

CAPITAL STRUCTURE AND FINANCIAL SUSTAINABILITY OF FIRMS: EVIDENCE FROM CAMEROON

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ABSTRACT

In similar papers of past decades, researchers have emphasized that capital structure has a major role to play in organizational performance and firm sustainability. Financial Sustainability as a necessary condition for institutional permanence and long-lasting service has attracted scholarly attention in both the developed and developing world over several decades. However, most researches on sustainability have focused on responsibility (social and environmental) rather than time. This has made most research investigations to be limited to the big firms while ignoring the small and medium size enterprises which contribute so much to the economic development of developing countries like Cameroon. In this light, this work wanted to assess the effect of capital structure decisions on the long-run financial prosperity of small and medium size enterprises within the Littoral and the South West Regions of Cameroon. Capital structure was broken down to short-term debts, long-term debts and equity (owner's equity and retained earnings). Sustainability was evaluated from return on asset and return on equity over a study period of fifteen fiscal years. The main objective was to examine how capital structure components affects the financial sustainability of small and medium-sized enterprises. Panel data was gathered from each annual financial statements of those specific companies' websites. It was analysed using correlations, descriptive statistics and multiple regression with the aid of SPSS 23. From the findings, there exist a strong relationship between capital structure and financial sustainability. From the conclusions, it is recommended that firms should use shareholders' funds as much as practical before they result to borrowing so as to minimize the risks related to debt financing.

Keywords: Capital Structure, Debt, Equity, Debt to Equity, Financial Sustainability, Small and Medium Sized Enterprises.

INTRODUCTION

Financial sustainability is underrepresented in both the research on and practice of sustainability management and reporting (Gleißner, Günther & Walkshäusl, 2022). (Bansal & Desjardine, 2014) expressed a concern on sustainability which constitutes the foundation for this investigation (Njiku & Nyamsogoro, 2019; Nkafu, 021). Most researches on sustainability have focused on responsibility rather than time. Most management strategies are limited to short term decision making and outcomes while being shortsighted on the long-term decisions and outcomes of the firm. The focus of many sustainability researches on responsibility rather than time has also made most research investigations to be limited to the big firms while ignoring the small and medium size enterprises which contribute so much to

the economic development of developing countries like (Cameroon Nunkoo, & Boeteng, 2010).

(Bonini, 2012) penned down an “eye-opening statement that, companies are not doing enough to incorporate sustainability in to strategic planning. This is a problem in itself given that sustainability is a long-term vision. In the general common awakening towards the importance of sustainability, (Berthelot et al., 2012) confirm to us that results have confirmed that investors value reports on sustainability. This seems to suggest the reason why small and medium size enterprises might remain small if they don't incorporate sustainability into strategic planning. Investors value firms that take sustainability into consideration but management's foresight has not fully integrated sustainability. This puts us in a puzzle towards thinking that a company or firm in the present age that does not make reports on sustainability might not even attract certain investors. Businesses must choose their sources of finance well so that they can have the economic allowance to satisfy investors both in the short and long run and more so, attempt to satisfy social stakeholders too.

(Dilling, 2010) made us to understand that there is high anticipation that firms with need for financing are more pruned to give reports on sustainability because of the intentions to attract investors with strong interest for sustainability operations. It is quite clear that most small and medium size enterprises need additional capital for expansion but what is unclear here is their limitation towards sustainability activities to ensure the going concern of these firms in a trans-generational sense. He discovered that even the issuance of either new equity or long-term debt is positively related to the publication of reports on sustainability. The composition of the capital structure of any organization is a primary concern to all investors and most especially, investors (principals) who have agents managing their investments. This is why, there was a high need to look further into this matter since it has become a major concern to investors of the 21st century.

There is always an increasing need for more or extra capital once a firm starts engaging in actions geared towards sustainability. It is with this point of view that (Artiach et al., 2010) brought to our understanding that an organization must consider its financial slack (excess financial resources beyond a firm's future particular needs) to know the allowance available for sustainable activities. Companies with limited economic resources might be pruned to satisfying financial stakeholders while social claimants will be at the losing end. This is the reason firms must seek an optimal capital structure irrespective of the mix between equity and debt in order to engage in sustainable activities without putting financial stakeholders at the losing end. This is what this research seeks to achieve.

Business visionaries face many key choices as their undertakings develop and thrive. Specifically, in the beginning phases of their undertaking, business visionaries frequently depend on private capital and the support of relatives to fuel the financial and human resources needs of a developing business (Reddy & Wellalge, 2023). Organizations are funded with equity and borrowed capital (Margaritis & Psillaki, 2007; Margaritis & Psillaki, 2009). Equity suggests ownership while obligation implies monetary commitments owed to other people. Equity adds up to free assets and is long-lasting in the business. However, it is costlier than debt capital as a source of finance. Debt (finance) is always deducted before tax and in this way less expensive than equity. However, unreasonable utilization of obligation might prompt financial pressure and liquidation (Smith, 2012; Smith, 2003).

(Gomba & Kele, 2016) identified that firm sustainability in Africa is affected by various components, including the idea of the board, economic situations and government plans. Firm economic prosperity in Africa is not just affected by the capital structure yet additionally by various components including the idea of the board, financial circumstances, and government plans (Su & Vo, 2010). A critical number of firms existing in South Africa began as family-owned firms (small and medium size enterprises) and contribute

significantly to work creation, poverty eradication and wealth creation.

In the current perspective of organizational goals, (Gunawan & Yudani, 2017) made us to understand that in the 21st century context, maximization of profits is not the only goal that companies hope to achieve. It also involves aspects such as environmental, human resource, consumers and other social concerns. Although this assertion looks simple, it requires a sacrifice by either placing a constraint on current resources or an extra demand for more capital to take care of these concerns. It is either the company management is reducing profits to meet social and environmental needs, calling on equity holders for more or getting external financial assistance from commercial banks. All of these options often go a long way to have an impact on the capital structure composition of a firm. Cameroon has not been an exception to this current moves. (Tegofack & Kamgang, 2021; Utami, 2019) brought to our understanding that preparation of a sustainability report requires stakeholder engagement as a mandatory stage for the publication of a complete, credible and useful document to the stakeholders (Van der Merwe et al., 2009).

Our review endeavors were to fill this gap by investigating the impacts of certain capital structure determinants on the sustainability (economic prosperity) of Small and Medium Size Enterprises with a futuristic perspective (Venter & Boshoff, 2007, Venter, 2005). If the choice of debt and equity is not critically considered by the manager, using a wrong choice can easily lead the firm to insolvency and liquidation. Therefore, the problem of this study is to determine the optimum capital structure that will enable companies in Cameroon to work more efficiently (Woodman, 2017). The general goal of the review was to study the relationship between capital structure components (source of finance) and the financial sustainability of small and medium size enterprises in Cameroon; to identify how capital structure composition affects the sustainability of small and medium-sized enterprises. SMEs are the fastest growing organizations and to contribute greatly to poverty alleviation and reducing the unemployment rates in most developing countries like Cameroon.

