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Examining the Influence of Financial Report Quality on Shaping the Capital Structure Decision Process of Brewery Companies in Nigeria

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Abstract

This study investigated how financial report quality shapes the capital structure decision-making in listed brewery companies, focusing on Nigeria. The research analyzed secondary data from the annual reports of six selected breweries between 2012 and 2023, resulting in a total of sixty observations. Using an ex post facto research approach, the study applied descriptive statistics and panel regression methods comprising fixed effects, and pooled least squares and after the selection tests, the research eventually considered Pooled Ordinary Least Squares the best data estimator. The results revealed that asset tangibility, high debt performance, and capital adequacy significantly influence the capital mix decisions in these companies. The research also highlighted that asset tangibility strengthens their asset base. The study concluded that the quality of financial reports, as indicated by key financial indicators like capital adequacy, debt performance, and tangible asset investment, plays a crucial role in shaping capital structure strategies. The study further suggested diverse financing options and effective asset and risk management for brewery firms to minimize risks associated with high leverage.

Keywords: *Brewery companies, capital structure decision process, financial report quality*

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Introduction

The decision-making process surrounding a company's capital structure is essential to its financial stability and sustainability, involving a careful consideration of debt and equity financing options. The quality of financial reporting is a key factor in providing the insights necessary to shape a firm's decisions regarding its capital composition. In Nigeria, as in other countries, the brewery industry relies heavily on the thorough analysis of financial statements to make informed strategic decisions (Kurbanova et al., 2018).

Determining an optimal capital structure is a significant task, requiring a careful balance of funding sources, which typically include both debt and equity (Rashid et al., 2020). This combination, referred to as the capital structure, plays a crucial role in evaluating a company's financial well-being. Financial statements are fundamental in assessing a company's assets, liabilities, and overall financial position, guiding important decisions related to capital structure formulation, liquidity management, investment strategies, cost control, and working capital management. In the brewery sector, a detailed analysis of accounting data from financial reports is essential and enables financial managers to pinpoint critical elements that influence the formation of an optimal capital structure. Nigeria's brewery industry consists of several companies involved in the production and distribution of brewed beverages, serving both domestic and international markets (Anaja & Onoja, 2015). The reliability and integrity of a brewery's financial reports offer valuable insights for management to determine the appropriate capital structure (Abib et al., 2015).

Achieving the optimal capital structure requires balancing debt and equity to maximize the firm's value through smart investments and improved financial and operational performance (abeywardhana & Magoro, 2017). Numerous studies have explored the factors influencing capital structure decisions, revealing varying outcomes depending on the objectives under consideration (Abata et al, 2017). A detailed analysis of financial statements is recognized as a key method for facilitating capital structure decisions (Adebimpe, 2009). The significance of financial reports in the effective management of businesses cannot be emphasized enough (Aroh et al., 2011). The accounting information derived from these reports forms the foundation for crucial decisions in management and finance, including the determination of capital composition, mergers, acquisitions, and other strategic undertakings (Daskalakis & Psillaki, 2006).

This financial report provides essential data for evaluating a firm's performance and informing financial decisions (Duru, 2012). It helps in identifying discrepancies from the established financial plans, thereby enabling companies to take corrective actions (Gentry & Fernandez, 2008). A financial report offers a comprehensive overview of a firm's capital mix, showing its financial position and recording all significant transactions (Mathewos, 2016). globally, they are recognized as the cornerstone of any business, comprising critical documents such as income statements, statements of financial position, cash flow statements, notes to accounts, and the significant accounting policies guiding their preparation (Magoro, 2017).

Corporate stakeholders in particular are deeply interested in assessing a company's financial stability and capital strength to ensure its long-term viability (Mathewos, 2016). Financial statements, as an integral part of annual reports, provide vital information regarding a company's capital structure, liquidity, performance, and other relevant aspects (Kurbanova et al., 2018). Regular reviews of financial data within these reports are critical for assessing a company's progress and overall performance (Sikveland & Zhang, 2020).

