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Corporate Financing Strategy and Its Impact on Firm Performance: a Critical Systematic Literature Review

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A B S T R A C T

This study critically examines the relationship between capital structure, leverage, and initial public offerings (IPOs) on firm performance through a systematic literature review. Using Scopus-indexed articles and keyword combinations such as "capital structure," "leverage," and "initial public offering" 29 studies were identified and analyzed. The findings reveal that each factor plays a distinct role in influencing firm performance. While capital structure and leverage significantly affect long-term performance and financial stability, IPOs introduce unique dynamics in terms of market valuation and stakeholder expectations. This review highlights key gaps in existing research, including the need for more comprehensive methodologies to explore these interconnected factors. The study contributes an integrative perspective for future research and strategic decision-making in financial management.

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INTRODUCTION

The company's funding strategy is essential to its sustainability and performance, especially in a competitive market. A practical approach can influence long-term success by maximizing the allocation of financial resources, which includes financial planning, investment decisions, risk management, and performance measurement. Proper financial strategy management can enhance a company's competitiveness through the optimal utilization of retained earnings, operating cash flow, and an efficient capital structure (Ghosh et al., 2011). A company's capital structure, which involves a combination of debt and equity, is critical in achieving effective funding balance and optimizing the company's financial performance (Ahmed et al., 2024)

Company funding can be divided into two main categories: internal and external funding. Internal funding comes from retained earnings and the company's operations cash flow. Retained earnings support the company's growth and expansion without burdening the capital structure with new debt. Operational cash flow also provides flexibility in funding new projects or investments without relying on external sources. On the other hand, external funding involves debt and equity, as seen in initial public offerings (IPOs) or bond issuances. External funding allows companies to obtain capital from outside and diversify financial risk.

Research on funding strategies reveals that capital structure has a significant impact on company performance. Ahmed et al. (2024) show a clear relationship between capital structure and financial performance, with increased capital costs due to high debt. Cuevas-Vargas et al. (2021) emphasize that the right capital structure supports innovation and company performance. Other studies, such as Ibhagui & Olokoyo, (2018) and Anita et al. (2023), show that a lower leverage structure in the capital structure can improve company performance, while Istan et al. (2021) emphasize that wise use of fixed costs can increase shareholder profits when revenues rise.

However, excessive use of debt can also pose risks to the company. (el Alaoui et al., 2017) warns that high debt can threaten the continuity of a company's operations if not managed carefully. Therefore, it is important for companies to balance between debt and equity, taking into account economic conditions and market characteristics. A decrease in leverage or excessive use of debt can affect the long-term financial stability of a company, as noted in the research by (Armanious & Zhao, 2024)

In this critique, it is important to explore how various factors, such as market structure and organizational characteristics, influence the implementation of funding strategies. Research has shown that company size and governance play an important role in determining the relationship between leverage and company performance(Ramli et al., 2019) However, these findings often depend on specific contexts, such as industry or geographic region, which limits the generalization of the research results.

Overall, this critique aims to provide deeper insights into the dynamics of funding strategies and how the management of capital structure can affect company performance. This research identifies the importance of balancing debt and equity, as well as effective financial risk management. Findings from

studies such as Duguleană et al. (2024) and . Cuevas-Vargas et al. (2021) indicate that prudent funding strategies based on in-depth analysis can strengthen competitive positions and support the long-term growth of companies.

THEORETICAL REVIEW

The effect of capital structure on company financial performance

Capital structure refers to the mix of long-term financing sources a firm employs to support its operations. This structure can include debt and equity that the company utilizes to fund its activities and expand its business (Ahmed et al., 2024). Effectively managing capital structure is crucial, as it can impact the company's performance in both the short and long run. The influences of capital structure on company performance are highlighted in several theories.

According to the Modigliani and Miller theory (1958), capital structure does not impact the company's value in a perfect market without taxes. However, when taxes are accounted for, debt can offer tax benefits that may enhance the company's value. The trade-off theory by Brigham and Houston (2011) suggests that companies need to weigh the tax advantages of debt against the potential risk of bankruptcy that could result from over-leveraging. Additionally, the pecking order theory posits that managers typically favour internal financing over external options, and if the debt is necessary, they will choose safer short-term debt options (Bui et al., 2023).