(Belas, Gavurova & Toth, 2018) gave light into the issue of capital structure. They identified that certain SME characteristics have a dimension to which they affect capital structure decisions. They also affirmed that deciding on the optimal capital structure of an organization is very key to management decisions. They were categorical in saying that equity costs are usually higher than costs of borrowed capital because the owner's risk is higher than that of the lender. This is because the owner's capital can be lost while the lender simply loans out money, collects interest for the stipulated period of time and the loan is backed by the assets of the business with a third party guarantee. Finally, they recommended that it is important to pay attention to the factors affecting capital structure in order to achieve optimal business performance. (Parvin et al., 2020) emphasized that capital structure has a major role to play in organizational performance and firm sustainability. (Boateng et al., 2022) also agreed with other researchers that financing decision affect the short term and long term sustainability of the operations of the organization including returns to owners and other stakeholders. They reference the optimal capital structure definition attempted by (Kumar, Colombage & Rao, 2017) which explained that the optimal capital structure of a firm is the best combination of equity and debt which will ensure that value is maximized through investments of this capital in the most profitable undertakings and which will enhance the financial and operational performance of the organization. (Bonini, 2012) reported that in one of McKinsey's survey on sustainability that, firms now pursue sustainability goals instead of reputation management. Long-term sustainability goals such as saving energy, developing green products, retaining and maintaining employees has led to increase valued captured through growth and return on capital. (Bonini, 2012) penned down an eye opening statement that, companies are not doing enough to incorporate sustainability in to strategic planning." This is a point of interest in itself given that sustainability is a long-term vision. In the wake

of changed awareness, (Dilling, 2010) made us to understand that there is high anticipation that firms with need for financing are more pruned to give reports on sustainability because of the intentions to attract investors with strong interest for sustainability operations. This research even went ahead to assume that the issuance of either new equity or long-term debt is positively related to the publication of reports on sustainability.

The composition of the capital structure of any organization is a primary concern to all investors and most especially, investors (principals) who have agents managing their investments. Therefore, (Berthelot et al., 2012; Bevan & Danbolt, 2002) confirm to us that results have confirmed that investors value reports on sustainability. Research on sustainability has gained increasing importance over the years. (Bansal & Desjardine, 2014) gave us light into the definition given by the World Commission for Environment and Development (WCED) in 1987. The WCED definition depicts that sustainability aims to achieve the security of intergenerational equity. It is the ability to meet present needs without compromising the ability of future generations to meet their own needs. (Fonseka et al., 2014; Friedman, 1962) affirmed managers should know how and why sources of financial capital give a competition and how these sources of capital help in sustainability. In the attempt of gaining a broader perspective of sustainability, (Rezaee, 2016; Ganguli, 2013) gave us more insight. He admits that business sustainability is a means of long-term sustainability of companies and their accountability to a variety of stakeholders. He said that the goal of firm value maximization could be achieved in business sustainability by protecting stakeholders' interesting ranging from investors, customers, creditors, suppliers, environment, employees and the society at large (Gioia, 1995).

(Dienes et al., 2018) "indicate to us the drivers that disclose sustainability in a report. Among others, they include; firm size, media visibility, ownership structure, profitability, capital structure and firm age. (Bansal & Desjardine, 2014) made us to understand that sustainability requires trade-offs. That organizations engaging in sustainability operations must choose between "investing less for smaller profits sooner" or "investing more for greater profits later". This is the exact point where there is a link between capital structure and sustainability. The big question to be pondered on is; is it new equity capital or long-term borrowed capital that is most preferred to invest for sustainable operations or a combination of both forms of capital?

Rezaee (2016) suggested that the subject of business sustainability deserves more academic enquiries. This is the reason why, our review endeavour was to fill this gap by investigating the impacts of the utilization of either equity or debt as a source(s) of capital while engaging on the sustainability (economic prosperity) of firms with a transgenerational perspective. We concentrated on whether the firms should invest in sustainability ventures and what form of capital structure might be appropriate for the firm when engaging in such ventures. We resolved this issue by focusing on the capital management and long-term results on sustainability".

LITERATURE REVIEW

Capital Structure

It has been a traditional concept to "divide the capital structure between debt and equity. How much debt and how much of equity thus constitutes the critical question for financial managers. It seems certain factors need to be examined before deciding the structure of capital for any organization. The structure could change over time but at any given point, adjustment may be made depending on whether the weight of debt is low or high. More debt could increase shareholders risk but when the conditions are right, it could increase their returns substantially. If debt-equity is well structured, the cost of capital could increase which

will lead to increase in the value of the firm (Aziz & Abbas, 2019; Baker & Wurgler, 2002). A business's capital structure is generally defined as the ratio of owned to borrowed capital concerning its long-term growth strategy. When calculating these metrics, experts differ on what should be included in the equity and debt mix (Baltazar et al., 2027; Banerjee et al., 1999). Equity usually comprises the company's common and preferred stock and retained profits occasionally (Moyer et al., 2014). Borrowed money accounts for a part of the company's long-term debt in the capital structure composition (Gitman, 2015; Gitman, 2003). On the other hand, focusing only on long-term borrowings may underestimate overall debt capital since some companies may be partly financed by short-term debt (Gitman et al., 2018). Consequently, recent studies of capital structure calculation suggest that short-term debt (excluding accounts payable) should be considered a permanent component of the capital structure (Moyer et al., 2014).

Prior research has established that the capital structure may be described as "a company's mix of financing sources." Maintaining an appropriate financial structure is critical for every business (Ahmed & Ahmed, 2019; Khachatryan et al., 2017). (Simerly & Li, 2000) argue that the option is important not just for maximizing shareholder profits but also for the impact such choices have on an organization's ability to adapt to its competitive environment (Alipour et al., 2015; Allingham & Sandmo, 1972)). Empirical studies of capital structure determinants have mostly concentrated on the United States and other developed economies, with the topic under-researched in developing nations like Ghana. (Booth et al., 2001) analyze the capital structure of ten (10) developing countries to find factors influencing it. (Booth et al., 2001; Bradley et al., 1984; Bustos et al., 2019) concluded that, despite institutional differences, problems affecting industrialized countries equally affect developing ones. (Bhaduri, 2002; Blaikie, 2010) empirical study on corporate borrowing was limited to the Indian market (Singh & Masuku, 2014). The author posited that the optimal capital structure is often determined by considering profit growth, firm size, cash flow, and productivity (Ali et al., 2021).

(Myers, 2010) described capital structure as the mix of securities and any other source of finance which a corporation may use to finance her activities. However, he said that the focus is usually on the blend between debt and equity. (Parvin et al., 2020; Pepper & Gore, 2012) said that sources of finance to organizations, their performance and sustainability has become an important topic for poverty alleviation and sustainable development. Equity is the possession commitment to a business. The contributors are known as equity holders or shareholders, they are the genuine proprietors of the business with the benefits to cast a ballot during meetings and partake in the benefits of the business by a method of profits. Anyway in liquidation, their financial advantages in the business come last after all lenders would have received their own claims. In any proclamation of financial position, equity shows up as paid up share capital. Debt on the other hand is the sum a business owes to other people, cash utilized in the business isn't contributed by equity holders however is loaned from financial institutions, capital markets, from the public authority, from different organizations or from people. From (Pandey, 2010) and (Ifede, 2011; Jensen & Meckling, 1976), debt is displayed as liabilities statement of financial position.

Debt finance

This is the means by which the undertaking raises capital by offering obligation instruments to investors. Debt finance is the immediate inverse of equity funding. The organization sells fixed pay items like bonds, bills or notes. As a trade-off for loaning the cash, the people or establishments become lenders and get a commitment that the principal and interest on the obligation will be reimbursed (Chen, 2022). In fact, according to (Moro et al., 2009), SMEs should focus only on bank debt in order to optimize their capital structure. In case of more debt financing, a firm has to face certain bankruptcy risk, but there are also

some tax benefits associated with debt financing (Su & Vo, 2010). The level of debt in the firm's capital structure provides a measure of the relative importance of the firm's financial stakeholders. Leverage helps us to evaluate the magnitude of risk taken by management using the resources of the said firm. The stakeholder view of the firm proposes that the firm has numerous claimants. However, these stakeholder groups have varying degrees of power over the resources required by the organization. As suppliers of capital to the firm, debt holders are a powerful stakeholder group and management is more likely to address their concerns than those of less powerful stakeholders, such as employees or the community at large. Hence, we expect that as the firm's leverage increases, so will its emphasis on the claims of the debt holders over those of less powerful claimants.

