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IMPACT OF CAPITAL STRUCTURE ON DECISION MAKING: A STUDY OF FINANCIAL FLEXIBILITY, PROFITABILITY, AND ORGANIZATIONAL GROWTH

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<p>Noman Tariq Senior Lecturer, College of Management Science, ZUFESTM, Ziauddin University tariqnoman131@gmail.com</p>	<p>Abstract</p> <p>This research explores how capital structure, which refers to a company’s combination of debt and equity financing, impacts an organization’s strategic and operational decision-making processes, particularly as it relates to financial flexibility, profitability, and growth. In an environment characterized by increasing levels of competition and uncertainty, organizations are forced to use sound financial decision-making processes that effectively balance risk, return, and sustainable growth. This study is explain on examining the relationship in between the management of decisions and capital structure, with a secondary intention of reviewing how capital structures affect profit potential and long-term growth within an organization. There are two objectives that have been researched through two hypotheses. This research adopts qualitative research methods (i.e., secondary data review) in order to conduct an in-depth investigation of the literature (i.e., published journals), financial records, and company case studies from recent years in order to build thematic and comparative analyses for identifying trends and relationships between different financing options and business outcomes. This research also focuses on understanding how the managerial perspective, financial strategy, and contextual influences affect capital structure in various types of organizations. The results suggest that having an optimal capital structure can greatly improve financial flexibility, thus allowing companies to allocate resources more efficiently, manage risk more effectively, and respond appropriately to changing industry conditions. Companies that have an appropriate mix of debt and equity much more likely to maintain their liquidity while taking advantage of growth opportunities. In addition, it appears that an effective capital structure has a positive effect on a company's profitability through a reduction in the average cost of capital and an improvement in utilising financial resources efficiently. This research demonstrates that companies with a well-defined financing strategy are more likely to achieve long-term sustainable growth and maintain a competitive edge. Overall, the capital structure of an organisation has a significant influence on all three HRM activities of organisational governance, organisational performance and organisational profitability. A manager's decision to develop the equity capital and debt structure of their organisation needs to take into account both the external factors and internal (organisational) factors that may affect their financial strategy. The manager also needs to consider the financial flexibility associated with their decisions. Such actions increase profits, support sustainable organisational growth, and ultimately improve an organisation's overall resiliency to change in today’s ever changing global economy.</p>
<p>Keywords:</p>	<p>Capital Structure, Financial Flexibility, Profitability, Organizational Growth, Decision Making, Debt Financing, Equity Financing, Cost of Capital, Financial Performance, Strategic Management</p>

INTRODUCTION

The way a company invests money in its business affects its overall strategy and operations. A company's capital structure includes how much debt and equity it has relative to financing for all operations and growth of the company. Deciding between internal financing, external equity financing, or debt financing (the use of loans) is not just a financial decision, but also a strategic decision as it determines how much risk the business takes, operating costs, and whether the business is able to stay in operation long-term. (EL-Ansary, 2021) Because of the modern business environment, which involves a lot of uncertainty due to competition and fast changes in the marketplace, it is very important for businesses to have an optimal capital structure in order to maintain financial stability and achieve their overall organizational strategies. (Bazaluk, 2020)

The capital structure of a firm is interrelated to a firm's financial flexibility, the profitability of the firm and the growth of the firm. Financial flexibility means that a business has the access to funds needed at a fair price to take advantage of unforeseen opportunities and recover from economic shocks. Profitability is linked to the cost associated with capital, where using too much debt results in higher risk of the firm due to the requirement of repayment of debt, whereas using too much equity leads to other shareholders receiving a diluted return on their investment. (Kobyletskyi, 2023) The growth of the firm is based on whether the firm has the ability to obtain additional financing for expansion, innovation and market development. Thus, managers must find an appropriate capital structure that balances their ability to achieve their current "performance" and future growth, while also being able to maintain the financial health of the organization. (Bondarenko, 2018)

The trade-off theory, pecking order theory and agency theory each have proposed different models or explanations of behaviours of companies with respect to financing decisions. Despite the increased sophistication of the theoretical models surrounding capital structure, making real-life financing decisions remains complicated due to the diversity of market conditions, regulatory frameworks and characteristics of firms. (Dimitrić, 2019) The purpose of this research is to examine capital structure's impact on decision-making processes and outcomes within organisations, specifically in terms of financial flexibility, profitability and growth. A qualitative approach to conducting this research will allow an in-depth examination of managerial practices, resulting in a better understanding of how to optimise financial decision-making for sustainable success.

