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Evaluating the Role of Transparent Financial Reporting on Capital Structure Decision-Making of Nigerian Beverage Companies

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Abstrak

Tujuan – *Laporan keuangan yang tidak akurat dapat menyebabkan keputusan pembiayaan yang salah dalam bisnis. Oleh karena itu, studi ini mengkaji bagaimana transparansi pelaporan keuangan mendukung proses pengambilan keputusan struktur modal, dengan fokus pada perusahaan minuman yang terdaftar di Nigeria.*
Desain/Metodologi/Pendekatan – *Studi ini menganalisis data sekunder dari laporan keuangan tahunan enam perusahaan minuman terdaftar terpilih untuk jangka waktu dua belas tahun (2012-2023). Penelitian ini menggunakan pendekatan penelitian ex post facto. Penelitian ini menerapkan statistik deskriptif dan metode regresi panel yang terdiri dari model efek tetap, efek acak dan kuadrat terkecil terkumpul. Setelah melakukan uji seleksi model, penelitian ini mempertimbangkan model efek acak untuk estimasi data.*
Temuan – *Hasil penelitian mengungkapkan bahwa kecukupan modal, pembiayaan utang, dan tangibilitas aset memainkan peran penting yang positif dalam pengambilan keputusan struktur modal perusahaan minuman Nigeria. Penelitian ini menemukan bahwa mempertahankan laporan keuangan yang transparan memfasilitasi proses pengambilan keputusan struktur modal perusahaan minuman Nigeria. Studi ini menyarankan perusahaan minuman untuk mendiversifikasi sumber pembiayaan mereka untuk mengurangi ketergantungan pada utang dan menghindari risiko terkaitnya*.
Keterbatasan/implikasi Penelitian – *Keterbatasan dalam penelitian ini termasuk kekhususan industri dan penerapan regional, tetapi temuan tersebut menyoroti pentingnya modal yang memadai, aset berwujud dan pembiayaan utang dalam keputusan struktur modal perusahaan minuman.*

Keywords: Struktur Modal, Pengambilan Keputusan, Perusahaan Minuman Nigeria, Pelaporan Keuangan yang Transparan

Abstract

Purpose – Inaccurate financial report may lead to wrong financing decisions in a business. This study therefore examines how financial reporting transparency supports the capital structure decisions-making process, focusing on Nigerian listed beverage companies.
Design/methodology/approach – The study analyzes secondary data from the annual financial statements of six selected listed beverage firms for a period of twelve years (2012-2023). The research employs an ex post facto research approach. The research applies descriptive statistics and panel regression methods comprising fixed effect, random effect and pooled least squares models. After conducting model selection tests, the study considers a random effect model for data estimation.
Findings – The results reveal that capital adequacy, debt financing and tangibility of asset play positive significant roles on capital structure decisions-making of Nigerian beverages companies. The research discovers that maintaining transparent financial reports facilitate capital structure decision-making processes of Nigerian beverage companies. The study suggests for beverage firms to diversify their financing sources in order to reduce dependency on debt and avoid its associated risks
Research limitations/implications – The limitations include industry specificity and regional applicability, but the findings highlight the importance of adequate capital, tangible assets and debt financing in capital structure decision of beverage companies.

Keywords: Capital Structure, Decision-Making, Nigerian Beverage Companies, Transparent Financial Reporting

Introduction

Financing-mix decisions involve judicious allocation of debt and equity capital for a business. These decisions directly influence a firm's risk profile, cost of capital, and overall performance (Mathewos, 2016). The trenchancy and reliability of financial reporting play a pivotal role in informed decisions by providing essential insights into a firm's financial health, asset base, and future prospects (Sikveland & Zhang, 2020). Transparent financial reporting (TFR) informs and guides business managers on capital composition decisions by providing a transparent and reliable picture of their financial health. Transparent reporting will enable stakeholders to make informed judgments about the company's creditworthiness, investment potential and overall financial stability. Investors are more likely to invest in companies with a reputation for accuracy and TFR as it fosters trust and confidence in the company's future prospects. In today's competitive business environment, especially within the beverage industry, the importance of accurate financial reporting cannot be overstated.

Transparent reporting can help companies secure more favorable terms for debt financing, such as lower interest rates and increased access to capital. This process becomes even more vital in the beverage sector, where companies often face fluctuating market dynamics, competitive pressures, and the need for financial flexibility. Financial reports provide financial managers with crucial insights, enabling them to identify key factors that influence their strategic decisions (Adegoke & Oyedepo, 2018).

