

Impact of Capital Structure on Organizational Success on pharmaceutical industries in Nepal

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ABSTRACT

Capital structure decision is an important prerequisite to becoming a successful organization. The current study focuses on the relationship between capital structure and organizational success. It also tries to investigate the impact of capital structure on organizational success. Data was collected from three pharmaceutical industries i.e. Asian Pharmaceutical, Siddartha Pharmaceutical, and Grace Pharmaceutical. Debt and equity were used as independent variables and sustainability, market growth, and competitive advantages were used as dependent variables structured questionnaires were used and 100 questionnaires were distributed but the data could be only collected from 86 respondents. SPSS version 25 and Microsoft Excel were used for data management. This research implements a correlational research design with descriptive and explanatory research design. Mean analysis has been used to explain the position of variables. Correlation and regression analysis have been used to explain the relationship between variables. The positions of the capital structure were at optimum level and the position of sustainability, market growth, Competitive Advantages, and overall organizational success is above satisfactory. Capital structure decisions significantly impact the success of the Organization.

Keywords: *Capital structure, financial performance, market growth, organizational success, sustainability,*

Introduction

Capital structure decision is the vital one since the organizational success is directly affected by such decision. The successful selection and use of capital is one of the key elements of the organization's financial strategy. Hence, proper care and attention need to be given while determining capital structure decision. The purpose of this study is to investigate the relationship between capital structure and organizational success of pharmaceutical industry of Rupandehi Nepal. Capital structure refers to the kinds of securities and the proportionate amounts that make up capitalization. It is the mix of different sources of long-term sources such as

equity shares, preference shares, debentures, long-term loans and retained earnings. The term capital structure refers to the relationship between the various long-term sources financing such as equity capital, preference share capital and debt capital. Organizational Success is condition of achieve the goal in different dimension of organization. Success is related to “the degree to which the firms are able to achieve their objectives subject to the constraints of long run viability” (Miller and Friesen, 1978). Organizational success is not a final, but a potential state that can be approached as long as the organization nurtures a propensity to self-perpetuate (Chandler, 1977).

The idea of modern theory of capital structure is the path breaking contribution of Modigliani and Miller (1958) under the perfect capital market assumption. According to the theory the way in which a firm finances its assets (through the mix of debt and equity) can have no impact on the value of the firm. The value of a firm is derived by the productivity and the quality of the assets in which the firm has invested. Modigliani and Miller (1958) concluded that these restrictive assumptions were necessary to come to grips with the capital structure problem, “Having served their purpose they can now be relaxed in the direction of greater realism and relevance”. Sustainability, market growth, competitive advantages, organizational success and failure are the main issue of an organization. The two principal source of long term financing are equity and debt capital the composition of these two long term financing is known as capital structure (Pandey, 1981). Establishing the optimum capital structure in financial management is an important assignment (Pandey 2009). On the basis of previous study Jaishi and Poudel (2019) conclude that there is no consistency on the impact of size, tangibility, profitability and growth on the leverage. Finding of Chao (2012) indicates that capital structure and corporate governance both have significant interactive influence on the organizational performance. Capital structure and the impact on financial performance had been studied for many years after MM theories (1958 & 1963) have exist, researchers around the world still cannot agree on the extent of the impact.

Organizational success is a central issue in organizational studies. Organizational Success is condition of achieve the goal in different dimension of organization. Success is related to “the degree to which the firms are able to achieve their objectives subject to the constraints of long run viability” (Miller and Friesen, 1978). Organizational success is not a final, but a potential state that can be approached as long as the organization nurtures a propensity to self-perpetuate (Chandler, 1977). Organizational successes always play a vital role in the economy. If organization is success it creates a positive impact to the stakeholders and society. In the cases of organizational success the wealth of stockholders is increased, employs satisfaction is increases, level of employment is increases,

corporate social responsibility and corporate governance are fulfilled, and government revenue also increases.

Pharmaceutical is considered one of the very successful industries that is contributing and has a bright economic future for Nepal. In Nepal, pharmaceuticals are manufacturing medicines for both humans as well as animals. In the Nepalese pharmaceutical industry, there are few companies that have just started formulating the medicine compositions, there are companies manufacturing best qualities of bands and band-aids. The basic objective of this study is to analyze the impact of capital structure on organizational success of pharmaceutical industry in Nepal. Under the guideline of this leading objective and research question, and objectives are set for this study.

Methods and Materials

This study followed the descriptive and correlational research design for examination of the impact of capital structure on the organizational success of pharmaceutical industries. A descriptive approach has been used for assessing the position of the variables in the industries, whereas a correlational approach has been used to analyze the relationship between capital structure and organizational success. To fulfill the purpose of this study Convenience sampling method was used to single out pharmaceutical industries for the survey whereas purposive sampling was used to select respondents who were to fill out the questionnaires. There are 128 pharmaceutical companies register in Nepal. (DDA, 2022). Asian Pharmaceutical Pvt. Ltd., Siddhartha Pharmaceutical Pvt. Ltd., and Grace Pharmaceutical Pvt. Ltd. were selected as sample institutions. Members of finance department, marketing department, and general management department are respondent of this study. The present study is fundamentally based on primary sources of data. The data collection methods of study were questionnaire methods. The questionnaire for this study is designed on the basis of multi-dimension measurement. The questionnaire has applied a 5-point Likert scale questionnaire was used to measure.