Management and brewery owners, in particular, depend heavily on these reports for making important operational decisions and for evaluating the effectiveness of internal control systems (Kurbanova et al., 2018). By analyzing the information contained in financial reports, companies can determine their business continuity, investment value, creditworthiness, and overall performance (Aborode, 2014). The critical role that financial report quality plays in decision-making processes highlights the need for ongoing research in this area. Companies often adjust their capital structures in response to changing market conditions, ensuring they retain financial flexibility and optimize their funding costs. Businesses need to maintain sufficient liquidity and flexibility to weather unpredictable economic events and manage the risks associated with leverage by evaluating these factors, Firms can strategically balance risk and return, optimize their financing costs, and enhance their long-term financial performance. This research aims to explore how the quality of financial reports—particularly in terms of capital adequacy, debt performance, and asset tangibility—affects capital structure decisions among listed brewery companies.

Review of Related Literature

Capital Structure Decision Process

Capital mix decisions are crucial for companies, in determining their funding mix of debt and equity. Financial statements provide vital insights for these decisions. Capital structure decisions are often influenced by industry benchmarks and peer comparisons (Mathewos, 2016). Companies within the same industry may adopt similar capital structures based on industry standards, competitive pressures, and investor expectations. Firms with growth prospects may leverage their future earnings potential to support higher debt levels (Magoro, 2017).

The nature and variability of a company's cash flows play a significant role in determining its capital structure. Debt offers tax advantages through interest deductions, making it a cheaper source of financing compared to equity. As such, firms operating in environments with favorable tax policies may use more debt in their capital structure to benefit from tax shields and lower their overall cost of capital (Abib et al., 2015).

The availability and cost of debt and equity financing options influence capital structure decisions. Factors such as interest rates, credit ratings, and investor perceptions of risk impact the attractiveness of debt and equity instruments (Mathewos, 2016). 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.

Economic conditions, interest rate fluctuations, and capital market dynamics affect the cost and availability of financing sources that will optimize their capital structure to achieve financial efficiency, minimize costs, and maximize shareholder value (Sikveland& Zhang, 2020).

Determining the capital composition is a critical aspect of a corporate funding strategy, involving the strategic allocation of various capital resources to support business operations.

Financial Reporting Quality

The quality 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). As emphasized by (Casta&Ramond, 2016), financial reports are integral to organizational functioning financial systems, requiring contextual evaluation. The quality of financial reports is a function of disclosing the tangibility of assets, adequacy of capital, and availability of financing sources (Daskalakis &Psillaki, 2006).

Previous research has also shown the significance of factors such as asset tangibility in capital structure determinations. Financial reporting elements are the building blocks used to construct financial statements, enabling stakeholders to understand a company's financial position and performance (Madumere & Eronwonhenle, 2023). These elements encompass various categories of financial information, each serving a specific purpose in conveying the financial health of an entity (Michael, 2013).

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 (Sohrabi & Moveghari, 2020). Liabilities 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).

Equity 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). 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). The financial report quality 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)

Theoretical Framework

This study is grounded in the proprietary and residual equity theory narrated by Sikveland And Zhang (2020). The theory emphasizes the necessity of processing and presenting companies' financial statements to stakeholders for informed decision-making (Sikveland& Zhang, 2020). It further asserts that company accounting information should be accessible to shareholders and other interested parties to ensure they are well-informed about the financial health of the business (Sikveland& Zhang, 2020).

Central to this theory is the idea that firms' events and transactions should be accessed through financial records to understand the impact of ownership on firm performance (Sikveland & Zhang, 2020). The theory advocates for the regular and accurate preparation of accounting information in the form of financial reports. It stresses the importance of companies maintaining precise records of their assets, liabilities, income, and expenses, as reflected in their financial statements (Sikveland & Zhang, 2020). 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.

Empirical Review

Olakunle and Emmanuel (2014) assessed the impact of asset tangibility on capital structure emphasizing listed firms in Nigeria. Employing robust econometric methodologies, the research scrutinized the interplay between capital structure theories and financing strategies across a spectrum of company data spanning from 2009 to 2019. The findings unveiled a noteworthy 15% significance attributed to tangible assets, alongside a modest 2% impact on the decisions about capital structure.

Rao and Mishra's (2016) study concentrated on examining the relationship between financial statement quality and accountability in public sector organizations. Their 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. Recommendations included advocating for standardized reporting practices, continuous monitoring, and integrating financial reporting with accountability mechanisms.

Wang and 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.

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.