Globally, the beverage industry is recognized as the cornerstone of any business. Beverage companies, as integral components of the global beverage industry, often face the critical task of optimizing their capital composition to achieve sustainable growth and financial stability (Kurbanova, Korableva, & Kalimullina, 2018). In Nigeria, this industry is a significant contributor to the economy, and its firms are increasingly reliant on accurate financial reporting to support informed decision-making (Kurbanova et at., 2018). The industry is vibrant in serving both domestic and international markets, relies heavily on reliable financial reporting to inform financing strategies. The reliability and integrity of a beverage's financial reports offer invaluable insights that are crucial for management's assessment and determination of the most appropriate capital structure. Their reports help managements assess the most appropriate mix of debt and equity for funding operations and investments (Anaja & Onoja, 2015).

Problem Statements and Literature Gaps

Economic conditions, interest rate fluctuations, capital market dynamics and unavailability of adequacy financing sources that will optimize capital structure affect the financing cost of a business to achieve financial efficiency, minimize costs, and maximize shareholder value (Sikveland & Zhang, 2020). Achieving optimal capital structure requires balancing debt and equity to maximize the firm's value through smart investments and improved financial and operational performance. The accuracy and integrity of these reports form the foundation upon which critical decisions about the firm’s capital structure are made (Gentry & Fernandez, 2008). Financial report provides essential data for evaluating a firm's performance and informing financial decisions (Aborode, 2014).

Corporate stakeholders, particularly investors and creditors, are deeply interested in assessing a company's financial stability and capital strength to ensure its long-term viability (Abata, Migiro, Akande & Layton, 2017). Financial statements, as an integral part of annual reports, provide vital information regarding a company's capital structure, liquidity, performance, and other relevant aspects (Sikveland & Zhang, 2020). The report helps in identifying discrepancies from the established financial plans, thereby enabling companies to take corrective actions. It offers a comprehensive overview of a firm's capital mix, showing its financial position and recording all significant transactions (Abeywardhana & Nagoro, 2017). Financial managers also rely on comprehensive reports, including income statements, balance sheets, and cash flow statements, to assess the current financial position of the firm and determine the best financing strategy moving forward. For instance, beverage companies in Nigeria use financial statements to assess their capacity for taking on new debt or issuing additional equity to finance expansion projects (Duru, 2012).

The beverage industry, like many other industries, has been experiencing fluctuations in demand, competition, and regulatory challenges over time (Abata et al., 2017). This draws the research attention and calls for further studies in this industry. Apart from that, numerous studies have explored the factors influencing capital composition decisions, revealing varying outcomes depending on the objectives under consideration. A detailed analysis of financial reporting accuracy is recognized as a key method for facilitating effective and appropriate financing decisions process of a firm (Catapan, Catapan & Da-Veiga, 2015). This because the critical role the financial reporting system is playing in firms’ decision processes highlights the need for ongoing research in this area. This study therefore aims to evaluate how transparent financial reporting (TFR) supports strategic financing decisions in beverage firms, focusing on Nigerian beverage companies. By evaluating the significant role of financial reporting accuracy on key aspects of financing indicators like debt-to-equity ratio, tangibility of assets, leverage financing, and capital adequacy, this research seeks to contribute to the understanding of how financial information can enhance capital structure decision-making processes within the beverage industry.

While existing literature has extensively explored the financial determinants of capital structure decisions, such as tax advantages, debt availability, and interest rates, there is a discernible gap in investigating other financial factors. Factors like adequacy of capital base, debt financing option and tangibility of asset, for instance, can significantly influence capital choices but have been understudied in previous research. Moreover, many of the reviewed studies, including those by Anaja & Onoja (2015), Abib et at., (2015); Mathewos (2016); Abeywardhana & Magoro (2017); Abata et al. (2017); Zhang & Liu (2017); Adegoke & Oyedepo (2018); Kurbanova et al. (2018); Sikveland & Zhang (2020); Rashid et al. (2020); Sohrabi & Moveghari (2020); Lawal (2022); Adeola & Olatunji (2023), Thalia & Ronald (2023) and Sonnia & Chintia (2024) primarily relied on qualitative data, questionnaires, or interviews. This approach limits the depth and generalizability of their findings.

To address these shortcomings, this research empirically examines how accurate financial reports, as represented by capital adequacy, asset tangibility, and debt financing, supports the capital composition decisions of beverage companies. The analysis utilizes panel data from the annual financial statements of these companies over the period 2012-2023. This extended time frame allows for a more comprehensive understanding of financing strategies and dynamics compared to previous studies, which typically covered data up to 2022.

By addressing these gaps, this research aims to contribute to a more nuanced and comprehensive understanding of capital structure decision-making (CSDM) determinants and processes, thereby aiding firms and policymakers in making informed corporate decisions. Based on this background, the main purpose of this research is to investigate how transparent financial reporting (TFR) supports the capital structure decision-making (CSDM) process of Nigerian beverage companies. Specifically:

a. Evaluate the significant role of capital adequacy on the CSDM process of Nigerian beverage companies.
b. Determine the significant influence of tangibility of assets on the CSDM process of Nigerian beverage companies.
c. Assess the significant role played by debt financing on the CSDM process of Nigerian beverage companies.

