



# The Influence of Capital Structure on Financial Performance: A Statistical Analysis of Robin Corporation Ltd in Zimbabwe's Beverage Industry



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**Received:** 10-15-2024

**Revised:** 12-12-2024

**Accepted:** 12-21-2024

**Citation:** Govere, G. Z. & Wadesango, O. (2024). The influence of capital structure on financial performance: A statistical analysis of Robin Corporation Ltd in Zimbabwe's beverage industry. *J. Account. Fin. Audit. Stud.*, 10(4), 238-246. <https://doi.org/10.56578/jafas100405>.



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**Abstract:** This study investigates the relationship between capital structure and financial performance at Robin Corporation Ltd, a leading beverage manufacturer in Zimbabwe. A quantitative research methodology was employed, with data collected from 31 employees through structured questionnaires. The study focuses on external and internal financing sources—debt, equity, retained earnings, and reserves—and their impact on the company's financial outcomes. The analysis reveals a positive correlation between capital structure and financial performance, suggesting that both debt and equity financing play significant roles in shaping financial results. However, it was also observed that factors such as managerial efficiency, inflation, and broader economic conditions exert substantial influence on performance. While capital structure is a critical determinant, the results indicate that effective management of these other variables is equally essential for optimizing financial outcomes. The findings underscore the importance of strategic capital management in the Zimbabwean beverage sector, emphasizing that an appropriate balance between external and internal financing is pivotal for enhancing financial performance. The study contributes to the broader understanding of capital structure in emerging markets and provides valuable insights for companies seeking to navigate the complexities of financial decision-making in volatile economic environments.

**Keywords:** Capital structure; Financial performance; Debt financing; Equity financing; Retained earnings; Management efficiency; Zimbabwean beverage industry

**JEL Classification:** M41; M49

## 1. Introduction

The capital structure of a corporation refers to the mix of its long-term and short-term liabilities, as well as its common and preferred equity, and this combination is used to finance the company's operations and growth (Modigliani & Miller, 1958). Understanding how capital structure affects financial performance is particularly significant in emerging markets like Zimbabwe, where economic instability, inflation, and currency fluctuations pose substantial challenges for companies, particularly in the beverage industry. The beverage industry serves as a critical sector for economic development, contributing to both employment and GDP. However, companies within this industry are faced with unique challenges, including volatile raw material prices, regulatory constraints, and intense competition, all of which influence their capital structure decisions and ultimately their financial performance (Chikwira, 2023).

This research seeks to identify the elements that impact decisions regarding capital structure. Specifically, this research aims to identify factors that affect capital structure choices, focusing on both external sources (debt and equity) and internal sources (retained earnings and reserves). This examination is particularly pertinent given the challenges faced by the beverage industry in Zimbabwe, which include economic fluctuations and changing

consumer preferences.

The problem statement for this research is anchored in the observation that many firms in Zimbabwe's beverage industry struggle with financial performance issues, and there is an insufficient understanding of how variations in capital structure affect this performance. Previous studies have suggested that while capital structure is a critical determinant of financial performance, external economic factors, management efficiency, and industry-specific challenges may also play pivotal roles (Chikwira, 2023). This research posits that despite these additional variables, a positive relationship exists between a well-structured capital framework and financial success.

## 2. Theoretical Literature

### 2.1 Capital Structure and Financial Performance

The concept of capital structure is interpreted in various ways across the literature (Wadesango et al., 2022). As described by Brealey et al. (2020) and Ross et al. (2017), capital structure is defined as the specific blend of debt and equity utilized to finance a firm's operational and production activities. In essence, it is the ratio of long-term debt against equity that influences how a company finances its endeavors, establishing its capital structure. Consequently, the structural correlation of a firm's capital is generally reflected by its debt and equity proportions. Specifically, a company's financial performance is significantly affected by its effectiveness in acquiring, employing, and managing capital. Business performance serves as a key economic indicator, showcasing how efficiently inputs are utilized during production. It constitutes a broad economic measure that evaluates the efficiency with which an entity utilizes both its financial and material resources (Minnema & Andersson, 2018). The evaluation of financial performance remains one of the most contentious topics in financial management.

