The Impact of Capital Structure on Financial Performance of Syrian Commercial Banks Listed in the Damascus Stock Exchange for the Period (2017-2024)

-An Analytical Study-

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Abstract:

The topic of capital structure is one of the most important topics that have received the attention of scientific research in the field of financial management because it is related to one of the most important financial decisions in the organization, namely the financing decision. Since the goal of all business organizations is to survive, grow and prosper, it is imperative for them to achieve a good level of financial performance, and this can only be done by making the right decisions, especially those decisions of a financial nature that start from the financing decision.

This research deals with the impact of capital structure on the financial performance of Syrian banks listed in the Damascus Stock Exchange for the period 2017-2024. To achieve the objectives of the study, the descriptive analytical approach was adopted, where the study community was represented by the Syrian banks listed in the Damascus Stock Exchange and the research sample was 11 Syrian commercial banks. Their semi-annual financial data were obtained and the weighted least squares multiple regression technique (Wls) was used to analyze the data collected for the study.

The results of the statistical analysis showed a statistically significant positive effect of (0.487) for the determinants of capital structure (debt/equity - debt/assets) on the financial performance of Syrian commercial banks, and a statistically significant negative effect of (-0.029) for the debt/equity ratio on financial performance of Syrian commercial banks. As for the debt-to-assets ratio, it had a statistically significant positive effect of (0.13) on financial performance, while the bank size as an intervening variable between the asset structure and financial performance showed a positive effect of (0.38).

The study showed overleveraging exacerbates financial distress in volatile economies, in line with the dynamics of conflict zones, while larger banks showed resilience by absorbing various risks. This research emphasizes the need for Syrian banks to balance the mix of debt and equity, taking into account operational size as a strategic barrier and guiding policymakers and financial managers in optimizing capital structures under Syria's unique socio-economic constraints.

Keywords: Capital structure; financial performance; Syrian banks.

GENERAL FRAMEWORK OF THE STUDY

1- INTRODUCTION:

The topic of capital structure is one of the most important topics that have received the attention of scientific research in the field of financial management because it is related to one of the most important financial decisions in the company and even its center, namely the financing decision [1]. Capital structure is an important element in the company's wealth and performance, as it is a mix of short- and long-term debt and the company's equity[2] .

Since the goal of all business companies is to survive, grow and prosper, they must achieve a good level of financial performance, and this can only be done by making the right decisions, especially those decisions of a financial nature that start from the financing decision, and in order to do so, the company must choose the appropriate combination of basic financing alternatives, whether through equity funds, resorting to debt, or a combination of the two[3] .

On the other hand, performance measures aim to assess the effectiveness and efficiency with which companies work to provide available resources to create wealth for shareholders, and analyzing financial statements is important to help evaluate the financial performance of companies by extracting a useful ratio that helps those concerned to identify deficiencies and take corrective actions to improve performance. Financial performance measures a company's results and operations in terms of return on assets (ROA) and return on equity (ROE) [4] .

2- PROBLEM OF THE STUDY:

Banks are essential to the functioning of the financial system and the economy as a whole, as they act as intermediaries between savers and investors and facilitate the allocation of funds for productive activities and economic growth. However, to perform this vital service, banks must be profitable and stable. The main source of income for commercial banks is the interest they charge on loans. This means that bank profits tend to vary with the business cycle, increasing in periods of expansion and decreasing in periods of contraction. Given its importance to global economies, the banking industry places a high priority on determining the optimal capital structure[5]. The relationship between capital structure and financial performance in commercial banks has been widely studied worldwide, mainly on stable economies, ignoring conflict zones where macroeconomic fluctuations alter risk-return dynamics. Syria's ongoing civil war (2011–present) has destabilized its financial sector, with commercial banks facing unprecedented challenges, including liquidity shortages, currency depreciation, and eroded public trust. Given the importance of capital structure in economic institutions and its impact on their financial performance, this study will attempt to determine the nature of the relationship between capital structure and financial performance by answering the basic research problem represented by the following:

To what extent does the capital structure represented by (debt on equity - debt on assets) affect the financial performance of Syrian commercial banks represented by (return on assets and return on equity).

[1] Amina. H (2018). The impact of capital structure on the financial performance of the institution, an applied study on Algerian economic institutions (2010-2016). Algeria.

[2] Hussain.A, Aiman . Sh, Aamir. A (2024) .Impact of Corporate Capital Structure on Corporate Performance: An Empirical Study of Emerging Market Using GMM Estimation Technique .Journal of Asian Development Studies(2)13.

[3] Amina. H (2018). The impact of capital structure on the financial performance of the institution, an applied study on Algerian economic institutions (2010-2016). Algeria.

[4] Qatouki. Y (2022). The impact of capital structure on the profitability of cooperative companies - an empirical study -. Al-Maqrizi for Economic and Financial Studies, 6(1), 468-481.