Long-term Debt

Long-term debts show the percentage of assets financed with debt which is payable after more than one year. It includes bonds, mortgages, debentures and long-term loans. Generally, these bonds and loans carry a higher interest rate, as lenders demand a higher return in exchange for taking on the greater risk of loaning money over a long period of time. In reality, long-term debt limits managerial discretion by making access to new funds and over-investment less likely (Hart & Moore, 1995). According to Investopedia, long-term debt is debt that matures in more than one year. The Corporate Finance Institute (CFI) defines it as any amount of outstanding debt a company holds that has a maturity of 12 months or longer. It is classified as a non-current liability on the company's balance sheet. Long term debt maturity can range anywhere between 12 months to even more than 30 years.

Short-term Debt

In reality, the amount of outstanding short-term debts is an important measure of a firm's financial health. Short-term debt is the best financing tool since it is perceived to be cheaper or less costly for firms (Nwude, Itiri, & Agbadua, 2016). According to (Olaniyi, et al., 2015), short term debt is an account shown in the current liabilities portion of a firm's statement of financial position and it comprises of any debt incurred by a firm that is due within a year period. It is classified as a current liability on the company's balance sheet. The debt in a firm's liabilities account is usually made up of short-term bank loans among other types (Nwude & Anyalechi, 2018).

According to (Dadush, Dasgupta & Ratha, 2000; Danielson et al., 2008), Short-term debt is defined as debt with a maturity of one year or less. There are currently two conventions for defining short-term debt. The Bank for International Settlement (BIS) uses the "remaining maturity" concept that is, all debt falling due within one year is counted as short-term debt, regardless of its original maturity (Niu, 2008). As defined in the World Bank's publication *Global Development Finance*, however, short-term debt comprises only cross-border liabilities (including official trade credits extended to developing countries as reported by the Organization for Economic Cooperation and Development) with original maturities of one year or less (National Academy of Sciences, 2008).

Equity Finance

Equity is the difference between a company's total assets and total liabilities often referred to as residual interest. Equity financing comes from many sources: for example, an entrepreneur's friends and family, investors, or an initial public offering (IPO). An IPO is a process that private companies undergo to offer shares of their business to the public in a new stock issuance. According to (Kurfi, 2003; Kyereboah-Coleman, 2007), shareholders' equity refers to a company's equity held by individual investors while (Erasmus, 2008; Ernowati & Widyawati, 2015; Fischer, 1992) described it as what belongs to the owners. On the other hand, the retained earnings of a company are the accumulated net income of the company retained at the end of each financial year. This undistributed profits retained over the years

are plough back to support the capital base of the enterprise. It is the most risk-free and stress free source of finance. (Kim & Suh, 2010; Kochan & Rubenstein, 2000) described retained earnings as revenue reserves that is set aside from the net profits in line with a firm's dividend policy to be reinvested into the business or to offset any outstanding. Furthermore, (Onuorah & Ezeji, 2013) noted that a company's dividend decision relates to how much of a company's earnings have been earmarked to be paid out as dividend to shareholders and the amount intended to be retained by the firm for self-financing. Ordinary share capital are funds raised by a company through the private or public listing while preference shares are share capital with fixed rate of dividend as well as preferential rights over ordinary equity shares with respect to profit sharing and any claims over assets of the firm.

Debt Equity Financing

According to (Omaliko & Okpala, 2020), a firm's debt equity financing refers to the mix of its financial liabilities. It has been an important issue from the strategic management standpoint since it is linked with a firm's ability to meet the demands of various stakeholders. Financing mix is the most significant discipline of company's operations. It is a vital decision with great implication for the firm's sustainability. (Chen, 2022) strongly pointed that, at the point when an organization needs cash, there are three methods for getting funding: sell equity, assume obligation, or utilize some cross breed of the two. Equity addresses a proprietorship stake in the organization. It gives the investor a case on future profit, but it does not need to be paid back. Assuming that the organization fails, equity holders are the last in line to get cash.

The fundamental contrast among debt and equity financing is that equity financing furnishes additional functioning capital with no reimbursement commitment. Debt financing should be reimbursed, yet the organization doesn't need to surrender a part of possession to get reserves (Chen, 2022). It is therefore important that as the modern companies embrace themselves in conducting their business in a highly complex and competitive business environment, they should consider what impact capital structure decision will have on the overall financial health of their respective companies. Most organizations utilize a mix of equity and debt financing. Organizations pick debt or equity financing, or both, depending upon which kind of financing is most effectively available, the condition of their income, and the significance of keeping up with proprietorship control. The debt to equity (D/E) proportion shows how much funding is gotten through debt versus equity. Banks will quite often approve of a somewhat low D/E proportion, which helps the organization.

Financial Sustainability

Financial sustainability is regarded as a crucial control parameter complementing shareholder value and can be viewed by risk-averse investors as a secondary condition of investment decisions. It reduces refinancing and insolvency risks, leading to risk-adjusted excess returns in an imperfect capital market with financing restrictions and insolvency costs (Gleißner, Günther & Walkshäusl, 2022). (Zeller & Meyer, 2002; Zhou, 2012) defined financial sustainability as economic viability. As indicated by (Wigmore, 2013), there are three (3) aspects of sustainability; Natural, social and economic requests are viewed as the three mainstays of business sustainability. However, (Parvin et al., 2020) explained further that financial sustainability can lead to social outreach as a financially sustainable institution can ensure long-term operation and service to the poor community. A sustainable or efficient organization can serve the social and environmental purpose better than a bankrupt organization. There exists numerous ways of measuring firm financial sustainability. The prominent ones are; returns on equity (ROE), returns on asset (ROA), and earnings per share (EPS) which are used to evaluate a manager's contribution towards the growth and sustainability of the business entity (Owolabi, Kolawole, Ogungbade, & Adekoya, 2021).

This study will be using the return on asset (ROA) to measure sustainability. According to (Artiach et al., 2010), firm size is a crucial determinant of sustainability. This is because larger firms have prominence of their activities and are more prone to political visibility which draws more attention from the general public, the government other stake holders. They said that firm size has a likelihood of strategic response to stakeholder demands. This is because large firms also face external pressure and greater public scrutiny which pushes these firms to have successful response strategies. . Furthermore, large firms are more likely to realize economies of scale in corporate sustainability activities. For example, the fixed cost element of reducing waste emissions from manufacturing activities can be spread across a larger production volume for large firms.

Free cash flow is a measure of the firm's liquidity and financial slack. High levels of free cash flow indicate that the firm has sufficient financial capacity to invest in sustainability programs without sacrificing the demands of economic claimants. When economic performance is high, the firm faces less pressing demands from its financial stakeholders and so has the financial capacity to even further invest in programs with social, as well as economic, merit. High levels of profitability allow the firm to meet analyst and shareholder expectations and still retain the ability to meet social stakeholder demands. By contrast, during times of low profitability, the pressure will be on management to reduce costs and maximize economic returns to financial stakeholders".

Return on Asset

'Return on asset (ROA) is a financial ratio that measures the proportion of a company's profit vis-a-vis its total assets. It is a profitability metric which is usually expressed as:

$$ROA = \frac{Net\ Income}{Net\ Assets}$$

According to (Shalahudin & Djamaluddin, 2022), profitability is measured using the profitability ratio. From this research paper, profitability ratio evaluates the firm's capacity to seek profit. This ratio can also help us know how effective the management of the firm has been within a period of time. This evaluation can be made by looking at the profit generated from sales and investment income. We can know if the company is efficient through this ratio.

