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THE INFLUENCE OF FINANCIAL LEVERAGE AND MARKET CAPITALIZATION ON FIRMS' PROFITABILITY

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Abstract

This study examined the influence of financial leverage and market capitalization on the profitability of listed consumer goods and services firms in Nigeria. Using panel data from 33 firms spanning 2014 to 2023, profitability is measured by return on assets (ROA), while financial leverage is represented by the debt-to-equity ratio (DER), debt-assets ratio (DAR), and long-term debt-to-equity ratio (LTDR). Market capitalization (MC) is also analyzed as a key determinant of profitability. The findings reveal that DER has a positive but statistically insignificant effect on ROA, while DAR and LTDR negatively and significantly impact profitability. Conversely, market capitalization exhibits a strong positive and significant relationship with ROA (17.09% overall statistical significance), suggesting that larger firms enjoy profitability advantages. These results highlight the importance of optimizing leverage, particularly long-term debt, and leveraging the scale advantages of larger firms to sustain profitability. The study provides actionable insights for corporate managers and policymakers to develop strategies that enhance firm performance in the dynamic context of emerging markets.

Keywords: Debt-to-Equity Ratio, Debt-Assets Ratio, Long-Term Debt-to-Equity Ratio. Market Capitalization.

Introduction

The dynamic nature of emerging markets presents unique opportunities and challenges for firms striving to achieve and sustain profitability. Financial leverage and market capitalization are two critical determinants of firm performance that have garnered significant attention in financial and management research. Financial leverage in this study, represented by metrics such as the debt-to-equity ratio (DER), debt-assets ratio (DAR), and long-term debt-to-equity ratio (LTDR), reflects a firm's reliance on borrowed capital relative to equity or assets. On the other hand, market

capitalization (MC), a measure of a firm's total market value, signals its size, market strength, and investor confidence. These factors are particularly relevant in emerging markets, where firms often operate in volatile environments characterized by limited access to capital, fluctuating investor sentiment, and evolving regulatory frameworks (Adenle, Ajiboye, Ojuade, Sulaiman, Adeoye & Ayeni, 2023).

Profitability, as measured by the return on assets (ROA), remains a key indicator of firm success, efficiency, and value generation (Sinebe, 2020; Farah, Amin & Pramudianto, 2021). The relationship between financial leverage and profitability has been widely debated in corporate finance literature, with theoretical perspectives offering contrasting views. On the one hand, the use of debt financing can amplify returns for shareholders through tax shields, while on the other hand, excessive debt can expose firms to financial distress and reduced operational efficiency (Omabu, Okoye & Amahalu, 2021). Similarly, market capitalization plays a vital role in determining a firm's financial stability and growth prospects, as larger firms with higher market capitalization often enjoy better access to capital and economies of scale. However, the relevance and extent of these relationships can vary significantly across emerging markets, given their distinctive institutional, economic, and cultural contexts. The research questions of the study can be formulated as follows:

i. What is the impact of the debt-to-equity ratio (DER) on the return on assets (ROA) of firms?
ii. How does the debt-assets ratio (DAR) influence the return on assets (ROA) of firms?
iii. What effect does the long-term debt-to-equity ratio (LTDR) have on the return on assets (ROA) of firms?
iv. To what extent does market capitalization (MC) affect the return on assets (ROA) of firms?

This study aims to explore the influence of financial leverage and market capitalization on firm profitability in the Consumer goods and Services firms. Specifically, it examines the effects of DER, DAR, LTDR, and MC on ROA, providing empirical evidence from firms operating in these rapidly evolving economies. By addressing the research questions outlined, this study seeks to contribute to the growing body of knowledge on the interplay between financial structure, market valuation, and firm performance in emerging markets. The findings are expected to offer valuable insights for policymakers, corporate managers, and investors, enhancing their understanding of the strategic role of financial leverage and market capitalization in shaping firm profitability. As emerging economies continue to integrate into the global financial system, understanding these dynamics is crucial for fostering sustainable growth and competitiveness in a rapidly changing economic landscape.

