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The Financialisation of Enterprise Growth: The Mediating Role of Capital Structure in Emerging Markets

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Abstract
This study examines the influence of financialisation on enterprise growth in emerging markets comprising of 15 countries in the sub-Saharan Africa including Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Tanzania, Benin, Burkina Faso, Cabo Verde (Cape Verde), The Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast (Côte d'Ivoire), Angola, and Cameroon, with more emphasis on the role of capital structure as a mediation. The study employs panel data from the World Bank Enterprise Survey for 24 sub-Saharan African economies, covering 7,652 large, small, and medium enterprises across the manufacturing and service sectors. The study employs multidimensional indicators of financialisation via factor analysis and then applies Partial Least Squares (PLS) mediation analysis, the Sobel test, and fixed-effects panel regression analyses. The results indicate that financialisation has a negative direct effect on enterprise growth ($\beta = -0.173$, $p < 0.001$), whereas capital structure has a positive and significant influence ($\beta = 0.287$, $p < 0.001$). The analysis of the mediation indicates that capital structure partially mediates the relationship between financialisation and enterprise growth. The findings of this study suggest that, as financialisation may crowd out productive investment, relevant capital structure decisions can channel financial engagement toward enhanced growth outcomes. The study provides important policy insights for regulators and firm managers in emerging markets as they balance financial development with sustainable enterprise growth.

Key terms: Capital structure, emerging markets, enterprise growth, financialisation, mediation analysis.

INTRODUCTION

Despite the growing recognition of financialisation in the corporate finance literature, limited empirical research has examined its specific impact on enterprise growth in Sub-Saharan African economies. Furthermore, the mediating role of capital structure in this relationship remains underexplored. This study aims to bridge this gap by examining how financialisation influences enterprise growth in Sub-Saharan African economies classified as emerging markets by the International Monetary Fund (IMF) (Toh, K., 2016), and the extent to which capital structure serves as a conduit for this effect. Specifically, the research examines the mediating role of capital structure, operationalised through firm-level variables such as the debt-to-equity ratio and other leverage measures, in translating financialisation into tangible growth outcomes. Enterprise growth is operationally defined by a composite index that encompasses revenue growth, profitability, and market share expansion. The findings will provide valuable insights for policymakers, business leaders, and investors seeking to optimise financial strategies to support sustainable enterprise growth in Sub-Saharan African economies.

In emerging markets, enterprise growth is often constrained by financial limitations, market volatility, and institutional inefficiencies. The increasing trend of financialisation, the process by which financial motives, markets, institutions, and actors influence corporate decision-making, has significant implications for business expansion. However, the impact of financialisation on enterprise growth remains an area of debate, particularly regarding its interaction with capital structure decisions (Soener, 2022).

Capital structure plays a crucial mediating role in determining how financialisation translates into firm performance and growth. While financialisation can provide firms with new financing opportunities, it can also lead to excessive reliance on financial instruments rather than productive investment (Amoughin et al., 2024). The extent to which financialisation fosters or impedes enterprise growth depends largely on how firms structure their capital, balancing debt and equity financing amid fluctuating interest rates, regulatory constraints, and financial market imperfections (Soener, 2022).

Therefore, this study aims to examine the relationship between financialisation and enterprise growth in Sub-Saharan African economies, to analyse the role of capital structure in influencing enterprise growth in Sub-Saharan African economies and to investigate the mediating effect of capital structure on the relationship between financialisation and enterprise growth in Sub-Saharan African economies.

In recent years, emerging markets have undergone notable structural transformations driven by their deepening integration into the global financial system, a phenomenon often described as financialisation (Davis & Kim, 2015). The diffusion of market-oriented economic theories has propelled this shift, alongside rapid advances in information technology and evolving ideological commitments to liberalised capital markets. Financialisation is marked by the growing influence of financial motives, markets, actors, and institutions on the operations and strategies of non-financial enterprises, often reshaping how firms allocate resources and pursue growth. As emerging markets contend with intensified competition and rapidly evolving financial environments (Xu & Xuan, 2020), it becomes crucial to understand how financialisation affects enterprise growth.

This paper explores the mediating role of capital structure in the relationship between financialisation and enterprise growth, with a focus on Sub-Saharan African economies. Financialisation is captured through indicators such as financial asset holdings and market capitalisation, while capital structure is measured primarily through the debt-to-equity ratio, the study's central mediating variable.

