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The Impact of Capital Structure on Firm Performance and Shareholder Wealth: A Systematic Review of Empirical Evidence

Yukta Jadaun*
Department of Commerce, IIS (Deemed to be University), Jaipur, India.
***Corresponding author:** jadaunyukta@gmail.com

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Abstract:
Purpose – *The purpose of the study is to review the existing literature on capital structure, financial performance and shareholders' wealth and to examine the relationship between capital structure decisions, financial performance and shareholders' wealth as reported in the previous study in order to identify trends, inconsistencies, and research gaps in the existing literature which provides insight for future research.*
Design/methodology/approach– *The study adopts a systematic literature review (SLR) approach to examine 30 peer reviewed articles and refereed journal papers focused on capital structure, financial performance, and shareholder wealth.*
Findings– *Capital structure influences firm performance and shareholder wealth, yet empirical results are mixed and studies have shown scarcity of direct measuring shareholder's wealth. Most of the research has been conducted on international level which highlights the research gap on domestic level and targets the need for future research.*
Practical implications– *Policymakers and regulators should encourage improved disclosure and standardized measures of shareholder wealth to better assess the consequences of capital structure policies. The identified lack of domestic (Indian) studies also calls for targeted empirical research to inform local corporate governance and financing guidelines.*
Originality/value– *The review provides a comprehensive synthesis of 30 empirical studies, identifies inconsistent effects of leverage, and uncovers two key gaps — limited Indian context research and sparse use of shareholder wealth metrics — thereby setting a clear research and policy agenda to better align capital structure decisions with shareholder value.*

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Introduction

Financing decisions constitute as the most crucial function in corporate financial management. Every Organization needs sufficient funds to undertake daily operational activities, to invest in expansion, to acquire assets, and remain competitive over the long term. How a company secures these funds has a major impact on its cost of capital, profitability, risk level, and market value. As a result, financial managers should choose the best combination of sources that minimize the cost of capital and maximizes the shareholder's wealth.

Among numerous financial decisions, financing decisions are prime because they determine the balance between debt and equity used to fund the firm. A well-designed financing strategy can reduce

the financing cost and can help in optimum utilization of resources, whereas an inapt financing mix may raise financial risk and can harm the performance of the company. Therefore, understanding the consequences of financing decisions has become a major area of interest for the researchers, practitioners, and policymakers in corporate finance.

Capital structure arises from these financing choices and denotes the relative proportions of debt and equity a firm uses to finance its assets and operations. Because capital structure influences both financial results and shareholder wealth, it has become one of the most widely debated subject in financial management. Various theoretical and empirical studies have explored how capital structure relates to financial performance and shareholder wealth, but conclusion varies across industries, countries and time frame. Therefore, a rigorous review of the literature is necessary to clarify these relationships and suggest avenues for future research. This study aims to provide an extensive literature review on capital structure, financial performance and shareholder's wealth.

The Objectives of the study are:

- To review the existing literature on capital structure, financial performance and shareholders' wealth.
- To examine the relationship between capital structure decisions, financial performance and shareholders' wealth as reported in previous studies.
- To identify trends, inconsistencies, and research gaps in the existing literature.
- To provide suggestions for future research in this area.

On the basis of these objectives, we have focused on the following research questions:

RQ1: What insights does the existing literature provide about the relationship between capital structure financial performance and shareholders' wealth?

RQ2: What key findings and conclusions have previous researchers reported on this relationship?

RQ3: What research gaps and inconsistencies are present in the current body of literature?

RQ4: What future research directions can be suggested based on the reviewed studies?

Concept of Capital Structure

Mint Ha and Minh Tai (2017) describe capital structure as the proportions of debt and equity within a company's total capital, comprising short-term debt, long-term debt, and equity. Pandey (2010) defines capital structure as the different ways a firm can be financed, specifically the relative mix of debt and equity. Pandey (2010) also emphasizes that capital structure is an important managerial decision because it affects shareholders' returns and risks, since the market value of shares can be influenced by financing choices. According to Pandey, corporate managers should address several questions when setting capital structure: How should a project be financed? Does the financing method matter? How does financing affect shareholders' risk, return, and value? Is there an optimal financing mix that maximizes shareholder value? Can such an optimal mix be identified in practice for a specific company? What practical factors should a firm consider when designing its financing policy?

