

EFFECTS OF CAPITAL STRUCTURE ON THE FINANCIAL PERFORMANCE OF SOUTH AFRICAN CONSUMER GOODS FIRMS (2011 – 2021)

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ABSTRACT

This study examined the effects of capital structure on the financial performance of South African consumer goods firms. Previous related studies have yet to determine the appropriate capital sources among the available alternatives that can be considered effective performance of consumer goods firms in South Africa. They also did not cover the 11-year period of 2011 – 2021, thereby necessitating this research on those 11 years. A sample of 10 firms was purposively selected from this study's population of 20 consumer goods firms listed on the Johannesburg Stock exchange of South Africa. This study employed secondary data sources obtained from the annual accounts and reports of the selected firms. The data obtained were analyzed using panel models comprising pooled ordinary least square, fixed effects, and random effects models. Findings showed that the coefficient of share capital on return on equity is negative (-1.86262) and insignificant ($p=0.7961>0.05$) and the beta value of short-term debt on return on equity is positive (5.08662) and insignificant ($P=0.0516 <0.05$). The coefficient of long-term debt on return on equity is also positive (6.78568) and statistically significant ($p=0.0298<0.05$) and the beta value of retained earnings on return on equity is positive (3.55649) and significant ($p=0.0017<0.05$) for consumer goods firms in South Africa. This study concluded that share capital has a negative effect on the firms' financial performance, while retained earnings, short-term debt, and long-term debt have positive effects on the firms' performance. Retained earnings, short-term debt, and long-term debt are concluded to be the appropriate capital sources for effective financial performance of consumer goods firms in South Africa. This study recommended that the firms should avoid financing their operations with share capital in South Africa without taking remedial actions on their persistent negative effect on their performance.

Keywords: Capital structure, financial performance, South African consumer goods firms

INTRODUCTION

Capital structure is a firm's mix of finance. The decision on it is an integral part of an organization's financial decision that focuses on the form of capital a firm will undertake. Capital structure is a combination of share capital, short-term debt, long term debt, and retained earnings. Consumer goods firms require appropriate sources of finance to run their activities which must be properly utilized to avoid their negative effects on performance. Determining the effects of the sources of capital on a firm's performance is imperative in a company's financing decision (Nwangi, 2013). The sources of capital for financing companies are share capital, retained earnings, short-term debt, and long-term loans (Mutie *et al.*, 2019). Selecting the suitable sources of finance may positively impact a company's performance but if they were not properly utilized, it might result in financial backwardness (Abubakar & Olowe, 2019). Using different capital sources to finance the activities of the enterprises will help in reducing the cost of capital, bringing up their net returns, and improving their performance (Ali, 2020). Although employing only one capital source can still increase a company's profitability, it may, in the long run, become unreliable as the application of loan capital alone may create a high financial risk to the firms, while placing too much reliance on only equity capital may as well increase the cost of financing (Anizawati *et al.*, 2016). To improve performance, finance managers should employ an appropriate mix of capital to finance a business from equity and debts (Mutie *et al.*, 2019).

A capital source for financing the business activities is the retained earnings. Using it doesn't, however, impose any financial obligation like costs of equity mobilization, loan redemption, and interest payments on the enterprises. Firms with enough reserved profits will be well off and be able to invest its excess on profitable projects for their expansions and performance improvement than those firms lacking it (Oyetade, 2014). Short-term debt is the next economic mode of financing to the business organizations after the retained profits. It constitutes a great percentage of the total debts of most of the small and medium firms in the world due to the restricted access to long-term one (Onoja & Ovayioza, 2015). Long-term debt is an external financing mode for most of the medium enterprises around the world and serves as a mechanism of closing the gaps of finance deficiency in the business arena especially in the absence of the sufficient financial resources (Mule & Mohammed, 2015). Share capital is a source of finance that involves issuing of shares. Shares may be issued through the public subscription, offer for sale, right issues, bonus issue, private placement, debt conversion, and offer for sales by tender (Abubakar & Olowe, 2019).

