

# The Impact of Capital Structure on Firms Performance: a Systematic Review

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**Abstract-** Capital is the most important thing when beginning a business. It is the bedrock upon which the business is built. When a business raises funds for day-to-day operations and future expansion, it employs a capital structure that includes both equity and debt. Selection of appropriate capital structure influences the overall performance of a firm. Therefore, a complete examination of the available literature about the impact of capital structure on corporate performance is the major purpose of this study. This analysis will be carried out in order to achieve this objective. In order to analyze scholarly publications that were published between the years 2012 and 2023 and that focus on the relationship between capital structure and firm performance, a systematic analysis of the existing body of literature was carried out. There is a significant association between the capital structure of the company and the performance of the business, according to the conclusions of the research. Moreover, the data given in the study reveal a statistically significant inverse link between the aggregate debt level and the return on assets (ROA). Additionally, it is well known that there is a favorable association between innovation and the performance of corporations. Furthermore, previous academic investigations have resulted in the production of actual evidence that lends support to both the Pecking-order hypothesis and the Trade-off theory. The present gaps that are forming in the realm of capital structure are also evaluated as part of this study.

**Keywords:** capital structure, firms' performance, leverage, ROA, total debt.

## I. INTRODUCTION

Financial management has been charged with the critical responsibility of establishing an optimal capital structure. Finding the ideal balance between the cost of capital and the value of the business is the ultimate goal. Although they might be able to stay afloat for the time being, businesses with inefficient capital structures will certainly face problems in the road. A company's financial structure includes all of its accessible long-term funding options. Various financial instruments, including common and preferred stock, debentures, and long-term loans, may be a part of the mix. A company's risk profile and the shareholders' exposure to risk are greatly affected by the allocation of debt and equity inside the firm. Increasing the amount of debt in the capital structure raises the stakes, while lowering it lowers the return on investment for stockholders. The capital structure of a corporation is determined by a number of things. This includes the owner's preferences, the firm's size, the cost of capital, the growth and stability of sales, the requirements for investor oversight, the conditions of the capital market, the purpose and length of the financing, and financial leverage or trading on equity. While deciding on the best capital structure, the organization must keep these things in mind to increase the firm's value and decrease the cost of capital. [17]

Since the publication of Modigliani and Miller's vital work in corporate finance and accounting in 1958 (MM-1958), the relationship between a company's capital structure and its value and performance has been the subject of extensive research and debate. Under the assumptions of MM-1958, a company's value can be calculated without regard to its capital structure so long as there are efficient capital markets, consistent investor expectations, a tax-free economy, and no transaction costs. This statement posits that the valuation of a corporation is contingent upon its tangible assets, rather than the composition of securities it issues. In the event that this statement is deemed false, it would lead to the occurrence of arbitrage mechanisms, wherein investors would engage in the purchase of shares from inexpensive firms and the sale of shares from overpriced firms, with the aim of acquiring equivalent revenue streams. As investors take advantage of these price discrepancies, the market value of overpriced shares will fall while the market value of underpriced shares will rise. [2]

Nevertheless, in practical situations, these limiting assumptions are often found to be invalid. As a result, numerous researchers have proposed additional justifications for this proposition and its underlying assumptions. Especially in light of the ground-breaking work done by Jensen and Meckling in 1976, the preceding explanations highlight the importance of capital structure in connection to the value and performance of businesses. This study's results suggest

that managers and shareholders face conflicts of interest due to their overlapping interests when a company's financial structure is highly leveraged. [11][17][19]

