

The Impact of Capital Structure on Financial Performance of Service Sector in Colombo Stock Exchange

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Abstract

Capital structure is one of the important factor in deciding financial performance of a business. This study is carried out to investigate the impact of capital structure on financial performance with special reference to the service sector in Colombo stock exchange. For the purpose of this study, independent variable is capital structure that measures by using debt to equity ratio and debt to asset ratio. Dependent variable is financial performance which measures by using return on equity (ROE), return on asset (ROA) and earning per share (EPS). In addition to that total asset and asset growth rate are used as control variables. This study uses secondary data from Colombo stock exchange and have selected 50 service companies for 5 years from 2016 to 2020. The collected data are analyzed through descriptive statics, correlation analysis and regression analysis. The findings of the study will provide insights to the management in deciding the optimal capital structure to contribute the higher level of profitability.

Key words: *capital structure, financial performance, listed services companies*