Financial performance is a measure of how well a business has utilized its assets to generate revenues. Assessing financial performance will serve as a criterion for making an inter-firm comparisons. Financial performance can be evaluated in terms of growth in turnover, assets growth and efficiency, profitability growth, higher liquidity position, and stock prices improvement while lack of performance is generally assessed in terms of too high expenditures, poor profitability, poor liquidity position, persistence corporate loss, and absence of self-reported innovations (Denis, 2017). Return on equity is one of the most widely fitted models used by various researchers in the past to measure firms' financial performance across the globe (Kornom-Gbaraba & Ugwuoke, 2019).

Research Statement and Aim

Debates are still on-going among various researchers on what should be the optimal capital structure that will improve a firm's performance (Tally, 2014). Besides, criteria that determine the optimal capital structures that will maximize South African consumer goods firms' value and

performance are still increasing in the literature (Saad *et al.*, 2015). In South Africa, firms engaging in consumer goods need appropriate capital to move upward and improve their profitability, but only little attention is being paid to the rightful combination of capital sources for their activities (Saad *et al.*, 2015). In addition, studies that have determined the appropriate capital sources among the available alternatives considered effective performance of consumer goods firms in South Africa have not been explored for their efficacy, and this requires further research.

More so, several related studies such as Tally (2014). Saad *et al.* (2015), Denis (2017), and Abeywardhana and Magoro (2017) only used variables like financial leverage, source of funds via equity and leverage, effect of debt financing, debt capital to determine firm's financial performance. On the other hand, this study uses capital structure to determine the effect of share capital, retained earnings, short-term debt and long-term debts on the financial performance of listed consumer goods firms in South Africa. It also attempted to fill a gap as most of the earlier studies concentrated their investigations on sectors like agriculture, oil and gas, financial services, small and medium enterprises, education, health care services and industrial sectors apart but not on the consumer goods sector. Finally, this study covered a 11-year period of 2011 to 2021. In short, this study examined the effect of capital structure, comprising retained earnings, short-term debt, long-term debt and share capital, on the financial performance of South African consumer goods firms between 2011 and 2021.

Objectives of this study

The main objective of this study are to

- i. evaluate the effect of share capital on the financial performance of listed South African consumer goods firms,
- ii. determine the effect of short-term debt on the financial performance of listed South African consumer goods firms,
- iii. evaluate the effect of long-term debt on the financial performance of listed South African consumer goods firms,
- iv. assess the effect of retained earnings on the financial performance of listed South African consumer goods firms, and to
- v. determine the appropriate modes of capital among the available alternatives that can improve the financial performance of listed South African consumer goods firms.

Research Hypotheses

The following null hypotheses guide this study:

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

LITERATURE REVIEW

Corporate Financing

Corporate financing is the application of external and internal sources of funds to finance the operations of corporate organizations. It is a collective use of equity capital and debt capital to fund business activities. Corporate financing is all about mobilization mix funds (such as retained earnings, share capital, short and long-term debts) to run a firm's activities (Ahmed *et al.*, 2016; Ahmad & Ghazalat, 2019), and is an important aspect of a firm's financial decisions (Musila, 2015).

The most common internal source of financing a firm is the retained earnings or reserved profits (Kariuki *et al.*, 2017; Ravi, 2013; Mutie *et al.*, 2019). Retained earnings are the firm's cumulative retained profits, reserves, share premium and other available internal financing sources (Mwangi, 2018). They are earnings after tax and dividends available for a business to re-invest or to plug back to finance an enterprise (Denis, 2017). The effect of retained earnings on a firm's financial performance may be immense.

Share capital is expected to affect the profitability of firms. It is in the form of external equity and funds mobilized through selling a variety of shares—ordinary or common stock or preference or preferred stock—to existing or potential stockholders (Fan *et al.*, 2012; Oyetade, 2014; Kariuki *et al.*, 2017).

