

Optimizing Debt Capital Structures for High-Growth Saudi Enterprises: Balancing Cost of Capital, Liquidity, and Financial Risk

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Article History

Received: 16.07.2026

Accepted: 09.09.2026

Published: 23.09.2026

Abstract: Currently in Saudi Arabia, fast-growing companies are increasingly requiring debt portfolios which enable them to finance their rapid expansion without causing growth to become a situation that makes it hard to refinance afterwards. This study looks at how companies can improve their debt capital structures by striking a balance between three conflicting aims: the cost of capital, liquidity resilience, and financial risk. It is based on evidence from peer-reviewed publications between 2020 and 2025, with a focus on Saudi Arabia, the Gulf Cooperation Council markets and similar emerging markets, and incorporates insights from trade-off theory, pecking order theory, agency theory, signaling theory and the theory of dynamic calibration. The evidence indicates that there is no one leverage ratio that is optimal in all circumstances. Sustainable debt capacity is affected by profitability, the visibility of cash flow, firm size, the tangibility of assets, the availability of growth opportunities, debt maturity, market access and governance quality. Moreover, evidence obtained from Saudi Arabia shows that both the maturity of debt and the size of the firm have an impact on the relationship between leverage and performance. Meanwhile, the expanding sukuk and bond market is offering new possibilities for increasing maturities and for diversifying the investor base. The review recommends a portfolio-based method of optimization according to which companies should first examine their debt capacity in the case of stressed cash flows and then choose the appropriate instruments and maturities on the basis of the lifetime of their assets, their liquidity needs, the flexibility of any covenants, and the expected conditions for refinancing. The key conclusion is that high-growth firms in Saudi Arabia should regard leverage as a dynamic range backed by liquidity buffers, maturity ladders, and governance mechanisms which are activated by certain events, rather than as a fixed target ratio.

Keywords: Capital Structure; Debt Optimization; Leverage; Cost of Capital; Liquidity Resilience; Financial Risk.

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1. INTRODUCTION

The economic changes now occurring in Saudi Arabia have given rise to a most unusual scenario in the field of corporate finance. Businesses in the sectors of technology, logistics, tourism, manufacturing, healthcare, construction, renewable energy, and business services are all being

encouraged to grow quickly, to localise their supply chains, to invest in new capabilities and to submit bids for major projects. This kind of growth consumes cash prior to it producing steady operating returns. Where equity is used for all of the investments, ownership will be diluted and the cost of capital will increase, which in turn may restrict the size of the

Citation: Hafiz, M. S. (2026). Optimizing Debt Capital Structures for High-Growth Saudi Enterprises: Balancing Cost of Capital, Liquidity, and Financial Risk; *Glob Acad J Econ Buss*, 8(5), 1356-1366. <https://doi.org/10.36348/gajeb.2026.v08i05.027>

business. Conversely, if too much debt is employed, the fixed payments can reduce the company's resilience while it is still in the process of building up its customer base, its assets and its organisational capacity. The problem, then, is not whether debt is beneficial, but rather how much debt should be taken on, what kinds of debt, what maturity structure it should have, and what level of liquidity buffer the company should keep in order to retain tactical flexibility.

The evidence concerning capital structure supports a multidimensional method. Studies on debt specialization show that firms do not merely choose a debt ratio; they also decide whether to obtain their debt from a small number of instruments or to distribute their borrowing among various sources, maturities, and kinds of creditors (Khan *et al.*, 2021). Likewise, the findings from the GCC indicate that factors like profitability, growth opportunities, size, and other firm characteristics influence financing decisions, and the relationship between leverage and performance can vary from one firm to another and depending on the particular market environment (Al-Ahdal *et al.*, 2022; Khan *et al.*, 2024). In Saudi Arabia, firm size has an impact on the strength of the relationship between leverage and performance; when a firm's operating capacity is inadequate to meet its fixed obligations, long-term debt becomes more harmful to smaller firms (Alabdulkarim *et al.*, 2024). Therefore, a single benchmark debt-to-equity ratio is not very useful for fast-growing enterprises.

The current market situation is also changing. As the Saudi Exchange's data shows, there has been considerable growth in the domestic sukuk and bonds market, and the Financial Sector Development Program is in fact aiming at increasing the depth of the debt market, its liquidity, and the range of financing options (Saudi Exchange, 2024; Financial Sector Development Program, 2024). For corporate treasurers, this development is of strategic significance since the selection of a particular instrument can have effects that go beyond the simple interest rate: issuing public debt or sukuk can diversify the base of lenders and lengthen maturities, bank facilities can provide a certain degree of flexibility based on the relationship between the bank and the company, revolving credit can help to maintain liquidity, and private placements can assist companies that need custom covenants. Yet, evidence from the GCC shows that the yield advantage over loans for bonds is not always great, particularly in cases where the secondary market is underdeveloped (Almaskati, 2025). As a result, it is necessary to take an optimization approach in order to compare the total economic cost rather than assuming that a public instrument is inherently cheaper.

