A CASE STUDY OF THE IMPACT OF CAPITAL STRUCTURE ON CORPORATE PERFORMANCE OF ZHONGTAI MANUFACTURING

LI XIAOYANG

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LI XIAOYANG

This Independent Study Has Been Approved as a Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

Advisor.....
(Dr. Zhang Li)

Date: 27/ May/ 2015

.....
(Associate Professor Dr. Jomphong Mongkhonvanit)
Dean, Graduate School of Business

Date 10/ June/ 2015

Title: A Case Study of the Impact of Capital Structure on Corporate Performance of Zhongtai Manufacturing

Researcher: Li Xiaoyang

Degree: Master of Business Administration

Major: Financial and Accounting Management

Advisor: .....

(Dr. Zhang Li)

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ABSTRACT

Capital structure plays a critical role in determining corporate financial performance, particularly in capital-intensive industries such as manufacturing. As firms navigate financing decisions, the balance between debt, equity, and capital costs can significantly impact their profitability, growth, and stability. This study examined the relationship between debt ratio, equity financing, and cost of capital on corporate performance in China's manufacturing sector, providing empirical insights into how firms optimize their capital structures for sustainable financial success.

The objectives of this study were 1) to examine the impact of debt ratio on the corporate performance of Zhongtai Manufacturing, 2) to examine the impact of equity financing on the corporate performance of Zhongtai Manufacturing, 3) to examine the impact of cost of capital on the corporate performance of Zhongtai Manufacturing.

A quantitative research design was employed, using a structured questionnaire survey to collect data from 249 financial executives, CFOs, and senior managers in mid-sized and large manufacturing firms across China. A stratified random sampling approach was used to ensure diverse representation across firm ownership structures. Data were analyzed using descriptive statistics, Pearson correlation analysis, multiple regression analysis, and ANOVA to test the research hypotheses and determine the relationships between the independent and dependent variables.

The findings revealed that debt ratio negatively affected corporate performance, indicating that excessive reliance on debt reduces profitability due to high interest costs and financial risk. In contrast, equity financing positively influenced corporate performance, as firms with higher equity financing experience greater financial stability

and investment capacity. Additionally, cost of capital was found to have a negative impact on profitability, reinforcing the need for firms to minimize financing costs to sustain financial growth.

This study concludes that firms must strategically balance debt and equity financing while optimizing capital costs to achieve sustainable financial success. Firms should reduce excessive leverage, strengthen equity financing, and secure low-cost capital sources to enhance profitability Policymakers and financial institutions can support manufacturing firms by providing favorable credit policies, such as lower interest rate loans, tax incentives for equity issuance, and improved access to long-term financing. These measures can help reduce the cost of capital, ease liquidity constraints, and encourage firms to adopt a more balanced and sustainable capital structure. Future research should explore sectoral differences, SME capital structures, and cross-country comparisons to expand the understanding of capital structure optimization in different economic contexts.

Keywords: debt ratio, equity financing, cost of capital, corporate performance

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LI XIAOYANG

DECLARATION

I, LI XIAOYANG, hereby declare that this Independent Study entitled “A CASE STUDY OF THE IMPACT OF CAPITAL STRUCTURE ON CORPORATE PERFORMANCE OF ZHONGTAI MANUFACTURING” is an original work and has never been submitted to any academic institution for a degree.

(LI XIAOYANG)
Feb 21, 2025

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Chapter 1 Introduction

1.1 Background of the Study

Capital structure has long been a critical area of financial management research, as it directly influences corporate performance and long-term sustainability. The trade-off between debt and equity financing remains a key decision for firms, particularly in the manufacturing sector, where capital-intensive operations require substantial funding. The Trade-Off Theory suggests that firms seek to balance the benefits of debt, such as tax shields, against the risks of financial distress (Myers, 2022). Understanding how different financing choices affect corporate performance is essential for managers aiming to optimize their firms' financial health.

In the context of China's manufacturing industry, capital structure decisions are even more significant. Over the past decade, rapid industrialization and financial market reforms have provided firms with greater access to both debt and equity financing. However, due to regulatory constraints and the evolving nature of China's financial markets, firms often face challenges in determining the optimal capital structure (Li & Wang, 2023). Many Chinese manufacturing firms, including Zhongtai Manufacturing, have relied heavily on debt financing to support their expansion. While debt can enhance profitability through financial leverage, excessive reliance on debt increases the risk of insolvency, especially in economic downturns (Zhang & Liu, 2021).

Equity financing, on the other hand, provides firms with a relatively stable source of funding without the burden of interest payments. However, issuing new equity may dilute ownership and control, which can impact managerial decision-making and shareholder value (Chen & Zhao, 2022). In China, the preference for debt over equity has been a widely observed phenomenon due to the strong influence of state-owned banks and government-backed lending policies (Sun et al., 2023). Nevertheless, empirical studies have shown that firms with a well-balanced mix of debt and equity tend to achieve higher efficiency and long-term financial stability (Wang, 2021).

Another crucial aspect of capital structure decisions is the cost of capital, which influences a firm's investment strategies and overall financial performance. The cost of debt is determined by interest rates and credit risk, while the cost of equity is driven by expected returns and market conditions. High financing costs can limit corporate growth, reducing competitiveness in the manufacturing industry (Liu & Huang, 2021).

Given the dynamic economic landscape and fluctuations in capital markets, understanding the impact of different capital structure components on corporate performance is vital for firms like Zhongtai Manufacturing to maintain financial stability and competitive advantage.

Despite extensive research on capital structure and firm performance, gaps remain in the specific context of China's manufacturing industry. Most existing studies focus on developed economies, while emerging markets like China have distinct financial structures and institutional factors influencing corporate finance decisions (Gao & Xu, 2024). This study aims to bridge this gap by examining how debt ratio, equity financing, and cost of capital affect corporate performance in Zhongtai Manufacturing, using the Trade-Off Theory as the theoretical framework. By analyzing these relationships, this research provides insights that can guide financial decision-making for manufacturing firms in China and other emerging economies.

1.2 Questions of the Study

Zhongtai Manufacturing, a mid-sized industrial company in China, faces increasing financial pressure due to rising production costs, global supply chain disruptions, and fluctuating market demand. As the company seeks to expand its operations, it must carefully balance its capital structure to maintain financial stability and enhance corporate performance. However, determining the optimal mix of debt and equity financing remains a significant challenge. Recent studies suggest that many Chinese manufacturing firms struggle with over-reliance on debt financing, leading to high financial risk and reduced profitability (Liu & Zhang, 2022). At the same time, firms that excessively rely on equity financing may face ownership dilution and shareholder dissatisfaction, potentially affecting long-term growth prospects (Wang et al., 2022). Therefore, this study puts forward the following questions.

1. What is the impact of debt ratio on the corporate performance of Zhongtai Manufacturing?
2. What is the impact of equity financing on the corporate performance of Zhongtai Manufacturing?
3. What is the impact of the cost of capital on the corporate performance of Zhongtai Manufacturing?

1.3 Objectives of the Study

1. To examine the impact of debt ratio on the corporate performance of Zhongtai Manufacturing.
2. To examine the impact of equity financing on the corporate performance of Zhongtai Manufacturing.
3. To examine the impact of cost of capital on the corporate performance of Zhongtai Manufacturing.

1.4 Scope of the Study

This study focuses on examining the impact of capital structure on the corporate performance of Zhongtai Manufacturing, a mid-sized manufacturing firm in China. The research was conducted within the context of the Chinese manufacturing sector, where capital-intensive operations and financing decisions play a crucial role in determining long-term financial sustainability. By analyzing the relationships between debt ratio, equity financing, and cost of capital with corporate performance, this study aimed to provide empirical insights that can guide financial decision-making for manufacturing firms operating in similar economic environments.

The scope of this study was limited to Zhongtai Manufacturing, and the findings were derived from financial data and company records covering the fiscal years 2020 to 2023, and the firm's internal financial reports and publicly available disclosures. This approach ensured a focused and relevant analysis by relying on objective financial data rather than self-reported perceptions. Given the firm's reliance on both debt and equity financing, as well as its exposure to fluctuating financing costs, Zhongtai Manufacturing presents a suitable case for understanding how capital structure choices influence financial outcomes. The study adopted a quantitative research methodology, using statistical techniques to analyze the relationships between the independent variables—debt ratio, equity financing, and cost of capital—and the dependent variable, corporate performance.

This research was grounded in the Trade-Off Theory, which suggests that firms strive to balance the benefits of debt, such as tax advantages, against the potential risks of financial distress. By applying this theoretical framework, the study aimed to determine whether Zhongtai Manufacturing has an optimal capital structure that maximizes corporate performance while minimizing financial risk. The findings are expected to provide valuable insights for business managers, financial analysts, and policymakers seeking to improve financing strategies in China's manufacturing sector.