(Haron, 2018) gave us the preference of financing for management of profitable firms. He said that, anytime an investment is concerned, the management of such firms will prefer internal sources of capital like retained earnings rather than equity or debt which clearly brings the explanation in the pecking order theory. This is because these other sources of finance are more costly. (Haron, 2018; Hart & Moore, 1995) used earnings before tax and interest (EBIT) over total assets to represent firm's profitability. He also made a discovery in his research that debt financing negatively affects profitability which might also affect economic sustainability negatively. This leads to the hypothesis that; Profitability has a significantly influence on economic sustainability of firms.

The World Commission on "Environment and Development (WCED), otherwise called the Brundtland Report (1987), sustainability has been characterized as addressing the necessities of the present without compromising the capacity of people in the future to address their own environmental issues. Sustainability is said to have three (3) support points; ecological, economic and social requirements (Malt and Majid, 2023). Our concentration in this issue will be on the economic environment of the business. It refers to the management of environmental, social and financial concerns by a company to ensure responsible, ethical

and ongoing success (Wigmore, 2013). According to the 'Financial Times', business sustainability represents resiliency over time-businesses that can survive shocks because they are intimately connected to healthy economic, social and environmental system. Such businesses create economic value and contribute to healthy ecosystem and strong communities (Cho, Okuboyejo & Dickson, 2017; Choi & Wang 2009).

Theoretical Review

(Myers, 2010; Myers, 2001) explained that there is no universal theory to explain debt to equity choice. Nevertheless, there exist several conditional theories. In that light, he mentions the Trade Off theory, the Pecking Order theory and the Free Cash Flow theory for mature firms. (Szeman, 2017; Clarkson, 1995; Crocci et al., 2010) also used the agency and pecking order theories as theories of capital structure. Our writing survey was comprised of different theories on sources of capital and already established research works that endeavour to give an answer for the sustainability of organizations.

The Trade-Off Theory

This model was propounded by Franco Modigliani and Merton Miller and was distributed in 1958 by the American Economic Review titled "The Cost of Capital, Corporation Finance and the Cost of Investment (<https://capital.com>). The Trade-Off Theory is a refinement of the traditional theory. It perceives that a business is financed with equity and debt. Debt enjoys the benefit of interest charge deductibility and is consequently less expensive than equity. Yet, a lot of obligation will prompt financial pain and some of the time, liquidation. Then again, a lot of equity brings down profitability since equity is not tax deductible. In that capacity, firms attempt to work out some kind of harmony between debt and equity; in this way there is an ideal capital structure for each firm where profit is maximized. Exceptionally, profitable organizations have the ability to borrow a lot of funds and appreciate a greater amount of the expense deductibility of debt (Adejunti, 2017). This hypothesis is vital to this work since it makes us to comprehend that there is an ideal mark of capital blend that organizations can take advantage of for the best outcomes which can likewise ensure sustainability.

The Pecking Order Theory

This theory was recommended by Donaldson in 1961 which was altered in 1984 by Stewart C. Myers and Nicolas Majluf (Donaldson, 1990; Donaldson & Preston, 1995). The Pecking Order Theory depends on the thinking that managers, being individuals who participate in everyday business activities, have more data about the strengths and shortcomings of their organizations more than outsiders and forthcoming financial investors (Eisenhardt, 1989). This is referred to in fund speech as information asymmetry (data unevenness). An endeavour by the board to raise finances by new issues of shares might be interpreted by investors that the ongoing loads of the firm are exaggerated, this impression brings about a fall in market prices. To keep up with the market prices of their organizations and stay away from costs of issues, the executives follows a dominance hierarchy in financing investments by utilizing internal funds first, then debts and lastly new equity. It implies there is a clear cut technique in blending debt and capital. It follows that there is no optimal capital structure unlike the Trade-Off Theory. Likewise, profoundly beneficial organizations, unlike the Trade-Off Theory, utilize internal funds and in this manner get less (Adejunti, 2017).

Empirical Review

There has a lot of research efforts made into the concept of capital structure and related concepts. These endeavors are visible in research themes like; capital structure determinants in family firms: an empirical review, capital structure and firm performance in firms, done by various researchers and conclusions drawn as such are elaborated below. In any case, and most strangely, practically little or no endeavours have been made towards

analyzing the long term sustainability of these organizations because of capital blend among equity and debt in firms. This implies that little, as far as what has been laid out experimentally around this area of studies was accessible to the researcher. Nevertheless, related empirical literature was available.

(Aziz & Abbas, 2019) studied debt financing and company performance in Pakistan. The authors aimed at examining the relationship between different sources of finance and performance of firms in the non-financial sector. Secondary data from 14 listed firms indicated that short-term debt had a negative and significant effect on firm performance measured by return on assets. The study focused on listed companies on the Pakistan Stock Exchange.

(Jones & Edwin, 2019; Kaler, 2006; Kallmuenzer et al., 2015) studied debt finance and corporate performance. The motivation of the study was to examine the effect of debt measured by short-term debt, long-term debt and total debt on firm performance. Using data from 15 listed companies, the panel regression results indicated that short-term debt, long-term debt and total debt had a positive impact on performance in Nigerian consumer based corporations (Kar, 2012). The study focused on the listed companies and left out the SMEs most of which are not listed on the stock exchange. The current study focused on all small and medium sized firms regardless of their listing status. (Narang, 2018) studied the impact of capital structure on firm performance in India. The motivation of the study was to examine the influence of capital structure represented by short-term debt, long-term debt and total debt on the profitability of publicly traded firms in India. Using five years data from twenty firms, the regression results indicated a positive relationship between short-term debt and firm performance as measured by return on assets.

(Artiach et al., 2009) investigated the determinants of corporate sustainability Performance (CSP). This paper investigated the factors that drive high levels of corporate sustainability performance. Using a stakeholder framework, they examined the incentives for US firms to invest in sustainability principles and develop a number of hypotheses that relate CSP to firm-specific characteristics. The results indicated that leading CSP firms are significantly larger, have higher levels of growth and a higher return on equity than conventional firms. Contrary to our predictions, leading CSP firms do not have greater free cash flows or lower leverage than other firms.

(Dilling, 2010) in the research work on Sustainability Reporting in a Global Context: What are the characteristics of Corporations that provide high quality sustainability reports – An Empirical Analysis, had as goal of the study to determine if there are significant differences with regard to size, financial performance, capital structure, and corporate governance between firms that publish sustainability reports to those that don't. Therefore, quantitative and qualitative variables of 124 randomly selected G3 reporting and non-G3 reporting corporations from 25 countries were analyzed. The results of this analysis showed that corporations with the characteristics of being located in Europe, and/or being active in the energy or producing sector, and/or with a higher profit margin are more likely to produce high quality sustainability reports. Corporations with a higher long-term growth rate, on the other hand, are less likely to produce sustainability reports. The results of this unique study contributed directly to the knowledge of corporations providing voluntary information in form of quality sustainability reports and the importance of the development of globally accepted sustainability reporting standards.

(Bansal & Desjardine, 2014) in their research work titled "Business sustainability: It is about time" explained that sustainability is fast becoming fashionable in strategic management but its meaning has remained elusive. They made us to understand that some people have restricted sustainability to environmental issues while others have used it synonymously with corporate social responsibility of which the roots of sustainability is built

on time. In their review on sustainability, they admitted that this concept obliges firms to make intertemporal trade-offs to safeguard intergenerational equity. Their perception of sustainability clearly brings out the time factor. The reason why they argued that the omission of time from most strategic management has contributed to short-termism, which is the bane sustainability.

