

Capital Structure and its Impact on Companies' Performance: A Study of Selected Listed Manufacturing Companies in Sri Lanka

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Abstract

Production and service are the important activities in this modern world. Most of people (i.e., investors and public) can see that many instructions have been established for rendering things and service to customers which seems a strong competition between these companies. Companies have to face competitive threatening among them. Therefore, company must consider capital structure decision well to perform. An attempt has been made to analyze the capital structure and its impact on companies' performance during year 2005 to 2009 (05 years) of listed manufacturing companies in Sri Lanka. Operational hypotheses are formulated and results revealed that there is statistically significant positive relationship between equity capital and companies' performance measured by Return on Equity (ROE), Return on Assets (ROA), Earning per Share (EPS), and Tangibility. On the other hand, there is an insignificant negative relationship between debt capital and ROE, ROA, EPS and Tangibility of the company. The outcomes of the study may guide entrepreneurs, loan- creditors and policy planners to formulate better policy decisions in respect of the mix of debt and equity capital and to exercise control over capital structure planning and thereby to control and reduce bankruptcy costs.

Keywords: Capital Structure, Performance, Manufacturing Companies.

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