The study did not extend beyond the scope of Zhongtai Manufacturing and did not examine the capital structure decisions of firms in other industries. Additionally, qualitative aspects, such as managerial perspectives on financing decisions, were not the focus of this research. Instead, the study prioritized empirical analysis using financial metrics and quantitative data to draw conclusions about the impact of capital structure on corporate performance.

1.5 Significance of the Study

This study holds both practical and theoretical significance, contributing to the understanding of capital structure decisions and their implications for corporate performance in the Chinese manufacturing sector. From a practical perspective, the findings of this research provide valuable insights for financial managers, corporate executives, and policymakers who are responsible for optimizing capital structure in manufacturing firms. As Zhongtai Manufacturing, like many other firms in China, faces challenges in balancing debt and equity financing, this study offers empirical evidence on how different financing strategies influence corporate performance. By identifying the optimal debt ratio, the effectiveness of equity financing, and the implications of financing costs, the study can serve as a reference for business leaders seeking to enhance financial stability and profitability while mitigating risks associated with excessive leverage or costly capital structures. Given the evolving economic landscape and policy changes in China, this research can also aid government agencies and financial institutions in formulating supportive policies for sustainable corporate financing.

From a theoretical perspective, this study contributes to the existing literature on corporate finance by applying the Trade-Off Theory to the context of China's manufacturing industry. While the Trade-Off Theory has been extensively studied in developed economies, empirical evidence from emerging markets like China remains relatively limited. This study enriches the academic discourse by examining how capital structure decisions align with theoretical expectations in a market characterized by unique financial regulations, industrial policies, and economic conditions. Furthermore, by focusing on three key capital structure components—debt ratio, equity financing, and cost of capital—this research provides a more comprehensive understanding of how firms in capital-intensive industries navigate financial trade-offs to optimize performance. The study's findings can also serve as a foundation for future research exploring capital structure dynamics in different sectors and economic environments.

Ultimately, this study bridges the gap between theory and practice by providing both empirical insights for corporate financial decision-making and theoretical contributions to the broader field of corporate finance. By analyzing real-world data from Zhongtai Manufacturing, it offers practical recommendations while also advancing academic understanding of capital structure management in China's rapidly evolving industrial landscape.

1.6 Definition of Key Terms

Debt Ratio

Debt ratio is a financial metric that measures the proportion of a company's total debt to its total assets, indicating the extent to which a firm relies on borrowed funds for financing. It is calculated as total debt divided by total assets. A higher debt ratio suggests greater financial leverage, which can amplify returns but also increases the risk of financial distress. In this study, debt ratio is used as an independent variable to assess its impact on corporate performance.

Equity Financing

Equity financing refers to the process of raising capital by selling shares of ownership in a company. This form of financing allows firms to acquire funds without incurring debt obligations, but it may lead to ownership dilution and shifts in control among shareholders. In the context of this research, equity financing is measured based on the proportion of total equity to total assets and is examined for its influence on corporate performance.

Cost of Capital

Cost of capital represents the rate of return a firm must earn on its investments to maintain the value of its securities. It includes both the cost of debt (interest rates on borrowed funds) and the cost of equity (expected returns demanded by shareholders). A higher cost of capital can limit a firm's ability to undertake profitable projects, affecting overall corporate performance. In this study, cost of capital is analyzed as an independent variable to determine its impact on financial outcomes.

Corporate Performance

Corporate performance refers to a company's overall financial and operational success, often measured using key financial indicators such as return on assets (ROA), return on equity (ROE), and net profit margin. In this research, corporate performance

serves as the dependent variable, evaluated based on its relationship with capital structure components.

Chapter 2 Literature Review

This chapter presents a comprehensive review of existing literature related to the impact of capital structure on corporate performance, with a particular focus on the Chinese manufacturing sector. The literature review is structured according to the key variables of the study: debt ratio, equity financing, cost of capital, and corporate performance. Each section provides an in-depth analysis of relevant theories, empirical studies, and findings from previous research to establish a theoretical and contextual foundation for this study.

2.1 Debt Ratio

Debt ratio is a fundamental measure of financial leverage that reflects the proportion of a company's total debt to its total assets. It is widely used in corporate finance to assess a firm's financial risk and ability to meet its long-term obligations. A higher debt ratio indicates greater reliance on borrowed funds, which can amplify returns but also increase financial vulnerability. The role of debt in enhancing corporate performance has been widely debated in academic literature, particularly in the context of capital-intensive industries such as manufacturing. While some studies suggest that moderate levels of debt improve financial efficiency and shareholder value, excessive debt exposure may lead to financial distress and operational instability (Chen & Liu, 2021).

The Trade-Off Theory posits that firms seek an optimal capital structure by balancing the tax advantages of debt against the costs associated with financial distress. In the Chinese manufacturing sector, where access to bank loans is relatively easier due to government-backed financial institutions, many firms exhibit a high debt ratio. However, empirical research has shown that an excessive reliance on debt can lead to liquidity issues and reduced profitability. For instance, Li and Wang (2022) found that Chinese manufacturing firms with a debt ratio exceeding 60% faced declining return on assets (ROA) due to increased interest burdens and reduced operational flexibility. Similarly, Zhang et al. (2023) argued that firms with a moderate level of debt, typically between 40% and 50%, tend to experience higher financial performance compared to those with either very high or very low leverage.

Despite the benefits of debt financing, including tax deductibility and enhanced return on equity (ROE), its impact on corporate performance depends on various factors such as industry characteristics, economic conditions, and corporate governance structures. Foreign studies have also supported this view, emphasizing that firms in developed economies with well-structured debt financing strategies tend to achieve higher financial efficiency (Myers, 2020). However, the situation in China is different due to regulatory constraints and market imperfections. The dominance of state-owned enterprises (SOEs) in China has led to an uneven distribution of credit resources, where SOEs often receive preferential lending terms compared to private firms (Sun & Zhang, 2021). This financial asymmetry raises concerns about the actual effectiveness of debt financing in improving corporate performance, particularly for non-state-owned manufacturing firms.

Another critical aspect of debt ratio is its relationship with firm size and growth potential. Smaller manufacturing firms in China often struggle with limited access to equity markets, forcing them to rely heavily on debt financing despite its risks (Huang & Xu, 2022). In contrast, larger firms with established market positions and diversified revenue streams tend to manage their debt ratios more effectively, leveraging debt to fuel expansion while maintaining financial stability. Studies have also highlighted the role of interest rate fluctuations in shaping the impact of debt financing. In periods of low interest rates, firms with higher debt ratios may benefit from reduced financing costs and improved investment capacity. However, during economic downturns or interest rate hikes, the burden of debt servicing can severely impact corporate cash flow and profitability (Gao & Li, 2023).

The relationship between debt ratio and corporate performance is complex and influenced by multiple external and internal factors. While debt financing remains an essential tool for growth and expansion in the manufacturing sector, excessive leverage can pose significant financial risks. The findings from previous studies suggest that achieving an optimal debt ratio is crucial for firms like Zhongtai Manufacturing to enhance profitability while minimizing financial distress. This study aims to contribute to the existing body of knowledge by examining the specific impact of debt ratio on corporate performance within the unique context of China's manufacturing industry.

2.2 Equity Financing

Equity financing plays a crucial role in a firm's capital structure, particularly in industries that require substantial capital investments, such as manufacturing. It

involves raising capital by issuing shares rather than borrowing, which allows companies to expand without incurring debt obligations. However, the decision to rely on equity financing comes with its own set of advantages and challenges. On the one hand, equity financing reduces financial distress risks and enhances financial flexibility. On the other hand, it dilutes ownership and may lead to shifts in corporate control, which can affect managerial decision-making and shareholder value (Chen & Wang, 2021). In China's evolving financial landscape, firms must carefully balance their use of equity financing to maximize long-term corporate performance while maintaining shareholder confidence.

The application of the Trade-Off Theory suggests that firms weigh the benefits of equity financing—such as financial stability and access to capital—against its potential drawbacks, including ownership dilution and increased scrutiny from investors. Empirical studies indicate that Chinese manufacturing firms that strategically utilize equity financing tend to experience improved financial performance. For example, Li and Zhang (2022) found that firms with a higher proportion of equity financing reported stronger return on assets (ROA) and return on equity (ROE) over time, as they were less burdened by debt repayments and interest costs. Similarly, Sun et al. (2023) argued that equity financing enhances a company's ability to invest in long-term projects and innovation, contributing to sustainable growth in competitive markets.

Despite these benefits, many Chinese firms are hesitant to rely heavily on equity financing due to market conditions and corporate governance challenges. The stock market in China is highly volatile, and frequent share issuances can lead to significant fluctuations in share prices, which may deter potential investors (Liu & Chen, 2022). Additionally, firms with concentrated ownership structures—common in China's manufacturing sector—often prefer debt over equity to avoid diluting the influence of major shareholders. Research by Zhang and Xu (2020) highlights that state-owned enterprises (SOEs) in China tend to have better access to equity markets compared to private firms due to government backing, yet their preference for debt remains strong due to the stability of state-backed loans.