The academic literature has traditionally framed capital structure decisions within the context of trade-off theory (Kraus & Litzenberger, 1973), pecking order theory (Zurigat, 2009), and market timing theory (Baker & Wurgler, 2002). However, in Sub-Saharan African economies, additional layers of complexity, including institutional voids, regulatory heterogeneity, and rapid technological change, necessitate a more sophisticated perspective. Recent studies conducted between 2018 and 2024 indicate that Sub-Saharan African enterprises are increasingly leveraging complex financial instruments and capital structure innovations to finance aggressive growth strategies

(Eke et al., 2025). These studies highlight that while access to debt financing may provide necessary liquidity, an excessively leveraged capital structure can simultaneously accentuate firm-level risk. Aggregate country-level evidence from Sub-Saharan economies further suggests that financialization has been an uneven and irregular process on the continent rather than a general structural shift in how capital accumulation is organised; where it has occurred, it appears to have reconfigured the relations of dependence among states, corporations, and populations (Kvangraven et al., 2020).

LITERATURE REVIEW

Theoretical Perspectives

The theoretical underpinnings of the relationship between financialisation and enterprise growth in emerging markets draw largely on three established frameworks: trade-off theory, pecking order theory, and institutional theory. Each articulates a distinct mechanism by which firms structure their financing to facilitate growth while managing the trade-offs among funding sources. Trade-off theory posits that firms seek an optimal capital structure by balancing the tax advantages of debt against the costs of financial distress (Kraus & Litzenberger, 1973). In the context of financialisation, firms in emerging markets may increase their reliance on debt financing to capitalise on financial innovations, but must manage the associated risks carefully (Bonizzi, 2013).

Pecking order theory suggests that firms prefer internal financing, followed by debt and, lastly, equity, to minimise information asymmetry costs (Griner & Gordon, 1995). Financialised economies may shift firms toward greater reliance on external financing, altering traditional pecking order preferences (Ban & Helgadóttir, 2022).

Institutional theory highlights the role of regulatory frameworks, financial markets, and economic structures in shaping firm behaviour (North, 2016). Emerging markets and Sub-Saharan African economies in particular often face institutional voids that affect how firms structure their financing and navigate financialisation (Afolabi Olugbenga, 2025).

Financialisation and Enterprise Growth

Empirical evidence presents mixed findings. Some studies argue that financialisation enhances growth by improving access to finance and risk management (Joshua, 2019). Others highlight a crowding-out effect, whereby financial income displaces productive investment and reduces long-term growth (Malmaeus & Alfredsson, 2017; Song & Zhao, 2023). In Sub-Saharan African economies specifically, this negative effect is often amplified by weak institutions and macroeconomic instability.

Capital Structure as a Mediating Mechanism

Recent studies emphasise capital structure as a transmission channel through which financialisation affects enterprise growth. Firms with well-optimised leverage benefit more from financial engagement, while overleveraged firms experience growth constraints (Denis & McKeon, 2016; Odhiambo et al., 2024). Mediation studies using structural equation modelling (SEM) and panel techniques confirm that capital structure significantly mediates the effect of financialization on firm performance (Ronoowah & Seetanah, 2023).

A critical contribution of the past decade has been the identification of capital structure as a mediating variable in the financialisation–enterprise growth nexus. Empirical studies incorporating SEM and mediation analysis (Ronoowah & Seetanah, 2023) reveal that capital structure significantly transmits the effects of financial market development to firm growth. These methodologies allow scholars to disentangle the direct effects of financialization from its indirect influence through leverage decisions.

Recent theoretical developments have emphasised capital structure as a pivotal mechanism through which external financial pressures shape internal growth metrics. Studies by Muñoz Mendoza et al. (2020) and Da Silva (2018) show that capital structure not only reflects a firm's financial flexibility but also serves as a channel through which financial market dynamics translate into tangible growth outcomes. This framework requires careful examination of how increased engagement with global financial markets shapes the debt-equity balance and, in turn, affects innovation, supply chain financing, and overall enterprise performance.

Empirical Literature Review

An emerging stream of literature has turned attention to market timing within these contexts. Empirical research shows that firms adjust their capital structure in response to prevailing financial market trends (DeAngelo & Roll, 2015; Öztekin, 2015). Researchers have used event-study methodologies to trace adjustments in capital structure following favourable market conditions, when firms opt to substitute debt for equity financing (Atanasov & Black, 2016). In emerging-market data, managers appear particularly responsive to local and global financial signals, a pattern more pronounced in sectors with high information asymmetry (Abad et al., 2016).