Literature Review & Hypothesis

Theoretical Framework

The propriety and residual equity theory articulated by Sikveland and Zhang (2020), provides a robust theoretical foundation for understanding the role of transparent financial reporting on CSDM process in beverage companies in this study. This theory emphasizes the importance of preparing and presenting financial statements in a manner that enables stakeholders to make well-informed decisions (Sikveland & Zhang, 2020). Key tenets of the theory include the accessibility of financial information to shareholders and other interested parties, the reflection of ownership's impact on company performance in financial records, and the maintenance of precise records of assets, liabilities, income, and expenses to ensure accurate financial reporting (Sikveland & Zhang, 2020).

The propriety and residual equity theory is particularly relevant to beverage companies due to the complex nature of their operations and the significant financial decisions they must make. Accurate financial reporting is crucial for enhancing investor confidence, securing favorable loan terms, assessing risks, making informed strategic decisions, and ensuring compliance with regulations. This practice enables companies to make crucial and effective decisions regarding capital composition and other pertinent factors that can enhance their performance. Consequently, this theory aligns well with the objectives of this study. By providing reliable and accessible financial information, beverage companies can attract capital, make informed financing decisions, and ultimately achieve long-term success. Companies within the same industry may adopt a similar capital structure based on industry standards, competitive pressures, and investor expectations.

Transparent Financial Reporting

Financial reporting (FR) is the process of preparing and presenting financial information. FR reporting serves as a critical tool for firms to make informed strategic financing decisions, particularly when it comes to forming an optimal capital structure (Thalia & Ronald, 2023). FRs help firms adapt their capital structures based on these conditions, ensuring they maintain sufficient liquidity and financial flexibility (Adebimpe, 2009). For example, during periods of market growth, beverage companies may prefer to take on more debt, leveraging their assets to expand operations. Company's financial report is determined by the extent to which the report can accurately depict the company's operating success and estimate its future cash flows (Lawal, 2022). As emphasized by Adegoke & Oyedepo (2018), financial reports are integral to organizational functioning financial systems and require contextual evaluation. As emphasized by Casta & Ramond (2016), financial reports are integral to organizational functioning financial systems, requiring contextual evaluation.

Rao & Mishra's (2016) study concentrated on examining the relationship between financial statement quality and accountability in public sector organizations. The research employed case studies, interviews, and content analysis of financial reports. The study discovered a positive correlation between financial statement quality and effective accountability in managing public assets, revenue, expenditure, and liabilities. The authors concluded that enhancing financial statement quality contributes to improved accountability in public sector organizations. Also, Wang & Li (2018) investigated the investor perspective, exploring how financial statement quality shapes perceptions of public sector entities. The research employed surveys and experimental methods to evaluate investor reactions to variations in financial statement quality. The paper revealed that higher financial report quality had a positive impact on investor assessments of public sector entities, encompassing their assets, revenue, expenditure, and liabilities.

Transparent financial reporting (TFR) is the presentation of information in a manner that is clear, concise, and understandable to users (Kurbanova et al., 2018). Financial reports should be prepared in accordance with generally accepted accounting principles (GAAP) and be free from material misstatements. It should also be free from errors and omissions and should be consistent with generally accepted accounting principles (FASB, 2023). The transparency of financial reports is a function of disclosing the tangibility of assets, adequacy of capital, and availability of financing sources (Daskalakis & Psillaki, 2006). It is the preparation and presentation of financial information in a manner that is relevant, reliable, comparable, and understandable. It should also comply with the international financial reporting standards (IASB, 2023). Additionally, transparent financial reporting means providing appropriate information about an entity's financial performance, financial position, and cash flows to users who need that information to make informed decisions (AICPA, 2023).

Besides, firms' financial reports provide vital insights for capital mix decisions (Mathewos, 2016). Meanwhile, transparency of financial information, particularly in terms of capital adequacy (Magoro, 2017), debt performance (Rashid, Johari & Izadi, 2020), and asset tangibility (Kurbanova, Korableva & Kalimullina, 2018), can significantly impact a firm's ability to attract investors, secure financing, and navigate the complexities of the capital markets. TFR serves as the foundation for preparing financial statements following generally accepted accounting principles (GAAP) or international financial reporting standards (IFRS), providing stakeholders with essential information for decision-making and assessment of an entity's financial performance and position (Rao & Mishra, 2016) the transparency of financial reports plays a crucial impact in the capital composition decision process by providing accurate and reliable information on a company's assets, liabilities, and overall financial position (Michael, 2013). The quality of a company's financial report is determined by the extent to which the report can accurately depict the company's operating success and estimate its future cash flows (Mathewos, 2016).