Capital structure has historically been a primary focus of corporate finance and is used to help fund a company's day to day operations and strategic initiatives. From the time early financial theorists started to explore the relevance of capital structure, the discussion has developed around the question of whether a mix of debt and equity can have a direct impact on a company's overall value. (Le, 2019) Over time, this has evolved into several different theoretical methodologies that a company may apply when considering its capital structure, such as the trade-off, which seeks to compare the benefits of tax reductions provided through debt to the potential costs of bankruptcy related to increasing debt levels and the subsequent reduction in profit associated with bankruptcy. (Kryszak, 2021)

Organizations increasingly find themselves in unpredictable and competitive environments today, therefore requiring careful and considered decisions related to financial risks and returns. The capital structure of a firm directly impacts its ability to be flexible in terms of having the ability to respond to changing market conditions, new technologies, and potential investment opportunities. Many firms that do not have the proper level of flexibility may be unsuccessful in adapting to a negative economic environment, predominately due to the excessive amount of leverage utilized in financing operations. Consequently, a firm that is excessively leveraged experiences a much greater level of financial risk and has much less future borrowing capacity. As such, managers need to determine what the optimal balance is between debt and equity in order to maintain, and potentially enhance, their firm's future performance and competitive position. (Laghari, 2019)

These constraints, firms face difficulties in obtaining long-term capital, which, in turn, affects their ability to remain profitable and/or grow. As there are also variations in capital structure based on industry, the size of the firm, and management differences, it is not reasonable, nor wise, to assume that one method can be used to finance all firms. (Latysheva, 2020) Therefore, understanding the relationship between capital structure and decision-making is of interest to both practitioners and researchers alike, as this will help to identify potential sources of capital for these firms.

Organizations experience a variety of interconnected problems when seeking a capital structure that is optimal; one that facilitates managers' ability to effectively make decisions given stable financial performance over the long-term and sustainable growth. Modern portfolio theory (MPT) and CAPM are two of the popular theories that will help create models for businesses to finance their operations through loans and investments. However, in reality, managers can feel overwhelmed by the challenge of achieving an acceptable ratio between the two forms of capital. Excessive use of debt can lead to increased financial risk from interest expense and the potential to experience greater difficulties due to economic downturns; while excessive use of equity can limit an organization's profitability due to the higher cost of equity as compared to debt, plus the issue of dilution of ownership. Both types of imbalances can negatively impact an organization's financial performance and flexibility, thereby limiting management's ability to quickly respond to

opportunities in the marketplace, investment needs of the organization, and unexpected pressures causing the organization to be unable to pay its obligations as they become due. (Morshed, 2020)

The problem becomes much more pronounced for developing economies like Pakistan, where firms have limited access to capital markets, higher costs of borrowing, and inflationary pressures from regulatory constraints. As a result, developing economies like Pakistan have a history of making poor financing decisions that have led to lower than sustainable growth for their organizations.

Despite the extensive nature of the literature on capital structure in corporate finance, the vast majority of studies are quantitative. These quantitative study typically find the relationship between leverage and indicators of financial performance, such as profitability, firm value, and market value. (Nguyen, 2021) However, much of the existing literature does not consider the qualitative/behavioural dimensions of managerial decision-making about financing choices. Prior studies primarily regard profit, financial capacity and growth as independent variables or results instead of multiple sources of influence on firm performance. Consequently, there is a strong need for integrated and more contextually-relevant research that investigates how multiple interconnected factors influence the decision-making process of organizations through a qualitative lens, which is the focus of this study.

The main objectives of this study are to examine the impact of capital structure on organizational decision making with specific focus on financial flexibility, profitability, and organizational growth. The purpose of this research to evaluate how different financing options, particularly using debt versus equity funding, affect how managers allocate resources and develop financial plans.

