

An Assessment of Capital Structure Influencing on Profitability: A Case of Listed Banks on the Ghana Stock Exchange

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Abstract

This study aimed to examine the impact of capital structure on bank performance using data from nine listed banks on the Ghana Stock Exchange. The study utilised secondary panel data extracted from the published financial statements of these banks. Bank performance was measured using return on assets and return on equity as proxies, while the ratio of total debt to total assets served as the independent variable. Additionally, firms' age, size, and liquidity were control variables. The random effect technique was used for analysis, employing Ordinary Least Squares (OLS) and Autoregressive methods. The results indicated a positive and significant relationship between total debt to total assets, return on assets and equity. Furthermore, firms' age positively and significantly impacted the return on assets and return on equity in both models. Interestingly, the study found a negative effect of firms' liquidity on return on assets in model one, while the size of the firms had no impact on bank performance. Policymakers can encourage financial institutions to provide accessible and affordable lending options to businesses, enabling them to leverage debt effectively. This can be particularly beneficial for small and medium-sized enterprises (SMEs) that often face challenges accessing capital.

Keywords: Ghana Stock Exchange, Bank Performance, Significant, Policymakers

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1. Introduction

Every company makes a financial decision regarding how to fund its operations, known as the capital structure. Consequently, capital structure refers to using debt and equity to support a company's activities. According to Riahi-belkaoui (1999), capital structure encompasses equities and liabilities and the proportions of debt and equity used. As Baker and Martin (2011) described, capital structure represents the blend of debt and equity a company employs to finance its productive assets, operations, and future expansion. The selection of varying debt-to-equity ratios within a mixed financing framework can significantly impact a company's value and, consequently, the wealth of its shareholders (Baker and Martin, 2011).

Given that capital decisions are among the most critical aspects of corporate finance, they have recently attracted considerable attention from academic scholars and industry professionals. The connection between capital structure, the blend of debt and equity financing, and stock prices presents financial managers with one of the most complex challenges. It is widely recognised that reducing a company's cost of capital can enhance its overall value. Consequently, determining the most favourable capital structure is a primary objective in contemporary strategic management.

Modigliani and Miller (1958, 1963) suggested that capital structure had no bearing on a company's overall performance in the initial stages of its theoretical development. In light of imperfect market conditions and human behaviours, the idea of an ideal capital structure arises by introducing the trade-off theory. This theory considers the impact of corporate taxes, financial distress, and agency issues. Conversely, acknowledging information asymmetry gives rise to both the signalling hypothesis and the pecking order theory, which do not consider the notion of an optimal level of leverage.

2. Literature Review

2.1 Theoretical Review

Modigliani and Miller (1958) introduced the initial proposition in their study. It stands as one of the pioneering efforts to explore the correlation between capital structure and a company's value. Their proposition, known as the MM theorem, was first unveiled in 1958, igniting a compelling debate about the consequences of financing choices on corporate performance. Specifically, they contend that alterations in the existing debt and equity ratios have no bearing on a firm's value. This implies that no superior or inferior capital structure exists, and varying degrees of leverage do not impact firm values (Modigliani and Miller, 1958).

Using tax-deductible expenses incurring interest reduces tax liabilities, enhancing a company's cash inflows (Miller and Modigliani, 1963). These two economists revealed that there is now a positive relationship between firm value and financial leverage, suggesting that companies can enhance their worth by increasing their levels of indebtedness.

Again, following the Trade-off Theory, a company's capital decisions involve a delicate balancing act between the advantages of tax-related debt and the potential costs associated with financial distress (Kraus and Litzenberger, 1973). When applying the trade-off theory, each company establishes its target debt-to-equity ratio and strives to attain the anticipated optimum, which may vary based on the firm's specific characteristics (Myers, 1984).

Jensen and Meckling (1976) and Myers (1977) introduced the Agency Theory, which explores the impact of capital structure through a new perspective of corporate governance. As this theory builds upon prior models, it yields outcomes that align with those of the trade-off theory. In essence, agency issues typically revolve around the interactions among three key parties: managers, shareholders, and creditors.

