The Relationship between Business Life Cycle and Capital Structure: Evidence from Listed Companies in Sri Lanka

Edirisingha, K.P.S.D.[1] and Abeywardhana, D.K.Y.[2]

[1]*sakunthalaedirisinghe99@gmail.com*; [2]*dilyapa@kln.ac.lk*

Abstract

The determination of the optimal capital structure needs to be done by each company. Capital structure is the balance or ratio between debt and equity capital. One proxy for capital structure is leverage. The well-known theory for determining leverage or capital structure is the pecking order theory. There are many variables that affect the determination of a company's leverage, so there is no single standard model for determining the leverage or capital structure of the company. One variable that adds to the explanation of the determination of a company's capital structure is the life cycle, as proposed by (Dickinson, 2011). The company's life cycle is differentiated by its cash flow, including cash flow from operating, financing, and investment. This study aims to determine whether the company life cycle can explain the determination of the leverage or capital structure of the company and find out the influence of other variables such as age of business, growth, tangibility, size, and liquidity on the leverage or capital structure of the company. This paper uses a panel data approach and data collected from listed companies in Sri Lanka between 2012/13 and 2021/22 to investigate the impacts of business life cycle stages on capital structure. This study conducted an analysis using descriptive statistics, correlation, and regression analysis. The results showed that in 2012/13 and 2021/22, the variable of the life cycle can be one of the variables that can explain the company's decision. The control variables that affect leverage are the age of the business, tangibility, size, and liquidity. The variable that does not affect leverage is the growth of the company.

Keywords: Capital Structure, Business Life Cycle, Age, Tangibility, Size, Liquidity