



The Effect of Equity Financing on the Financial Performance of Listed Non-Financial Firms in Nigeria

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Abstract

This study investigated the extent of equity financing and financial performance in Nigerian listed non-financial firms. It also examined the impact of equity on financial performance in the manufacturing industry with a view of providing information on the effect of equity financing on the financial performance of listed non-financial firms in Nigeria from 2014-2023. This study used secondary data. The study covered 31 non-financial firms listed on the Nigerian Exchange Group. Five (5) non-financial firms were purposively selected to ease data capturing and effectiveness of the research work. Data on total equity and Profit after tax were collected from the audited financial statement of selected listed non-financial firms from 2014-2023. Descriptive analysis involved the use of mean, median, standard deviation etc. to evaluate the selected variables. Inferential statistics was adopted on the panel regression model. This involved estimating a dynamic model using the system of pooled OLS, Fixed effect and Random effect. The random effect shows that t-stat and p-value of TEQ and ROE are 2.156299 and 0.0361 respectively. It's decided that equity has significant effect on the financial performance of manufacturing industry in Nigeria. This study concluded that equity finance is utilized either public offer or right issue to influence financial performance of manufacturing firms in Nigeria.

Keywords: Equity, Financial Performance, Capital Structure

1. Introduction

The development of a business plan is a vital aspect that every sane entrepreneur will consider when making decisions about how to set up their enterprise. The finance sources for the planned firm are a critical component of the business plan. Capital is the term used to describe the money needed to start a firm. Das and Swain (2018) explained the meaning of "capital" by saying that the owner of the firm must make a financial sacrifice or invest a certain amount of money and other resources. The assets that are purchased with the help of invested resources are used in the manufacturing, distribution, and business operations processes.

1.2 Statement of the problem

According to the pecking order theory, retained earnings should be used as the primary source of funding; however, Regarding the effect of equity financing on the financial performance of listed non-financial enterprises in Nigeria, there is contradictory empirical evidence, which calls for additional research to ascertain the precise degree to which equity financing influences financial performance in this particular context."

1.3 Research Questions

A few research inquiries that could direct this investigation include:

- i. What is the relationship between equity financing and financial performance in Nigerian manufacturing firms?
 - ii. What is the impact of equity profitability, liquidity, and solvency indicators in the manufacturing industry?
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1.4 Objectives of the study

The main objective of this study is to examine the effects of equity on the financial performance of manufacturing firms in Nigeria. The specific objectives were to;

- Examine the extent of equity financing and financial performance in Nigerian manufacturing firms.
- Investigate the impact of equity on financial performance in the manufacturing industry.

By fulfilling these goals, the study hopes to add to the body of knowledge already available on financing choices and financial performance, especially as it relates to Nigerian manufacturing companies.

1.5 Significance of the study

The study's findings will significantly advance our understanding of how equity financing affects Nigerian manufacturing companies' financial performance and function as a point of reference for future investigations. The study's conclusions will also help other stakeholders, such as the government, workers, and creditors, by enabling them to make defensible choices about policies, hiring practices, and credit ratings, respectively.

1.6 Scope of the study

This study looked at five non-financial Nigerian companies over a ten-year period, from 2014 to 2023, to see how equity financing affected their manufacturing companies' financial performance.

2. Literature Review

2.1 Conceptual Review

These conceptual reviews provide a framework for understanding the relationships between equity financing, capital structure, and financial performance in relation to Nigerian industrial companies.

Here are some conceptual reviews of the study on the effects of equity on the financial performance of manufacturing firms in Nigeria:

2.1.1 Equity: According to Jensen and Meckling (1976) ^[3], equity is the ownership stake in a company that represents the remaining claim to its assets and income. Gerke (2019) ^[2] asserts that equity gives businesses the chance to raise money without taking out loans. This indicates that since the funds obtained in the form of equity belong to the business's owners, they will not be repaid. The ownership rights (shares) that investors purchased in the firm are intended to be repaid from future profits. The company's shareholders can participate in a portion of the earnings by receiving dividends or potential capital gains in the future.

2.1.2 Financial Performance: According to Dinh and Pham (2020) ^[1], it is well acknowledged that an organization's financial performance is a direct result of how it raises, uses, and manages its capital. According to Ruri (2017) ^[7], financial performance is a precise indicator of how well management is using the company's limited resources to produce income.

According to Hutchinson (2012), financial performance is a broad indicator of a company's present financial standing and a benchmark against which other companies are measured. According to Siro (2013), a company's financial performance is evaluated by the shareholder based on how much better off

he is at the end of a period than he was at the beginning. This can be found using data on stock market prices or ratios that are obtained from financial statements, specifically the balance sheet and income statement.