The article eliminates the gap between research and management by linking together three fields which are generally looked at separately: the cost of capital, liquidity control, and financial risk. It states that each of these areas can be improved on its own even if the overall debt structure gets worse. A low coupon can end up being expensive should restrictive covenants cause early refinancing to be necessary. Although a large cash balance can help to lower the risk of default, it also raises carrying costs and results in the wasteful use of capital. A long maturity can decrease the company's exposure to having to refinance in the short term, but this comes at the price of locking the company into an expensive spread. The right objective therefore is a balanced debt portfolio that keeps sustainable funding costs as low as possible within the limits of liquidity and risk. This method is appropriate for Saudi growth enterprises which require flexible capital structures.

2. Aim and Review Objectives

The purpose of this review is to create an evidence-based framework which will help rapidly growing companies in Saudi Arabia to improve their debt capital structures without compromising their liquidity or failing to control financial risk. There are four objectives that direct the synthesis. The first of these is to determine the firm-specific and market-related variables that influence sustainable debt capacity. The second objective is to evaluate the impact of the source of debt, its maturity, the way it is priced, and the design of its covenants on the effective cost of capital. Thirdly, the review looks at how cash reserves, refinancing exposure, and debt service obligations relate to investment in growth. Fourthly, it converts the existing literature into a practical framework that can be used by financial managers in Saudi Arabia who are operating in a financial environment that is expanding and includes banks, sukuk, and bonds. The review does not suggest a single leverage ratio; instead, it outlines the conditions under which a range of leverage levels may be considered economically justifiable.

3. Conceptual Basis

The trade-off theory forms the foundation for optimization, as debt can provide both financing and tax advantages, but higher levels of leverage lead to greater expected distress and agency costs. Existing evidence continues to show that this balance differs from firm to firm. Ricca *et al.*, (2021) demonstrate that companies can still follow a conservative strategy even when the benefits of debt are greater than the estimated bankruptcy costs, indicating that the amount of leverage seen might be due to option value, uncertainty, and other tax shields. With respect to Saudi firms, the conventional tax shield argument also has to be interpreted with care since the institutional treatment of corporate

debt, zakat, ownership, and Shariah expectations is different from that in many developed markets (Makni and Dinga, 2020; Alsaadi, 2024). The actual outcome is that a leverage rule taken from another country could distort both the advantages and the risks of debt.

The pecking order theory provides an explanation for why profitable companies may decide to use less external debt even though they have a greater ability to borrow; employing internal funds avoids the expenses of issuing new shares and the issue of information asymmetry, while debt becomes more attractive when the amount of cash retained is not sufficient. Evidence from the MENA region indicates that cash holdings respond to leverage, cash flow, investment, and growth opportunities in a manner generally in line with the arguments of both the pecking order and trade-off theories (Akhtar, 2025). Under agency theory, debt can also have an impact on governance since it can curb free cash flow, but it might also result in risk shifting, underinvestment, and conflicts with creditors. Findings based on data from Saudi Arabia show that long-term debt can reduce the agency costs linked to free cash flow, proving that it is the make-up of the

debt rather than its level that is important (Dabboussi, 2024).

Dynamic calibration theory is especially suitable for companies that are experiencing rapid growth, since the ideal capital structure should be seen as a target which evolves over time. Because there are transaction costs whenever companies issue, repay, or refinance debt, they remain within a particular range and only make adjustments when the benefit of moving towards the target is greater than the cost of taking action. Evidence regarding financing strategy and the speed at which adjustments are made indicates that the pace at which a firm returns to its desired level of leverage depends on its dividend policy, its funding options, and its access to the market (Zou and Bai, 2022). Similarly, evidence from the GCC banking sector shows that the speed of adjustment differs according to the institutional model and the availability of funding (Alsharif and Alnori, 2025). Taken together, these theories advocate for a conditional approach that simultaneously optimizes leverage, funding, and maturity before updating the target as profitability, liquidity, asset structure, and market conditions change.