Additionally, the study by Madumere and Eronwonhenle in 2023 examined the nexus between capital structure and financial performance in listed Nigerian industrial goods manufacturing firms. The research employed a purposive sampling, utilized an ex-post facto design, and analyzed data collected from the companies' annual reports. Findings from the research discovered positive effects of debt capital, and equity capital on the retained earnings (EPS) of the firms and recommended an increase in the debt usage by the companies to improve their economic performance measured in terms of EPS.

Gaps in Literature

The existing literature only discussed financial factors influencing capital structure decisions, such as tax advantages, availability of debt and equity financing, and interest rates, there seems to be a gap in exploring non-financial determinants. Factors like asset tangibility could also significantly influence capital structure decisions but are not thoroughly addressed in the reviewed studies. Previous studies such as Sikveland And Zhang (2020); Rashid et al., (2020); Sohrabi And Moveghari (2020), and Lawal (2022) predominantly utilized qualitative data, questionnaires, or interviews, overlooking the direct use of panels data from companies' annual financial statements. To address these gaps, this research empirically evaluates how financial report quality influences the capital structure decision process within the brewery companies using the variables of asset tangibility, capital adequacy, and debt performance on the capital structure ratio of debt-equity between 2012 and 2023 through secondary data.

The reviewed studies such as those by Abib et al., (2015), Anaja And Onoja (2015), Mathewos (2016), Abeywardhana And Magoro (2017), Abata et al., (2017), Zhang And Liu (2017), Adegoke And Oyedepo (2018), Kurbanova et al., (2018), Sikveland And Zhang (2020), Rashid et al., (2020), Sohrabi And Moveghari (2020) and Lawal (2022) Only covered data to 2019, but this research covered the periods to 2023. Addressing these gaps could enhance the comprehensiveness and applicability of research on capital structure determinants, facilitating better-informed decision-making for firms and policymakers.

The Data and Estimation Strategy

This study focuses on Nigeria and employs an ex post facto research design. This design is considered appropriate for examining the influence of financial report quality on the capital structure decisions of listed Nigerian brewery industries, as it allows for the analysis of panel data over time. By utilizing these methodologies and analytical techniques, the study aims to provide a comprehensive understanding of how the study's independent variables influence the capital composition decision-making of the companies.

The target population for this study comprises all brewery companies listed on the Nigerian Exchange Group as of the study period from 2012 to 2023. These firms were chosen due to their

significant roles in the Nigerian economy and the availability of comprehensive financial data required for the analysis. A targeted purposive sampling technique was employed to select a sample of six (6) companies, representing 75% of the study's population. The sample size determination was based on the availability and completeness of financial data over the twelve years. This approach ensures that the sample adequately represents the population and provides a robust basis for the study's conclusions.

The research focuses on the brewery industry in Nigeria, a vital sector within the Nigerian economy. The analysis periods cover twelve years (2012-2023) to allow a comprehensive assessment of the trends and patterns in the financial reporting elements and their influence on capital mix decisions. Specifically, the financial reports of these companies serve as the primary units from which data is extracted and analyzed. The units of analysis in this research are the individual brewery companies listed on the Nigerian stock exchange. However, descriptive analysis was used to summarize data and provide an overview of the financial reporting quality and its influence on the capital structure decision process across the selected companies.

For inferential analysis, panel data models, including fixed effect (FE), random effect (RE), and pooled ordinary least squares (POLS), were employed. Post-data tests comprising the Hausman test and restricted f-test were conducted to determine the most appropriate analysis model. Secondary data was collected from the annual financial reports of the selected publicly traded brewing companies in Nigeria. These reports provide detailed information on the study's independent and dependent variables, which are crucial for analyzing the influence of financial reporting quality on the capital structure decision process of breweries.

Table 1:

Variables Operational Definition

Types	**Variable**	**Variable Measurement & Definition**	**Source**
Dependent Variable			
Capital Structure Decision Process	Debt-equity ratio (DER)	Total Debt / Total Equity It represents the overall debt-to-equity ratio of the firms.	Lawal (2022)
Independent Variables:			
Financial reports quality	Capital Adequacy (CA)	Equity Multiplier Total Assets / Share Capital or 1/equity ratio. It measures how a firm's total assets are financed by shareholders' equity.	Lawal (2022)
	Debt Performance (DP)	Total Debt / Total Assets. It assesses the percentage of a firm's total assets financed by debt. Measurement	Lawal (2022)
	Asset Tangibility (AT)	Non-current Assets/Total Assets. It indicates the proportion of non-current assets relative to total assets to reflect the tangible asset part of the company's assets.	Lawal (2022)
Control variable	Firm Size (FZ)	Log of firms' total assets	Sohrabi and Moveghari (2020)

