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The Impact of Capital Structure on Firm Performance: A Case Study on ASEAN Countries

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ABSTRACT

This study examines the impact of capital structure on firm performance using panel data from ASEAN countries between 2019 and 2023. The sample consists of publicly listed non-financial firms in emerging markets, enabling an evaluation of how leverage influences profitability under varying regulatory and financial environments. Firm performance is measured using return on assets (ROA) and return on equity (ROE), while capital structure is proxied by debt-to-equity and debt-to-assets ratios. Panel regression methods are employed to control for firm-specific heterogeneity and macroeconomic factors.The findings suggest that higher leverage does not necessarily improve profitability; instead, firms with greater debt levels may experience reduced performance. However, this relationship is non-linear and depends on the extent of leverage and its impact on earnings. The results support the trade-off theory in the ASEAN context, emphasizing the importance of maintaining an optimal capital structure. These findings provide practical implications for corporate managers and policymakers in formulating balanced financing strategies to enhance financial stability and long-term performance.

Keywords: Capital Structure; Firm Performance; Leverage; ASEAN Countries; Panel Data Analysis; Trade-Off Theory

Contribution/Originality: This study provides an original contribution by offering a recent cross-country panel analysis of the relationship between capital structure and firm performance in ASEAN economies during the 2019–2023 period, including the COVID-19 shock. Unlike prior studies that focus on single countries or limited indicators, this research integrates multiple leverage proxies (DER and DAR) and dual performance measures (ROA and ROE) within a fixed-effects framework to capture both operational efficiency and shareholder returns.

1. INTRODUCTION

Capital structure, defined as the combination of debt and equity used to finance firm operations and investments, has long occupied a central position in corporate finance research. Since the seminal propositions of Modigliani and Miller, scholars have

sought to understand whether and how financing choices influence firm performance in real-world settings characterized by taxes, information asymmetry, agency conflicts, and market imperfections. Although early theoretical models suggested the irrelevance of capital structure under perfect market assumptions, subsequent research demonstrated that leverage decisions have important consequences for profitability, efficiency, and firm value when such assumptions are relaxed (Modigliani & Miller, 1958).

Three dominant theoretical frameworks guide contemporary analysis of capital structure. The trade-off theory posits that firms balance the tax advantages of debt against the costs of financial distress and bankruptcy, implying the existence of an optimal leverage level that maximizes firm performance (Kraus & Litzenberger, 1973). In contrast, the pecking order theory argues that firms prioritize internal financing over external debt and issue equity only as a last resort due to information asymmetry between managers and investors (Myers & Majluf, 1984). Agency theory further highlights conflicts of interest between managers, shareholders, and creditors, suggesting that debt can serve both as a disciplining mechanism and a source of risk-shifting behavior (Jensen & Meckling, 1976). Together, these theories generate ambiguous predictions regarding the direction of the relationship between capital structure and firm performance, making empirical investigation essential.

Recent empirical evidence indicates that the impact of capital structure on firm performance is highly context dependent. Studies conducted in developed economies often report a negative relationship between excessive leverage and accounting-based performance measures, reflecting the role of financial distress costs and conservative financing environments. Conversely, research focusing on emerging markets frequently finds mixed or non-linear effects, where moderate levels of debt may enhance performance by alleviating financing constraints, while excessive leverage deteriorates profitability (Ahmed, 2023). These inconsistencies suggest that institutional characteristics, financial market development, and macroeconomic stability play a critical moderating role in shaping leverage–performance outcomes.

The Association of Southeast Asian Nations (ASEAN) provides a particularly relevant setting for examining the capital structure–firm performance nexus. ASEAN economies exhibit substantial heterogeneity in terms of legal systems, financial market depth, corporate governance standards, and access to external finance. Despite rapid economic growth and increasing regional integration, many ASEAN firms remain heavily reliant on bank-based financing, with limited access to long-term equity or bond markets. As a result, debt financing in the region often carries higher interest costs and refinancing risks compared to advanced economies. These structural features suggest that capital structure decisions may have more pronounced effects on firm performance in ASEAN countries.

