

Capital Structure Effectiveness on Financial Performance of Manufacturing Firms in Sri Lanka

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Capital structure shows a significant role in financial decision making process in any business organization. Capital structure decision is more important because organizations need to maximize return and growth the value of the firm. Manager's responsibility is a decide mix of debt capital and equity capital then it increase the value of the firm. Objective of this research is examine the impact of Capital Structure on financial Performance of manufacturing firms in Sri Lanka.by using 25 firms listed in Colombo stock exchange In this study data collect from secondary evidence through Annual Reports published by company which listed in Colombo stock exchange. There are four variables use for this study. Return on Asset (ROA) is a dependent variable and other explanatory variables are Debt to equity Ratio (DER), Long term Debt Ratio (LTDR) and Debt to Asset Ratio (DAR). Considering the relationship between the capital structure and financial performance. In debt to equity ratio has a negative relationship between Return on Asset and long term debt ratio has an insignificant negative relationship with ROA .and In Debt to Asset Ratio has a positive relationship between ROA. Relationship established between the capital structure and the financing structure is a part whole type relationship can be seen. It is recommended that firms should use more of equity than debt in financing their business activities. To get the better investment decision of mix of capital structure recommend to establish performance standards and those are properly communicate to the investors.

Keywords: Capital structure, value of firm, Financial performance, Secondary evidence, Maximize return