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Capital Structure and Financial Performance of Manufacturing Firms in the United Kingdom

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Abstract
This research examined the correlation between Capital Structure and Financial Performance of Manufacturing Firms in the United Kingdom using a quantitative methodology from 2013 to 2022. The study's data was obtained from secondary sources, specifically Bloomberg and EIKON. The dataset comprising 10 manufacturing enterprises from the United Kingdom was analyzed utilizing descriptive statistics and regression analysis with SPSS. The findings demonstrated that Equity Share exhibited a positive association with return on assets. The study indicated that a company's short-term debt positively and significantly correlates with return on assets, whereas long-term debt adversely affects return on assets. The outcome also indicates a correlation between company size and profitability. This suggests that larger enterprises may own greater equity and enhanced access to markets and other economies of scale. This study concluded that the relationship between stock shares and return on assets is highly positive, whereas short-term and long-term debts have a small negative impact on return on assets. This report recommends that the UK government should promote the functionality of the bond market to enhance its operations, hence providing enterprises with additional financing alternatives. This will progressively diminish administrative interference in the bond market and afford it greater capacity for expansion; additionally, the government should allow increased participation of private funds in the capital market, as this will facilitate its development and offer firms a novel means of financing.

Keywords: United Kingdom, Capital Structure, Financial Performance, Bloomberg, EIKON.

1. Introduction

The capital structure is important because it has a direct impact on the returns given to shareholders and the company's resilience to economic downturns. Reaching long-term goals and objectives is essential to a company's survival and expansion, and it affects its financial success. According to Nguyen and Nguyen (2020) [30], a number of things influence a company's financial performance. These elements fall into one of two categories: internal or external. By dividing total capital by equity, the debt-to-equity ratio is a statistic used to evaluate a company's financial structure (Ngatno *et al*., 2021) [29]. Both debt and equity capital can be used to finance an organization's assets. According to Abdullah and Tursoy (2021) [1], the company's net worth, preferred shares, and long-term debt make up the capital structure. A company's unique combination of short- and long-term debt and equity financing defines its capital structure (Rashid, 2020). Businesses can access these markets by issuing bonds and other hybrid instruments. According to Mubeen *et al*. (2020) [26], hybrid securities combine elements of debt and equity instruments. According to Kyere and Ausloos (2021) [22], who state that businesses use a variety of financial mechanisms for operations, manufacturing organizations must carefully choose and modify their strategic finance mix in order to achieve an optimal capital structure, maximize value, and steer clear of excessive leverage. Choosing the right financial structure is essential for any

business, according to Nasimi (2016) [28]. An organization's ability to handle external competitive challenges and optimize returns for multiple stakeholders is greatly impacted by this choice. According to Yapa Abeywardhana (2016) [41], managers must make a critical choice when determining appropriate debt and equity ratios in order to establish an ideal capital structure that seeks to reduce the cost of capital for the business and increase returns for its owners. In order to determine the best mix of these factors for raising stock prices and profits, financial resource managers will conduct a comprehensive analysis (Kyere & Ausloos, 2021) [22]. Leverage affects a company's financial performance to varied degrees, according to Alqatan *et al*. (2019), [7] and other academics. Ogabo *et al*. (2018) [31] analyzed three performance indicators—dividend per share, profits before interest and taxes (EBIT), and earnings per share (EPS)—and found a high correlation between changes in capital structure and a company's success.

The implications of the interaction remain unclear. According to Javed *et al*. (2014), [20] business managers avoid selecting initiatives that have a negative net present value. Leveraging more debt may enhance a business's financial performance. Alqatan *et al*. (2019), [7] indicate a negative correlation between capital structure and company performance in UK enterprises. Small firms sometimes have a tenuous relationship with financial institutions due to their diminished risk tolerance for debt, resulting in interest rates that exceed those of bigger enterprises. The impact of debt on a company's profitability, as an indicator of its financial success, is the focus of much empirical study. The industrial sector, reliant on both short-term and long-term liabilities for operational sustainability, is notably impacted by this (Ramadan, 2019).

