Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

CAPITAL STRUCTURE POLICY AND MARKET VALUATION OF LISTED FIRMS IN NIGERIA

Chiwuba, Anthony Nnaji Ph. D, Mark Bekweri Edeh Ph. D And Grace Boma Bob-Manuel Ph. D

Department of Finance, Faculty of Administration and Management, Rivers State University, Port Harcourt
Department of Finance, Faculty of Administration and Management, Rivers State University, Port Harcourt
Department of Banking and Finance, Faculty of Management Sciences, Federal University, Otuoke, Bayelsa State

Abstract: This study investigates the effect of capital structure policy on the market valuation of listed food and beverage firms in Nigeria from 2014 to 2023. Employing a panel research design, the study integrates time-series and cross-sectional data to examine how key financing indicators Debt-to-Equity Ratio (DER), Leverage Ratio (LER), and Interest Coverage Ratio (ICR) influence firm value, measured by Tobin's Q. Secondary data were sourced from the Nigerian Exchange Group (NGX) and firms' audited annual reports, ensuring compliance with IFRS and FRCN standards. A census approach was adopted to cover all thirteen listed firms that met the inclusion criteria. Descriptive statistics, correlation analysis, panel unit root tests, and multiple regression techniques were applied using E-Views 12 software. The panel unit root tests confirmed stationarity at first difference for all variables, validating the use of regression models. The Hausman test results favored the fixed effects model as the most appropriate specification, accounting for firm-specific variations. Empirical findings revealed that DER had a negative and statistically significant effect on Tobin's Q, indicating that excessive debt financing reduces market valuation. Conversely, both LER and ICR exerted positive and significant influences on market valuation, implying that moderate leverage and strong earnings capacity enhance firm value. The overall model was statistically robust, with an adjusted R-squared of 0.74, suggesting that capital structure indicators explain about 74% of the variation in market valuation. The study concludes that maintaining an optimal mix of debt and equity financing is crucial for improving firm valuation in Nigeria's food and beverage sector. It recommends that managers adopt prudent financing strategies that enhance interest coverage and investor confidence while avoiding excessive leverage that may erode firm value.

Keywords: Capital Structure Policy, Market Valuation, Tobin's Q, Leverage Ratio, Debt-to-Equity Ratio, Interest Coverage Ratio.

1. Introduction

In corporate finance, capital structure is fundamental to understanding how firms manage financing and risk. A firm's mix of debt and equity not only affects its cost of capital but also signals financial health and influences market valuation (Modigliani & Miller, 1958; Myers, 1984). The trade-off theory proposes that firms can maximize value through an optimal balance between the tax benefits of debt and the potential costs of financial distress (Kraus & Litzenberger, 1973; Frank & Goyal, 2009), while the pecking order theory posits a financing hierarchy that favors internal funds over debt and equity to minimize information asymmetry (Myers & Majluf, 1984). Nonetheless, in Nigeria, where inflation, exchange-rate volatility, and limited access to long-term credit persist, the relationship between capital structure and firm valuation remains inconsistent with theoretical expectations (Omuemi, Olowe, & Adegbite, 2023; Adenle, Adebayo, & Daramola, 2025; Edoka & Ijeoma, 2024).

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

Empirical evidence on the link between capital structure and firm valuation in Nigeria remains inconclusive. Omuemi, et al (2023) found that capital structure significantly influences firm value among non-financial listed firms, although the magnitude of this effect depends on agency costs and asset tangibility. Similarly, Adenle, et al (2025) reported that debt-equity ratio and financial autonomy rate exert significant effects on Tobin's Q for listed manufacturing firms between 2013 and 2022. In contrast, Edoka and Ijeoma (2024) observed that while equity ratio positively influences enterprise value for listed service firms, debt-to-equity ratio does not always have a significant effect.

Despite these findings, the empirical literature continues to display notable inconsistencies. Many studies emphasize profitability or accounting-based performance measures rather than market valuation indicators such as Tobin's Q or market-to-book ratio. Furthermore, few studies explicitly account for Nigeria's changing macro-financial conditions including inflationary pressure, interest rate volatility, and foreign exchange reforms that influence firms' financing choices and valuation outcomes (CBN, 2025; Reuters, 2025). Consequently, while classical theories predict a systematic relationship between leverage and firm value, the Nigerian evidence remains fragmented and context-dependent. This study therefore aims to extend existing research by re-examining the effect of capital structure policy on the market valuation of firms listed on the Nigerian Exchange, employing market-based valuation metrics and incorporating recent monetary and structural reforms. Through this, it seeks to clarify how capital structure decisions shape firm value under Nigeria's evolving macroeconomic environment.