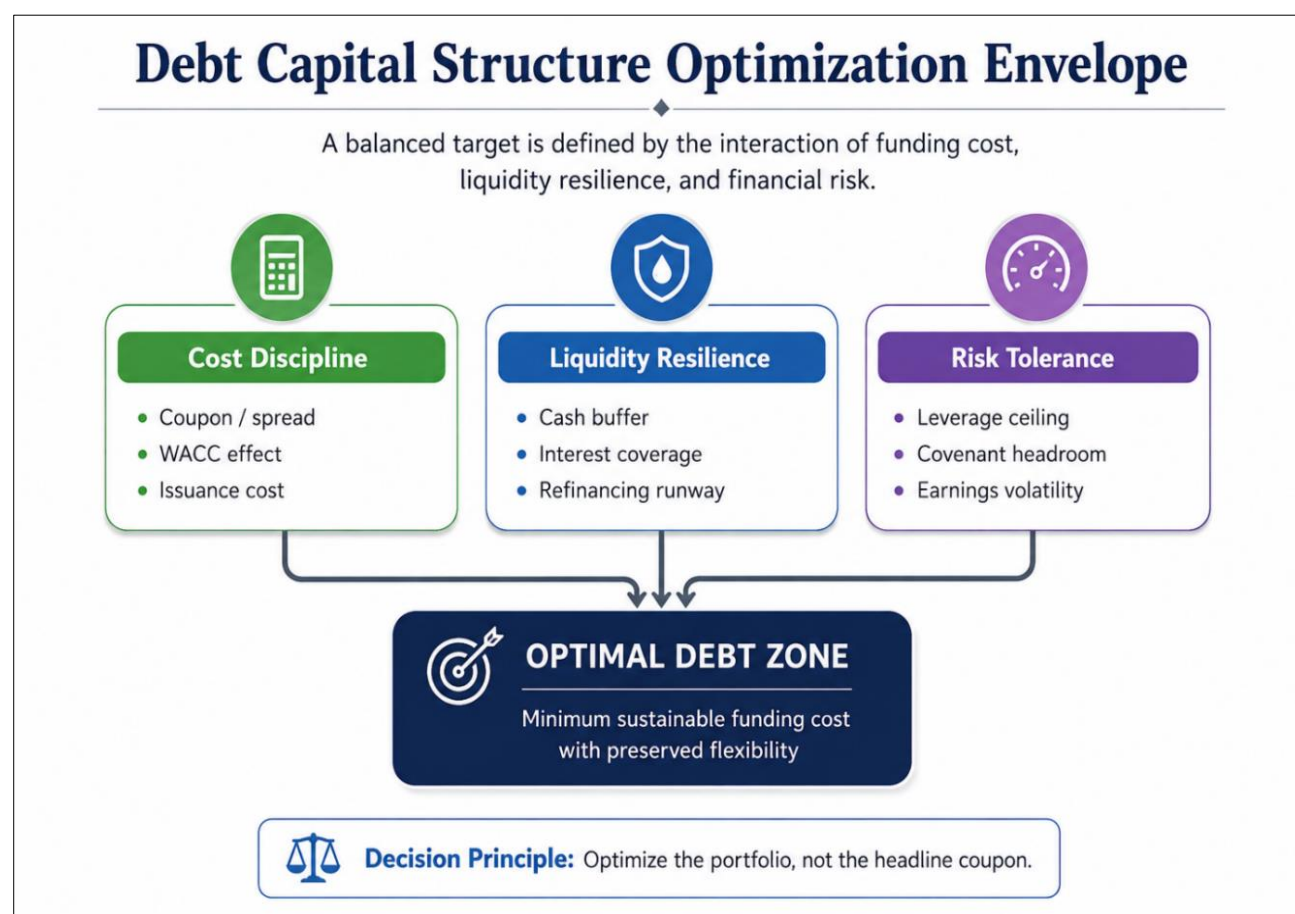


Figure 1: Conceptual optimization envelope for debt capital structure

4. REVIEW METHODOLOGY

The paper makes use of a structured integrative review method which is suitable for a corporate finance subject requiring the combination of theoretical, econometric, market, and institutional evidence. The time frame for the evidence was limited to papers published between 2020 and 2025 in order to correspond with the period of rapid financial market reform and the subsequent adjustments in financing following the pandemic. The search process involved the use of a variety of terms including capital structure, debt structure, leverage, debt maturity, cost of debt, weighted average cost of capital, liquidity, cash holdings, refinancing, financial risk, sukuk, bonds, Saudi Arabia, GCC, MENA, high growth firms, and emerging markets. Preference was given to peer-reviewed journal articles indexed by major scholarly publishers as well as to official Saudi market reports since the latter were necessary when it came to illustrating market depth or institutional changes that could not be adequately shown through firm-level studies.

Studies were only included if they made a direct contribution to at least one of the four analytical areas: the factors affecting leverage and the make-up of debt; changes in funding cost or in capital structure; liquidity and the way companies hold cash; or the relationship between debt and performance and risk. Evidence specific to Saudi Arabia was given the most weight in terms of interpretation, followed by that from the GCC and the MENA region, and then by studies of other emerging markets which were used to check whether the relationships were dependent on the particular context. Banking studies were only included if they provided clarification regarding liquidity, the funding structure, or the mechanisms for making Shariah-compliant adjustments that are relevant to corporate treasury. Studies outside the 2020 to 2025 period, purely descriptive opinion pieces, and sources lacking a clear methodology or a traceable publication record were all excluded from the main body of evidence.

The process took place in three stages. In the first stage, the findings were coded according to direction and mechanism, for instance by looking at whether profitability increased or decreased leverage, whether maturity increased or decreased risk, and whether liquidity functioned as a precautionary buffer or as inefficient idle capital. In the second stage, the apparently conflicting results were compared with respect to firm size, growth opportunities, ownership, the institutional environment, and the type of debt. This is important since interaction effects can be misinterpreted when control variables and moderators are not specified in a consistent way (de Haan *et al.*, 2023). In the third stage, the coded evidence was converted into a decision framework structured around cost, liquidity, and financial risk rather than around any one capital structure theory. The framework that results is a review-based managerial model, not an econometric estimate of a single universal Saudi target ratio.