The lack of a manufacturing sector impedes national progress (Agnolucci & Arvanitopoulos, 2019). [2] Despite a fall in manufacturing since the 1970s, when it constituted 25% of the nation's GDP, the United Kingdom remains the ninth-largest manufacturing country globally (Babu *et al*., 2024). [10] Recent research by the Office for National Statistics (ONS) indicates that the UK's industrial sector has expanded by 1.4% per year since 1948. The ONS credits the ongoing growth to a more interconnected global economy, a shift from low-productivity to high-productivity goods, advancements in technology and automation, increased research and development expenditure, and a more experienced workforce. The total value of items sold by UK enterprises is a crucial indicator in the UK manufacturing industry. The sum decreased from £401.4 billion in 2018 to £396.6 billion in 2019, representing a decline of 1.2%.

In 2022, the manufacturing sector of the United Kingdom accounted for 24% of its GDP, with the European Union hosting the bulk of its top ten export destinations. The industry's production surpassed £224 billion. Shipping and catering are two instances of services that were once included as manufacturing but are now grouped under other sectors. The transportation and aerospace sectors had a 27.9% rise in exports. The manufacturing sector saw growth in February 2022, mostly due to increased domestic demand. Since the recession started in February 2022, the current decline in new export business is the least severe (S & P, 2024). The influence of capital structure on corporate financial performance has been the focus of several recent research. Results have shown variability. The effect significantly changes based on the distinct characteristics and capital management strategies of various company sectors.

The methodological foundation of this study has strengthened its contribution to the corpus of knowledge. Despite the manufacturing sector's significance to the development and sustainability of the United Kingdom, there is little research on this topic now accessible. Recent studies have analyzed several sectors, including banking, manufacturing, and service provision. The relationship between capital structure and financial performance in manufacturing firms has not garnered much empirical scrutiny. The correlation between capital structure and financial performance in industrialized and emerging nations has been the subject of scholarly investigation. Abdullah and Tursoy (2021) [1], Javed *et al*. (2014), [20] Mubeen *et al*. (2020) [26], Ogabo *et al*. (2021), [31] and Rashid (2020) represent significant contributions to the field. The primary objective of this research is to elucidate the UK manufacturing sector. This research examines the capital structure of UK manufacturing enterprises and its correlation with their financial success over a decade (2013–2022).

The size of a corporation is determined by its total assets, total sales, total profit, total tax obligations, and several other elements. By examining all assets, total sales, and profit margin, one may determine a company's capital structure and value. Research conducted by D'Amato and Falivena (2020) [12] demonstrated the impact of a company's size on its capital structure. Lé and Vinas's (2024) study indicates that a company's size does not influence its capital structure. Ispriyahadi and Abdulah (2021) [19] assert that a firm's size may influence its worth.

This study addresses two key questions: (1) How does a firm's capital structure influence its financial performance? (2) What is the nature of this influence?

However, alternative and null hypotheses were formulated and tested as follows:

H0: Capital structure has no significant impact on the financial performance of UK manufacturing firms.

H1: Capital structure has a significant positive impact on the financial performance of UK manufacturing firms.

Equity shares, short-term debt, and long-term debt are among the independent variables that are employed to evaluate the company's capital structure. A company's performance is measured by Return on Assets (ROA), while Firm Size (FS) is a control variable. The financial information accessible on the Bloomberg website was the source of all-time series data for the variables. The London Stock Exchange is the public trading platform for all of the listed enterprises that comprise the UK manufacturing sector. The dependent variable in this study is return on assets (ROA), while equity shares (ES), short-term debt (STD), and long-term debt (LTD) are independent variables. The independent variable is the magnitude of the company.

The findings could be significantly beneficial to the various stakeholders, as corporate value is evaluated not only by sales but also by customer perception, engagement, satisfaction, and loyalty to the organization and its brands or services. Customers are a critical component of these stakeholders. In the same vein, the findings of this investigation have the potential to substantially improve the existing body of knowledge, particularly in relation to the concurrent integration of capital structure

characteristics, as demonstrated by previous research. This substantiates the incorporation of innovative factors that were suggested in the investigation.