Concept of Financial Performance

Financial performance refers to how effectively a company uses its resources to achieve its financial objectives and generate revenue from operations. It measures the overall financial health of a business and its ability to produce profits while managing revenues, expenditures, and assets efficiently. It offers a measurable overview of a company's overall economic condition, helping investors, managers, and creditors assess past achievements and predict future expansion. To assess where a company stands, financial performance is assessed using three fundamental elements: the income statement, balance sheet, and cash flow statement.

Concept of Shareholder's Wealth

Shareholders' wealth refers to the market value of stockholder's investment in a company and it is typically represented by share price appreciation and dividend received. It captures the value created for proprietor of the company as a consequence of managerial and financial choices. It is reflected in the market value of equity and is raised through increment in share price and with distribution of dividend. The key purpose of corporate financial management is to maximize the shareholder's wealth as it indicates the firm's overall creation and its success.

Theoretical Framework

Through multiple theories of corporate finance the relationship between capital structure, financial performance and shareholders' wealth has broadly been explored. These frameworks propose varied explanations on how financing choices affect firm value, profitability, and investor returns. With the passing years, scholars developed several theoretical models to demonstrate the choice between debt and equity financing and the consequences for performance of the organization. The present review focuses upon five prominent theories that have significantly contributed to the understanding of capital structure decisions, namely the Modigliani and Miller Theory, Trade-off Theory, Pecking Order Theory, Agency Theory, and Signaling Theory that together form the conceptual basis for examining links among capital structure, financial performance, and shareholders' wealth.

- **Modigliani–Miller Theory**

The Modigliani–Miller (M&M) theory (1958) states that under perfect market conditions (no taxes, bankruptcy costs, or information asymmetry, and with efficient markets), a firm's value is unaffected by its mix of debt and equity. Firms cannot increase their value merely by altering their capital structure. This "capital structure irrelevance" principle set the baseline for later theories that account for real-world factors like taxes, distress costs, and agency problems.

- **Agency Cost Theory**

Agency Cost Theory describes conflicts between owners and managers that arise when control is separated from ownership. Managers may pursue personal goals that reduce shareholder value, creating agency costs. Jensen and Meckling (1976) suggest debt can curb this by forcing fixed interest payments, lowering free cash flow for discretionary use and restraining unprofitable managerial actions—thereby aligning managers' behavior with shareholders and potentially boosting firm value.

- **Trade-Off Theory**

Trade-Off Theory says firms choose debt levels by weighing debt's benefits against its costs. The primary benefit of debt is the tax saving which arises through interest tax deduction (Modigliani & Miller, 1963), while higher debt raises the risk and costs of financial distress. The firm aims to achieve optimal leverage where the extra tax benefit of additional debt equals the rising marginal cost of distress, maximizing firm value.

- **Pecking Order Theory**

Pecking order theory states that firms prefer hierarchical order of financing sources. First preference is given to internal funds, then debts are used if needed and equity is issued as a last resort. Myers (1984) argued equity is preferred less because it can signal that managers think the firm is overvalued, which may reduce the market value of the firm.

- **Signaling Theory**

Signaling Theory (Ross, 1977) says managers send signals to the market through financing choices when they have more information than investors. Choosing debt often signals confidence in future cash flows, while issuing equity can be seen as a negative signal—implying shares might be overvalued or future performance is weak.

Literature Review

Fink (2005) argues that a literature review should follow a systematic method, clearly describe the procedures used, and be comprehensive in covering all relevant material on the topic.

Literature Selection Criteria

The literature for the current review was drawn from peer-reviewed journals, research articles, conference papers, and academic databases, including Google Scholar, Scopus, Science Direct, EBSCO, Emerald, Springer, and JSTOR. Selected studies focused on capital structure, leverage, debt–equity decisions, firm value, and shareholders' wealth. To apprehend both foundational and recent work, we considered publications from 2006 to 2025, we prioritized empirical studies to access the relation between capital structure, financial performance and shareholders' wealth across different industries and countries. We began with searching keywords for our paper but narrowed the pool because many retrieved information was not relevant. Therefore, we established delimiting criteria to screen the literature.

These criteria was given as:

- We considered only papers published in peer-reviewed academic journals.
- Papers were collected for a span of 19 years (2006-2025)
- Only studies with full-text access were considered.
- Preference were given to well-cited papers.