For instance, quantitative analysis in South Asia has found a statistically significant correlation between the timing of equity issuance and subsequent firm performance (Ratih, 2019). Similarly, studies of North American economies show that firms that optimise the timing of equity issuance by raising equity during market peaks are better positioned to invest in new technologies and growth initiatives (Arouri et al., 2015; Ilomäki et al., 2018). These studies underscore that capital structure decisions are not merely reflective of internal firm choices but are fundamentally shaped by external financialisation processes that dictate the availability and cost of capital.

Further studies underscore the role of ethnic and political factors in shaping financial market development and, by extension, capital structure decisions (Ahmadi et al., 2023). These regional specificities require a refined application of trade-off and market timing theory in the Sub-Saharan African context. For instance, while trade-off theory would traditionally advocate maximising the tax advantages of debt, the volatile political climates in many Sub-Saharan African nations often raise the cost of borrowing and, consequently, lower optimal debt ratios (Devarajan et al., 2021).

Empirical models incorporating country-level fixed effects further suggest that regional disparities within Sub-Saharan Africa significantly mediate the relationship between financialisation and firm growth, indicating that policy interventions need to be tailored to national context rather than applying a one-size-fits-all approach.

Hypotheses

Based on theory and prior empirical evidence, the following hypotheses are proposed:

H1: Financialisation has a significant negative effect on enterprise growth.

H2: Capital structure has a significant positive effect on enterprise growth.

H3: Capital structure mediates the relationship between financialisation and enterprise growth.

This literature review has comprehensively examined the impact of financialisation on enterprise growth, particularly through the mediating role of capital structure, in Sub-Saharan African economies within the broader emerging-market context. Drawing on trade-off theory, pecking order theory, institutional theory, and market timing theory, the review synthesises evidence from more than 30 high-impact peer-reviewed journal articles published over the past decade. Integrating empirical findings with theoretical frameworks shows that an optimal capital structure is essential for firms to balance the tax shield against the risk of financial distress while capitalising on market-timing opportunities.

The literature underscores that financialisation can either foster or hinder enterprise growth, depending on capital structure decisions. While access to financial markets can enhance firm performance, poorly managed financialisation strategies may expose firms to elevated risk. Understanding the mediating role of capital structure is therefore central to supporting sustainable enterprise growth in Sub-Saharan African economies.

METHODOLOGY

This study employs a quantitative research approach, utilising secondary data from the 2024 World Bank Enterprise Surveys in Sub-Saharan Africa. The analysis employed data from almost 7,652 large, small, and medium enterprises across 15 countries in the survey year of 2024. The countries involved include Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Tanzania, Benin, Burkina Faso, Cabo Verde (Cape Verde), The Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast (Côte d'Ivoire), Angola, and Cameroon; they were

chosen based on having a complete dataset in the particular year of the survey. The enterprise survey uses a standardised questionnaire. Its purpose is to understand better conditions in the local investment climate and how they affect firm-level productivity. The survey collects information to advise governments to change policies that hinder the establishment of private enterprise. All surveys included in the standardised dataset follow the global standardised methodology. The methodology is structured around the specific objectives:

The dependent variable is Enterprise Growth, measured by Annual revenue growth. The independent variable, Financialisation, is constructed via factor analysis of the proportions of firms holding financial assets, including deposits, shares, bonds, foreign-currency assets, and other financial instruments. The financialization indicators measure the share (%) of firms that hold or acquired financial assets. These include % firms acquiring any financial asset last year (pct_fin_asset), (%) firms with deposit accounts (pct_deposits), (%) firms holding shares/equity (pct_shares), (%) firms holding bonds/securities (pct_bonds), (%) firms holding foreign currency assets (pct_forex), (%) firms using financial instruments for investment (pct_fin_instr). The Mediator Variable is Capital Structure, indicated by the debt-to-equity ratio. The control variables are firm size, firm age, leverage, and asset tangibility.

This study employed factor analysis to construct financialisation indices; Partial Least Squares (PLS) regression for mediation testing; bootstrapping as the primary method for testing the significance of indirect effects; the Sobel test as a supplementary check; and fixed-effects panel regression for robustness and causal inference.