3. Literature Review

The capital that a business owner puts into the enterprise is known as equity. A company's equity may be seen in the gap between its total assets and liabilities as shown on its balance sheet. As stated by Hidayat *et al*. (2020). [18] The share price or an expert or investor-established valuation determines the equity value. Owners' equity, proprietors' equity, or shareholders' equity are all terms that describe this type of account. The term "equity" refers to the money that remains after a company's debts and assets have been paid off. This idea is sometimes referred to as proprietor's equity or shareholders' equity in privately owned businesses. As stated by Alzoubi and colleagues (2022). [8] The total revenue of the business is income before interest, taxes, depreciation, and other costs unrelated to the acquisition. Another technique to assess a company's book worth is to look at the equity held by its shareholders. Equity is a common indicator used by analysts to evaluate a company's financial health. One can determine the equity value of the company by looking at the balance sheet(Baehre & associates, 2022).

Current commitments are expenses that have an impending due date. It is the amount that companies have to repay within a year or throughout the course of their operations. This is important for short-term loans and commercial paper, according to Sardo *et al*. (2022) [38] they are necessary if you wish to finance continuing operations or advance development. These obligations have an impact on the quick ratio, a liquidity metric that influences a company's credit rating. Yang and Zhang (2022), assert that a company's credit rating and liquidity are significantly impacted by its short-term debt. A restricted budget could indicate that you have a lot of debt. The fast ratio calculates how soon a company can use its cash on hand to settle its short-term debts. The ability of a business to maintain a favorable ratio determines its efficiency and dependability. This makes it easier for them to obtain money for operating capital. Businesses occasionally employ debt with a payback or maturity date more than a year in the future to purchase items like buildings and equipment, according to a 2022 study by Aydoğmuş *et al*. This debt is typically classified as loan guarantees and is intended to be held for 20 to 30 years (Ratajczak & Mikołajewicz, 2021). [34]

Long-term debt has the benefit of allowing central banks, such as the Federal Reserve, to maintain low interest rates, which boosts business growth and the housing market. This guarantee, which is backed by assets, is frequently linked to long-term loans and low interest rates. The corporation's financing costs are also very low because interest paid on corporate assets is typically tax deductible. As a result, less money is spent overall on long-term debt (Alarussi, 2021). [4]

According to Farah *et al*. (2021), it also includes (2) capital retention, which is the practice of giving investors a stake in the business in exchange for their money. Owners and shareholders want to remain involved in the business, which is why this occurs. They are seen as a superior long-term capital investment alternative for expansion than debt because the borrower retains some influence over the bank even after making interest payments. According to Surachmad *et al*. (2023), [39] a long-term loan often has a fixed interest rate and repayment schedule that doesn't alter until the loan matures or is paid off, unlike an investment or a short-term credit account. It thus offers a stability rate.

A company's profitability is expressed as a proportion of its total assets using the return on assets (ROA) statistic. The ratio of net income to invested capital in assets is one indicator of a company's health. If the return has increased, management is using financial resources more effectively. According to "Saputra, 2022." [36] Without applying the ROA formula, it is impossible to assess a company's profitability, claims Saputra (2022). [36] Depending on the industry, a return on assets (ROA) may appear differently. Because of their huge asset base, which boosts the denominator in the calculation, capital-intensive enterprises have lower returns on assets (ROAs). It is feasible to create an organization with significant assets and a high rate of return on assets (ROA).

Examining a company's assets, sales, profit, tax liabilities, and other financial indicators can help determine its size. We call this the firm size. By examining the company's total assets, sales, and profit margin, you can determine its capital structure and valuation. D'Amato and Falivena's (2020) [12] study were one that demonstrated how a company's size influences its capital structure. In the meantime, Lé and Vinas (2024) discovered that a company's size had no bearing on its capital structure. According to Ispriyahadi and Abdulah's research, a company's size may potentially have an impact on its value (2021). [19]

4. Empirical Review

Numerous studies have employed empirical analysis to gain a deeper understanding of how businesses decide between debt and equity in corporate finance (Ukaegbu & Oino, 2014). [40] Endri *et al*. (2020), [15] find that growth enhances financial performance based on their examination of the elements that define a company's value in the financial sector. Endri *et al*. (2021), [14] employed five measures of leverage—growth as the independent variable, debt-to-equity ratio (DER), debt-to-asset ratio (DAR), long-term debt-to-total capital (LDTC), and long-term debt-to-total equity (LDTE)—to investigate the connections between capital structure and firm performance in Indonesia. From 2014 to 2018, the most successful capital structures were found in mining businesses that did not engage in shareholder ownership and instead maintained a high amount of debt.

