

A Comparative Analysis of the Impact of Firm- Specific and Macro Economic Factors Influence Capital Structure Decisions: Evidence from Sri Lankan Finance and Diversified Holdings Companies

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Abstract

Introduction: This research describes the influence of Firm- Specific and Macro Economic Factors influence on Capital Structure Decisions of Sri Lankan Finance and Diversified Holdings Companies during the period of 2013 to 2023. Then understanding the knowledge gap then we can get the understanding of relative impact on these factors, the study concern to observing the financial strategies and regulatory policies. The research focuses on Firm- specific and Macro Economic Factors such as Profitability, Firm Size, Tangibility and Liquidity includes under Firm-specific Factors, the GDP, Interest Rate, Inflation Rate and Exchange rate includes under Macro Economic Factors.

Methodology: The study applying a quantitative approach using panel data analysis. We were collected Financial Secondary data from the Colombo Stock Exchange website and the Macro Economic Factors data collected from the Central Bank of Sri Lanka website. We were used STATA software to run the data set, the Statistical techniques including descriptive analysis, Pearson's correlation analysis and Regression analysis are were used to analyze and make interpret the connection between the variables. The hypothesis testing and robustness test to check the accuracy of the findings results.

Findings: Based on the results the Profitability and Firm Size made a significant impact on Capital Structure across the sectors. The Finance Companies definitely depend on debt financing, it was impact by Liquidity and Asset Tangibility. The Diversified Holdings Companies explore more balanced approach between debt and equity, it was influenced by Macro Economic Factors such as GDP growth and Inflation. Finally, the key differences were understood in the relative importance of these determinants between the Finance and Diversified Holdings Sectors.

Conclusion: The research explained the complex combination between Firm- Specific and Macro Economic Factors impact the Capital Structure. The finding delivers preferable insights for financial managers and policymakers in fluctuation economies like Sri Lanka. Furthermore, identifying sector- specific determinants, the research supports strategic decision- making for sustainable growth and Financial Stability.

Keywords: Colombo Stock Exchange, Central Bank of Sri Lanka, Finance Sector, Diversified Holdings Sector, Regression, Pearson's Correlation, Panel data, Firm Size, Debt to Equity, Tangibility.