

An Analysis of Capital Structure and Its Impact on Performance: with Reference to Financial Institutions in Sri Lanka

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The capital structure of a firm is basically a combination of debt capital and equity capital. Which is deemed as appropriate to enhance its operations. A lot of investigations are being done on the implications of capital structure's selection on organization's value and its performance since the seminal work of Modigliani and Miller (1958). A wee little is empirically known about such implications in emerging economies such Sri Lanka. The purpose of this research is to explore empirically the impact of capital structure decisions on the financial sector organizations' financial performance in Sri Lanka as one of emerging economies. Regression analysis is used in this research to identify the relationship between the leverage level and the performance of the financial institutions. Broad data covering the six year periods from 2009-2015 of financial institutions in Sri Lanka are gathered and analyzed with the regression analysis. The data all are quantitative in nature and already available on Colombo stock exchange database (secondary evidence). There are sixty Financial Institutions in Sri Lanka and most of them are levered firms. Based on Return on Equity financial performance measurement and financial institutions' leverage level the results revealed that leverage level has a weak level of negative impact and whilst controlling variable total assets has strong negative impact on organization's financial performance.

Keywords: Capital structure, Organization's performance, ROE, Financial institutions of Sri Lanka