SPSS version 25 software of data analysis was applied to examine the quantifiable data. Figures and Tables were used in the presentation of quantitative data. Descriptive analysis (mean, and Standard deviations), was applied to assess the capital structure, Market growth, Competitive Advantages, and Organizational Success. On the other hand correlation analysis was applied to determine the association between capital structures with organizational success. Multiple Regression Analysis methods of data analysis were used to determine the impact of capital structure on organizational success individually and as a bundle.

Results and Discussion

The composite mean value of equity capital analysis is 3.7074 with 0.42236 SD which indicates equity capital activity was tentatively satisfactory. The composite

mean value of debt analysis is 4.200 with 0.4273 SD. This indicates that the usability of debt capital was satisfactory level. The composite mean value of sustainability analysis is 4.2112 with 0.36820 SD. That indicates the position of the sustainability of pharmaceuticals was satisfactory level. The composite Mean value of market growth analysis is 4.1080 with 0.33011 SD. The data of agreement indicate that the position of market growth was satisfactory level. The composite mean value of competitive advantages analysis is 4.2074 with 0.35877 S.D. The data of agreement indicate that position of competitive advantages of pharmaceutical was satisfactory. Composite mean value of organizational success is 4.1755 with 0.26488 S.D. The data of agreement indicate that position of organizational success was Satisfactory. The correlation coefficient between capital structures with organizational success is 0.411 with 0.00 p value that indicate there was positive correlation between capital structures with organizational success. On the model summary of regression analysis of sustainability with debt and equity shown that 16.3% of changes in sustainability was explained by the debt and equity. Regression analysis of market growth with debt and equity, the results of adjusted R square indicates that 9.1% of changes in market Growth was explained by the equity, and debt. Summary of regression analysis model between competitive advantages with debt and equity indicates that 16% of changes in competitive advantages was explained by debt and equity. Regression analysis model between organizational success with debt and equity indicates that 24.2% of changes in organizational success were explained by debt and equity.

To date, there appear to have been various studies conducted on capital structure. However, on organizational success, there is a lack of study. This research set out to determine whether capital structure plays a significant role in organizational success and how this may affect sustainability, market growth, and competitive advantages of organizations. The present study expands the literature on the effect of capital structure on firm performance. Analysis of the data supports that capital structure is positively correlated with organizational success. Modigliani and Miller's (1958) theorem, states that a firm's value is not influenced by its capital structure choices. The signaling hypothesis as developed by Ross (1977) posits that firm performance and debt utilization are positively correlated. In addition, studies conducted by Gansuwan (2012) the researcher identified that there is a significant negative relationship between capital structure and firm performance of listed Swedish firms.

Chao (2012) study Findings that Taiwan-listed info-electronics companies, the capital structure, and corporate governance both have a significant interactive influence on organizational performance. Velnampy & Niresh (2012) analysis shows that there was a negative association between capital structure and profitability. Akomeah, Bentil, and Mushah (2018) studied all the regression results, the leverage variables were inversely related to performance. Jaishi (2020) concluded that capital

structure variables such as debt and equity and firm-specific variables such as size liquidity and tangibility are the major variables with a significant impact on the financial performance of the Nepalese insurance industry analysis of data support that sustainability was positively correlated with debt and equity but Ngoc (2016) found that sustainability of MFIs in developing countries was significantly and negatively affected by capital structure. Bhatta (2019) concluded on his thesis that there was a positive relationship between corporate governance and perceived organizational success.

With the support of the previous study and the results of this study, the researcher concluded that capital structure moderately impacts sustainability market Growth, competitive advantages, and organizational success.

Conclusion

This study has been carried out to identify the impact of capital structure on organizational success in Nepal. The study shows proper capital structure management is a key factor for the organizational success of the organization. The study has indicated that most of the respondents understand the concepts of equity capital, debt capital, and capital structure management practices. The study indicates that firms with good performance base attract lending financial institutions. Leverage advantage was enough utilized by pharmaceutical. The agreement of respondents shows that pharmaceuticals were trying to practice optimum capital structure management.

The study shows position of sustainability, market growth competitive advantages of pharmaceuticals were satisfactory and favored on pharmaceutical. The agreement of employees indicates that pharmaceuticals were well managed in their planning, process, resources, and control to achieve organizational success. Pharmaceutical industries enjoyed in own organizational success. The conclusion of this study capital structure significantly influences organizational success. By this survey, it has shown proper capital structure management is the key factor for the success of the organization. If the management of the company focuses its attention on managing capital structure could lead to success.

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