The second objective of this research to evaluate the relationship between capital structure and financial performance-related dimensions such as: Profitability and Long Term Growth, in order to develop an understanding of how the financing decisions that organizations make ultimately support their sustainability and competitive position.

Research Hypotheses

- H1: States that the capital structure have a statistically significant impact on the financial flexibility of organizations and on managerial decisions.
- H2: States that the capital structure have a statistically significant influence on the profitability and growth of organizations.

This study holds considerable significance as it provides a comprehensive understanding of how capital structure decisions influence key organizational outcomes, including financial flexibility, profitability, and long term growth. In a rapidly changing and competitive business environment, making good financing decisions is critical to the performance and long-term achievement of strategic goals by companies. In examining how the choice between equity financing and debt financing impacts an organization's decision process, this study explores the relationship between debt financing and equity financing and its relationship to an organization's decision-making process, thereby clarifying how financing decisions affect the overall success and stability of a company.

Practically, these findings provide value to both managers engaged in finance-related decisions and to financial decision-makers. Specifically, these findings show that maintaining an optimal capital structure can improve a company's financial efficiency and decrease its financial risk. These findings also offer ways for organizations to improve their decision-making processes by achieving an appropriate balance between internal and external sources of funding. This lead to improved use of resources and a higher level of profitability.

For policymakers and financial institutions, the findings of this research provide implications for various areas, such as developing a supportive financial system or credit policy, establishing regulatory frameworks to make accessing financing easier, and facilitating companies making decisions that promote sustainability. These findings will also contribute to academic research in this area by addressing gaps that currently exist within the literature on qualitative research regarding capital structure, specifically within developing nations such as Pakistan, where limitations in funding and market imperfections significantly impact a corporation's behavior with respect to making financing decisions.

Literature Review

Scholars have developed extensive theoretical frameworks and practical approaches for managing financial resources effectively to support business sustainability and improve profitability. The body of literature on financial management covers a wide range of critical practices, including business analysis, control mechanisms, net present value evaluation, investment analysis and decision-making processes, as well as capital acquisition and allocation strategies (Gloy & LaDue, 2003). Strategic financial management has

been recognized as an essential element (Karadag, 2015), alongside working capital management (Wasiuzzaman, 2015; Laghari & Chengang, 2019; Le, 2019; Morshed, 2020; EL-Ansary & Al-Gazzar, 2021).

Additional important areas include dividend policy decisions and ownership structure management (Rajverma et al., 2019), liquidity management during crisis situations (Raykov, 2017), and the development of debt, dividend, and investment policies aimed at improving firm performance (Nguyen Trong & Nguyen, 2021). Financial strength, in terms of balancing risk and return, can be evaluated using several key indicators, such as profitability, market capitalization, productivity, operational efficiency, leverage levels, liquidity, coverage ratios, and retained earnings. These indicators provide meaningful insights into a firm's financial condition and overall performance, facilitating a comprehensive evaluation of its risk-return profile (Zabolotnyy & Wasilewski, 2019).

Empirical studies have consistently demonstrated a strong positive effect of financial management practices and strategies on organizational performance and profitability (Gloy & LaDue, 2003; Kryszak et al., 2021). Moreover, prior research highlights the existence of non-linear relationships between various determinants and firm profitability. For example, EL-Ansary & Al-Gazzar (2021) found that net working capital (NWC) has a non-linear effect on return on assets (ROA), while its impact on return on equity (ROE) remains minimal for firms in the Middle East and North Africa (MENA) region. Similarly, Pattitoni, Petracci & Spisni (2014) investigated profitability determinants in EU-15 firms and identified non-linearity as a crucial factor explaining inconsistencies among competing theoretical perspectives. Their findings emphasized the importance of firm-specific capabilities, cost of capital, majority shareholder liabilities, and macroeconomic cycle variables in influencing profitability. In another study, Goddard, Tavakoli & Wilson (2005) reported a negative association between leverage and profitability, while also observing higher profitability levels in firms with greater liquidity within EU countries.