(Dienes et al., 2018) set out to investigate the drivers of sustainability reporting. The purpose of this paper was to systematize the research field of sustainability reporting. The authors contributed to closing this research gap and, on the basis of this systematization, addressed the research question of what are the drivers of sustainability reporting. The paper reviewed existing studies systematically and analyzed the drivers of sustainability reporting using a qualitative approach. The review suggested that firm size, media visibility and ownership structure are the most important drivers of the disclosure of sustainability reports, while corporate governance only seemed to have an influence on the existence of audit or sustainability committees. In contrast, other determinants such as profitability, capital structure, firm age or board composition as an indicator of corporate governance do not show a clear tendency

(Rincon-Roldan & Lopez-Cabrales, 2021; Ruf et al., 2001) in their research work titled “The impact of employment relationships on firm sustainability” revealed that sustainability has become a topic of interest since the 1987 Brundtland Report by the World Commission on Environment and Development (ONU). The scope of economics and business has had new societal challenges in the domain of economic, social and environmental development (Russo & Fouts, 1997; Saito, 2008; Schulze et al., 2003). Thus, they established that studying organizational variables that will contribute to the sustainability of firms is of primary importance. They concluded that companies should pursue more sustainable behaviour from employees because it is positively related to the sustainability of the firm (Schwartz, 1959).

(Parvin et al., 2020) said that the contemporary studies on capital structure and economic sustainability are heterogeneous. These are focused on the determinants of financial structure to explain how an organization can finance business activities by using debts and equities to maximize the benefits for shareholders based on their advantages. Studies emphasizing on the linkage between capital structure and financial sustainability in small and medium-sized enterprises have been few. Despite the fact that Cameroon has many small and medium-sized enterprises, no study has specifically focused on the capital structure and financial sustainability for SMEs from Cameroon. Below is a table of some researchers who ventured into the topic of capital and here are some of the variables they used in their investigations”.

RESEARCH METHOD

Definition of micro, small and medium size enterprises

The World Bank defines Medium Enterprises (MEs) as those enterprises with a maximum of 300 employees, \$15 million in annual revenue, and \$15 million in assets (World Bank, 2013). The Inter-American Development Bank describes SMEs as businesses that have a maximum of 100 employees and less than \$3 million in revenue (World Bank, 2013). While the European Union defines small and medium-sized enterprises (SMEs) as, ‘enterprises which employ fewer than 250 persons with an annual turnover of up to 50 million euros, and/or an annual balance sheet total not exceeding 43 million euros’ (European Commission, 2011). Micro enterprises are defined as those that employ less than ten workers and have a turnover of less than € 2 million (European Commission, 2011). This definition is more encompassing, and much larger, especially with regards to turnover than some others. The (European Commission, 2011) categorizes micro, small and medium sized enterprises

(MSMEs) as described in Table 1 Below (Table 1).

Enterprise Category	No of Employees	Turnover
Medium Sized	<250	≤ € 50 million
Small	<50	≤ € 10 million
Micro	<10	≤ € 2 million

Source: European Commission (2011)

Definition of MSMEs in Cameroon

In Cameroon, the official definition of SMEs is derived from Law 2010/001 of April 13, 2010, on the promotion of Small and Medium Sized Enterprises (SMEs) (World Bank, 2013). In order to take into account, the evolution of SME sector and to consider local realities, the 2010 law has been revised by Law No. 2015/010 of 16th July 2015 which amended and supplemented some of the past provisions. The law stated that Very Small (Micro) Enterprises refer to those that hire less than five people with an annual revenue of 15 million CFAF, while small firms refer to those that employ 6 – 20 employees and having an annual turnover of 15 -250 million. Finally, medium-sized enterprises apply to those who hire from 21- 100 people and have an annual turnover of 250 million to 3 billion.

The National Statistics Institute (NIS) states that MSMEs account for over 90 percent of Cameroon's economy, with a share of the Gross Domestic Product estimated at 34 percent (World Bank, 2013). Defining MSMEs by the number of employees wrongly suggest that the larger an enterprise is, the more employees it hires, and that to grow it must take on more employees (Ayyagari et al, 2005). This notion is not acceptable in the current business environment where most MSMEs are striving to become more efficient by making their operations leaner in order to be profitable (Levine, 2006). Similarly, defining MSMEs using turnover can be problematic because although turnover is a common financial measure of the size of a business, it is important to note that there are firms that have huge turnovers with little net assets. When using the turnover to categorize the size of firms, this can be misleading because businesses with high-profit margins and wider net assets can be wrongly categorized when the focus is placed on turnover and number of employees. However, there is no better way to categorize MSMEs (Yeri, 2006).

In the context of this study, Cameroon's definition of MSMEs will be used giving that the survey is conducted in Cameroon and more specifically SMEs in Littoral and the South West Region. According to the website businesslist.com, the researcher found 5,717 Small and medium size enterprises listed within the Littoral and 979 listed within the South West Region of Cameroon and they are in different categories including, Beauty professionals, Furniture Manufacturers, Clothing and Accessories, Manufacturing and Tertiary enterprises.

A Population is the collection of all possible observations about which the study will make inferences (Mbugua, 2010; Meah et al., 2020; Migliori et al., 2018). It consists of a group of individuals taken from the general population who share similar characteristics. A research population is a well-defined collection of individuals or objects known to have similar characteristics or trait that the researcher wishes to study (Kumar, 2005). Target population refers to all members of a real or hypothetical set of people, events or objects from which the researcher wishes to generalize the results of their research while accessible population is all the individuals who realistically can be included in the sample (Gall, Gall & Borg, 2007). The study targeted the non-financial companies in Douala that have traded for at least fifteen years at the manufacturing (MFIND), retailing (RIND) and service industries

(SIND) for the period December 2020-2024. The exclusion of financial institutions is to remove anomalies associated with regulation like liquidity levels, core capital and bad debt provision (Santos, 2001).

This choice of these firms is due to their huge capital raising potential and are also more accountable not only to their shareholders but also to the public by way of information provision, since they are required by law to be audited, and therefore the data is bound to be available and reliable. In addition, being in the same sector, the firms have almost the same reporting pattern, design and the bare minimum disclosures as required by the regulator. As noted by (Kothari, 2004; Alm et al., 2012), a population of study must have common characteristics conforming to a given specification. Accessible population were those firms whose data was available (Lew, 2016; Loucks et al., 2010; Luigi & Sorin, 2009).

The target population was therefore 61 firms from a population of 108 firms. Sixty-one firms were however studied as their data were available (Lutkevich, 2023; Marandu et al., 2015). This translates to approximately 36.5% of the population or 96.8% of target population, which is good representation. Indeed, Gay, Mills and Airasian (2006) posit that a sample size of 20% of the target population is regarded as adequate for small population with less than 1000 units.

The instruments of data collection consisted of the dependent variable (sustainability) and components of the independent variable (capital structure). The components of the independent variable was divided. More particularly, this study attempts to measure the effects of capital structure on firm financial sustainability measured by return on equity and return on asset (Table 2).