### 2.2 Empirical Literature Review

A significant body of research has investigated the connection between financial leverage and performance (Wadesango et al., 2022). For instance, a study by Ali et al. (2020) indicated that as companies increase financial leverage, their performance tends to decline. The above authors noted a notable negative correlation between financial leverage and performance in heavily leveraged firms located in the United Arab Emirates and South Africa. Conversely, a study by Khatun et al. (2021), which exploring financial leverage in the Bangladeshi banking sector, found a significant positive association between leverage and performance metrics such as ROA and ROE, indicating that greater leverage can enhance financial outcomes. However, this study also highlighted a weaker correlation in highly leveraged banks. The results highlight the intricate and diverse nature of the connection between financial leverage and performance, which is affected by various contextual elements such as the type of industry and geographic region (Al-Taani, 2013).

Research has established a significant relationship between profitability and capital structure (Bajaj et al., 2021). For example, Keter et al. (2023) identified a trend where firms with higher leverage ratios exhibited reduced profitability, attributing this to the increased financial risk associated with debt. Businesses were found to be more profitable when relying on equity financing. Similarly, investigations by Ullah et al. (2020) in Pakistan's industrial sector revealed a connection between profitability and the debt-to-equity ratio, suggesting that maintaining an optimal ratio can enhance profitability. Moreover, Kaur et al. (2022) reported a positive correlation between capital structure and profitability among Indian manufacturing firms, asserting that a profitable capital structure is essential for firms aiming to enhance financial performance.

In addition, emerging evidence has begun to explore the interplay between capital structure, liquidity, and solvency. A recent study by Chen et al. (2023) investigated this relationship within Chinese listed companies and concluded that an increase in leverage ratios resulted in lower liquidity and solvency metrics, thereby establishing a direct relationship between capital structure and these financial parameters. Additionally, Salam & Shourkashti (2019) investigated Malaysian firms and similarly found that higher debt levels correlated with reduced liquidity and solvency. Kaur et al., (2022) echoed these findings in the context of Indian manufacturing companies, confirming a negative relationship between capital structure and both liquidity and solvency metrics.

While most studies conclude that the relationship between gearing and profitability is negative (Ajibola et al., 2018; Itan & Chelencia, 2022; Memon & Tahir, 2016), they indicate that the interplay between equity return rates and levels of debt is significantly inversely related. He argued that empirical evaluations of capital structures' impact on performance remain insufficient, thereby calling for more focused research in this area.

Abata et al. (2017) examined companies listed on the Johannesburg Stock Exchange in South Africa, investigating various influencer ratios, including the total debt in relation to total assets and total equity. They discovered an inverse correlation between debt ratios and performance but highlighted a positive association between the return on equity (ROE) and the total debt-to-equity ratio. Similar investigations by Mamaro & Legotlo (2020) observed inconsistency in results regarding how capital structure impacts performance among retail companies listed on the exchange.

Magomo (2020) investigated Zimbabwe’s manufacturing sectors, showing a negative correlation between financial performance and capital structure. Jabangwe & Kadenge (2015) employed semi-annual data from fourteen companies to explore this relationship, concluding a generally weak positive correlation between capital structure and overall performance. They called for further inquiry into the tourism sector to clarify existing inconsistencies in findings.

### 3. Research Methodology

The study adopted a quantitative research methodology. A carefully designed questionnaire was created to collect information from essential personnel, such as senior management, employees in the accounting and auditing departments, and members of various operational teams.

#### 3.1 Questionnaire Design

It comprised sections that evaluated:

1. Demographic information of respondents (e.g., role within the company, years of experience).
2. Perceptions of capital structure components, including debt, equity, retained earnings, and reserves.
3. Other variables that may affect financial performance, including management efficiency and external economic factors.

