

A Comparative Analysis of the Impact of Firm-Specific and Macroeconomic Factors on Capital Structure Decisions: Evidence from Sri Lankan Automobile and Consumer Goods Companies

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Abstract

Introduction: Capital structure decisions are fundamental to a firm's financial management, influencing its ability to optimize resources and mitigate risks. This study evaluates the impact of firm-specific factors - profitability, firm size, tangibility, liquidity, and dividend payout and macroeconomic factors, including GDP growth, interest rates, inflation, and exchange rates, on the capital structure of automobile and consumer goods companies listed on the Colombo Stock Exchange (CSE) between 2013 and 2023.

Methodology: The analysis used panel data regression on a sample of 30 companies, consisting of five automobile firms and 25 consumer goods firms, selected based on market capitalization. The debt-to-equity ratio was utilized to measure capital structure, and rigorous diagnostic tests ensured the reliability of the results. Sectoral and combined analyses were conducted to identify distinct patterns and variations.

Findings: The results indicate that firm-specific factors such as firm size and tangibility are significant in shaping capital structure decisions. Firm size positively influences capital structure in the automobile sector, while tangibility shows a marginally significant positive effect across sectors. Liquidity has a significant negative impact on capital structure in the consumer goods sector and across the combined sample. Among macroeconomic factors, interest rates exhibit a significant negative influence on capital structure in the consumer goods sector and combined analysis, while exchange rates show mixed effects, negatively impacting the automobile sector but positively influencing the consumer goods and combined sectors. Notably, profitability, dividend payout, GDP growth, and inflation rates were found to have no significant effect across all sectors.

Conclusion: The study's findings reveal that firm-specific factors, particularly firm size and tangibility, and macroeconomic factors such as interest rates and exchange rates significantly influence capital structure decisions in Sri Lanka's automobile and consumer goods sectors. The overall model demonstrates statistical significance at the 1% level across both sectors. These insights highlight the critical importance of tailored financing strategies for different industries, enabling firms to enhance their financial stability and performance.

Keywords: Capital structure, firm-specific factors, macroeconomic factors, automobile sector, consumer goods sector, Colombo Stock Exchange