Description and Classification of Literature

The collected papers were analyzed in this section on the basis of year of publication, Methodology used, Sector studied, Country studied, and citation found.

Analysis by Year of Publication

The literature reviewed for the current study covers the data from 2006-2025, which is nearly two decades of scholarly research on capital structure, financial performance and shareholders' wealth. Year-by-year patterns show rising academic interest in how financing choices affect shareholder value. The study showed more focus on testing traditional capital-structure theories and the effects of debt–equity choices on firm performance during 2006-2010. In the period of 2011-2015 researchers were more focused on empirical studies, examining leverage's impact on shareholder wealth across industries and emerging markets. Between 2016 & 2020 a marked expansion was seen in literature with greater prominence on sector specific studies, firm characteristics, and market conditions influencing capital structure decision. During 2021-2025 researchers employed advanced statistical methods and larger datasets to study the evolving links among capital structure, firm value, and shareholder wealth. Overall, research has shifted from theoretical debate toward more rigorous empirical analysis, underscoring the practical importance of optimal financing decisions for enhancing shareholder wealth.

Years	Papers
2006-2010	1
2011-2015	17
2016-2020	10
2021-2025	2
Total	30

Analysis by Research Methods and Settings

Most reviewed studies used quantitative methods, applying statistical and econometric techniques—regression analysis, panel data models, correlation analysis, and similar tools—to investigate relationship between capital structure, financial performance, and shareholders' wealth. Only a few studies relied on conceptual or theoretical approaches.

Articles by Industry Studied

The reviewed literature covers vast assortment of industries and market contexts including manufacturing, automobile, textile, banking, FMCG, and other non-financial sectors. In addition to that many studies looked into firms listed on major stock exchanges that assess capital structure effects from a market perspective. This industry and market diversity shows that capital structure's impact differs by sector, reflecting variations in operating characteristics, financing needs, risk profiles, and growth prospects. This broad coverage enhances our understanding of how financing choices affect financial performance and shareholder wealth under varying industrial and market conditions.

Analysis by Country Studied

The reviewed studies cover wide set of countries including India, Sri Lanka, Pakistan, Bangladesh, Indonesia, Malaysia, Vietnam, Nigeria, Ethiopia, Kenya, Jordan, Saudi Arabia, the United Kingdom, Romania, Iran (Tehran), Turkey (Istanbul), and Bahrain. Majorly the research is concentrated on emerging and developing economies, reflecting heightened interest in how capital structure affects shareholder wealth across varied financial settings. Distribution on the basis of countries highlight that economic conditions, market structures, and regulatory environments visibly influence financing conclusions and impacts the shareholder's value.

Country	No. of Articles
Sri Lanka	3
Bangladesh	1
India	2
Pakistan	4

Indonesia	1
Malaysia	2
Vietnam	2
Nigeria	3
Ethiopia	1
Kenya	3
Jordan	1
Saudi Arabia	1
United Kingdom	1
Romania	1
Iran (Tehran)	1
Turkey (Istanbul)	1
Bahrain	1
Not Mentioned	1

Citation Analysis

Citation analysis highlights the most influential works in the area of capital structure and shareholders' wealth. The literature shows strong attention to both classic theoretical papers and recent empirical studies, and we have given main preference to well cited papers in order to understand the relationship between financing decisions, firm value, and shareholder wealth. Overall citation trends confirm that capital structure remains a central research topic, with scholars continually extending prior findings across industries, countries, and market conditions.

S. No.	Author	Citations
1.	Salim and Yadav (2012)	1048
2.	Vătavu (2015)	462
3.	Ramli, Latan, and Solovida (2018)	448
4.	Pratheepkanth (2011)	406
5.	Mwangi, Makau, and Kosimbei (2014)	402
6.	Chadha and Sharma (2015)	373
7.	Pouraghajan and Malekian (2012)	367
8.	Nirajini and Priya (2013)	350
9.	Chinaemerem and Anthony (2012)	326
10.	Maina and Ishmail (2014)	273
11.	Al-Taani (2013)	269
12.	Nassar (2016)	252
13.	Nguyen, H. T., & Nguyen, A. H. (2020)	233
14.	Adesina, Nwidobie, and Adesina (2015)	222
15.	Azhagaiah and Priya (2008)	212
16.	Ullah et al. (2020)	195
17.	Ngoc, N. M., Tien, N. H., & Thu, T. H. (2021)	155
18.	Ajibola, Wisdom, and Qudus (2018)	133
19.	Mujahid and Akhtar (2014)	127
20.	Birru (2016)	120
21.	Rahman, Sarker, and Uddin (2019)	114
22.	Mumtaz et al. (2013)	111
23.	Khan et al. (2013)	109
24.	Twairesh (2014)	108
25.	Orichom and Omeke (2021)	84
26.	Logavathani and Kengatharan (2018)	78
27.	Vuong, Vu, and Mitra (2017)	71
28.	Alwan and Risman (2023)	65
29.	Gharaibeh (2015)	54
30.	Mboi, Muturi, and Wanjare (2018)	35