Capital Structure Decision-Making

Capital structure is the mix of finance for a business. Its decision-making is crucial for companies, in determining their funding mix of debt and equity. Capital structure decision-making (CSDM) means striking a balance between debt and equity capital to minimize financing costs while maximizing profitability (Abeywardhana & Magoro, 2017). The capital composition of a firm refers to the mix of debt and equity that finances the company's operations. Financial reporting elements are the building blocks used to construct financial statements and capital structure, enabling stakeholders to understand a company's financial position and performance (Madumere & Eronwonhenle, 2023).

These elements encompass various categories of financial information on assets, liabilities, expenses, income and equity of the company. Each element is serving a specific purpose in conveying the financial health of an entity (Michael, 2013). Income encompasses increases in economic benefits during the accounting period, either in the form of inflows, enhancements of assets or reductions of liabilities, increasing equity, other than those relating to contributions from equity participants (FASB, ASC TOPIC 100). Expenses represent decreases in economic benefits during the accounting period, either in the form of outflows or depletions of assets or incurrence of liabilities, resulting in a decrease in equity, other than those relating to distributions to equity participants (Zhang & Liu, 2017).

Additionally, Madumere and Eronwonhenle (2023) examined the nexus between capital structure and financial performance in listed Nigerian beverage firms. It is essential for equity financing, as investors use financial statements to assess a company's value and determine a fair price for its equity. The research employed a purposive sampling, utilized ex-post facto design and analyzed data collected from the companies' annual reports. Findings from the research discovered positive effects significant of debt capital, equity capital on the retained earnings (EPS) of the firms and recommended increase in the debt usage by the companies to improve their economic performance measured in terms of EPS.

Determining the capital mix is a critical aspect of a corporate funding strategy, involving the strategic allocation of various capital resources to support business operations (Abeywardhana & Magoro, 2017). Capital composition is the mix of debt and equity. Debt is the liabilities to the company. Equity capital represents the residual interest in the assets of an entity after deducting liabilities

(Magoro, 2017). It reflects the ownership interest of shareholders and encompasses common stock, preferred stock, retained earnings, and additional paid-in capital (Aghaebe & Oranefo, 2024). Balancing this mix is crucial to maximizing firm value, as it impacts the cost of capital, financial flexibility, and ultimately, profitability. Wrong composition of capital may be due to inaccurate information obtained from financial statements.

By investing in transparent financial reporting, companies can improve their capital base and performance.

Hypotheses Development

Capital adequacy is the possibility of a firm to meet the capital required for its operations. Adequate capital enables companies to perform their operations and compete with their rivals in the industries (Abeywardhana & Magoro, 2017). Capital composition whether informed of equity or debt or the combination of the two must be adequate for business continuity. However, the capital availability and cost of debt and equity financing options influence financing decisions. Factors such as interest rates, credit ratings, and investor perceptions of risk impact the attractiveness of debt and equity instruments (Mathewos, 2016). Previous research has also shown the significance of factors such as capital adequacy and value of capital base in capital structure determinations.

The study by Lawal (2022) assessed the determinants factors influencing the financial reporting quality of quoted 50 listed non-financial firms in Nigeria between 2004 and 2021. The study employed secondary data. The author used panel methods to reveal that both fundamental variables of financial statements and corporate governance variables are poor determinants of the financial reporting quality of quoted non-financial firms in Nigeria. The findings discovered asset tangibility and capital adequacy as among the capital mix determinants of the firms, Based on the above discussion, the following hypothesis guides this research:

H_{1a}: there is a significant role of capital adequacy on capital structure decision-making of Nigerian beverage companies.

The nature of assets and variability of a company's cash flows play a significant role in determining its financing mix. Assets represent resources controlled by an entity as a result of past events and from which future economic benefits are expected to flow to the entity (Olakunle & Emmanuel, 2014). They include tangible items such as cash, inventory, property, plant, and equipment, as well as intangible assets like patents and trademarks. Tangibility of assets also play an important role in the capital composition decision of a business (Sohrabi & Moveghari, 2020). It based on the above assertions that the hypothesis two below is formulated:

H_{1b}: Tangibility of assets has significant influence on capital structure decision-making of Nigerian beverage companies.

Debt financing is the funding of business assets through debt capital. Debt may be short-term or long or the combination of the two. Debts denote present obligations arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits (Otley, 2012). These can include debts owed to creditors, accounts payable and accrued expenses (Osuala, Ugwuma & Osuji, 2012). Firms with growth prospects may leverage their future earnings potential to support higher debt levels (Magoro, 2017). However, firms must assess their ability to service debt obligations without jeopardizing financial stability. This involves evaluating cash flow generation, asset quality, and debt repayment capabilities to determine an appropriate level of leverage (Abeywardhana & Magoro, 2017).

More so, debt offers tax advantages through interest deductions, making it a cheaper source of financing compared to equity. Firms operating in environments with favorable tax policies may use more debt in their capital composition to benefit from tax shields and lower their overall cost of capital (Abib, Catapan, Catapan & Da-Veiga, 2015). Referring to the above discussion, the hypothesis three below is formulated to guide this study:

$H_{1c:}$: Debt financing play a significant role in the capital structure decision-making of Nigerian beverage companies..