Source: Data Compilation, 2024

Results and Discussions

This section presents data and discusses the study's results. The descriptive analysis provided in Table 2 summarizes key statistics for five variables relevant to the study of how financial report quality influences the capital structure decisions of listed brewery companies. The mean value of the Debt-Equity Ratio (DER) is 198.00, indicating a high average debt level relative to equity across the sampled companies. The median value, which is 9.760, suggests that the typical company in the sample has a significantly lower debt-equity ratio, indicating some variation in capital structure among the firms. The standard deviation is 470.00, reflecting considerable dispersion in the data. The minimum and maximum values of 0.5700 and 1.8503, respectively, show a wide range in capital structure decisions, from relatively low to relatively high debt levels.

Table 2:

Descriptive Analysis Results

Variables	Mean	Median	Std. Dev.	Minimum	Maximum
Debt-equity Ratio	198.000	9.7600	470.000	0.57000	1.85030
Capital Adequacy	0.97000	0.4550	0.54500	0.41900	1.89000
Debt Performance	0.79300	0.8000	0.43200	0.31000	1.50000
Asset Tangibility	0.20700	0.1350	0.04100	0.00000	0.28000
Firm Size	0.59600	0.0340	0..07700	0.04300	0.25000

Source: Data Analysis, 2024

The average capital adequacy ratio is 0.9700, which is quite high, suggesting that, on average, the firms maintain a robust capital buffer relative to their assets. The median of 0.455 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 1.8900 further illustrate this variation, with some firms being significantly more capital-adequate than others.

The mean debt performance is 0.7930, which indicates moderate performance in managing debt. The median is 0.800, showing that debt performance 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, 0.310 and 1.5000 respectively, point to a range in debt management effectiveness, from poorer to more effective performance.

The average asset tangibility is 0.2070, which reflects a relatively low level of tangible assets compared to total assets. The median value is 0.135, 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, 0.0000 and 0.2800, show that some companies have very low levels of tangible assets, while others have somewhat higher levels.

The mean firm size is 0.5960, indicating a moderate average firm size across the sample. The median is substantially lower at 0.034, suggesting that many firms are smaller relative to the mean. The standard deviation of 0.0770 reflects some variability in firm size. The minimum and maximum values of 0.0430 and 0.2500 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 brewery companies. The wide variation in these variables suggests that there are significant differences in how these firms manage their capital structures and financial quality.

Model selection:

The results of the model selection tests, as presented in Table 3 offer insights into the appropriateness of using different econometric models for analyzing data in this research. First, the Hausman test statistic that compares the fixed effects (FE) model to the random effects (re) model indicates that the random effects model is suitable. However, once the random effect model is preferred, it is important to compare it with the pooled model using the Breusch-pagan test. This test finds that its p-value is 2.14883 so the pooled model is more preferred over the random effect mode.

Table 3:

Model Selection Tests Results

Tests	Stat. value	P-value	Decision
Hausman test statistic (FE Vs RE	6.12109	1.19178	Ho is accepted in favor of RE
Breusch-Pagan test statistic: LM (PLS Vs RE	3.69966	2.14883	Ho is accepted and supports POLS

Source: Data Analysis, 2024

Variation in these variables suggests that there are significant differences in how these firms manage their capital structures and financial quality.

Model selection:

Result of Pooled Regression

In examining the influence of financial report quality on shaping the capital combination decision process of Nigerian brewery companies, the pooled least squares regression results provide significant insights into how various financial metrics impact capital structure decisions.

The results in Table 4 reveal a noteworthy relationship between capital adequacy (ca) and the debt-equity ratio (DER). The coefficient for ca is 2.548550, with a standard error of 0.93426, and a z-statistic of 1.6170, which is statistically significant with a probability value of 0.0213. This implies that higher capital adequacy is positively associated with the debt-equity ratio, suggesting that as capital adequacy increases, firms may be more inclined to take on higher levels of debt relative to equity.

