

The Impact of Capital Structure on the Financial Performance of Firms Listed on the Algiers Stock Exchange

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Abstract

This study examines the impact of capital structure on the financial performance of firms listed on the Algiers Stock Exchange during the period 2010–2024. The research is motivated by the continuing theoretical and empirical debate concerning the role of debt and equity financing in determining firm profitability and value, particularly in developing and relatively inefficient financial markets. Drawing on the Modigliani–Miller proposition, trade-off theory, agency theory, and pecking order theory, the study analyses the relationship between corporate financing decisions and financial performance within the specific institutional and economic context of Algeria. A quantitative empirical approach is adopted using firm-level financial data and appropriate econometric techniques. The analysis considers how variations in firms' debt and equity composition are associated with their financial outcomes while accounting for relevant firm-specific characteristics. By focusing on an underexamined emerging capital market, the study provides evidence concerning the extent to which financing decisions influence corporate performance under conditions of limited market depth and institutional complexity. The findings are expected to contribute to the capital-structure literature and offer practical implications for financial managers, investors, policymakers, and regulatory authorities seeking to improve corporate financing decisions and strengthen the efficiency of the Algerian capital market.

Keywords: capital structure; financial performance; debt financing; equity financing; listed firms; Algiers Stock Exchange; emerging markets; Algeria.

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1. Introduction

Determining the optimal capital structure is considered one of the most complex decisions that financial managers have to make, as this decision has significant implications for the sustainability of the firm, its growth opportunities, and its ability to increase its value. Despite the importance of this decision, the role and impact of financial decisions on the profitability levels and financial performance of firms remain highly debated. The theoretical literature, as well as the empirical findings of financial studies, are conflicting and inconclusive.

The views of financial theories also differ. While the Modigliani and Miller theory denies the existence of such an effect, subsequent theories, such as the trade-off theory, agency theory, and pecking order theory, emphasize the importance of capital structure and its impact on firm performance. This is because the combination of debt and equity is one of the determinants of financial performance through tax benefits and agency problems.

Given this theoretical and empirical controversy, as well as the complex and inefficient nature of the Algerian markets, similar to many markets in developing countries, this study aims to identify the relationship between capital structure and the financial performance of Algerian firms listed on the Algiers Stock Exchange. The nature of this relationship remains a complex issue that has not yet been fully resolved.

Based on the foregoing, the research problem can be formulated as follows:

- What is the impact of capital structure on the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024?

Based on the research problem, the following sub-questions were formulated:

- Does the debt ratio in the capital structure affect the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024?
- Does asset structure affect the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024?
- Does firm size affect the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024?

To answer the research problem and the sub-questions, the following hypotheses were formulated:

H1(1) = The debt ratio in the capital structure has an impact on the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024.

H1(2) = Asset structure has an impact on the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024.

H1(3) = Firm size has an impact on the financial performance of economic firms listed on the Algiers Stock Exchange during the period 2010–2024.

1.2 Research Methodology

To address the research problem and test the research hypotheses, the descriptive-analytical approach was adopted in the theoretical part to examine the general concepts related to capital structure and the financial performance of economic firms, as well as to introduce a set of modern financial performance measurement indicators. In the empirical part, the econometric approach was employed to examine the nature of the relationship between capital structure and the financial performance of Algerian firms listed on the Algiers Stock Exchange during the period 2010–2024.

1.3 Scope of the Study

For the purpose of conducting this study, a sample of firms listed on the Algiers Stock Exchange from different sectors was selected. The sample consists of the pharmaceutical companies Saidal and Biopharm, the hotel company El Aurassi, the beverage manufacturing company Rouiba, OM Invest, and the insurance company Alliance Assurances, covering the period from 2010 to 2024. This period was selected due to the availability of sufficient financial data and information required to conduct the study.

1.4 Previous Studies

- Mahmoud Melik and Noui Noureddine, “The Impact of Capital Structure on the Financial Performance of Small and Medium-Sized Enterprises in Algeria,” *Journal of Research in Financial and Accounting Sciences*, University of M’Sila, Vol. 1, No. 2, 2016.

This study aimed to explain the nature of the relationship between the capital structure of small and medium-sized enterprises in Algeria during the period 2010–2013 and their financial performance, as well as to summarize the financial theories explaining this relationship. Multiple regression models were employed to examine the relationship between capital structure and financial performance.

