

# GOODWILL AND CAPITAL STRUCTURE: THE MODERATING ROLE OF INTEREST RATE IN FOOD, BEVERAGE AND TOBACCO INDUSTRY FIRMS

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## 1. Introduction

The limited focus on intangible assets in capital structure decisions highlights a gap, particularly when compared to traditional factors such as profitability or tangible assets. This study addresses this gap by examining how goodwill influences the capital structure of firms in Sri Lanka's Food, Beverage, and Tobacco industries while also investigating how interest rates moderate this relationship.

## 2. Research Methodology

This study employs a quantitative approach, utilizing secondary data from 43 listed companies in the Food, Beverage, and Tobacco industry in Sri Lanka. The sample period spans from 2013 to 2022. Sampling was conducted using a purposive technique. The variables include total debt to total assets (dependent variable), goodwill (independent variable), and interest rate (moderating variable), alongside six control variables: firm size, market-to-book ratio, tangible assets, profitability, depreciation, and firm age. A two-step Generalized Method of Moments (GMM) model was employed to address endogeneity and persistence in the debt structure, ensuring robust and reliable findings.

## 3. Findings and Discussion

The findings reveal a significant positive relationship between goodwill and capital structure, suggesting that goodwill enhances access to debt financing. However, rising interest rates weaken this positive relationship, indicating that firms are less inclined to rely on debt backed by goodwill under high-interest conditions. The results align with prior studies on goodwill as collateral with the moderating role of interest rates in the Sri Lankan context.

## 4. Conclusion and Implications

This research contributes to the literature by highlighting the importance of goodwill in capital structure decisions and offers practical implications for financial managers to optimize financing strategies.

**Keywords:** Capital structure, Goodwill, Interest rate, Panel data analysis, Two-step system GMM