Shareholder-manager conflicts of interest manifest in various forms. The initial form of conflict emerges when managers possess less than a full 100% ownership stake in the company, leading to reduced incentives for them to prioritise the maximisation of firm value in the shareholders' best interests (Jensen and Meckling, 1976). When a firm maintains a low level of debt, managers enjoy greater discretion in allocating the company's surplus cash flows. This latitude potentially permits them to undertake low-yield ventures and acquire superfluous physical assets, actions that are believed to bolster the company's size and, in turn, their personal reputation. Managers elevate the agency expenses associated with equity for these motives, leading to detrimental effects on the firm's performance. Conversely, when the firm is financed with greater leverage, the obligation to meet interest obligations constrains managers' capacity to disburse cash flows freely. Consequently, they are compelled to enhance their efficiency in selecting investments, which generally improves the firm's performance.

2.2 Empirical Review

Despite the existence of various indicators related to a firm's capital structure, empirical findings challenge the idea that firm performance is a direct reflection of how effectively a company manages its financial assets. In line with this theoretical premise, numerous researchers in corporate finance worldwide have explored the influence of capital structure on the performance of business organisations.

Kimoro et al. (2019) employed a multiple regression approach to assess the relationship between a firm's choice of capital structure and its level of profitability in order to investigate the impact of profitability on capital structure decisions for commercial banks operating in Kenya. According to their study, firm profitability significantly impacted the selection of capital structure, and this relationship exhibited a negative and linear correlation. Furthermore, the study unveiled a noteworthy moderating influence of ownership on capital structure choices.

Uremadu and Onyekachi (2019) studied how capital structure influences corporate performance in Nigeria. They employed multiple regression analysis, focusing on critical metrics like return on assets, the long-term debt-to-asset ratio, and the total debt-to-equity ratio within the consumer goods industrial sector of the economy. The study's findings revealed that capital structure had a negative and statistically insignificant effect on the corporate performance of consumer goods firms in Nigeria. Meanwhile, Aramvalathan et al. (2018) investigated the relationship between capital structure and corporations in India. They utilised the panel data method to gauge the connection between variables like return on equity, firm size, tangibles, and capital structure. Their results indicated that financial leverage significantly and positively impacted the financial performance of firms in India.

Employing the regression method, Aziz and Abbas (2019) assessed the influence of various forms of debt financing on the performance of firms across fourteen economic sectors in Pakistan from 2006 to 2014. According to the outcomes of their study, debt financing had a negative yet noteworthy impact on firm performance in Pakistan. On the other hand, Muigai

and Murithi (2017) applied a feasible generalised least square regression model to examine the moderating effect of firm size on the connection between a firm's capital structure and the financial distress of non-financial firms in Kenya from 2006 to 2015. Their findings unveiled that firm size significantly moderated the relationship between the capital structure of non-financial firms and financial distress.

Mulyana et al. (2018) examined the influence of profitability, liquidity, and leverage on earnings and firm value within the Indonesia stock exchange between 2011 and 2015. Their research employed a causality method to evaluate hypotheses using secondary data from 150 manufacturing organisations sourced from corporate websites and Indonesia's official stock exchange website. The study revealed that profitability, liquidity, and leverage had distinct and combined impacts on a company's earnings.

Meanwhile, Shen (2017) utilised a regression approach to explore the relationship between capital structure and corporate performance in China from 2011 to 2015. This analysis encompassed variables such as return on equity, return on assets, gearing ratio, long-term debt capital ratio, and current debt capital ratio. The study unearthed a weak negative correlation between the liability ratio and the performance of publicly-listed Chinese companies.

Cheema et al. (2017) investigated the association between capital structure and financial performance for both Shariah and non-Shariah companies in Pakistan from 2009 to 2015. The study employed multiple regression methods, with return on assets (ROA) and return on equity (ROE) as the dependent variables. Capital structure was assessed using variables including the long-term debt ratio, short-term debt ratio, sales growth ratio, non-debt tax shield, and inside holding. The results from multiple linear regression and correlation analyses indicated that capital structure impacted non-Shariah companies' performance but not Shariah companies.