Review of Previous Studies

Nirajini and Priya (2013) studied 11 Sri Lankan listed trading firms (2006–2010) using correlation and regression to assess how capital structure affects performance. They found a positive, significant link: higher debt-equity, debt-asset, and long-term debt ratios were associated with better profitability (GPM, NPM, ROCE, ROA, ROE). The study concludes that sound capital structure decisions can boost profitability and overall financial performance.

Vătavu (2015) analyzed 196 Romanian manufacturing firms on the Bucharest Stock Exchange (2003–2010) using panel regressions. The study found that equity financing improves performance, while total and short-term debt reduce ROA and ROE. Firms with more tangible assets showed lower profitability, implying poor asset utilization. Overall, Romanian firms rely mainly on equity and use debt during distress, so lower leverage is associated with better financial performance.

Adesina, Nwidobie, and Adesina (2015) studied 10 quoted Nigerian banks (2005–2012) using OLS regression and found both debt and equity positively and significantly affected profit before tax. Capital structure explained 87.5% of performance variation, suggesting an optimal debt–equity mix boosts bank profitability and overall financial performance.

Chinaemerem and Anthony (2012) analyzed 30 non-financial Nigerian firms (2004–2010) with OLS regression and found higher debt ratios significantly reduced ROA and ROE. Asset turnover improved performance, while greater asset tangibility lowered profitability, implying poor fixed-asset use. The study concluded capital structure crucially affects performance and excessive debt harms profitability, consistent with Agency Cost Theory.

Nassar (2016) studied 136 industrial firms on the Istanbul Stock Exchange (2005–2012) using regression analysis and found higher debt ratios significantly lowered ROA, ROE, and EPS. The study concluded that capital structure strongly influences performance and that excessive debt harms profitability and shareholder returns.

Alwan and Risman (2023) used random-effects panel regression on 9 Indonesian agricultural firms (2016–2020) and found that a higher Debt-to-Equity Ratio significantly lowers firm value (Tobin's Q), while better performance (ROA) significantly raises firm value. Company growth (total asset growth) had no significant effect. They conclude that excessive debt erodes value through interest, agency, and bankruptcy costs, whereas strong profitability signals attract investors and boost shareholder wealth.

Mumtaz et al. (2013) studied 83 KSE-100 firms (2006–2009) using EGLS and found higher debt-equity ratios significantly reduced ROA, ROE, and EPS. Increased leverage also lowered market value (P/E) and raised firm risk (equity return volatility). The study concludes that capital structure strongly affects performance and that excessive debt harms profitability, market valuation, and risk profile.

Ramli, Latan, and Solovida (2018) used PLS-SEM on 7,819 firm-year observations from Malaysia and Indonesia (1990–2010) and found that firm- and country-specific factors (asset structure, growth opportunities, non-debt tax shields, interest rates) significantly affect financial performance. Only Malaysian firms showed a positive leverage–performance link. The authors conclude that capital structure effects vary by country and recommend keeping debt under 45% to preserve and improve performance.

Pratheepkanth (2011) analyzed 30 Colombo Stock Exchange firms (2005–2009) with correlation and regression and found a weak negative link between capital structure and overall performance ($r = -0.114$). Leverage was negatively related to net profit, ROI, and ROA, and only weakly positively related to gross profit. The study concludes that capital structure has an insignificant negative effect on performance and that heavy reliance on debt raises interest burdens, hurting profitability.

Birru (2016) used fixed-effect panel regression on 8 Ethiopian commercial banks (2011–2015) and found the debt ratio positively influenced ROA and ROE. However, debt-to-equity ratio and bank size were negatively associated with ROA, and asset tangibility reduced both ROA and ROE. Loan-to-deposit ratio had no significant effect. The study concludes that capital structure matters for bank performance and advises careful management of debt, expansion resources, and fixed-asset investment.

