

DETERMINANTS OF CAPITAL STRUCTURE: EVIDENCE FROM LISTED MANUFACTURING COMPANIES IN SRI LANKA

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Chosen the capital structure is one of the major influencing factors for the development of each company. Researcher choose listed firms in the manufacturing sector as a sample because the sector has grown faster and number of companies also more than any other sector in Sri Lankan economy. Further, the contribution of the manufacturing sector to total Gross Domestic Product (GDP) also higher and more compare with other companies and manufacturing industry is the important one in the country's economic development. In Sri Lanka, the above research work carried out by some authors in different periods. The purpose of this study is to fill this void to some extent by providing empirical evidence from a developing country's perspective. Here the researcher decided to carry out the research work from 2010 to 2014. It will be tested on the basis of the Trade off theory and pecking order theory. Researcher selected 34 listed manufacturing companies in Colombo stock exchange as a sample for this research purpose. Findings of this study are Tangibility significantly impact on long term debt and Profitability also significantly impact on total debt. The result of this study Profitability and tangibility was confirmed to be relevant determinant for Sri Lankan manufacturing companies, except Non debt tax shield, and Size. Tangibility, Profitability, Non debt tax shield, and Size do not appear to be significantly related to the debt to equity ratio. Through the findings can come to conclusion that Pecking order theory is more relevant to Sri Lankan context. It is largely consistent with the past empirical finding also. Findings should help corporate managers and decision makers to make optimal capital structure decisions.

Key Words: Capital structure, Trade-off theory, Pecking order theory

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