The study found a statistically significant negative relationship between capital structure and the financial performance indicators of the firms under study. It concluded that the composition of capital structure has an impact on firms’ financial performance.

- Olaniyan S. Olajide, Soetan R. Funmi, and Simon-Oke O. Olayemi, “Capital Structure-Firm Performance Relationship: Empirical Evidence from African Countries,” *Journal of Emerging Trends in Economics and Management Sciences (JETEMS)*, Vol. 8, No. 2, pp. 82–95, 2017.

This study aimed to examine the theoretical and empirical literature concerning capital structure and its relationship with firm financial performance. The study employed the Generalized Method of Moments (GMM) to investigate the relationship between capital structure and the performance of a group of companies listed on the Nigerian Stock Exchange during the period 1996–2014.

The study found a statistically significant negative relationship between the debt ratio, as an indicator of capital structure, and the financial performance of the firms under study. It concluded that the poor performance of African firms can be attributed to their high agency costs.

- Md. Bokhtiar Hasan, A. F. M. Mainul Ahsan, Afzalur Rahaman, and Nurul Alam, “Influence of Capital Structure on Firm Performance: Evidence from Bangladesh,” *International Journal of Business and Management*, Vol. 9, No. 5, 2014.

This study aimed to examine the nature of the relationship between capital structure and firm performance using a sample of 36 companies from Bangladesh listed on the Dhaka Stock Exchange during the period 2007–2012. The study relied on a set of capital structure indicators and financial performance measures using panel data.

The study found a negative relationship between capital structure indicators and financial performance as measured by return on assets (ROA). It also found no significant relationship between capital structure and return on equity (ROE) or Tobin’s Q. In addition, a positive relationship was found between short-term debt and earnings per share (EPS).

The study concluded that the finding of a negative relationship between capital structure and firm performance is consistent with the propositions and foundations of the Pecking Order Theory.

- Hieu Thanh Nguyen and Anh Huu Nguyen, “The Impact of Capital Structure on Firm Performance: Evidence from Vietnam,” *Journal of Asian Finance, Economics and Business*, Vol. 7, No. 4, pp. 97–105, 2020.

This study aimed to examine the relationship between capital structure and financial performance among a group of privately and state-owned firms listed on the Vietnamese stock exchange. Using the Generalized Least Squares (GLS) model, the study found a statistically significant negative relationship between capital structure and the financial performance of the firms under study.

The study concluded that the negative effect of capital structure on financial performance is more pronounced among state-owned firms than among privately owned firms.

2. Theoretical Part

2.1 Concept of Capital Structure

Capital structure refers to a combination of several sources of financing aimed at meeting investment needs. It represents a set of long-term and short-term financing sources, whether in the form of equity or debt (Harkati, 2018, p. 217).

It is worth noting the need to distinguish between the concepts of **financial structure** and **capital structure**. Financial structure includes all liability components, whether equity, short-term debt, or long-term debt. Capital structure, on the other hand, consists of equity and long-term debt.

2.2 Concept and Importance of Financial Performance

Financial performance can be defined as a value-based assessment of the extent to which an organization effectively manages its material and financial resources and its ability to satisfy the interests of the stakeholders of the economic entity. The importance of financial performance evaluation lies in its ability to diagnose the firm's situation in order to determine its capacity to achieve its established objectives through the use of financial indicators and ratios (Ben Aissa, 2023, p. 139).

The importance of evaluating a firm's financial performance can be summarized as follows (Ben Aissa, 2023, p. 149):

- **Measuring and determining what needs to be accomplished:** It encourages the firm to achieve its established objectives with the least possible effort.
- **Providing feedback on progress toward achieving objectives:** This enables the firm to analyze its results and assess the extent to which they correspond to the established objectives.
- **Providing accurate and tangible data:** Such data support effective decision-making.
- **Determining the firm's actual position:** It enables the firm to anticipate its potential future situation and, consequently, assess the extent to which it is achieving its objectives.

2.3 Financial Performance Measurement Indicators

Financial performance reflects the position of an economic entity and its ability to create value for shareholders and other stakeholders. Measuring firm performance is essential for evaluating its strengths and weaknesses and identifying investment opportunities, thereby enabling the firm to make effective financial decisions (Ratten, 2025, p. 399).