The effect of leverage on company financial performance

In financial contexts, leverage involves utilizing borrowed funds (debt) to acquire assets, aiming to achieve returns that exceed the costs associated with that debt. This approach aims to enhance a company's investment potential while reducing the dilution of shareholder equity(Amin & Liu, 2020). When applied correctly, leverage can magnify profits by enabling firms to invest beyond their equity financing capacity, thus providing shareholders with improved returns on equity. Nevertheless, it also brings about risk since the fixed costs tied to the debt must be paid regardless of the company's revenue, which could lead to significant losses if income falls below expectations.

The use of leverage is guided by the trade-off theory, which emphasizes the balance between its advantages, such as tax benefits and financial flexibility, and its disadvantages, including the risk of financial distress and bankruptcy. While increased leverage can lead to greater returns, it also heightens financial risk, making the firm's capital structure critical in maximizing value through an optimal mix of debt and equity (Lefebvre, 2023). Additionally, the pecking order theory suggests that firms prefer using internal funds like retained earnings for financing before turning to debt, with equity as a last resort due to its higher costs and potential dilution of control. This indicates that leverage often reflects a company's financial health and its ability to secure favorable financing (Zhang & Neupane, 2024). In practice, leveraging decisions must be based on detailed financial analysis, considering market conditions, expected cash flows, and the firm's capacity to meet debt obligations while ensuring long-term stability.

The effect of IPO on company finansial performance

A company's Initial Public Offering (IPO) is a tactical move aimed at generating funds by making its shares available to the general public. This action marks a crucial phase in the company's development, fundamentally altering its financial and operational framework (Putra, 2021). The choice to go public is influenced not only by financial factors but also by various non-financial reasons, such as elevating the company's marketplace profile and decreasing reliance on external funding sources (Pastusiak et al., 2016). According to signaling theory, an IPO can also serve as a signal of the company's quality and future prospects, helping to attract investors and establish credibility in the marketplace (Leland & Pyle, 1977). This aligns with the idea that companies leverage IPOs not only for funding but also for strategic positioning and reputation building.

Studies on the impact of IPOs on company performance present mixed findings. Some research indicates a decline in performance following an IPO, often linked to heightened agency costs, manipulative accounting practices, market timing errors, and the financial burdens associated with increased transparency and regulatory compliance (Zhao et al., 2022; Henderson & Graebner, 2023; Nurunnabi, 2021).Additionally, organizational changes and the need for stricter public disclosures may further reduce operational efficiency (Pastusiak et al., 2016). On the other hand, companies with reputable underwriters tend to experience performance improvements, as the increased investor confidence and capital raised during the IPO can support growth initiatives and enhance long-term performance (Hu et al., 2021).

Company financial performance

A company's performance has emerged as a crucial and frequently debated subject in financial literature, as it is closely linked to its objective of generating value for its shareholders. In this regard, numerous theories have been formulated to comprehend the factors affecting company performance from governance and financial perspectives (Ima et al., 2024). Agency Theory, for instance, centres on the dynamics between shareholders and managers and the repercussions of interest conflicts between them on company performance. According to this theory, managers with greater autonomy in handling the company's cash flow tend to make suboptimal investment choices for personal gain, such as pursuing an expansion of the company they manage instead of focusing exclusively on high-value projects. Ultimately, this can result in increased agency costs and a decline in overall company performance (Nurhayati et al., 2021a).

Signaling theory suggests that profitable firms use strategic decisions, such as leveraging, to highlight their growth potential and build investor confidence (Leland & Pyle, 1977). It also indicates that companies tend to avoid issuing shares when undervalued, as this could signal poor performance to investors and negatively impact market value. Similarly, the Pecking Order theory emphasizes the role of information asymmetry, where managers prioritize internal financing to reduce reliance on external markets and avoid raising investor concerns that could harm the company's performance. Together,

these theories illustrate how financing choices influence investor perceptions and a company's market standing.

METHODOLOGY

A systematic literature review (SLR) serves to identify research gaps by systematically examining, assessing, and synthesizing studies relevant to the research question (Suri & Clarke, 2009) This study applies defined search criteria to identify pertinent articles and employs content analysis to evaluate and interpret them. While capital structure and firm performance have been extensively studied, this critique specifically examines the interplay between capital structure, leverage, and initial public offerings (IPO) and their effects on company performance. "Leverage" refers to the use of debt to finance a company's assets, while an "IPO" marks a company's transition to a public entity, significantly influencing its capital structure. These concepts have been analyzed from diverse perspectives across various countries and industries, highlighting the unique business practices and economic policies that shape their applications and impacts.