2.2 Theoretical Review

Here are some theoretical reviews related to the study on the effects of equity on the financial performance of manufacturing firms in Nigeria.

2.2.1 The pecking order theory: This theory suggests that firms prioritize internal financing over external financing and debt over equity financing. (Myers & Majluf, 1984) ^[5].

2.2.2 The signaling theory: This theory proposes that equity financing sends a negative signal to investors, indicating poor financial health.

2.2.3 The risk management theory: This theory proposes that firms use debt and equity financing to manage risk and maximize financial performance.

2.2.4 The stakeholder theory: This theory suggests that firms consider the interests of various stakeholders, including shareholders and creditors, when making financing decisions.

2.2.5 The market timing theory: According to this theory, businesses schedule their share issuances to coincide with advantageous market circumstances.

2.3 Empirical Review

These are some empirical summaries of research on how equity affects listed non-financial companies' financial performance in Nigeria:

Jinghong, Eugene, and Mukumbi (2020) ^[4]. The capital structure of the chosen organizations had a beneficial impact on their financial performance, according to the findings. This would suggest that as debt financing rose, so did the businesses' financial performance. The study concludes that in order to boost shareholder wealth and improve financial performance, debt financing should be bigger than equity financing.

The impact of capital mix on the financial performance of 10 selected manufacturing businesses listed on the Nigerian Exchange Group (NGX) was determined by Olaoye and Adesina (2022) ^[6] during a twelve-year period, from 2009 to 2020. The selected businesses' audited reports and accounts were the source of secondary data extraction. The study employed both descriptive and inferential statistical approaches to estimate the data. The study's conclusions demonstrate that the debt to equity ratio (DER) has a major negative influence on the selected enterprises' return on asset (ROA). Conversely, DER has a direct, small impact on net profit margin (NPM) and a direct, significant impact on return on equity (ROE) for the manufacturing companies in the sample. Thus, the primary conclusion of this research is that Nigerian manufacturing enterprises' profitability depends on having an appropriate capital structure.

2.4.1 Theoretical Framework

Pecking order theory served as the foundation for this investigation. The pecking order theory was chosen because it provides the best explanation for the research findings. It argues that businesses should adopt a pecking order of

incremental financing options rather than selecting an ideal capital structure, with internally generated funds coming in first, debt issues coming in second, and new equity financing arriving only after the business has reached its "debt capacity."

According to Ruri (2017) ^[7], this theory is predicated on the trade-off between the costs and advantages of debt financing for the issuance of new securities and the knowledge asymmetry between managers and the market. Retained earnings costs should frequently be included into the cost of equity.

2.4.2 Gap in literature

Even though equity financing is important for improving financial performance, little research has been done on how specifically equity financing affects listed non-financial firms' financial performance in Nigeria. As a result, it is unclear how much equity financing affects financial performance in this particular context.

3. Methodology

3.1 Research Design

Ex-post facto research design was used by the researcher for this investigation. Because of the association, which was predicated on a cause-and-effect analysis of the data, the research consequently used ex post facto designs. Additionally, the data used were of a secondary character.

3.2 Area of study

The implications of equity financing on the listed non-

3.7 Measurement of Variable

S/No	Variable	Symbol	Measurement of Variables
1.	Return on Equity	ROE	Profit After Tax/ Total Equity
2.	Equity	TEQ	Total equity for the period
3.	Profit After Tax	PAT	Profit After Tax

Authors' compilation, 2025

3.7.1 Dependent variable

This study used return on equity (ROE) as a dependent variable. It was used as a proxy for financial performance.

3.7.2 Independent Variable

This study used Total Equity as independent variable. Total equity was used as a proxy for equity.

3.8 Model Specification

The functional relationship of the effect of equity on the financial performance of listed non-financial firms is given below

$$ROE_{it} = f(\text{driver of Equity}_{it}) \dots\dots\dots 1$$

A mathematical model used for the study is expressed as follows:

$$ROE = \beta_0 + \beta_1 TEQ + \varepsilon \dots\dots\dots 2$$

Where:

ROE = dependent variable (financial performance)

TEQ = independent variable (equity financing measure)

β = regression coefficient

financial enterprises' financial performance in Nigeria were the main subject of this study. The years 2014–2023 are covered by the study. The field of study typically makes a contribution and establishes the scope of the investigation. The selected time frame aims to encompass the national events of that era and their impact on the stock market.

3.3 Population of study

31 non-financial companies listed on the Nigerian Exchange Group were included in the study.

3.4 Sample size and sampling Technique

Five companies make up the study's sample. Convenient/purposive sampling was employed to enhance the efficiency of data collection and the overall efficacy of the study.

