Adjusted R-squared	0.984029	S.D. dependent var		2.543897
S.E. of regression	0.321485	Akaike info criterion		0.780587
Sum squared resid	3.100579	Schwarz criterion		1.202806
Log likelihood	-5.611733	Hannan-Quinn criter.		0.933248
F-statistic	267.9977	Durbin-Watson stat		1.762300
Prob(F-statistic)	0.000000			

Source: Eviews 10 Output, 2024

The panel least squares regression analysis for FMCG companies, with Return on Equity (ROE) as the dependent variable, provides key explanation on how various proxies affect financial performance

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over the period from 2014 to 2023. The regression model from table 3 above includes the Short- Term Leverage ratio (SLR) and Long-Term Leverage Ratio (LL), as independent variables.

The Short-term Liquidity Ratio (SLR) shows a positive coefficient of 5.623473, which is statistically significant with a p-value of 0.0446. This indicates that better short-term liquidity improves profitability for FMCG companies, possibly due to their ability to manage working capital more efficiently. The Long-term Liabilities (LL) variable, while having a large positive coefficient (7.507721), is not statistically significant with a p-value of 0.1209.

The model has a high R-squared value of 0.987715, indicating that about 98.77% of the variation in ROE is explained by the independent variables in the model. The adjusted R-squared is also high (0.984029), affirming the model's goodness of fit. The F-statistic of 267.9977, with a p-value of 0.000000, confirms the overall significance of the model. The Durbin-Watson statistic of 1.762300 suggests that there is no significant autocorrelation in the residuals.

This result aligns with studies such as Chadha and Sharma (2015), which highlight the positive effect of financial leverage on firm performance, especially in industries like FMCG where liquidity and capital structure management are crucial to operational success. Additionally, the inverse relationship between solvency ratios and profitability has been observed in Deloof (2003), suggesting a trade-off between financial health and profitability.

Test of Hypothesis One

H_{o3}: Short-term leverage ratio has no impact on the financial performance of listed FMCG companies in Nigeria.

Decision Rule: in table above the coefficient of SLR is positive and statistically significant for the FMCG, it suggests that short-term leverage have a positive and significant effect on ROE using the FMCG model. Conversely, the impact of SLR on ROE is statistically insignificant for logistics companies. These can be seen in the coefficients and p-value of Both FMCG and logistics sectors. SLR; (FMCG: 5.623473, p-value: 0.0446; Logistics: -0.073765, p-value: 0.4426). Therefore, the null hypothesis would be rejected for FMCG model and accepted for logistics model. Meaning that short-term leverage (SLR) has significant impact on the financial performance of listed FMCG and no significant impact on performance of Logistics companies in Nigeria.

Test of Hypothesis Two

H_{o5}: Long-term leverage ratio has no impact on the financial performance of listed FMCG and companies in Nigeria.

Decision Rule: in table above the coefficient of LL is positive and not significant for the FMCG, it suggests that Long-term leverage have a positive and non-significant effect on ROE using the FMCG model. Conversely, the impact of LL on ROE is negative and statistically significant for logistics companies. These can be seen in the coefficients and p-value of Both FMCG and logistics sectors. LL;

(FMCG: 7.507721, p-value: 0.1209; Logistics: -0.073763, p-value: 0.0065). Therefore, the null hypothesis would be accepted for FMCG model and rejected for logistics model. Meaning that Long-term leverage (LL) has no significant impact on the financial performance of listed FMCG and significant negative impact on performance of Logistics companies in Nigeria.

The Impact of Short-Term Leverage Ratio (SLR) on Performance

For FMCG companies, the Short-Term Leverage Ratio (SLR) has a strong positive and statistically significant effect on ROE, with a coefficient of 5.623473 and a p-value of 0.0446. This indicates that higher short-term leverage is associated with improved profitability, possibly due to efficient working capital management. In contrast, for logistics firms, SLR has a negative but statistically insignificant effect on ROE (coefficient: -0.073765, p-value: 0.4426), suggesting that short-term leverage is less relevant in driving profitability in the logistics sector. The significant positive impact of SLR on FMCG firms supports the view that short-term financial management is key to their operational success.

The Impact of Long-Term Leverage Ratio (LL) on Performance

For FMCG firms, the Long-Term Leverage Ratio (LL) has a large positive coefficient (7.507721) but is not statistically significant (p-value: 0.1209), suggesting that long-term debt does not significantly impact profitability in these firms. Conversely, for logistics companies, LL shows a negative and statistically significant relationship with ROE (coefficient: -0.073263, p-value: 0.0065). This suggests that high long-term liabilities can significantly reduce profitability for logistics companies, highlighting the risks associated with long-term debt in this sector. These findings align with Akintoye (2019), who noted the detrimental effects of long-term leverage on logistics firm performance.

Conclusion and Recommendations

Financial Leverage is an important part in a firm's management decision. The ability of the firm to continuously operate in longer period depends on how they deal with matter of composition of capital structure, it can be concluded that

Short-Term Leverage Ratio (SLR): For FMCG firms, the aggressive financial management policy is effective, as higher short-term leverage has a positive and statistically significant effect on ROE. This highlights the importance of efficient short-term financial management in improving profitability. In contrast, for logistics companies, SLR has a negative but statistically insignificant effect, suggesting that the use of short-term debt in an aggressive manner may not yield the same benefits in this sector, where a more conservative approach might be safer. Long-Term Leverage Ratio (LL): In FMCG firms, long-term leverage has a positive but statistically insignificant effect on ROE, indicating that conservative financial management policies, which focus on long-term debt, may not heavily influence profitability. However, in logistics companies, a significant negative relationship with ROE implies that relying on long-term debt under a conservative approach can reduce profitability. Akintoye

(2019) similarly found that long-term leverage hampers performance in logistics firms, suggesting that a balanced or even aggressive policy might be more beneficial here.

Based on the findings, the following recommendations are made for FMCG and logistics companies to enhance their financial performance:

1. For FMCG companies, an aggressive financial management policy focusing on short-term leverage is recommended, as higher short-term leverage (SLR) has a positive and statistically significant effect on Return on Equity (ROE). This suggests that efficient management of short-term debt can significantly boost profitability. FMCG firms should therefore consider increasing their use of short-term debt to capitalize on immediate growth opportunities and enhance returns. However, this strategy requires careful monitoring to avoid liquidity risks and ensure that debt obligations are met. A conservative strategy will better safeguard logistics companies from the risks associated with short-term liabilities.
2. For FMCG companies, FMCG firms should adopt a more flexible approach to long-term debt, as conservative policies centered on long-term leverage neither significantly harm nor benefit profitability. Companies in this sector can continue to use long-term debt moderately without concerns about profitability loss, while focusing on other strategies to drive growth. For logistics companies, however, long-term debt hampers performance in logistics firms, implying that a balanced or even aggressive financial policy would be more appropriate.

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