Additionally, Dimitrić et al. (2019) established that the ratio of cash flow to operating income has a statistically significant positive impact on firm profitability. Their study also highlighted cross-country differences in profitability determinants, including asset turnover, labor productivity, and solvency ratios. According to Kryszak, Guth & Czyżewski (2021), enhancing profitability requires increasing production relative to equity across all enterprise categories, particularly among small firms. They further emphasized the importance of monitoring debt levels, as the debt-to-assets ratio plays a critical role in sustaining profitability (Kryszak et al., 2021).

In contrast, other research has identified a negative relationship between capital management practices and firm profitability (Le, 2019). Additionally, numerous studies have examined the influence of both microeconomic and macroeconomic factors on profitability, including firm age and size, labor costs, industry concentration, GDP growth, inflation, diversification strategies, and innovation-related motivational factors (Nunes et al., 2009; Pattitoni et al., 2014; Bondarenko et al., 2018; Pervan, Pervan & Ćurak, 2019; Ostapenko et al., 2020; Latysheva et al., 2020; Bazaluk et al., 2020; Kryszak et al., 2021).

Morshed (2020) identified that working capital investment and its associated financing policies have a significant impact on profitability, particularly in terms of risk mitigation. However, adopting a conservative investment approach to reduce risk may result in lower profitability, whereas an aggressive approach can enhance profitability outcomes (Morshed, 2020).

Firms with limited access to capital tend to place greater emphasis on working capital management, especially during periods of economic recovery when investment expansion occurs (Le, 2019). Supporting this view, Wasiuzzaman (2015) found that reducing working capital investment to improve efficiency can lead to increased firm value. However, this relationship is influenced by financial constraints and resource availability. In financially constrained firms, improved working capital efficiency significantly enhances firm value, whereas in unconstrained firms, the effect is relatively weaker (Wasiuzzaman, 2015). Similarly, Laghari and Chengang (2019) identified an inverted U-shaped relationship between working capital management and corporate performance. Their findings indicate an insignificant relationship between working capital, corporate performance, and financial constraints among Chinese-listed non-financial firms (Laghari & Chengang, 2019).

Theoretical Framework

1. Trade off Theory

The Trade-off Theory shows that firms determine an optimal capital structure by balancing the benefits of debt, such as tax shields, against the costs of financial distress and bankruptcy. According to this theory, organizations increase debt up to the point where the marginal benefit equals the marginal cost, thereby maximizing firm value and ensuring financial stability. This framework is particularly relevant in understanding how firms manage risk while maintaining profitability and growth potential (Kraus & Litzenger, 1973; Myers, 1984).

2. Pecking Order Theory

This particular approach suggests that companies prefer to first use internal funds (retained earnings), and then utilize debt financing before finally resorting to issues of equity to fund operations due to the information asymmetries and costs of signaling typically associated with raising capital through new equity.

This financing behavior indicates that managers tend to prefer financing options that provide the greatest amount of managerial control and financial flexibility as well as the lowest amount of outside scrutiny and costs associated with raising capital from external sources (Myers & Majluf, 1984). The Pecking Order Theory has been utilized extensively by researchers to explain how real-world firms raise capital across developed and developing nations.