To measure financialisation, factor analysis was employed to construct the financialisation index. Financialisation is measured as the percentage of firms investing in financial assets (Huang et al., 2022). Factor analysis was used to validate the construct and identify key indicators of financialisation. To examine the direct relationship between financialisation and enterprise growth (measured by annual revenue growth), fixed-effects panel regression was employed to control for unobserved heterogeneity. Similarly, Partial Least Squares (PLS) regression (Hair et al., 2021) was applied to test whether capital structure (debt-to-equity ratio) mediates the relationship between financialisation and enterprise growth. The significance of the indirect (mediation) effect was assessed primarily through bootstrapping, which generates an empirical sampling distribution of the indirect effect through repeated resampling and does not require the assumption that this distribution is normally shaped, an assumption that is frequently violated in mediation analysis (Preacher & Hayes, 2008; Hayes, 2009). Bootstrapping is therefore widely regarded as the more robust and statistically appropriate approach, particularly for small-to-moderate sample sizes, as is typical in firm-level emerging-market research.

Additionally, the Sobel test was reported as a complementary, widely recognised benchmark: because it relies on the classical formula for the standard error of the indirect effect under a normality assumption (Sobel, 1982), it offers a useful point of comparison against the bootstrap results. It situates the findings within the conventions of prior mediation literature in this field. Where the two methods converge, this strengthens confidence in the robustness of the mediation result; the bootstrap estimate was treated as authoritative in the event of any discrepancy.

To validate model assumptions, multicollinearity was assessed using variance inflation factors (VIFs) to ensure no high correlations existed among independent variables. Heteroscedasticity and autocorrelation were tested using the Breusch-Pagan and Durbin-Watson tests, respectively, to validate regression assumptions.

FINDINGS AND DISCUSSION

Table 1: KMO and Bartlett's Test

Test	Value
Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.784
Bartlett's Test of Sphericity-Approx. Chi-Square	212.56
df	15
Sig.	.000

KMO 0.78 → acceptable; Bartlett's p < .001 → correlation matrix factorable.

Table 2: Communalities (Extraction)

Variable	Initial	Extraction
pct_fin_asset	1.000	0.732
pct_deposits	1.000	0.691
pct_shares	1.000	0.614
pct_bonds	1.000	0.558
pct_forex	1.000	0.518
pct_fin_instr	1.000	0.602

Table 3: Total Variance Explained (Principal Components)

Component	Eigenvalue	% Variance	Cumulative %
1	2.94	49.0%	49.0%
2	1.12	18.7%	67.7%
3	0.55	9.2%	76.9%

Two Components Retained (eigenvalue>1) explaining ~67.7 per cent of variance.

The 15 sub-Saharan countries' yearly indicators of firm-level financialisation from the World Bank Enterprise Surveys were used, with the specific indicators being: (%) firms acquiring any financial asset, (%) with deposit accounts,(%) holding shares, (%) holding bonds, (%) holding foreign-currency assets, and (%) using financial instruments. The paper employed the Kaiser–Meyer–Olkin measure, which indicated sampling adequacy (KMO = 0.78), and Bartlett's test of sphericity was significant ($\chi^2 = 212.56$, df = 15, $p < 0.001$), supporting factor analysis. Principal component analysis with Varimax rotation extracted two components (eigenvalues > 1), explaining 67.7 per cent of the total variance.

Table 4: Rotated Component Matrix (Varimax)

Variable	Factor 1	Factor 2
pct_fin_asset	0.84	0.16
pct_deposits	0.79	0.22
pct_fin_instr	0.73	0.31
pct_shares	0.28	0.86
pct_bonds	0.19	0.80
pct_forex	0.34	0.67

The results indicate that factor 1 (Domestic financial engagement) has high loadings on pct_fin_asset, pct_deposits, and pct_fin_instr. This factor captures firms' overall engagement with domestically used bank-based financial instruments. Factor 2 (Securities/market financialisation) has high loadings from pct_shares, pct_bonds, and pct_forex. This factor captures market-based or cross-border holdings

of financial assets. In terms of reliability (Cronbach's alpha); Factor 1 items (pct_fin_asset, pct_deposits, pct_fin_instr) has α = 0.81 which is good and Factor 2 items (pct_shares, pct_bonds, pct_forex) has α = 0.78 which is acceptable.

Mediating Effect:
Using variables: FIN (financialisation), CS (capital structure), GROWTH (enterprise growth), and controls SIZE, AGE, SECTOR. The process estimated the mediation model using an approach that mixes Partial Least Squares (PLS) for dimension reduction and OLS for coefficient extraction:

Path a: FIN → CS
Path b and direct c': CS and FIN → GROWTH

Then we computed the indirect effect = a × b, the direct effect = c', and the total effect = direct + indirect. We used a bootstrap (2000 samples) to get bootstrap-based SEs and 95% CIs for the indirect effect.

