

# CAPITAL STRUCTURE AND FIRM PERFORMANCE

## Assessment on listed manufacturing companies in Sri Lanka

This dissertation is submitted as a partial fulfillment of the degree of Bachelor of  
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## ABSTRACT

Capital structure decision is a curtail decision for organization and it is a basement for many other decisions. Many factors are affected to correct capital structure decision. Capital structure directly affected to the firm profitability and profitability will increase firm performance. This thesis empirically investigated relationship between capital structure and firm performance of listed manufacturing companies in Sri Lanka. Data were extracted from the annual financial statement of listed manufacturing companies in Colombo Stock Exchange and Colombo stock Exchange data library. Capital structure measure the in term of debt-equity ratio (DE Ratio) and Return on Equity (ROE), Return on Assets (ROA), Earnings per Share (EPS), Price Earnings Ratio (PER), Operation Profit Margin (OPM) and Economic Value Added(EVA) were used to measure the firm performance. Mainly data was analyzed using correlation coefficient and other than that regression analysis was used. It was found that there is significant relationship between capital structure and ROE and there is no significant relationship between capital structure and ROA, EPS, PER, OPM and EVA. The result revealed consistency with prior empirical studies and provide evidence of negative relationship between capital structure and firm performance. The outcome of study may guide managers, investors, entrepreneurs and the potential researchers. This study leads to future research to identifying the optimum capital structure and economic value added that leads the firm value or firm performance in Sri Lanka. Furthermore this research can expand for all twenty one sectors in Colombo Stock exchange.

**Key words: Capital Structure, Firm Performance, Listed Manufacturing Companies**