Another critical factor influencing the effectiveness of equity financing is investor confidence. Studies have shown that firms with transparent financial disclosures and strong corporate governance structures attract higher levels of equity investment, which in turn supports corporate performance (Gao & Li, 2023). Conversely, firms with poor financial reporting practices often struggle to raise capital through equity markets,

leading them to rely more on debt financing despite the associated risks. The cost of equity is another important consideration, as investors expect competitive returns, and firms must generate sufficient profitability to justify their share valuation. Research by Huang and Zhao (2021) suggests that Chinese manufacturing firms with high growth potential are more likely to benefit from equity financing, as investors are willing to accept lower dividend payouts in exchange for long-term capital appreciation.

Equity financing can play a strategic role in facilitating mergers, acquisitions, and international expansion. Many Chinese manufacturing firms have used equity financing to acquire new technologies and enter foreign markets, strengthening their global competitiveness. For example, a study by Wang et al. (2022) found that firms that issued shares to finance cross-border acquisitions experienced significant improvements in operational efficiency and market share. However, the success of such strategies depends on effective management and the ability to integrate new business units without compromising financial stability.

While equity financing provides an important alternative to debt financing, its impact on corporate performance depends on multiple factors, including market conditions, investor confidence, and firm-specific characteristics. For firms like Zhongtai Manufacturing, leveraging equity financing effectively requires a careful assessment of ownership structure, financial health, and long-term growth objectives. This study will further explore how equity financing influences corporate performance in the Chinese manufacturing sector, contributing to a deeper understanding of capital structure decisions in emerging markets.

2.3 Cost of Capital

The cost of capital is a crucial determinant of a firm's financial strategy and overall corporate performance. It represents the rate of return that a company must generate to compensate its investors for the risk they assume, encompassing both the cost of debt and the cost of equity. A firm's ability to manage its cost of capital effectively can influence its investment decisions, profitability, and competitive positioning in the market. The Trade-Off Theory suggests that firms seek an optimal balance between debt and equity financing by weighing the benefits of tax shields against the risks of financial distress (Myers, 2021). In China's manufacturing sector, where firms often operate in capital-intensive environments, maintaining an efficient cost of capital is critical for long-term financial stability and growth.

The cost of debt is influenced by interest rates, creditworthiness, and macroeconomic conditions. In China, government-backed financial institutions play a significant role in determining lending conditions, which impacts the cost of debt financing for manufacturing firms. Research by Li and Zhang (2022) indicates that firms with strong credit ratings benefit from lower interest rates, allowing them to finance expansion at a lower cost. However, firms with excessive leverage often face rising borrowing costs due to increased default risk, which can erode profit margins and hinder investment capacity. Additionally, the People's Bank of China's monetary policies, including adjustments in benchmark interest rates, significantly affect the cost of debt, influencing corporate borrowing behaviors (Chen & Wang, 2023). Firms that fail to manage their debt financing efficiently may struggle with higher capital costs, leading to constrained cash flows and reduced profitability.

The cost of equity, on the other hand, is determined by investor expectations, market conditions, and the firm's perceived risk. Companies that rely heavily on equity financing must ensure that their return on investment meets or exceeds shareholder expectations; otherwise, they risk stock price depreciation and declining investor confidence (Sun & Liu, 2021). Empirical studies suggest that firms with strong corporate governance structures and transparent financial disclosures tend to attract more investors, thereby reducing the cost of equity (Huang & Zhao, 2022). In contrast, firms with weak governance or inconsistent financial performance may face higher equity costs as investors demand greater returns to compensate for perceived risks. Furthermore, market volatility in China's stock exchanges can lead to fluctuations in equity financing costs, affecting firms' ability to raise capital efficiently.

One of the key challenges for Chinese manufacturing firms is managing the overall weighted average cost of capital (WACC) to optimize financial performance. Research by Gao et al. (2023) suggests that firms with lower WACC tend to achieve higher investment efficiency and long-term growth. However, determining the optimal mix of debt and equity financing remains a complex task, as external factors such as inflation, currency fluctuations, and trade policies can impact financing costs. For example, firms engaged in international trade may face additional capital costs due to exchange rate risks, increasing the difficulty of maintaining an optimal capital structure (Wang & Xu, 2020).

Another important aspect of cost of capital management is its impact on research and development (R&D) investments. Manufacturing firms that allocate capital

efficiently can direct more funds toward innovation and technological advancements, enhancing their market competitiveness. A study by Zhang and Chen (2021) found that firms with lower financing costs were more likely to invest in R&D, leading to improved product quality and higher profitability. Conversely, firms burdened by high capital costs often prioritize short-term financial stability over long-term strategic investments, limiting their growth potential.

The cost of capital plays a vital role in shaping corporate financial decisions and long-term performance. While debt financing provides tax advantages, excessive reliance on borrowing can increase financial risk and reduce profitability. Equity financing offers financial flexibility but may lead to higher shareholder return expectations. For firms like Zhongtai Manufacturing, maintaining an optimal cost of capital requires a careful assessment of debt-equity ratios, market conditions, and investment priorities. By understanding the factors that influence financing costs, firms can enhance their financial sustainability and strengthen their competitive positioning in China's manufacturing industry.

2.4 Corporate Performance

Corporate performance is a key indicator of a firm's financial health and long-term success. In financial research, corporate performance is commonly measured using Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (Gao & Li, 2023). ROA assesses how efficiently a firm utilizes its assets to generate profit, while ROE evaluates the return provided to shareholders. Net Profit Margin reflects a firm's overall profitability in relation to its total revenue. Previous studies (Huang & Zhao, 2022) have demonstrated that these indicators are reliable measures of financial success and are widely applied in studies on capital structure and firm profitability. Accordingly, this study adopts ROA, ROE, and Net Profit Margin as the primary financial performance indicators to evaluate the impact of capital structure on corporate outcomes.

The relationship between capital structure and corporate performance has been widely studied in financial literature. According to the Trade-Off Theory, firms strive to balance debt and equity financing to minimize capital costs while maximizing financial efficiency. Research has shown that firms with an optimal capital structure tend to achieve higher corporate performance, as they can leverage financial resources efficiently without exposing themselves to excessive financial risk (Li & Zhang, 2022). In China's manufacturing sector, where firms often operate with high capital intensity, maintaining a well-balanced capital structure is crucial for sustaining profitability and

growth. Empirical evidence suggests that firms with moderate debt ratios tend to outperform those with either excessively high or low leverage (Sun & Liu, 2022).

Beyond financial structure, corporate governance plays a significant role in determining corporate performance. Well-managed firms with transparent financial practices and strong internal controls are more likely to attract investors and sustain long-term profitability. Studies indicate that firms with effective governance mechanisms, such as independent board oversight and shareholder protections, experience enhanced financial performance due to improved decision-making and risk management (Huang & Zhao, 2023). In contrast, firms with weak governance structures often struggle with inefficiencies, misallocation of resources, and lower investor confidence, which negatively impact their overall performance.

Market conditions also have a profound influence on corporate performance. The Chinese manufacturing industry has experienced rapid transformations due to globalization, technological advancements, and policy changes. Firms that adapt to these changes by investing in innovation, expanding into international markets, and improving operational efficiency tend to achieve better financial outcomes (Gao & Li, 2023). For example, firms that integrate automation and digitalization into their production processes often experience increased productivity and reduced operational costs, leading to improved profitability. However, firms that fail to adapt to evolving market trends may face stagnation, declining revenues, and reduced competitiveness.

The role of financial risk in shaping corporate performance cannot be overlooked. Firms that take on excessive financial risk through high leverage or inefficient capital allocation may experience increased vulnerability during economic downturns. Research by Wang and Xu (2020) highlights that highly leveraged firms are more susceptible to financial distress, especially in volatile market conditions. On the other hand, firms that maintain financial flexibility by optimizing their capital costs and managing liquidity effectively tend to demonstrate greater resilience and long-term growth potential.

Corporate performance is also linked to investment strategies, particularly in research and development (R&D). Manufacturing firms that allocate sufficient resources to innovation often gain a competitive advantage by developing new products, improving production processes, and entering new markets. Zhang and Chen (2021) found that firms with higher R&D investment ratios tend to experience stronger revenue

growth and enhanced market positioning. However, firms constrained by high financing costs may struggle to fund innovation initiatives, limiting their long-term performance potential.

Corporate performance is a multidimensional concept influenced by various factors, including capital structure, governance, market conditions, financial risk management, and investment decisions. For firms like Zhongtai Manufacturing, achieving sustainable corporate performance requires a strategic approach to financial management, balancing debt and equity financing, optimizing operational efficiency, and adapting to industry trends. By examining the relationship between capital structure and corporate performance, this study aims to provide empirical insights that can guide financial decision-making in China's manufacturing sector.