Measuring the effect of short-term debt on financial performance of firms is also important. Short-term debt is a capital that is repayable within a year to the lenders (Ravi, 2013). Loans that have short-term maturities assist corporate organizations to meet their immediate financial needs without resulting into long-term debt commitment (Musila, 2015). Short-term financial obligations attract lower interest charges to the entities as most of the lenders may decide not to charge the borrowers too much of interest if the repayment agreed period is not breached (Saad *et al.*, 2015).

The need to determine the effect of long-term debt on a firm's performance is also necessary. Long-term debt imposes an obligation on its user to pay regularly the interests and the principal as and when they are due (Fan, Titman & Twite, 2012). The interest on debenture is tax-free as the corporate tax is chargeable on the profit after a loan's interests (Denis, 2017). Tax saving is the reduction of the amount of tax payable by corporate organizations (Anizanati *et al.*, 2016).

Financial Performance

Financial performance is about how a firm has succeeded in attaining its objectives, and this generally means how it has perfectly applied its assets from its ordinary course of doing business to generate revenue (Denis, 2017; Mwangi, 2013). It is a way of measuring and evaluating a firm's financial condition over a given accounting period (Oyetade, 2014). It thus requires adequate and appropriate tools with valid criteria (Fan *et al.*, 2012; Ali, 2020). A measure of financial performance is return on equity, which is the earnings after corporate tax and loan interest divided by shareholder equity (Mwangi, 2018).

Theoretical Approach

This study is anchored on the Theory of Corporate Financing propounded by Tirole (1956). The theory is one of the oldest finance theories that analyzes the relationship between a firm's financing modes and its performance (Onoja & Ovayioza, 2015). It explains that firms finance deals with funds generation through the various sources to run the operations of a business entity (Onoja &

Ovayioza, 2015). The theory affirms that running an business with debts alone might result in incurring more liabilities that exposes that business to some credits obligations that must be unfailingly met (Onoja & Ovayioza, 2015). Therefore, business managers should wisely make positive financial sourcing decisions during the mobilization of capital in a way that would improve performance (Onoja & Ovayioza, 2015). Managers must try to weigh the financing modes against the financed assets in terms of cash flows by avoiding a mismatch of potential assets and liabilities (Onoja & Ovayioza, 2015).

The theory assumed that the primary purpose of an effective financing-mix is to maximize shareholders' wealth and increase a firm's profitability (Bassey *et al.*, 2016). The theory asserts that among the inter-related company financing decisions is the proper identification of the most appropriate modes of financing that will improve their performance and streamlining of the long-term funding with the financed assets (Bassey *et al.*, 2016). Based on the assumption of the theory, achieving a business's objectives of greater performance requires correct utilization of capital employed. This includes the idea that for a firm to achieve its goals of better performance and continuity, it is required to achieve effective capital mobilization and judicious investment. As the theory is concerned about the application of a correct mix of financing sources to enhance a business's performance, the theory is appropriate for this study.

Review of Related Studies

Tally (2014) examined "the effect of financial leverage on firms' financial performance in Saudi Arabia's public listed companies" between 2002 and 2010. This study used techniques such as analysis of variances, maximum, value, and standard deviation for the analysis of data. This study found a 'positive relationship between financial leverage and performance'. Mule and Mohamed (2015) investigated the "relationship between financial leverage and the financial performance of the listed firm in Kenya" between 2007 and 2011 by employing a panel data regression to analyze data. The research study found a positive significant relationship between the financial leverage and the financial performance of the listed firm.

A study was conducted by Saad, Ghani, Ahmad, and Salim (2015) to investigate "the association between the source of funds via equity and leverage, and the performance of Small and Medium Enterprises in Malaysia". It used secondary data and the ordinary least squares method for data analysis and found that equity has a positive impact on performance. Along a similar idea, Denis (2017) investigated the effect of debt financing on the financial performance but this time on private secondary schools in Nairobi of Kajiado County". Using multiple regression models for data estimation, this study discovered a positive insignificant impact of debt financing on financial performance and a positive insignificant impact of revenue growth on the financial performance of the schools.