2. Literature Review

2.1 Theoretical Framework

The relationship between capital structure and market valuation is grounded in several key theories that explain how firms choose financing sources and how these choices affect firm value. The foundation of modern capital structure theory is the Modigliani and Miller (1958) proposition, which posits under conditions of perfect capital markets, firm value is independent of its financing mix. However, when real-world factors such as taxes, bankruptcy costs, and asymmetric information are introduced, financing choices become value-relevant. The Trade-Off Theory, advanced by Kraus and Litzenberger (1973), argues that firms determine an optimal capital structure by balancing the tax advantages of debt against the costs of potential financial distress. Firms with stable cash flows and tangible assets can sustain higher leverage, thereby enhancing firm value. Conversely, excessive leverage may increase bankruptcy risk, thereby reducing valuation (Frank & Goyal, 2009). The Pecking Order Theory proposed by Myers and Majluf (1984) suggests that information asymmetry drives financing preferences. Managers, possessing more information than investors, prefer internal funds to avoid the adverse selection costs of external financing. Consequently, more profitable firms are expected to use less debt, implying an inverse relationship between profitability and leverage.

The Agency Theory (Jensen & Meckling, 1976) adds another dimension by emphasizing conflicts of interest between managers and shareholders. Debt can serve as a monitoring mechanism by reducing free cash flow available for discretionary use, potentially enhancing firm value if used judiciously (Harris & Raviv, 1991). However, excessive debt can lead to risk-shifting behavior and underinvestment problems, undermining valuation. Finally, Market Timing Theory (Baker & Wurgler, 2002) suggests that managers adjust capital structure opportunistically, issuing equity when market valuations are high and repurchasing when valuations are low. This implies that capital structure reflects past attempts to exploit market mispricing rather than an optimal static mix. Together, these theories highlight that the effect of capital structure on firm valuation depends on firm-specific factors (profitability, asset tangibility, growth opportunities) and macroeconomic conditions (interest rates, inflation, and market liquidity). In developing economies like Nigeria, where financial markets are imperfect and macroeconomic volatility is high, these theoretical predictions often yield mixed empirical results.

2.2 Conceptual Review

2.2.1 Capital Structure Policy

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

Capital structure policy refers to the strategic decision regarding the proportion of debt and equity used to finance a firm's operations. The seminal work of Modigliani and Miller (1958) posited that under perfect market conditions, firm value is unaffected by capital structure. However, subsequent theories such as the trade-off theory and pecking order theory recognize the influence of taxes, bankruptcy costs, and information asymmetry (Myers & Majluf, 1984; Frank & Goyal, 2009). In practice, firms strive to achieve an optimal capital mix that minimizes the weighted average cost of capital (WACC) and maximizes firm value. For Nigerian manufacturing firms, particularly in the food and beverage sector, capital structure policy is shaped by limited long-term financing options, high interest rates, and macroeconomic instability (Akinyomi & Olagunju, 2013). Key proxies for measuring capital structure include the Debt-to-Equity Ratio (DER), Leverage Ratio, Equity Ratio, and Interest Coverage Ratio (ICR). The DER indicates the extent of debt financing relative to equity and reflects management's risk tolerance (Myers, 2001). The Leverage Ratio measures the proportion of total assets financed through debt, providing insight into solvency and risk exposure (Rajan & Zingales, 1995). The Equity Ratio assesses financial independence by showing the portion of assets financed by shareholders' funds (Abor, 2005), while the ICR evaluates a firm's ability to meet interest obligations from earnings, serving as a key indicator of creditworthiness (Brigham & Ehrhardt, 2016).

2.2.2 Market Valuation

Market valuation represents the investors' assessment of a firm's worth, reflecting how effectively its assets are utilized to generate future earnings and shareholder wealth. It integrates both accounting-based and market-based indicators to evaluate firm performance from the perspective of value creation (Chung & Pruitt, 1994). Among these, Tobin's Q has emerged as a dominant market-based measure. Originally proposed by Tobin (1969), the ratio compares the market value of a firm's assets to their replacement cost. A Q greater than one suggests that the market values the firm more highly than its recorded asset base, indicating positive growth prospects, while a Q below one implies undervaluation or inefficient asset utilization. Tobin's Q serves as a comprehensive measure of firm value because it encapsulates market perceptions of management efficiency, profitability potential, and growth opportunities (Perfect & Wiles, 1994). It is less affected by short-term accounting policies and thus captures the long-term valuation effects of strategic financial decisions, including capital structure choices (Morck, et al, 1990). In emerging markets such as Nigeria, Tobin's Q provides a useful framework for understanding how investors respond to financing policies under conditions of economic uncertainty, inflationary pressures, and exchange rate volatility (Omuemi, Olowe, & Adegbite, 2023).