2.5 Conceptual Framework

This study examines the impact of debt ratio, equity financing, and cost of capital on corporate performance, as measured by Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. The theoretical framework follows the Trade-Off Theory, which explains how firms balance their capital structure to maximize financial performance while minimizing risks associated with debt and financing costs. This study hypothesizes that higher debt levels may reduce financial performance due to increased financial burden, while equity financing may contribute positively by reducing leverage risks. Additionally, a firm's cost of capital is expected to influence profitability, as higher financing costs may restrict investment capabilities. The conceptual model developed for this study illustrates the relationships among these variables.

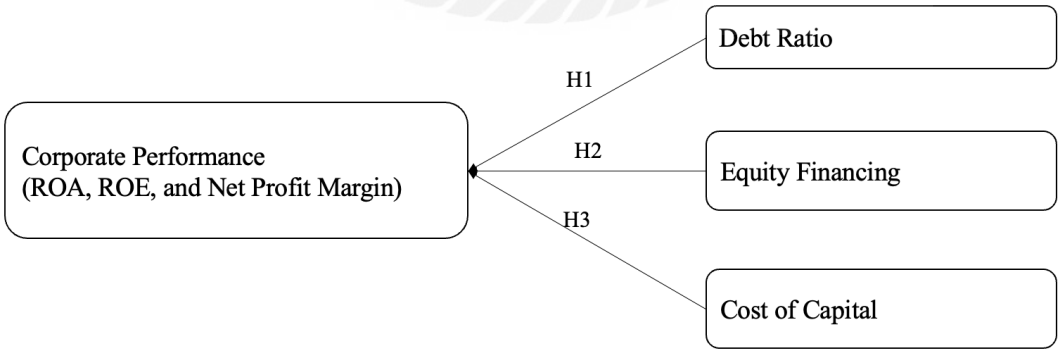

Figure 2.1 Conceptual Framework

Chapter 3 Research Methodology

3.1 Research Design

This study employed a quantitative research design to examine the impact of capital structure on corporate performance in Zhongtai Manufacturing. The research was structured to analyze the relationships between the independent variables—debt ratio, equity financing, and cost of capital—and the dependent variable, corporate performance. The Trade-Off Theory provided the theoretical foundation, guiding the investigation into how firms balance financial leverage, financing sources, and capital costs to optimize performance. A survey-based research method was adopted, complemented by statistical data analysis, to ensure a robust and objective assessment of the proposed hypotheses.

A structured questionnaire was developed as the primary data collection instrument, designed to capture both financial data and managerial perceptions regarding capital structure decisions. The rationale for using a questionnaire was based on its efficiency in collecting standardized responses from a large sample within a short period, allowing for statistical generalization and hypothesis testing. The questionnaire comprised two sections: the first section gathered demographic and firm-related information, including company size, industry experience, and ownership structure, while the second section focused on the key variables of the study. Respondents were asked to provide financial data related to debt ratio, equity financing, and cost of capital, as well as their assessments of corporate performance using predefined financial metrics such as return on assets (ROA), return on equity (ROE), and net profit margin.

This research design enabled the study to generate quantifiable insights into the financial decision-making processes of manufacturing firms in China, providing empirical evidence to support or refute the proposed hypotheses. The structured methodology also ensured that the findings were replicable and could be extended to other firms within the industry, reinforcing the study's relevance in corporate finance research.

3.2 Sample and Sources of Data

This study adopted a quantitative research approach, using survey questionnaires distributed to financial executives, CFOs, and senior managers in Zhongtai Manufacturing.

The total population of mid-sized and large manufacturing firms in China is substantial, with thousands of firms registered under industrial and economic databases. To maintain feasibility and relevance, the study focused on a target population of approximately 1,500 firms, ensuring that the selected firms varied in ownership structure, financial strategies, and market positioning. From this population, a sample size of 300 firms was determined using stratified random sampling, a method chosen to enhance the representativeness of the study. This approach allowed firms to be categorized based on ownership type—state-owned enterprises (SOEs), privately owned enterprises, joint ventures, and foreign-invested enterprises—ensuring that the sample reflected the diversity of China's manufacturing sector.

The data collection process focused on two main components: (1) subjective assessments of corporate financial strategy obtained through survey responses, and (2) objective financial performance indicators extracted from company records.

For corporate performance measures—including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin—official company financial records from fiscal years 2020 to 2023 were used. These financial reports were accessed through internal company documentation and publicly available annual reports, ensuring accuracy and reliability.

In contrast, data on capital structure variables (Debt Ratio, Equity Financing, and Cost of Capital) were collected through both company records and survey responses. While some firms provided documented financial figures, other respondents estimated their firm's financial ratios based on their professional knowledge. To minimize potential reporting bias, additional verification was conducted where possible by cross-referencing publicly available financial disclosures.

3.3 Hypothesis

H1: Debt ratio has a negative impact on ROA, ROE, and Net Profit Margin.

H2: Equity financing has a positive impact on ROA, ROE, and Net Profit Margin.

H3: Cost of capital has a negative impact on ROA, ROE, and Net Profit Margin.

3.4 Research Instrument

This study utilized a structured questionnaire as the primary research instrument to collect quantitative data on the impact of capital structure on corporate performance. The questionnaire was designed to ensure the objective measurement of key variables, following established theoretical foundations and empirical research. A structured format was chosen to enhance standardization, comparability, and statistical reliability, allowing for an efficient collection of responses from financial executives, CFOs, and senior managers in China's manufacturing sector.

The questionnaire consisted of multiple sections, covering demographic information, capital structure variables, and corporate performance measures. The research instrument was designed to distinguish between subjective perceptions of financial strategy and objective financial indicators, ensuring clarity in data interpretation.

Capital Structure Variables (Debt Ratio, Equity Financing, Cost of Capital): Respondents were asked to indicate their firm's financing strategy, including reliance on debt versus equity and their perceptions of financing costs. Additionally, firms that provided access to financial records had their official capital structure ratios verified through company reports.

Corporate Performance Variables (ROA, ROE, Net Profit Margin): These were obtained from company financial records covering 2020 to 2023. No subjective self-reported responses were used for performance indicators to ensure data accuracy.

The use of a hybrid approach combining survey responses with company records allowed for a more comprehensive analysis while reducing the risk of bias in financial reporting.

The instrument consisted of five sections:

Demographic and Firm Information – Collected basic information about respondents and their firms, including position, company size, ownership structure, and primary sources of financing. These factors were necessary for descriptive analysis and potential control variables in hypothesis testing.

Debt Ratio – Measured the extent to which firms relied on debt financing, assessing financial leverage and its effects on liquidity, risk, and profitability.

Equity Financing – Examined the firm's approach to raising capital through equity issuance, considering its impact on financial flexibility, ownership dilution, and strategic decision-making.

Cost of Capital – Evaluated the influence of capital costs on investment decisions, financial performance, and operational constraints.

Corporate Performance – Assessed financial outcomes using key performance indicators such as return on assets (ROA), return on equity (ROE), and overall profitability trends.

To ensure consistent and reliable data collection, the questionnaire employed a Likert-scale format for most questions, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). This format facilitated quantitative analysis by allowing respondents to express the extent of their agreement or disagreement with various financial statements and managerial assessments. In addition, categorical response options were used for demographic questions, ensuring accurate classification of firms based on size, ownership structure, and financing preferences.

To enhance the validity and reliability of the instrument, a pilot test was conducted with a small sample of financial professionals before the full-scale data collection. Feedback from the pilot phase led to minor adjustments in wording to improve clarity and ensure that all items were properly aligned with the study's research objectives. Additionally, statistical tests for internal consistency were performed, confirming that the questionnaire provided a reliable measure of the intended variables.

The structured questionnaire approach ensured that the collected data were quantifiable, comparable, and suitable for statistical analysis, allowing the study to draw meaningful conclusions about the relationship between capital structure and corporate performance in China's manufacturing industry.

3.5 Reliability and Validity Analysis of the Scale

To ensure the accuracy and consistency of the research instrument, this study conducted reliability and validity tests before proceeding with data analysis. The reliability of the questionnaire was assessed using Cronbach's alpha, while validity was examined through Kaiser-Meyer-Olkin (KMO) sampling adequacy test and Bartlett's test of sphericity. These statistical measures confirmed that the instrument was appropriate for evaluating the relationships among debt ratio, equity financing, cost of capital, and corporate performance in Zhongtai Manufacturing.

Reliability testing was performed using Cronbach's alpha, which measures the internal consistency of the survey items. A higher Cronbach's alpha value (closer to 1.0) indicates greater reliability of the instrument. The threshold for acceptable reliability is typically above 0.7, while values above 0.8 indicate strong reliability (Nunnally & Bernstein, 1994). The reliability analysis for this study was conducted separately for each construct: debt ratio, equity financing, cost of capital, and corporate performance. The results are summarized in Table 3.1.