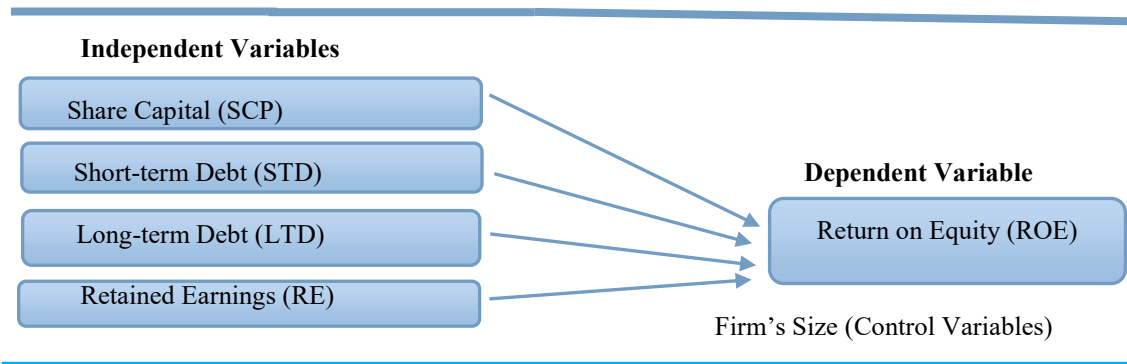
In a comparative analysis of South African and Sri Lankan Listed Companies between 2011 and 2015, Abeywardhana and Magoro (2017) examined "the relationship between debt capital and financial performance". They utilized a fixed-effects regression model on secondary sources of data and found for businesses of both countries that short-term debt harmed the performance of wholesale and retail companies while the long-term debt had a positive impact. This study recommended South African wholesalers and retailers to use equity capital and retained earnings to minimize conflicting interests between the managers and shareholders to remain independent of external financiers. In the case of Sri Lanka, this study recommended owners and managers of the retail companies to consider reducing the use of short-term debt and increasing long-term debt.

METHODOLOGY

This study employed an ex-post facto research design and made use of secondary data sourced from the annual financial accounts and reports of listed consumer goods firms in South Africa. Using the secondary data is justifiable as it is difficult to get the primary data. This study's population comprised 20 consumer goods firms listed on the Johannesburg Stock of Exchange of South Africa. The sample size of 10 consumer goods firms were Astral Foods Limited (ARL), Crookes Brothers Limited (CKS), Distell Group Holdings (DGH), Libstar Holdings Limited (LBR), Metair Investments Limited (MTA), Nu-World Holdings Limited (NWL), Oceana Group Limited (OCE) Premier Fishing and Brands (PFB), RCL Foods Limited (RCL) and RFG Holdings Limited (RFG). They were purposively selected based on their data availability.

This study's dependent variable is financial performance measured in terms of return on equity (ROE), while the independent variables of this study are share capital (SCP), short-term debt (STD), long-term debt (LTD) and retained earnings (REs). The independent variables are expressed as their specific ratios to total assets. A firm's size is measured in terms of log of total assets. The inferential statistics referred to pooled ordinary least square, fixed effect and random effect modes, and they were used for data estimation together with some post data analysis tests such as F-test, Lagrange Multiplier test and Husaman test.

Figure 1: Conceptual Model of this study



Source: Author's Design, 2020

Figure 1 exhibits this study's conceptual model developed which describe this study's explanatory independent variables of short-term debt, share capital, long-term debt and retained earnings as the proxies for corporate financing modes, the dependent variable of return on equity as the proxy for financial performance, and a firm's size as control variables.