The methodological arrangement was compared with previous studies of capital structure that include a theoretical framework, the classification of predictors, empirical interpretation, and a discussion in the context of specific situations. The 2021 study focusing on debt specialization was especially helpful in organising leverage, liquidity, profitability, asset tangibility, risk, growth, and type of debt as interrelated dimensions, and a later study from the GCC region provided guidance on the order of presentation of theory, method, evidence, and implications. In order to keep within the originally defined evidence period, sources published after 2025 were used only for the purpose of guiding the presentation and were not included in the substantive citations. The final set of evidence consists of thirty sources, comprising twenty-eight scholarly publications and two reports from Saudi institutions, and all the substantive claims are compiled rather than being copied directly from the source text.

Table 1: Evidence synthesis of debt structure determinants

Dimension	Evidence from 2020–2025 literature	Implication for Saudi high-growth enterprises
Profitability and cash flow	Higher internal cash generation can reduce external funding need, while stronger cash flow also supports borrowing capacity.	Use leverage capacity as an option; do not borrow merely because lenders are available.
Firm size and market access	Larger firms generally access more instruments and absorb fixed issuance costs more easily.	Scale public sukuk or bond issuance only when transaction size, disclosure, and repeat funding justify it.
Asset tangibility	Tangible assets strengthen collateral value and creditor recovery.	Reserve secured capacity for asset-intensive projects; avoid encumbering all strategic assets early.
Growth opportunities	High growth increases funding demand but can increase information asymmetry and underinvestment risk.	Maintain covenant headroom and liquidity for future projects, especially when growth is intangible.

Dimension	Evidence from 2020–2025 literature	Implication for Saudi high-growth enterprises
Debt maturity	Longer tenor reduces near-term rollover risk but can lock in cost and fixed obligations.	Match maturity to asset life and avoid concentrated maturity walls.
Cash holdings and liquidity	Cash protects against shocks but excess balances create carrying and agency costs.	Set a minimum strategic liquidity buffer based on downside cash flows and committed facilities.
Governance and information	Transparent reporting and credible monitoring can reduce information risk and support market access.	Use board-approved treasury limits, quarterly covenant reporting, and early lender communication.

5. Integrated Debt Capital Structure Optimization Framework for High-Growth Saudi Enterprises

5.1 Cost of Capital and Debt Source

The first point to consider is the effective cost of debt, something which has to be examined not just on the basis of the stated coupon rate. For a company that is undergoing rapid growth, the cost that is economically relevant will include the spread, the arrangement and advisory fees, the commitment fees on facilities which have not yet been used, hedging costs, the requirements concerning security, the restrictions resulting from covenants, the probability of having to refinance, and the opportunity cost of the liquidity that has been given to lenders. Even though the WACC may decrease when relatively cheap debt replaces more expensive equity, this will only be the case so long as the extra financial risk does not lead both lenders and shareholders to demand considerably higher returns. Evidence from studies on project valuation demonstrates the considerable impact that a change in the debt-to-equity ratio can have on discount rates and on the total investment value, thereby demonstrating the need to look at both the capital structure and the project's economics together (Nukala and Prasada Rao, 2021). Additional evidence concerning the cost of debt, the cost of equity, and the WACC also shows that the various financing elements should be regarded as part of an integrated policy rather than as individual prices (Arhinful *et al.*, 2024).

The choice of instruments therefore amounts to a portfolio decision. Bank debt is efficient whenever there is a high degree of information asymmetry since the lenders are able to obtain private information and can then renegotiate the terms. Bonds or sukuk become attractive when the firm has sufficient scale, good disclosure quality, recurring funding needs, and is recognised by investors. Even though they can broaden the base of financing and reduce concentration risk, issuing publicly involves documentation, rating, listing, appointing a trustee, obtaining Shariah approval, and incurring ongoing disclosure costs. Almaskati (2025) finds no statistically significant advantage in yield when comparable GCC bonds and loans are examined, which means that companies should not assume that public debt will result in a decreased

borrowing cost. The appropriate comparison should be based on the total cost after considering liquidity, tenor, callability, security, covenant intensity, and the certainty of execution.

Debt specialisation can also serve to reduce complexity and transaction costs, especially in the case of smaller or younger companies, but excessive concentration results in dependence in both bargaining and rollover. According to Khan *et al.*, (2021), firm size, profitability, tangibility, age, and leverage are key factors in predicting whether or not firms concentrate their debt in a small number of types. For a growing company in Saudi Arabia it might be sensible to specialise at an early stage of expansion when one or two banks understand the business model. When cash flows have become stabilised, diversification can then be achieved through the use of revolving facilities, bilateral or syndicated loans, sukuk, and other kinds of institutional debt in order to lessen dependence on creditors. The transition should occur when the advantages of diversification exceed the costs associated with additional issuances and monitoring.

