

**AN EMPIRICAL ANALYSIS ON
DETERMINANTS OF CAPITAL STRUCTURE
IN SRI LANKAN COMPANIES**

RARE

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Abstract

One of the central issues in the both the theory and the practice of finance is the problem of determining the optimal capital structure of the firm. This study was undertaken to identify the most significant variables considered by sample companies for the design of the capital structure and to determine whether or not such factors affecting capital structure decision significantly vary among the sample companies. The study examined the relevancy of the corporate capital structure determinants such as size, profitability, tangibility, growth, tax, non debt tax shields and volatility. The sample of five industries namely Beverage Food and Tobacco, Hotels and Travel, Land and Property, Manufacturing and Plantations during the period of 2003 to 2009 was selected from companies registered and listed in Colombo Stock Exchange.

The preliminary analysis of the degree of the liner association between variables has been done with the help of Karl Pearson's correlation method. Stepwise multiple linear regression analysis has been used to identify the most significant variables out of various selected explanatory variables. The results have revealed that the size measured in terms of sales, size measured in terms of assets, profitability (return on equity), profitability (return on capital), growth opportunities, tangibility, tax, non debt tax shields are the significant determinants in the capital structure.

The results indicate that there is no strong evidence to support static trade-off theory, information asymmetry theory and agency cost theory in the Sri Lankan context. So researcher suggest to conduct further research on the determinants of capital structure by considering financial managers' thinking patterns and attitudes, based on the available sources in the corporate sector.