

Research Objectives

This study aims following objectives;

- A. Investigating the relationship existing between the capital structure and firm size with the performance of LCBs in Srilanka.
- B. Examining the relationship existing between capital structure and firm size with the performance of LMFs in Srilanka.

Methodology

This study is done in quantitative approach and the panel data are analyzed using a fixed effects model and random effects model on LMFs and LCBs. Further the study aimed at contributing to the debate on capital structure and firm size by examining the impact on performance of LCBs in Sri Lanka and LMFs for the period 2012 to 2017. Data were collected through the published annual reports of the selected banks. Debt to Equity (DTE) & Debt to Total Funds (DTF) ratio were used as proxies for capital structure and Log of Total Assets and Log of Sales were used as proxies for firm size. The Return on Equity (ROE) & Return on Assets (ROA) were used to measure bank and firm profitability. Finally, the impact of capital structure and firm size on profitability is analyzed using descriptive statistics, correlation analysis and regression analysis using the pooled regression model; fixed effects model and random effects model.

The following regression models were used to analysis the data after satisfying preliminary requirements such as multicollinearity.

$$ROA/ROE = \alpha + \beta_1 DTE_{it} + \beta_2 DTF_{it} + \beta_3 TA_{it} + \beta_4 TS_{it} + \varepsilon_{it} \dots \dots \dots 01$$

Where: α : Constant

ROA: Return on Asset

ROE: Return on Equity

DTE: Debt to Equity

DTF: Debt to Total Funds

TS: Log of Total Sales

TA: Log of Total Assets

Results and Discussion

The study investigated the impact of capital structure and firm size on the performance of LCBs and LMFs in Sri Lanka for the period 2012 to 2017. It found that the DTE ratio has a significant negative relationship with ROA, and a significant positive relationship with ROE in LCBs. Further, DTF has a significant positive relationship with ROE, and significant