A cost rule of this type may be obtained from the evidence in question. Management should first make an initial estimate of the WACC and then calculate the stressed all-in funding cost by considering higher benchmark rates, narrower credit spreads, the necessity of renewing hedges, and the pressure exerted on the covenants. If a proposed debt arrangement lowers the base WACC but causes a sharp increase in the stressed cost or gets rid of the available financing options, it must not be regarded as genuinely optimal. The best option is that which ensures the marginal cost of capital remains acceptable when facing plausible scenarios regarding growth and commercial conditions. Hence, where the company expects to have repeated capital requirements, staggered maturities, the use of a number of funding sources, and selective fixed-rate protection should be chosen.

5.2 Liquidity Resistance and Debt Maturity

Liquidity is the second of the optimisation constraints since debt service is contractual, but growth cash flows are not predictable. Even though

current ratios and accounting cash balances are useful, they still fall short. A business that is growing requires forward-looking liquidity measures which consider operating cash conversion, committed but undrawn facilities, seasonal working capital, maintenance capital expenditure, taxes and zakat, interest, principal amortisation, and a reasonable worst-case revenue figure. Evidence from the MENA region indicates that cash holdings vary systematically with leverage, cash flow, research and development, investment, dividends, and growth opportunities (Akhtar, 2025). Likewise, evidence from the GCC area also demonstrates that macroeconomic conditions influence cash adjustment behaviour, thus confirming that liquidity policy cannot be separated from the external financing environment (Guizani and Ajmi, 2023).

From an economic standpoint, it is not always advantageous to hold more cash. Mertzanis *et al.*, (2024) show that the institutional and sustainable investment environment can influence the amount of cash that firms keep in the MENA region, while Tawfik *et al.*, (2024a) argue that the relationship between cash and a firm's financial objectives varies according to liquidity thresholds and governance conditions. If the interest rates on loans exceed the returns earned from liquid assets, then holding excess cash leads to a carrying cost and may also weaken capital discipline. Conversely, holding too little cash causes the company to have to refinance at the worst possible time. The therefore aim of the treasury ought to be to keep a minimum strategic liquidity buffer rather than to accumulate as much cash as possible.

The relationship between liquidity and capital structure is explained by the maturity of debt. Financing on a long-term basis can be matched to the useful lives of factories, logistics assets, digital infrastructure, or to acquisitions and as a result reduce the need to roll over debt in the short term. Even though short-term debt is highly flexible and can be used to meet working capital needs, a heavy dependence on it means that access to the capital markets becomes a constant necessity for survival. Evidence from listed companies in Saudi Arabia shows that leverage can support corporate investment, even if debt maturity itself does not have a consistent impact on investment (Alnori, 2024). At the same time, Alabdulkarim *et al.*, (2024) discover that long-term leverage is more detrimental to performance among smaller Saudi firms, which demonstrates that extending the maturity of debt is not automatically beneficial when debt capacity is low.

The right maturity structure can be determined by looking at cash flow duration and

refinancing tolerance; permanent capital should be raised through equity or long-dated debt, while ongoing working capital can be financed by means of revolving and short-term facilities; bridge financing will only be necessary in the case of uncertain acquisitions if there is a credible takeout plan. Choudhary and Limodio (2022) demonstrate that liquidity risk can cause a decrease in the availability of long-term finance and as a result lead to lower levels of real investment, thereby illustrating the importance of having stable funding. Regarding Saudi companies, a reasonable rule of thumb is to avoid having large single-year maturity walls and to maintain a pool of committed liquidity enough to meet the next twelve to eighteen months of contractual obligations in a worst-case situation. The exact size of this buffer should be based on the degree of volatility and on market access, but the essential principle stays unchanged: liquidity must be secured before leverage is increased.

5.3 Financial Risk, Covenants, and Governance

Financial risk does not simply consist of the possibility of legal default; it also includes earnings volatility, a breach of covenants, rating migration, refinancing concentration, exposure to interest rates, currency mismatch, collateral encumbrance, and the result of underinvestment due to fixed debt service. A study carried out by the GCC shows that the capital structure can have a significant impact on operating performance, with different results being found for firms that use short-term debt, long-term debt, and total debt (Khan and Qasem, 2024). Evidence from Saudi Arabia also indicates that the relationship between leverage and firm performance is nonlinear and is affected by firm size (Alabdulkarim *et al.*, 2024). It therefore follows that debt capacity should be evaluated by means of thresholds rather than averages.

A useful threshold system should include measures of leverage, coverage, and liquidity. Although net debt to EBITDA indicates the level of debt on the balance sheet it can be misleading when used in the case of early-stage companies which are growing since their EBITDA is temporarily reduced as a result of the expansion process. Fixed charge coverage and interest coverage look at the cash outlay needed to service the debt, while free cash flow after providing for maintenance investment shows the extent to which the principal can be reduced. The tangibility of the assets affects the collateral and the amount that lenders can recover, and empirical evidence continues to show a link between tangible investment and financing capacity (Vengesai, 2023). Growth opportunities complicate the situation since intangible projects may have high strategic value but weak collateral. Hence, companies that are experiencing high growth should leave

themselves a margin within the covenants when their expansion is based on intangible assets or on volatile customer adoption.