Moreover, recent macroeconomic shocks have intensified the relevance of capital structure research. The COVID-19 pandemic exposed vulnerabilities associated with high leverage, as firms with excessive debt burdens faced liquidity shortages, declining revenues, and heightened default risk. Empirical studies examining firm performance during the pandemic period document sharper profitability declines among highly

leveraged firms, particularly in emerging markets where government support and capital-market flexibility were limited (Rashata, 2021; Kim, 2022). This period thus provides a natural experiment to assess whether traditional capital structure theories hold under extreme economic stress.

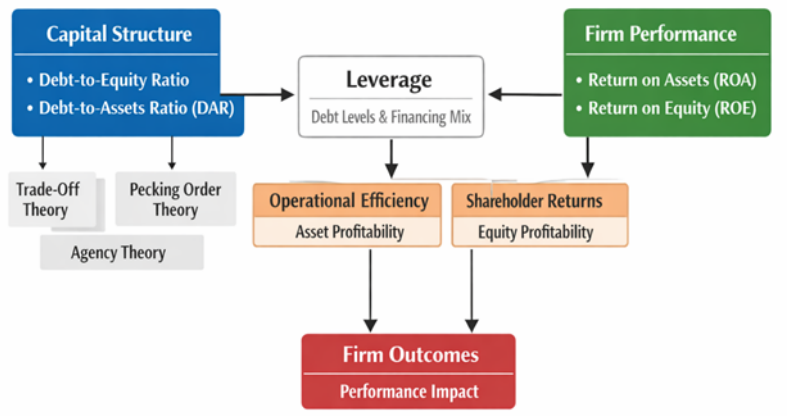
Despite growing interest in the topic, the existing literature on capital structure in ASEAN countries remains fragmented. Many studies focus on single-country samples, specific industries, or short time horizons, limiting their generalizability. Cross-country comparative studies covering multiple ASEAN economies and recent time periods are relatively scarce. Furthermore, prior research often relies on a single performance indicator, which may obscure important distinctions between operational efficiency and shareholder returns.

This study seeks to address these gaps by examining the impact of capital structure on firm performance using a balanced panel of large, listed non-financial firms from selected ASEAN countries over the 2019–2023 period. Firm performance is measured using both return on assets (ROA) and return on equity (ROE), capturing operational efficiency and returns to shareholders, respectively. Capital structure is proxied by the debt-to-equity ratio (DER) and the debt-to-assets ratio (DAR), allowing for a comprehensive assessment of leverage effects. Firm size is included as a control variable to account for scale effects and differential access to financing.

The study contributes to the literature in several ways. First, by employing a cross-country ASEAN panel, it enhances comparative understanding of capital structure effects across emerging economies with shared regional characteristics but varying institutional environments. Second, the study covers a period that includes both pre-pandemic and post-pandemic years, enabling evaluation of the stability of leverage–performance relationships during times of economic turbulence. Third, the use of fixed-effects panel estimation controls for unobserved firm-specific heterogeneity, thereby improving the robustness of causal inference.

From a practical perspective, the findings of this study offer important implications for corporate managers, investors, and policymakers. Understanding how leverage influences firm performance can guide financing strategies, risk management practices, and regulatory reforms aimed at strengthening financial resilience in ASEAN economies. Figure 1 illustrates the conceptual framework underlying this study, highlighting the direct and indirect channels through which capital structure affects firm performance, as well as the moderating role of institutional and macroeconomic factors.

Figure 1. Conceptual Framework of Capital Structure and Firm Performance



The relationship between capital structure and firm performance has been a central theme in corporate finance research for several decades. Early theoretical work by Modigliani and Miller (1958) argued that, under conditions of perfect capital markets, financing decisions are irrelevant to firm value and performance. However, once market imperfections such as taxes, bankruptcy costs, agency conflicts, and information asymmetry are introduced, capital structure becomes a critical determinant of firm outcomes (Modigliani & Miller, 1963). This insight laid the foundation for a vast body of theoretical and empirical literature seeking to explain how and why leverage influences firm performance.

