CHAPTER V

CONCLUSION AND RECOMMENDATIONS

5.1 Research conclusions

The primary objective of this research is to examine the impact of capital structure on the profitability of publicly traded firms on the Ghana Stock Exchange over a span of two decades, spanning from 2002 to 2021. The study centred on all enterprises that were officially registered and maintained a favourable status within the period spanning from 2002 to 2021, including financial institutions. Irrespective of the unique characteristics of financial report preparation of financial institutions. Per the observation of the financial statements of these institutions, their capital structure which is the main focus has element of debt. The study moreover, did not look at profitability comparison but the interplay of capital structure and profitability. The present chapter provides a concise overview of the primary outcomes of the investigation and underscores the significance of the study's contribution to the current corpus of knowledge on the subject matter. Additionally, potential avenues for future research are proposed.

The discourse surrounding capital structure, which was initiated by the capital structure irrelevance theory proposed by Modigliani (1988), remains a topic of ongoing debate. Several theories have been proposed to determine the optimal capital structure of a firm and its impact on profitability. These theories include the trade-off theory, pecking order theory, signalling theory, Agency cost theory, and market timing theory. However, these theories have conflicting predictions and conclusions. Although the capital structure irrelevance theory was revised by Modigliani and Miller (1963) to account for real-world circumstances, the discussion on this topic persists. Theoretical frameworks such as the trade-off theory, Agency cost theory, and the market signalling theory posit that there exists a positive correlation between profitability and debt.

Numerous empirical studies have been undertaken to assess the veracity of these theories. However, the existing evidence is inconclusive, with contradictory findings necessitating additional investigation. The findings of the analysis indicate that companies that are enlisted on the stock exchange of Ghana exhibit relatively elevated levels of debt ratios in comparison to other developing nations. Regarding corporate structure, companies listed on the Ghana Stock Exchange tend to rely more heavily on debt financing, both long-term and short-term, as opposed to equity capital due to its ease of acquisition.

The present study makes a contribution to the extant finance literature in distinct manners. the study evaluates the impact of capital on profitability through the utilization of pertinent financial ratios.

Problem 1

The present research investigated the correlation between the capital structure and profitability of companies listed on the GSE during a span of two decades, from 2002 to 2021. The study's results indicate a significant association between long-term debt-to-equity ratio (LTDER) and return on equity (ROE), implying that prosperous enterprises tend to utilize higher levels of long-term debt as a means of funding their activities. The results revealed a significant negative correlation between long-term debt-to-equity ratio (LTDER) and return on assets (ROA). The regression analysis indicates a statistically significant positive association between the Debt-to-Asset Ratio (DAR) and Return on Equity (ROE), as well as between total debt and profitability. This suggests that profitable businesses rely more heavily on debt as a source of funding. The findings of the present investigation indicate that a rise in the Debt to Asset Ratio (DAR) has a negative impact on profitability. However, certain theoretical frameworks, such as the Trade-off theory, posit that an escalation in debt should result in a corresponding increase in profitability until a certain threshold is reached, beyond which profitability begins to decrease. Thus, the findings of this research may indicate that the adverse impact of elevated debt levels may surpass the favourable impact of debt on profitability. Subsequent research endeavours pertaining to this particular topic have the potential to unravel the various impacts stemming from varying degrees of indebtedness, as well as scrutinize the plausible threshold effect of debt-to-equity ratios on the overall profitability of an entity.

The findings indicate that Long-term debts to equity (LTDER) are advantageous for firms listed in Ghana. As a result, managers may want to consider the Trade-off theory, which emphasizes the benefits of saving taxes and other costs, over the Pecking Order theory, which prioritizes cheaper sources of financing.