This research synthesizes previous quantitative and qualitative studies findings to pinpoint existing knowledge gaps. The primary criteria employed in this SLR follow the methodology utilized by (Yu et al., 2020) in their investigation. The articles collected were filtered according to the following five criteria: 1) Publications after the year 2000 to ensure inclusion of the most current research relevant to the topic. 2) Articles that specifically utilize data from public companies. 3) Studies that assess variables such as leverage, capital structure, IPO, and firm performance. 4) Peer-reviewed articles written in English. 5) Available in full text. Upon establishing the criteria for the articles included in this study, we will categorize the filtered articles by the keywords employed. This will be followed by a comprehensive analysis and synthesis of these articles to identify the existing research gaps.

In alignment with the study's objectives, keywords, phrases, and word combinations such as "leverage," "IPO," "capital structure," and "firm performance," as well as combinations like "leverage" AND "firm performance" or "capital structure" AND "firm performance," among others, were utilized in the search process. Scopus was the chosen database for this study. The selection of this database is grounded in recommendations from several prior studies (Khoo-Lattimore et al., 2019; Paul et al., 2023), which highlight its comprehensiveness and credibility as a source for business and finance literature.

The initial keyword search used "capital structure" AND "firm performance." The outcome of this first search yielded 97 articles relevant to the keyword. After refining the results according to the criteria outlined in points 1-4, 53 articles were found not to meet the criteria and were excluded from this study, resulting in 44 articles. Upon checking criterion number 5, only 12 articles were available in full text. Following this, a second keyword search was executed using the combination "leverage" AND "firm performance." This search produced 85 articles relevant to the keyword. After applying the criteria

as in the first keyword search, particularly criteria 1-4, only 32 articles fulfilled the established requirements. Upon verifying full-text availability, we had access to only 9 articles.

Lastly, the final keyword combination used was "initial public offering" OR "IPO" AND "firm performance." The results from this search indicated 43 articles related to the specified keywords. After reviewing the criteria from points 1-4, 28 articles did not meet the criteria, leaving 15. Finally, after assessing full-text access, we found that we could obtain 8 articles that met the established criteria.

RESULTS

Descriptive Findings in Research Articles (General)

Table 1. Results of Literature Screening

Keyword combination	Results Before Criteria Adjustment	Results After Criteria Adjustment 1-4	Results After Criteria Adjustment 5
“capital structure” AND “firm performance”	97 articles	44 articles	12 articles
“leverage” AND “firm performance”	85 articles	32 articles	9 articles
“initial public offering” OR “IPO” AND “firm performance”.	43 articles	15 articles	8 articles
Total			29 articles

The field of financial studies encompasses a range of subjects, including research on IPOs (for instance, Going Public to Pursue Acquisitions, The Financial Performance of Saudi Arabian IPOs), the effects of leverage (such as Financial Leverage and Profitability in Emerging Markets), capital structure (including The Role of Balanced Capital Structure in Firm Performance), and various elements of corporate governance (like Family Ownership and Its Influence on Market Valuation). Comprehensive descriptions and classifications of these topics can be found in Table 2, 3, & 4. Regarding research themes, critical areas of interest include financial performance after IPOs, the correlation between leverage and profitability, and how capital structure decisions affect company performance. For instance, studies indicate that IPOs yield immediate

valuation benefits but encounter long-term operational difficulties. At the same time, the relationship between leverage and profitability can take different forms, including linear trends, U-shaped patterns, or negative correlations, depending on the circumstances.

The predominant methodological frameworks employed in most studies are mainly quantitative, utilizing methods such as event studies, regression analysis, and panel data examination, which strongly emphasize empirical metrics in investigating financial phenomena. Mixed-method approaches are uncommon, likely due to the difficulties associated with incorporating qualitative insights into the financial research paradigm. Temporal analysis reveals that most studies have been conducted after the year 2000, which aligns with the rapid evolution of global financial markets and corporate governance standards. Current research trends focus on topics such as technology's impact (e.g., Artificial Intelligence's role as a moderating factor in financial decision-making) and the interplay between governance and performance in emerging economies.

