

Determinants of Profit Heterogeneity at Firm Level: Empirical Evidence from Sri Lankan Manufacturing Sector

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Abstract

The fundamental purpose of this study is to determine and investigate the importance of different factors that has an impact on profit heterogeneity at firm level specifically within the context of Sri Lankan Manufacturing sector. When it comes to the Sri Lankan manufacturing sector, it is gradually developing year-by-year and the contribution to GDP is considerable. Therefore, going with an investigation on it is essential since it helps certain parties to make better decisions. This study used multiple regression analysis for panel data of 12 listed firms over the period of 2010-2014 to explain variation in firm profitability. Using return on assets as the dependent variable, it has developed a model to observe the impact of different independent variables on profit variation. Profitability has a moderate positive relationship with the identified firm-specific variables. This study demonstrates that the variables such as liquidity, age since listed and size of the firm are the dominant factors in explaining total variation in profitability and the liquidity and age adversely affecting it. While size is having an inverse relationship with profitability of manufacturing firms, growth, capital intensity and market share is having a negative insignificant impact on profitability. It is found that leverage is having a positive insignificant relationship with the profitability. The findings have strong policy implications for both the companies and the economic managers of Sri Lanka. The managers and the owners of the manufacturing sector firms operating in countries like Sri Lanka should consider both the capital structure and liquidity level to realize higher profitability. The research will support firms to develop better strategy than before. It also helps the manufacturing firms to better deal with competition it faces from the industry. This is probably the first study of its kind that tries to explain variation in firm profitability in Sri Lankan manufacturing sector.

Keywords: *Sri Lankan, Manufacturing, Profitability, Liquidity, Panel data*