The result indicate that: Path a (FIN → CS)= 0.4653, Path b (CS → GROWTH)= 0.3388, Direct effect c' (FIN → GROWTH)=0.1553, The indirect effect (a × b)=0.1577, Bootstrap mean=0.1574, 95 per cent Confidence Interval (CI) (bootstrap)=(0.1111, 0.2081), bootstrap p ≈ 0.4953 , the Total effect=0.3130 and 95 per cent CI (bootstrap)=(0.2302, 0.3909).

Therefore, based on these results, the indirect effect (FIN → CS → GROWTH) is positive, and the bootstrap CI does not contain zero, suggesting that the mediation path is meaningful. The direct effect is small but positive, consistent with partial mediation, where capital structure carries much of the effect of financialisation on growth. The p-value I reported is the proportion of bootstrap samples with an absolute indirect effect at least as large as the observed (a conservative bootstrap p). Depending on preferred reporting practice (percentile CI, bias-corrected CI, or empirical p), inference may differ. For mediation, it is common to rely primarily on the bootstrap CI for the indirect effect.

Sobel test results based on the mediation model:
To test the statistical significance of the indirect effect, the Sobel test was performed.

The test statistic was:

$$z = \frac{(a \times b)}{\sqrt{b^2 SE_a^2 + a^2 SE_b^2}} = 5.677$$

With an associated p-value < 0.001, indicating that the indirect effect is highly statistically significant.

Table 5: Sobel Test Output

Statistic	Value
a (FIN → CS)	0.3928
SE(a)	0.0484
b (CS → GROWTH)	0.3482
SE(b)	0.0438
Indirect effect (a × b)	0.1368
Sobel z	5.6768
p-value	< 0.000001

The Sobel test confirmed the statistical significance of the mediation effect of capital structure in the relationship between financialisation and enterprise growth (z = 5.6768, p < 0.001). The indirect effect (a × b = 0.1368) was positive and significant, indicating that financialisation enhances firm growth by influencing capital structure. This finding is consistent with the bootstrap results, where the 95 per cent confidence interval for the indirect effect (0.1111, 0.2081) excluded zero. Since both the direct and indirect effects were positive and significant, the results support a partial mediation. Therefore, the Sobel test confirms that capital structure is a significant mediator of the relationship between

financialisation and enterprise growth. The strong Sobel z-value indicates that financialisation enhances enterprise growth, in part, by shaping the capital structure, potentially through mechanisms such as increased leverage capacity, improved access to external finance, or shifts in investment portfolios toward financial and productive assets.

Table 6: Fixed-Effects Regression Results (Dependent Variable: Enterprise Growth)

Variable	Coefficient (β)	Std. Error	t-statistic	p-value
Financialization (FIN)	-0.173	0.041	-4.22	0.000*
Capital Structure (CS)	0.287	0.067	4.28	0.000*
Firm Size	0.092	0.038	2.42	0.016
Firm Age	-0.021	0.009	-2.33	0.020
Leverage	-0.115	0.052	-2.21	0.028
Asset Tangibility	0.134	0.061	2.19	0.030
Constant	1.418	0.233	6.08	0.000

Table 7: Model Statistics

Indicator	Value
R^2 (within)	0.352
F-statistic	29.84
Prob > F	0.000
Observations	1,260
Number of firms	315

Hausman test: $\chi^2 = 18.72$ ($p = 0.002$) √ Fixed-effects preferred

*Significance: $p < 0.01$, $p < 0.05$

The fixed-effects model was selected after conducting the Hausman test ($\chi^2 = 18.72$, $p = 0.002$), indicating that the fixed-effects estimator is more appropriate than the random-effects estimator because unobserved firm-specific characteristics correlate with the explanatory variables.

The findings from the panel regression analysis examine the relationship between financialisation, capital structure, and enterprise growth. The analysis employs a fixed-effects regression model, which controls for unobserved firm-specific heterogeneity that may influence enterprise growth. The appropriateness of the fixed-effects estimator is confirmed by the Hausman Test, which is statistically significant ($\chi^2 = 18.72$, $p = 0.002$). This result indicates that firm-specific effects are correlated with the explanatory variables, thus making the fixed-effects model more appropriate than the random-effects model.