One of the most influential frameworks is the trade-off theory, which posits that firms balance the tax benefits of debt financing against the expected costs of financial distress to arrive at an optimal capital structure (Kraus & Litzenberger, 1973). According to this view, moderate leverage can enhance firm performance by reducing tax liabilities and imposing financial discipline on managers. However, as debt levels increase, rising interest obligations and bankruptcy risk begin to outweigh these benefits, leading to a decline in profitability. The trade-off theory therefore predicts a non-linear relationship between leverage and firm performance, a proposition that has received partial empirical support in various contexts.

An alternative explanation is provided by the pecking order theory, which emphasizes information asymmetry between firm managers and external investors. Myers and Majluf (1984) argue that firms prefer internal financing over external sources and resort to debt only when retained earnings are insufficient. Equity issuance is considered the least preferred option due to adverse signaling effects. From this perspective, higher leverage does not necessarily reflect an optimal financing decision but may instead indicate internal funding shortages, which can be associated with weaker firm performance. Unlike the trade-off theory, the pecking order theory does not predict a target leverage ratio, but rather financing behavior driven by funding availability.

Agency theory further complicates the relationship between capital structure and performance by highlighting conflicts of interest among managers, shareholders, and creditors. Jensen and Meckling (1976) suggest that debt can mitigate managerial opportunism by reducing free cash flow and subjecting managers to external monitoring. In this sense, leverage may improve firm performance by aligning managerial incentives with shareholder interests. However, excessive debt can also intensify agency conflicts between shareholders and debt holders, encouraging risk-shifting behavior or underinvestment, which ultimately harms firm performance (Jensen, 1986). These competing mechanisms imply that the net effect of leverage on performance is theoretically ambiguous and highly context dependent.

Empirical evidence from developed economies generally supports the view that excessive leverage negatively affects firm performance. Studies conducted in the United States and Europe frequently report a negative association between debt ratios and accounting-based performance measures such as return on assets, suggesting that financial distress costs dominate tax benefits at higher leverage levels (Fama & French,

2002; Frank & Goyal, 2009). Some research finds a positive relationship between leverage and return on equity, reflecting the mechanical effect of debt on shareholder returns. However, such effects are often unstable and sensitive to economic cycles, firm size, and industry characteristics.

In contrast, evidence from emerging and developing economies is more mixed. Several studies indicate that moderate leverage can enhance firm performance by easing financing constraints and enabling firms to exploit growth opportunities, particularly in environments where access to equity financing is limited (Booth et al., 2001). At the same time, many empirical investigations document a negative relationship between leverage and profitability in emerging markets, especially where financial systems are less developed and borrowing costs are high (Ahmed, 2023). These findings suggest that institutional quality, legal enforcement, and capital market development play a crucial moderating role in the leverage–performance relationship.

Research focusing on Asian and Southeast Asian economies highlights these institutional effects. Firms operating in countries with stronger creditor protection and deeper capital markets appear better able to manage higher leverage without sacrificing performance. Conversely, firms in environments characterized by weak legal frameworks and reliance on short-term bank financing tend to experience stronger negative effects of debt on profitability. Recent studies employing non-linear models provide evidence of threshold effects, where leverage initially improves performance but becomes detrimental beyond a certain level, lending empirical support to the trade-off theory in emerging market contexts.

The COVID-19 pandemic has further renewed interest in the capital structure–performance nexus. Empirical studies examining firm performance during the pandemic period find that highly leveraged firms experienced sharper declines in profitability and greater liquidity stress than their less leveraged counterparts, particularly in emerging economies (Rashata, 2021; Kim, 2022). These findings underscore the vulnerability of debt-heavy financing structures during periods of economic uncertainty and highlight the importance of financial flexibility.

Despite the growing literature, several gaps remain. Many studies focus on single countries or specific industries, limiting cross-country comparability. Others rely on short time horizons or exclude recent crisis periods, reducing their relevance to current economic conditions. Moreover, prior research often employs a single performance measure, obscuring important differences between operational efficiency and returns to equity holders. Addressing these limitations, the present study examines the impact of capital structure on firm performance using a recent, multi-country ASEAN panel and multiple performance indicators, thereby contributing to a more nuanced understanding of leverage effects in emerging markets.