Literature Review

2.1 Financial Leverage and Firm Profitability

Financial leverage, as reflected in ratios such as the debt-to-equity ratio (DER), debt-assets ratio (DAR), and long-term debt-to-equity ratio (LTDR), plays a significant role in determining firm profitability. Theoretical frameworks such as the Trade-off Theory suggest that moderate use of debt can enhance profitability due to the tax

shield provided by interest expenses (Modigliani & Miller, 1958). Previous studies provide mixed evidence on the impact of leverage on profitability. For instance, Echekoba and Ananwude, (2016), Morris, Miko and Abdullahi, (2023) and Odu, Atu and Ozele, (2023) investigated the effect of financial leverage on firm performance in selected African countries and found that while moderate leverage positively influences return on assets (ROA), higher levels of leverage negatively affect profitability due to increased financial risk. Similarly, Bereprebofa, Sinebe and Akpotu, (2023), revealed that DER and DAR significantly influence ROA, with the effect varying based on firm size and industry. Farah, et al. (2021) and Akan, Sinebe and Bereprebofa, (2023) highlighted that long-term debt-to-equity ratios are more critical for firms in capital-intensive industries, where long-term investments drive profitability.

Debt-to-Equity Ratio (DER)

The debt-to-equity ratio (DER) indicates the proportion of a firm's financing that comes from debt relative to shareholders' equity. A balanced DER can enhance firm profitability by leveraging the benefits of debt, such as tax shields, while excessive debt levels can increase financial risk and lead to financial distress (Modigliani, et al. 1958; Jeroh, Okolo & Sinebe, 2022). Recent empirical studies provide nuanced insights into the effects of DER. Khan, (2024) examined firms in Sub-Saharan Africa and found that a moderate DER positively correlates with profitability, as measured by return on assets (ROA). Musa, Abubakar and Garba, (2020) however noted that, firms with excessively high DER experienced diminishing returns due to increased interest obligations and financial distress. Similarly, Sinebe, (2023), in their study on manufacturing firms in South Asia, noted that while DER enhances operational efficiency in the short term, its long-term impact depends on the firm's ability to manage debt effectively.

***H_{01}**: The debt-to-equity ratio (DER) has no significant impact on the return on assets (ROA) of firms.*

Debt-Assets Ratio (DAR)

The debt-assets ratio (DAR) measures the proportion of a firm's total assets financed through debt. It provides a broader perspective on leverage by considering the total asset base, making it a critical indicator of financial stability. Muhammed and Okonkwo, (2024) highlighted the relevance of DAR in the banking sector of Nigeria, demonstrating that firms with a lower DAR exhibit higher profitability due to reduced exposure to financial risk. Conversely, higher DAR levels were associated with liquidity challenges, impacting operational performance (Omabu, Okoye & Amahalu, 2021; Bereprebofa & Sinebe, 2022; Adegbie & Onyeka-Iheme, 2023). In another study, Ahmed, Rahman, Rehman, Imran, Dunay and Hossain, (2024) analyzed Asian firms and found that DAR is particularly relevant in industries with significant fixed assets, such as manufacturing and real estate, where higher asset-backed borrowing can be justified. However, they cautioned that excessive DAR may deter investors, thereby reducing overall firm value.

***H_{02}**: The debt-assets ratio (DAR) has no significant impact on the return on assets (ROA) of firms.*

Long-Term Debt-to-Equity Ratio (LTDR)

The long-term debt-to-equity ratio (LTDR) focuses on the proportion of long-term debt relative to equity, emphasizing the firm's commitment to sustained borrowing strategies. Long-term debt often finances significant capital investments, which can enhance profitability if managed effectively. Farah et al. (2021) investigated LTDR in the energy sector of emerging markets and found that higher LTDR is positively associated with profitability, as long-term debt provides the necessary funding for large-scale projects. However, they warned that excessive reliance on long-term debt could lead to interest rate risks and reduced flexibility. Similarly, Abubakar and Suleiman-Ahmed, (2024) studied oil and gas firms and observed that firms with high LTDR ratios tend to perform better in stable economic conditions but may struggle during economic downturns due to fixed debt obligations.