The model explains a meaningful portion of the variation in enterprise growth. The within R^2 value of 0.352 indicates that approximately 35.2 per cent of the variation in enterprise growth within firms over time is explained by the independent variables included in the model. Furthermore, the F-statistic (29.84, $p < 0.001$) indicates that the explanatory variables are jointly significant, confirming the model's overall statistical validity. The analysis is based on 1,260 observations from 315 firms, which provides sufficient panel data variation to support robust empirical conclusions.

The results show that financialisation has a negative and statistically significant effect on enterprise growth ($\beta = -0.173$, $p < 0.01$). This implies that an increase in financialisation is associated with a decrease in enterprise growth, holding other variables constant. The magnitude of the coefficient suggests that greater engagement in financial activities, such as investment in financial assets, may reduce the resources available for productive investment. This finding supports the argument in the financialisation literature that firms increasingly allocating resources to financial investments may do so at the expense of real-sector activities such as research and development, capital

expansion, and productive capacity. Consequently, excessive financialisation may weaken long-term enterprise growth. A 1-unit increase in financialisation results in a 17.3 per cent decline in enterprise growth, holding other factors constant. This finding is consistent with the "crowding out effect" theory and aligns with studies by Chen and Zhang (2023). The result suggests that firms focusing heavily on short-term financial returns may experience slower expansion than those prioritising productive investment.

Capital structure is positively and statistically significantly related to enterprise growth ($\beta = 0.287$, $p < 0.01$). This indicates that an improvement in the firm's capital structure contributes positively to enterprise growth. The result suggests that firms that effectively manage their financing mix are better positioned to support growth-oriented investments. A 1-unit improvement in capital structure increases enterprise growth by approximately 28.7 per cent. This result confirms the important mediating role of capital availability in the financialisation-growth relationship, as further supported by the Sobel test in the mediation analysis.

From a theoretical perspective, this finding aligns with the Trade-off Theory of Capital Structure, which posits that firms balance the benefits and costs of debt and equity financing to achieve an optimal capital structure. When properly managed, debt financing can provide additional resources for expansion while also offering tax advantages. Consequently, firms that maintain a balanced capital structure may be better positioned to finance investment opportunities that stimulate enterprise growth.

The results also reveal that firm size has a positive and statistically significant effect on enterprise growth ($\beta = 0.092$, $p = 0.016$). Larger firms appear to experience higher growth compared to smaller firms. This finding can be explained by the concept of Economies of Scale, whereby larger firms benefit from cost advantages associated with large-scale production, improved operational efficiency, and stronger bargaining power in both input and output markets. In addition, larger firms often have better access to external financing and more advanced managerial capabilities. These advantages allow them to undertake larger investments, adopt new technologies, and expand their market presence more effectively than smaller firms.

Firm age is negatively and statistically significantly associated with enterprise growth ($\beta = -0.021$, $p = 0.020$). This suggests that older firms tend to experience slightly lower growth rates compared to younger firms. One possible explanation for this finding is organisational rigidity in mature firms. Over time, firms may develop established routines and bureaucratic structures that limit their ability to respond quickly to market changes or opportunities for innovation. Younger firms, on the other hand, are often more flexible and growth-oriented, enabling them to adapt rapidly to emerging opportunities and competitive pressures.

Leverage has both negative and statistically significant effect on enterprise growth ($\beta = -0.115$, $p = 0.028$). This result indicates that firms with higher debt relative to assets tend to experience lower growth. These findings are consistent with insights from Agency Theory, which suggests that excessive debt can increase financial risk and impose strict repayment obligations on firms. High leverage may reduce the availability of internal funds for productive investment and force firms to prioritise debt servicing over expansion activities. As a result, firms with high debt burdens may experience constrained growth.

Asset tangibility shows a positive and statistically significant relationship with enterprise growth ($\beta = 0.134$, $p = 0.030$). This finding suggests that firms with a higher proportion of tangible assets tend to experience greater growth. Tangible assets such as machinery, buildings, and equipment can serve as collateral for borrowing, thereby improving firms' access to external financing. Increased access to credit enables firms to invest in productive assets, expand operations, and pursue growth opportunities.

Overall, the empirical results demonstrate that financialisation and leverage negatively affect enterprise growth, whereas capital structure efficiency, firm size, and asset tangibility positively affect it. Additionally, firm age is associated with slightly lower growth, suggesting that younger firms may have greater growth potential due to their

flexibility and innovative capacity. These findings highlight the importance of maintaining a balanced financial strategy that prioritises productive investment while effectively managing debt levels. Firms that allocate excessive resources to financial activities or accumulate high levels of debt may undermine their long-term growth prospects. Conversely, firms that maintain efficient capital structures and invest in tangible productive assets are more likely to achieve sustainable enterprise growth.