Organizations have the option to augment their debt by amassing additional tangible assets to enhance their collateral level, or by elevating the sales revenue level to signify growth for acquiring more long-term debts. Companies may also choose to implement a strategy of distributing a significant portion of their earnings to shareholders in the form of high dividend payouts. The proposed action would result in a decrease in the level of retained earnings. However, it is expected to enhance investor confidence, leading to an appreciation in the company's share price. Additionally, this would enable the company to present a credible cashflow statement, which could facilitate the issuance of more debt. Subsequent research endeavours pertaining to the domain of capital structure and profitability may undertake an evaluation of the ramifications of disbursing dividends on the profitability of a firm.

Problem 2

What is the moderating impact of firm size on the association between capital structure and profitability, while controlling for growth, among the firms listed on the Ghana stock exchange during the period of 2002-2021. The study concludes by examining the moderating impact of firm size on the association between capital structure and profitability, while controlling for growth. The panel data analysis reveals a positive and significant relationship between long-term debt to equity ratio (LTDER) and return on equity (ROE). Specifically, the results indicate a favourable correlation between LTDER and ROE, whereby an increase in LTDER is associated with a corresponding increase in ROE. There exists a negative correlation between LTDER, ROA, and NPM. There exists a correlation between higher long-term debt-to-equity ratio (LTDER) and reduced return on assets (ROA) and net profit margin (NPM). The enduring nature of the positive correlation between debt capital and investor confidence may be attributed to the indication that debt obligations can be met through positive cash flow, as posited by (Nariswari & Nugraha, 2020).

By utilizing higher levels of long-term debt to fund assets and paying interest, the corporation can potentially enhance the value of the company. Furthermore, in accordance with the Signalling hypothesis, which posits that the utilization of debt by a firm to fund its activities is perceived by investors as a favourable indication, as they infer that the firm is deemed creditworthy by financial institutions and has convenient access to loan facilities. The capital structure strategies necessitate a trade-off or balance between risk and reward. The risk in question pertains to the exposure of the business, specifically with regard to borrowing funds. The level of indebtedness has a direct impact on the level of risk exposure for a firm, whereby a higher debt load increases the likelihood of risk and also the potential for higher returns.

According to the trade-off hypothesis, corporations are required to achieve an optimal capital structure by weighing the potential risks and returns involved. The profitability of a firm can be enhanced by an escalation in debt, particularly when the debt level is relatively low, owing to the tax-shield effect that enables the company to derive tax deductions for interest payments. Consequently, it has the potential to improve the financial performance of the enterprise. Nevertheless, the likelihood of encountering financial difficulties increases as debt levels surpass the optimal capital structure. This phenomenon poses a challenge to scholars who study capital structure, as it suggests that these actions run contrary to the optimal interests of shareholders, yet persist regardless. The precise underlying factor responsible for the decrease in stock prices remains ambiguous.

In conclusion, based on the information presented, it can be inferred that it is imperative for all publicly traded corporations to meticulously evaluate their capital structure. The decision holds great importance as it impacts the ability of an organization to effectively address its competitive surroundings and also entails the need to maximize benefits for various stakeholders within the organization.

Research recommendations

Future researches should endeavour to expand the scope of their research beyond listed companies not solely to companies that are publicly traded on the Ghana stock exchange and have a listing history of 20 years. Non-listed firms are should be incorporated within this classification. The generalizability of this outcome to encompass the profitability of all firms in Ghana is limited. In subsequent research endeavours, it may be viable to incorporate unlisted enterprises in order to comprehend the impact of their financial framework on their profitability.

The scope of this study is restricted to a sample of 15 publicly listed companies that have maintained a listing history of 20 years, spanning from 2002 to 2021. It is recommended that reduction of the analysis could be achieved by shortening the period and increasing the sample size. The relevance of the numbers is expected to have an impact on the decisions related to both debt and equity financing. Subsequent investigations pertaining to the aforementioned inquiry ought to be predicated on the sector in question, given that each sector may possess a distinct financing composition that is most suitable. Subsequent research endeavours could also undertake a comparative analysis of analogous enterprises vis-à-vis those of other nations within the identical conceptual framework. Incorporating multiple stock exchanges in the analysis could enhance comprehension and mitigate the potential for sample size selection bias that may arise from solely considering companies listed on a single exchange.