Table 4:

Pooled Least Square Result

SERIES: CSDM, CA, DP, AT, FZ				
Variables	Co-efficient	Std. Error	Z-Statistic	Probability
Constant	423.720	57.4840	3.190	0.014
Capital Adequacy	2.54860	0.93430	1.620	0.021
Debt Performance	505.380	163.530	1.280	0.041
Asset Tangibility	354.100	64.4250	1.460	0.026
Firm Size	322.470	453.540	0.990	0.041
Model Parameters: R-square Adjusted R-square F-statistics Durbin-Watson (DW)			Stat. value 0.653 0.690 0.746 2.925	P-value 0.012 0.310

Source: Data Analysis, 2024

Debt performance (DP) also shows a positive impact on the DER, with a coefficient of 505.3830 and a standard error of 163.532. The Z-statistic of 1.2850 and a probability value of 0.0410 suggest that improvements in debt performance are significantly associated with an increase in the debt-equity ratio. This relationship underscores the importance of managing debt performance effectively to influence capital structure decisions.

Asset tangibility (AT) is another significant factor, with a coefficient of 354.3980 and a standard error of 64.4253. The Z-statistic of 1.4610 and a probability value of 0.0262 indicate that asset tangibility has a substantial impact on the DER. Firms with higher asset tangibility are likely to have a higher debt-equity ratio, reflecting their ability to leverage tangible assets as collateral for debt financing. Firm size (FZ), with a coefficient of 322.4670 and a standard error of 453.543, shows a positive but less pronounced effect on the DER. The Z-statistic of 0.9860 and the probability value of 0.0410 suggest that while firm size does influence capital structure decisions, its effect is not as strong as that of other variables.

The overall model parameters indicate a robust fit of the regression model to the data, with an R-square value of 0.65337 and an adjusted R-square of 0.69036. This suggests that the model explains approximately 69% of the variability in the debt-equity ratio. The F-statistic of 0.74569 with a p-value of 0.01995 confirms the overall significance of the model, while the Durbin-Watson statistic of 2.92534 suggests no significant autocorrelation in the residuals. In summary, the results highlight that capital adequacy, debt performance, and asset tangibility significantly influence the capital structure decisions of listed brewery companies, while firm size has a more moderate impact. This underscores the importance of these financial metrics in shaping capital structure strategies.

Diagnostic Tests

The diagnostic tests in Table 5 provide essential insights into the model's reliability and validity regarding how the study's independent variables influence the dependent variable in Brewery companies in Nigeria. **A** multi-collinearity test was conducted using the variance inflation factor (VIF). The test result shows a statistics value of 0.001 and a VIF value of 2.63 for capital adequacy (CA). The statistics value for debt performance is 0.006 and its VIF is 0.95. Asset tangibility test result discloses a statistics value of 0.854 and VIF value of 1.49 while the statistics value for firm size is 0.002 with a VIF value of 1.50. All these results indicate that no multi-collinearity exists among the variables authenticating the fitness of the pooled ordinary least square method for data estimation.

Table 5:

Diagnostic Tests

No.	Assumptions	Diagnostic Tests	Test Statistic	P-Value and Related	Decision
1.	Multicollinearity	Variance Inflation Factor (VIF)	CA=0.001 DP=0.006 AT=0.854 FZ=0.002	VIF: CA=2.63 DP=0.95 AT= 1.49 FZ=1.50	No multi-collinearity exist
2.	Heteroscedascity	Breusch-Pagan Test	3.69010	2.15	No heteroscedasticity detected
3.	Autocorrelation	Durbin-Watson (DW)	2.8351	0.3101	No Autocorrelation
4.	Normality	Jarque-Bera	4.1361	1.0371	The error term is normally distributed.
5.	Omission of Relevant Variable	Ramsey RESET	5.0442	1.3103	No omission of significant variables

Source: Data Analysis, 2024

Table 5 also reveals the result of the heteroscedasticity test carried out using the Breusch-Pagan test method. The test shows a statistics value of 3.69010 with a p-value of 2.15, implying that no heteroscedasticity which indicates a constant variance of residuals across observations, and consistent and unbiased estimates. The result of the autocorrelation test conducted using the Durbin-Watson (dw) of which it statistical value of 2.835 falls within the acceptable range (minimum of 2) and with a p-value of 0.311 which accepts the null hypothesis of no autocorrelation, indicating no autocorrelation among the variables further validating the model's reliability. Applying the Jarque-bera for the normality test, the normality test results with a statistic value of 4.136 (p=1.0371). Since the p-value of 1.0371 is greater than the 0.05 significance level,

the null hypothesis that the residuals are normally distributed is accepted. Thus, the model's residuals are perfectly normal, suggesting no potential issues with the distribution of errors.