Financial performance is measured using financial information and data presented in the firm's financial statements. Performance can be evaluated using several methods and criteria, which can be summarized as follows (Ratten, 2025, pp. 399–403):

- **Return on Assets (ROA):**

The Return on Assets (ROA) measures the efficiency of an economic entity in using its assets to generate net profits. The higher the ratio, the better the firm's performance. It is calculated using the following formula:

- **Return on Equity (ROE):**

This indicator measures the firm's efficiency in generating profits through the use of shareholders' and investors' funds. The higher the ratio, the more attractive the firm becomes to investors seeking to invest their funds in the company. Conversely, a low value of this indicator may indicate problems in the firm's operating activities. Return on Equity is calculated using the following formula:

- **Return on Sales (ROS):**

This indicator expresses the ratio of the firm's net profit to its total revenues. A higher ROS indicates that the firm is capable of managing its costs effectively to generate profits, whereas a lower ratio indicates the opposite. This indicator can be calculated as follows:

- **Earnings per Share (EPS):**

Earnings per Share measures the amount of profit attributable to each share of the firm. A higher EPS indicates greater potential for shareholders to obtain income from their investment in the firm. This indicator is calculated as follows:

- **Price-to-Earnings Ratio (P/E):**

This indicator measures the relationship between the firm's net earnings and its share price in the financial market. A higher P/E ratio generally reflects investors' optimism regarding the firm's future growth prospects.

3. Empirical Part

3.1 Study Sample and Data Sources

The study sample consists of firms listed on the Algiers Stock Exchange, comprising six firms from different sectors: **Saidal, Biopharm, El Aurassi, Alliance Assurances, Rouiba, and OM Invest**, covering the period from **2010 to 2024**. The study period spans **15 years**. Financial data for the firms under study were collected from their financial statements and annual reports, the annual reports of the Algiers Stock Exchange, and the annual reports of the **Commission for the Organization and Supervision of Stock Exchange Operations (COSOB)**.

3.2 Study Tools

To achieve the objectives of the study and test the validity of the hypotheses, **multiple linear regression analysis** was employed to examine the relationship between the independent and control variables and the dependent variable.

To assess the adequacy of the study model, the **Variance Inflation Factor (VIF)** test was used to verify the absence of multicollinearity, while the **Durbin-Watson test** was employed to detect the presence of autocorrelation. The overall significance of the study model was also examined using the **Fisher test**.

The **EViews 12** software was used to conduct the statistical and econometric tests required for the study.

3.3 Study Model

Based on the theoretical literature related to the subject under investigation and previous studies addressing the same topic, the following study model was formulated:

$$ROA = \beta_0 + \beta_1 TDFS + \beta_2 Tang + \beta_3 Size + \epsilon_i$$

Where:

ROA: The dependent variable, **Return on Assets**, expressed as the ratio of net profit to total assets.

TDFS: The independent variable, representing the **debt ratio in the capital structure**, calculated as the ratio of total short-term and long-term debt to the firm's total assets.

Tang: The control variable, **asset structure**, representing the ratio of fixed assets to total assets.

Size: The control variable, **firm size**, represented by the natural logarithm of total assets.

3.4 Normality Test

To assess the distributional properties of the random component (error term) in the linear model, the **Jarque–Bera test** was conducted to test the normality of the residuals. The test yielded a statistically significant statistic, leading to the rejection of the null hypothesis of normally distributed errors at the significance level ($p = 0.00$).

In the context of statistical inference for finite samples, the failure of the errors to follow a normal distribution represents a violation of the classical **Ordinary Least Squares (OLS)** assumptions required to obtain exact finite-sample distributions for the t and F tests (Wooldridge, 2019). However, under the **Gauss–Markov theorem**, OLS parameter estimates remain **unbiased** and **consistent**, and constitute the **Best Linear Unbiased Estimators (BLUE)** regardless of the extent to which the residuals satisfy the normality assumption, provided that the classical assumptions are fulfilled.

