

## The Effects of Capital Structure Decisions on Firm Performance: Evidence from Turkey

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The capital structure decisions of firms have a crucial importance on firms' financial performance. The capital structure concept is generally described as the combination of debt and equity that make the total capital of firms. The selection of capital components and use of these components play an important role during the determining of financial strategies. Therefore, it is difficult to choose ideal proportion of debt and equity. A good equilibrium of debt and equity can affect the financial performance of company and the value of company. The profitability of an enterprise is directly affected by capital structure decision.

Capital structure is the one of the most puzzling issues on corporate finance literature. Beginning with the Modigliani and Miller's (1958) research, there have been a number of studies which have investigated the relationship between capital structure and financial performance. Modigliani and Miller suggest that the value of a firm is independent from its capital structure in an efficient market when there is no tax factor. Thereby optimal capital structure cannot be reached according to Modigliani and Miller's approaches. This approach has been taken a number of interests from scholars. The research came in for criticism since capital markets are quite different from efficient market which Modigliani and Miller's study based on.

The aim of this study is to investigate the effects of capital structure decisions on firms' profitability in manufacturing sector in Turkey. The data used in this research corresponds to the financial statements of manufacturing companies collected between 2002 and 2011. The regression analysis was employed by using financial ratios obtained from financial statements of firms within the scope of analysis. As a result, the capital structure components which have influence on firm performance have been determined and general assessment has been made.

**Keywords:** Capital Structure, Firm Performance, Optimal Capital Structure, Profitability, Financial Leverage, Regression Analysis.