In another study, Kirmi (2018) employed descriptive and causal research design techniques to scrutinise the relationship between capital structure and the profitability of listed petroleum and energy firms in Kenya over the period spanning from 2012 to 2016. The study focused on the effects of short-term and long-term debt on return on assets. The study highlighted a robust positive correlation between short-term debt and return on investments, a slight negative relationship between long-term debt and return on assets, and a marginally positive association between total debt and return on assets.

Between 1990 and 2016, Olarewaju (2019) investigated the dynamic relationship between capital structure and manufacturing firms listed in Nigeria. The study employed Pedroni cointegration tests and the Panel Vector Error Correction Method to evaluate the equilibrium between the dependent and independent variables. The findings indicated that, except for the variable itself, none of the shocks in the system significantly accounted for variations in return on assets in both the short and long run.

On the other hand, dang et al. (2019) researched capital structure and its correlation with the financial performance of Food and Beverage firms in Vietnam. They considered return on equity (ROE), return on assets (ROA), and earnings per share (EPS) as explanatory variables representing firm performance. Meanwhile, the explanatory variables were the short-term debt ratio, debt ratio, and long-term debt ratio, which served as indicators of a company's capital structure. Based on unbalanced panel data encompassing 605 observations from 61 listed firms within the industrial sub-sector, their analyses revealed significant findings. It was discovered that financial leverage exerted a substantial influence on firm financial performance, with debt

ratios positively and significantly affecting earnings per share and return on equity while simultaneously hurting return on assets.

In their study, Ganiyu et al. (2019) employed a generalised method of moment technique to assess the correlation between capital structure and firm performance in Nigeria. The variables examined in their research encompassed the total leverage ratio, long-term leverage, short-term leverage, asset tangibility, growth opportunities, risk, ownership, age, size, and return on equity. The study revealed a discernible connection between capital structure and the financial performance of firms.

The empirical findings above have shed light on the ongoing debate in finance literature regarding capital structure and its influence on firm financial performance. However, a definitive consensus on how a firm's capital composition affects its financial performance remains elusive. Nassar (2016), Uremadu and Onyekachi (2019), Aziz and Abbas (2019), and Shen (2017) have identified a negative association between capital structure and firm performance. In contrast, Aramvalathan et al. (2018), Gharaibeh (2015), Ganiyu et al. (2019), and Dada and Abbas (2016) have uncovered a significant positive relationship.

Despite this debate, only a limited number of studies have explored the impact of capital structure in the context of Ghana since the finance literature has engaged in this contentious discussion. Moreover, minimal research has been conducted to assess the influence of capital structure on the performance of listed banks on the Ghana Stock Exchange. Consequently, this study utilises recent data from listed banks on the Ghana Stock Exchange to investigate the relationship between capital structure and firm performance in Ghana.

2.3. Hypothesis Development

The study's conceptual framework led to the formulation the subsequent null hypotheses.

H1. Total debt to total assets positively and significantly affects return on assets.

H2. Total debt to total assets positively and significantly affects return on equity