Furthermore, based on **asymptotic econometric theory**, large-sample properties derived from the **Lindeberg–Lévy Central Limit Theorem** ensure that as the sample size increases, the sampling distribution of the OLS estimator vector asymptotically approaches a multivariate normal distribution. In applied corporate finance literature, a sample size with more than **30 degrees of freedom (df > 30)** is generally considered sufficient for the Central Limit Theorem to apply, thereby ensuring the validity of hypothesis testing and statistical inference without relying on the normality assumption of the random disturbances (Gujarati & Porter, 2009).

Given the structure of our model, which includes one main independent variable and two control variables ($k = 3$), estimated using $n = 69$ observations, the remaining **65 degrees of freedom** and the observation-to-variable ratio of **23:1** provide strong support for the asymptotic normality of the standard errors of the parameters and the statistical tests conducted.

3.5 Multicollinearity Test

Table 2: Multicollinearity Test

Variables	VIF

TDFS	1.42
Size	1.62
Tang	1.688

Source: Prepared by the researchers based on the outputs of EViews 12.

To assess the validity and adequacy of the study model, the Variance Inflation Factor (VIF) test was conducted to determine whether a multicollinearity problem exists. As shown in Table 2, all independent and control variables have VIF values below 10, which falls within the acceptable range (Hunter, 2010, p. 2229; Meyers, Gamst, & Guarino, 2006, p. 212). Therefore, it can be concluded that the study model is free from a multicollinearity problem.

3.6 Autocorrelation Test

To verify the validity of the model, the Durbin–Watson (D-W) test was conducted to determine whether an autocorrelation problem exists in the study model. The results show that the D-W statistic is **1.52**, which falls within the acceptable range of **1.5–2.5** (Hutcheson & Sofroniou, 1999, p. 49; Hunter, 2010, p. 2229). Accordingly, the existence of an **autocorrelation problem** in the study model can be ruled out.

3.7 Test of Overall Model Significance

Table 3: Analysis of Variance (ANOVA)

Source	df	SS	MS	F	Prob(F)
Regression	3	0.155971132	0.051990377	21.95547719	0.00000
Residuals	65	0.15391943	0.002367991	—	—
Total	68	0.309890562	—	—	—

Source: Prepared by the researchers based on the outputs of EViews 12.

To assess the adequacy of the study model and determine its overall explanatory power, the overall significance of the model was tested using the Fisher test. The results presented in Table 3 show that the calculated F-statistic = 21.95, which is greater than the corresponding critical F-value. Furthermore, the probability of the F-test, Prob(F) = 0.00000, is lower than the 5% significance level.

Therefore, it can be concluded that the study model is statistically significant overall.

8.3 Correlation Analysis

Table 4: Pearson Correlation Matrix

Variables	TDFS	Size	Tang	ROA
TDFS	1	-0.2807	0.3407	-0.6264
Size	-0.2807	1	-0.6140	0.2656
Tang	0.3407	-0.6140	1	-0.5099
ROA	-0.6264	0.2656	-0.5099	1

Source: Prepared by the researchers based on the outputs of EViews 12.

Based on the results obtained from the Pearson correlation matrix, there is a strong negative correlation between the debt ratio in the capital structure and return on assets, with a correlation coefficient of -62.64%. There is also a moderate negative correlation between asset structure and return on assets, with a correlation coefficient of -50.99%. Furthermore, the matrix shows a weak positive correlation between firm size and return on assets, amounting to 26.56%.

The results indicate a relatively strong overall correlation between the independent and control variables and the dependent variable, return on assets, with $R = 70.94\%$. The results also show that the coefficient of determination (R^2) is 50.33%, indicating that the independent and control variables explain approximately 50.33% of the variation in the dependent variable. The remaining percentage is attributable to other factors not included in the study.

Table 5: Correlation and Coefficient of Determination Results

Regression Statistics	Value
R	0.709443702
R²	0.503310366
Adjusted R²	0.480386229
Standard Error	0.04866201
Observations	69

Source: Prepared by the researchers based on the outputs of EViews 12.

Table 6: Multiple Linear Regression Results

Variable	Coefficient	Standard Error	t-Statistic	Prob.

Constant	0.4213	0.1529	2.7552	0.0076
TDFS	-0.2705	0.0483	-5.6002	0.0000
Size	-0.0165	0.0135	-1.2247	0.2251
Tang	-0.1335	0.0365	-3.6570	0.0005

Source: Prepared by the researchers based on the outputs of EViews 12.