The amalgamation of equity and loan capital is commonly referred to as the capital structure. The arrangement of a firm's capital structure, specifically the ratio of debt to equity, exhibits variability both among different companies and across the course of time. A firm has the option to select a capital structure that consists solely of equity without any debt, exclusively of debt without any equity, or a combination of both. Debt capital is associated with a relatively inexpensive yet precarious duty or responsibility, while equity financing entails lower risk in terms of cash flow commitments but leads to a reduction in ownership and earnings. Corporate finance is a fundamental component that is crucial to the functioning of businesses. Prior to half a century ago, the field of financial management held less prominence and mostly concentrated on the procurement of money. However, in contemporary times, it encompasses a comprehensive range of financial activities, encompassing the acquisition, utilization, and regulation of funds. Therefore, it exerts a direct influence on the operational efficiency and overall performance of a company entity. As a result of this, it is imperative for the finance manager to make a strategic decision on the most advantageous capital structure to boost company results. [10][17]

## II. LITERATURE REVIEW

**Awunyo-Vitor & Badu (2012)**, investigated into how Ghanaian stock exchange-listed banks' capital structures affected their bottom lines. The data shows that the stock prices of banks trading on the Ghana Stock Exchange are negatively impacted by their high levels of leverage. According to the findings, the listed banking sector has a significant level of leverage. The situation is exacerbated by the Bank of Ghana's relatively high lending rate and the narrow scope of bond market engagement, both of which promote the use of short-term debt. According to the results of the regression analysis, the capital structure of the listed bank had a negative impact on its performance in terms of return on equity and Tobin's  $q$ .

**Goyal (2013)**, studied how capital structure affects India's public sector publicly listed banks. , According to the study there was a positive correlation between STDTTC and profitability metrics such as ROA, ROE, and EPS. ROA, ROE, and EPS are inversely connected to LTDTTC and TDC, which stand for total debt to capital and long-term debt to capital, respectively. The correlation between SIZE and ROA and EPS is positive, but the correlation between SIZE and ROE is negative. The theory states that there is a positive correlation between AG and financial success indicators such as ROA, ROE, and EPS. After analyzing each variable's outcomes, short-term debt is positively correlated with Indian PSU banks' profitability.

**Akinyomi & Olagunju (2013)**, examined the variables that affect Nigeria's capital structure. The Nigerian Stock Exchange had the listings of eighty-six different manufacturing companies. Tangibility of assets, profitability, and growth were found to have positive correlations with one another, while leverage (a metric of capital structure) was found to have negative correlations with firm size and taxation. However, the presence of both physical assets and the size of the organization are required for the relationship to be meaningful. When looking at Nigeria as a whole, this analysis found no statistically significant correlation between company size, profitability, growth, or capital structure. But there's a positive relationship between capital structure, taxation, and how tangible assets are.

**Nirajini & Priya (2013)**, tested how different capital structures affected the bottom lines of Sri Lankan trading firms listed on the stock market. In statistics, techniques like correlation and multiple regression analysis are frequently employed. Capital structure appears to have some bearing on economic growth, according to the study's findings. It has also been shown that a company's capital structure significantly impacts its financial performance. At the significance levels of 0.05 and 0.1, it is observed that the debt asset ratio, debt equity ratio, and long-term debt exhibit statistically significant correlations with various important financial indicators, including the gross profit margin, net profit margin, return on capital employed, return on assets, and return on equity.

**Tailab (2014)**, examined how changes in capital structure affect company results. There were mainly two categories of variables: Common metrics used to evaluate financial health include return on assets (ROA) and return on equity (ROE). Net income divided by total assets or total shareholders' equity yields return on equity (ROE) and return on assets (ROA), respectively. Other metrics that can be used to assess capital structure include the size of the company, the total amount of debt, the duration of outstanding debt, the ratio of debt to equity, and the total amount of debt. The main take away from this study is that overall debt significantly lowers ROE and ROA. Furthermore, it was discovered that the impact on return on equity was negatively correlated with the size of an American company's sales. However, keep in mind that your return on equity (ROE) may improve with a specific amount of debt. Many variables, including total assets, total business size, debt-to-equity ratio, total long-term debt, and the study found an ambiguous association between profitability and these variables.