Research Method

This study employs an ex-post facto research design to examine the strategic role of transparent financial reporting (TFR) on capital structure decisions (CSDM) process in the Nigerian beverage sector. The population consists of all the eight (8) beverage companies listed on the Nigerian exchange group (NXG) plc from 2012 to 2023.

A targeted purposive sampling technique was used to select a sample of six (6) beverage companies, representing 75% of the study's population. Secondary data were sourced from the annual financial reports of the selected firms for twelve years ranging from 2012 to 2023. The panel data were on the independent and dependent variables of the study, including firm size standing as a control variable. The independent variable, TFR, was measured using various metrics such as capital adequacy, tangibility of assets and debt financing, while the dependent variable, CSDM, was measured as the proportion of debt to total equity capital.

The study employed descriptive and inferential statistics for data estimation. Descriptive statistics such as mean, standard deviation (SD) were used to summarize the data and provide an overview of the TFR and its influence on CSDM. Inferential analysis was conducted using panel data models, including fixed effects (FE), random effects (RE), and pooled ordinary least squares (POLS). Post-data tests such as the Hausman test and restricted f-test were conducted to determine the most appropriate model. Additionally, the research carried out some diagnostic tests like group panel unit root test, omission of variables test among others to ensure the suitability, validity and reliability of the study's models. However, Table 1 discloses the variable measurement and identification.

Table 1
Identification and Measurement of Variable

Types	Variable	Variable Measurement & Definition	Source
Dependent Variable			
Capital Structure-Decision Making (CSDM)	Debt-Equity Ratio (DBER)	Total debt divided by total equity indicating the ratio of debt-to-equity of the firms	Sikveland & Zhang (2020)
Independent Variables			
Transparent Financial Reporting (TFR)	Capital Adequacy (CA)	Equity multiplier which is total assets divided by share capital, measuring the degree of a company total assets financed by total equity	Lawal (2022)

	Debt Financing (DF)	Total debt divided by total assets, assessing the proportion of a company's total assets financed through debt.	Sikveland & Zhang (2020)
	Tangibility Of Asset (Total)	Non-current assets divided by total assets, indicating the percentage of non-current assets to total assets which reflect the part of the firm's assets that are tangible.	Lawal (2022)
Control Variable	Firm Size (FZ)	Log of companies' total assets	Sohrabi & Moveghari (2020)

Source: Data Compilation (2024)

Results and Discussion

Study Result

The Role of Transparent Financial Reporting on Capital Structure Decision-Making of Nigerian Beverage Companies

The results disclose the outcomes of statistical analyses comprising descriptive and inferential analyses including the test as shown in Table 2:

Table 2
Descriptive Analysis Results

Variables	Mean	Median	Std. Dev.	Min.	Max.
Debt-Equity Ratio	198.011	9.7610	4.7001	0.5702	1.8501
Capital Adequacy	0.97031	0.4562	0.5450	0.4191	1.8902
Debt Financing	0.79322	0.8003	0.4322	0.3100	1.5003
Tangibility Of Assets	0.20711	0.1300	0.0413	0.0003	0.2801
Firm Size	0.59600	0.0341	0..0771	0.0432	0.2503

Source: Data Analysis (2024)

The descriptive results provided in table 2 summarizes the key statistics for five variables relevant to the study of how transparent financial reporting (TFR) supports the capital structure decision-making (CSDM) process of Nigerian listed beverage companies. The mean value of the debt-equity ratio is 198.011, indicating a high average debt level relative to equity across the sampled firms. The median value, which is 9.7610, suggests that the typical firm in the sample has a significantly lower debt-equity ratio, indicating some variation in financing structure among the firms. The standard deviation is 4.7001, reflecting considerable dispersion in the data. The minimum and maximum values of 0.5702 and 1.8501, respectively, show a wide range in CSDM, from relatively low to relatively high debt levels.

The average capital adequacy ratio is 0.97031, which is quite high, suggesting that, on average, the firms maintain a robust capital buffer relative to their assets. The median of 0.462 shows that half of the firms have a capital adequacy ratio below this value, indicating that there is a substantial spread in capital adequacy across the sample. The standard deviation of 0.5450 highlights variability in capital adequacy among firms. The minimum and maximum values of 0.4190 and 1.8902 further illustrate this variation, with some firms being significantly more capital-adequate than others. The mean of debt financing is 0.79322, which indicates moderate performance in managing debt. The median is 0.8003, showing that debt financing is generally consistent across firms. The standard deviation of 0.4320 suggests moderate variability in how well companies manage their debt obligations. The minimum and maximum values, 0.3100 and 1.50003 respectively, point to a range in debt management effectiveness, from poorer to more effective performance.