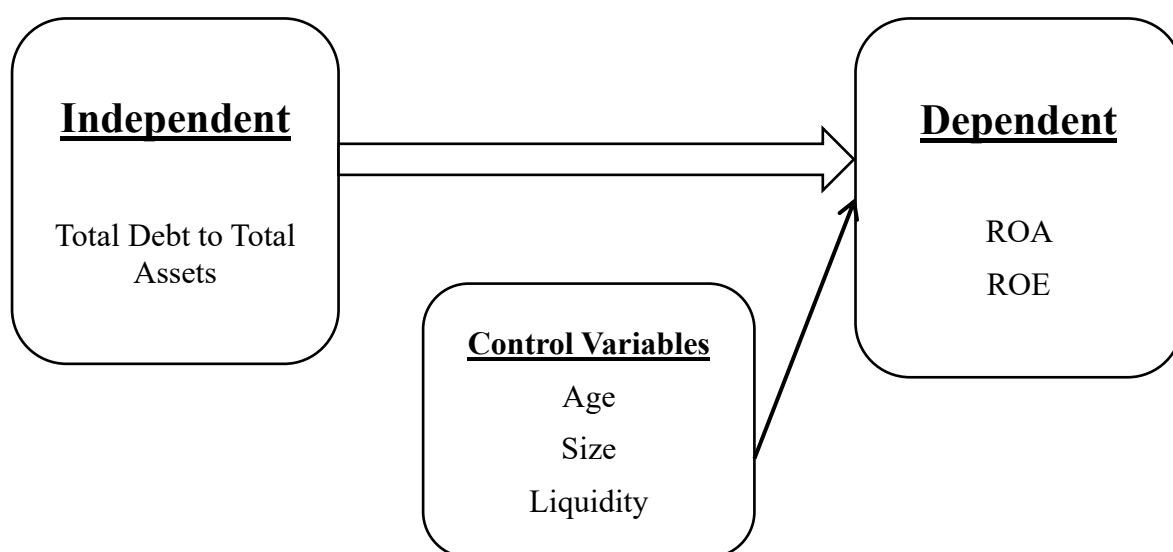


Figure1. Conceptual Framework

3. Methodology

3.1 Research Approach and Research Design

A research design is the "procedure for gathering, analysing, interpreting, and reporting data in research projects" (Creswell & Plano Clark 2007, p.58). It is the general strategy for integrating conceptual research concerns with relevant (and feasible) actual research. The research design outlines the systematic approach to data collection and analysis and the strategy to address the research query at hand, as Grey (2014) emphasised.

Yin (2003) pointed out that the research design allows the researcher to logically link empirical facts to conclusions about the study's original research topic. The framework that directs the use of the approach for data collection and analysis is known as the research design. It serves as the framework for the research methodology. A design is a collection of presumptions, viewpoints, research models, and methods for gathering and analysing data that are all connected (Neuman, 2006). According to Kumudini (2011), the design comprises choosing what to research, how to do the analysis, what data to gather, and how to interpret the findings.

This study employed the quantitative approach. According to Creswell (2003), a quantitative strategy is one in which the researcher predominantly uses post-positivist claims to gain information (i.e., cause-and-effect thinking, reduction to specific variables and hypotheses, questions, use of measurement and observation, and the test of theories). The objective of quantitative analysis is to develop and test conceptual frameworks, theories, and hypotheses that are pertinent to phenomena. The measurement method is essential to quantitative research because it establishes the link between empirical observation and the mathematical representation of quantitative connections.

3.2 Population and Sampling

This study utilised panel data from 2008 to 2020 from a sample of 9 banks listed on the Ghana Stock Exchange. The data was extracted from the annual reports of these nine banks.

3.3 Data Collection

The data for this study was collected from publicly accessible financial statements of the selected companies in the sample. These financial statements are considered a more dependable secondary data source since they adhere to Accounting Standards and undergo external audits for accuracy and reliability.

3.4 Definition of Variables

In this section, the aim was to define the meanings of the variables employed in this study. Table 1 presents an overview of this research's dependent and independent variables. The first column of the table presents the various variables, while the subsequent column provides concise explanations of each variable's definition.

Table 1. Variables, notation, and proxies of the research

Variables	Notation	Definition
Dependent variables (performance)	ROA	Return On Asset
	ROE	Return On Equity
Independent variables (leverage)	TDTA	Total Debt to Total Asset

Control variables	Age	Age is the number of years from the incorporation of the firm
	Size	Size of the firm. Firm's market capitalisation (Market share price*Number of shares) as a percentage of the total market capitalisation of all the companies considered for the study
	Liquidity	Liquidity of the firm in terms of current ratio