**Akeem et al. (2014)**, looked into the connection between Nigeria's manufacturing firms' capital structures and their bottom lines. The aim of this research was to investigate the nexus between total debt to total assets (TD/TA), total debt to equity (DE), and returns on assets (ROA) using a descriptive and regression approach that made use of important performance indicators. As examples of secondary sources, ten (10) manufacturing company datasets were

used. The debt-to-equity ratio is positively correlated with profitability, meaning that a higher ratio indicates a more profitable business. On the other hand, both the total and long-term debt-to-capital employed ratios tend to decrease as a firm ages. The correlation analysis reveals a negative relationship between ROI and the four independent variables (ROA, TD, DE, and AGE). Having said that, TD and DE both hurt business outcomes.

**Saravanan & Nandini (2015)**, looked at how different finance structures affected the success of India's paper businesses. The study provides evidence that a higher level of debt is associated with more expenses compared to equity. Consequently, it can be inferred that higher levels of debt have a more pronounced impact on the profitability of enterprises. Hence, it is recommended to proficiently administer immediate obligations, enduring obligations, indebtedness, and ownership interests with the aim of augmenting the profitability of the paper industry.

**Rani (2015)**, looked into how changes in capital structure affected the bottom lines of India's major industries. The most important result is that capital structure does not significantly affect financial performance in the automotive industry. However, capital structure was found to significantly affect financial performance in the electronic and metal sectors. The study revealed various noteworthy associations, both positive and negative, among the dependent and independent variables, including debt, equity ratio, earnings per share, return on investment, capital turnover, debt to net worth, net profit ratio, return on capital employed, and return on equity.

**Rouf & Abdur (2015)**, Conducted a study on non-financial companies listed on the Dhaka Stock Exchange (DSE) from 2008 to 2011 in order to establish the relationship between capital structure and corporate performance. The study's sample was selected using judgment sampling. The primary aim of this study is to analyze the correlation between different elements of capital structure and various indicators of performance. Researchers utilized diverse regression models to determine the influence of capital structure on company profitability. The capital structure was assessed utilizing a range of ratios, such as the debt ratio, equity ratio, current debt ratio, proprietary of equity ratio, and current assets proprietors' funds ratio. The regression analysis revealed a negative association between the debt, equity-to-debt, equity-to-assets, and equity-to-sales ratios. When considering complicating variables, there exists a strong and statistically significant correlation between total assets and both return on assets (ROA) and return on sales (ROS).

**Movalia (2015)**, undertook a comprehensive examination to analyze the capital structure and profitability of the Indian tyre business. The objective of this research is to ascertain the Debt-Equity ratios of the companies listed within the tyre industry, determine the profitability of the tyre industry, and determine the impact that the debt-equity ratio has on the profitability of the companies that are listed in the tyre industries. Capital structure profitability for tyre companies was found to be strongly correlated with debt-equity ratio, according to the study's findings. The examples of MRF, Apollo Tyres, Dunlop India, and Modi Rubber demonstrate the relationship that an appropriate debt equity ratio contributes to an improvement in firm profitability.

**Habib et al. (2016)**, examined the impact of debt on the financial performance of non-financial sector firms in Pakistan. The study's findings indicate that there are specific causes for the greater expenses associated with debt. Consequently, the decision to increase the share of debt in a company's capital structure is likely to lead to reduced profitability. Therefore, the analysis demonstrates a noteworthy yet adverse correlation between debt and profitability, indicating that as debt increases, profitability decreases.

**Muchiri et al. (2016)**, examined the correlation between the East African stock exchange-listed companies' financial structures and their financial performance. Using secondary panel data extracted from 61 companies' financial statements found in stock exchange handbooks, this study applied an explanatory research methodology. Data from December 2006 through December 2014 is included in the dataset. Using a random effect in the absence of a moderator and a fixed impact in the presence of a moderator, the Feasible Generalized Least Squares (FGLS) method was used in the study. Results from the Hausman specification test informed the choice of approach. Looking at each funding source separately—debt and equity—the analysis found a weak inverse association between ROA and retained earnings, external equity, short-term debt, and long-term debt. Although there was a positive link between return on equity and the same components, the strength of this association was not considered strong enough to be statistically significant. By looking more closely, we can see that the financial structure is positively correlated with the corresponding return on equity (ROE), but negatively correlated with the corresponding return on assets (ROA). The research found that the correlation between financial structure and financial performance was significantly attenuated by GDP growth rate.