The average tangibility of assets is 0.20711, which reflects a relatively low level of tangible assets compared to total assets. The median value is 0.1300, indicating that half of the firms have even lower asset tangibility. The standard deviation of 0.0410 suggests that there is less variation in asset tangibility among firms. The minimum and maximum values, 0.0003 and 0.2801, show that some companies have very low levels of tangible assets, while others have somewhat higher levels. The mean firm size is 0.59600, indicating a moderate average firm size across the sample. The median is substantially lower at 0.0341, suggesting that many firms are smaller relative to the mean. The standard deviation of 0.0771 reflects some variability in firm size. The minimum and maximum values of 0.0432 and 0.2503 reveal that firm sizes range from relatively small to somewhat larger. In summary, the results show a diverse range of capital structures, capital adequacy, debt performance, asset tangibility, and firm sizes among the listed beverage companies. The wide variation in these variables suggests that there are significant differences in how these firms manage their capital structures through TFR.

Table 3
Model Selection and Other Diagnostic Tests

Assumptions	Diagnostic Tests	t-statistic	Probability	Decision
Group Panel Unit Root	ADF method	8.94105	0.00316	No unit root at level
Omission Of Relevant Variable	Ramsey reset	5.04441	1.31321	No significant variables are omitted
Model Specification	Breusch-Pagan test statistic: lm (Pooled Vs Random effect	3.69436	0.00413	Ho is rejected supporting random effect model
	Hausman test (Fixed effect Vs Random effect)	6.12109	1.19148	Ho is accepted in supporting random effect model
Autocorrelation	Durbin-Watson (DW)	2.83500	0.31064	No autocorrelation

Source: Data Analysis (2024)

Table 3 provides the results of the various diagnostic tests conducted to confirm the model's reliability and validity regarding how the study's independent variables support the dependent variable of the study. The result of the group panel unit root test for all the variables using ADF method shows a statistics value of 8.94105 and probability value of 0.00316 which is significant, implying the absence of unit root at level in the series. The test result for omission of relevant variables was conducted using the RAMSEY reset test showing a statistics value of 5.04441 and the probability value of 1.31321 confirm that there is no omission of significant variables, suggesting that all important factors affecting strategic financing decision-making process of breweries were included in the analysis.

For model selection tests, the Hausman test was firstly conducted between the fixed effects and the random effects models disclosing a statistical value of 6.12109 and a probability value of 1.19148 which is greater than 5% significant level, indicating that the random effect model is more suitable than fixed effect. Using the Breusch-Pagan test for model selection between random effect and pooled least square (POLS) the result shows a statistical value of 3.69436 and a probability value of 0.00413, implying that random effect is more preferred to POLS model. Based on these test results, the random effect method was finally selected as the most fitted data estimator in this study. The result of autocorrelation test conducted using the Durbin-Watson (DW) with a statistic value of 2.83500 falls within the acceptable range (minimum of 2) and with a p-value of 0.31046 accepts the null hypothesis of no autocorrelation, meaning there is no autocorrelation among the variables. These tests collectively ensure the model's reliability and robustness in analyzing the relationship between the explanatory variables and dependent variables of this research.

Result of Random Effect Model Regression

Evaluating the role of TRF on the CSDM process of Nigerian beverage firms, the random effect (RE) regression model results provide significant insights into how the various financial indicators influence firms' CSDM process.

Table 4
Random Effect (RE) Model Results

Series: CSDM, CA, DF, TOA, FZ Dependent Variable: CSDM				
Variables	**Co-Efficient**	**Std. Error**	**Z-Statistic**	**Probability**
Constant	423.710	54.5430	7.768	0.0135
Capital Adequacy	254-350	192.520	1.321	0.0270
Debt Financing	555.123	164.510	3.374	0.0420
Tangibility Of Asset	323.230	640.630	1.505	0.0255
Firm Size	312.170	443.530	1.704	0.0361
Model parameters: R^2 =0.6527 Adjusted R^2 =0.5936	F-stat. =0.7456, p=0.01321 Durbin-watson (dw) =2.83500, p=0.05106			

Source: Data Analysis (2024)

The results of the random effects (RE) model, as presented in table 4, reveal a significant relationship between capital adequacy (CA) and the debt-equity ratio (DBER). The coefficient for CA is 254.350, with a standard error of 192.520, and a z-statistic of 1.321, which is statistically significant at a probability level of 0.0270. This suggests that higher capital adequacy positively impacts the debt-equity ratio, indicating that as firms increase their capital adequacy they are more likely to take on higher levels of debt relative to equity. Furthermore, debt financing (DF) also exerts a positive and significant influence on the DBER, with a beta coefficient of 555.123 and a standard error of 164.510. The z-statistic of 3.374 and a probability value of 0.0420 indicate that an increase in debt financing is significantly associated with a rise in the debt-equity ratio. This finding underscores the role of debt in firms' capital structure decisions.