3.5 Data Analysis Tools

This study was employed to perform descriptive statistical analysis, correlation analysis, and regression analysis to explore the connection and influence of capital structure on firm performance. Descriptive analysis offered a comprehensive overview and interpretation of the analysed data. In addition, Correlation analysis was carried out to determine the nature and statistical significance of the relationships between each dependent variable, independent variables, and control variables. Regression analysis, on the other hand, involves evaluating the connections between independent and dependent variables. This relationship between two variables can be illustrated through the regression equation. Using a panel regression model, the following regression equations have been formulated to demonstrate the association between capital structure and firm performance. Furthermore, the regression analysis is estimated using the following equation:

$$ROA_{it} = \beta_0 + \beta_1 TDTA + \beta_2 AGE + \beta_3 SIZE + \beta_6 LIQ + \epsilon_{it} \quad (1)$$

$$ROE_{it} = \beta_0 + \beta_1 TDTA + \beta_2 AGE + \beta_3 SIZE + \beta_6 LIQ + \epsilon_{it} \quad (2)$$

Where;

- ROA – Return on Assets
- ROE – Return on Equity
- TDTA – Total Debt to Total Asset
- AGE – Age is the number of years from the incorporation of the firm
- SIZE – Size of the firm. Firm's total assets of all the companies considered for the study
- LIQ – Liquidity of the firm in terms of current ratio

4. Presentation of the Result.

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics for the dependent and independent variables. The return on assets and return on equity were proxies for firms' performance. Total debt to total assets was used as the independent variable. Age, size and liquidity were used as control variables. The descriptive statistics of the data are presented in eight rows containing the mean, standard deviation, minimum, median, maximum, skewness, and kurtosis.

The average rate of return on assets is 4.19%. In contrast, in the same period, return on assets had a maximum rate of 9.24% and a minimum of -4.69%, respectively. The average return on equity was around 20.46%, with a maximum value of 49.98% and a minimum value of -

27.35%. In addition, total debt to total assets was 8.84% on average, with a maximum of 34.44% and a minimum of 0.56%. Again, the firms' average age rate was 58.22%, a maximum of 130%, and a minimum of 14%. Furthermore, the size of the firms was 63.20% on average, with a maximum value of 3.66% and a minimum of 0.18%. Finally, the average value of liquidity was 30.77%, with a maximum of 78.56% and a minimum of 0.18%

Table 2. Descriptive Statistics

	ROA	ROE	TDTA	AGE	SIZE	LQD
Mean	0.041987	0.204673	0.088379	58.22222	0.632034	0.307784
Median	0.043328	0.217206	0.049979	45.00000	0.376972	0.273769
Maximum	0.092417	0.499843	0.344384	130.0000	3.666112	0.785689
Minimum	-0.046949	-0.273512	0.005651	14.00000	0.001875	0.001871
Std. Dev.	0.027064	0.139812	0.087285	36.37665	0.693510	0.203365
Skewness	-0.552039	-0.828353	1.292490	0.836720	1.875674	0.516452
Kurtosis	3.793519	4.478211	3.719963	2.438300	6.800793	2.202557
Observations	117	117	117	117	117	117

4.2 Regression Analysis

The results of the Hausman test indicate that the random effect model is better suited for explaining the relationship between the one and two models, as the null hypothesis is rejected. This suggests that firm variations significantly impact the connections between the variables under consideration.

Table 3. Results of Regression Analysis ROA

Variable	Coefficient	Std. Error	t-Statistic
TDTA	0.218050	0.087102	2.503390
AGE	0.000247	7.37E-05	3.352725
SIZE	-0.005331	0.006908	-0.771688
LQD	-0.087439	0.026934	-3.246483
C	0.038601	0.009477	4.073305

Effects Specification

	SD.
Cross-section random	0.013819
Idiosyncratic random	0.020706

Weighted Statistics

R-squared	0.159880	Mean dependent var
Adjusted R-squared	0.129876	SD dependent var
SE of regression	0.020772	Sum squared resid
F-statistic	5.328582	Durbin-Watson stat
Prob(F-statistic)	0.000577	

In the first model of our analysis in Table 3, we observed a notable relationship between Total Debt to Total Assets (TDTA) and Return on Assets (ROA). The statistical analysis revealed a significant positive effect, as indicated by the coefficient value 0.218. Significance at the 1% level underscores the robustness of this relationship, indicating a high degree of confidence in the findings.