**Revathy & Sathi (2016)**, analyzed the influence of capital structure on the profitability of manufacturing companies in India. The main objective was to provide empirical data supporting the proposed correlation between capital structure variables and firm profits. A total of seventy businesses were picked in a random manner, employing stratified random sampling techniques. Based on the findings, a clear association is observed between alterations in capital structure factors and shifts in profitability. In particular, manufacturing companies registered on India's Bombay Stock Exchange are discovered to have poor financial performance when their Debt Equity Ratio is high.

**Herciu & Ogrea (2017)**, endeavored to address the research inquiry on the impact of capital structure on corporate profitability, drawing upon a comprehensive review of relevant literature and empirical evidence. The primary findings of the study reveal statistically significant associations between return on equity (ROE) and the debt-to-equity ratio, demonstrating both positive and negative correlations under varying conditions. Regarding the examination of the sectors, significant and positive correlations (more than 0.5) can be noticed between the return on equity (ROE) and the debt-to-equity ratio in the Technology, Health Care, and Telecommunications sectors. The connections between the Energy and Motor Vehicles & Parts sectors exhibit a positive relationship, albeit with a very modest strength. When examining the inflection points of debt-to-equity and return on equity (ROE), it is observed that the outcomes are both significant and dissimilar. In either scenario, whether characterized by a low or high debt-to-equity ratio, there is a potential for an increase in ROE. In summary, determining an ideal capital structure at any given level poses significant challenges.

**Ameen & Shahjadi (2017)**, studied how capital structure affects Pakistani cement businesses' financial performance. The findings indicate that the cement sector in Pakistan exhibits a higher reliance on debt for financing their resources. The increased utilization of debt by the firm resulted in a corresponding rise in interest expenses, thereby leading to a fall in profitability. It is advisable for cement companies to utilize an appropriate combination of loan and equity as sources of funding.

**Swain & Das (2017)**, examined the influence of capital structure on financial performance and the fundamental factors that contribute to it. The findings of the research demonstrate a noteworthy association between the composition of a firm's capital and its level of profitability. The findings suggest that alterations in debt and equity levels are associated with changes in profitability. It is crucial for organizations to adopt an optimal capital structure that maximizes profitability while minimizing expenses.

**Ajibola et al. (2018)**, analyzed the correlation between the capital structures of industrial enterprises and their financial performance on the stock market in Nigeria. The impact of capital structure modifications on the profitability of publicly traded industrial businesses in Nigeria was investigated in this study using a panel technique. A panel ordinary least squares analysis found a favorable correlation between return on equity (ROE) and long-term debt ratios and overall debt ratios. A positive association between ROE and STD (short-term debt ratio) does exist in the data, but it is not statistically significant. Return on assets (ROA) was also found to have a weakly inverse association with some capital structure metrics, such as total debt (TD), short-term debt (STD), and long-term debt (LTD). Based on these results, return on equity (ROE) could be a more accurate measure of success. The research concluded that capital structure and financial performance are positively related. Therefore, businesses need to improve the leverage of their long-term debt.

**Das & Swain (2018)**, conducted an investigation on the influence that capital structure has on financial performance. After doing the research, the researchers came to the conclusion that there is a significant connection between the capital structure and profitability. In addition, the results of this research reveal that the capital structure of the businesses that were sampled has a considerable influence on the financial performance of those firms under investigation.

