

ABSTRACT

The Interdependence of Capital Structure and Business Performance – Financing Decisions among German Listed Companies

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There is a gap in empirical research concerning the determinants of financing decisions and capital structure despite extensive research in this field. This is particularly relevant when considering this issue in the context of the interdependence of capital structure and firm performance. The topic was evaluated in this thesis on the basis of data from German listed firms over the period from 2008 to 2019, covering data from 361 listed non-financial firms during this period. An exploratory attempt was provided in this thesis with the usage of metrics including the debt ratio and the interest coverage ratio for capital structure evaluation, while using a total of eight variables for representing and estimating performance. The methods employed include stepwise forward regression as well as fixed and random panel regression models for various combinations of variables and for different subgroups of the dataset, particularly with respect to differences in size, growth distinctions and industry classification. Also, an artificial neural network (ANN) was calculated with some of the data as well in order to verify the results from the fixed regression models. It was found that particular groups differ in terms of the statistical significance of the variables. Especially the debt ratio of large firms showed a larger responsiveness to the performance variables in the regression models. Generally, there is some selected evidence for a direct relationship between capital structure and business performance as well as a recursive relationship as well. However, in most cases, there is a lack of significant evidence to the findings. Therefore, more research on the issue is encouraged that is geared towards a higher focus on more equal samples of firms.

Keywords: capital structure, business performance, artificial neural network