Ajibola, Wisdom, and Qudus (2018) used panel OLS on 10 quoted Nigerian manufacturers (2005–2014) and found long-term debt and total debt ratios significantly increased ROE, while all leverage measures had negative but insignificant effects on ROA. They conclude capital structure

positively affects performance (with ROE a more responsive metric than ROA) and recommend prioritizing long-term debt to boost profitability and sustain operations.

Maina and Ishmail (2014) used panel regression on all Nairobi Securities Exchange firms (2002–2011) and found debt–equity ratio negatively and significantly affected ROA, while capital structure had little effect on ROE and Tobin's Q. Asset tangibility was negatively related to all performance measures, and firms relied more on short-term than long-term debt. The authors conclude that excessive leverage harms performance and recommend prudent management of debt levels.

Gharaibeh (2015) used OLS on 17 non-financial Bahrain Bourse firms (2009–2013) and found total liabilities-to-assets significantly increased ROE but had no effect on ROA, EPS, or dividend yield. Lagged inflation negatively affected ROA, ROE, and EPS, while GDP growth reduced EPS only. The study concludes that capital structure partly influences performance—debt raises equity returns—and advises firms to account for macroeconomic factors when managing capital structure.

Khan et al. (2013) used OLS on 69 Karachi Stock Exchange textile firms (2003–2009) and found debt-to-equity, ROE, cash-flow ratio, EPS, and times-interest-earned all positively and significantly related to stock returns. They conclude that capital structure and financial performance meaningfully influence textile stock returns and recommend government incentives and subsidies to stabilize and boost industry returns.

Logavathani and Kengatharan (2018) used fixed and random effects on 10 Sri Lankan banks (2007–2016) and found total debt-to-assets negatively and significantly affected ROA and ROE, while short- and long-term debt had no significant effects. Deposit growth positively influenced both performance measures; bank size did not. They conclude that heavy debt reliance harms bank performance and recommend prioritizing internal financing, aligning with pecking order theory.

Vuong, Vu, and Mitra (2017) analyzed 739 large UK firms (2006–2015) using panel regressions across ten sectors and found long-term liabilities reduced ROA and ROE, while short-term liabilities and leverage did not significantly affect EPS. Larger firm size boosted ROA, ROE, and EPS, and the 2008 crisis altered short-term debt's link with Tobin's Q. They conclude that excessive long-term debt hurts profitability, effects vary by industry, and firms should manage debt composition carefully.

Nguyen, Tien, and Thu (2021) used multiple panel models on 30 HOSE logistics firms (2012–2019) and found total debt-to-assets significantly reduced ROA, while capital structure had no clear effect on ROE. Tangible assets improved both ROA and ROE, and higher liquidity lowered profitability. They conclude excessive debt harms logistics firms' profitability and recommend managing leverage, boosting tangible investment, and keeping appropriate liquidity.

Chadha and Sharma (2015) used fixed-effect panel regression on 422 Indian manufacturing firms (2003–2013) and found leverage did not affect ROA or Tobin's Q but significantly reduced ROE. Firm size, age, sales growth, asset turnover, and ownership structure also shaped performance, and the 2008–09 global recession harmed firm outcomes. They conclude capital structure only partly explains performance and advise managers to weigh leverage alongside firm-specific factors.

Al-Taani (2013) analyzed 45 Jordanian manufacturing firms (2005–2009) using multiple regression and found short- and long-term debt ratios were negatively but insignificantly related to ROA and profit margin. Total debt-to-equity was positively linked to ROA but negatively to profit margin. The study concludes capital structure is not a significant driver of performance in Jordan and recommends cautious use of debt, favoring retained earnings per pecking-order theory.

Mujahid and Akhtar (2014) analyzed 155 Pakistani textile firms (2006–2011) using regression and found that higher debt-to-equity ratios significantly improve financial performance (ROA, ROE) and increase shareholders' wealth (measured by EPS). They concluded that capital structure positively affects both performance and shareholder wealth in Pakistan's textile sector, and recommended that firms determine an optimal capital mix to lower the weighted average cost of capital and maximize firm value and shareholder returns.

