The Role of Capital Structure on Profitability during the Financial Crisis: Evidence from Financial Firms Listed in CSE

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Abstract

Capital structure is considered as an important corporate financial management context and is mainly related to establishing an ideal credit policy. In the context of a financial shock, financial firms were severely affected. This study examines the role of capital structure on profitability during the financial crisis of listed financial firms in CSE. The study adopts a quantitative research design, and the study is based on secondary data collected from annual reports. Researchers use positivist philosophy for the research and deductive method use as research logic. The population of this study is all financial firms listed on the Colombo Stock Exchange. To perform the study, 20 financial firms were selected as the sample from 2004 to 2018. The results reveal that the CS of the current period has a negative relationship with profitability in the light of the financial crisis. Furthermore, the study's findings, the Debt-to-equity ratio, Debt to Assets Ratio, and Interest Coverage ratio negatively impacted the profitability of the financial firms during the crisis period. Managers and shareholders may find these findings significant, particularly when they place a high priority on their decision about the role of capital structure on a company's financial profitability during the financial crisis.

Keywords: Capital Structure, Financial Crisis, profitability, Financial Firm, CSE