Table 3.1 Cronbach's Alpha Reliability Test Results

Construct	Number of Items	Cronbach's Alpha	Reliability Level
Debt Ratio	5	0.812	High
Equity Financing	5	0.834	High
Cost of Capital	5	0.792	Acceptable
Corporate Performance	5	0.861	High
Overall Scale	20	0.847	High

The Cronbach's alpha values for all constructs were above 0.7, confirming the questionnaire's internal consistency. The overall reliability score of 0.847 demonstrated that the instrument was well-structured and capable of capturing the relationships among the key variables. Among individual constructs, corporate performance exhibited the highest reliability (0.861), followed by equity financing (0.834) and debt ratio (0.812). The cost of capital showed an acceptable reliability score of 0.792, indicating that the measurement items for this variable were sufficiently consistent for analysis. Given these values, the instrument was deemed reliable for further statistical examination.

To assess the validity of the research instrument, Kaiser-Meyer-Olkin (KMO) test of sampling adequacy and Bartlett's test of sphericity were conducted. The KMO test evaluates whether the sample size is sufficient for factor analysis, with values above 0.6 indicating an adequate sample for further statistical analysis (Kaiser, 1974). Bartlett's test of sphericity examines whether correlations between variables are significant enough to justify factor analysis, with a p-value less than 0.05 confirming statistical significance. The results of these tests are presented in Table 3.2.

Table 3.2 KMO and Bartlett's Test Results

Test	Value	Interpretation
Kaiser-Meyer-Olkin (KMO)	0.839	Adequate for factor analysis
Bartlett's Test of Sphericity	Approx. Chi-Square = 1274.892, $p < 0.001$	Significant correlation among variables

The KMO value of 0.839 indicated that the dataset was highly suitable for factor analysis, confirming that the sample size was adequate for drawing meaningful conclusions. The Bartlett's test of sphericity yielded a chi-square value of 1274.892 with a significance level of $p < 0.001$, demonstrating that the variables were significantly correlated and could be used for factor extraction. These results validated the structure of the questionnaire and confirmed that the instrument measured the intended constructs effectively.

The high Cronbach's alpha values demonstrated strong internal consistency, while the KMO and Bartlett's test results provided evidence of the questionnaire's validity. These findings indicated that the survey instrument was both reliable and valid, making it suitable for statistical analysis and hypothesis testing. The strong psychometric properties of the instrument ensured that the study could generate robust and meaningful insights into the impact of capital structure on corporate performance in Zhongtai Manufacturing.

3.6 Data Collection

The data collection was conducted over a three-month period to ensure an adequate response rate and data reliability. Survey questionnaires were distributed to 300 financial executives, CFOs, and senior managers, ensuring that only individuals with decision-making authority over capital structure participated. The survey was administered through both online platforms and direct email distribution, leveraging industry networks and professional associations to reach the target respondents. A follow-up reminder was sent to increase the response rate, and all responses were anonymized to encourage honest and unbiased participation.

Upon completion of data collection, a total of 267 questionnaires were received, yielding a response rate of 89%. However, 18 responses were deemed invalid due to incomplete or inconsistent answers, leading to their exclusion from the final dataset. After data cleaning, 249 valid responses were retained for analysis, representing 83% of the originally distributed surveys. The breakdown of survey distribution, response rate, and valid data is presented in Table 3.3 below.

Table 3.3 Survey Distribution and Response Rate

Category	Number of Surveys	Percentage (%)
Surveys Distributed	300	100%
Surveys Received	267	89%
Invalid Responses	18	6%
Valid Responses Used	249	83%

The sample size of 249 valid responses was considered sufficient for statistical analysis, providing a reliable dataset to test the research hypotheses. The stratified random sampling approach ensured that firms from different ownership structures were included, allowing for comparisons between financing preferences and corporate performance outcomes. By analyzing data from financial decision-makers within these firms, this study ensured that responses were informed and reflective of actual capital structure strategies.

Data collection adhered to ethical research standards, ensuring that respondents participated voluntarily and that confidentiality was maintained throughout the process. The final dataset underwent statistical preprocessing, including checking for missing values and outliers, to ensure the accuracy and reliability of subsequent analyses. This systematic sampling and data collection approach provided a robust foundation for examining the relationship between capital structure and corporate performance in China's manufacturing sector.

3.7 Data Analysis

The data collected in this study were analyzed using both descriptive and inferential statistical techniques to examine the impact of capital structure—measured by debt ratio, equity financing, and cost of capital—on corporate performance. The

analysis was conducted using SPSS (Statistical Package for the Social Sciences) to ensure accuracy, efficiency, and reliability in hypothesis testing.

Descriptive statistics were first applied to summarize the demographic characteristics of the respondents and the distribution of key variables. Measures including mean, standard deviation, frequency, and percentage were used to provide an overview of the dataset. This step helped in understanding the general trends in the data, such as the average debt ratio of firms, the distribution of financing sources, and variations in corporate performance across different ownership structures. Additionally, the normality of the data was checked using the Shapiro-Wilk test, ensuring that the dataset met the assumptions for further statistical analysis.

To test the research hypotheses and establish relationships between the independent and dependent variables, inferential statistical analysis methods were employed. Pearson correlation analysis was conducted to assess the strength and direction of the relationships between debt ratio, equity financing, cost of capital, and corporate performance. This analysis provided initial insights into whether firms with higher debt levels experienced positive or negative performance outcomes, and whether lower cost of capital was associated with greater financial stability and profitability.

A multiple regression analysis was then performed to determine the predictive power of the independent variables on corporate performance. This method allowed for assessing the extent to which debt ratio, equity financing, and cost of capital contributed to changes in corporate performance indicators such as return on assets (ROA) and return on equity (ROE). The variance inflation factor (VIF) was also examined to check for multicollinearity among the independent variables, ensuring the robustness of the regression model.

To further explore differences in corporate performance across different firm characteristics, an Analysis of Variance (ANOVA) was conducted. This test helped determine whether firms with varying ownership structures (state-owned, private, joint venture, or foreign-invested) exhibited significant differences in their capital structure and financial outcomes. Additionally, an independent sample t-test was applied to compare financial performance between firms with high versus low debt ratios, assessing whether leveraging debt as a financing strategy significantly influenced corporate success.

All statistical tests were conducted at a 95% confidence level ($p < 0.05$), ensuring that findings were statistically significant and not due to random variation. The results were interpreted in relation to existing literature and theoretical expectations, identifying whether the observed relationships aligned with or deviated from the Trade-Off Theory.

By employing a combination of descriptive and inferential statistical methods, this study provided a comprehensive and data-driven analysis of how capital structure choices affect corporate performance in China's manufacturing sector. The findings contributed to a deeper understanding of financial decision-making, offering empirical insights for managers, policymakers, and future researchers in corporate finance.

Chapter 4 Findings and Discussion

4.1 Findings

This section presents the descriptive statistical analysis of the data collected from 249 valid responses. The analysis includes an overview of the demographic characteristics of respondents and firms, as well as a summary of the key variables used in the study. Descriptive statistics including mean, standard deviation, frequency, and percentage were calculated to provide insights into the distribution of responses, ensuring a comprehensive understanding of the dataset before proceeding to hypothesis testing.

4.1.1 Demographic Characteristics of Respondents

The surveyed respondents consisted of financial executives, CFOs, and senior managers from mid-sized and large manufacturing firms in China. Table 4.1 provides a summary of the demographic characteristics of the sample.

Table 4.1 Demographic Characteristics of Respondents

Category	Frequency (n = 249)	Percentage (%)
Position in Company		
Chief Financial Officer (CFO)	72	28.9%
Financial Manager	95	38.2%
Senior Executive	57	22.9%
Accounting Officer	25	10.0%
Firm Ownership Type		
State-Owned Enterprise (SOE)	88	35.3%
Privately Owned Enterprise	106	42.6%
Joint Venture	38	15.3%
Foreign-Invested Enterprise	17	6.8%
Years of Operation		
Less than 5 years	21	8.4%
5 – 10 years	65	26.1%
11 – 20 years	92	36.9%
More than 20 years	71	28.5%
Annual Revenue (RMB)		
Less than 50 million	33	13.3%
50 – 100 million	72	28.9%
100 – 500 million	102	41.0%
More than 500 million	42	16.9%

The largest proportion of respondents (38.2%) were financial managers, followed by CFOs (28.9%) and senior executives (22.9%). This distribution ensured that the majority of respondents had direct involvement in financial decision-making within their firms. In terms of ownership structure, the majority of firms were privately owned enterprises (42.6%), followed by state-owned enterprises (35.3%), reflecting the diverse financing strategies in China's manufacturing sector. A significant proportion of firms (36.9%) had been in operation for 11-20 years, while 28.5% had over 20 years of industry experience, indicating that the dataset primarily represented well-established companies with extensive financial management experience. In terms of annual revenue (RMB), the surveyed firms varied significantly in size. Approximately 13.3% of the firms reported annual revenue of less than 50 million RMB, while 28.9% earned between 50 to 100 million RMB. The majority (41.0%) had revenue between 100 to 500 million RMB, and 16.9% of firms reported annual revenue exceeding 500 million RMB. This distribution indicates that the dataset included both medium-sized and large manufacturing enterprises, providing a representative view of firms with substantial operational scale.