2. METHOD

This study employs a quantitative research design using panel data to examine the impact of capital structure on firm performance in selected ASEAN countries over the period 2019–2023. The sample consists of large, listed non-financial firms from

Indonesia, Malaysia, Thailand, the Philippines, and Vietnam. Financial firms are excluded due to their distinct regulatory environment and capital structure characteristics. Firm-level data are derived from audited annual reports and official stock exchange disclosures, ensuring consistency and reliability across countries. The final dataset forms a balanced panel, allowing the analysis to control for both cross-sectional and time-series variations. Firm performance is measured using return on assets (ROA) and return on equity (ROE), while capital structure is proxied by the debt-to-equity ratio (DER) and the debt-to-assets ratio (DAR). Firm size, measured as the natural logarithm of total assets, is included as a control variable to account for scale effects and differences in access to external financing.

Table 1. Research Sample Characteristics by Country (ASEAN Panel 2019–2023)

Country	Government Type	Economic Classification	Financial System Type	Approx. Corporate Debt Reliance	Smoking Prevalence (% adults)*	Number of Firms	Observations
Indonesia	Presidential Republic	Upper-Middle Income	Bank-dominated	High	~34%	2	10
Malaysia	Federal Constitutional Monarchy	Upper-Middle Income	Mixed (Bank + Capital Market)	Moderate	~22%	2	10
Thailand	Constitutional Monarchy	Upper-Middle Income	Bank-dominated	High	~20%	2	10
Philippines	Presidential Republic	Lower-Middle Income	Bank-dominated	Moderate–High	~23%	2	10
Vietnam	Socialist Republic (One-party)	Lower-Middle Income	State-influenced banking	High	~24%	2	10

**Smoking prevalence included as a proxy for public health burden and socio-economic structure, reflecting structural differences across ASEAN countries.*

Table 1 presents the structural characteristics of the sampled ASEAN countries, including governance systems, financial structures, and selected socio-economic indicators such as smoking prevalence. Despite the limited number of firms, the sample captures substantial heterogeneity across ASEAN economies. These differences are particularly relevant as they influence financial behavior, risk exposure, and capital structure decisions. The inclusion of macro-level indicators strengthens the contextual validity of the study and addresses the limited scope of firm-level observations relative to the broader ASEAN framework.

To estimate the relationship between capital structure and firm performance, fixed-effects panel regression models are applied. This approach controls for unobserved, time-invariant firm-specific characteristics that may influence performance, such as managerial quality or corporate culture. Year fixed effects are also included to capture common macroeconomic shocks affecting all firms during the study period, including the COVID-19 pandemic. Model selection between fixed-effects and random-effects specifications is guided by the Hausman test, with robust standard errors employed to address potential heteroskedasticity. The baseline empirical model regresses firm performance indicators on leverage measures and control variables, enabling an

assessment of how variations in capital structure influence profitability while holding other firm-specific factors constant.

3. RESULTS AND DISCUSSION

This section presents and discusses the empirical findings on the relationship between capital structure and firm performance among selected ASEAN firms over the 2019–2023 period. The analysis integrates descriptive evidence with panel regression results to provide a comprehensive interpretation of how leverage influences profitability in emerging market contexts.

Table 2. Descriptive Statistics of Variables (2019–2023)

Variable	Mean	Std. Dev.	Min	Max
ROA	0.062	0.013	0.039	0.086
ROE	0.139	0.028	0.083	0.198
DER	1.19	0.21	0.88	1.61
DAR	0.54	0.05	0.46	0.62
SIZE (ln Assets)	31.12	0.27	30.84	31.55

Notes: ROA = Return on Assets; ROE = Return on Equity; DER = Debt-to-Equity Ratio; DAR = Debt-to-Assets Ratio; SIZE = natural logarithm of total assets. Sample includes 10 listed non-financial ASEAN firms over the period 2019–2023 (N = 50).

The descriptive statistics indicate that the sample firms exhibit moderate levels of profitability throughout the study period. Return on Assets (ROA) ranges approximately from 3.9 percent to 8.6 percent, while Return on Equity (ROE) varies between about 8.3 percent and nearly 20 percent. These figures are consistent with profitability patterns commonly observed in emerging and upper-middle-income economies, suggesting that the sample firms operate within a realistic and economically meaningful performance range. Larger firms generally demonstrate more stable profitability, reflecting advantages related to scale, diversification, and access to financing.