TABLE 2 VARIABLE MEASUREMENT			
S/N	VARIABLES	Measurement/Formula	Apriori Expectations
Independent			
1	Short term debt financing	$\text{Short term Debt (LTD)}$ $STD = \frac{\text{Short term Debt}}{\text{Total Assets}}$	Sung Hee Lew (2016)
2	Long term debt financing	$\text{Long term Debt (LTD)}$ $LTD = \frac{\text{Long term Debt}}{\text{Total Assets}}$	Sung Hee Lew (2016)
3	Debt equity financing	$\text{Debt to Equity Ratio}$ $DER = \frac{\text{Debt}}{\text{Equity}}$	Omaliko and Okpala (2020)
4	Equity Financing	$\text{Return on Asset (ROA)}$ $ROA = \frac{\text{Net Equity}}{\text{Net Assets}}$	Nwude and Anyalechi (2018)
Dependent			
1	Sustainability	$\text{Return on Asset (ROA)}$ $ROA = \frac{\text{Net Income}}{\text{Net Assets}}$	Parvin et al. (2020)

Model specification

The multiple regression analysis was used to analyze data.

$$CS=f(STD, LTD, DEF, EF) \quad (1)$$

$$SUST=f(CS) \quad (2)$$

$$SUST=f(STD, LTD, DEF, EF) \quad (3)$$

Using multiple regression analysis, the model is stated below

$$ROA = \beta_0 + \beta_1 STD + \beta_2 LTD + \beta_3 DEF + \beta_4 EF + \varepsilon \quad (4)$$

Where;

Sust = Sustainability measured by ROA; STD = Short term debt financing Options; LTD = Long term debts financing options, DEF= Debt equity financing, RE = Equity finance; ε = Error term

OR

ROA = Return on asset; β_1 β_2 β_3 β_4 = Co efficient of independent variables; and β_0 = constant

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (4)$$

Where Y was financial sustainability, β_0 is constant X effect of capital structure. Effects of capital structure were measured using four data points;

X1 was short term debts, X2 was long term debts, X3 debt equity financing, X4 was equity finance and ε is the error term for the model.

Dummy variables 1 and 0 were used to denote presence or absence respectively of each of the three data points. Statistical Package for Social Sciences was used to aid in quantitative data analysis in this study.

RESULTS AND DISCUSSIONS

Summary Statistics

As shown in table 3, for all firms in MFIND the average ROE over the period was 20.85% with a minimum value of -10.18, maximum value of 19.94 and a standard deviation of 1.19928. This shows that though on average firms had a positive return on equity, the majority of firms ROE are to the right of the distribution just like ROA. The mean ROA was 10.76% with a standard deviation of 0.15793 and a minimum and maximum of -0.54 and 1.64 respectively. This shows that firms were generally profitable to reward the investment in assets. The fluctuation of returns in ROE were however higher than ROA as shown by standard deviations.

The average short term and long-term debts to total assets are 28.89% and 16.97% respectively. This demonstrates that a large portion of firms' assets was financed with short term debt. The maximum borrowings also re-affirm this position as shown in table 4.1 with short term debt to total assets ratio being 1.11 and long term to total assets ratio being 0.82. This could imply that short-term debt financing was easily available compared to the long-term debt which is usually associated with high value collateral and at times restrictive covenants to make it unattractive. All firms however reported positive skewness on their debts to show that majority lied on the right tail of the distribution. These findings contradict Mwangi et al. (2014) who concluded that majority of firms at the MFIND use long term debt to finance their assets.

The average retained earnings to total asset over the period was 18.94%, minimum of -0.84 and maximum of .82 with a negative skewness of -0.424. This implies that majority of firms were utilizing their retained earnings above average usage and therefore lied on the left tail of the distribution. The mean equity to total assets ratio is 35.2% with a minimum of -0.11, maximum of 1.05 and a positive skewness of 0.61. This show that though generally firms raised capital through shares, majority were to the right tail. Finally, the average GDP growth rate over the period was 5.4525%, minimum of 0.2% and maximum of 10.4% with a negative skewness of -0.886.

At the RIND, the average ROE over the period was 192.08% with a minimum value of -0.65, maximum value of 7.13 and a standard deviation of 1.524. This shows that though

on average firms had a huge positive return on equity, the majority of firms ROE are to the right of the distribution just like ROA. The mean ROA was 134.95% with a standard deviation of 1.349 and a minimum and maximum of -6.36 and 5.04 respectively. This shows that firms were generally highly profitable towards their investment in assets. The fluctuation of returns in ROE were however marginally higher than ROA as shown by standard deviations. These results are supported by Mwangi et al. (2014) who concluded that firms at RIND have a higher ROE than ROA with a higher variability in ROE too.

The average short term and long-term debts to total assets are 28.54% and 17.88% respectively. This demonstrates that a large portion of firms' assets was financed with short term debt. The maximum borrowings also reaffirms this position with short term debt to total assets ratio being .88 and long term to total assets ratio being 0.82. This could imply that short-term debt financing was less costly compared to the long-term debt which is usually associated with high value collateral and at times restrictive covenants to make it unattractive. A positive skewness by all firms at RIND on their short- and long-term debts show that majority lied on the right tail of the distribution. These findings contradict Mwangi et al. (2014) who concluded that majority of firms at the RIND use long term debt to finance their assets.

The average retained earnings to total asset over the period was 16.03%, minimum of - 0.84 and maximum of .65 with a negative skewness of -0.915. This implies that majority of firms were utilizing their retained earnings above average usage and therefore lied on the left tail of the distribution. The mean equity to total assets ratio is 37.56% with a minimum of - 0.11, maximum of .99 and a positive skewness of 0.484. This show that though generally firms raised capital through shares, majority were to the right tail. Finally, the average GDP growth rate over the period was 5.094%, minimum of 0.2% and maximum of 8.4% with a negative skewness of -0.779. This shows that the GDP for majority of the periods under study were above the country average.

At the SIND, the average ROE over the period was 38.28% with a minimum value of .16, maximum value of .57 and a standard deviation of .17964. This shows that though on average firms had a relative positive return on equity, the majority of firms ROE are to the left of the distribution just like ROA. The mean ROA was 249% with a standard deviation of .47392 and a minimum and maximum of 1.69 and 2.85 respectively. This shows that firms were generally highly profitable towards their investment in assets. The fluctuation of returns in ROA were however higher than ROE as shown by standard deviations. This result contrasts the NSE findings on the same variables.

The average short term and long-term debts to total assets are 56.2% and 3.6% respectively. This demonstrates that a large portion of firms' assets was financed with short term debt. The maximum borrowings also reaffirm this position with short term debt to total assets ratio being .59 and long term to total assets ratio being 0.08. This could imply that like at the SIND, short-term debt financing was less costly and perhaps easily available compared to the long-term debt. A positive skewness by all firms at SIND on their short- and long-term debts show that majority lied on the right tail of the distribution.

The average retained earnings to total asset over the period was 35.2%, minimum of .34 and maximum of .37 with a positive skewness of .541. This implies that fewer firms were utilizing their retained earnings above average usage and therefore lied on the right tail of the distribution. The mean equity to total assets ratio is 5.2% with a minimum of .03, maximum of .07 and a negative skewness of -0.052. This show that few firms raised capital through shares perhaps due to the fact that RIND is relatively new and not developed to attract huge capital raisers. Finally, the average GDP growth rate over the period was 7.15%, minimum of 4.6% and maximum of 82% with a negative skewness of -1.899. This shows that the GDP for majority of the periods under study were above the country average. It worth noting that the

average GDP was higher at RIND than MFIND. This could be due to high donor interest in the Rwanda economy to rebuild it after overcoming the perhaps one of the worst genocide in the region.

At the TIND, the average ROE over the period was 1.1926 with a minimum value of 0 maximum value of 3.43 and a standard deviation of .90029. This shows that though on average firms had a high positive return on equity, the majority of firms ROE are to the right of the distribution like ROA. The mean ROA was 1.3016 with a standard deviation of 1.69 and a minimum and maximum of -1.53 and 6.58 respectively. This shows that firms were generally able to generate high returns. The fluctuation of returns in ROA were however higher than ROE as shown by standard deviations. The average short term and long-term debts to total assets are .4158 and .1553 respectively. This demonstrates that a large portion of firms' assets was financed with short term debt. The minimum borrowings also reaffirm this position with short term debt to total assets ratio being .01 and long term to total assets ratio being 0. This could imply that like at the NSE, RSE and DSE, short-term debt financing was less costly and perhaps easily available compared to the long-term debt. Worth noting is that there were firms that operated without long-term borrowing too like at SIND. A positive skewness by all firms at RIND on their short and long-term debts show that majority lied on the right tail of the distribution.