9.3 Hypothesis Testing

H1(1): Effect of the Debt Ratio on Financial Performance

H1(1) = There is a statistically significant effect, at the significance level of 5%, of the debt ratio in the capital structure on the financial performance of firms listed on the Algiers Stock Exchange during the period 2010–2024.

According to Table 6, the absolute value of the *t*-statistic for the debt ratio in the capital structure is 5.60, which is greater than the critical value. Furthermore, the probability value (Prob.) is 0.0000, which is lower than the 5% significance level. Therefore, the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted. This indicates the existence of a statistically significant relationship between the debt ratio in the capital structure and the financial performance of economic firms listed on the Algiers Stock Exchange.

Given that the regression coefficient is negative (-0.2705), the relationship is specifically negative: an increase in the debt ratio is associated with a decrease in ROA.

H1(2): Effect of Asset Structure on Financial Performance

H1(2) = There is a statistically significant effect, at the significance level of 5%, of asset structure on the financial performance of firms listed on the Algiers Stock Exchange during the period 2010–2024.

According to Table 6, the absolute value of the *t*-statistic for asset structure is 3.67, which is greater than the critical value. The probability value (Prob.) is 0.0005, which is lower than the 5% significance level. Therefore, the null hypothesis (H0) is rejected and the alternative hypothesis (H1) is accepted. This indicates the existence of a statistically significant relationship between asset structure and the financial performance of economic firms listed on the Algiers Stock Exchange.

Since the regression coefficient is negative (-0.1335), the relationship is negative.

H1(3): Effect of Firm Size on Financial Performance

H1(3) = There is a statistically significant effect, at the significance level of 5%, of firm size on the financial performance of firms listed on the Algiers Stock Exchange during the period 2010–2024.

According to Table 6, the absolute value of the t -statistic for firm size is 1.22, which is lower than the critical value. Furthermore, the probability value (Prob.) is 0.2251, which is higher than the 5% significance level. Therefore, the null hypothesis (H_0) is accepted, indicating that there is no statistically significant relationship between firm size and the financial performance of economic firms listed on the Algiers Stock Exchange.

10.3 Discussion of Results

Based on the results of the multiple linear regression analysis and hypothesis testing, the study found a statistically significant negative relationship between the debt ratio in the capital structure and the financial performance of firms listed on the Algiers Stock Exchange, as measured by return on assets (ROA). These findings are consistent with several previous studies (Hasan, Ahsan, Rahaman, & Alam, 2014, p. 191; Thanh Nguyen & Huu Nguyen, 2020, p. 103; Olajide, Funmi, & Olayemi, 2017, p. 91), while they contradict the findings of Al-Taani (2013, p. 43).

The findings are also consistent with the Pecking Order Theory, which argues that firms with higher internal profits and stronger financial performance have less need to rely on debt financing, and vice versa. This result may also be explained by the absence of an appropriate balance between the costs and benefits associated with debt. The cost of capital may exceed the tax benefits generated by debt. Furthermore, the relatively inefficient and inactive nature of the Algerian financial market limits firms' ability to rely on equity financing, thereby forcing them to resort to debt. This, in turn, creates an impact of debt levels on financial performance, which subsequently affects the firm's financing sources, resulting in a feedback loop between debt and financial performance.

The study also found a statistically significant negative relationship between asset structure and the financial performance of firms listed on the Algiers Stock Exchange, as measured by ROA. These findings are consistent with some previous studies (Thanh Nguyen & Huu Nguyen, 2020, p. 101; Olajide, Funmi, & Olayemi, 2017, p. 89), although they contradict the findings of most previous financial studies conducted in emerging markets such as Vietnam and Nigeria.

This result may be explained by the fact that Algerian firms listed on the Algiers Stock Exchange do not utilize their assets efficiently. The costs associated with the use of these assets may exceed the profits generated from them. In particular, higher depreciation expenses may reduce firms' profit margins, thereby negatively affecting ROA. In other words, the growth in asset size may not be proportional to the growth in profits.