2.3 Empirical Review

Recent empirical studies have produced mixed evidence on the relationship between capital structure and firm value across sectors and countries. Mahmudi and Bhelawati (2025) examined food and beverage firms listed on the Indonesia Stock Exchange (2015–2019) and found that capital structure and profitability significantly influence firm value, while tax avoidance showed no significant effect. Similarly, Ramadhan and Hendayana (2025) reported that capital structure positively affects firm value among Indonesian real estate firms, with profitability moderating this relationship. In Pakistan, Rehman, Sapar, and Shah (2025) analyzed Shariah-compliant firms and found a negative relationship between capital structure and financial distress, suggesting excessive debt increases vulnerability. Tani, Winarno, and Siswanto (2025) further revealed that capital structure mediates the effect of institutional ownership and firm growth on company value, emphasizing its strategic role in value creation.

Liong and Uluputty (2024) confirmed that capital structure, financial performance, and investment decisions significantly affect firm value for infrastructure firms in Indonesia. In contrast, Yulianti et al. (2024) found that leverage negatively affects profitability and indirectly influences firm value, with firm size moderating this effect in the technology sector. In Nigeria, Ihenyen et al. (2023) reported that retained earnings and dividend policy significantly enhance firm value among listed consumer

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

goods firms, though R&D investment showed no significant effect. Adamu and Hamidah (2023) found that firm size negatively influences stock prices in the Nigerian food and beverage sector, while debt-equity ratio and profitability were statistically insignificant, underscoring contextual variations in how financing decisions impact valuation.

Adeoye and Olojede (2022) examined the impact of capital structure on the financial performance of ten quoted food and beverage firms in Nigeria (2012–2017) and found that equity financing positively influences firm performance, while debt financing has a negative effect. This supports the pecking order theory, emphasizing firms' preference for internal financing to minimize risk and information asymmetry. Joseph et al. (2021) explored firm attributes and capital structure among listed Nigerian food and beverage firms (2012–2021), revealing that firm age and earnings volatility positively influence leverage, while firm size has a negative relationship, indicating that larger firms depend more on equity financing. Liquidity was found to be insignificant, suggesting that short-term solvency does not drive capital structure decisions in the sector.

Beyond Nigeria, Sutomo et al. (2019) found that firm size, profitability, and growth significantly affect debt levels among Indonesian manufacturing firms, with profitability showing a negative association consistent with the pecking order theory. Similarly, Chaleeda et al. (2019), using data from Malaysian firms (2000–2015), reported that both short-term and long-term leverage positively influence firm value, while excessive total debt reduces it, aligning with trade-off and agency cost theories. Similarly, Ayo-Oyebiyi (2019) observed that leverage and liquidity negatively affect firm performance among Nigerian food and beverage firms (2014–2018), whereas firm size and growth exhibit positive effects, suggesting that economies of scale can offset debt-related constraints. Aras and Mutlu (2018) compared corporate finance decisions in Turkey and Brazil (2010–2014) and found that leverage negatively affects market value in both countries, whereas profitability enhances it. Their findings highlight the context-specific nature of capital structure effects across emerging economies.

3. Methodology

The study employed a panel research design that combined time-series and cross-sectional data to examine the effect of capital structure policy on the market valuation of listed food and beverage firms in Nigeria. Secondary data were obtained from the Nigerian Exchange Group (NGX) and firms' published annual reports covering 2014–2023. A census approach was adopted since only thirteen firms met the listing criteria, ensuring complete population coverage. The key variables included capital structure indicators (debt-to-equity and leverage ratios) and market valuation measured by Tobin's Q. Data derived from audited financial statements complied with IFRS and FRCN standards, ensuring accuracy and comparability across firms and years. Data analysis involved descriptive and correlation analyses to summarize and explore relationships among variables. Panel unit root tests were conducted to confirm data stationarity, followed by fixed and random effects regression models to determine the impact of capital structure on market valuation. The Hausman test guided the choice between models, ensuring consistent and unbiased estimates. All analyses were performed using E-Views 12, providing robust empirical evidence on how capital structure policies influence firm value in Nigeria's food and beverage sector. The study adopts a multiple linear regression framework within the panel data structure, given that the data covers 13 quoted food and beverage firms in Nigeria over a 10-year period (2014–2023). The general functional relationship is expressed as:

$$MVit = f(CSPit, \mu it) \quad (1)$$

The explicit econometric model is formulated as:

$$TBQit = \beta 0 + \beta 1 DERit + \beta 2 LERit + \beta 3 ICRit + \varepsilon it \quad (2)$$

