The Impact of Capital Structure on Firm Performance

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ABSTRACT

Introduction: The purpose of this analysis is to look at and investigate through empirical observation the impact of capital structure on firm performance. This study examines the impact of capital structure on firm performance of the material business sector in Sri Lanka.

Design/Methodology/Approach: Data were gathered from 16 material firms from 2012 to 2020. This study used statistical methods such as descriptive analysis, correlation analysis, and regression analysis have been used to analyze financial data of the preceding nine years. The data were collected from the referring nine years' annual reports. In this analysis used to measure the capital structure affection for the firm performance, Equity to Assets ratio used as independent and ROA ratio as the dependent variable. To work out the relative significance of capital structure variables on firm performance analysis has used control variables such as size, growth, liquidity.

Findings: In this research, Equity Asset was recorded as a significant positive relationship ROA. And also, Firm Growth was recorded as a significant relationship with ROA. However, Firm size and Liquidity were recorded as having an insignificant relationship with ROA. This study used Panel Data Analysis to gather data to assess the impact of capital structure on the firm performance through the STATA package.

Conclusion: According to overall statistical results the relationship between the capital's structure and the Firm Performance shows that there is a positive relationship.

Keywords: *Capital structure, Firm performance, Material sector, Equity to assets, ROA*