

Impact of the Capital Structure on the Firm Value: Evidence from Listed Companies in Sri Lanka

B.A.L. Ruwantha

Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka,

Mihintale, Sri Lanka

lakshakabalasooriya@gmail.com

Abstract

Business organizations need capital for their activities and the arrangement of this capital can be defined as capital structure. Many past studies have examined the impact of the capital structure on firm value. However, previous studies have yielded inconclusive results. Also, there is a conflict of determining the capital structure and the financial structure in past researches. Not only these problems but also it can be seen past researchers do not pay enough attention to the leverage level of the firm when determining the impact of the capital structure on the firm value. With this existing research gap in this area, this study aims to find out the impact of the degree of leverage on the firm value at different leverage levels. To fulfill the purpose of this study, 104 listed companies of the Colombo Stock Exchange in the last five years are considered to collect data. The independent variable of the study is the degree of leverage which is measured by using gearing ratio and the dependent variable is the firm value which is measured by using Tobin's Q and further, firm size, firm age, sales growth, assets growth, and liquidity are considered as the control variables of this study. All observations of the sample companies are categorized as low, middle, and high leveraged companies by using the total debt-to-assets ratio. Data were analysed by using descriptive statistics and regression analysis. Results of regression analysis indicated that there was no significant impact of leverage on firm value listed firms in Sri Lanka. According to the results of this analysis, it can be concluded that the degree of leverage doesn't have a significant impact on the firm value in Sri Lanka. Further, these results imply that capital structure decisions don't affect the firm value.

Keywords: Capital structure, degree of leverage, firm value, gearing ratio, listed companies