**Ajmera (2019)**, analyzed the impact of capital structure on the financial performance of Indian paper makers. Positive numbers for ROCE, EPS, valuation, ROA, and ROCE all point to strong financial performance for the organization. There is more debt in the capital structure than equity, according to the debt-equity ratio. Interest coverage ratio has a substantial effect on ROS, according to Model-1. According to a fixed-effect model, ROA is affected by the interest coverage ratio. Model-2 results show that interest coverage ratio, needed rate of return on equity, debt-equity ratio, and long-term debt-equity ratio are all significantly related. Based on the results of the fixed-effect model, we can see that the size of the firm and the interest coverage are the two main factors influencing ROCE. Findings from Model-3 indicate that factors such as firm size, interest coverage ratio, log of debt, debt-equity ratio, and long-term debt-equity ratio do not significantly affect earnings per share (EPS). Firm size influences earnings per share, according to the fixed effect model. There was a statistically significant correlation between company size and valuation, according to Model-4. The fixed effect model states that independent variables do not significantly impact appraisal.

**Malik & Singh (2020)**, conducted an investigation into the impact of capital structure on the financial performance of a particular cohort of multinational corporations operating within the Indian market. The study demonstrates that a greater debt-to-equity (D/E) ratio has been interpreted as an unfavorable capital structure, while a lower D/E ratio has been interpreted as a more favorable capital structure. An enhanced financial performance, as shown by a greater return on equity (RoE) percentage, is linked to a more efficient capital structure that exhibits a reduced debt-to-equity (D/E) ratio. Besides, a less advantageous capital structure, which is characterized by a larger debt-to-equity ratio, is associated with inferior financial performance, as indicated by a decreased return on equity percentage.

**Mukumbi et al. (2020)**, looked into how capital structure affected the bottom lines of companies not involved in finance that were traded on the Nairobi Stock Exchange. A total of sixteen non-financial enterprises with an active Kenyan presence and a listing on the Nairobi Securities Exchange (NSE) were studied. Financial success was evaluated using two main criteria, namely return on assets and return on equity. The evaluation of the capital structure

also involved an examination of the temporal variations in the debt-to-equity ratio. The research revealed that the financial success of companies listed on the Nairobi Stock Exchange was considerably influenced by their capital structure. The findings reveal a favorable association between changes in debt within the capital structure and the financial performance of firms. Therefore, this finding provides evidence in favor of utilizing debt financing over equity financing for the operation of enterprises. The study therefore suggests that organizations should augment their capital structure by incorporating more debt financing as a means to improve financial performance and boost value for their stakeholders.

**Nandini & Patjoshi (2020)**, investigated the effects on profitability of India's top automakers' capitalization. Three key financial indicators—net profit margin, return on equity, and return on investment—are the subject of this study. The equity ratio, funded debt to total capitalization, total debt to equity, and long-term debt to equity ratio are the four important capital structure ratios that are used as independent variables in the research. The information was culled from secondary sources and subsequently assessed using regression, correlation, and descriptive statistics. Over the course of five years, from 2014–2015 to 2018–2019, this study set out to determine whether and to what extent the capital structure of the ten largest car manufacturers in India affected their profitability.

**Ngatno et al. (2020)**, investigated the impact of corporate governance as a moderating factor on the relationship between capital structure and business performance. Secondary data from 2019 financial reports of micro-financial institutions (mostly rural banks) totaling 506 units were used in this study. Moderated Regression Analysis was used to study the information. The results indicate that the financial results are positively affected by the choices made regarding the capital structure financing. Nevertheless, it is important to note that this assertion holds true solely in the context of short-term debt. Nevertheless, the analysis reveals that long-term debt does not have a major impact on the returns of both assets and equity. This study's results contradict the conventional wisdom about the link between corporate profits and the composition of their capitalization, lending credence to the pecking order idea.