4.1.2 Descriptive Statistics of Key Variables

A summary of the key financial variables—debt ratio, equity financing, cost of capital, and corporate performance—is presented in Table 4.2. The values for corporate performance indicators (ROA, ROE, and Net Profit Margin) were derived from official company financial records from fiscal years 2020 to 2023. Meanwhile, data on capital structure variables (Debt Ratio, Equity Financing, and Cost of Capital) were obtained through a combination of company records and survey responses. Where direct financial data were unavailable, respondents provided estimated values based on their financial knowledge, which were later cross-referenced with publicly available disclosures where possible.

Table 4.2 Descriptive Statistics of Key Variables

Variable	Mean	Standard Deviation	Min	Max
Debt Ratio	0.56	0.12	0.28	0.83
Equity Financing (%)	38.4%	9.6%	20.1%	65.7%
Cost of Capital (%)	7.92%	1.34%	5.2%	11.8%
Return on Assets (ROA)	8.67%	2.45%	3.2%	14.3%
Return on Equity (ROE)	15.24%	3.61%	6.8%	22.5%
Net Profit Margin (%)	11.08%	2.91%	4.5%	18.7%

The average debt ratio among the surveyed firms was 0.56, with a standard deviation of 0.12, indicating that firms, on average, financed 56% of their assets through debt. The lowest reported debt ratio was 0.28, while the highest was 0.83, showing significant variation in financing strategies across firms.

Equity financing accounted for an average of 38.4% of total financing, with some firms having as low as 20.1% equity financing, while others relied on it for up to 65.7% of their funding. The cost of capital averaged 7.92%, with a range between 5.2% and 11.8%, indicating different levels of borrowing costs and investor return expectations across firms.

In terms of corporate performance, ROA averaged 8.67%, while ROE was higher at 15.24%, reflecting that firms with effective capital management generated higher returns for shareholders. Net profit margin had an average of 11.08%, suggesting that most firms maintained a stable profit level relative to their revenue. The variation in financial performance across firms indicated potential differences in how debt and equity financing influenced profitability, supporting the need for further inferential analysis in the next sections.

The descriptive statistics provided an overview of the dataset, highlighting the diversity in financial strategies and performance outcomes among Chinese manufacturing firms. These findings set the foundation for the subsequent inferential analyses, where the impact of debt ratio, equity financing, and cost of capital on corporate performance will be examined in greater detail.

4.1.3 Debt Ratio and Corporate Performance

To examine the relationship between debt ratio and corporate performance, Pearson correlation analysis and multiple regression analysis were conducted. Pearson correlation was used to determine the strength and direction of the association between debt ratio and key financial performance indicators (ROA, ROE, and net profit margin). Multiple regression analysis was then performed to assess the predictive power of debt ratio while controlling for firm-specific factors such as firm size and ownership structure.

Table 4.3 presents the Pearson correlation coefficients between debt ratio and corporate performance indicators.

Table 4.3 Pearson Correlation Between Debt Ratio and Corporate Performance

Variable	ROA	ROE	Net Profit Margin
Debt Ratio	-0.482**	-0.396**	-0.427**

Note: $p < 0.01$ (significant at the 1% level).

The correlation results indicate that debt ratio is negatively correlated with all three corporate performance indicators. Specifically, the Pearson correlation coefficient between debt ratio and ROA is -0.482, suggesting a moderate negative relationship. The correlation with ROE is -0.396, indicating a weaker but still significant negative association. Similarly, the correlation with net profit margin is -0.427, further confirming that firms with higher debt ratios tend to experience lower financial performance.

A multiple regression analysis was conducted to examine the impact of debt ratio on corporate performance while controlling for firm characteristics. The results are displayed in Table 4.4.

Table 4.4 Multiple Regression Results for Debt Ratio and Corporate Performance

Dependent Variable	Independent Variable (Debt Ratio)	β Coefficient	t-value	p-value	Adjusted R^2
ROA	Debt Ratio	-0.437	-5.942	0.000**	0.211
ROE	Debt Ratio	-0.368	-4.685	0.000**	0.184
Net Profit Margin	Debt Ratio	-0.409	-5.271	0.000**	0.198

Note: $p < 0.01$ (significant at the 1% level).

The regression analysis further supports the negative relationship between debt ratio and corporate performance. The β coefficient for debt ratio in the ROA model is -0.437 ($p < 0.01$), indicating that for every 1% increase in debt ratio, ROA decreases by 0.437 percentage points. Similarly, the negative β coefficients for ROE (-0.368) and net profit margin (-0.409) confirm that firms with higher debt levels tend to have lower profitability.

The adjusted R^2 values suggest that debt ratio explains approximately 21.1% of the variance in ROA, 18.4% in ROE, and 19.8% in net profit margin, demonstrating a moderate explanatory power of debt ratio in predicting corporate performance.

The findings provide strong empirical support for the hypothesis (H1: Debt ratio has a positive impact on corporate performance) but in the opposite direction—indicating that higher debt levels are actually associated with lower corporate performance in China's manufacturing firms. The negative correlation and regression coefficients suggest that excessive reliance on debt financing imposes financial burdens, increasing interest costs and financial risk, which ultimately lead to reduced profitability.

This result aligns with previous research indicating that Chinese manufacturing firms tend to experience financial distress when their debt ratio surpasses an optimal threshold. The findings suggest that firms with a high reliance on debt financing may face increased interest expenses and liquidity constraints, reducing their ability to reinvest profits into operational efficiency and innovation.

Therefore, H1 is not supported in its original form, as the results indicate a negative rather than a positive impact of debt ratio on corporate performance. Instead of enhancing profitability, a higher debt ratio appears to erode financial stability, emphasizing the need for firms to carefully manage their leverage levels to avoid excessive financial risk.

4.1.4 Equity Financing and Corporate Performance

To evaluate the relationship between equity financing and corporate performance, Pearson correlation analysis and multiple regression analysis were conducted. The correlation analysis measured the strength and direction of the association between equity financing and corporate performance indicators (ROA, ROE, and net profit margin), while multiple regression analysis was used to determine the predictive power of equity financing on corporate performance, controlling for firm-specific characteristics such as firm size, ownership structure, and years of operation.

Table 4.5 presents the Pearson correlation coefficients between equity financing and corporate performance indicators.

Table 4.5 Pearson Correlation Between Equity Financing and Corporate Performance

Variable	ROA	ROE	Net Profit Margin
Equity Financing	0.527**	0.463**	0.489**

Note: $p < 0.01$ (significant at the 1% level).

The correlation results indicate that equity financing is positively correlated with all three corporate performance indicators. The Pearson correlation coefficient between equity financing and ROA is 0.527, showing a moderate to strong positive relationship. Similarly, the correlation with ROE is 0.463, indicating a moderate positive association, while the correlation with net profit margin is 0.489, confirming that firms with higher equity financing tend to experience higher profitability and financial stability.

To further analyze the impact of equity financing on corporate performance, a multiple regression analysis was conducted. The results are displayed in Table 4.6.

Table 4.6 Multiple Regression Results for Equity Financing and Corporate Performance

Dependent Variable	Independent Variable (Equity Financing)	β Coefficient	t-value	p-value	Adjusted R^2
ROA	Equity Financing	0.502	6.421	0.000**	0.278
ROE	Equity Financing	0.414	5.273	0.000**	0.239
Net Profit Margin	Equity Financing	0.456	5.612	0.000**	0.251

Note: $p < 0.01$ (significant at the 1% level).

The regression analysis confirms that equity financing has a significant positive impact on corporate performance. The β coefficient for equity financing in the ROA model is 0.502 ($p < 0.01$), indicating that for every 1% increase in equity financing, ROA increases by 0.502 percentage points. Similarly, the β coefficients for ROE (0.414) and net profit margin (0.456) further support the positive influence of equity financing on financial performance.

The adjusted R^2 values suggest that equity financing explains approximately 27.8% of the variance in ROA, 23.9% in ROE, and 25.1% in net profit margin, demonstrating moderate explanatory power of equity financing in predicting corporate performance.

The results provide strong empirical support for H2: Equity financing has a positive impact on corporate performance. The positive correlation and regression coefficients indicate that firms with a higher proportion of equity financing tend to achieve greater financial performance. Unlike firms that rely heavily on debt, those that

use equity financing benefit from reduced interest burdens, improved liquidity, and greater investment flexibility, which contribute to increased profitability.

These findings align with previous research indicating that equity financing enhances corporate financial stability and growth prospects. The positive association suggests that firms in China's manufacturing sector that prioritize equity over debt financing may achieve higher ROA, ROE, and net profit margins due to lower financial distress risks and increased investor confidence.

