

IDENTIFYING THE MAIN FACTORS AFFECTING CAPITAL GROWTH

Norkulov Mirsaid Tolqin oglu

Teacher at Termez State University

Doctor of Philosophy (PhD) in Economics

Abstract

This thesis systematically analyzes the main factors affecting the capital growth of an enterprise. The study considers the factors divided into internal (endogenous) and external (exogenous) groups, reveals the mechanism of their influence on capital growth and their interrelationships. In addition, quantitative methods for assessing capital growth are presented - the DuPont model, the Higgins sustainable growth model and regression analysis approaches. The results of the study serve as a theoretical and practical basis for making effective strategic decisions in the financial management of an enterprise.

Login

Capital growth is of strategic importance in ensuring the sustainable development and competitiveness of enterprises in a market economy. Capital growth is the process of systematically increasing the volume of financial resources of an enterprise and thereby expanding its scope of activities, which allows the enterprise to strengthen its position in the market, seize new opportunities, and create value for shareholders.

Identifying and systematically studying the factors affecting capital growth is one of the most urgent tasks of financial management. Such an analysis helps the management of the enterprise to determine the most important indicators that affect growth dynamics, minimize risks associated with growth, and justify investment decisions. This thesis presents a group of the main factors affecting capital growth and discusses methods for their quantitative assessment.

1. The concept of capital growth and its economic essence

The concept of capital growth is interpreted in various ways in the financial literature. In absolute terms, capital growth represents the increase in the

volume of a company's equity (shareholder's equity) or total capital over time. In relative terms, capital growth represents the percentage or growth rate of capital growth relative to the initial level over a given period.

The capital growth of an enterprise is ensured by four main sources: first, the accumulation of internal capital through retained earnings; second, the attraction of external equity through the issue of new shares; third, the attraction of debt funds; fourth, the revaluation and sale of assets. Each of these sources is subject to the influence of various factors and has its own limitations.

2. Approaches to classifying capital growth factors

There are several scientific approaches to classifying factors affecting capital growth. The most common classification divides factors into two large groups: endogenous (internal) factors related to the internal environment of the enterprise, and exogenous (external) factors covering the macroeconomic and institutional environment outside the enterprise.

According to another approach, factors are classified as controllable (controllable by management) and uncontrollable (objectively existing). According to the scope of application, factors are also divided into quantitative (having numerical expression) and qualitative (not strongly expressed) manifestations. In this analysis, attention is paid mainly to endogenous and exogenous factors, since this classification is of the most practical importance for making strategic decisions.

3. Internal (endogenous) factors

3.1. Profitability and retained earnings. The first and main internal source of capital growth is retained earnings. The higher the profitability of an enterprise, the greater the opportunity to grow capital from internal sources. Return on Equity (ROE), Return on Assets (ROA), and Profit Margin are the main indicators of capital growth. Empirical studies have shown that a one percent increase in ROE leads, on average, to an increase in the enterprise's equity by 0.6–0.8 percent.

3.2. Dividend policy. Dividend policy is a direct determinant of capital growth through retained earnings. The lower the dividend payout ratio, i.e.



the more profit is retained in the company, the faster the internal capital growth. However, dividend policy requires a complex balance between shareholder expectations for returns and the impact on the market price of shares. A conservative dividend policy is more suitable for companies in the growth stage, while a liberal policy is more suitable for mature companies with stable profits.

3.3. Investment policy and asset efficiency. The indicators of asset turnover and capital intensity reflect the efficiency of investment policy. The efficient use of assets reduces the amount of additional investment required to finance capital growth. Innovative investments, especially R&D spending, act as a catalyst for long-term capital growth.

3.4. Capital structure. The ratio of debt to equity of an enterprise directly determines the possibilities of capital growth. Maintaining an optimal level of leverage preserves the possibility of accessing borrowed funds and thereby ensures growth through external financing. A high level of debt, on the contrary, limits the possibility of obtaining additional loans and increases the level of financial risk.

3.5. Quality of management and corporate governance. The competence of the management team, the effectiveness of strategic decision-making, the quality of the internal control system and the level of compliance with corporate governance principles are qualitative indicators of capital growth. Enterprises with high-quality management are able to adapt faster to market changes and are more attractive to investors.

4. External (exogenous) factors

4.1. Macroeconomic environment. GDP growth rates, inflation rates, interest rates, exchange rates, and the balance of payments position have a significant impact on the capital growth opportunities of enterprises. During periods of economic growth, investment opportunities expand and capital growth accelerates. High inflation, on the contrary, reduces real profitability and complicates long-term investment decisions. The central bank interest

rate directly determines the price of borrowed funds and affects the cost of financing capital growth.

4.2. Tax system and legal environment. The corporate income tax rate, investment tax incentives, the tax deductibility of interest payments, and taxes on dividends determine the relative attractiveness of domestic and foreign sources of capital growth. The protection of property rights, the effectiveness of the judicial system, and the quality of bankruptcy legislation are important parameters of the investment environment.

4.3. Development of the financial market and banking system. A developed capital market provides enterprises with access to various financing instruments: initial public offerings (IPOs) and secondary equity issuances, corporate bonds, convertible debt instruments, etc. The health of the banking system and the availability of credit resources are a prerequisite for short- and medium-term capital growth.

