

Determinants of capital structure: An empirical investigation of the plantation companies listed in the Colombo Stock Exchange

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Abstract

Efficient 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. Therefore, it is necessary to identify that what factors are contributing to the firms' capital structure composition. Hence, this study investigates determinants of the capital structure of plantation companies in Sri Lanka. The study sampled 16 listed plantation companies in the Colombo Stock Exchange of Sri Lanka for the period spanning from 2010 to 2014. Explanatory variables of this study were profitability, firm size, tangibility of assets, growth opportunity and tax shield. The dependent variable was capital structure. Descriptive statistics, correlation and regression analysis were used in the data analysis using Statistical Package for Social Science (SPSS). The result reveals that profitability and tangibility of assets have not significant effect on capital structure. However, firm size, growth opportunity and tax shield have a negative and significant effect on capital structure. Hence firm size, growth opportunity and tax shield are appeared to be significant determinants of capital structure of plantation companies in Sri Lanka. These findings would be help relevant parties to make their decisions effectively.

Keywords: *Capital Structure, firm size, growth opportunity, profitability, tangibility, tax shield.*