This result holds intriguing implications for financial decision-making within businesses. A 1-unit increase in the Total Debt to Total Assets ratio is associated with a 21.8% increase in Return on Assets. In practical terms, this suggests that when companies increase their debt proportionately to their total assets, their profitability is substantially improved. Such findings can guide strategic financial planning, indicating that judicious use of debt financing might enhance a company's financial performance. Understanding and leveraging this relationship can be pivotal for businesses aiming to optimise their capital structure and maximise shareholder returns.

In Table 4, the analysis demonstrates intriguing insights into the factors influencing firm return on assets. One of the key findings reveals a positive and significant relationship between a firm's age and its return on assets, with statistical significance at the one per cent level. This implies that as companies mature over time, there is a corresponding increase in their profitability. Even a marginal percentage increase in a firm's age is associated with a rise in the return on assets, indicating the importance of experience and stability in fostering financial success. Contrastingly, the study uncovers a negative and statistically insignificant impact of firm size on return on assets. This suggests that, contrary to common perceptions, the size of a firm does not inherently guarantee higher profitability.

Furthermore, Table 4, sheds light on the relationship between a firm's liquidity and return on assets. The analysis reveals a negative and significant effect, quantified by a coefficient value 0.087. This means that even a slight percentage increase in a company's liquidity leads to a decrease in return on assets by 8.7%. Such findings emphasise the delicate balance firms must maintain between liquidity and profitability. While liquidity is vital for short-term obligations and operational flexibility, an excess of it might adversely impact profitability, indicating the need for strategic liquidity management strategies within businesses.

Table 4. Results of Regression Analysis ROE

Variable	Coefficient	Std. Error	t-Statistic
TDTA	0.527520	0.264750	1.992520
AGE	0.000825	0.000460	1.793225
SIZE	0.001932	0.032685	0.059118
LQD	-0.215998	0.239557	-0.901660
C	0.175306	0.062306	2.813625
Effects Specification			SD.
Cross-section random			0.069035

Idiosyncratic random

0.118039

Weighted Statistics		
R-squared	0.035336	Mean dependent var
Adjusted R-squared	0.000883	SD dependent var
SE of regression	0.119435	Sum squared resid
F-statistic	1.025644	Durbin-Watson stat
Prob(F-statistic)	0.397290	

In Table 4. we delve into the intricate dynamics of the relationship between a company's Total Debt to Total Assets (TDTA) ratio and its Return on Equity (ROE). The results presented in the table unveil a compelling finding: TDTA exhibits a positive and statistically significant impact on ROE, with a coefficient value of 0.528 and significance at the 5 per cent level. This discovery carries significant implications for financial strategists and decision-makers within businesses.

A marginal 1% increase in the Total Debt to Total Assets ratio can lead to a substantial 52.8% rise in the Return on Equity. Such a strong positive correlation highlights the potential benefits of leveraging debt strategically. When a company employs debt financing effectively, it can significantly amplify its return on equity, suggesting that judicious use of borrowed capital could be a powerful tool for enhancing shareholder value.

This finding emphasises the importance of balancing financial leverage carefully. While excessive debt can pose risks, an optimal level of debt, as indicated by the positive relationship in the results, can substantially bolster a company's profitability. Financial managers could use these insights to make informed decisions about their capital structure, considering the right balance between debt and equity to maximise shareholder returns.

In summary, the results in Table 4 illuminate a strategic pathway for businesses, emphasising the potential benefits of utilising debt intelligently. This research sheds light on the nuanced interplay between financial leverage and return on equity, offering valuable insights for companies aiming to optimise their capital structure and enhance their financial performance.