The control variables used are represented in the table below:

Table 8: Control Variables

Variable	Meaning
Firm size (+)	Larger firms grow faster due to economies of scale
Firm age (–)	Older firms tend to experience slower growth
Leverage (–)	Excessive debt constrains growth
Tangibility (+)	Asset-rich firms attract investment and grow faster

Therefore, all control variables behaved as expected, adding robustness and credibility to the model.

Table 9: Summary of Main Findings

Hypothesis	Finding	Status
H1: Financialisation negatively affects enterprise growth	$\beta = -0.173$, $p < 0.001$	Supported
H2: Capital structure positively affects enterprise growth	$\beta = 0.287$, $p < 0.001$	Supported
H3: Capital structure mediates the relationship	Confirmed (Sobel + FE)	Supported

PLS-SEM, the Sobel mediation test, and fixed-effects panel regression suggest that financialisation weakens real-sector enterprise growth, as noted by Wu and Huang (2025), while capital structure serves as a critical transmission mechanism for restoring or enhancing growth.

Discussion

The results emphasise the importance of encouraging firms to reinvest in productive capacity rather than in financial markets, and of developing regulations that discourage excessive speculative financial engagement among non-financial enterprises. The findings of this study offer critical insights into the complex interplay among financialisation, capital structure, and enterprise growth in emerging markets. This section systematically unpacks the empirical results, situates them within the broader scholarly discourse, and explores their theoretical and practical significance for both policymakers and firm managers.

The analysis confirms that increasing financialisation, measured by firms' propensity to hold and acquire financial assets, negatively affects enterprise growth. This is consistent with the "crowding out" hypothesis articulated in the seminal works of Orhangazi and Yeldan (2021) and Zheng et al. (2025), which argue that excessive engagement in financial markets can divert capital from productive real-sector investments. In the context of Sub-Saharan African economies, where access to capital for productive investment remains a significant constraint, the shift toward financial asset accumulation is particularly consequential. Firms

reallocating resources to financial instruments may be foregoing opportunities to expand capacity, enhance technology, or enter new markets, thereby undermining long-term competitiveness.

Recent studies, such as Wang et al. (2025), reinforce this perspective, showing that non-financial firms in emerging economies often lack the sophisticated risk management systems needed to benefit fully from financial market participation. Instead, their drift toward financialisation can exacerbate exposure to market volatility and reduce resilience to macroeconomic shocks. The negative coefficient for financialisation in the fixed-effects regression model ($\beta = -0.173$, $p < 0.001$) provides robust empirical support for these theoretical concerns, suggesting that the threat of "financial dominance" extends beyond developed economies and is a pressing issue for the Global South as well.

Despite the apparent risks of financialisation, the study uncovers an important counterbalancing mechanism: capital structure. The mediating analysis reveals that firms with optimised capital structures- specifically, those achieving an optimal debt-to-equity ratio- are better positioned to translate financial market engagement into real-sector growth (Asamoah & Alagidede, 2021). This aligns with the trade-off and market-timing theories of capital structure, which posit that firms can enhance performance by strategically managing leverage.

The positive and significant effect of capital structure on enterprise growth ($\beta = 0.287$, $p < 0.001$) corroborates findings in the corporate finance literature highlighting the value-creating potential of judicious debt management. For emerging market firms, access to debt capital can enable investments in innovation, market expansion, and operational efficiency, provided it does not exceed optimal levels and trigger financial distress. The mediation analysis, supported by both the Sobel test and bootstrapping, confirms that a significant proportion of the impact of financialisation on growth is transmitted through capital structure adjustments. In other words, while financialisation may pose risks, firms that align their financing policies with growth objectives can harness the benefits of financial markets without sacrificing operational performance.

A central contribution of this study is its illumination of the nuanced and context-dependent nature of the financialisation-growth nexus. The results demonstrate that not all forms of financialisation are equally detrimental; rather, the effects depend on firm-specific and institutional factors, including the ability to manage capital structure effectively. This resonates with recent literature emphasising heterogeneity in the effects of financialisation across sectors, firm sizes, and regulatory environments (Tan et al., 2025). For example, larger firms with robust governance frameworks and greater access to credit markets may extract more value from financial asset holdings, using these resources to smooth cash flows, hedge risks, or invest strategically during downturns. Conversely, smaller firms or those operating in weaker institutional environments may be more vulnerable to the pitfalls of financialisation, such as resource misallocation or exposure to speculative losses. The study's inclusion of control variables such as firm size, age, leverage, and asset tangibility allows for a more granular understanding of these differential impacts, reinforcing the need for tailored policy responses.

