

The Relationship between Capital Structure and Performance; Evidence from Selected Sri Lankan Hotels Listed in Colombo Stock Exchange

Dulaji, D.W.R.K.¹ and Ariyaratna Jayamaha²
kashmirardulaji@gmail.com¹, jayamaha@kln.ac.lk²

The performance of hotel industry is most important to the wealthy of the Sri Lankan economy. Hotels compete in a global economy with infinite opportunities. Hence, hotels need more financial strength in order to run the day to day operations of the business. Capital Structure is one of the main criteria which concerned in financial strength of the hotels. The capital structure of listed companies is most important dimension that every stakeholder is very much concerned. The objective of this study is to identify the relationship between capital structure and performance in the listed hotels in Sri Lanka. Furthermore, this study also aims to indicate what is the most influential factor for capital structure? Short term debt, Long term debt and debt to equity ratio are used as measurement of capital structure. Performance of hotel was dependent variable and it measured by ROA. The study has been used panel data procedure for a sample of 26 Sri Lankan hotels listed in Colombo Stock Exchange during 2010-2015. The data for all the variables in the study were abstracted from audited annual reports. This quantitative analysis used descriptive statistic, regression analysis and correlation analysis to demonstrate relationship between capital structure and performance. This study found that a significant positive relationship between capital structure and performance of hotels listed in CSE. Based on findings, it can be arrived to an overall conclusion that an appropriate mix of capital structure improves the performance of hotels.

Keywords: Capital Structure, Performance, Hotels listed in CSE, Short term debt, Long term debt, Debt to Equity Ratio