In the comprehensive analysis presented in Table 4, several crucial aspects of firm dynamics come to light, providing valuable insights for academics and practitioners. One notable finding is a firm's age's positive and statistically significant effect on its return on assets, evident at a ten per cent significance level. This result implies that as companies mature and gain experience in the market, their profitability is corresponding. Even a minor percentage increase in a company's age appears to trigger a rise in its return on assets, highlighting the importance of longevity and stability in financial success and confirming the experience curve concept. Furthermore, the study reveals intriguing information about the influence of firm size and liquidity on return on equity. Surprisingly, the results indicate that neither the size of the firm nor its liquidity levels have a discernible impact on return on equity. This unexpected finding challenges conventional wisdom, suggesting that in this particular context, size and liquidity

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are not the primary determinants of a firm's profitability. This insight prompts further exploration into the nuanced factors driving a company's financial performance.

5. Discussions

Both Model One and Model Two findings provide compelling evidence regarding the relationship between a firm's Total Debt to Total Assets (TDTA) ratio and its financial performance metrics, namely Return on Assets (ROA) and Return on Equity (ROE). These results hold significant implications for financial decision-making and strategic planning within businesses.

In Model One, the positive and statistically significant effect of TDTA on ROA, at a 1% significance level, demonstrates the critical role of debt management in enhancing a company's profitability. The coefficient value of 0.218 indicates that for every unit increase in the TDTA ratio, there is a corresponding 21.8% increase in ROA. This finding suggests that a strategic expansion in debt, when proportionally aligned with a firm's total assets, can substantially boost its return on investments. This underscores the potential benefits of leveraging debt as a financial instrument, allowing companies to amplify their profitability and generate higher returns for their stakeholders. This aligns with the study by Abor (2005) and Narinder and Mahima (2019) but contradicts the conclusions drawn by Tailab (2014) and Vätavu (2015).

Moving to model two, the results further emphasise the positive impact of TDTA, this time on Return on Equity (ROE). The statistically significant effect at a 5% significance level, with a coefficient value of 0.528, signifies that even a marginal 1% increase in the TDTA ratio can lead to an impressive 52.8% rise in ROE. This finding illuminates the financial leverage's direct correlation with shareholders' equity, highlighting the potential for increased shareholder value through strategic debt utilisation. Moreover, these findings are consistent with those of Azhagaiah and Gavoury (2011) and diverge from the conclusions presented by Ebaid (2009).

Again, when considered together, these findings emphasise the importance of prudent debt management strategies for businesses. While debt comes with risks, the results indicate that a balanced and well-managed debt-to-assets ratio can significantly enhance ROA and ROE. This suggests that companies must carefully assess their capital structures, considering the right mix of debt and equity to optimise their financial performance. Furthermore, these results are valuable for individual companies and provide insights for investors and financial analysts. Understanding the impact of TDTA on financial metrics can guide investment decisions, helping investors assess companies' financial health and potential profitability based on their debt management strategies.

Firstly, the positive and significant relationship between Total Debt to Total Assets (TDTA) and both Return on Assets (ROA) and Return on Equity (ROE) suggests that businesses can strategically utilise debt to enhance their financial performance. Policymakers can encourage financial institutions to provide accessible and affordable lending options to businesses, enabling them to leverage debt effectively. This can be particularly beneficial for small and medium-sized enterprises (SMEs) that often face challenges accessing capital. By fostering an

environment where businesses can obtain necessary funds, policymakers can contribute to increased ROA and ROE, promoting economic growth and stability.

Additionally, businesses can use these findings to inform their financial strategies. Financial managers should carefully evaluate their debt-to-assets ratios, considering the potential for increased profitability. However, companies must exercise caution and maintain a balance, ensuring that they don't overleverage themselves, which could lead to financial instability in the long run. Furthermore, these results highlight the importance of financial literacy among business owners and managers. Understanding the impact of debt on financial metrics like ROA and ROE is essential. Therefore, policymakers can invest in financial education programs for entrepreneurs, equipping them with the knowledge and skills to make informed decisions about their capital structure.

In summary, these findings emphasise the significance of debt management in optimising financial performance. Policymakers can support businesses by facilitating credit access, while companies can use this information to make prudent financial decisions. Moreover, investing in financial education can empower entrepreneurs, ensuring they navigate the complexities of debt effectively, ultimately contributing to overall economic growth and stability.

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