IMPACT OF CAPITAL STRUCTURE FOR BUSINESS PERFORMANCE IN SRI LANKA

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Abstract

The discussion about the optimal capital structure has been a main topic in corporate finance from several years in Sri Lanka. Capital structure defines as a combination of debt as well as equity in an organization. Organizations have multiple financing sources. It can be categorize into two sources, the internal financing which includes common stocks, preferred stocks, reserves and retained earnings. Another source called external financing which consists short and long term loans and bonds issuance. It is challenging for organizations to identify the right mixture of debt and equity to achieve organizations goals.

This research paper will examine the relationship between capital structure and business performance of public listed companies in Sri Lanka. The multiple linear regression and correlation were used to examine the relationship between capital structure and business performance. The sample of the study consisted of 20 public listed companies in Sri Lanka. This analysis is done by analyzing the financial statements of these companies from 2010-2014. Another expected Finding is the firm characteristics factors which also influence on business performance. The outcome of the statistical analysis made known that TDR and STDA has significant negative influence on the organization performance of business evaluated by ROA. The relationship in between ROA and TIE is positive as well as significant. However, DER and LTDA have negative but insignificant influence on ROA.

Key words: capital structure, performance, equity, debt