CAPITAL STRUCTURE EFFECT ON FIRM FINANCIAL PERFORMANCE

P M K K Pathiraja pmkkpathiraja@gmail.com
Department of Accountancy, University of Kelaniya

Abstract

Capital structure is defined as combination of equity, debt or hybrid securities through which a company finances its assets. Firm's leverage refers to the percentage of total debt in total financing. . Decision of Capital structure involve what type of source should be used either equity, or short or long term debt, or mix of sources of funding which better the firm's financial performance. Initiating a business require purchasing assets in order to fulfill the purpose of organization. (Allen, 2011). An emerging consensus that comes out of the corporate governance literature (Smith, 2005) is that the interactions between capital structure and ownership structure impact on firm values. (Morck, 1988)

Objective of this research is investigates the relationship between capital structure and firm financial performance as well as examine if more efficient firms choose more or less debt in their capital structure.

This research methodology has gone some way in reconciling some of the empirical Irregularities reported in prior studies. Only report the results obtained from estimating dynamic models for both the efficiency and leverage equations. All data will collect by the secondary evidence by use the financial statement data. Result of this research is the effect of dispersed ownership is different across different capital structures. positive but insignificant for low leveraged firms and (significantly) negative for high leveraged firms. The latter finding is consistent with the view that the fear of bankruptcy induces managers of highly levered firms to lower debt.

Key words: Capital structure, Effect, firm financial performance, Ownership structure, leverage, secondary evidence.