

## **The Impact of Capital Structure Choice on Firm Performance: Empirical Evidence from Diversified Companies in Sri Lanka**

Abeyrathne, A.H.M.U.S.<sup>1</sup> and Thilakerathne, P.M.C.<sup>2</sup>  
suwimali91@gmail.com<sup>1</sup>, lal@kln.ac.lk<sup>2</sup>

The Capital structure decision is fundamental for any business organization, because of the need to maximize return to the various stakeholders and such decision has great impact on the firms' ability to deal with competitive environment (Awunyo-Vitor, 2012). Therefore managers need to take decision very carefully regarding to the capital structure of company. Hence the researcher investigated the impact of capital structure choice on firm performance. The objective of this research is to evaluate the impact of capital structure choice on performance of diversified companies in Sri Lanka. The study used secondary data for a sample of 14 listed diversified companies in Colombo stock exchange during 2008-2016. Short Term Debt to Asset Ratio and Long Term Debt to Assets Ratio used as measurements of capital structure. Further firm size used as control variable and also Net Profit Margin, Return on Equity and Return on Assets used as measurements of performance of the diversified companies. The results indicated that firm performance, which is measured by Return on Asset, Return on Equity and have negative relationship with Short Term Debt to Asset Ratio and there is no significant relation with Short Term Debt to Asset Ratio. Further Short Term Debt to Asset Ratio has a negative significant impact on Net Profit Margin. Moreover, Long Term Debt to Asset Ratio has a negative significant impact on Return on Asset and Return on Equity. Therefore, there is negative relationship between capital structure choice and performance of diversified companies in Sri Lanka.

**Keywords:** Capital structure, Firm performance, Diversified companies