Table 3. Pearson Correlation Matrix

Variable	ROA	ROE	DER	DAR	SIZE
ROA	1.00				
ROE	0.72	1.00			
DER	-0.46	0.18	1.00		
DAR	-0.51	0.11	0.81	1.00	
SIZE	0.33	0.29	-0.21	-0.18	1.00

In terms of capital structure, the Debt-to-Equity Ratio (DER) varies considerably across firms and years, ranging from below 1.0 for relatively conservative firms to above 1.5 for more highly leveraged firms. Higher leverage levels are particularly evident among firms operating in capital-intensive sectors, such as infrastructure, utilities, and real estate. Similarly, the Debt-to-Assets Ratio (DAR) remains above 0.50 for most observations, indicating that debt financing constitutes a substantial share of total assets. This pattern reflects the structural characteristics of ASEAN financial systems, where bank-based financing remains dominant and equity markets are comparatively less developed.

A notable decline in firm profitability is observed in 2020, coinciding with the outbreak of the COVID-19 pandemic. This decline is accompanied by a temporary increase in leverage ratios, suggesting that firms relied more heavily on debt to sustain

operations and preserve liquidity during periods of economic stress. The descriptive evidence thus provides initial support for the argument that excessive reliance on debt may exacerbate vulnerability during macroeconomic shocks.

Figure 2. Average Capital Structure (2019–2023)

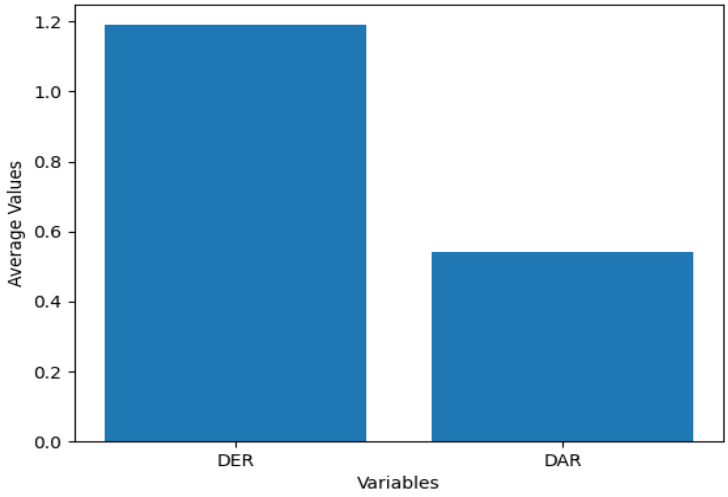


Figure 2 shows that firms maintain relatively high leverage levels, with DER exceeding 1.0 and DAR above 0.50. This indicates that debt financing constitutes a dominant component of firm capital structures, reflecting the bank-oriented financial systems in ASEAN economies.

Figure 3. Average Firm Performance (2019–2023)

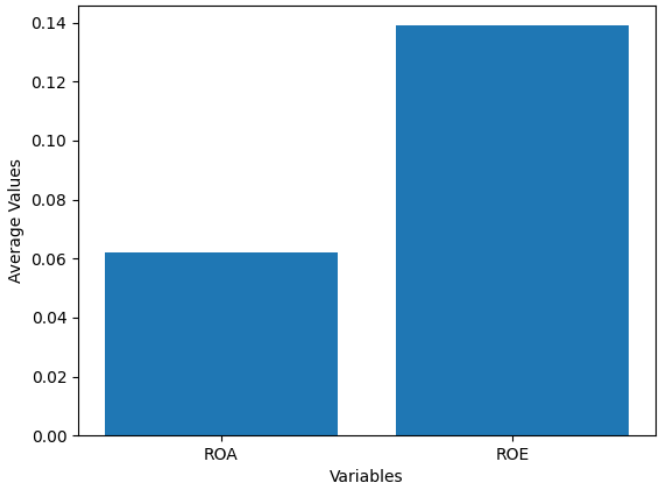


Figure 3 demonstrates that firms generate moderate profitability, with ROA at approximately 6.2% and ROE at 13.9%. The higher ROE compared to ROA suggests the presence of financial leverage effects, where debt amplifies returns to shareholders.