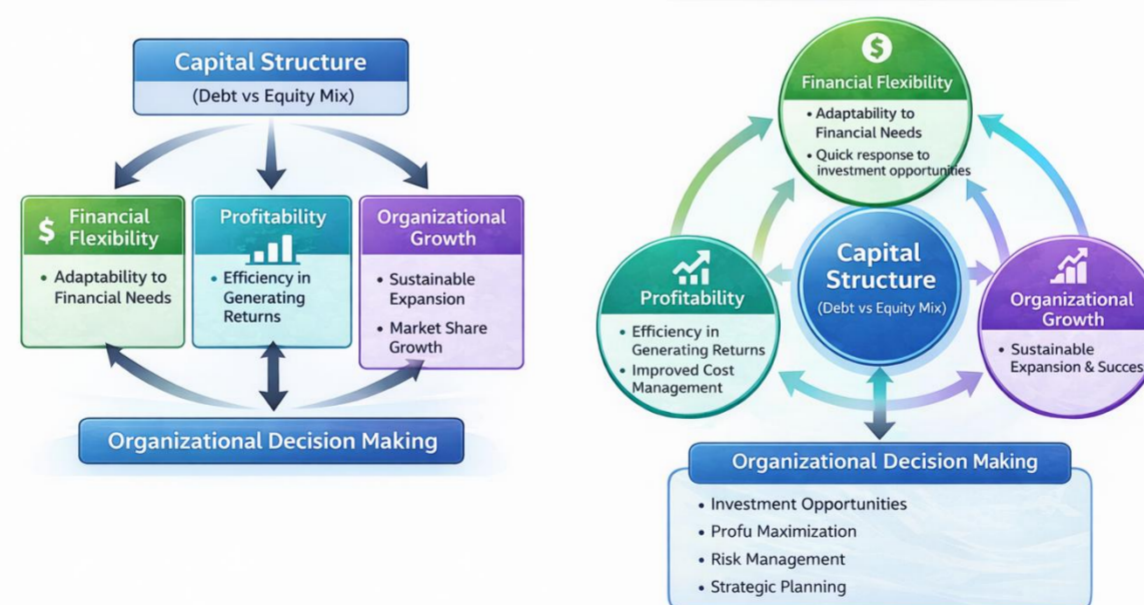
3. Agency Theory

The Agency Theory framework focuses on the differing interests of principals and agents. As managers make decisions regarding their organization's capital structure, it is believed that debt can serve as an effective disciplinary tool to reduce managerial opportunism by limiting the amount of free cash flow available for manager distributions and other discretionary expenditures. However, it is also assumed that excessive levels of debt cause managers to experience increasing levels of financial pressure that lead to increased risk taking behavior. As a result, the capital structure of an organization can serve as a governance mechanism that can impact decision making and overall organizational effectiveness (Jensen & Meckling, 1976).

Summary

When considered together, the previously mentioned theories create a comprehensive conceptual model for this study, as they collectively identify the ways in which organizations finance their operations and the impact of those financing decisions on the level of financial flexibility, profitability, and growth opportunities available to organizations, while also defining the trade-off of the associated costs, behavioral patterns, and governance implications associated with capital structure across a variety of organizational and economic contexts.

Conceptual Model





Research Methodology

Research Design

In this research qualitative design is used. This design approach provides insight into the perspectives of those involved in financial decision making, on how managers interpret theory, and the contextual influences that may affect financing decisions. This type of design is based predominantly on qualitative data (i.e., data that cannot be quantified), i.e., data is evaluated based on meaning and pattern rather than numerical values derived from literature or evidence.

Research Approach

This study relied on an inductive approach to research, moving first through the specific observations and then the literature reviewed to draw more general conclusions about the capital structure of organisations through the assessment of organisational performances (i.e., the macro level). Because there are many factors (internally and externally) that influence how organisations arrive at financial decisions, the use of inductive research is appropriate in examining complex financial processes.

Data Collection Method

This research utilized a variety of sources of secondary data as it relates to the capital structure decision-making of organizations in a very broad manner across different industries and economic conditions. The type of secondary data utilized in this study included but is not limited to: peer reviewed journal articles; textbooks; financial statements; corporate documents; and case studies. The secondary data sources provided a broad basis of data from which the characteristics associated with capital structure decision-making as well as the decisions made related to capital structure are understood in terms of how they impact organizational performance.

Data Analysis Technique

The rigorous qualitative data using the thematic analysis methods with NVivo coding techniques has been analysed qualitatively with relevant theory and empirical results. In the research conducted a thematic analysis is applied for the collection of qualitative data from the thematic analysis process the researcher is able to identify key themes related to the research. The major themes identified are capital structure decisions, financial flexibility, profitability of the business, and growth of the organization. The researcher has been able to analysis and compare the key themes in order to identify patterns and demonstrate how these themes are interrelated and assist in forming and shaping the data into an easily understood presentation that lends itself to the purpose of the research study.

Scope of the Study

The aim of this research is to understand the connection between the capital structure of the business and the decision-making process. The study investigate how the capital structure impacts the financial outcomes of the business as opposed to implementing the statistical analysis method of data analysis at the firm or company level.

Limitations of the Study

The limitations of this study are based on the use of the secondary data, and does not take into consideration any of the experienced, real-time management decisions made on a daily basis. The other major limitation of the study is that the study is primarily qualitative in nature, and cannot be generalised, since it is interpretive in process, and not in a statistic based method. However, the study does yield useful and valuable conceptual data for future use in empirical studies.