Additionally, the tangibility of assets (TOA) emerges as another critical factor, with a coefficient of 323.230 and a standard error of 640.630. The z-statistic of 1.505 and a probability value of 0.0255 suggest that firms with higher levels of tangible assets are more likely to have a higher debt-equity ratio, reflecting their ability to use tangible assets as collateral for securing debt.

Firm size (FZ), with a beta value of 312.170 and a standard error of 443.530, shows a positive but less pronounced effect on the DBER. The z-statistic of 1.704 and the probability value of 0.0361 imply that firm size affects debt-equity ratio, larger firms tend to use larger financial resources for firm growth, in addition to having easier access to funding than smaller firms.

The overall model fit is robust, with an R-squared value of 0.6527 and an adjusted R-squared of 0.5936, indicating that the model explains approximately 59% of the variability in the debt-equity ratio. The f-statistic of 0.7456, with a p-value of 0.0309, confirms the overall significance of the model. Moreover, the Durbin-Watson statistic of 2.83500, with a probability value of 0.031064, suggests no significant autocorrelation in the residuals.

In summary, the findings emphasize the significant roles of capital adequacy, debt financing, asset tangibility, and firm size in influencing the capital structure decisions of listed beverage firms. These financial indicators are critical in shaping firms' approaches to financing and leveraging debt.

Discussion

Evaluating the Role Transparent Financial Reporting (TFR) on Capital Structure Decision-Making (CSDM) of Nigerian Beverage Companies

This research investigates how TFR supports the CSDM among listed Nigerian beverage companies, focusing on the influence of financial report components on capital mix decisions in the industry. Using a random effect model, the findings underscore the critical role that capital adequacy (CA), debt financing (DF), tangibility of asset (TOA), and firm size (FZ) play on shaping CSDM process, as measured by the debt-equity ratio (DBER) a key component of capital composition.

The Role of CA on CSDM of Nigerian Beverage Companies

The study’s results specifically discovered that capital adequacy (CA) is found to have a positive and significant influence on CSDM. Firms with a higher debt-equity ratio tend to rely more on DF, as a strong capital base enhances their ability to manage debt, making them more attractive to lenders. The finding highlights the heavy reliance on debt, as evidenced by the average performance, where a large portion of beverage companies’ capital structure is debt-financed. This reliance on debt signals the beverage firms’ preference for leveraging external funding, which may reflect the industry's strategic approach to capital structure optimization. Firms with stronger asset bases tend to have greater flexibility in accessing capital, negotiating favorable terms, and surviving economic fluctuations which enhances their competitive edge. However, while firm size is statistically significant, its impact on financing decisions is less pronounced compared to capital adequacy and asset tangibility. Larger firms may have access to more debt options, but their size alone does not significantly drive financing choices.

The Influence the TOA Has on CSDM of Nigerian Beverage Companies

The tangibility of assets also plays a crucial role in CSDM. Companies with substantial tangible assets are more likely to secure debt financing because tangible assets can serve as collateral, reducing the lender's risk. This study identifies asset tangibility as a key determinant in capital mix decisions.

Firms with significant investments in fixed assets are more inclined to use debt financing, leveraging their physical assets to secure loans. The low standard deviation of asset tangibility values suggests a consistent approach to asset utilization across the sampled beverage firms. This consistency points to a strategic alignment in how these firms manage their assets to optimize financing options.

From descriptive analysis results, firms with stronger asset bases tend to have greater flexibility in accessing capital, negotiating favorable terms, and surviving economic fluctuations which enhances their competitive edge. However, while firm size is statistically significant, its impact on financing decisions is less pronounced compared to capital adequacy and asset tangibility. Larger firms may have access to more debt options, but their size alone does not significantly drive financing choices.

The Role the DF Plays on CSDM of Nigerian Beverage Companies

Debt financing is another factor that positively influences capital mix decisions. Companies that effectively manage their debt tend to have a higher debt-equity ratio, reflecting a greater dependence on debt as a source of funding. This finding underscores the importance of debt financing in the beverage industry, which is driven by factors like access to credit markets, tax benefits, and the desire to maximize returns through financial leverage.

However, the wide range in debt values among firms suggests that beverage companies have varying levels of debt utilization, which may result from differences in risk tolerance, financial health, and strategic objectives.

Overall, these findings highlight the key role financial metrics play in strategic capital structure decisions within the beverage industry. Improvements in capital adequacy, debt financing, and asset tangibility are essential for effective financing mix decisions.

This study’s results align with studies conducted by researchers such as Adegoke & Oyedepo (2018), Abata et al. (2017), Kurbanova et al. (2018), Sikveland & Zhang (2020), Rashid et al. (2020), Sohrabi & Moveghari (2020), Lawal (2022), Adeola & Olatunji (2023), Thalia & Ronald (2023) and Sonnia & Chintia (2024)

These studies similarly emphasize the importance of accurate financial reporting in capital structure decisions across different contexts and jurisdictions.