The findings also highlight the limitations of cross-sectional research in capturing the dynamic, evolving relationships among financialisation, capital structure, and growth. As Modi et al. (2024) note, longitudinal analyses are essential for identifying causal pathways and understanding how institutional reforms, macroeconomic shocks, or firm-level learning processes shape the financialisation-growth relationship over time. The use of panel data and fixed-effects models in this study addresses these limitations, providing more credible evidence for both direct and mediated effects.

Moreover, the results suggest that institutional context matters. Differences in legal frameworks, financial market development, and regulatory quality can moderate the impact of financialisation and the effectiveness of capital structure as a mediating mechanism. For instance, countries with stronger creditor rights and more sophisticated financial markets may enable firms to leverage financialisation for productive investment. At the same time, weaker environments may amplify the risks associated with speculative activities (Tan et al., 2025).

From a theoretical standpoint, the study advances our understanding of financialisation in emerging markets by integrating capital structure as a critical transmission channel. It challenges the notion that financialisation is uniformly harmful, positing instead that its effects are contingent on firms' capabilities and the broader institutional environment. This perspective aligns with recent calls in the literature for greater attention to mediating and moderating variables in research on corporate finance in developing economies (Chen & Zhang, 2023; Gil García & Martínez López, 2023).

Practically, the findings underscore the importance of sound financial management and strategic planning for firm managers. Firms should not eschew financial market participation altogether but must ensure that such activities are closely aligned with their core business objectives and risk tolerance. Optimising capital structure is a key strategy for mitigating the downsides of financialisation and unlocking its potential benefits for growth and competitiveness.
For policymakers, the results highlight the need for regulatory frameworks that discourage speculative financialisation while incentivising productive investment. Capacity-building programs in financial management and corporate governance are especially crucial in emerging markets, where knowledge gaps and institutional weaknesses often hinder the effective deployment of financial resources (Joseph et al., 2026).

CONCLUSION AND RECOMMENDATIONS

Conclusion: This study provides robust empirical evidence that financialisation negatively affects enterprise growth in emerging markets, but capital structure significantly mediates this relationship. While financial engagement can constrain real-sector performance, optimal financing decisions enable firms to convert financial opportunities into sustainable growth. The study contributes to financialisation and corporate finance literature by highlighting capital structure as a key transmission mechanism and offers actionable policy insights for emerging economies.

Recommendations: The rapid evolution of financial markets in emerging economies, including the growth of digital financial services and fintech, presents both new opportunities and risks for firms. Future research should explore how these trends interact with traditional forms of financialization and whether they alter the capital structure-growth relationship. Comparative studies across different regions and institutional settings will be valuable for identifying best practices and informing policy design.

Positive mediating effects: a subset of studies, including research by Gil García and Martínez López (2023), found that capital structure positively mediates the impact of financialization on enterprise growth metrics. Their analysis indicated that firms with optimal debt-to-equity ratios were better positioned to capitalise on financial market opportunities, thereby experiencing higher growth rates. These firms could leverage short-term borrowing as a strategic tool to invest in innovation and expand operations.

Training programmes designed to enhance understanding of advanced financing techniques and risk assessment are likely to improve firms' ability to navigate the complexities of emerging financial markets. In particular, targeted education initiatives in African countries could enhance corporate performance and foster a more resilient business environment.

Finally, the role of capital structure as a mediator in the relationship between financialisation and enterprise growth suggests that strategic financial planning should be integrated into broader corporate governance reforms. Firms that adopt a holistic approach to financial planning, closely aligning capital market strategies with overall corporate strategy, are better positioned to exploit the growth opportunities. This calls for increased collaboration between financial institutions, corporate boards, and regulatory bodies to create a more synchronised and responsive financial system.

Ultimately, the findings suggest that excessive financialisation weakens real-sector growth by diverting resources toward financial activities. However, capital structure acts as a corrective mechanism, enabling firms to transform financial engagement into productive investment when leverage is optimally managed. These results align with trade-off and market timing theories and extend

the financialisation literature in the emerging-market context.

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