#### 3.2 Sampling Technique

A targeted sampling method was utilized to ensure that the sample comprised employees with significant knowledge and influence over capital structure decisions. The total sample size of 31 participants as reflected in Table 1 was deemed sufficient, based on recommendations from prior literature, which suggests that samples can yield meaningful insights even below 30, particularly in exploratory studies. Future research could benefit from a larger sample size to validate and expand upon these preliminary findings.

**Table 1.** Sample size

Population Respondents	Populace	Questionnaires	Interview Participants
High-ranking officials	5	2	3
Accounting, auditing, and risk management	10	9	1
Employees from other departments	16	15	1
Total	31	26	5

Source: Primary data

#### 3.3 Data Analysis

The data obtained from the questionnaires were examined through both descriptive and inferential statistical techniques. Descriptive statistics, such as mean, standard deviation, and frequency distribution, offered insights into the characteristics of the sample and their views. To explore connections between different components of capital structure and measures of financial performance, inferential statistics, including correlation and regression analysis, were employed. Statistical software (e.g., SPSS or Excel) facilitated the analysis of the gathered data, ensuring accuracy and efficiency in processing.

The study’s small sample size of 31 participants and reliance on self-reported data pose limitations that may affect the findings’ generalizability and validity, suggesting a need for future research with larger samples and longitudinal approaches.

### 4. Results

#### 4.1 Financial Leverage’s Impact on Robin Corporation Ltd.’s Profitability

Table 2 shows that only one participant (4%) from the total of 26 expressed strong agreement with this assertion, whereas 21 respondents (81%) agreed. None disagreed or strongly disagreed, and four individuals (15%) remained neutral. Existing literature supports the idea that financial leverage influences profitability. Increased reliance on debt financing is thought to elevate the company’s capital costs, which subsequently influences its profitability. Nonetheless, this viewpoint faces criticism from Modigliani & Miller (1958), who contend that a company’s profitability is unaffected by its financing methods.

**Table 2.** The influence of financial leverage on the profitability of Robin Corporation Ltd

<b>Response</b>	<b>Recurrence</b>	<b>Percentage</b>
Strongly Agree	1	4%
Agreed	21	81%
Neutral	4	15%
Disagree	0	0%
Strongly Disagree	0	0%
Total	26	100%

Source: Field work

#### **4.2 The Impact of Financial Leverage on Robin Corporation Ltd.'s Liquidity**

The results indicate that most respondents generally agree that financial leverage affects Robin Corporation Ltd.'s liquidity.

Table 3 shows that 96% of respondents agreed or strongly agreed that financial leverage influences ROBIN Ltd.'s liquidity. Neutral respondents made up just 4% of the total. The fact that there was no disagreement or little disagreement among the respondents implies that they are of the opinion that financial leverage and Robin Corporation Ltd.'s liquidity are related. Interviewees also affirmed this relationship, and one even suggested that when a business employs debt financing, it is required to pay ongoing interest. These payments may decrease the company's cash flow, making it more challenging to satisfy its immediate obligations.

**Table 3.** Impact on the liquidity of Robin Corporation Ltd

<b>Response</b>	<b>Recurrence</b>	<b>Percentage</b>
Strongly Agree	4	15%
Agreed	21	81%
Neutral	1	4%
Disagree	0	0%
Strongly Disagree	0	0%
Total	26	100%

Source: Field work

#### **4.3 Financial Leverage's Impact on Delta Corporation Ltd.'s Solvency**

Table 4 shows the participants' opinions on how financial leverage affects Robin Corporation Ltd.'s solvency.

It appears that most respondents (81%) or those who strongly agreed (8%) agreed that financial leverage affects the company's solvency. Only 4% of respondents disagreed with this assertion, and none of the respondents strongly disagreed. This may mean that the participants believe Robin Corporation Ltd.'s level of financial leverage impairs the ability of the company to meet its long-term financial obligations. Most researchers have found that financial leverage may potentially raise the company's risk of bankruptcy or insolvency. Acharya & Pedersen (2019) also support this opinion, saying that, when a company uses debt financing, it may end up taking on greater risk than it would if it used only equity financing.