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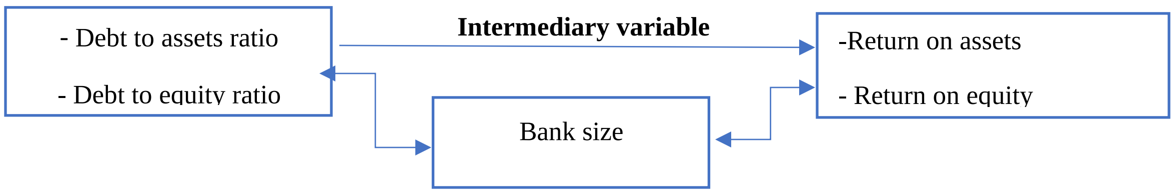
3—MODEL OF STUDY:

Independent variable: Capital structure **Dependent variable**: Financial performance



<u>Independent variables</u>

- Debt to assets ratio (DA): Total debt / Total assets.

- Debt to equity ratio (DE): Total debt / Total equity.

<u>Dependent variables:</u>

- Return on assets (ROA): Net income / Total assets.

- Return on equity (ROE): Net income / Total equity.

<u>Intermediary variable:</u>

Bank size (BS): Natural logarithm of total assets (intermediary variable).

4- OBJECTIVES OF THE STUDY:

This study seeks to demonstrate the relationship between capital structure determinants and financial performance in the commercial banking sector in Syria as a country exposed to unrest, wars, and internal problems that directly affect the banking sector and how it uses financial resources to manage its business and its continuity and take appropriate steps to finance in light of financial problems to achieve the goal of profit and continuity.

In addition to assessing the mediating role of bank size between these variables. This study will guide policy makers and financial managers in improving capital structures in high-risk environments and contribute to the limited literature on Syrian financial markets in light of the existing social and economic constraints.

5-IMPORTANCE OF THE STUDY:

-The theoretical importance of the study lies in: demonstrating the role of the financing decision in supporting companies' activities and its importance in using it. A deeper understanding of this decision and how to choose the appropriate mix of financing sources will be positively reflected in improving performance and maximizing the owner's wealth, in addition to realizing this in the associated financing cost.

- As for the scientific importance: It stems from showing the importance of capital structure in the financial performance of companies and the results achieved in Syria, where banks listed on the Damascus Stock Exchange operate under restricted liquidity and regulatory uncertainty, and therefore understanding these dynamics is of great importance for policy makers and financial managers. The study addresses these gaps by reviewing the literature and demonstrating the impact of debt ratios on financial performance represented by return on assets and return on equity in Syrian commercial banks between 2017 and 2024.

6- HYPOTHESES OF THE STUDY:

Based on the theoretical frameworks and previous empirical findings, the following hypotheses were proposed:

Main hypothesis:

- There is no statistically significant effect of capital structure measured by (debt to equity ratio and debt to total assets ratio) on the financial performance of Syrian commercial banks measured by (return on assets and return on equity).

The following sub-hypotheses branch out from it:

1-There is no statistically significant effect of capital structure measured by the ratio of debt to equity on the financial performance of Syrian commercial banks.

2-There is no statistically significant effect of capital structure measured by the ratio of debt to total assets on the financial performance of Syrian commercial banks.

7- METHODOLOGY OF THE STUDY:

Due to the nature of the topic under study and the information required to be answered and to achieve the objectives of the study, the descriptive-analytical method was adopted. In the descriptive aspect, many references, books, sources and previous studies related to the subject of the study were relied upon. In the applied aspect, the analytical method was used to project the theoretical aspect of the study to the applied aspect by analyzing the content of the financial data. The study used semi-annual financial data to identify data sources during the period between (2017-2024). The data were collected from the lists published in the Damascus Stock Exchange. The weighted least squares (WLS) multiple regression model was used. Correlation analysis and descriptive statistics were also used in the study. The study used SPSS 26 program to extract the results.

8- STUDY POPULATION AND SAMPLE:

The population of the study is the Syrian banks, while the sample included 11 Syrian commercial banks listed on the Damascus Stock Exchange.

9-LIMIT OF THE STUDY:

- Spatial limits: The Syrian Arab Republic - Syrian commercial banks listed on the Damascus Stock Exchange -

- Time limits: The study was conducted in the year 2025.

10-Hypothesis testing:

Based on the results of the identified statistical analysis, the research hypotheses (main hypothesis and sub-hypotheses) were tested) and according to the model that was adopted to identify the variables affecting performance through capital structure. In interpreting the main and subsidiary hypotheses, the following emerged:

- **Main hypothesis**: There is no statistically significant effect of the capital structure measured by (debt to equity ratio and debt to total assets ratio) on the financial performance of Syrian commercial banks as measured by (return on assets and return on equity).

Table No. (6) shows the results of testing this hypothesis. The above results show that the value of (sig) of (0.000 is less than (5%), Thus, we reject the null hypothesis and accept the alternative hypothesis that there is a statistically significant effect of capital structure on the financial performance of Syrian commercial banks.

1-The first sub-hypothesis: There is no statistically significant effect of the capital structure represented by debts on equity on the financial performance of Syrian commercial banks.

Table No. (8) shows the results of testing this hypothesis. The above results show that the value of (sig) of (0.000 is less than (5%),

Thus, we reject the null hypothesis and accept the alternative hypothesis that there is a statistically significant effect of the debt-equity capital structure on the financial performance of Syrian commercial banks.

