

**THE DETERMINANTS OF CAPITAL STRUCTURE:
AN EMPIRICAL ANALYSIS OF SRI LANKAN COMPANIES**



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ABSTRACT

Capital structure/leverage level of the firm determined by several factors. Proper capital structure leads the firm to achieve the better performance and ensures the sustainability in its operation. Even though there are several factors contribute to the institutional performance, determinants of the capital structure play an important role. Hence the study was undertaken with the objective of finding out the influence of capital structure determinants on leverage level of the listed companies in Sri Lanka. Tangibility, Profitability, Annual growth, Volatility, Non-Debt-Tax-Shields and Firm size are the determinants of Capital Structure. In this study, dependent variable is leverage level of the companies, is measured by total debt to total assets ratio and independent variables are only four determinants such as Tangibility, Profitability, Annual growth and Firm size. This was examined for the period of 2010-2013. The sample consists with 25 listed companies in Colombo Stock Exchange (CSE). By using descriptive statistical methods, correlation analysis and simple regression analysis find out the influence of determinations on leverage level of companies in CSE in Sri Lanka. Result of this study shows that profitability, growth and firm size negatively influence on leverage level and tangibility positively influence on leverage level. The profitability and tangibility significantly influence to the leverage level of the company and also these independent variables do a good job explaining the variation in the dependent variable. Firm size and Annual growth do not significantly in influence to the leverage level and also these independent variables do not properly explain the variation in the dependent variable.

Further, findings of this study showed that the influence of variables such as tangibility, profitability and firm size on leverage level largely consistent with the explanations of pecking order theory and prove past empirical findings also. The influence of Tangibility and Growth on leverage level largely consistent with the explanations of trade off theory and it's also prove past empirical findings also.

Keywords: Capital Structure, leverage, determinants of capital structure, debt, trade-off theory, pecking order theory.

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