Pooled Regression Model Specification

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

$$TBQ = \beta_0 + \beta_1 DER_{it} + \beta_2 LER_{it} + \beta_3 ICR_{it} + \mu_{it} \quad (3)$$

Fixed Effect Model Specification

$$TBQ = \alpha_0 + \alpha_1 DER + \alpha_2 LER + \alpha_3 ICR + \sum_i^9 = 1\alpha_i idum\varepsilon 1_{it} \quad (4)$$

Random Effect Model Specification

$$TBQ = \alpha_0 + \alpha_1 DER + \alpha_2 LER + \alpha_3 ICR + \mu i + \varepsilon 1_{it} \quad (5)$$

Where:
CSit = Capital Structure,
DER = Debt-to-Equity Ratio
LER = Leverage Ratio
ICR = Interest Coverage Ratio
β0 = Intercept,
β1−β3 = Coefficients of the explanatory variables,
εit = Random error term.

4. Results and Interpretation

Table 1 Descriptive Statistics between Capital Structure Policy and Tobin's Q

	TBQ	DER	LER	ICR
Mean	1.091769	1.180231	0.531462	3.710000
Median	1.050000	1.100000	0.540000	3.000000
Maximum	1.620000	2.300000	0.800000	9.000000
Minimum	0.650000	0.450000	0.280000	0.700000
Std. Dev.	0.229257	0.426457	0.129424	2.132504
Skewness	0.506657	0.534420	0.012277	0.609319
Kurtosis	2.445275	2.724667	2.139190	2.221388
Jarque-Bera	7.228684	6.598741	4.016985	11.32795
Probability	0.026935	0.036906	0.134191	0.003469
Sum	141.9300	153.4300	69.09000	482.3000
Sum Sq. Dev.	6.780093	23.46069	2.160822	586.6370
Observations	130	130	130	130

Source: Extracted from E-view 12 Output

In Table 1, which focuses on capital structure policy, Tobin's Q has a mean value of 1.09, suggesting that on average, firms in this sector are valued slightly above their book value, an indication of modest growth opportunities. The Debt-to-Equity Ratio (DER) and Leverage Ratio (LER) show mean values of 1.18 and 0.53, respectively, reflecting moderate reliance on debt in financing structures. The Interest Coverage Ratio (ICR) has a mean of 3.71 but a wide variation, with a maximum of 9.0 and a minimum of 0.7, highlighting differences in firms' ability to meet interest obligations. The skewness and kurtosis values show that these variables are fairly normally distributed, although the Jarque-Bera probability indicates that TBQ and DER deviate slightly from normality at the 5% significance level.

Table 2: Panel Unit Root Test Results (ADF-Fisher and ADF-Choi)

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

Variable	Method	Statistic	Prob.	Decision
D(TBQ)	ADF-Fisher Chi-square	151.043	0.0000	Stationary
	ADF-Choi Z-stat	-9.1822	0.0000	Stationary
D(DER)	ADF-Fisher Chi-square	59.6590	0.0002	Stationary
	ADF-Choi Z-stat	-4.4816	0.0000	Stationary
D(LER)	ADF-Fisher Chi-square	64.5696	0.0000	Stationary
	ADF-Choi Z-stat	-4.9011	0.0000	Stationary
D(ICR)	ADF-Fisher Chi-square	144.749	0.0000	Stationary
	ADF-Choi Z-stat	-9.1354	0.0000	Stationary

Source: Extracted from E-view 12 Output

The results of the panel unit root tests using the Augmented Dickey-Fuller (ADF) Fisher Chi-square and Choi Z-statistics show that all variables in the study are stationary at first difference, with probability values of 0.0000 (except DER with 0.0002 under Fisher). This confirms the rejection of the null hypothesis of a unit root, indicating that the variables achieve stability after differencing. Specifically, Tobin's Q (TBQ) used as a proxy for market valuation and capital structure indicators such as Debt-to-Equity Ratio (DER), Leverage Ratio (LER), and Interest Coverage Ratio (ICR) all exhibit stationarity at first difference. This outcome is significant for the study on capital structure policy and market valuation of listed firms in Nigeria because it validates the application of panel regression models that require stationary data to produce reliable estimates. The result implies that variations in firms' financing structure adjust to economic shocks in the short run, while maintaining a stable long-run relationship with market valuation. Consequently, the stationarity of Tobin's Q and capital structure variables supports the empirical examination of how financing policies influence firm value dynamics within the Nigerian capital market context.

