Factors Affecting on Capital Structure of Sri Lankan Listed Companies in Pre and During the Covid-19 Pandemic

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Abstract

This study aimed to investigate factors affecting the capital structure of Sri Lankan companies listed on the Colombo Stock Exchange (CSE) in pre- and during the COVID-19 pandemic. Every company needs to have a robust capital structure because it significantly impacts the financial decisions adopted by the company. The goal of the company is to effectively manage the debt-to-equity ratio (DER) to maximize shareholder wealth. The study is based on a sample of 30 non-financial listed companies, considering market capitalization. This research used secondary data and data taken from the annual reports during the six years (2017–2022). The independent variables consist of growth, tangibility, size, profitability, and liquidity. The dependent variable is capital structure, which is measured by the debt-to-equity ratio (DER). Panel data regression was employed to analyze the information collected to identify the factors affecting capital structure. Pre-COVID-19 period regression results suggest that company growth has a significant positive impact on capital structure and profitability has a significant negative impact on capital structure. Tangibility, firm size, and liquidity have an impact on capital structure that is insignificant. During the COVID-19 period, results found company growth has a significant positive impact on capital structure and firm size has a significant positive impact on capital structure. Tangibility, profitability, and liquidity have an impact on capital structure that is insignificant.

Keywords: Growth, Firm Size, Profitability, Debt-to-Equity Ratio, COVID-19, Capital Structure