***H_{03}**: The long-term debt-to-equity ratio (LTDR) has no significant impact on the return on assets (ROA) of firms.*

Market Capitalization and Firm Profitability

Market capitalization (MC), a measure of a firm's size and market value, is often linked to profitability (Sinebe & Okolo, 2022; Onuigbo & Okafor, 2024). Larger firms with higher market capitalization typically benefit from economies of scale, stronger market positioning, and better access to capital markets, which enhance profitability (Fama & French, 1992). Conversely, smaller firms may face challenges such as limited resources and higher operating costs, potentially hindering profitability. Empirical evidence supports the positive relationship between market capitalization and profitability. For example, Wahyuni and Gani, (2022) and Garba, Usman and Abubakar, (2024), in their study on Nigerian firms, demonstrated that market capitalization significantly influences ROA, particularly in sectors with high investor confidence. Similarly, Ahmed, et al. (2024) examined firms in oil and gas sector and found that larger firms with robust market capitalization consistently outperform smaller firms in terms of profitability, driven by their ability to attract investments and manage risks effectively. In contrast, Sulaiman, Mijinyawa and Isa, (2019) and Dhanda noted that in volatile markets, the benefits of market capitalization may be diminished due to external economic shocks.

***H_{04}**: Market capitalization (MC) has no significant impact on the return on assets (ROA) of firms*

Comparative Perspectives

Comparing these ratios, Etukudo, Okoro and John, (2022) noted that DER and LTDR are particularly influential in industries reliant on equity and long-term investments, while DAR is more significant in asset-intensive industries. Their findings emphasized the need for firms to align their leverage strategies with industry-specific dynamics and economic conditions.

Also, Kwame, Emmanuel and Ofori, (2024) highlighted that firms in emerging economies often rely on debt financing due to limited equity markets, making leverage a critical determinant of profitability. Furthermore, Muhammed, et al. (2024) emphasized the role of regulatory frameworks and market inefficiencies in

shaping the impact of financial leverage and market capitalization on firm performance.

The interplay between financial leverage and market capitalization also influences firm profitability as firms with higher market capitalization may have better debt management capabilities, mitigating the negative effects of high leverage. Yusuf, Adamu, Barde and Abdullahi, (2024) explored this interaction in Sub-Saharan Africa and concluded that market capitalization moderates the relationship between leverage and profitability, with larger firms benefiting more from debt financing compared to smaller firms. Similarly, Liang, Li, Zhang, Nolan and Chen, (2022) identified that firms with strong market presence and capitalization effectively leverage their size to optimize financial performance, even in high-leverage scenarios.

Relevant Theoretical Review

This study is grounded in several key theories that provide a conceptual framework for understanding the relationship between financial leverage, market capitalization, and firm profitability. These theories include the Trade-Off Theory and Pecking Order Theory.

Trade-Off Theory

The Trade-Off Theory posits that firms balance the costs and benefits of debt financing to achieve an optimal capital structure. According to this theory, debt financing provides tax shields on interest payments, which can enhance firm profitability. However, excessive reliance on debt increases the risk of financial distress and bankruptcy costs (Modigliani, et al. 1958; Sinebe & Emudainohwo, 2023). This theory is particularly relevant in explaining the impact of the debt-to-equity ratio (DER), debt-assets ratio (DAR), and long-term debt-to-equity ratio (LTDR) on firm performance. Emerging market firms, characterized by higher interest rates and limited access to equity markets, often face challenges in achieving this optimal balance, making this theory highly applicable.

Pecking Order Theory

The Pecking Order Theory suggests that firms prioritize their sources of financing based on the principle of least effort or resistance. Internal funds are preferred over external debt, and debt is preferred over equity due to the costs of asymmetric information (Myers & Majluf, 1984). This theory highlights why firms in emerging markets may rely heavily on debt financing, often reflected in higher DER, DAR, or LTDR values, and its subsequent effect on profitability.

Study Gap

While previous studies have extensively examined leverage and profitability in developed markets (e.g., Abubakar, 2017; Agomor, Onumah, & Duho, 2022; Khan, 2024), the unique economic, institutional, and regulatory conditions of emerging markets remain underexplored. Emerging markets differ significantly in terms of access to finance, capital market efficiency, and economic volatility, which may influence the relationships between leverage, market capitalization, and profitability. Also, the influence of financial leverage and market capitalization on profitability may vary across industries, yet many studies adopt a generalized approach without considering sectoral nuances (Kanoujiya, Jain, Banerjee, Kalra, Rastogi, &

Bhimavarapu, 2023; Kwame et al., 2024). This study addresses these gaps by providing an integrated analysis of financial leverage (DER, DAR, LTDR) and market capitalization and their combined effects on firm profitability in emerging markets. By leveraging recent data and a robust methodological approach, this research aims to offer novel insights into how firms in these markets can optimize their financial structures to enhance profitability.