Because good governance helps to reduce the risk premium connected with debt, it is so since open reporting, reliable forecasts, effective board supervision, and a disciplined approach to transactions with related parties all contribute to decreasing information asymmetry and increasing lenders' confidence. A study carried out by Saudi researchers has discovered a connection between capital structure and reporting behaviour and indicates that the local institutional environment can affect decisions on leverage and monitoring (Alsaadi, 2024). Research into governance in the GCC region reveals that the way ownership and the board are set up has an effect on financial policies, for example those relating to dividend payments and cash management (Tawfik *et al.*, 2024b). When it comes to a privately held company which is growing rapidly or a company that has just gone public, lender confidence can be increased by issuing quarterly covenant reports, having the treasury policy approved by the board, establishing defined hedging limits, and having major debt-financed acquisitions independently reviewed.

Stress testing turns governance into action. Management is required to put forward at least three scenarios: a base case, a moderate adverse case, and a serious but reasonable one. When dealing with the adverse scenario, all sorts of factors such as lower revenue, slower collections, narrower margins, higher rates, and a partial inability to refinance should be taken into account rather than looking at each factor individually. The capital structure is considered to be resilient if the company is able to carry out its necessary investments, satisfy its debt service obligations, and avoids having to issue equity urgently even in the case of a moderate adverse situation. Even though a severe scenario may offer a justification for renegotiating covenants or for selling assets, it should not cause an unmanaged decline in liquidity. The trigger levels should be set above the legal covenant limits so that corrective actions can be taken while financing options are still available.

5.4 Saudi Debt Market Context under Vision 2030

The Saudi market's development alters the range of possible debt structures. The Financial Sector Development Program lists deeper debt markets and a wider variety of financing as among its key strategic goals, and the Saudi Exchange stated that the total amount of sukuk and bond issuances had reached about SAR 633.5 billion by the end of 2024 (Financial Sector Development Program, 2024; Saudi Exchange, 2024). However, it does not follow that every rapidly growing company should launch a

public sukuk or bond issue. Rather, it indicates that the value of having debt based on market mechanisms is growing as infrastructure is improved, the listing procedures are developed, investor participation increases, and market making advances. Companies which take the early steps to establish good governance, financial disclosure practices, and communication with debt investors will be able to maintain access to this route when their scale becomes adequate.

The fact that the funding is Shariah compliant adds another dimension to the structure, since compliance can affect the amount of leverage permitted, the asset backing, the type of contracts used, and investor demand. Bugshan and Bakry (2025) find that the Shariah status has an impact on capital structure behaviour in emerging markets, and Alsharif and Alnori (2025) show that GCC Islamic banks are able to reach their target leverage more quickly when there are well-developed Shariah-compliant funding assets. For nonfinancial firms in Saudi Arabia the important point is not that sukuk is always cheaper, but that Shariah-compliant instruments can widen the investor base as well as make the financing process consistent with domestic institutional preferences. Yet the economic substance, the maturity, the security package, and the cash flow obligations still have to be compared with conventional alternatives.

Saudi companies that are growing rapidly should also consider the nature of their ownership and the stage at which they are growing; family-controlled companies might choose to use debt in order to avoid dilution, while institutional investors usually insist on a conservative level of leverage and on clear governance arrangements. Larger firms which are on the stock exchange can make use of a greater variety of financial instruments and can obtain longer maturities, whereas smaller firms may have to depend on banks or government-backed financing channels by the government. Makni and Dinga (2020) show that in Saudi listed companies ownership and the financing structure are interrelated, showing the fact that capital structure should be seen as an institutional choice rather than as something that can be determined solely by mathematical calculations. The optimal capital structure must match both the enterprise's economic capacity and the expectations of its owners, lenders, and key strategic investors.

Vision 2030 thus improves both opportunity and discipline. Although the expanding debt market can finance productive expansion, a large number of projects might lead companies to regard the credit available to them as if it were equivalent to their sustainable capacity. The preferable method is to

make use of market development in order to diversify the sources of funding, to extend maturities selectively, and to negotiate structures that correspond to the cash generation pattern of the new investments. Businesses should treat banks, sukuk investors, and other creditors as complementary providers of capital, not as interchangeable sources that are ranked merely by the rate of coupon.

6. Integrated Optimization Framework

The present situation points to a six-step approach for reaching optimization. The first of these steps is to identify the strategic funding requirements by dividing them down into permanent growth capital, project finance, acquisitions, and working capital. The second step involves estimating debt capacity on the basis of stressed free cash flow rather than the management's initial forecast; this calculation has to establish the highest level of leverage, the lowest interest coverage, and the smallest liquidity buffer. The third step is to carry out a thorough comparison of the different financial instruments, taking into account the spread, the fees, hedging, collateral, covenants, tenor, prepayment flexibility, disclosure obligations, and execution risk. Regarding the fourth step, the maturity ladder should be set up in such a way that no one year has a refinancing amount which would become destabilizing if weak market conditions occurred.