Methodological Insights on IPO, Leverage, Capital Structure, and Financial Performance Studies

Research on the relationship between capital structure, leverage, and company performance often relies on quantitative methods, such as panel regression, fixed and random effects models, and FGLS, as seen in studies by Khan & Qasem (2024) and Özcan (2019). While effective in providing statistical insights, these approaches frequently overlook broader organizational factors like cultural influences or strategic direction. Mixed methods, as advocated by Long et al. 2021 and Mun & Jang (2019), are essential for capturing internal and external dynamics, particularly in emerging markets like China, the GCC, and Indonesia. Techniques like stochastic frontier analysis (Ankamah-Yeboah et al. 2021) and DEA (Kim et al. 2023) focus on technical efficiency but often neglect other performance metrics such as profitability or market valuation. Additionally, sectoral studies by Abu-Abbas et al. (2019) and Toušek et al. (2021) address industry-specific factors but frequently omit macroeconomic variables like regulatory frameworks or capital market conditions, limiting their broader applicability.

Certain studies reveal that insufficient control variables and limited data within specific sectors or regions hinder the capacity for generalizing results. For example, those in Egypt. Moreover, research like that of Shahzad et al. (2022) in the Pakistani sugar industry and Boroujeni et al. (2013) in Iran encounters difficulties in capturing long-term trends, mainly based on small sample sizes or restricted study durations.

DISCUSSION

Capital Structure Challenges and Their Impact on Financial Performance

The literature review underscores several challenges associated with managing a company's capital structure, particularly regarding financial performance and contextual influences. One major issue is the reliance on particular forms of debt that can increase financial risk. According to Mohammad et al. (2019) and Sakr & Bedeir (2019), companies in the construction sector of Malaysia and Egypt frequently rely on short-term debt, which raises the likelihood of bankruptcy, especially in emerging markets with limited access to alternative funding sources. In contrast, Özcan (2019) found that within the global airport industry, higher total leverage diminishes operational efficiency (ROA) but enhances return on equity (ROE), indicating a conflicting relationship between efficiency and profitability in debt management.

Table 2 Distribution and finding of capital structure article

NO	NAME (YEAR)	JOURNAL	METHOD	OBJECT	RESULTS	THEORY
1	Khan & Qasem (2024)	Cogent Economics & Finance	Quantitative analysis with using secondary data and panel regression models .	GCC (Gulf Cooperation Council) economy. .	This study finds the existence of a connection between corporate capital structure and the performance of the company.	Trade-Off Theory Pecking Order Theory
2	Mohammad et al. (2019)	The Optical Society	Quantitative analysis with using secondary data and panel regression models .	Construction companies in Malaysia.	This study finds a connection between corporate capital structure and performance finance	Trade-Off Theory Pecking Order Theory
3	Ankamah-Yeboah et al. (2021)	Aquaculture Economics & Management	Quantitative analysis with using secondary data and panel regression models .	companies in mediterranean countries	The study finds that technical efficiency has been increasing accros all the countries	Trade-Off Theory Pecking Order Theory
4	Özcan (2019)	EJTIR Editorial Board - Jaffalaan	Quantitative analysis with using secondary data and panel regression models .	company in industry airport .	his study find existence connection positive between corporate capital structure and performance company in airport industry	Trade-Off Theory Pecking Order Theory
5	Ahmed et al. (2024)	Multidisciplinary Digital Publishing Institute (MDPI)	panel data analysis , method analysis quantitative	company in company sector services in Australia.	This study finds a significant relationship between corporate capital structure and company performance in Australia's services sector.	Trade-Off Theory Pecking Order Theory

