

The Relationship between Capital Structure and Firm Performance of Listed Manufacturing Firms in Sri Lanka

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This study investigates the relationship between capital structure and firm performance of listed manufacturing firms traded in Colombo Stock Exchange in Sri Lanka that will be important to decision makers of the firm's to identify the optimum mix of debt and equity. The present study is proceed with the sample of 30 manufacturing listed firms out of 40 companies using the data represent the periods of 2010-2015. Firm performance is measured by using Return on Asset (ROA) whereas Debt Equity Ratio (DER), Debt Asset Ratio (DAR), Short Term Debt to Total Asset (STD/TA) and Long Term Debt Total Asset (LTD/TA) were used as measures of capital structure. Descriptive statistics, correlation and regression analysis were used to perform statistical tests. The data was collected by using from 2010-2015 annual reports. Results suggest that there is an insignificant negative relationship between DER and firm performance of firms, and a significant positive relationship between DER, STD/TA with financial performance measures.

Keywords: Capital structure, Firm performance, Return on Asset, Debt Equity Ratio, Debt Asset Ratio, Descriptive statistics