Abstract

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Relationship between Egyptian Bank’s Capital Structure Decision and Profitability, Growth rate and Size

This article examines the relationship between capital structures and three of the major variables which tend to affect it the profitability, growth rate and the size for the banks listed in Kompass Egypt starting from year 1997 until year 2010. The reason behind ing the Egyptian banks to be the sample of the study was due to two main reasons, the first one was due to the difference between banks capital structure and the capital structure of other firms that are listed in different sectors and the second reason was mainly due to the nature of the banking industry which is considered to be a regulated industry. Banks especially in Egypt suffer from agency problems to a much lesser degree than corporation in non-regulated industry. In Egypt regulatory surveillance limits the choices that banks’ board members have as compared to the choices that board member of the unregulated industries have. This study provided new knowledge on how the previous capital structure theories can be used to explain the relationship between the Egyptian bank’s capital structure and its variables. This study aims to help investors to recognize the link between capital structure and financial performance and choosing the appropriate measures to evaluate and analyze the companies’ financial status. The study finds that the results of the research give both positive and negative relationships between the capital structure decision and the profitability, size and the growth rate. Some of the results support the findings of the literature review while other do not support, those that support the findings of the literature review exist mainly in the relationship between the capital structure and both the profitability ratios as well as the growth rate, while those that do not support exist in the relationship between capital structure and size as not all the findings were giving the same findings of the literature review. In order to test the relationship between the ed variables two statistical tools were applied simple correlation analysis and panel data analysis. These two statistical tools support the same results concerning the tested variables. These findings provide enormous opportunities for further research and are of great importance to financial analysts and other advanced and institutional investors.