**Ayange et al. (2021)**, investigated how changes in capital structure indicators affected the performance of Nigeria's industrial firms. The research included a dataset consisting of annualized panel data, which included a sample of 15 publicly traded companies from different sectors. The data covered the time period from 1999 to 2018. The research does not include financial enterprises because their capital structure is unique and their financing decisions are subject to strict legal obligations. The main emphasis of this study pertains to firms operating within non-financial industries. The assessment of a corporation's capital structure include the examination of both its book value and market value. The results show that return on equity (ROE) and Tobin's Q significantly affect the variables of sustainable development and technological advancement (SDTA), firm size (SIZE), long-term debt to total assets ratio (LDTA), and total debt to total assets ratio (TDTA). In contrast, the LDTA, D\_E, and TDTA ratios all show a negative impact when the return on assets (ROA) is high. The findings of the study represented a robust association between Tobin's Q and financial performance when compared to alternative metrics like book value. According to the study, Nigerian businesses have a strong preference for using short-term debt as a funding strategy, which is in line with the Pecking Order Theory's premises.

**Abdullah & Tursoy (2021)**, examined the inverse relationship between capital structure and company performance for all non-financial listed German companies from 1993 to 2016. Performance evaluation involves looking at financial and market indicators, whereas capital structure review involves looking at the leverage ratio, which compares total debt to assets. The research determined the direction of the causal link by combining the panel causality test developed by Dumitrescu and Hurlin (2012) with a two-stage Generalized Method of Moments (GMM) estimator. Capital structure is associated with two separate measures of a company's performance, according to this study's findings. There is a positive correlation between a company's bottom line and the utilization of leverage in personal financial situations. While stock prices have a favorable effect on leverage ratios, capital structure is predicted to have a negative effect on future market performance. Findings from this study provide credence to the trade-off theory and imply that non-financial businesses in Germany might deliberately take on more debt to reap the benefits of the tax shelter.

**Muhammad et al. (2021)**, looked how corporate governance may affect the connection between capital structure and company success. This research uses quantitative methods to assess 224 publicly traded non-financial companies in Italy. Data obtained between 2013 and 2017 are the focus of the investigation. We used the Ordinary Least Squares (OLS) and Generalized Method of Moments (GMM) algorithms to analyze the data that we collected. As part of the research, we looked at how corporate governance could mediate or moderate the relationship and tested some hypotheses. There is a strong negative correlation between capital structure and firm performance. The strong correlation between effective corporate governance and financial results must be carefully considered. The results show that the size of a company's board of directors has a negative relationship with the company's financial performance. Executive ownership and independent boards both positively affect company performance, according to the study. The research shows that the correlation between capital structure and company performance can be influenced by corporate governance measures.

**Mills & Mwasambili (2022)**, studied how a company's capital structure affects its worth. The researchers set out to discover patterns in the interrelationships of several parameters by analyzing yearly series data from 2010 to 2017. Examining the books of 38 companies trading on the Ghana Stock Exchange was the primary goal. The research employed several tests for unity, including panel FMOLS, DOLS, Granger causality, cointegration, and unit roots. Improving managers' knowledge of the monetary consequences of ignoring the importance of capital structure decisions is the primary aim of this research. Growth in company value seems to be positively correlated with all three types of debt: short-term, long-term, and equity. These factors may significantly affect the long-term process control because the estimated coefficients of the delayed error correction term in the equations including the variables are statistically significant. If company executives want to maximize their firm's worth through optimal capital structure, they should pay close attention to the implications of this research.

**Bui et al. (2023)**, examined the stock market performance of publicly traded companies in Vietnam by analyzing their capital structure. The research uses information gleaned from 769 companies' audited financial statements for the years 2012 through 2022. The total number of data points is 8459. To determine how capital structure affects important financial metrics like ROA, ROE, and Tobin's Q, this study employs a number of estimation methods, including ordinary least squares (OLS), fixed effects model (FEM), random effects model (REM), and generalized least squares (GLS). An organization's financial performance metrics, including its debt-to-equity ratio, return on assets (ROA), and Tobin's Q, are positively correlated with one another. When compared to the effect on ROA (0.011), the correlation between Tobin's Q and ROA (0.450) is much greater. Be that as it may, there is zero correlation between a company's long-term debt ratio and its value. When the debt ratio is large, ROA, ROE, and Tobin's Q all take a hit. The most noticeable financial performance statistic is the decline in Tobin's Q, which fell by 0.562 magnitude.