6	Mardones & Cuneo (2020)	Taylor and Francis Ltd	panel data analysis	companies in Latin America.	This study finds a significant relationship between corporate capital structure and performance companies in companies in Latin America.	Trade-Off Theory Pecking Order Theory
7	Georgakopoulos et al. (2022)	MDPI	Panel data analysis and regression	Study This focused on companies in the sector energy	This study finds that a balanced capital structure, strong governance, robust company, and proper ownership equity can contribute positively to the profitability and effectiveness of companies in the energy sector.	Trade-Off Theory Pecking Order Theory
8	Sakr & Bedeir (2019)	Sciedu Press	panel data analysis and regression	Study This focused on non-financial companies listed in Egypt	This study shows that company capital structure is influential and significant to performance companies in Egypt.	Trade-Off Theory Pecking Order Theory
9	Shahzad et al. (2022)	LLC CPC Business Perspectives	data analysis and regression	Study This focused on companies in Indonesia	This study shows that performance companies' effects significantly moderate the section between performance comp companies and valuables in Indonesia.	Moderation Theory
10	Nurhayati et al. (2021)	Frontiers Media SA	analysis and regression	Study This focused on the sugar industry	This study shows that a company's good capital structure and governance have a significant impact on its performance in the sugar industry.	Trade-Off Theory Pecking Order Theory
11	Boroujeni et al. (2013)	Maxwell Science Publications	Data analysis and regression	Study This focused on companies in Iran	This study shows that capital structure and structure ownership significantly impact companies' performance in Iran.	Trade-Off Theory Pecking Order Theory
12	Kim et al. (2023)	Multidisciplinary Digital Publishing Institute (MDPI)	Data analysis and regression	Study This focused on companies in the sector ICT	This study shows that the impact of company capital structure is significant on performance profitability for companies in the ICT sector.	Trade-Off Theory Pecking Order Theory

Table 3 Distribution and finding of leverage article

NO	AUTHOR (YEAR)	JOURNAL	METHOD	OBJECT	RESULTS	THEORY
1	Das et al. (2022)	South Asian Journal of Business Studies	Quantitative analysis with secondary data .	Manufacturing companies in Bangladesh Stock Exchange. .	Leverage has different impacts on different levels of profitability. Companies with low profitability are more prone to to impact negative leverage vs. companies with low profitability.	Trade-Off Theory Pecking Order Theora

2	Abu-Abbas et al. (2019)	The European Journal of Comparative Economics	Quantitative analysis with secondary data using a panel regression model .	Manufacturing companies on the Amman Stock Exchange in Jordan.	The connection between financial leverage and the company's performance is negative, as measured by ROA (Return on Asset) and EVA (Economic Value Added).	Trade-Off Theory Agency Theory
3	Bui et al. (2021)	Economics and Business Letters	Quantitative analysis with secondary data using panel regression models	Medium Enterprises companies in Vietnam post-crisis (2008-2016).	There is a non-linear relationship in the form of an inverted --U relationship between the financial leverage and profitability of SME companies in Vietnam.	Trade-Off Theory Agency Theory
5	Vijayakumaran & Vijayakumaran (2019)	Asian Economic and Financial Review	Quantitative analysis with secondary data using panel regression models	Non-financial companies listed on the Stock Exchange in China.	There is a significant connection between financial leverage and the company's performance, as measured by ROA.	Trade-Off Theory Agency Theory
6	Ima et al. (2024)	LLC CPC Business Perspectives	Quantitative with using secondary data and panel regression models .	Companies in Bangladesh.	There is a positive connection between financial leverage and the company's profitability, measured with ROA.	Trade-Off Theory Pecking Order Theory
7	Tripathy & Shaik (2019)	Management Science Letters	Quantitative with using secondary data and panel regression models.	Manufacturing companies in Pakistan.	This study finds a connection between financial leverage and the company's profitability, with greater leverage related to higher ROA.	Trade-Off Theory Pecking Order Theory
8	Toušek et al. (2021)	Prague Economics peper	Quantitative analysis with using secondary data and panel regression models .	Companies in the Czech Republic.	This study finds that financial leverage has a positive impact on the performance of an operational company.	Trade-Off Theory
9	Shaban & Al-Hawatmah (2024)	Virtus Interpress	Quantitative analysis with using secondary data and panel regression models.	Companies in the banking sector.	Artificial Intelligence (AI) moderates the connection between financial leverage and company performance, strengthening the impact of positive financial leverage.	Trade-Off Theory Moderation Theory