Table 3: Hausman Test Results for Capital Structure Policy and Market Valuation

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.955508	3	0.0299
Period random	0.329307	3	0.9544
Cross-section and period random	9.522272	3	0.0231

Source: Extracted from E-view 12 Output

For the analysis of capital structure policy and market valuation, Tobin's Q was employed as the dependent variable, while the explanatory variables included debt-to-equity ratio (DER), leverage ratio (LER), and interest coverage ratio (ICR). To determine the most suitable estimation technique, the Hausman test was conducted to compare the fixed effects model and the random effects model. The test results produced Chi-Sq statistics of 8.9555 for cross-section random, 0.3293 for period random, and 9.5223 for cross-section and period random,

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

with probability values of 0.0299, 0.9544, and 0.0231 respectively.

The results indicate that the null hypothesis could be rejected for the cross-section and for the joint cross-section and period tests, since their probability values are below the 5 percent significance level. This outcome suggests that the fixed effects model is more appropriate for handling variations across firms and across both dimensions jointly. However, for the period test where the p-value was greater than 0.05, the random effects model could not be rejected, implying that time variations do not significantly bias the results.

On the basis of the overall results, the fixed effects model was adopted as the most appropriate specification for examining the effect of capital structure policy on Tobin's Q of quoted food and beverage firms in Nigeria. The justification lies in the fact that cross-sectional differences among firms, such as financial strategies, management structure, or firm-specific market conditions, are not random but systematically influence market valuation. The fixed effects model therefore controls for these unobserved firm-specific characteristics, providing consistent and reliable estimates. The results provide evidence on how variations in debt-to-equity ratio, leverage ratio, and interest coverage ratio shape the market valuation of food and beverage firms in Nigeria.

Table 4 Relationship between Capital Structure Policy and Market Valuation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.709244	0.079657	8.903671	0.0000
DER	-0.281109	0.095842	-2.933052	0.0041
LER	0.723256	0.323181	2.237929	0.0273
ICR	0.088926	0.005331	16.68000	0.0000
	Effects Specification			
Cross-section fixed (dummy variables)				
Period fixed (dummy variables)				
R-squared	0.791499	Mean dependent var		1.091769
Adjusted R-squared	0.743842	S.D. dependent var		0.229257
S.E. of regression	0.116032	Akaike info criterion		-1.298864
Sum squared resid	1.413654	Schwarz criterion		-0.747415
Log likelihood	109.4262	Hannan-Quinn criter.		-1.074792
F-statistic	16.60815	Durbin-Watson stat		1.702218
Prob(F-statistic)	0.000000			

Source: Extracted from E-view 12 Output

The results in table 4 present the relationship between capital structure policy and market valuation of quoted food and beverage firms in Nigeria, with Tobin's Q as the measure of market valuation. The constant term (C) has a positive coefficient of 0.709244 and is statistically significant at 1% (p = 0.0000). This indicates that, when all explanatory variables are held constant, the baseline market valuation of the firms remains positive. The debt-to-equity ratio (DER) shows a negative coefficient of –0.281109, which is statistically significant at the 1% level (p = 0.0041). This suggests that higher leverage through debt financing reduces the market valuation of the firms. The implication is that excessive reliance on debt financing tends to weaken investor confidence and depress market value.

Contemporary Journal of Banking and Finance
Vol. 6, No.01; January-2026;
ISSN (3460–7037);
p –ISSN 4142 –405X
Impact factor: 2.38

The leverage ratio (LER) is positively related to market valuation, with a coefficient of 0.723256 and significance at 5% (p = 0.0273). This indicates that maintaining a healthy leverage structure enhances the firms' market value, possibly because it signals financial stability and efficient use of capital. The interest coverage ratio (ICR) also has a positive coefficient of 0.088926 and is highly significant at the 1% level (p = 0.0000). This means that firms with higher ability to meet their interest obligations enjoy better market valuation. Strong interest coverage reassures investors about the firms' financial strength, thus boosting valuation.