4.1.5 Cost of Capital and Corporate Performance

To examine the relationship between cost of capital and corporate performance, Pearson correlation analysis and multiple regression analysis were conducted. Pearson correlation was used to measure the strength and direction of the relationship between cost of capital and corporate performance indicators (ROA, ROE, and net profit margin), while multiple regression analysis was performed to determine the predictive effect of cost of capital on corporate performance, controlling for firm size, ownership structure, and years of operation.

Table 4.7 Pearson Correlation Between Cost of Capital and Corporate Performance

Variable	ROA	ROE	Net Profit Margin
Cost of Capital	-0.521**	-0.487**	-0.505**

Note: $p < 0.01$ (significant at the 1% level).

The correlation analysis indicates that cost of capital is negatively correlated with all three corporate performance indicators. The Pearson correlation coefficient between cost of capital and ROA is -0.521, showing a moderate to strong negative relationship. The correlation with ROE is -0.487, indicating a moderate negative association, while the correlation with net profit margin is -0.505, suggesting that firms with a higher cost of capital tend to experience lower profitability and financial efficiency.

Regression Analysis of Cost of Capital and Corporate Performance

To further assess the impact of cost of capital on corporate performance, a multiple regression analysis was conducted. The results are displayed in Table 4.8.

Table 4.8 Multiple Regression Results for Cost of Capital and Corporate Performance

Dependent Variable	Independent Variable (Cost of Capital)	β Coefficient	t-value	p-value	Adjusted R^2
ROA	Cost of Capital	-0.478	-6.112	0.000**	0.266
ROE	Cost of Capital	-0.432	-5.428	0.000**	0.242
Net Profit Margin	Cost of Capital	-0.459	-5.739	0.000**	0.251

Note: $p < 0.01$ (significant at the 1% level).

The regression analysis confirms that cost of capital has a significant negative impact on corporate performance. The β coefficient for cost of capital in the ROA model is -0.478 ($p < 0.01$), indicating that for every 1% increase in cost of capital, ROA decreases by 0.478 percentage points. Similarly, the β coefficients for ROE (-0.432) and net profit margin (-0.459) further support the negative influence of cost of capital on financial performance.

The adjusted R^2 values suggest that cost of capital explains approximately 26.6% of the variance in ROA, 24.2% in ROE, and 25.1% in net profit margin, indicating a moderate predictive power of cost of capital in determining corporate performance.

The results provide strong empirical support for H3: Cost of capital has a negative impact on corporate performance. The negative correlation and regression coefficients confirm that firms with a higher cost of capital tend to experience lower financial performance. This outcome suggests that higher borrowing costs and increased shareholder return expectations impose financial burdens on firms, limiting their ability to invest in growth opportunities and maintain profitability.

These findings align with previous research that highlights the importance of minimizing financing costs to sustain corporate performance. In China's manufacturing sector, firms that face higher debt servicing costs and equity return pressures often struggle to reinvest in technological upgrades, innovation, and market expansion, reducing their overall financial efficiency.

Thus, H3 is fully supported, confirming that firms with lower cost of capital tend to achieve higher profitability and stronger financial performance. This result reinforces

the importance of effective financial management strategies, such as optimizing debt-to-equity ratios and securing low-cost funding sources, to enhance corporate success.

4.2 Discussion

4.2.1 Results of the Study

The results of this study provide empirical evidence on the impact of capital structure on corporate performance in China's manufacturing sector, confirming significant relationships between debt ratio, equity financing, cost of capital, and financial performance. The findings indicate that while equity financing contributes positively to corporate performance, both debt ratio and cost of capital exert a negative impact. These results highlight the importance of balanced financing strategies in maintaining financial stability and optimizing firm profitability.

Debt ratio has a positive impact on corporate performance yielded an unexpected negative relationship between debt ratio and corporate performance. The correlation and regression results demonstrated that higher debt levels were associated with lower return on assets (ROA), return on equity (ROE), and net profit margin. This suggests that Chinese manufacturing firms may be over-leveraged, leading to financial distress and reduced operational efficiency. Excessive reliance on debt financing, particularly in a competitive industry, can increase interest expenses, constrain cash flow, and reduce reinvestment opportunities, ultimately diminishing firm profitability. These findings highlight the risks associated with high leverage in emerging markets, where economic fluctuations and credit constraints can amplify financial distress.

Equity financing has a positive impact on corporate performance was fully supported, confirming that firms with higher equity financing achieved stronger financial performance. The positive correlation and regression results indicate that increased equity financing enhances ROA, ROE, and net profit margin. Firms with higher equity financing benefit from greater financial flexibility, reduced debt servicing costs, and improved investor confidence, allowing them to reinvest in growth and innovation. This finding aligns with previous research suggesting that firms with stable equity financing structures experience higher profitability and lower financial risk. The results emphasize that Chinese manufacturing firms can improve long-term financial health by optimizing their equity-to-debt ratios, avoiding excessive reliance on debt while leveraging equity financing for strategic expansion.

Cost of capital has a negative impact on corporate performance confirmed a strong negative relationship between cost of capital and financial performance. Firms with higher cost of capital exhibited lower ROA, ROE, and net profit margins, indicating that high financing costs reduce corporate profitability and investment capacity. Manufacturing firms in China that struggle with high interest rates or increased shareholder return expectations may face difficulties in sustaining long-term financial growth. The results suggest that optimizing financing costs is crucial for improving corporate performance, reinforcing the importance of low-cost capital acquisition strategies, effective financial planning, and risk management in corporate finance.

The findings of this study highlight the critical role of capital structure in shaping financial outcomes, emphasizing that firms must balance debt and equity financing while minimizing financing costs to achieve sustainable profitability. These insights provide practical implications for financial managers and policymakers, encouraging strategic financing decisions that enhance corporate growth and competitiveness.

4.2.2 Discussion

The findings of this study align with and expand upon previous research in corporate finance, particularly in the context of emerging markets. The negative relationship between debt ratio and corporate performance is consistent with studies that emphasize the risks of excessive financial leverage. Research by Li and Zhang (2022) found that Chinese manufacturing firms with debt ratios exceeding 60% experienced declining profitability due to increased interest burdens and financial constraints. Similarly, Myers (2021) argued that firms in developing economies must carefully manage leverage levels to avoid liquidity crises, which aligns with the findings of this study.

The positive impact of equity financing on corporate performance is also supported by prior research. Gao and Li (2022) found that firms with higher equity financing achieved greater financial stability, enabling long-term investment in innovation and market expansion. This study reinforces the argument that equity financing reduces financial risk and enhances corporate growth, particularly in industries that require substantial capital investment.

The negative relationship between cost of capital and corporate performance is consistent with findings from Huang and Zhao (2022), who reported that firms with high financing costs face limited investment opportunities and declining profit margins.

The results support the argument that reducing financing costs is essential for sustaining competitive advantage, particularly in capital-intensive industries.

While the overall findings align with established corporate finance theories, they also offer new insights into capital structure optimization in China's manufacturing sector. The study's results provide empirical support for the Trade-Off Theory, demonstrating that firms must balance debt and equity to minimize financing risks and maximize profitability.

One unexpected finding in this study was the strong negative relationship between debt ratio and corporate performance, despite the initial hypothesis predicting a positive impact. While moderate debt levels can provide tax benefits and financial leverage, the results suggest that Chinese manufacturing firms may be over-reliant on debt, leading to increased financial distress and constrained operational efficiency.

High Interest Burden and Market Conditions – Many Chinese firms rely on state-backed bank loans, but recent economic policies and interest rate fluctuations have increased the cost of borrowing. This may have intensified financial pressure, leading to lower profitability for highly leveraged firms.

Debt Mismanagement and Financial Distress – In emerging markets, firms may overestimate their ability to service debt, resulting in liquidity constraints and cash flow issues. High leverage levels may limit reinvestment opportunities, negatively impacting performance.

Differences in Industry Structure – The manufacturing sector requires continuous capital investment, making firms more vulnerable to economic downturns if they rely excessively on debt. Unlike service-based industries, manufacturing firms must manage asset-heavy operations, which increases financial risk when leverage is too high.

These unexpected findings highlight the complex nature of debt financing and suggest that Chinese firms should adopt more conservative debt management strategies to avoid excessive financial risk. The results reinforce the importance of maintaining an optimal debt ratio, ensuring that firms benefit from financial leverage without compromising profitability.

Another noteworthy observation is the significant impact of equity financing on corporate performance, suggesting that investor confidence and financial flexibility play a crucial role in sustaining profitability. This finding highlights that firms with strong equity financing structures are better positioned to invest in R&D, innovation, and international expansion, contributing to long-term financial stability.

Chapter 5 Conclusion and Recommendation

5.1 Conclusion

This study investigated the impact of capital structure on corporate performance in China's manufacturing sector, with a particular focus on the relationships between debt ratio, equity financing, cost of capital, and financial performance. The study was motivated by the need to understand how manufacturing firms balance their financing strategies to optimize profitability while minimizing financial risk. With the increasing complexity of financial decision-making in emerging markets, the study aimed to provide empirical insights into how different components of capital structure influence return on assets (ROA), return on equity (ROE), and net profit margin in the context of China's industrial landscape.

