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**AN EMPIRICAL INVESTIGATION OF THE RELATIONSHIP
BETWEEN THE FINANCIAL STRENGTH AND THE
GROWTH OF MANUFACTURING COMPANIES TRADED
ON THE COLOMBO STOCK EXCHANGE**

by

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ABSTRACT

This dissertation investigates the issue of whether the financial strength of a firm influences the growth of it. For this purpose 15 manufacturing companies traded on the Colombo Stock Exchange were selected and two main tests were carried out to observe this relationship over a 10-year period from 1984 to 1993. First, financial strengths of companies were ascertained using Altman's (1968) Z-score approach and its relationship with growth variables were examined calculating respective correlation coefficients. Second, Using current-ratio and debt-equity mix to represent short-term and long-term financial strengths respectively, a multiple regression analysis was performed.

The findings indicated a strong positive relationship between financial strength measured by Z-scores and firm growth. On the other hand, both current ratio and debt-equity mix, on average, made a great influence on the growth of the firm. However, short-term financial strength seemed to influence the growth of the firm more than the long-term financial strength.