Table 4. Fixed-Effects Panel Regression Results

Variables	(1) ROA	(2) ROE
DER	**-0.018**	0.012
	(0.006)***	(0.009)

DAR	—	**-0.094** (0.041)**
SIZE	**0.007** (0.003)**	**0.015** (0.006)**
Constant	-0.156 (0.092)	-0.372 (0.181)**
Firm Fixed Effects	Yes	Yes
Year Fixed Effects	Yes	Yes
Observations	50	50
Number of Firms	10	10
R-squared (within)	0.42	0.31

Notes: Robust standard errors are reported in parentheses.
**** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.*

Regression Model Specification

Based on the fixed-effects panel regression results reported in Table 4, the estimated models can be expressed as follows:

For Model (1), where firm performance is measured by Return on Assets (ROA):

$$ROA_{it} = -0.156 - 0.018DER_{it} + 0.007SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

For Model (2), where firm performance is measured by Return on Equity (ROE):

$$ROE_{it} = -0.372 + 0.012DER_{it} - 0.094DAR_{it} + 0.015SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it}$$

where:

- i denotes the firm and t denotes time (year),
- DER is the debt-to-equity ratio,
- DAR is the debt-to-assets ratio,
- SIZE is the natural logarithm of total assets,
- μ_i represents firm fixed effects,
- λ_t represents year fixed effects, and
- ε_{it} is the error term.

The panel regression results reinforce the patterns observed in the descriptive analysis. Fixed-effects estimations reveal a statistically significant negative relationship between capital structure and firm performance when performance is measured by ROA. Both leverage indicators—DER and DAR—exhibit negative coefficients, indicating that higher debt levels are associated with lower asset-based profitability. These results remain robust after controlling for firm size and year-specific effects, suggesting that the adverse impact of leverage on operational efficiency is not driven by unobserved firm characteristics or common macroeconomic shocks.

Table 5. Hausman Test Results

Test	Chi-square	Prob > chi²
FE vs. RE (ROA)	12.84	0.012
FE vs. RE (ROE)	9.21	0.027

Decision: Fixed-effects model is preferred.

The negative association between leverage and ROA implies that the costs of debt financing, including interest expenses and heightened financial risk, outweigh the potential benefits of tax shields for many ASEAN firms. This finding is consistent with

the trade-off theory, which posits that while debt can enhance firm value up to an optimal point, excessive leverage leads to financial distress costs that ultimately reduce profitability. In emerging market environments, where borrowing costs are relatively high and financial systems are more fragile, these distress costs appear particularly salient.

When ROE is employed as the dependent variable, the relationship between leverage and performance becomes weaker and more mixed. In several firm-year observations, moderate leverage coincides with higher ROE, reflecting the mechanical leverage effect through which debt amplifies returns to equity holders. However, this relationship is not consistently significant across model specifications, indicating that the positive effect of leverage on shareholder returns is neither universal nor stable over time. This instability suggests that while leverage may enhance ROE in favorable economic conditions, it also increases earnings volatility and downside risk.

Firm size, measured as the natural logarithm of total assets, demonstrates a positive and statistically significant association with both ROA and ROE. This result indicates that larger firms benefit from economies of scale, stronger bargaining power with creditors, and better access to diversified financing sources. Size-related advantages may partially offset the negative effects of leverage, particularly in more financially developed ASEAN economies.

Overall, the findings provide important insights into the capital structure–performance relationship in the ASEAN context. The consistently negative effect of leverage on ROA underscores the sensitivity of asset efficiency to debt accumulation in emerging markets. The mixed results for ROE highlight a critical distinction between accounting profitability and shareholder returns: while leverage can temporarily enhance equity returns, it simultaneously increases firm risk and financial fragility. This trade-off becomes especially evident during periods of economic uncertainty, such as the COVID-19 shock observed in 2020.