Salim and Yadav (2012) analyzed 237 Malaysian firms (1995–2011) using panel regression and found that debt (short-term, long-term, total) significantly reduces accounting-based performance (ROA, ROE, EPS), while firm growth boosts performance. However, Tobin's Q was positively linked to debt, indicating market-based performance improves with leverage. They conclude that debt harms accounting

performance but aids market performance, recommending careful debt management to sustain profitability.

Ullah et al. (2020) studied 90 PSX-listed Pakistani textile firms (2008–2017) using random-effect panel regression. They found a significant negative link between debt-to-equity and ROE, while export and sales growth boosted performance. Firm size also reduced performance, whereas total debt-to-assets, asset turnover, and taxes were insignificant. The study concludes that excessive debt harms performance in Pakistan's textile sector and recommends stronger governance, an optimized debt–equity mix, and export-led growth to improve performance and stability.

Nguyen and Nguyen (2020) studied 488 Vietnamese non-financial firms (2013–2018), comparing SOEs and non-state firms using GLS regression. Higher debt ratios significantly reduced performance (ROA, ROE, EPS) in both groups, especially in SOEs. Firm size and sales growth improved performance, while higher fixed-assets ratios lowered it. They conclude that increasing leverage harms performance and recommend careful leverage management, scaling operations, and policy reforms to reduce state ownership and improve capital access.

Mwangi, Makau, and Kosimbei (2014) analyzed 42 non-financial firms on Kenya's Nairobi Securities Exchange (2006–2012) using FGLS panel regression. They found financial leverage significantly reduced ROE and insignificantly reduced ROA. Higher current liabilities to assets boosted ROA, while higher current assets to assets improved both ROA and ROE. The study concludes that greater leverage harms performance and recommends reducing long-term debt reliance, adopting aggressive short-term financing, and maintaining conservative current asset levels to improve performance.

Pouraghajan and Malekian (2012) analyzed 80 Tehran Stock Exchange firms across 12 industries (2006–2010) using Pearson correlation and multiple regression. They found a significant negative link between debt ratio and performance (ROA, ROE), meaning higher debt reduces profitability. Asset turnover, firm size, asset tangibility, and growth opportunities positively affected ROA and ROE, while firm age was insignificant. The study concludes that capital structure significantly determines performance in Iran and recommends lowering the debt ratio—averaging above 65% in the sample—to improve profitability and maximize shareholder wealth.

Twairesh (2014) analyzed 74 Saudi non-financial firms on TADAWUL (2004–2012) using fixed-effect panel regression and found that short-term, long-term, and total debt significantly reduced ROA, while only long-term debt significantly reduced ROE. Firm size improved ROA but had no effect on ROE. The study concludes that capital structure significantly impacts performance in Saudi Arabia, with leverage affecting accounting-based returns (ROA) more than equity-based returns (ROE), and recommends further research on debt maturity and ownership structures given the region's prevalence of family-owned firms.

Orichom and Omeke (2021) studied 64 Ugandan microfinance institutions using Spearman's correlation and multiple regression, grounded in agency theory. They found capital structure was not significantly related to financial performance, while credit risk management showed a strong positive link ($r = 0.535$, $\beta = 0.529$, $p < 0.01$). Together, the two factors explained 28.7% of performance variation ($R^2 = 0.287$), indicating that combining appropriate debt/equity levels with effective credit risk appraisal, monitoring, and mitigation improves outcomes. The study concludes that debt or equity structure alone doesn't drive performance; robust credit risk controls are essential, and recommends managers strengthen risk management while pairing it with sound capital structure decisions.

Mboi, Muturi, and Wanjare (2018) analyzed 90 Kenyan medium and large enterprises (2011–2016) using Pearson correlation and simple regression. They found that the short-term debt to total assets ratio significantly reduced both ROE ($\beta = -0.252$, $p = 0.003$) and ROA ($\beta = -0.119$, $p = 0.000$), explaining 1.7% and 4.7% of their variation respectively. The study concludes that higher short-term debt lowers financial performance and recommends reducing reliance on short-term debt, seeking cheaper funding alternatives, and negotiating better terms to improve profitability.

Rahman, Sarker, and Uddin (2019) studied 10 Dhaka Stock Exchange manufacturing firms (2013–2017) using fixed-effect regression. They found debt ratio and equity ratio significantly improved ROA, and equity ratio also boosted ROE, but the debt-to-equity ratio significantly reduced ROA, ROE, and EPS. The study concludes that while debt lowers capital costs and provides tax benefits, exceeding

the optimal capital structure harms profitability. It recommends manufacturing firms maintain a balanced capital structure to maximize shareholder wealth.