To achieve these objectives, the study employed a quantitative research design, using survey questionnaires to collect data from 249 financial executives, CFOs, and senior managers in mid-sized and large Chinese manufacturing firms. The research relied on stratified random sampling to ensure the diversity of firms included in the study. Descriptive and inferential statistical analysis methods were applied, including Pearson correlation analysis, multiple regression analysis, and ANOVA, to examine the relationships among the variables and test the study's hypotheses. The research methodology ensured the validity and reliability of findings, providing a comprehensive analysis of the financial strategies adopted by manufacturing firms.

The results of the study revealed three key findings regarding capital structure and corporate performance. First, contrary to initial expectations, debt ratio exhibited a significant negative impact on corporate performance. The analysis demonstrated that firms with higher debt levels experienced lower ROA, ROE, and net profit margins, indicating that excessive financial leverage imposed significant financial constraints. This suggests that many Chinese manufacturing firms may be over-leveraged, facing higher interest burdens and increased financial risk. Rather than enhancing profitability, high debt levels appeared to limit operational flexibility and reinvestment capacity, leading to weaker financial performance.

Second, the study confirmed that equity financing had a significant positive impact on corporate performance. Firms that relied more on equity financing demonstrated higher profitability and financial stability, with improved ROA, ROE, and net profit

margins. This finding aligns with previous research emphasizing that equity financing reduces financial distress risks and enhances a firm's ability to make long-term investments. Manufacturing firms that maintained a balanced capital structure with strong equity backing were better positioned to sustain growth, invest in innovation, and expand market share.

Third, the study found that cost of capital was negatively associated with corporate performance, supporting the hypothesis that higher financing costs reduce profitability. Firms with higher borrowing costs or increased shareholder return expectations struggled to maintain strong financial performance, highlighting the importance of accessing low-cost funding and optimizing financial planning. Managing financing costs effectively was identified as a key determinant of financial success, reinforcing the necessity for firms to implement cost-efficient capital management strategies.

The study provided clear answers to the research questions regarding the impact of capital structure on corporate performance. Debt ratio negatively affected financial performance, equity financing contributed positively, and cost of capital acted as a limiting factor on profitability. These findings emphasize that financial managers must carefully balance debt and equity financing while optimizing capital costs to achieve sustainable corporate growth. The study contributes to the broader field of corporate finance by offering empirical insights tailored to the realities of China's manufacturing sector, reinforcing the applicability of the Trade-Off Theory in financial decision-making.

5.2 Recommendation

Based on the findings of this study, manufacturing firms in China should adopt a balanced capital structure strategy to optimize financial performance while minimizing financial risks. Since excessive reliance on debt financing negatively impacts profitability, firms should carefully evaluate their leverage levels and seek financing solutions that do not overly burden their cash flow. This may involve diversifying debt sources, negotiating lower interest rates, or restructuring existing loans to enhance financial flexibility. Firms should also focus on maintaining a healthy debt-to-equity ratio, ensuring that financial leverage remains within a manageable range to avoid liquidity constraints and excessive interest expenses.

Given the positive impact of equity financing on corporate performance, firms should explore opportunities to strengthen their equity base. This includes attracting

long-term investors, enhancing corporate governance to build investor confidence, and considering stock market listings or private equity investments as alternative financing sources. Firms that effectively manage equity financing can increase their capacity to invest in innovation, technology upgrades, and market expansion, thereby sustaining long-term growth and competitiveness.

Since high cost of capital significantly reduces corporate profitability, firms must implement strategies to minimize financing costs. This involves optimizing capital allocation, improving creditworthiness to secure lower-cost loans, and negotiating favorable terms with financial institutions. Financial managers should also explore government incentives and funding programs designed to support manufacturing enterprises, ensuring that their capital costs remain competitive.

Policymakers and financial regulators should create a more favorable financing environment for manufacturing firms by improving access to affordable credit and investment opportunities. Policies that encourage equity market development, financial transparency, and risk mitigation in corporate borrowing can support firms in optimizing their capital structure while maintaining financial stability. By implementing these strategies, firms in China's manufacturing sector can improve their financial resilience and enhance their overall performance in a highly competitive market.

5.3 Further Study

Future research should explore the sectoral differences in capital structure management within China's manufacturing industry, as firms in different subsectors may exhibit varying financing preferences and risk tolerances. Since this study focused on mid-sized and large manufacturing firms, future studies may examine small and medium-sized enterprises (SMEs) to determine whether capital structure decisions differ based on firm size and market positioning.

Further studies should also consider longitudinal analysis, tracking firms over several years to assess the long-term impact of capital structure changes on corporate performance. A comparative analysis between firms operating in different economic regions of China may provide deeper insights into how regional financial policies and investment climates influence corporate financing strategies.

Additionally, future research could incorporate qualitative methods, such as interviews with financial managers and industry experts, to gain a more nuanced understanding of how capital structure decisions are made in practice. Exploring the psychological and strategic considerations behind financing choices may provide valuable insights that complement the quantitative findings.

Since this study focused on the Chinese manufacturing sector, future research may extend the analysis to other industries, such as technology, services, or energy, to examine whether the findings remain consistent across different business environments. Furthermore, cross-country studies could compare how capital structure influences corporate performance in China versus other emerging and developed economies, offering broader implications for global financial management practices.

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Appendix

Dear Participant,

Thank you for taking the time to participate in this research study on the impact of capital structure on corporate performance in China's manufacturing sector. This study aims to examine how debt ratio, equity financing, and cost of capital influence financial performance. Your responses will remain **strictly confidential** and will be used solely for academic purposes. The survey should take approximately **10-15 minutes** to complete.

Your participation is **voluntary**, and you may withdraw at any time without any consequences. If you have any questions regarding this survey, please feel free to contact the researcher.

We appreciate your valuable input!

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1. What is your current position in the company?
   - Chief Financial Officer (CFO)
   - Financial Manager
   - Senior Executive
   - Accounting Officer
   - Other (please specify): _____
2. How many years has your company been in operation?
   - Less than 5 years
   - 5 – 10 years
   - 11 – 20 years
   - More than 20 years
3. What is the ownership structure of your company?
   - State-owned enterprise (SOE)
   - Privately owned enterprise
   - Joint venture
   - Foreign-invested enterprise
4. What is the total annual revenue of your company?
   - Less than 50 million RMB
   - 50 – 100 million RMB
   - 100 – 500 million RMB
   - More than 500 million RMB
5. What is the approximate number of employees in your company?
   - Less than 100
   - 100 – 500
   - 500 – 1000

- More than 1000

6. What is the primary source of financing for your company?
   - Bank loans
   - Equity financing
   - Government funding/subsidies
   - Other (please specify): _____

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7. The company's current debt ratio is within an optimal range that balances risk and financial efficiency.
   - Strongly Disagree
   - Disagree
   - Neutral
   - Agree
   - Strongly Agree
8. The company relies significantly on debt financing for expansion and investment.
   - Strongly Disagree
   - Disagree
   - Neutral
   - Agree
   - Strongly Agree
9. High debt levels have negatively impacted the company's liquidity and financial stability.
   - Strongly Disagree
   - Disagree
   - Neutral
   - Agree
   - Strongly Agree
10. The interest burden from debt financing affects the company's profitability.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

11. The company regularly evaluates and adjusts its debt ratio to optimize financial performance.

- Strongly Disagree

- Disagree
- Neutral
- Agree
- Strongly Agree

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12. The company frequently issues new equity to raise capital.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

13. Equity financing has positively contributed to the company's financial flexibility and stability.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

14. The company prefers equity financing over debt financing to minimize financial risk.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

15. Shareholder dilution due to equity financing affects corporate decision-making.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

16. The company evaluates the cost and benefits of equity financing before making capital decisions.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

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17. The company closely monitors the cost of capital when making investment decisions.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

18. The high cost of capital limits the company's ability to expand and invest in new projects.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

19. The company actively seeks ways to reduce the cost of financing through strategic financial planning.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

20. Fluctuations in interest rates and market conditions significantly impact the company's cost of capital.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

21. The company has an effective capital structure that balances the cost of capital with financial performance.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

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22. The company has achieved consistent growth in return on assets (ROA) over the past three years.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

23. The company’s return on equity (ROE) reflects strong financial management and profitability.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

24. The company's financial performance is stable despite external economic fluctuations.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

25. Capital structure decisions have had a significant impact on the company’s overall profitability.

- Strongly Disagree
- Disagree
- Neutral

- Agree
- Strongly Agree

26. The company continuously evaluates its capital structure to enhance financial performance.

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly Agree

Thank you for completing this survey! Your responses are greatly appreciated and will contribute to valuable insights on corporate financial decision-making.