The fifth step consists in setting up a liquidity shield, which is achieved by bringing together the company's cash, its committed revolving credit facilities, its receivables capacity and any other reliable sources so as to meet its operational needs and the debt service which is due in the near future in a downside situation. The sixth step concerns governance and dynamic rebalancing; management must review the level of leverage, coverage, liquidity, market spreads, covenant headroom and the concentration of maturities on a quarterly basis and take the previously determined actions when the thresholds are reached. The fact that this approach is

supported by evidence of dynamic adjustment is that firms do not move costlessly towards a fixed target; instead, they make adjustments when the benefits outweigh the transaction and disruption costs (Zou and Bai, 2022).

Instead of specifying a single ratio, this framework establishes a target debt range. The lower limit indicates the level below which the company might be depending too heavily on costly equity or on unused liquidity. The upper limit is the point beyond which taking on more debt would greatly increase the chances of financial distress, raise the need for refinancing, or result in a higher marginal cost of capital. When a company is within this range, it is the choice of financial instruments and the decision regarding maturities that determines its resilience. In the case of a company close to the upper limit, longer maturities, stronger liquidity, and simpler covenants should be selected. A firm that is near the lower limit and has steady cash flows may be able to finance new projects without having to issue equity. The range should be readjusted following acquisitions, major capital expenditures, changes in margins, or changes in interest rates.

The application could be improved in two ways. First of all, the method of financing should be adjusted to correspond with the length of the asset; there is no need to use costly long-term debt to finance short-term working capital, and long-term strategic assets should not be made to rely on frequent short-term refinancing. Second, the company should ensure that it still has the ability to obtain further financing at a later stage; a transaction which uses up all the collateral, includes restrictive negative covenants, or brings maturities together can increase the cost of the next round of financing even though the current coupon rate is attractive. The most appropriate structure is therefore one that enables both the current investment and any future growth opportunities.

Table 2: Proposed optimization dashboard and trigger actions

Optimization control	Primary metric	Illustrative management trigger	Financing response
Funding cost	All-in marginal debt cost and WACC	Stressed marginal cost rises faster than expected project return	Reduce incremental leverage, shorten commitment, or increase equity component
Liquidity	12–18 month sources-to-uses coverage	Downside liquidity runway falls below board minimum	Build cash, retain revolving capacity, slow discretionary capex
Leverage	Net debt/EBITDA plus sector-specific alternatives	Ratio approaches upper target band	Pause debt-funded distributions or acquisitions; prioritize deleveraging
Debt service	Interest and fixed-charge coverage	Coverage approaches internal warning threshold	Increase fixed-rate protection, refinance, or reduce amortization burden

Optimization control	Primary metric	Illustrative management trigger	Financing response
Maturity concentration	Debt due in largest single year / total debt	Single-year wall becomes material relative to cash flow	Pre-fund, extend tenor, or diversify instruments
Covenant headroom	Distance to financial covenant limits	Headroom narrows under moderate downside	Engage lenders early; revise investment pace or structure
Funding diversification	Largest creditor/source share	Dependence on one lender or source becomes excessive	Add bilateral, syndicated, sukuk, bond, or private placement capacity