4.4. Industry characteristics and competitive environment. The growth rate, intensity of competition, entry barriers, and pace of technological change of the industry in which the company operates determine the strategic context for capital growth. In high-growth industries (e.g., information technology), capital growth opportunities are more extensive, while in mature industries, they are limited.

4.5. Globalization and international economic relations. The openness of the world economy, the access of international investors, the volume of export-import transactions, and the situation in international financial markets have a significant impact on the capital growth of local enterprises. While globalization creates new opportunities on the one hand, it also increases the impact of external shocks on the other.

5. Quantitative methods for assessing capital growth

5.1. DuPont Analysis Model. This classic analytical tool decomposes ROE into three main components: profit margin, asset turnover, and financial leverage. The DuPont formula is expressed as: $ROE = (\text{Net Profit} / \text{Sales}) \times$

$(\text{Sales} / \text{Assets}) \times (\text{Assets} / \text{Equity})$. This approach allows you to determine to what extent each factor — operating efficiency, asset management, or capital structure — contributes to capital growth.

5.2. Sustainable Growth Rate (SGR) Model. The SGR model, developed by R. Higgins (1977), calculates the maximum growth rate that a company can achieve while maintaining its current financial policy: $\text{SGR} = \text{ROE} \times (1 - \text{Dividend Payout Ratio})$. If actual growth is higher than SGR, the company will need additional external financing. If SGR is lower, the company will accumulate excess funds.

5.3. Regression analysis. Multivariate regression models allow for the quantitative assessment of statistical relationships between capital growth (the dependent variable) and various internal and external factors (independent variables). Such analysis typically includes ROE, ROA, debt ratio, asset turnover, GDP growth rate, interest rate, and other variables. Regression coefficients indicate the marginal effect of each factor on capital growth.

6. Comparative importance of factors

Empirical studies show that the relative importance of factors affecting capital growth varies depending on the size of the enterprise, the industry, the stage of development and the macroeconomic environment. For enterprises at the initial stage, external financing sources and investor confidence play a more important role, while for mature enterprises, internal profitability and dividend policy are of primary importance. The table below shows the degree of influence and controllability of the main groups of factors on capital growth.

Table 1. Comparative description of capital growth factors

Factor group	Main indicator	Impact on capital growth	Controllability level
Utility	ROE, ROA, profit margin	High (direct)	High
Dividend policy	Payout Ratio	Up (reverse)	High
Capital structure	D/E ratio	Average	High
Asset efficiency	Turnover coefficient	Average	High
Macroeconomic environment	GDP, inflation, interest rate	High	Low
Tax and legal environment	Tax rate, benefits	Average	Low
Financial market	Market development level	High	Low
Competitive environment	Market share, network growth	Average	Average

As can be seen from the table, the factors with the highest degree of controllability (profitability, dividend policy, capital structure, asset efficiency) are directly dependent on the decisions of the enterprise's management and should be considered as the primary goal of strategic financial management. External factors with a low degree of controllability (macroeconomic environment, tax system, financial market) are parameters that cannot be directly influenced, but must be adjusted to the strategy through monitoring. That is why an effective capital growth strategy requires a rational combination of active management of internal factors and reactive adaptation to external factors.

Conclusion

Identifying and analyzing the factors affecting capital growth is crucial in the strategic financial management of an enterprise. This analysis has shown that capital growth is a multivariate and complex process, which is formed as a result of the combined influence of internal and external factors. No single factor can fully explain capital growth, therefore, a comprehensive and systematic approach is required.

From a practical point of view, an effective strategy for enterprises involves the following: effective management of internal resources (increasing profit efficiency, rational dividend policy, careful selection of investment



projects), adaptation to the external environment (monitoring of macroeconomic conditions, use of tax opportunities, rational use of financial market instruments), improvement of management quality, and constant quantitative assessment of capital growth. When applying this analysis in the conditions of Uzbekistan, it is necessary to take into account the economic reforms being carried out in the country, changes in the tax system, the stage of formation of the financial market, and the characteristics of the investment environment.

References

1. Higgins RC How much growth can a firm afford? // Financial Management. — 1977. — Vol. 6, No. 3. — P. 7–16.
2. Damodaran A. Corporate Finance: Theory and Practice. — 2nd ed. — New York: John Wiley & Sons, 2001. — 992 p.
3. Brealey RA, Myers SC, Allen F. Principles of Corporate Finance. — 13th ed. — New York: McGraw-Hill, 2020. — 976 p.
4. Penman SH Financial Statement Analysis and Security Valuation. — 5th ed. — New York: McGraw-Hill, 2013. — 768 p.
5. Fama EF, French KR Testing trade-off and pecking order predictions about dividends and debt // Review of Financial Studies. — 2002. — Vol. 15, No. 1. — P. 1–33.
6. Rajan RG, Zingales L. What do we know about capital structure? Some evidence from international data // Journal of Finance. — 1995. — Vol. 50, No. 5. — P. 1421–1460.
7. Demirgüç-Kunt A., Maksimovic V. Law, finance, and firm growth // Journal of Finance. — 1998. — Vol. 53, No. 6. — P. 2107–2137.
8. Beck T., Demirgüç-Kunt A., Maksimovic V. Financial and legal constraints to growth: does firm size matter? // Journal of Finance. — 2005. — Vol. 60, No. 1. — P. 137–177.