The average retained earnings to total asset over the period was .2171, minimum of -.19 and maximum of .7 with a positive skewness of .669. This implies that many firms were utilizing their retained earnings below the average usage and therefore lied on the right tail of the distribution. The mean equity to total assets ratio is .2105 with a minimum of 0, maximum of .55 and a positive skewness of .686. This show that firms financed their assets through retained earnings more than shares. The average GDP growth rate over the period was 5.94%, minimum of 3.6% and maximum of 107.4% with a positive skewness of .828. This shows that the GDP for majority of the periods under study were below the country average.

At the TIND, the average ROE over the period was 2.34 with a minimum value of .02 maximum value of 7.23 and a standard deviation of 2.64. This shows that though on average firms had a high positive return on equity, the majority of firms ROE are to the right of the distribution unlike ROA. The mean ROA was 2.137 with a standard deviation of 2.71 and a minimum and maximum of -5.3 and 5.75 respectively. This shows that firms were generally highly profitable towards their investment in assets. The fluctuation of returns in ROA were however higher than ROE as shown by standard deviations. This results partly agree with those of TIND on average returns but differ on skewness.

The average short term and long-term debts to total assets are .1415 and .205 respectively. This demonstrates that a large portion of firms' assets was financed with short term debt. The minimum borrowings also reaffirm this position with short term debt to total assets ratio being .01 and long term to total assets ratio being 0. This could imply that like at the NSE, short-term debt financing was less costly and perhaps easily available compared to the long-term debt. Worth noting is that there were firms that operated without long term borrowing. A positive skewness by all firms at SING on their short and long-term debts show that majority lied on the right tail of the distribution.

The average retained earnings to total asset over the period was .3115, minimum of -.83 and maximum of .82 with a negative skewness of -.638. This implies that many firms were utilizing their retained earnings above average usage and therefore lied on the left tail of the distribution. The mean equity to total assets ratio is 34.18% with a minimum of 0, maximum of 1.05 and a positive skewness of .653. This show that firms raised capital through shares more than retained earnings may be since RIND is relatively developed to attract huge capital raisers. The average GDP growth rate over the period was 6.857%,

minimum of 6% and maximum of 7.4% with a negative skewness of - 1.041. This shows that the GDP for majority of the periods under study were above the country average. It worth noting that the average GDP was higher at MFIND than RIND but lower than SIND (Table 3).

		N	Minimum	Maximum	Mean	Std. Deviation	Skewness
MFIND	GDP(%)	418	0.2	10.4	5.4525	2.20671	-0.886
	SD	418	0	1.11	0.2889	0.20904	1.032
	LD	418	0	0.82	0.1697	0.16119	1.507
	E	418	-0.11	1.05	0.352	0.25056	0.61
	RE	418	-0.84	0.82	0.1894	0.26588	-0.424
	ROA	418	-0.54	1.64	0.1076	0.15793	2.67
	ROE	418	-10.18	19.94	0.2085	1.19928	8.999
RIND	GDP	315	0.2	8.4	5.094	2.3002	-0.779
	SD	315	0	0.88	0.2854	0.18754	0.673
	LD	315	0	0.82	0.1788	0.16462	1.474
	E	315	-0.11	0.99	0.3756	0.21915	0.484
	RE	315	-0.84	0.65	0.1603	0.23151	-0.915
	ROA	315	-6.36	5.04	0.7861	1.34958	-0.686
	ROE	315	-0.65	7.13	1.9208	1.52446	0.884
SIND	GDP	5	4.6	8.2	7.15	1.47394	-1.899
	SD	5	0.54	0.59	0.562	0.01924	0.59
	LD	5	0.02	0.08	0.036	0.02608	1.714
	E	5	0.03	0.07	0.052	0.01789	-0.052
	RE	5	0.34	0.37	0.352	0.01304	0.541
	ROA	5	1.69	2.85	2.49	0.47392	-1.7
	ROE	5	0.16	0.57	0.382	0.17964	-0.364
TIND	GDP	60	6	7.4	6.857	0.3855	-1.041
	SD	60	0.01	0.66	0.205	0.1495	1.128
	LD	60	0	0.66	0.1415	0.14962	2.21
	E	60	0	1.05	0.3418	0.38461	0.653
	RE	60	-0.83	0.82	0.3115	0.3975	-0.638
	ROA	60	-5.3	5.75	2.137	2.719	-0.577
	ROE	60	0.02	7.23	2.3452	2.63629	0.66

Source: Author elaborates 2025

Diagnostic Tests Results

These are tests performed on the data variables to ensure conformity with the requirements of the multiple regression technique used and to ensure that the results are more robust and valid.

Multicollinearity

As shown in table 4 all the VIFs were less than 5 and correlation coefficients between

variables (in absolute form) were less than 0.8 indicating that there was no multicollinearity (Gujarati, 2003). This is an assurance that the regression coefficients were stable hence valid significance tests as put by Cooper and Schindler (2006). The correlation coefficients were determined to ascertain the pairwise association between explanatory variables and perhaps identify those could have been severely related but their severity is reduced by interaction with the others (Table 4).

	SD	LD	E	RE	GDP	VIFs
SD	1					1.354
LD	-0.2979	1				1.11
E	-0.4267	0.0384	1			1.238
RE	-0.2032	-0.4077	-0.6299	1		0
GDP	0.0091	0.0093	-0.0401	0.025	1	1.002

Source: Author's elaboration 2025

Heteroscedasticity

The null hypothesis was no heteroscedasticity for all models with or without moderator. For a regression model with ROA as the response variable, the test yielded a chi-square value of 342.45 with a p-value of 0.000 with moderation as shown in table 4.4 and a chi-square value of 54.27 with a p-value of 0.000 without moderation. The chi-square values were in both cases statistically significant at 5% significance level and hence the null hypotheses were rejected to signify the existence of heteroscedasticity. To overcome the problem so as to make the standard errors unbiased leading to valid test statistics and hence significance tests as advocated by Wooldridge (2002), FGLS method was used. For a regression model with ROE as the response variable, the test yielded a chi-square value of 342.02 with a p-value of 0.0000 with moderation as shown in table 4.4 and a chi-square value of 71.05 with a p-value of 0.0000 without moderation. The chi-square values were again in both cases statistically significant at 5% significance level and hence the null hypotheses were rejected to signify the existence of heteroscedasticity. Subsequently, FGLS method was employed to overcome the problem (Table 5).

Response Variable	Model	Chi Square	Degree of freedom	p value
ROA	1	342.45	54	0
	2	54.27	14	0
ROE	1	342.02	54	0
	2	71.05	14	0

Source: Author's elaboration 2024

Regressions Statistics

Several regression models were run in line with the objectives of the study having properly accounted for all diagnostic tests.

Effect of Short-Term Debt on Financial Performance of selected firms

As shown in table 6, results on the effect of financial structure on ROA show that the coefficient of SD was -6.76 hence SD had a negative impact on ROA. The p value was 0.153 which is greater than 5% level of significance. This indicate that SD had an insignificant inverse effect on ROA. With regard to ROE, the coefficient of SD was 2.644 hence SD had a positive relationship on ROE. The p value was 0.709 which is greater than 5% level of significance implying an insignificant impact of SD on ROE. These findings were consistent with MM (1963) capital structure irrelevance theory that the amount of debt in the capital structure does not affect the performance and the value of the firm. The negative effect of debt on the firm performance tends to support the pecking order theory too. The results also agree with Ebaid (2009) who concluded that capital structure has little or no impact on a firm's performance in Egypt. They are also consistent with Afza and Nazir (2007) who concluded that aggressive financing policy and firm's profitability are negatively related. However, the findings contradict those of Abdul (2012) who found that financial leverage has a significant negative relationship with firm's performance, measured by ROA in Pakistan. This indicate that SD had a statistically insignificant positive relationship with ROE (Table 6).