In addition to relying on the outcomes derived from the regression model, it is recommended to conduct a survey to supplement the findings. The survey has the potential to provide valuable insights as it allows for the managers of the selected companies to express their perspectives on the impact of capital structure on profitability and the financing strategies employed by their respective organizations. In addition, it is noteworthy that managers possess valuable insights pertaining to their respective organizations, which may have significant implications for the perception of debt providers and ultimately impact the cost of debt. Subsequent investigation pertaining to the aforementioned inquiry ought to be predicated on the sector, given that each sector may possess a distinct financing composition that is most suitable. Subsequent research endeavours may involve contrasting analogous enterprises with those from other nations within the identical framework. Inclusion of multiple stock exchanges in the analysis may enhance comprehension and mitigate the potential for sample size selection bias that may arise from restricting the analysis to companies listed on a single stock exchange. In addition to utilizing the outcomes derived from the regression model, it is advisable to conduct a survey in order to supplement the findings. The survey has the potential to provide valuable insights as it enables the managers of the selected companies to express their perspectives on the impact of capital structure on profitability and the financing strategies employed by their respective organizations. Moreover, managers possess crucial information regarding their firms that may have implications on the perception of debt providers, potentially influencing the cost of debt.

The study's contributions will be discussed in this section. The present study has conducted an analysis on the impact of capital structure on the profitability of firms that are listed on the Ghana Stock Exchange during the period of 2002 to 2021. The study employed the common effect with GLS panel regression technique to carry out the analysis. This study makes several contributions to the existing financial literature. Initially, prior studies carried out in Ghana focused on various industries that displayed distinct structures. The reason for this is that various industries exhibit distinct operational characteristics, varying levels of earnings before interest, diverse asset structures, and other relevant factors. The aforementioned dissimilarities are interrelated with the variations in the capital structure of each industry mentioned. The study conducted by Ross et al. (2014) centred on examining the impact of variations in profitability across industries on the capital structure of publicly traded companies. The study conducted by the researcher involved an examination and evaluation of the impact of industry sector differences on the capital structure and profitability trends of companies that are publicly traded on the Ghana stock exchange.

This addressed the gap in the literary canon. This study utilized a comprehensive set of capital structure indicators, namely DER, DAR, and LTDER, and assessed profitability through ROA, ROE, and NPM, while controlling for growth and moderating for firm size. This approach was adopted due to the limited number of indicators used in prior research. The application of this framework to a broad context provided a compelling viewpoint, as it elucidated the moderating impact of firms' profitability as a performance metric on their expansion. This facilitated a more comprehensive examination of the matter.

The study is distinguished by its novelty. Specifically, the research encompasses a comprehensive sample of all companies listed on the Ghana stock exchange over a 20-year period (2002 to 2021). This approach was taken to facilitate a thorough analysis and to minimize potential biases in estimations. The fourth aspect of this study pertained to the timeframe during which the COVID-19 pandemic was prevalent. This temporal context was significant in that it influenced the nature of exchange transactions, resulting in a reduction of listed companies from 37 to 29 over the course of the reviewed period.

Institutions: The present study has contributed to the improvement of the operational activities of all firms enlisted on the Ghana stock exchange by accurately uncovering the interrelationships among the capital structure and debt components. Moreover, this research can serve as a valuable tool for investors in selecting securities on the Ghana Stock exchange. Specifically, investors can compare the performance of the companies, the current market conditions, and the future prospects in terms of profit, growth, and dividend payment to assess the level of risk associated with their investment decisions.

Policy makers: The results of this study would furnish a comprehensive foundation for GSE information users to make informed economic decisions. This would constitute a valuable contribution to the extant literature and would aid in informing future research endeavours. Finally, the results of this study would provide additional advantages that can be obtained by publicly traded corporations.

Academicians: This research will serve as a guide to other researchers to to do more thorough research to unravel the difficulty behind achieving an optimal capital structure