2-The second sub-hypothesis: There is no statistically significant effect of the capital structure represented by debts on assets on the financial performance of Syrian commercial banks.

Table No. (8) shows the results of testing this hypothesis. The above results show that the value of (sig) of (0.000) is less than (5%).

Thus, we reject the null hypothesis and accept the alternative hypothesis that there is a statistically significant effect of the capital structure represented by debt on assets on the financial performance of Syrian commercial banks.

CONCLUSIONS AND RECOMMENDATIONS

First - CONCLUSIONS

1-The positive impact of capital structure on financial performance: The independent variables explaining the determinants of capital structure have an average effect of(0.487)significant at (sig .000) on the performance of Syrian commercial banks, i.e. there are other variables that affect the variation in financial performance Its percentage is about 52%. Represented by macroeconomic changes such as inflation, interest rates, economic growth, and government policies such as laws and regulations related to taxes and financing, in addition to the Syrian situation of wars, political situations, and sanctions that greatly affected the financial performance. This result is consistent with previous studies by (Emmanuel, Qatouki, 2022).

2-The negative impact of the debt-to-equity ratio: It has a very weak negative correlation (-.02) and has a statistically significant effect (sig .000). Its increase leads to a decrease in the financial performance of Syrian commercial banks listed on the Damascus market specifically. In other words, for every one percentage point increase in this ratio, the banks' financial performance decreases by (-.2) .This negative relationship indicates that debt-to-equity ratios are negatively related to performance measures due to increased costs of financial distress, as higher debt-to-equity ratios in the volatile Syrian economy are likely to lead to higher interest payments, which can erode the bank's cash flows and reduce the funds available for reinvestment, thus increasing risk and exacerbating financial distress, in line with the dynamics of conflict zones, which reduces profitability and thus financial performance of banks, and on the other hand higher debt-to-equity ratios lead to lower long-term capital investments, which is consistent with the dynamics of conflict zones. This result is consistent with previous studies of (Hussain, Aiman, and Aamir, 2024) (ahmad.2018). (Abdel Qader, 2023) (Garba,I. Gurama,Z. Usman,I. Abubakar,I.2024).

3- The positive impact of the debt/asset ratio: There is a weak positive effect of 0.13 statistically significant debt/asset ratio on the financial performance of Syrian commercial banks. It leads to an increase in the financial performance of Syrian commercial banks listed on the Damascus market specifically. In other words, for every one percentage point increase in this ratio, the banks' financial performance increases by 13%. This result is consistent with M&M (1963) who noted that increasing debt levels can improve firm value, suggesting that the optimal capital structure may consist primarily or entirely of debt and emphasizing the need for sufficient capital to ensure operational efficiency (2021Xu et al.) With trade-off theory predicting a positive relationship between the level of debt and firm performance until the optimal capital structure mix is reached, the appropriate capital structure mix minimizes the firm's cost of capital, thereby increasing firm performance. This result is consistent with the study of (Hajisaaid, 2020)(Dinh, H. and Pham, C., 2020).

4- The mediating effect of bank size: Bank size plays an important mediating role in the relationship between ownership structure ratio and financial performance, as it shows a positive and significant effect on both ROA and ROE with 0.38 (significant at sig .000). The positive significant effect of bank size on financial performance can be explained by the fact that the larger the bank's size, the more diversified and less volatile its annual returns become, especially with the effective use of its assets, and its ability to bear a high debt ratio in its capital structure increases compared to banks of smaller size, which leads it to benefit from tax savings resulting from debt, but within certain limits; the advantages of debt outweigh its disadvantages.

Thus, larger banks show resilience by absorbing diversified risks. This is consistent with trade-off theory and agency theory as well as the results of a number of previous studies (Abdel Qader, 2023) Gharaibeh, 2021). Amina, 2018) (Mohammed.A, and Ahmed.R, 2023).

5-Political stability positively affects GDP. The phenomenon of political stability for any country is the fertile ground and the basis for any development or progress in all political, economic, social and cultural fields. This is what we saw in the Syrian crisis, where the Syrian economy witnessed a sharp decline during the years of the "Syrian crisis" in various vital areas of the structure of the Syrian economy and indicators of economic safety

Second - Recommendations:

1- The financial management of banks should work to reduce the ratio of debt to equity by searching for alternative options such as financing by shares or retained earnings, as this study emphasizes the need for Syrian banks to balance the mix of debt and shares, taking into account the operational size as a strategic barrier, as it can help reduce financial risks, improve monetary stability and enhance the financial performance of banks.

2- Boards of directors, policy makers and financial managers should improve capital structures by adopting a balanced approach to debt management within the total capital structure, which is to ensure the debt ratio at the optimal level, and this can be achieved by setting clear debt management policies that support sustainable growth and work to maximize the return on investment capital in light of Syria's unique socio-economic constraints.

3- Focus on the banking sector and support it in all ways because it is the field most capable of collecting savings and transferring them to investors and economic sectors that need financing, and carry out more reforms to modernize it and improve the quality of policies followed in it.

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