**Table 4.** Impact on the solvency of Robin Corporation Ltd

<b>Response</b>	<b>Recurrence</b>	<b>Percentage</b>
Strongly Agree	2	8%
Agreed	19	73%
Neutral	4	15%
Disagree	1	4%
Strongly Disagree	0	0%
Total	26	100%

Source: Field work

#### **4.4 Increased Profitability Correlation with Higher Debt-to-Equity Ratio**

Table 5 shows that there isn't a certain agreement on whether a higher debt-to-equity ratio is linked to greater profitability.

Some scholars contend that a definitive link between these two financial metrics is lacking. Keter et al. (2023) noted that companies can achieve significant profitability regardless of whether their debt-to-equity ratios are high or low. The above authors discovered that the relationship between the debt-to-equity ratio and profitability is intricate and influenced by various factors, including the industry in which the business operates. Their research

suggests that elevated debt-to-equity ratios may enhance profitability in certain sectors while adversely affecting it in others.

**Table 5.** The relationship between debt-to-equity ratio and profitability

Response	Recurrence	Percentage
Strongly Agree	0	0%
Agreed	0	0%
Neutral	8	31%
Disagree	17	65%
Strongly Disagree	1	4%
Total	26	100%

Source: Primary data

#### 4.5 Correlation of Increased Profitability with Reduced Debt-to-Equity Ratio

Results in Table 6 show that a lower debt-to-equity ratio is linked to greater profitability.

The data gathered indicates a consensus that a lower debt-to-equity ratio is beneficial for profitability. This is reflected in the table above, where 79% of respondents agreed and an additional 4% strongly agreed that a lower debt-to-equity ratio correlates with enhanced profitability. These findings are consistent with conclusions reached by several other researchers. For instance, a study conducted by Al-Lozi & Obeidat (2016) revealed that organizations with lower debt-to-equity ratios tended to achieve higher ROE and earnings per share (EPS).

**Table 6.** Effects of a lower debt-to-equity ratio on profitability

Response	Recurrence	Percentage
Strongly Agree	1	4%
Agree	21	79%
Neutral	4	17%
Disagree	0	0%
Strongly Disagree	0	0%
Total	26	100%

Source: Primary data

#### 4.6 The Influence of Company Financing Composition on Profitability

Table 7 shows that 88% of respondents disagreed with the claim that capital structure affects profitability. Only 4% of those surveyed expressed neutrality, while 8% strongly disagreed. Profitability can, however, be positively or negatively impacted by capital structure in particular circumstances. When deciding how to finance their operations, businesses should carefully consider their capital structure. Chen et al. (2023) postulate that due to higher costs for equity investors and possible financial difficulty, large debt can have a detrimental influence on profitability. For some businesses, such as those with excellent growth prospects that can use debt to finance successful growth, this link could not hold true. An interviewee said that Robin Corporation Ltd's profitability can be impacted by several variables, including its capital structure, cost-cutting initiatives, management efficiency, marketing strategy, and business climate.

**Table 7.** The influence of capital structure on profitability

Response	Recurrence	Percentage
Strongly Agree	0	0%
Agreed	0	0%
Neutral	1	4%
Disagree	23	88%
Strongly Disagree	2	8%
Total	26	100%

Source: Primary data

#### 4.7 Decreased Liquidity Correlation with Greater Debt-to-Equity Ratio

The results as reflected in Table 8 indicate that 15% of the participants strongly agreed, 77% agreed, 8% were neutral, and none disagreed with the idea that a higher debt-to-equity ratio is linked to lower liquidity levels. This illustrates a significant agreement among the respondents on the relationship between a higher debt-to-equity ratio and decreased liquidity. Additionally, a recent study conducted by Tian et al. (2024) highlights a strong link

between the debt-to-equity ratio and liquidity. Their findings suggest that an elevated debt-to-equity ratio means Robin Corporation Ltd carries more debt, which can hinder its capacity to fulfill short-term financial obligations. As a result, the company may need to sell off assets or seek additional funding to meet its commitments, which could further decrease its liquidity.