The test result for the omission of relevant variables was conducted using the Ramsey reset test showing a statistics value of 5.044 and a p-value of 1.31 which confirms that no significant variables were omitted, suggesting that all important factors affecting capital structure decisions were included in the analysis. For model selection tests, the Hausman test was first conducted between the fixed effects (fe) and the random effects (re) models disclosing a statistic value of 6.12109 and a probability value of 1.191 which is greater than a 5% significant level, indicating that the remodel is more suitable than fe. Using the Breusch-pagan test for model selection between RE and pooled least ordinary square (POLS), the result with a statistical value of 3.610 and a p-value of 2.15 shows that POLS is more preferred to the RE model. Based on these test results, the POLS method was eventually selected as the best data estimator in this research.

In summary, the diagnostic tests validate the appropriateness of the pols method and demonstrate that the model is free from issues of multi-collinearity, heteroscedasticity, autocorrelation, and specification errors, making it a reliable tool for data analysis. These tests collectively ensure the model's reliability and robustness in analyzing the influence of financial reporting quality on capital structure decisions of the brewery companies in Nigeria.

Discussion of Findings

The study investigates how the quality of financial reports influences the capital structure decision process among listed brewery companies, by highlighting the influence of the financial report components on the capital mix decision-making in brewery industries. The results based on the most fitted pooled least square method, confirm the relevance of tangibility of assets, adequacy of capital, and debt performance in shaping capital structure decisions, by revealing that capital adequacy, debt performance, and asset tangibility significantly influence the debt-equity ratio, which is a critical element of capital structure. The results from the research

Specifically, capital adequacy has a positive significant effect on the debt-equity ratio, indicating that companies with higher levels of capital adequacy are more likely to utilize a higher proportion of debt relative to equity. This is because a strong capital base suggests that the company is better

positioned to manage debt, making it more appealing to lenders. One notable observation is the relatively high reliance on total debt, as indicated by the average debt performance, implying that the substantive amount of capital nearly of the capital structure is debt-financed.

Additionally, asset tangibility has a significant positive impact on the debt-equity ratio. Companies with substantial tangible assets are likely to secure more debt, as these assets serve as collateral, reducing risk for lenders and facilitating higher levels of debt. This study's findings have discovered that asset tangibility emerges as a crucial factor influencing capital structure decisions, with tangible assets contributing substantively to the overall capital base. This suggests that firms with substantial investments in fixed assets may prefer debt financing, leveraging their physical assets as collateral to secure loans or bonds. However, the lower standard deviation for asset tangibility indicates a narrower dispersion of values around the mean, implying a more consistent approach to asset tangibility among the sampled companies.

Similarly, the study finds that debt performance also positively influences the debt-equity ratio, the proxy of capital structure. Companies that excel in managing their debt tend to have a higher debt-equity ratio, reflecting a greater reliance on debt financing. This suggests that effective debt management can lead companies to adopt more aggressive debt financing strategies. The finding underscores the importance of debt financing in the brewery industry, possibly driven by factors such as access to credit markets, tax advantages, and the desire to leverage financial leverage to maximize returns for shareholders. However, the wide range of debt performance values suggests varying levels of debt utilization across different firms, which could reflect differences in risk tolerance, financial health, and strategic objectives. Furthermore, the significant proportion of asset-funded capital structure, with capital adequacy averaging at 0.9700, highlights the importance of asset base and liquidity management in shaping capital decisions. Brewery firms with stronger asset bases may have more flexibility in sourcing capital, negotiating favorable financing terms, and weathering economic downturns, thus enhancing their resilience and competitive advantage in the market.

On the other hand, firm size, while statistically significant, has a less pronounced effect on the debt-equity ratio compared to the other factors. Larger firms may have more opportunities to use debt, but the impact of firm size on capital structure decisions is relatively smaller. More so, the

descriptive analysis of the brewers' capital structure decision process provides valuable insights into how these firms manage their financial resources. The mean values and standard deviations offer a comprehensive overview of the distribution and variability within the studied variables, shedding light on the patterns and tendencies in capital structure decision-making among the sampled companies.