3.5 Data collection Technique

In this research work, secondary data were extracted from audited accounts of the selected non-financial firms and this source was chosen because the subject matter of the study is quantitative in nature. Data needed from this study was from annual report and published financial statement of the selected companies for the period of 2014-2023.

3.6 Sources of Data

The FACTS book of the Nigerian Exchange group and the annual reports and accounts of the enterprises were the sources of secondary data used in the study.

ε = error term

This model can be used to examine the relationship between equity financing and financial performance.

3.9 Data Analytical Techniques

In this study, two analytical methodologies were used to accomplish the stated objectives. These comprised inferential statistics as well as descriptive statistics. In a descriptive study, the chosen variables were assessed using metrics like mean, median, minimum, etc. Other descriptive metrics, including standard deviation, were used to gauge how variable these estimations were. With the panel regression model, inferential statistics were used. This required utilizing the system of pooled OLS, Fixed effect, and Random effect to estimate a dynamic model.

4.0 Data presentation, Analysis and Interpretation

Objective I: To examine the extent of equity financing and financial performance in Nigerian manufacturing firms.

4.1 Analysis of Descriptive Statistics

The result shows that mean and median value of return on equity for the period investigated in this study are 0.156394 and 0.133981 respectively. The result depicts that maximum and minimum values of ROE are 0.375196 and -0.049944

respectively. The table shows that standard deviation and skewness values of ROE are 0.089331 and 0.428184 respectively. This means that data distribution of ROE is positively skewed. Descriptive result on table shows that kurtosis value is 3.002760 and this value is greater than normal kurtosis of 3. Therefore, data distribution of ROE is platykurtic which means that there are more values greater than sample mean of ROE. ROE does not mirror normal distribution. The Jarque-bera and p-value of ROE are 1.527863 and 0.465831 respectively. It could be seen that p-value of Jarque-bera (0.465831) is greater than significance level (0.05). Therefore, it is established that ROE is normally distributed. Descriptive result shows that equity finance (TEQ) has mean and median value of 1.22E+08 and 16765553 respectively. The maximum and minimum values of TEQ are 4.50E+08 and 638543.0 respectively. The result indicates that standard deviation and skewness value of TEQ are 1.66E+08 and 0.873984 respectively. The skewness value means that data distribution of TEQ is positively skewed and moves toward the right tail. Kurtosis value discloses is 1.934657 and this value is less than normal kurtosis of 3. This means that data distribution of TEQ is leptokurtic and TEQ mirror normal distribution.

Lastly, it could be seen that mean and median values of profit after tax (PAT) for the period under-reviewed in this study are 15835692 and 2460675 respectively. The maximum and minimum values of PAT are 1.01E+08 and -13223626 respectively. The result shows that standard deviation and skewness value of 26951911 and 1.668894 respectively. Skewness value of PAT means that data distribution of PAT is positively skewed. The result also discloses that kurtosis value of PAT is 4.670933 and this reported value is greater than normal kurtosis of 3. Hence, it is established that data distribution of PAT is platykurtic and PAT does not mirror normal distribution. Descriptive result shows that Jarque-bera and p-value of PAT are 29.02678 and 0.000000 respectively. The result indicates that p-value of Jarque-bera (0.000000) is less than significant level of 0.05. Therefore, it is decided that profit after tax is not normally distributed.

4.1.1 Descriptive Statistics

	ROE	TEQ	PAT
Mean	0.156394	1.22E+08	15835692
Median	0.133981	16765553	2460675.
Maximum	0.375196	4.50E+08	1.01E+08
Minimum	-0.049944	638543.0	-13223626
Std. Dev.	0.089331	1.66E+08	26951911
Skewness	0.428184	0.873984	1.668894
Kurtosis	3.002760	1.934657	4.670933
Jarque-Bera	1.527863	8.729884	29.02678
Probability	0.465831	0.012715	0.000000

Source: Extracted from E-View Output, 2025

Objective II: To investigate the impact of equity on financial performance in the manufacturing industry.

4.1.2 Analysis of Hausman Test

The Hausman Test is used to evaluate which of the fixed effect and random effect models is best. The result shows that Chi-square and Adjusted R-square are 1.632372 and 0.2014 respectively. This result means that p-value of Chi-square (0.2014) is greater than significance level of 0.05. Therefore, null hypothesis is accepted and concludes that random effect model of panel regression is the most suitable to generate inference for the study.

Table 1: Hausman Test

Null Hypothesis	Chi-square Stat	Probability
Difference in coefficient not systematic	1.632372	0.2014

Source: Author's Computation (2025)

4.1.3 Analysis of Coefficient of Determination

The random effect of panel least square shows that R-square and Adjusted R-square are 0.168561 and 0.149156 respectively. Using adjusted R², it means that proportion of variation in the level of return on equity which is the measure of financial performance that can be explained by equity is 14.9%. This means that remaining 85.1% variation in the level of financial performance of manufacturing firms will be explained by other determinants not considered in the below econometric model.