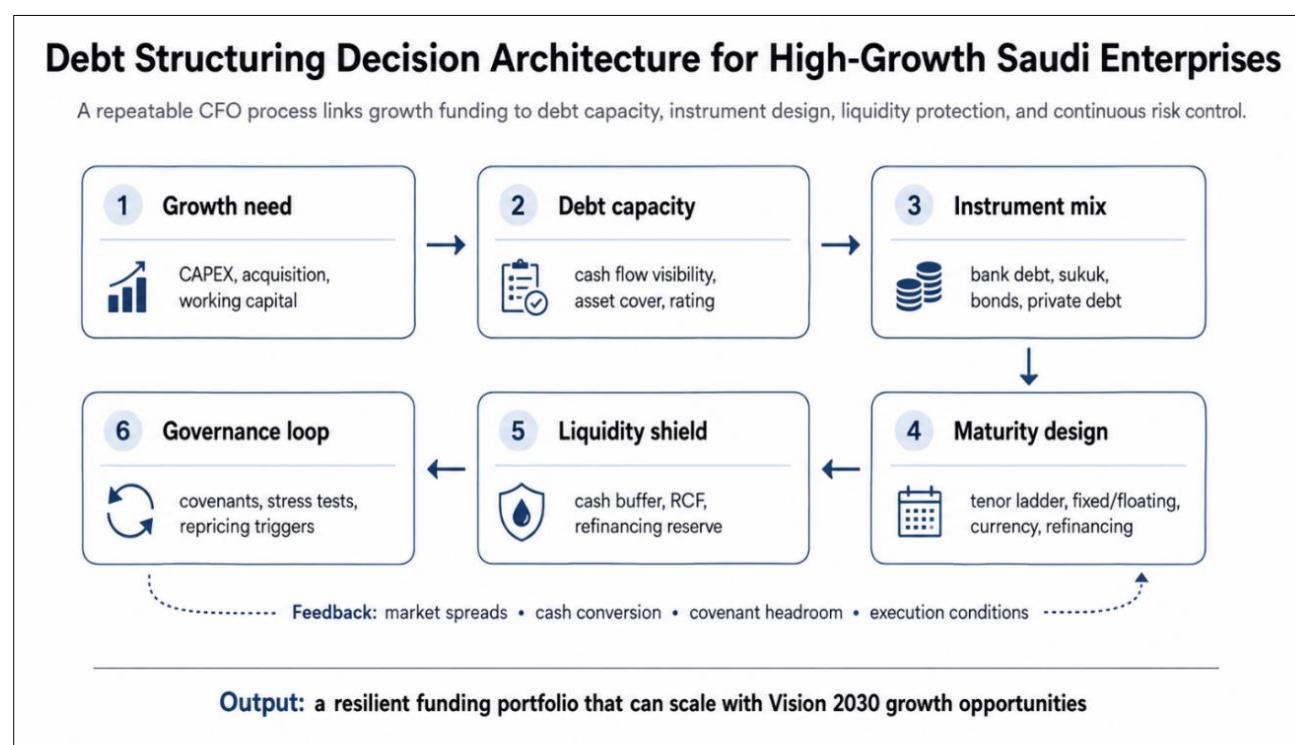


Figure 2: Six-step debt structuring decision architecture for high-growth Saudi enterprises

7. DISCUSSION AND MANAGERIAL IMPLICATIONS

There are three significant implications for financial managers. The first of these is that the aim of reducing the WACC is limited in some way; a debt structure cannot be regarded as efficient if the apparent cost advantage is obtained at the expense of liquidity or of the firm's future ability to access the market. The second is that firm heterogeneity is very important since factors such as profitability, size, tangibility, growth opportunities, and governance influence both the firm's debt capacity and the effect of leverage on performance (Al-Ahdal *et al.*, 2022; Khan *et al.*, 2024). The third is that the composition of debt is just as crucial as the leverage ratio, since aspects such as maturity, the degree of concentration of creditors, the type of instrument, and covenant design all affect the firm's ability to survive volatility and to keep on investing.

For boards and investors a more detailed examination of the capital structure is required.

Rather than just asking whether the ratio of debt to equity is high or low when compared to that of other companies, governance reports should describe the company's target range, the degree of protection against downward risk, the maturity ladder, the liquidity runway, the difference between fixed and floating exposure, the mix of secured and unsecured debt, and the level of funding diversification. While comparisons with other companies may still be useful, the industry medians should not take the place of an assessment based on cash flow. This is particularly important in the Saudi sectors since companies in the same industry can have very different growth rates, levels of exposure to government contracts, degrees of asset intensity, and working capital cycles.

The review says that policymakers should continue their efforts to improve the liquidity of secondary debt by making pricing transparent, enhancing their rating capabilities and providing simple methods for issuing debt. Only in a more

developed market will companies be able to have a wider range of options if they can reliably compare different financial instruments and if investors can trade risk at prices that are reasonably discoverable. It follows that the growth of the Saudi debt market is complementary to better issuer governance; if companies are not ready then a deep market could lead to higher levels of leverage whereas, in the case of no market depth, issuer readiness might cause firms to remain dependent on banks. The financing benefits of Vision 2030 are most significant when both of these areas move forward together.

8. Limitations and Future Research

The review does have some limitations, since the evidence relating to the period from 2020 to 2025 includes more details about listed companies than about private high-growth enterprises, and as a number of the studies in the GCC combine countries that have different legal and financial systems, the review has therefore opted to use a decision framework rather than deriving a statistical Saudi target leverage ratio. Future research should verify this framework by employing panels of companies from the Saudi sector, data on the credit ratings of private companies, information comparing the transaction costs of sukuk with those of loans, different covenant structures, and the liquidity results after issuance. The studies should also look at how digital business models, intangible assets, and revenue based on projects influence the traditional leverage thresholds.

9. CONCLUSION

It is not enough merely to select a debt to equity ratio when optimising the debt capital structure for a rapidly growing business in Saudi Arabia. As the relevant literature demonstrates, sustainable financing results from the interaction between profitability, growth, firm size, the tangibility of assets, cash holdings, maturity, access by creditors, governance arrangements, and market conditions. Although debt can reduce the cost of capital and speed up investment, this advantage vanishes when refinancing dependence, covenant pressure, or earnings volatility increase both the likelihood and the cost of financial distress. Furthermore, evidence from Saudi Arabia and the Gulf Cooperation Council shows that the effects of leverage are nonlinear and depend on the institutional environment.

The review thus suggests the introduction of a dynamic target range, a proposal that has been backed by three separate tests: the all-in cost test, the stressed liquidity test, and the financial risk test. Companies should adjust their maturity to correspond with that of their assets, take steps to diversify their funding where it is appropriate to do

so, keep a sufficient level of committed liquidity, and ensure that their governance triggers are set well above the legal covenant limits. Although the Saudi sukuk and bond market has grown and as a result there are now a greater number of options available, the selection of the appropriate instrument should still be based on cash flow considerations. A capital structure is considered to be optimal when it enables the funding of current growth while at the same time preserving the ability to finance future opportunities.

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