

06 JUL 2017

THE IMPACT OF FINANCIAL LEVERAGE ON FIRM
PERFORMANCE OF LISTED COMPANIES IN SRI LANKA

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ABSTRACT

This study was undertaken with the objective of finding out the relationship between financial leverage and Firm performance of listed companies which are listed in Colombo Stock Exchange in Sri Lanka. The leverage behavior and financial performance of the listed companies in Colombo Stock Exchange were examined as per the observations for the period of 2014-2015.

Descriptive analysis, correlation coefficients analysis and multiple regression analysis were used for this study. The sample consists of 140 companies among the all listed companies which is registered under the Colombo Stock Exchange except Banking, finance and investment trust companies. In this study, leverage level of the companies was used as the independent variable which measured by debt equity ratio and debt to total asset ratio. Accordingly, dependent variable was the Firm performance which measured by Net Profit Ratio (NPR), Return on Capital Employed Ratio (ROCE), Return on assets (ROA) and Return on equity (ROE).

Eventually, results of this study indicate that all the independent variable (debt equity ratio, debt to total asset ratio) have negative significant relationship with all dependent variable (NPR, ROCE, ROA, ROE) according to the correlation analysis. Regression analysis reveal financial leverage has less significant impact on performance of the listed companies in case of net profit, return on capital employed, return on equity and return on assets. Further, this study has shown the path for the future researches in the field of financial leverage with combining other factors which are relevant to firm performance such as firm size, tax shield advantage, coverage ratio, solvency ratio and etc.



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