4.1.4 Analysis of Econometric Model

$$ROE = \beta_0 + \beta_1 TEQ + \varepsilon$$

$$ROE = 0.140053 + 1.34E-10 (TEQ) + \varepsilon$$

According to the following mathematical statement, an increase in total equity will result in an increase in equity return. Consequently, it has been determined that, during the study's investigation period, there was a positive correlation between listed manufacturing firms' equity and financial performance.

4.1.5 Analysis of T-Statistics

The random effect shows that t-stat and p-value of TEQ and ROE are 2.156299 and 0.0361 respectively. It is clear that p-value of t-statistic (0.0361) is less than chosen significance of 0.05. Therefore, null hypothesis is rejected and it's decided that equity has significant effect on the financial performance of manufacturing industry in Nigeria.

Table 2: Panel Regression Result

Variable	Fixed Effects Model			Random Effects Model		
	Coefficient	t-Statistic	P-value	Coefficient	t-Statistic	P-value
C	0.137272	12.61915	0.0000	0.140053	4.681221	0.0000
TEQ	1.57E-10	2.146889	0.0374	1.34E-10	2.156299	0.0361
R-squared	0.780572			0.168561		
Adj R-squared	0.755638			0.149156		
F-statistic	31.30436			3.533162		
Prob (F-stat)	0.000000			0.066230		
Durbin-Watson	2.035298			1.837171		

Source: Author's Computation, 2025

4.3 Discussion of Findings

It is found that equity can only account for a small portion of the level of changes in the financial performance of the manufacturing industry. This depicts that there are internal and external factors such as core competence, cost of production, operating expenses, exchange rate, inflation etc. that are capable of influencing financial performance of the manufacturing industry in Nigeria.

It is disclosed that there is a positive relationship between financial performance and equity of the manufacturing industry. This established that if manufacturing firms concentrate on making use of equity source of finance instead of debt finance, there is long-term possibility that there will be an increase in the level of financial performance because use of equity finance reduces finance cost and will likely increase profit of an enterprise.

Finally, it is concluded that equity has a significant effect on the financial performance of manufacturing firms in Nigeria. This means that it is imperative to ensure that equity finance is utilized either through public offer or right issue to influence financial performance of manufacturing firms in Nigeria.

5. Summary, Conclusion and Recommendations

5.1 Summary

The purpose of this study was to investigate the impact of equity capital on listed non-financial companies' financial performance in Nigeria. The study especially looked at the relationship between listed non-financial enterprises' financial performance and the amount of equity funding they had. It also looked at the effect of equity on those listed non-financial firms' financial performance. Return on equity (ROE) was chosen by the study as the financial performance metric. The study's ten (10) year duration, from 2014 to 2023, was covered. The study used an ex post facto research approach, and a sample size of five (5) listed non-financial enterprises in Nigeria was chosen. Secondary source of data was employed and annual report and financial statement of the selected firms were used for the research instrument. The annual report and financial statement were gathered from the Nigeria Exchange Group. E-view was used for statistical tool and descriptive statistics which include mean, median, standard deviation was used to analyze the characteristics of all the variables. Panel least square which included Hausman, At the 5% level of significance, the Fixed Effect and Random Effect were employed to test the hypotheses.

5.2 Conclusion

The financial performance and equity of listed non-financial enterprises were found to be positively correlated. This is established that if the firms concentrate on making use of equity source of finance instead of debt finance, there is long-term possibility that there will be an increase in the level of financial performance because use of equity finance reduces finance cost and will likely increase profit of an enterprise. Finally, it is concluded that equity has a significant effect on the financial performance of listed non-financial firms in Nigeria. This means that it is imperative to ensure that equity finance is utilized either through public offer or right issue to influence financial performance of listed non-financial firms in Nigeria.

5.3 Recommendation and policy Implication

The listed non-financial firms may rely on equity source of finance because it's cheaper and easy to access. This can be

done by issues of shares to existing shareholders.

5.4 Contribution to the Knowledge

By providing empirical information on the impact of equity on the financial performance of listed non-financial enterprises in Nigeria, this study has added to the body of knowledge. Insightful recommendations were also given by this study to concerned stakeholders in listed non-financial firms in Nigeria.

5.5 Suggestion for further Research

This study suggests that future researchers that want to embark on similar subject matter should adopt other determinants of financial performance such as return on capital employed, return on asset etc.

The subsequent studies should also focus on other sources of capital such as debt and expand more sample size beyond the number adopted in this study in order to have adequate understanding of how equity capital and other source of capital influence financial performance of the whole of the industry.

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