Kinyua (2022), used a desk study review approach to look at how microfinance organizations that take deposits fared when it came to short-term debt and profitability. Finding key themes and knowledge gaps, the investigation combed through the empirical literature. There was a strong positive correlation between short-term debt and the profitability of deposit-taking microfinance companies, according to the research. The study found that short-term debt has a positive and statistically significant relationship with the profitability of microfinance firms that accept deposits.

The financial performance of Jordanian industrial businesses in connection to equity financing was studied by Almanaseer (2024). [6] The sample for this study consisted of 393 board directors from 55 different Jordanian industrial businesses. The research used a purposive sampling technique to select 346 board directors to participate in the study. An online questionnaire was used to gather data for the study, which used a descriptive-analytical technique to test the hypotheses. Equity financing has a good effect on financial performance, according to the research. Since retained earnings have lower costs than other financing options, the research suggests that Jordanian industrial businesses use them as a source of

financing first. What makes this inquiry special is that it zeroed exclusively on the British economy.

Furueze (2022), [17] looked into the relationship between long-term loan financing and the financial performance of publicly listed Nigerian industrial enterprises. The study examined 75 non-financial firms that were listed on the Nigerian Exchange Group from 2010 to 2019. It used an ex-post facto design. As for the inferential analysis, panel regression was used. The study indicated that LTDE significantly improves ROE but has no effect on Tobin's Q. The inverse is true for Long Term Debt to Total Assets (LTDA), which significantly reduces ROE and also lowers Tobin's Q. This article argues that companies should make good use of their long-term debt and work to reduce the agency costs of debt financing, which include things like management opportunism and inefficient resource allocation due to the loan's extended duration.

5.Methodology

The focus of this research was on manufacturing companies in the UK and their financial performance and capital structure from 2013 to 2022. Given that the sample size comprises data from a large number of time series and firms, panel data regression analysis was the quantitative method utilized in this investigation. By running the empirical model through SPSS, we can examine the variance in the regression model's independent and dependent variables. This study used a model to assess how capital structure affects a business's bottom line. The model by Schulz's methodology (2017) was adopted will be used to test the hypothesis as follow:

$$ROA_{it} = \beta 0 + \beta 1 ES_{it} + \beta 2 STD_{it} + \beta 3 LTD_{it} + FIXED\ EFFECTS + \varepsilon_{it} \quad (1)$$

Where:

Acronyms for equity share and return on assets are ROA and ES, respectively. The variables STD and LTD stand for short-term and long-term debt, respectively, and the constant is denoted by β0. The independent variables and capital structure coefficients are represented by β1, β2, and β3. The error term is represented by εit, the fixed effects of the company by i, and the fixed effects of the year by t. Using the dependent and independent variables supplied by the covid dummy, we evaluate the regression model to find the variation in outcomes with and without covid. The model's error term is represented by εit. To evaluate the industry's reaction to COVID-19, the COVID dummy is utilized as a stand-in for fixed effects.

This study looks at industrial companies listed on the London Stock Exchange in the United Kingdom to see how capital structure affects their financial performance. From 2013 through 2022, data was retrieved from Bloomberg and EIKON for the study's cohort of ten organizations. We chose a sample size of 10 UK manufacturing businesses to gain sector-specific insights about the manufacturing industry. A diverse range of capital structures exhibited by companies listed on the London Stock Exchange has laid a strong groundwork for studying the relationship between equity, debt, and financial performance. There was a plethora of longitudinal data available for the years 2013–2022, which could be utilized to study changes in capital structure and performance. With this sample size, we were able to conduct a thorough panel data analysis without compromising statistical validity or the generalizability of our results.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
ROA	6.9890%	7.33460%	100
Equity Shares	455.05	1133.418	100
Short Term Debts	3570.21052	6315.251623	100
Long Term Debt	8300.0659	8505.70575	100
Firm Size	4019.340000	2302.730927	100

Source: SPSS 2025

The statistics employed in this empirical investigation are summarized in Table 1. The mean value of equity shares is 455.05, with a standard deviation of 1133.418, and the mean value of short-term debt is 3570.21052, with a standard deviation of 6315.251623. Additionally, the mean value of 8300.0659 and the standard deviation of 8505.70575 are observed in the long-term debt, while the mean value of 4019.340000 and the standard deviation of 2302.730927 are observed in the firm size. Long-term debt exhibits the highest mean value, 8300.0659, and the most significant standard deviation, 8505.70575. Table 1 illustrates that the return on assets is the lowest and short-term debt is the highest, indicating that operational data values are generally further from the mean. The standard deviation is a measure of the degree of data concentration around the mean.