Research Methodology

The study employed the pooled panel data analytical method to examine the study sample size of 33 listed consumer goods and services firms from the Nigerian Exchange Group for between 2014 -2023 (10 years). The economic model of the study is stated below as;

Firm Profitability = *f*(Leverage)

$Firmprof_{it}$ = f(DER, DAR,LTDR,MC) - - - - *eq.1*

$ROA_{it} = \alpha_0 + \beta_1 DER_{it} + \beta_2 DAR_{it} + \beta_3 LTDR_{it} + \beta_4 MC_{it} + \varepsilon_t$ - *eq.2*

Where;

f = Stochastic error term capturing other unexplanatory variables

ε_t = error term

ί = firm identifier (33 firms)

t = time variable (10 Years)

α_0 is the intercept of the regression.

β_1 and β_2 are the co-efficient of the regression equation.

The Apriori expectation: β_1, β_2, β_3 and β_4 is less or greater 0.

4.1 Descriptive statistics

Table 1: Summary of Descriptive

VARIABLES	OBS	MEAN	STD. DEV	MIN	MAX
ROA	330	3.623036	11.55951	-54.3955	53.9594
DER	330	2.555727	8.43063	-17.22	131.08
DAR	330	64.36903	32.2375	13.7	332.67
LTDER	330	.9234849	5.858371	-7.54	99.69
MC	330	6.675134	1.083459	3.95424	9.64038

Source: Regression Output, 2025.

Table 1 above gives a pictorial view of the study data. It shows that ROA, which is the dependent variable, has a mean of 3.62%, Standard Deviation 11.56 with the Min/Max ranging from -54.40% to 53.96%, indicating some firms perform poorly while others achieve high profitability. The DER Mean is 2.56, Standard Deviation 8.43 while the Min/Max ranging from -17.22 to 131.08. The DAR displays a Mean 64.37%, Standard Deviation 32.24 with the Min/Max Ranges from 13.7% to 332.67%, with the upper extreme indicating significant over-leverage in some firms. Furthermore, the LTDE has a of Mean 0.92, Standard Deviation 5.86, Min/Max: Ranges from -7.54 to 99.69, with negative values likely due to classification issues. MC on the other hand has a Mean 6.68 (signifying average market capitalization in log-transformed units), Standard Deviation 1.08 (moderate variability) and Min/Max Ranging from 3.95 to 9.64, suggesting a mix of small and large firms in the sample. From the above, we discover that the wide range of ROA (-54.40% to 53.96%) reflects diverse operational efficiency and profitability across firms. Alost, that most

variables show significant variation, reflecting heterogeneity in financial structures, leverage, and firm sizes.

This aligns with the context of emerging markets, where firms often differ significantly in financial practices and capital structures. The high mean debt-to-asset ratio (64.37%) and extreme maximum values (332.67%) raise concerns about over-leverage in certain firms, potentially threatening financial stability. The average debt-to-equity ratio of 2.56 and its large standard deviation suggest that some firms may be excessively reliant on debt financing, potentially increasing financial risks, while the mean long-term debt-to-equity ratio (0.92) suggests firms rely more on short-term debt than long-term debt, potentially exposing them to refinancing risks and interest rate volatility.

Normality Test

Table 2: Shapiro-Wilk W test for normal data

VARIABLES	OBS	W	V	Z	PROB>Z
roa	330	0.84906	34.999	8.384	0.00000
DER	330	0.27797	167.412	12.074	0.00000
DAR	330	0.80600	44.981	8.975	0.00000
LTDER	330	0.15362	196.245	12.449	0.00000
MC	330	0.98357	3.810	3.154	0.00000

Source: Regression Output, 2025.

The Shapiro-Wilk test result in Table 2 evaluates whether a dataset follows a normal distribution. With 0.0000 results from the information above, there is variability in Financial Leverage where the severe non-normality in debt-to-equity and long-term debt-to-equity ratios highlights wide disparities in financial leverage among firms. Also, the non-normal distribution of ROA suggests considerable heterogeneity in firm profitability, possibly driven by market conditions, operational inefficiencies, or strategic decisions. While market capitalization is nearly normal, slight deviations might indicate variations in firm sizes or a few outliers. The analysis reveals significant non-normality in most financial ratios, driven by outliers and skewed distributions. Employing robust statistical techniques, addressing outliers, and segmenting the data for better insights can enhance the reliability of results. Firms should also focus on optimizing their financial structures and operational efficiencies to improve overall performance.