Model Specifications

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

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

Abubakar and Olowe’s model after my adaptation is below:

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

Where

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

RESULTS AND DISCUSSION

Table 1: Pooled Ordinary Least Square Estimation Result

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

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

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

Table 1 exhibits the results of the pooled ordinary least square (POLS). The R-square result shows that 81% (0.806104) of the total changes in return on equity (ROE) is jointly accounted for by

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

Table 2: Fixed Effect Estimation Result (Cross-sectional period-specific)

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

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

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

Table 2 exhibits the fixed effect model results. The R-square result reveals that 81% (0.806104) of the total changes in the value of return on equity (ROE) is jointly accounted for by the explanatory variables, while other variables in the error term accounted for the remaining 19% changes in the ROE. The coefficient of share capital is negative (-1.86262) and statistically significant ($p=0.0056>0.05$), showing that it negatively and significantly affects the ROE. The beta value of short-term debt is positive (5.08662) and statistically significant ($p=0.0024>0.05$), implying that it positively and significantly affects ROE. The beta value of long-term debt is positive (6.78568) and statistically significant ($p=0.0407<0.05$), meaning that it has a positive and

significant impact on the ROE. The coefficient of retained earnings is positive (3.99209) and statistically significant ($p=0.0063>0.05$), showing that its impact is positive significant effect on the ROE.

Table 3: Random Effect Estimation Result (Cross-sectional period-specific)
SERIES: ROE, SCP, STD, LTD, RE, DE, FS

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

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

Table 3 presents the results of the random effect model. The R-square result shows that 81% (0.806104) changes in the value of return on equity (ROE) would be jointly accounted for by

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

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

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

Based on the random effect model results, this study found a negative of share capital on the financial performance of the firms. The result implies that a unit increase in the value of share capital will reduce their financial performance by 186%. From these results, there is a signal that the listed consumer goods establishments in South Africa should not dare to continually use share capital to finance their activities to avoid future poor financial performance. That might be the reason only one percent of the total assets of the companies, based on descriptive statistics, were financed by the share capital in the country. Thus, if the mode of finance is increased further by the companies, their financial performance will also drop and become worst. These findings,

therefore, serve as a basis for rejecting the null hypothesis that there are no differences in the impact of share capital on the financial performance of listed consumer goods firms in Nigeria and South Africa.

Further to this is a discovery from this study that short-term debt positively and significantly affect the financial performance of the firms in South Africa. This implies that a unit increase in the value of short-term debt will improve their financial performance by 508% in South Africa. The results agreed with the results of the studies conducted by Ahmed et al. (2016) and Ahmad and Ghazalat (2019), confirming a positive effect of short-term debt on the profitability and financial performance of the firms. Furthermore, this study found that the co-efficient of long-term debt of listed consumer goods firms positively and significantly impact the performance in South Africa, implying that an increase in the value of long-term debt will consequently improve the performance of the firms by 679% in South Africa. These results are in line with the results of the studies conducted by Ahmed et al. (2016) and Ahmad and Ghazalat (2019), revealing a positive effect of long-term liabilities on the financial performance of the studied companies.

Findings from this study also discovered that retained earnings have a positive effect on the performance of firms in South Africa. The results indicate that a unit increase in the value of retained earnings will overall improve their financial performance by 356%, That is, the more the profits of the firms are retained the greater and better their financial performances will become. The result supports the outcome of outcome of of a study by Bassey *et al.* (2016), that retained earnings positively and significantly impact the firms' performance and they are a reliable and available capital source for boosting future earnings of any company.

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

CONCLUSION AND RECOMMENDATIONS

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

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

Limitations of this study

The coverage of this study is limited to listed consumer goods firms in South Africa and only used the independent variables of share capital, short-term debt, long-term debt and retained earnings to investigate the effects of capital structure on the financial performance of the selected firms in the country. For the results of this study to be more generalizable, similar research needs to be conducted on other African countries and over longer time periods.

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