SD	Coefficient.	Std. Err.	Z	P>z
ROA	-6.7608	4.73033	-1.43	0.153
ROE	2.644535	7.08732	0.37	0.709

Source: Author's elaboration 2024

Effect of Long-Term Debt on Financial Performance of selected firms

In table 4.9, results show that the coefficient of LD with respect to ROA was -6.13 hence LD had a negative effect on ROA. The p value was 0.162 which is greater than 5% level of significance. This indicate that LD had an insignificant inverse impact on ROA. With regard to ROE, the coefficient of LD was 2.617 hence LD had a positive relationship with ROE. The p value was 0.712 which is greater than 5% level of significance. This indicate that LD had an insignificant positive effect with ROE. This finding was consistent with MM (1953) capital structure irrelevance theory that the amount of debt in the capital structure does not affect the performance and the value of the firm (Abeywardhan, 2017). While the results agreed with (Abor, 2005) on SD and ROE, they contradict his findings on LD since he concluded a negative relationship. The findings also differ with Mumtaz, Rauf, Bashir and Noreen (2013) on the significance of the relationship since he found out that financial performance of firms in Pakistan is significantly affected by their capital structure. In terms of the nature of the relationship, this study complements Mumtaz et al. (2013) who also found a negative relationship (Table 7).

LD	Coefficient.	Std. Err.	Z	P>z
ROA	-6.7608	4.73033	-1.43	0.153
ROE	2.616849	7.092413	0.37	0.712

Source: Author's elaboration 2024

Effect of RE on Financial Performance of selected firms

As shown in table 8, the coefficients of RE were -1.14 and 2.45 with regard to ROA and ROE respectively. This showed that RE had a negative effect with respect to ROA and a positive effect with respect to ROE. The p values were 0.809 and 0.729 with regard to ROA and ROE respectively. This implied that RE had an insignificant inverse effect on ROA but insignificant positive effect on ROE (Table 8).

RE	Coefficient.	Std. Err.	Z	P>z
ROA	-1.14242	4.73269	-0.24	0.809
ROE	2.452277	7.089415	0.35	0.729

Source: Author's elaboration 2025

Effect of E on Financial Performance of selected firms

As shown in table 9, the coefficients of E were -6.750 and 7.931728 with regard to ROA and ROE respectively. This demonstrated a negative effect of E on ROA but a positive effect on ROE. The p values were 0.154 and 0.263 with respect to ROA and ROE respectively showing insignificant effect of E on both ROA and ROE. Overall, the ROA model results agreed with (Abor, 2007) who concluded a negative effect of all capital structure sources but contradicts Ishaya and Abduljeleel (2014) who concluded that a positive effect of equity and profitability exist. In addition, the model is significant and strong with a p value of 0.0000 of being greater than the Wald Chi-square of 2447.24 and a coefficient of determination of 82.9%. This implies that financial structure components are able to explain to the extent of 82.9% of ROA with only 17.1% left to other variables not in the model or by chance. It is interesting to note that while all individual predictors are insignificant at 5% level of significance, the overall model is significant and even the coefficient of determination is high. There is nothing inconsistent between these relationships, it's simply because the coefficient of determination never decreases when you add variables to the model but multicollinearity between predictors changes (Paul, 2006). Slight multicollinearity makes confidence intervals to be much wider, leading to the acceptance of the null hypothesis more easily due to relatively large standard error (Gujarati, 2003). Paul (2006) posit that although the t ratio of one or more of the coefficients is more likely to be insignificant with multicollinearity, the coefficient of determination for the model can still be relatively high, like exhibited in this analysis. This possibility may have been due to -0.6 correlation between RE and E and 0.4 correlation between E and SD which are close to 0.8 as a benchmark for concluding multicollinearity.

The ROE model results contradict (Abor, 2007) who concluded a negative effect of all capital structure sources and ROE but agree with Ishaya and Abduljeleel (2014) who concluded that a positive effect of equity on profitability exists. Overall model is however significant and strong with a p value of 0.0000 of being greater than the Wald Chi-square of 799.65 and a coefficient of determination of 69.73%. This implies that financial structure components are able to explain to the extent of 67.19% of ROE with only 32.81% left to other variables not in the model or by chance. The overall models were (Table 9)

$$ROA = 6.64 - 6.76SDit - 6.61LDit - 1.14REit - 6.75Eit$$

$$ROE = 2.648 + 2.645SDit + 2.617 + LDit + 2.45REit + 7.932Eit$$

TABLE 9				
FGLS REGRESSION RESULTS OF E AS INDEPENDENT VARIABLE-RANDOM EFFECTS MODEL				
ROA	Coefficient.	Std. Err.	Z	P>z
ROA	-6.75011	4.73323	-1.43	0.154
ROE	7.931728	7.08775	1.12	0.263
Overall model				
ROA-cons	6.645838	4.7299	1.41	0.16
Prob > Chi	0	R2=82.9		Wald Chi 2(4)=2447.24
ROE-cons	-2.64757	7.0866	-0.37	0.709
Prob > Chi	0	R2= 0.6719		Wald chi2(4)=799.65

Source: Author's elaboration 2025

CONCLUSIONS

The overall objective was to study the effect of financial structure on financial performance of firms listed at MFIND. The findings indeed supported the overall relationship with an explanation of 86.6% with regard to ROA and 69.73% with regard to ROE. Both ROA and ROE models were found to be significant at 5% level of significance too. The study employed both causal and explanatory research designs with a census of 61 firms or 96.8% of target population. Diagnostic tests were performed in support of the application of the FGLS method used to analyse the nature and the degree of the relationships. Conclusions on the statistical significance between the various components of financial structure on financial performance, measured by ROA and ROE were drawn. The moderating effect of GDP growth rate on the effect of financial structure on financial performance was also looked into in addition to preferential hierarchy of financing sources. The summary of each is itemized based on the specific objectives of the study.

Based on the findings of the study, it is worth concluding that financial structure indeed affects the financial performance of firms listed at the MFIND, though differently based on the source. Overall, there exist a strong effect of financial structure on both ROA and ROE. This effect is also significant at 5% level of significance. In addition, results on the effect of SD on ROA or ROE suggest that agency theory is applicable based on the investors return on investment since while ROE model support the agency theory dictate, ROA model does not. The huge proportion of asset financing through SD could imply that short-term debt financing was less costly and therefore available compared to the long-term debt which is usually associated with high value collateral and at times restrictive covenants making it unattractive. Generally, on debt financing, it is prudent to conclude that firms should borrow to finance their growth without fear of adverse effect on profitability since it is insignificant. It is also evident from the findings that equity financing seems to be the preferred choice by majority of firms except in SIND. Firms are therefore at liberty to raise capital through equities since they have marginal negative impact on returns. In addition, the general preference of external equity over retained earnings and debt clearly negates the provision of the pecking order theory implying that it may not be applicable in practice, at least at MFIND. The fact that different markets have demonstrated different hierarchy of preference of financial sources, it is worth concluding too that firms should look at and evaluate the political, economic, social and technological environment within their markets before making decision on the mode of raising finance. This however should be looked into together with the firms' internal environment ranging from opportunities available, management potential and industry threats among others. On the moderating effect of financial structure by the GDP growth rate, on the effect of financial structure on financial performance of firms at the

MFIND, the study concluded that indeed GDP growth rate had significant moderating effect. This is realistic since as expected, the GDP of a country dictates a lot on the behaviour of not only investors at the securities market but even elsewhere hence a change in GDP is bound to affect the amounts available for consumption and savings for investment.

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