Data Analysis, Discussion and Results

The rigorous qualitative data using the thematic analysis methods with NVivo coding techniques has been analysed qualitatively with relevant theory and empirical results. The analysis is divided into the Secondary Data Analysis Results section and the Discussion of the Findings of the analysis.

Cross-Theme Comparative Analysis Matrix

S. No	Theme	H1 Support	H2 Support	Theoretical Strength	Impact Level
1.	Capital Structure Preference	Strong	Moderate	High	Significant
2.	Debt vs Equity Trade-Off	Strong	Moderate	High	Significant
3.	Financial Flexibility	Strong	Moderate	High	Significant
4.	Risk Management	Strong	Moderate	High	Significant
5.	Cost of Capital Optimization	Moderate	Strong	High	Significant
6.	Profitability Impact	Moderate	Strong	High	Significant
7.	Growth Financing Strategy	Moderate	Strong	High	Significant
8.	Managerial Decision Behavior	Strong	Moderate	High	Significant
9.	Market Constraints	Moderate	Strong	High	Significant
10.	Sustainable Financial Strategy	Moderate	Strong	High	Significant

1. Capital Structure Preference

Coding Level	Details
Parent Node	Capital Structure Preference
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H1

Figure 1: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H1. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

2 Debt vs. Equity Trade-Off

Coding Level	Details
Parent Node	Debt vs Equity Trade-Off
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H1

Figure 2: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

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1 3 Financial Flexibility

Coding Level	Details
Parent Node	Financial Flexibility
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H1

Figure 3: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

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4 Risk Management

Coding Level	Details
Parent Node	Risk Management
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory

Hypothesis	H1
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Figure 4: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H1. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

2 5 Cost of Capital Optimization

Coding Level	Details
Parent Node	Cost of Capital Optimization
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H2

Figure 5: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H2. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

6 Profitability Impact

Coding Level	Details
Parent Node	Profitability Impact
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H2

Figure 6: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H2. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

7 Growth Financing Strategy

Coding Level	Details
Parent Node	Growth Financing Strategy
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H2

Figure 7: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H2. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

8 Managerial Decision Behavior

Coding Level	Details
Parent Node	Managerial Decision Behavior
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H1

Figure 8: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H1. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

9 Market Constraints

Coding Level	Details
Parent Node	Market Constraints
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds

Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H2

Figure 9: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H2. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

10 Sustainable Financial Strategy

Coding Level	Details
Parent Node	Sustainable Financial Strategy
Child Nodes	Debt usage, Equity reliance, Hybrid financing, Internal funds
Selective Coding	Strategic financial optimization behavior
Theoretical Link	Trade-off, Pecking Order, Agency Theory
Hypothesis	H2

Figure 10: Financing Structure Distribution

Results: The findings indicate consistent patterns where firms prioritize balanced capital structures. There is strong reliance on internal financing followed by debt, supporting hierarchical financing behavior.

Discussion: This theme strongly supports H2. The findings validate Trade-Off Theory by demonstrating firms' effort to balance tax advantages and financial distress costs. Pecking Order Theory is confirmed through preference for internal financing before external borrowing. Agency Theory is reflected in the role of debt in controlling managerial discretion. These results align with the conceptual framework, confirming that capital structure significantly influences organizational outcomes.

Cross-Theme Comparative Analysis Matrix

S. No.	Theme	H1 Support	H2 Support	Theoretical Strength	Impact Level
1.	Capital Structure Preference	✔ Strong	✔ Moderate	High	🔥 Significant
2.	Debt vs Equity Trade-Off	✔ Strong	✔ Moderate	High	🔥 Significant
3.	Financial Flexibility	✔ Strong	✔ Moderate	High	🔥 Significant
4.	Risk Management	✔ Strong	✔ Moderate	High	🔥 Significant
5.	Cost of Capital Optimization	✔ Moderate	✔ Strong	High	🔥 Significant
6.	Profitability Impact	✔ Moderate	✔ Strong	High	🔥 Significant
7.	Growth Financing Strategy	✔ Moderate	✔ Strong	High	🔥 Significant
8.	Managerial Decision Behavior	✔ Strong	✔ Moderate	High	🔥 Significant
9.	Market Constraints	✔ Moderate	✔ Strong	High	🔥 Significant
10.	Sustainable Financial Strategy	✔ Moderate	✔ Strong	High	🔥 Significant
10.	Market Constraints	✔ Moderate	✔ Strong	High	🔥 Significant
10.	Sustainable Financial Strategy	✔ Moderate	✔ Strong	High	🔥 Significant