**Table 8.** The relationship between high debt-to-equity ratios and reduced liquidity

Response	Recurrence	Percentage
Strongly Agree	4	15%
Agreed	20	77%
Neutral	2	8%
Disagree	0	0%
Strongly Disagree	0	0%
Total	26	100%

Source: Field work

**4.8 Lower Liquidity Association with Lower Debt-to-Equity Ratio**

Table 9 illustrates findings on debt-to-equity ratio and liquidity.

According to Table 9, the survey results indicate that 15% of participants strongly support the assertion, while 69% are in favor, 8% remain neutral, 8% disagree, and none express strong disagreement regarding the idea that a reduced debt-to-equity ratio is connected to weaker liquidity. This shows that most respondents think there is an unfavorable connection between liquidity and debt-to-equity ratio. There are numerous reasons why this might be the case. Chen et al. (2023) argue that the relationship between the debt-to-equity ratio and liquidity is complex, and other variables, including the type of debt, the industry, and the country, can also have an impact. It appears that, if Robin Corporation Ltd’s debt-to-equity ratios are lower, the company might have less cash on hand because it would have utilized more of its available capital to pay down debt. This could make it more challenging for the business to fulfill urgent demands like payroll and accounts payable.

**Table 9.** Influence of debt-to-equity ratio on liquidity levels

Response	Recurrence	Percentage
Strongly Agree	4	15%
Agreed	18	69%
Neutral	2	8%
Disagree	2	8%
Strongly Disagree	0	0%
Total	26	100%

Source: Field work

**4.9 The Influence of Capital Structures on Liquidity**

Most respondents as indicated in Table 10 disagree with the claim that capital structure has no bearing on liquidity. This implies that there is broad agreement among respondents that capital structure does influence liquidity. Numerous studies are of the view that capital structure impacts liquidity. For example, Mo & Yang (2022) supported that liquidity of a corporation is significantly influenced by capital structure. It can therefore be emphasized that capital structure decisions must critically be considered to ensure that short-term obligations are met.

**Table 10.** Capital structure’s impact on liquidity

Response	Recurrence	Percentage
Strongly Agree	0	0%
Agreed	0	0%
Neutral	7	27%
Disagree	18	69%
Strongly Disagree	1	4%
Total	26	100%

Source: Primary data

**4.10 Lower Solvency Association with Higher Debt-to-Equity Ratio**

A higher debt-to-equity ratio often indicates reduced financial stability as indicated in Table 11. This conclusion



is supported by the fact that 92% of participants either agreed or strongly agreed with this assertion, whereas only 4% were neutral or disagreed. Furthermore, research conducted by Tian et al. (2024) suggests an inverse correlation between the debt-to-equity ratio and liquidity. Their findings show that firms with elevated debt-to-equity ratios generally exhibit lower levels of liquidity. Additionally, one interviewee reinforced the notion that a greater debt-to-equity ratio signifies that a company has more debt than equity, which increases financial risk because principal and interest obligations must be met regardless of the company's financial performance.

**Table 11.** A higher debt-to-equity ratio indicates weaker solvency

Response	Recurrence	Percentage
Strongly Agree	1	4%
Agreed	24	92%
Neutral	1	4%
Disagree	0	0%
Strongly Disagree	0	0%
Total	26	100%

Source: Primary data

#### 4.11 Regression Analysis Results

Table 12 presents the regression coefficients, including the intercept, debt-to-equity ratio, and EBITDA margin, along with their respective standard errors, t-statistics, and p-values. Additionally, the overall significance of the model is indicated by the F-statistic and its associated p-value, while the R-squared and adjusted R-squared values reflect how well the model fits the data.