Overall, these findings highlight the importance of financial metrics in shaping capital structure strategies for brewery companies. Emphasizing improvements in capital adequacy, debt performance, and asset tangibility can be crucial for optimizing capital structure. The results align with the outcome of the studies conducted by Abeywardhana and Magoro (2017); Adegoke And Oyedepo (2018); Abata et al., 2017); Kurbanova et al., 2018); Kurbanova et al. (2018); Sikveland and Zhang (2020); Rashid et al. (2020); Sohrabi and Moveghari (2020) and Lawal (2022) where the studies discovered the importance of financial report quality on the capital composition decision process of firms in the researchers; jurisdictions. The absence of heteroscedasticity in the series further strengthens the validity of the chosen model, ensuring robustness and reliability in hypothesis testing.

Moving beyond descriptive analysis, the results of post-data examinations provide valuable insights into the most suitable econometric model for analyzing the relationship between capital structure determinants and decision-making processes. The preference for pooled ordinary least squares over fixed and random effects models suggests the importance of accounting for both time-invariant and time-varying factors in explaining variations in capital structure decision process across firms.

Conclusion and Implications

This study concludes that maintaining quality financial reports through capital adequate, debt performance, and investing in tangible assets facilitate capital structure decisions in brewery industries essential by discovering that capital adequacy significantly affects the debt-equity ratio, suggesting that companies with higher capital adequacy ratios are inclined to use more debt relative to equity. Additionally, there is a positive correlation between debt performance and the debt-equity ratio, indicating that better management of debt results in a higher proportion of debt

in the capital structure. Asset tangibility also plays a significant role, with tangible assets positively impacting the debt-equity ratio by providing collateral that enables companies to secure more debt. Lastly, while firm size positively affects the debt-equity ratio, its impact is less significant compared to capital adequacy, debt performance, and asset tangibility. These findings showed the importance of capital structure and the significant role of debt financing, asset adequacy, and tangibility in shaping firms' capital structure choices and in the decision-making processes of brewers industries in Nigeria and other countries.

The research however contributes to the existing literature on capital structure by providing empirical evidence from the Nigerian brewery industry, thus filling a gap in the literature regarding the determinants and implications of capital structure decisions in emerging markets. By employing a comprehensive analytical framework and robust econometric techniques, this study offers valuable insights for practitioners, policymakers, and researchers seeking to understand and optimize capital allocation strategies in dynamic and competitive environments.

The study clarifies the role of capital adequacy in capital structure, demonstrating that companies with higher capital adequacy ratios are more likely to have a higher debt-equity ratio. The research provides insight into the relationship between debt performance and capital structure, showing that effective debt management encourages higher debt financing relative to equity. The study enhances the understanding of how asset tangibility influences capital structure, emphasizing the importance of tangible assets as collateral in securing higher levels of debt.

Based on the findings of this study, the research recommended that the managers of companies in Nigeria and other countries should explore diversifying their financing sources to reduce dependency on debt and mitigate associated risks. This could involve tapping into equity markets, and venture capital, or exploring alternative financing mechanisms such as leasing and asset-backed securities. Given the significant influence of asset tangibility on capital structure decisions, the firm's management should focus on optimizing asset utilization, maintenance, and valuation to enhance their collateral base and improve access to financing options.

To optimize capital structure, brewery companies' management should focus on enhancing their capital adequacy ratios. By strengthening their capital base through strategies such as retaining

earnings or issuing equity, companies can improve their ability to leverage debt. Additionally, they should optimize their debt performance by adopting robust debt management practices. Effective management not only facilitates higher debt financing but also contributes to overall financial stability. Furthermore, firms' managers with significant tangible assets should leverage these assets to secure favorable debt terms. By maximizing the collateral value of their assets, companies can improve their capacity to raise debt capital. Implementing these recommendations can help brewery companies make informed capital structure decisions and achieve a balanced and effective use of debt and equity.

As evidenced by the varying levels of debt utilization among sampled firms, the industries must adopt robust risk management strategies to mitigate the potential downside risks associated with high leverage. This may include implementing effective hedging mechanisms, maintaining liquidity buffers, and conducting regular stress testing to assess the resilience of their capital structures under adverse market conditions. Capital structure decisions are dynamic and influenced by various internal and external factors. Therefore, industries should establish mechanisms for continuous monitoring and evaluation of their financial performance, capital structure composition, and market dynamics to adapt their strategies proactively and maintain competitiveness in the long run.

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