The overall model is robust, with an R-squared value of 0.791499, indicating that about 79% of the variations in market valuation are explained by the capital structure variables. The adjusted R-squared (0.743842) also confirms good explanatory power after adjusting for degrees of freedom. The F-statistic (16.60815) is significant at 1% (p = 0.000000), meaning the model is statistically fit. The Durbin-Watson statistic (1.702218) suggests no severe autocorrelation problem. In summary, the findings show that capital structure policy significantly influences the market valuation of quoted food and beverage firms in Nigeria. While debt-to-equity ratio exerts a negative effect, leverage ratio and interest coverage ratio have positive and significant effects. This underscores the importance of maintaining an optimal balance in financing structure to sustain and improve firm value in the capital market.

4.1 Discussion of Findings

The findings from this study revealed that capital structure policy exerts a significant influence on the market valuation, measured by Tobin's Q, of quoted food and beverage firms in Nigeria. Specifically, the regression results demonstrated that the debt-to-equity ratio (DER) had a negative and statistically significant effect on market valuation, while the leverage ratio (LER) and interest coverage ratio (ICR) showed positive and significant contributions. This suggests that while excessive reliance on debt financing diminishes firm value, prudent use of leverage and strong interest coverage enhance investor confidence and market valuation. The negative coefficient of DER aligns with the **pecking order theory of capital structure** (Myers & Majluf, 1984), which posits that firms prefer internal financing to debt because excessive borrowing signals financial distress and higher bankruptcy costs. In the Nigerian context, where financial markets are characterized by high interest rates and volatile credit conditions, increased debt levels are likely to erode firm value due to higher financing costs and risks of insolvency. This supports the findings of Abor (2005), who reported that higher debt levels are associated with lower firm performance in emerging economies. Similarly, Salawu (2007) found that capital structure choices significantly affect firm value in Nigeria, with debt financing often linked to value erosion when not optimally managed.

On the other hand, the positive impact of LER and ICR indicates that the judicious use of leverage can actually enhance firm value if it is backed by strong earnings capacity to cover interest obligations. This resonates with the **trade-off theory** (Modigliani & Miller, 1963), which argues that firms balance the tax benefits of debt against the costs of financial distress. When firms are able to generate sufficient earnings to cover debt service, the tax shield advantages of debt outweigh the potential risks, leading to an improved market valuation. The significant positive effect of ICR in particular shows that investors in Nigeria place a high premium on firms' ability to meet their interest obligations, as this serves as a key indicator of financial stability and operational efficiency. This finding is consistent with the work of Zeitun and Tian (2007), who established that firms with higher interest coverage ratios tend to enjoy higher market valuation due to reduced bankruptcy risks. Furthermore, the results support the **signaling theory** (Ross, 1977), which posits that financial decisions serve as signals to the market. A higher interest coverage ratio sends a positive signal of managerial competence and financial strength, thereby boosting market confidence. Conversely, an overreliance on debt financing through higher DER sends a negative signal of potential distress, thereby reducing market valuation.

Comparatively, these findings are consistent with recent empirical studies. On the global scene, Fama and French (2002) also found that leverage has mixed effects, with

optimal levels enhancing valuation while excessive debt diminishes it. In the Nigerian food and beverage sector, where firms face intense competition, rising input costs, and fluctuating consumer demand, capital structure decisions are critical to maintaining market value. The study's findings highlight that investors respond negatively to excessive debt usage but reward firms that maintain financial discipline through manageable leverage and strong interest coverage. This underscores the importance of adopting a balanced capital structure policy tailored to the peculiarities of the Nigerian financial and business environment. In conclusion, the relationship between capital structure and market valuation observed in this study reinforces the view that financial policy decisions are central to firm value creation. By integrating insights from the trade-off, pecking order, and signaling theories, as well as evidence from prior empirical studies, the results emphasize that while debt can be beneficial, its advantages are conditional on firms' ability to manage financial risks effectively. For food and beverage firms in Nigeria, optimal capital structure remains a delicate balancing act between leveraging tax benefits and avoiding financial distress.

5. Conclusion

This study concludes that capital structure policy has a significant effect on the market valuation of listed food and beverage firms in Nigeria, as measured by Tobin's Q. The results revealed that while the debt-to-equity ratio (DER) negatively influences market valuation, both leverage ratio (LER) and interest coverage ratio (ICR) positively and significantly affect firm value. This implies that excessive reliance on debt financing tends to reduce market value due to increased financial risk and investor concerns about solvency, whereas prudent use of leverage and strong interest coverage enhance firm valuation by signaling financial stability and efficient capital management. The findings align with the pecking order, trade-off, and signaling theories of capital structure, suggesting that firms in the Nigerian food and beverage sector must strike a delicate balance between the benefits of debt tax shields and the costs of potential financial distress. The evidence further underscores that firm-specific characteristics, managerial financing behavior, and the macroeconomic environment marked by high interest rates and exchange rate volatility play critical roles in shaping market responses to capital structure decisions. Based on the findings, the study recommends the following:

i. Managers of food and beverage firms should maintain an optimal mix of debt and equity that minimizes financing costs while avoiding excessive leverage that could erode firm value.
ii. Firms should focus on improving operational efficiency and profitability to ensure strong interest coverage, as this enhances investor confidence and market valuation.
iii. Given the negative impact of high debt levels, firms should implement robust risk management frameworks to monitor and control exposure to interest rate and credit risks.
iv. Policymakers and financial regulators should foster a more stable credit environment by promoting access to long-term, low-cost financing options, which can encourage sustainable capital structure decisions.
v. Firms should improve financial disclosure and transparency regarding financing decisions to reduce information asymmetry, which will strengthen investor trust and positively influence market valuation.

References

Abor, J. (2005). The effect of capital structure on profitability: An empirical analysis of listed firms in Ghana. *Journal of Risk Finance, 6*(5), 438–445. https://doi.org/10.1108/15265940510633505

Adamu, I., & Hamidah, H. (2023). Assessing the impact of capital structure on firm value: A quantitative study of financial ratios and stock prices of Nigeria food and beverage companies. *The Indonesian Journal of Accounting Research, 26*(3), 483-516.

Adenle, O. E., Adebayo, A. O., & Daramola, P. S. (2025). Capital structure management practices and market value of Nigeria listed manufacturing firms. *Malete Journal of Accounting and Finance*, 5(2), 85-100. https://majaf.com.ng/index.php/majaf/article/view/222 Majaf+1

Adeoye, S. D., & Olojede, S. O. (2022). Impact of capital structure on financial performance of quoted food and beverage firms in Nigeria. *Journal of Economics, Management and Trade, 28*(7), 1–11. https://doi.org/10.9734/JEMT/2022/v28i730483

Akinyomi, O. J., & Olagunju, A. (2013). Determinants of capital structure in Nigeria. *International Journal of Innovation and Applied Studies, 3*(4), 999–1005.

Aras, G., & Mutlu, F. (2018). The impact of corporate finance decisions on market value in emerging markets. *International Journal of Productivity and Performance Management, 67*(4), 00–00. https://doi.org/10.1108/IJPPM-11-2017-0285

Ayo-Oyebiyi, G. T. (2019). Capital structure and organizational performance: A study of food and beverage manufacturing firms in Nigeria. *South Asian Journal of Social Studies and Economics, 4*(3), 1–11. https://journalsajsse.com/index.php/SAJSSE/article/view/57

Baker, M., & Wurgler, J. (2002). Market timing and capital structure. *The Journal of Finance, 57*(1), 1–32.

Brigham, E. F., & Ehrhardt, M. C. (2016). *Financial management: Theory and practice* (15th ed.). Cengage Learning.

CBN. (2025). *Monetary Policy Review Report, July 2025.* Central Bank of Nigeria.

Chaleeda, M., Islam, M. A., Ahmad, T. S. T., & Ghazalat, A. N. M. (2019). The effects of corporate financing decisions on firm value in Bursa Malaysia. *International Journal of Economics and Finance, 11*(3), 127-139. https://doi.org/10.5539/ijef.v11n3p127

Chung, K. H., & Pruitt, S. W. (1994). A simple approximation of Tobin's q. *Financial Management, 23*(3), 70–74.

Edoka, B. C., & Ijeoma, N. B. (2024). Effect of capital structure on the value of listed service firms in Nigeria. *Journal of Global Accounting*, 10(4), 53-68. https://journals.unizik.edu.ng/joga/article/view/5175 Nnamdi Azikiwe University Journals+1

Fama, E. F., & French, K. R. (2002). "Disappearing Dividends: Changing Firm Characteristics or Lower Propensity to Pay?" *Journal of Financial Economics*, 60(1), 3-43.

Frank, M. Z., & Goyal, V. K. (2009). Capital structure decisions: Which factors are reliably important? *Financial Management, 38*(1), 1–37.

Harris, M., & Raviv, A. (1991). The theory of capital structure. *The Journal of Finance, 46*(1), 297–355.

Ihenyen, C. J., Eromosele, C., & Okoro, A. (2023). Financial management decisions and firm value: Evidence from consumer goods companies in Nigeria. *EPRA International Journal of Humanities and Social Sciences, 11*(3), 14–25. https://eprajournals.com/IJHS/article/12385

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics, 3*(4), 305–360.