Azhagaiah and Priya (2008) analyzed 28 Indian organic and inorganic chemical firms (1997–2006) using multiple and stepwise regression, with DPS representing dividend policy and MPS representing shareholders' wealth. They found DPS significantly increased shareholders' wealth in organic chemical firms—the best model (with retained earnings and lagged market value) explained 80.46% of market value variance—while in inorganic firms, DPS alone did not significantly affect market value; retained earnings and lagged P/E were more important. The study also found dividend-paying firms had significantly higher market-to-book equity than non-paying firms ($t = 5.49$, $p < 0.01$). It concludes that dividend policy positively affects wealth in organic chemical companies but not in inorganic ones, and that wealth creation is driven more broadly by sales growth, profit margins, capital investment, capital structure, and cost of capital.

Findings

The reviewed literature highlights that capital structure plays crucial role in ascertaining firm performance and shareholders' wealth. Reviewed studies showed positive and negative relationship between firm performance and shareholder's wealth. Many times negative relationship has been seen between debt- equity and financial performance and few times positive relationship has been seen between firm's profitability and shareholder's wealth.

- **Studies Showing Positive Impact**
  - Nirajini and Priya (2013)
  - Adesina, Nwidobie, and Adesina (2015)
  - Ramli, Latan, and Solovida (2018)
  - Ajibola, Wisdom, and Qudus (2018)
  - Khan et al. (2013)
  - Birru (2016)
  - Gharaibeh (2015)
  - Mujahid and Akhtar (2014)
  - Azhagaiah and Priya (2008)
- **Studies Showing Negative Impact**
  - Chinaemerem and Anthony (2012)
  - Nassar (2016)
  - Mumtaz et al. (2013)
  - Pratheepkanth (2011)
  - Logavathani and Kengatharan (2018)
  - Vuong, Vu, and Mitra (2017)
  - Nguyen, Tien, and Thu (2021)
  - Chadha and Sharma (2015)
  - Al-Taani (2013)
  - Ullah et al. (2020)
  - Nguyen and Nguyen (2020)
  - Pouraghajan and Malekian (2012)
  - Mboi, Muturi, and Wanjare (2018)
- **Limited Research on Domestic Level:** A significant observation emerging from the reviewed literature is that most of the empirical studies has been carried out on international level such as Sri Lanka, Nigeria, Turkey, Pakistan, Malaysia, Vietnam, and Jordan etc. And a very few studies has been conducted on domestic or national level which creates a gap and indicates the necessity for future research in Indian context to deepen the understanding how financing decisions shape shareholder's value.

- **Limited Studies on Shareholder's Wealth:** Another important observation from the reviewed literature is that most of the studies are focused on financial performance indicators such as Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Tobin's Q, whereas limited studies are there on shareholder's wealth which creates a gap as there is limited evidence on how capital structure decisions translate into actual wealth gains for shareholders. So, it generates the need for future research.

Conclusion

The primary aim of this review was to identify and analyze the main characteristics of the literature on capital structure and shareholders' wealth to contribute a more in-depth understanding of the research domain. This was carried out by adopting a systematic literature review (SLR) approach. A set of peer-reviewed articles published during 2006–2025, pertaining to capital structure, leverage, debt–equity decisions, firm value, and shareholders' wealth, were identified and analyzed.

It was observed that the number of research articles on capital structure is increasing; however, profitability indicators (ROA, ROE, EPS, Tobin's Q) dominate the literature, while direct measures of shareholders' wealth remain underexplored. The major focus of existing research is on the relationship between capital structure, firm performance and shareholder's value. The literature indicates that moderate leverage can enhance performance and, in some contexts, shareholder value, though findings vary across industries and countries.

Researchers were reluctant to adopt diverse methods such as case studies, longitudinal analyses, or causal inference techniques (e.g., IV, GMM) to study capital structure practices and their wealth implications. From the complete discussion, it can be concluded that future researchers should break the monotony in their research purpose by prioritizing direct measures of shareholders' wealth, employing systematic theory building, and expanding coverage to under-researched sectors and emerging markets to set more insight into capital structure determinants and their impact on shareholder wealth.

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