This research uniquely measures transparent financial reporting (TFR) using a combination of capital adequacy, tangibility of assets, and debt financing, filling gaps left by earlier studies that typically focused on qualitative methods.

The study introduces an innovative focus by linking transparent financial reporting to capital structure decisions in Nigerian beverage companies over an extended period (2012–2023), a timeframe that adds depth to the analysis. Previous studies have often overlooked the industry-specific context and the post-pandemic environment in which companies operate, making this research particularly timely.

Conclusion and Recommendation

Conclusion

This study concludes that transparent financial reporting, alongside adequate capital, appropriate debt financing, and significant investments in tangible assets, play significant roles in the capital structure decision-making process of Nigerian beverage companies.

The findings illustrate the importance of these factors in shaping financing strategies, particularly within Nigeria's beverage industry, while offering insights applicable to other countries. The study fills a gap in the literature by providing empirical evidence on the determinants of capital composition decisions in emerging markets, focusing on Nigeria's beverage industry.

The findings of this research can guide governmental policymakers in designing frameworks that encourage greater transparency in financial reporting. By ensuring accurate and timely financial disclosures, beverage firms can make more informed capital structure decisions, ultimately contributing to economic stability. The findings of this study highlight the critical role that maintaining transparent financial reports plays in securing diverse financing options, reducing over-reliance on debt, and fostering sustainable growth. Beverage and other firms can adopt more robust accounting standards to align with global best practices

By employing a robust analytical framework, this research contributes valuable knowledge to the understanding of capital allocation strategies in dynamic and competitive environments. Specifically, study highlights how capital adequacy influences financing decisions, revealing that firms with higher capital adequacy ratios tend to adopt higher debt-equity ratios. The study also clarifies the relationship between debt financing and strategic decisions, showing that effective debt management promotes greater reliance on debt compared to equity. Furthermore, it emphasizes the role of asset tangibility, demonstrating that tangible assets are crucial in securing debt and optimizing capital structure.

Findings Implications

The findings of this study have significant implications for financing mix decisions of beverage firms in Nigeria and beyond. The study underscores the critical role of capital adequacy, debt financing, and asset tangibility in shaping the financing strategies of firms within the industry. A strong capital base not only enhances the firm's ability to secure debt but also suggests financial stability, making the company more attractive to lenders.

The reliance on tangible assets as collateral highlights the importance of physical investments in facilitating debt financing, particularly in capital-intensive industries like beverages. Firms that can efficiently manage their debt, coupled with strong tangible asset holdings, are better positioned to leverage financial resources effectively, improving their competitiveness and resilience in fluctuating market conditions.

Additionally, while larger firms have more opportunities for debt financing, their size does not significantly influence financing decisions compared to capital adequacy and asset tangibility. This suggests that beverage companies should focus on optimizing their existing resources rather than relying solely on their scale. Ultimately, accurate financial reporting plays a crucial role in informing these financing decisions, enabling companies to align their capital structure with strategic objectives.

Study Limitations

The findings of this study are subject to a few key limitations. First, the focus on beverage firms limits the generalizability of the results to other industries that may have different capital structures and financing practices. Additionally, while the study uses quantitative financial metrics like the debt-equity ratio and capital adequacy, it does not account for qualitative factors such as management expertise and market conditions, which also impact capital structure decisions.

The study's focus on Nigerian beverage firms may limit the applicability of the results to other regions with different economic or regulatory environments. Moreover, the data is time-bound, potentially overlooking shifts in financing strategies due to economic changes. Lastly, the use of a random effect model may not fully capture firm-specific characteristics that consistently influence financing decisions.

Recommendation

Based on these findings, it is recommended that beverage firms diversify their financing sources to reduce dependency on debt and the associated risks. Exploring alternative options such as equity markets, venture capital, leasing, and asset-backed securities could provide more balanced and flexible financing solutions.

The management of these firms should also focus on optimizing the utilization, maintenance, and valuation of their tangible assets, as these assets significantly enhance access to debt financing by serving as collateral. Enhancing capital adequacy ratios through strategies such as retaining earnings or issuing equity would strengthen the firms' capital base, allowing them to better leverage debt for growth and stability. Effective debt management is crucial as well; adopting robust practices in managing debt can improve financial performance and ensure the firm's long-term sustainability.

Additionally, beverage companies with significant tangible assets should use these assets to secure more favorable debt terms, maximizing the collateral value to access debt capital more effectively. Finally, firms must implement comprehensive risk management strategies to mitigate the potential downside of high leverage, such as hedging mechanisms, maintaining liquidity buffers, and conducting stress testing. Establishing continuous monitoring and evaluation mechanisms will help these firms stay adaptable and competitive in response to changing market dynamics.

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