Correlation Analysis

Table 3: Summary of Spearman Correlation Firm Profitability Matrix

	ROA	DER	DAR	LTDER	MC
ROA	1.0000				
DER	-0.2133*	1.0000			
	0.0001				
DAR	-0.4179*	0.7099*	1.0000		
	0.0000	0.0000			
LTDER	-0.1893*	0.7049*	0.4693*	1.0000	
	0.0005	0.0000	0.0000		
MC	0.3375*	0.1716*	-0.0309	0.1280*	1.0000
	0.0000	0.0018	0.5765	0.0200	

Source: Regression Output, 2025.

The correlation matrix int Table 3 provides insights into the relationships between the variables. The negative correlations between ROA and leverage indicators (debt-to-equity -0.2133*, debt-to-asset -0.4179*, long-term debt-to-equity -0.1893*) suggest that excessive debt negatively impacts profitability. This could stem from high-interest expenses, increased financial risk, or operational inefficiencies in managing borrowed funds.

Furthermore, the positive correlation between market capitalization and ROA (0.3375*) indicates that larger firms tend to be more profitable. This could result from stronger market positions, economies of scale, and better access to resources. Also**,** the strong correlations among leverage measures (debt-to-equity, debt-to-asset, and long-term debt-to-equity) indicate that these variables are closely related, reflecting consistent patterns in firms' capital structure choices, while the lack of a significant relationship between market capitalization and debt-to-asset ratios (**0.5765**) suggests that the market values firms based on factors other than overall leverage, such as growth prospects or earnings potential.

Result for Variance Inflation Factor (VIF) Test

Table 4: VIF Test Result

VARIABLE	VIF	1/VIF
deR	6.34	0.157623
LTDE	6.30	0.158637
daR	1.04	0.957833
MC	1.03	0.966850
Mean VIF	3.68	

Source: Regression Output, 2025.

Variance Inflation Factor (VIF) is used to detect multicollinearity among explanatory variables in a regression model. High VIF values indicate that a variable is highly correlated with other predictors, which can inflate standard errors and reduce the reliability of coefficient estimates. From the table 4 above, DER has a VIF = 6.34. This variable exhibit relatively high multicollinearity, as its VIF exceeds the generally accepted threshold of 5 (and is close to 10 in more stringent criteria) so also id the LTDE with a VIF of 6.30, DAR has a VIF of 1.04 and MC has a VIF of 1.03 indicating a very low multicollinearity, suggesting they are largely independent of other predictors. Generally, the Mean VIF is 3.68 which is below the critical threshold. The high multicollinearity leads to less precise estimates for the affected variables, reducing the statistical significance of coefficients. To remedy this situation, we would consider Standardizing the variables (e.g., by subtracting the mean and dividing by the standard deviation), this can help mitigate multicollinearity, especially if it arises issues

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Table 5: Diagnostic Tests fitted values of Firm Profitability

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity	
Decision rule	If p-value is statistically significant, then reject Ho and accept HA
Result	chi2(1) = 4.36; Prob>chi2= 0.0367

Source: Regression Output, 2025.

The Breusch-Pagan / Cook-Weisberg test in Table 5 is used to detect heteroskedasticity in a regression model, which occurs when the variance of the error terms is not constant across all levels of the independent variables. Since the Prob p-value is less than 0.0500, we therefore reject the null hypothesis at the 5% significance level. This indicates the presence of heteroskedasticity in the regression model. The detection of heteroskedasticity suggests that standard OLS results might not be reliable but employing robust standard errors will be an effective solution

Levin-Lin-Chu Unit Root Test

Table 6: Diagnostic Tests Results for all the variables

Variable	Statistics	P-value	Remarks
ROA	Unadjusted t -11.8536	0.0000	1(0)*
	Adjusted t* -5.7417		
DER	Unadjusted t -16.7982	0.0000	1(0)*
	Adjusted t* -12.1431		
DAR	Unadjusted t -14.6191	0.0000	1(0)*
	Adjusted t* -11.6548		
LTDER	Unadjusted t -20.6331	0.0000	1(0)*
	Adjusted t* -15.2345		
MC	Unadjusted t -10.9938	0.0000	1(0)*
	Adjusted t* -7.4753		

Source: Regression Output, 2025.