The results are broadly consistent with prior empirical studies conducted in emerging market settings, which frequently report negative or non-linear effects of leverage on firm performance. Compared to firms in developed economies, ASEAN firms appear more vulnerable to the adverse consequences of high leverage, likely due to institutional factors such as weaker creditor protection, currency risk exposure, and reliance on short-term bank loans. Moreover, cross-country variation within the sample acknowledges that firms operating in more financially developed ASEAN economies are better positioned to manage leverage efficiently and sustain performance.

Table 6. Robustness Checks and Model Diagnostics

Variable	(1) ROA (Baseline FE)	(2) ROA (Lagged Leverage FE)	(3) ROE (Baseline FE)
DER	−0.018*** (0.006)	—	0.012 (0.009)
DER (t−1)	—	−0.015** (0.006)	—
DAR	—	—	−0.094** (0.041)
SIZE	0.007** (0.003)	0.006** (0.003)	0.015** (0.006)
Constant	−0.156 (0.092)	−0.142 (0.089)	−0.372** (0.181)
Firm Fixed Effects	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes
Observations	50	40	50
Number of Firms	10	10	10

R-squared (within)	0.42	0.39	0.31
Hausman Test (FE vs RE)	$\chi^2 = 12.84^{**}$	—	$\chi^2 = 9.21^{**}$

Notes:
Robust standard errors are reported in parentheses.
**** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.*

Model (1) reports the baseline fixed-effects regression with contemporaneous leverage. Model (2) introduces lagged leverage to mitigate potential endogeneity concerns. Model (3) estimates the effect of leverage on return on equity. The Hausman test statistics indicate that the fixed-effects specification is preferred over the random-effects model.

From a managerial perspective, these findings suggest that firms should avoid aggressive debt strategies and instead aim to maintain a balanced capital structure aligned with their operational capacity and risk tolerance. While leverage may offer short-term benefits in terms of equity returns, excessive debt undermines long-term asset efficiency and financial stability. For policymakers, the results highlight the importance of strengthening capital market infrastructure, promoting equity and bond market development, and reducing structural dependence on bank-based financing. Such reforms could help firms diversify their financing sources and mitigate the negative performance effects associated with high leverage.

The empirical findings provide robust evidence that capital structure constitutes a critical determinant of firm performance within ASEAN economies. Specifically, higher leverage ratios are consistently associated with diminished asset-based profitability, whereas their effect on equity returns exhibits variability contingent upon firm-specific and contextual factors. These results lend support to the applicability of the trade-off theory in emerging market settings and highlight the necessity for carefully calibrated financing strategies to strengthen corporate resilience and sustain long-term performance.

4. CONCLUSION

This study investigates the effect of capital structure on firm performance by employing a balanced panel dataset of publicly listed non-financial firms across selected ASEAN countries over the 2019–2023 period. In doing so, it contributes empirical insights from an emerging market setting marked by institutional heterogeneity and varying levels of financial market development. The results demonstrate that capital structure is a key determinant of firm performance. In particular, leverage is found to have a consistently negative and statistically significant association with asset-based profitability, proxied by return on assets. This finding implies that, within the ASEAN context, the marginal costs of debt financing encompassing interest burdens, elevated financial risk, and the likelihood of financial distress tend to surpass the benefits derived from tax shields once leverage exceeds optimal thresholds.

Conversely, the relationship between leverage and return on equity appears weaker and less uniform, suggesting the presence of a financial leverage effect in which debt may temporarily enhance shareholder returns while concurrently amplifying earnings volatility and exposure to downside risk. The analysis further indicates that firm size plays a moderating role, with larger firms demonstrating a greater capacity to utilize

leverage efficiently. This advantage can be attributed to economies of scale, more favorable access to external financing, and stronger negotiating power with creditors.

Collectively, these findings lend empirical support to the trade-off theory within the ASEAN context and emphasize the importance of maintaining a well-balanced capital structure. This is particularly salient in emerging markets, where institutional limitations and vulnerability to macroeconomic fluctuations remain significant. From a managerial perspective, the results underscore the need to align financing decisions with long-term operational sustainability rather than short-term enhancements in equity returns. From a policy standpoint, the study highlights the importance of fostering deeper, more diversified, and resilient capital markets to mitigate excessive dependence on debt financing and to strengthen overall corporate stability.

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