Table 4 Distribution and finding of IPO article

NO	AUTHOR (YEAR)	JOURNAL	METHOD	OBJECT	RESULTS	THEORY
1	Wiggenhorn et al. (2007)	The Quarterly Review of Economics and Finance	*Event study* approach (quantitative) with data analysis	a newly public company that makes an acquisition within one year of its IPO.	The results of the study show that companies that have just gone public experience a positive valuation effect after the acquisition announcement, although the long-term performance after the acquisition does not show a significant difference compared to companies that do not make acquisitions.	Free cash flow theory Stock valuation theory
2	Alanazi & Liu (2015)	International Journal of Islamic and Middle Eastern Finance and Management	This study uses matched pairs methodology combined with regression analysis	companies conducting IPOs in Saudi Arabia.	The results of the study show that there is a significant decline in the financial performance of companies after the IPO compared to before the IPO. This decline in performance is directly associated with the IPO event,	Agency Theory
3	Mun & Jang (2019)	International Journal of Contemporary Hospitality Management	This study uses random effects regression analysis with unbalanced panel data.	restaurant company conducting an IPO.	Post-IPO performance varies significantly between companies based on their pre-IPO financial condition and how they use the IPO proceeds.	Trade-Off Theory Pecking Order Theory
4	Gao et al. (2021)	South African Journal of Business Management	using a comprehensive regression model, the data used includes panel and time-series data	204 companies registered with GEMC,	The results of the study show that companies that conduct IPOs experience performance growth during the first three years after going public, but this growth does not continue after the	Signaling Theory

					third year in terms of profitability indicators.	
5	Setia-Atmaja & Chandera (2021)	Investment Management and Financial Innovations	using empirical data analysis by collecting data from companies in Indonesia	public companies in Indonesia that have family ownership.	The long-term performance of family firm IPOs tends to be less favorable than that of non-family firms.	Signaling Theory Agency Theory
6	Tan & Trung (2019)	Asian Economic and Financial Review	pre-post comparison method to evaluate changes in company performance after listing	The data analyzed covers 48 listed and unlisted companies,	Listing on the Vietnam stock market does not improve the company's performance in terms of profitability, operational efficiency and leverage.	Market Theory Asymmetric Information Theory
7	Alanazi et al.(2011)	Corporate Ownership & Control	Quantitative approach with data taken from 2003 to 2010.	The IPO company was conducted in the Gulf Cooperation Council (GCC) region.	It was found that the company's performance decreased after the IPO. This is thought to be due to increased agency costs	Agency Theory Lack of Opportunity Theory
8	Long et al. (2021)	Journal of Risk and Financial Management	Quantitative approach using regression models	200 companies listed on China's GEM stock market	Most of the pre-IPO funds are used for business development to meet the IPO requirements, which drives operational performance improvement.	Signaling Theory Agency Theory

Sectoral and geographical perspectives limit the broader applicability of findings on leverage and capital structure. Shahzad et al. (2022) noted that in Pakistan's sugar sector, the effectiveness of leverage depends heavily on governance factors like board size and audit committees, restricting its relevance to other industries. Similarly, Ankamah-Yeboah et al. (2021) found

that leverage correlates with technical efficiency in the Mediterranean aquaculture sector, but this is influenced by local regulations and environmental conditions. Macroeconomic factors also play a role; Boroujeni et al. (2013) observed that inflation and market volatility amplify leverage's effects in Iran's manufacturing sector, while Kim et al. (2023) reported that smaller firms in South Korea's ICT sector utilize leverage more effectively, albeit based on limited data. Theoretical frameworks, such as the pecking order theory, are often relevant (Georgakopoulos et al., 2022; Sakr & Bedeir, 2019), but challenges arise when applied to debt-reliant sectors like energy companies (Georgakopoulos et al., 2022) or airport operators (Özcan, 2019)

Complexities and Challenges in Understanding Leverage and Firm Performance

The existing literature indicates that leverage creates intricate dynamics affecting company performance, with its impacts varying based on market conditions, industry frameworks, and the stage of company development. Multiple studies, including those by Das et al. (2022) and Abu-Abbas et al. (2019), identify a negative correlation between leverage and corporate performance, especially in the non-financial and manufacturing sectors. Das et al. observe that leverage tends to harm highly profitable companies more than one would expect based on the trade-off theory. Abu-Abbas et al. (2019) stress the necessity of accounting for external factors, such as economic and political environments, which can intensify the effects of leverage.