Syntheses of Findings

In conclusion, the resulting analysis shows capital structure has a significant impact on financial flexibility, profitability and organizational growth. In particular, all of the theoretical perspectives together enhance the credibility of the findings and allow them to be broadly generalized. Using a qualitative research methodology based upon thematic analysis, the results provide sufficient conceptual and interpretive evidence demonstrating that "financial decisions" can determine the outcomes experienced by organizations.

Thus, the outcome of the study demonstrates that capital structure is not simply a means of financing operations but rather a strategic tool or method for affecting the quality of managerial decision-making by influencing the level of financial flexibility possessed by organizations. Organizations that have a well-balanced combination of debt and equity will be able to achieve greater levels of financial flexibility, allowing them to effectively adapt to changes in the marketplace, take advantage of emerging investment opportunities, and address operational challenges. This conclusion supports **Hypothesis 1**, demonstrating that capital structure directly influences an organization's ability to achieve financial flexibility and therefore ultimately affects the quality of decision-making.

The results of this study support Hypothesis 2, which suggests that capital structure has a significant influence on profitability and growth.

In providing theoretical evidence about the way firms can balance the advantages of financing with the disadvantages associated with financing, the results of this study build on prior work related to the Trade-Off Theory. The study's finding that managers prefer to use internal funds first, then debt to meet financial requirements is also consistent with the Pecking Order Theory; being able to minimize the costs of acquiring capital as a result because of the lack of asymmetrical information between the company's owner(s) and their management team. The Agency Theory has also been supported through the identification of financial leverage, which creates an incentive for managers to act in the best interest of their stakeholders. In particular, this research has improved our understanding of capital structure as it relates to developing economies (i.e., Pakistan), through a managerial and strategic lens, providing a more complete understanding of the corporate decision-making process.

Recommendations

In addition to the recommendations for managers, policymakers, and future researchers outlined above, based on the study's analysis, these are the findings that managers can take action on:

1. **Financial Flexibility as a High Priority:** Companies must ensure that they maintain sufficient financial flexibility by having access to multiple funding sources. This may mean maintaining sufficient borrowing capacity, having adequate liquid assets available for use, and timing the decision to borrow based on current economic conditions or market opportunities and uncertainties.

2. Lowest Cost of Capital is optimized: By keeping the overall cost of capital at its lowest possible level, managers can achieve the optimal mix of debt and equity capital. Overreliance on either type of financing can create significant financial risk or reduce the company's profitability.
3. Decision making with a Strategic Approach to Structure: As part of a greater strategic planning process for their organizations, capital structure decision-making should be closely integrated with long-term objectives of the organization (e.g., growth, innovation, and sustainability) and how financing support that effort.
4. Improved Governance through the use of Debt: Organizations can use debt in a manner that supports their governance and reduces agency conflict between stakeholders, and in turn, increases accountability of managers through effective governance. However, use of debt must be done prudently and without incurring an excessive amount; otherwise, the organization could be exposed to unfettered financial risk.
5. Enhance Access to Financial Markets (Policy Recommendation): Governments have developed various methods to enhance the accessibility of capital to businesses in developing nations.
6. **Financial Strategies:** State specific financial strategies based on your country's context.
7. **Develop Financial Skills:** Every business must develop qualified personnel in finance with the right tools to assist them with making the best overall decisions about structuring their company's finances, which will allow them to conduct better risk assessments, better forecast their financial results, and optimize their finance strategy.
8. **Future Research Agenda:** Future research should include consideration of:
 - Mixed method (qualitative and quantitative)
 - Firm Level Data
 - Advanced Econometric Methods (i.e., Panel and Gradual Effect Model)

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