The Levin-Lin-Chu (LLC) unit root test in Table 6 is a panel data test used to determine whether a variable is stationary (i.e., its statistical properties such as mean and variance do not change over time). This is crucial for avoiding issues such as spurious regression results in time series or panel data analyses. From the outcome of the results in Table 6, the variables (ROA, DER, DAR, LTDER, and MC), unadjusted tt and adjusted t∗ t^* statistics are strongly negative, indicating rejection of the null hypothesis of a unit root. Also, the variables have p=0.0000p = 0.0000, which is less than the conventional significance level (α=0.05\alpha = 0.05), indicating that all variables are stationary at levels (I(0)I(0)) meaning that there is no need to difference them. Since all variables are stationary at levels, we can use them directly in regression analysis without transformations or differencing where we can use the panel-corrected standard errors (PCSEs)) to analyze the relationships effectively.

Hypotheses Testing

Table 7: Summary of ROA, DER, DAR, LTDER, and MC linear regression analysis

roa	COEF.	STD. ERR.	z	P>|z|
deR	.3042106	.2108042	1.44	0.149
daR	-.1033157	.0200486	-5.15	0.000

ltdeR	-.5940909	.2607546	-2.28	0.023
MC	2.315153	.3151135	7.35	0.000
_CONS	-5.409438	2.78716	-1.94	0.052
N				330
R-squared				0.1709
Wald chi2(4)				157.07
Prob > chi2				0.0000

Source: Regression Output, 2025.

Discussion of findings

The regression analysis in Table 7 examines the relationship between ROA (Return on Assets) as the dependent variable and the independent variables DER (Debt-to-Equity Ratio), DAR (Debt-to-Assets Ratio), LTDER (Long-term Debt-to-Equity Ratio), and MC (Market Capitalization). Variable-Specific findings from the table 7 shows that the effect of DER on ROA with z-statistic of 1.441.44 and p-value 0.149 is positive but not statistically significant. This suggests that DER has no strong linear impact on profitability in this model. Conversely, DAR with coefficient -0.1033, z-statistic −5.15 and p-value 0.000 has a statistically significant negative effect on ROA. A 1-unit increase in DAR is associated with a decrease in ROA by 0.1033 units, suggesting higher leverage relative to assets negatively affects profitability. LTDER with a Coefficient −0.5941, z-statistic −2.28-2.28 and p-value of 0.023 has a significant negative effect on ROA. This indicates that higher long-term debt relative to equity reduces profitability, while MC with a Coefficient 2.3152, z-statistic: 7.35 and p-value of 0.000 has a strong positive and significant impact on ROA, indicating that larger firms (as proxied by market capitalization) tend to have higher profitability. Generally, the model performance is R-squared = 0.1709. This indicates that the independent variables explain approximately 17.09% of the variation in ROA. The Wald Chi-Square shows a 157.07 while the p-value is 0.0000. The model, generally, is statistically significant as a whole, indicating that the independent variables collectively influence ROA. The findings imply that, Firms should focus on optimizing leverage, particularly long-term debt, to enhance profitability, while larger firms should leverage their scale advantages to sustain higher profitability.

Conclusion and Recommendations

Based on the findings, the following recommendations are proposed to enhance firm profitability and strategic financial management:

1. Optimize Leverage Usage: While debt can provide tax shields and enhance returns, excessive reliance on debt, particularly long-term debt, can diminish profitability. Managers should focus on maintaining an optimal mix of equity and debt to achieve financial sustainability.
2. Prioritize Asset Efficiency: Management: Since the debt-assets ratio (DAR) significantly negatively impacts profitability, firms should strive to improve the efficiency of their assets. Investments in high-return projects and divesting from underperforming assets can enhance profitability.
3. Leverage Market Capitalization Strengths: Firms with higher market capitalization should capitalize on their scale advantages by investing in innovation, expanding market share, and leveraging economies of scale.

Maintaining strong investor relations and transparent communication can boost market confidence and, subsequently, profitability.

4. Focus on Emerging Market Dynamics: Recognizing the volatility of emerging markets, both firms and regulators should prepare for fluctuating capital costs and investor sentiment. Policymakers could introduce macroeconomic policies that stabilize borrowing costs and support financial market development, while firms can adopt flexible financial strategies to adapt to these changes.

By implementing these recommendations, firms and policymakers can enhance the financial health and profitability of consumer goods and services firms in emerging markets, fostering sustainable economic growth.

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