THE RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PERFORMANCE OF NON-FINANCIAL COMPANIES IN SRILANKA

D.E.R.K.DULAJI

Department of Accountancy, University of kelaniya

Abstract

This paper characterizes that relationship between capital structure and firm performance of financial companies in Sri Lanka. Capital structure is a financial tool that helps to determine 'how do firms choose their capital structure? The capital structure theory was first postulated by Modigliani & Miller (1963). Capital structure decision is the mix of debt and equity that a company uses to finance its business (Damodaran, 2001). The relationship between capital structure and corporate performance has been extensively investigated in the past four decades. However managers and practitioners still lack adequate guidance for attaining optimal financing decisions (Kibet,Kibet,Tenei& Mutwol, 2011). This situation has led to loss of investors' wealth and confidence in the stock market.

The objective of this research is to discover any relationship between Capital Structures and Firm's Performance of financial companies. Firm's Performance was measured using ROE, ROA, and gross profit margin. Capital structure will be measured by short-term debt to asset ratio, long-term debt to asset ratio, and total debt to total assets. Multiple regression analysis was applied to estimate the relationship between the leverage level and performance. This study will find a significantly relationship between capital structure and corporate performance in Financial companies.

Key words: Capital structure, Firm's performance, Non-Financial Industries