Additional research underscores the importance of debt composition and local context in understanding leverage's impact on performance. Vijayakumaran & Vijayakumaran (2019) found that in China, long-term debt is generally more advantageous than short-term debt for enhancing performance, though significant government intervention diminishes leverage's role as a governance tool. Bui et al. (2021) identified an inverted U-shaped relationship between leverage and SME profitability in Vietnam, reflecting optimal capital structure theory, but noted that inefficient markets and asymmetric information limit its applicability. Similarly, Tripathy & Shaik (2019) demonstrated a positive link between leverage and performance in India's food sector based on pecking order theory, yet overlooked external factors like government subsidies or evolving consumer preferences. In Bangladesh, these findings are corroborated but criticized for often ignoring bankruptcy risks and agency costs, resulting in incomplete analyses. Alternatively, Toušek et al. (2021) in the Czech Republic disputed the linear relationship between leverage and performance, emphasizing the need to consider sector-specific factors, while Shaban and Al-Hawatmah (2021) highlighted the potential of AI to alleviate leverage-related challenges in Jordan's banking sector, although the specific contributions of this technology remain underexplored.

Forms of Post-IPO Challenges and Their Implications

The literature review highlights that companies face numerous challenges following their Initial Public Offering (IPO), especially regarding operational performance and strategic direction. A key observation is the drop

in operational performance after an IPO, indicated by metrics like Return on Assets (ROA) and Return on Sales (ROS). Research by Gao et al. (2021) and Alanazi et al. (2011) indicates that while IPOs allow firms to access substantial capital, many opt to use these funds for equity ventures like mergers and acquisitions instead of enhancing their core operations. Consequently, this can lead to a decline in operational efficiency. These conclusions align with the study by Long et al. (2021, which suggests that companies in emerging markets such as China frequently emphasize external growth opportunities that may not align with ongoing operational sustainability. This decline is often linked to agency theory, which identifies the conflicts of interest between pre-existing shareholders and new investors that arise once the company goes public (Alanazi & Liu, 2019.). Such conflicts can worsen the ineffective utilization of IPO funds, negatively impacting the firm's long-term performance.

In Indonesia, research by Mun & Jang (2019) highlights that family-owned businesses generally experience greater IPO underpricing compared to non-family firms, primarily due to perceived risks associated with concentrated ownership. However, the presence of a CEO from the founding family can mitigate underpricing by signaling long-term commitment, thereby boosting investor confidence and aligning with the principles of signaling theory. Despite this, family-run firms often underperform in the long term compared to their non-family counterparts, a trend also observed by Alanazi et al. (2011) in the GCC market, where poor governance and internal ownership disputes were identified as key factors. In Vietnam, Bui et al. (2023) found that business lifecycle theory and market timing play significant roles in explaining IPO decisions, as companies aim to capitalize on favorable conditions for raising capital and diversifying ownership. However, transitional markets like Vietnam face challenges such as complex regulations and listing delays, which can hinder the expected benefits of IPOs. These findings suggest that while overarching theories like business lifecycle and market timing are relevant, their application must account for the unique economic and regulatory dynamics of each market.

CONCLUSIONS AND RECOMMENDATIONS

This study has performed a thorough review of existing literature concerning corporate funding strategies, examining the effects of capital structure, leverage, and Initial Public Offering (IPO) on a company's performance. The findings indicate that adopting optimal leverage and capital structure strategies significantly influences company performance, although the outcomes differ depending on the specific industry sector and market context. While leverage can enhance a company's profitability, it also increases the risk of bankruptcy, especially during periods of fluctuating revenue. On the other hand, an IPO allows companies to access capital but often brings about operational challenges post-IPO that require careful management.

The findings offer valuable insights for managers in formulating sound financing strategies by assessing both the advantages and drawbacks of leverage and IPOs while taking into account regulations and market dynamics. These results also assist investors in comprehending the effects of leverage and

IPOs on company performance to make informed investment choices. Furthermore, the study emphasizes the significance of regulations that promote transparency and risk management to foster a stable and effective market conducive to sustainable economic growth.

FURTHER STUDY

This research serves as a foundational resource for the authors in writing theses. Future research could delve deeper into the analysis of leverage, capital structure, and IPOs, as well as investigate external influences such as government policies and macroeconomic stability to enhance understanding in this area.

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