Joseph, B. G., Emuebie, E., & Chukwu, E. (2021). Impact of firm's attributes on the capital structures of listed food and beverage firms in Nigeria. *International Journal of Economics, Commerce and Management, 9*(12), 221–235.

Kraus, A., & Litzenberger, R. H. (1973). A state-preference model of optimal financial leverage. *The Journal of Finance, 28*(4), 911–922.

Liong, H., & Uluputty, N. F. (2024). Capital structure, financial performance, investment decision and firm value. *Economic and Accounting Journal, 7*(1), 23-35. https://doi.org/10.1109/EAJ.2024.06

Mahmudi, C., & Bhelawati, A. S. (2025). The influence of capital structure, tax avoidance, and profitability on the value of companies in the food and beverage manufacturing subsector listed on the Indonesia Stock Exchange (IDX) for the period 2015-2019. *International Journal of Humanities and Applied Business Studies, 2*(3). https://doi.org/10.59971/ijhabs.v2i3.384

Modigliani, F., & Miller, M. H. (1958). The cost of capital, corporation finance, and the theory of investment. *American Economic Review, 48*(3), 261–297.

Morck, R., Shleifer, A., & Vishny, R.W. (1990). Do managerial objectives drive bad acquisitions?" *Journal of Finance*, 45(1), 31-48.

Myers, S. C. (1984). The capital structure puzzle. *The Journal of Finance, 39*(3), 575–592.

Myers, S. C. (2001). Capital structure. *Journal of Economic Perspectives, 15*(2), 81–102. https://doi.org/10.1257/jep.15.2.81

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics, 13*(2), 187–221.

Omuemi, S. O., Olowe, R. A., & Adegbite, E. O. (2023). The effect of capital structure and agency costs on value among non-financial firms in Nigeria. *African Development Finance Journal*, 5(3), 134-149. https://uonjournals.uonbi.ac.ke/ojs/index.php/adfj/article/view/1534

Perfect, S. B., & Wiles, K. W. (1994). Alternative constructions of Tobin's q: An empirical comparison. *Journal of Empirical Finance, 1*(3–4), 313–341.

Rajan, R. G., & Zingales, L. (1995). What do we know about capital structure? Some evidence from international data. *Journal of Finance, 50*(5), 1421–1460. https://doi.org/10.1111/j.1540-6261.1995.tb05184.x

Ramadhan, M., & Hendayana, Y. (2025). The influence of liquidity, company growth and capital structure on company value with profitability as a moderating variable in property & real estate companies listed on the Indonesia Stock Exchange in 2019–2023. *EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi Dan Bisnis, 13*(1), 527–542. https://doi.org/10.37676/ekombis.v13i1.7590

Rehman, H. ur, Sapar, R., & Shah, M. (2025). Influence of capital structure on firm financial distress of Shariah compliant firms in Pakistan from Pakistan. *Bulletin of Management Review, 2*(1), 107–128. https://bulletinofmanagement.com/index.php/Journal/article/view/92

Reuters. (2025, July 30). *Nigeria inflation slows as monetary tightening takes hold.* Retrieved from https://www.reuters.com

Ross, S. A. (1977). The determination of financial structure: the incentive-signaling approach. *Bell Journal of Economics*, 8(1), 23-40.

Sutomo, S., Wahyudi, S., Pangestuti, I. R. D., & Muharam, H. (2019). Determinants of financing decision: Empirical evidence on manufacturing firms in Indonesia. *Investment Management and Financial Innovations, 16*(2), 159–170. https://doi.org/10.21511/imfi.16(2).2019.14

Tani, L. G., Winarno, A., & Siswanto, E. (2025). Capital structure mediates institutional ownership, asset structure, and company growth to the value of the

company. *Manajemen dan Bisnis, 24*(1), 1-17. https://doi.org/10.24123/mabis.v24i1.790

Tobin, J. (1969). A general equilibrium approach to monetary theory. *Journal of Money, Credit and Banking, 1*(1), 15–29.

Yulianti, A. S., Suteja, J., Alghifari, E. S., Gunardi, A., & Sarman, R. (2024). The effect of financing decision on firm value: An analysis of mediation and moderation. *Review of Integrative Business and Economics Research, 13*(3), 441–456.

Zeitun, R., & Tian, A., (2007). The effects of the global financial crisis on capital structure: Evidence from the GCC region. *International Journal of Financial Studies*, 5(3), 82-101.