**Boshnak (2023)**, examined the capital structure's effect on the bottom lines of companies trading on Tadawul (the Saudi stock exchange). This research makes use of a dataset that contains 70 non-financial listed companies in Saudi Arabia, with a total of 350 observations of firm-year combinations. The dataset encompasses the years 2016 to 2020. In order to conduct model estimations, a generalized method of moments (GMM) technique is employed. This methodology enables the testing of hypotheses and the effective handling of concerns related to autocorrelation, heteroscedasticity, and endogeneity. Taking into account various metrics like total debt, short-term debt, total debt-to-equity, and overall debt, the results show that enterprises' operational efficiency, as measured by return on assets, is significantly affected. Having a high level of debt has a negative influence on a company's market performance (as shown by Tobin's Q) and financial success (as shown by return on equity), just like total debt, long-term debt, and debt-to-equity ratios. This indicates that a considerable presence of agency problems within a firm, which is known to assist the adoption of a high-debt approach, may have the potential to result in a degradation of business performance. The findings also show a positive relationship between business success and variables such as sales expansion, insider ownership, firm size, and company age. However, there is a need for more study to clarify the effect of asset tangibility and liquidity on business success.

#### **i. OBJECTIVES**

The following are the aims of the research:

- To assess the influence of capital structure on the financial performance of companies.
- To analyze the various research works carried out on Capital Structure.

### **III. RESEARCH METHODOLOGY**

In order to conduct a thorough literature review, it is essential to employ a systematic approach that clearly outlines the methodology to be employed. This approach should encompass a comprehensive examination of all pertinent data pertaining to a specific issue, leaving no important information unaddressed. [16] The current investigation of capital structure made use of a systematic literature review approach to survey the previous research on the topic. The systematic review is an excellent tool for gathering, analyzing, and sharing recommendations derived from a large amount of research and data. The primary objective is to offer a comprehensive synthesis of existing scholarly investigations that pertain to the specific research inquiry. Reducing the potential for unintended bias caused by combining diverse review approaches is the primary goal of doing a systematic review. [10]

### **IV. CONCLUSION**

From the above study the following conclusions were drawn:

- The results show that capital structure and company performance go hand in hand. The extent to which the two are related depends on a number of factors, including the capital structure measurement element chosen, the firms' respective industries, and the many financial performance measures.

- Furthermore, the study found that total debt has a negative correlation with return on assets (ROA). Enterprise value is positively correlated with debt ratio up to a certain point, according to the premise; after that point, the value of organizations begins to decline.
- The findings indicate that enterprises should decrease their reliance on debt capital rather than increasing the percentage of equity capital in their capital structure composition.
- Significant evidence suggests a clear link between capital structure and financial success.
- The favorable association between innovation within a firm and its performance has been acknowledged.
- The aforementioned investigations provide support for both the Pecking Order Theory and the Trade-Off Theory.

## V. RECOMMENDATIONS AND AVENUES FOR PROSPECTIVE RESEARCH

The results of this study have significant policy consequences for individual enterprises, the industry as a whole, and the wider economy. The study proposes that financial managers should contemplate augmenting the proportion of debt in their capital structures as a means to enhance the overall worth of their organizations. It is widely recognized that there is a favorable relationship between capital structure and financial performance, which supports this advice. In addition, the study suggests that stakeholders can benefit greatly from improved financial performance and increased wealth generation if the company maintains adequate liquidity levels. The fact that liquidity and business performance are positively correlated explains these phenomena.

The review indicates that despite extensive research on capital structure over the course of several decades, there remains a necessity for continued focus from scholars. In future studies, it is recommended that capital structure research be conducted with a greater emphasis on industry specificity. Also insufficient attention is given to the qualitative factors influencing the composition of a firm's capital structure. Therefore, further studies should be made to address qualitative factors influencing the capital structure. Furthermore, Future research should address the paucity of data coming from underdeveloped nations and compare results from different nations for better results.

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