**Table 12.** Regression analysis

Dependent Variable	ROE	
	Coefficients	Std. Error
Intercept	0.051	0.021
Debt to Equity Ratio	0.035	0.007
EBITDA Margin	0.092	0.029
R-squared	0.745	
Adjusted R-squared	0.701	
F-statistic	17.019	
Prob (F-statistic)	0.0001	

Source: Statistical Package for Social Sciences (SPSS)

## 5. Discussion

The findings from the regression analysis provide insights into how the capital structure of Robin Corporation Ltd relates to its financial performance, as gauged by ROE. This analysis reveals that the intercept coefficient is 0.051, suggesting that even when both the debt-to-equity ratio and EBITDA margin are at zero, the predicted ROE will still be approximately 5.1%. The statistical significance of this intercept is confirmed by a p-value of 0.020, indicating that it is significantly different from zero at the 5% significance level. This implies that factors other than the capital structure still contribute positively to the firm's ROE.

The coefficient for the debt-to-equity ratio is reported at 0.035, accompanied by a standard error of 0.007. With a t-statistic of 5.000 and a p-value of 0.001, the results indicate a robust and statistically meaningful association between the debt-to-equity ratio and ROE. Specifically, this implies that a one-unit rise in the debt-to-equity ratio is associated with an increase in ROE by 0.035 units, suggesting that Robin Corporation Ltd successfully utilizes debt to boost returns for its shareholders. This finding aligns with the established finance literature, which posits that an optimal level of debt can amplify profits through financial leverage (Brealey et al., 2020; Modigliani & Miller, 1958).

Additionally, the EBITDA margin exhibits a coefficient of 0.092, with a standard error of 0.029, a t-statistic of 3.17, and a p-value of 0.008. This indicates a statistically significant positive effect on ROE. In practical terms, this means that for every unit increase in the EBITDA margin, ROE increases by 0.092 units. These results highlight a strong operational capacity and efficiency in generating profits, thereby enhancing financial performance. This finding is consistent with prior research, which suggests that higher profitability from core operations directly boosts shareholder value (Graham et al., 2015).

The robustness of the model is evidenced by an adjusted R-squared value of 0.701 and a primary R-squared value of 0.745, suggesting that around 74.5% of the variation in ROE can be accounted for by the independent variables used. Furthermore, with an F-statistic of 17.019 and a highly significant p-value of 0.0001, the overall

model is confirmed to be statistically significant. These results show that both the debt-to-equity ratio and EBITDA margin serve as meaningful predictors of ROE.

These findings not only contribute valuable insights into the capital structure dynamics of the company but are also in line with prevailing theories in corporate finance surrounding the advantages of leveraging debt and enhancing operational efficiency.

## 6. Conclusions

The findings align largely with existing literature, revealing that respondents overwhelmingly agree that financial leverage impacts profitability (81%), liquidity (96%), and solvency (81%) of the firm. Nonetheless, there exists a connection between the debt-to-equity ratio and profitability that was found to be more complex, with significant skepticism among respondents regarding a direct correlation, highlighting a nuanced understanding of financial structures within the corporation. Furthermore, a considerable majority (69%) believe that higher debt-to-equity ratios lead to lower liquidity, emphasizing the risks associated with increased debt financing.

The results carry significant implications for both theoretical frameworks and practical applications. Theoretically, they reinforce established perspectives on how capital structure influences corporate performance while also shedding light on inconsistencies identified by researchers such as Modigliani & Miller (1958). Their seminal work posited that financing choices do not impact a firm's profitability. Practically, these insights suggest that Robin Corporation Ltd should strive to maintain an optimal debt-to-equity ratio, balancing risk and return while ensuring profitability and liquidity. Specifically, the corporation might consider adopting a conservative borrowing strategy to enhance financial stability, enabling sustained growth without excessively burdening cash flow.

To further enhance capital structure decision-making, Robin Corporation Ltd should engage in regular financial assessments to align its debt policies with operational objectives. This could include scenario planning to understand the impacts of various levels of debt on profitability, liquidity, and solvency under different economic conditions. Additionally, the findings of this study can serve as a benchmark for similar industries facing comparable economic environments. Other companies might explore these insights when considering their capital structures, aiming to balance financial leverage with strategic operational needs. Ultimately, diligent management of capital structure will assist Robin Corporation Ltd in achieving long-term organizational success and resilience against economic fluctuations.

## Data Availability

Not applicable.

## Conflicts of Interest

The authors declare no conflict of interest.

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