6. Regression Analysis

This shows the results of regression with the decision criterion to:

Accept H0 if the p-value exceeds 5% and reject H0 if the p-value is less than 5%.

Table 2: Regression Results

Variables	coefficient	p-value	Durbin -Watson stat	1.196859
Firm Size	0.000341	p = 0.064	Adjusted R	0.081591
Equity Shares	0.001951	p = 0.001	R-Squared	0.090868
Short Term debt	0.003053	p = 0.373	Observations	100
Long term debt	-0.000349	p = 0.238		

Source: SPSS Output, 2025

Table 2 presents the regression model's results. The coefficient indicates the relationship between the dependent

and independent variables. Additionally, it includes statistical significance, such as the P-value.

7. Discussion of Findings

The adjusted R-squared measure indicates a minimal degree of explanatory power in this instance, while the R-squared number indicates the model's capacity to account for variance in the data. The Hausman random-effects model should be implemented in accordance with its findings. The performance (ROA) is positively correlated with the averages for Equity Share from 2013 to 2022. Equity holdings demonstrate the highest statistical significance among all variables. In the United Kingdom, manufacturing companies typically incorporate a substantial amount of equity into their capital structures. However, a negative correlation is observed in a limited number of other international studies. It is consistent with the ranking order theory, which posits that firms have a preference for retaining earnings over obtaining external capital or incurring debt. However, the trade-off argument undermines this conclusion by positing that more profitable enterprises will incur greater borrowing as a result of their increased incentive to preserve their income tax shelter.

The ROA of a company is negatively impacted by its short-term debt. This is supported by the preponderance of findings from other international empirical investigations. However, it is statistically irrelevant at the 5% and 1% significance levels. The pecking order theory anticipates a positive correlation; however, the tradeoff and agency theories disagree. In their funding source hierarchy, UK manufacturing firms prioritize internal capital (equity) over debt. The findings substantiate the dominance order theory by demonstrating an inverse correlation between long-term debt and ROA. It implies that companies with stock restrictions are more likely to avoid inefficient investments by utilizing long-term debt. In contrast, agency cost theory posits that this result is contradicted by a negative correlation between the two components. It is probable that firms in emerging industries, which are distinguished by their increased flexibility in future investment decisions, will encounter elevated agency costs. This result also illustrates a correlation between profitability and the scale of the company. This implies that larger enterprises may possess a greater amount of equity and have improved access to markets and other economies of scale. However, the absence of relevance suggests that a firm's profitability is not solely determined by scope.

8. Conclusion and Recommendations

Conclusion

According to the study's findings, equity shares and return on assets (ROA) have a strong positive association, which helps to explain performance variation better. In a logical sense, this finding supports the pecking order hypothesis. There were differing opinions on how capital structure, especially short- and long-term debt, affected the success of businesses, especially manufacturing corporations traded on the London Stock Exchange.

Therefore, a negligible negative association was discovered between return on assets and both short- and long-term debt. We are cognizant of the fact that the UK's economic structure differs from that of other nations in a number of respects, such as spending habits, consumption patterns, inflationary dynamics, and saving habits. Consequently, different cultural viewpoints can be used to deduce each of these, which in turn might impact businesses and individuals. Consequently, in various settings, institutional, political, and cultural variables may impact a company's performance and capital structure. Also, concentrations of firms in terms of size may not always correspond with statistically relevant performance control parameters. A wide range of businesses in the economy are reflected in the aggregated corporate financial ratios, which are shown as the median or mean. It is possible to generalize too much. Consider the possibility that these percentages are biased toward certain industries or are heavily impacted by a handful of companies. Therefore, it is often the case that when these summary data are added together to give an all-encompassing assessment of the business sector, the findings could be misleading.

Recommendations

Subsequent investigations including firms with comprehensive data sets and annual reports spanning a minimum of 20 years may bolster this assertion. The legislative framework should be modified to protect the rights of shareholders, especially minority shareholders. Moreover, prospective researchers ought to concentrate on the impact of the statutory framework on the firm's financial performance.

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