In contrast, the study found no statistically significant relationship between firm size and the financial performance of firms listed on the Algiers Stock Exchange, as measured by ROA. This finding contradicts the results of most previous studies conducted in developing countries such as Vietnam, Nigeria, and Ghana (Thanh Nguyen & Huu Nguyen, 2020, p. 101).

This finding may be explained by the possibility that the performance of firms listed on the Algiers Stock Exchange and their operational activities are largely independent of firm size.

Conclusion

This study sought to examine the nature of the relationship between capital structure and the financial performance of firms listed on the Algiers Stock Exchange. The study revealed a statistically significant negative relationship between the capital structure of firms listed on the Algiers Stock Exchange and their financial performance, as measured by return on assets (ROA). The study also demonstrated a statistically significant negative relationship between asset structure and the financial performance of these firms. Finally, the study found no statistically significant relationship between firm size and the financial performance of economic firms listed on the Algiers Stock Exchange.

The study concluded that the financing decisions of economic firms listed on the Algiers Stock Exchange are directly related to their financial performance, thereby contradicting the propositions of the Modigliani and Miller theory. Conversely, the financing behavior of these firms and its impact on financial performance are consistent with the predictions of both the Trade-Off Theory and the Pecking Order Theory.

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Using AI in paper: no

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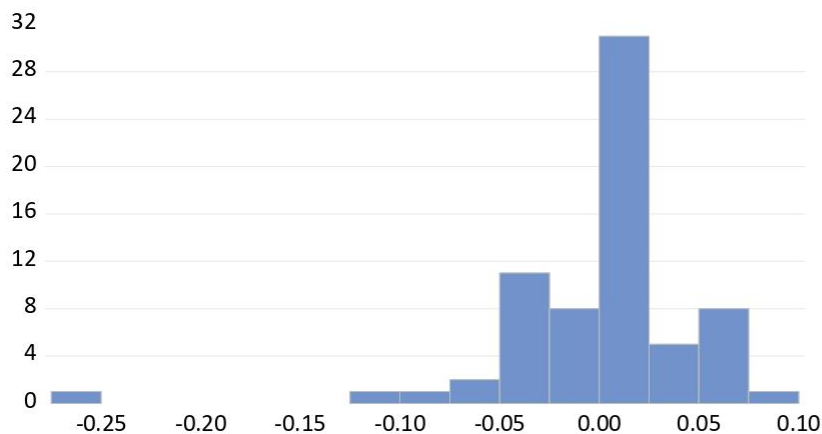
Appendices

6. Appendices

Dependent Variable: ROA				
Method: Least Squares				
Date: 08/02/26 Time: 23:42				
Sample: 1 69				
Included observations: 69				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.421336	0.152921	2.755246	0.0076
TDFS	-0.270519	0.048305	-5.600231	0.0000
TANG	-0.133481	0.036500	-3.657036	0.0005
SIZE	-0.016519	0.013489	-1.224665	0.2251
R-squared	0.503310	Mean dependent var		0.028587
Adjusted R-squared	0.480386	S.D. dependent var		0.067507
S.E. of regression	0.048662	Akaike info criterion		-3.151613
Sum squared resid	0.153919	Schwarz criterion		-3.022100
Log likelihood	112.7307	Hannan-Quinn criter.		-3.100231
F-statistic	21.95548	Durbin-Watson stat		1.525761
Prob(F-statistic)	0.000000			

Correlation

	ROA	TDFS	TANG	SIZE
ROA	1.000000	-0.626389	-0.509939	0.265606
TDFS	-0.626389	1.000000	0.340670	-0.280681
TANG	-0.509939	0.340670	1.000000	-0.613971
SIZE	0.265606	-0.280681	-0.613971	1.000000



Series: Residuals	
Sample 1 69	
Observations 69	
Mean	4.83e-18
Median	0.007828
Maximum	0.082799
Minimum	-0.253580
Std. Dev.	0.047576
Skewness	-2.300577
Kurtosis	13.28074
Jarque-Bera	364.7346
Probability	0.000000

Variance Inflation Factors Date: 08/02/26 Time: 23:47 Sample: 1 69 Included observations: 69			
Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.023385	681.4036	NA
TDFS	0.002333	22.84497	1.141899
TANG	0.001332	13.24725	1.688398
SIZE	0.000182	543.9316	1.620082