

IMPACT OF CAPITAL STRUCTURE ON FIRM VALUE: SPECIAL REFERENCE TO LISTED NON- FINANCIAL COMPANIES IN SRI LANKA

Gajanayaka, G.K.S.S.^{1*} and Swarnapali, R.M.NC.²

^{1,2}Rajarata University of Sri Lanka, Mihinthale, Sri Lanka

^{*}sasinikagajanyaka@gmail.com

1. Introduction

This research explores the impact of capital structure on firm value for listed companies in Sri Lanka. While global studies exist, findings specific to Sri Lanka remain inconclusive. By addressing this gap, the study aims to clarify how capital structure decisions affect firm value in the unique economic and regulatory context of Sri Lanka.

2. Research Methodology

The study is quantitative in nature. Tobin's Q and the price-to-earnings ratio were used to measure the dependent variable, firm value, while the equity ratio, debt-to-assets ratio, and total debt ratio were used to assess the independent variable. The study ended with 244 sample companies listed on the CSE. Companies belonging to the financial sector were excluded from the sample, and data were gathered from the audited financial statements over the past five years, starting from 2018. The collected data were analyzed through descriptive, correlation, and regression on panel data analyses.

3. Findings and Discussion

The study finds that an optimal capital structure reduces financial risk and boosts firm value, fostering sustainable growth. It also highlights the role of industry-specific factors and macroeconomic conditions in shaping capital structure strategies. Using regression analysis and industry comparisons, the research demonstrates that tailored financial strategies are essential to address the unique challenges faced by Sri Lankan firms. These findings offer valuable insights for practitioners and policymakers, emphasizing the need for context-specific approaches to financial management.

4. Conclusion and Implications

By presenting empirical data on the effect of capital structure on firm value, this study advances the conversation on corporate finance. It is an essential tool for researchers, investors, and business executives who want to make informed decisions in a constantly changing financial Environment. This study adds to the body of knowledge by shedding light on the mechanisms by which capital structure affects firm value.

Keywords: Capital structure, Firm value, Listed non-financial companies in Sri Lanka, Tobin's Q, Price to earnings ratio