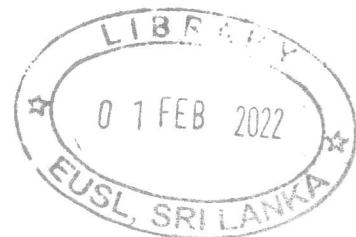


**THE IMPACT OF THE FIRM'S CHARACTERISTICS ON THE
RELATIONSHIP BETWEEN THE CAPITAL STRUCTURE AND
FINANCIAL PERFORMANCE OF BANKS AND DIVERSIFIED
FINANCIAL SECTOR IN SRI LANKA**



By

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ABSTRACT

The purpose of this study was to establish The impact of the firm's characteristics on the relationship between the capital structure and financial performance of banks and diversified financial sector in Sri Lanka. The study developed on secondary data consisting of audited financial statements from 10 banks and 15 diversified financials at the CSE totaling to 25 firms for five-year period (2015 to 2019). The objective of the study was to establish the impact of the firm's characteristics on the relationship between the capital structure and financial performance of banks and diversified financial sector in Sri Lanka. STDAR, LTDAR and DER represented capital structure proxies; ROA represented financial performance while size and age represented Firm characteristics. The study was anchored on positivism paradigm and guided by the following capital structure theories: static trade-off theory, pecking order theory and agency theory.

Descriptive statistics and inferential statistics were used to analyze data. Multiple regressions were applied to establish the extent of the impact of the firm's characteristics on the relationship between the capital structure and financial performance of banks and diversified financial sector while Pairwise correlation was used to analysis relationship between capital structure and firm performance and Random effect model was to analysis impact of firm characteristics on the relationship between capital structures and financial performance. The study concluded of established significant positive moderating effect of firm size characteristic on the relationship between capital structures and financial and negative moderating impact of firm age characteristic on the relationship between capital structures and financial. In improving financial performance, it was recommended that firms invest in easily re-locatable and quality. Future studies to investigate other factors that account for variability in financial performance and other firm's characteristics on the relationship between the capital structure and financial performance of banks and diversified financial sector in Sri Lanka

Keywords: capital structure, Firm's characteristics, financial performance

TABLE OF CONTENTS

ACKNOWLEDGEMENT	i
ABSTRACT	ii
TABLE OF CONTENTS	iii
LIST OF TABLE	vii
ABBREVIATIONS.....	viii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the study	1
1.2. Problem Statement	2
1.3 Research Questions	3
1.4 Research objectives.....	3
1.5. Scope of the study	4
1.6 Significance of the study	4
1.7 Summary	5
CHAPTER TWO	6
LITERATURE REVIEW	6
2.1 Introduction	6
2.2 Firm Characteristics	6
2.2.1 Firm size.....	6
2.2.2 Firm age	7
2.3 Theories used in independent variables	8
2.3.1 Static Trade-off Theory (ST)	8
2.3.2 Agency Theory (AT)	8
2.3.3 The Pecking Order Theory (PT).....	8
2.4 Capital Structure	9
2.4.1 Independent variables	11
2.4.1.1 Total Debt Total Equity Ratio	11
2.4.1.2 Debt to Total Assets Ratio	12
2.5 Financial Performance	13
2.5.1 Return on Assets.....	14
2.6 Relationship between Capital Structure and Financial Performance.....	15
2.7 Empirical Studies	18
2.8 Summary	20

CHAPTER THREE.....	21
CONCEPTUAL FRAMEWORK AND OPERATIONALIZATION.....	21
3.1 Introduction	21
3.2 Conceptualization	21
3.2.1 Firm Characteristics.....	22
3.2.2 Capital Structure.....	23
3.2.3 Financial performance	23
3.3 Operationalization.....	24
3.4 Summary	25
CHAPTER FOUR.....	26
METHODOLOGY	26
4.1 Introduction	26
4.2 Study Setting.....	26
4.3 Study Design.....	26
4.4 Method of Survey	27
4.5 Study Population.....	27
4.6 Sample.....	27
4.7 Method of Data Collection	29
4.8 Hypotheses of the Study.....	29
4.9 Method of Data Presentation	31
4.10 Methods of Measurements	31
4.11 Methods of Data Analysis and Evaluation	31
4.11.1 Univariate Analysis	31
4.11.2 Bivariate Analysis.....	31
4.11.3 Diagnostic Tests	33
4.11.4 Hausman Test	34
4.11.5 Multiple Regression.....	35
4.12 Summary.....	36
CHAPTER FIVE.....	37
DATA PRESENTATION AND ANALYSIS	37
5.1 Introduction	37
5.2 Data Presentation	37
5.3 Data Analysis.....	38
5.3.1. Descriptive Statistics	38
5.3.2 Summary of Descriptive Statistic.....	42

5.3.2 Correlation Analysis	42
5.3.3 Diagnosis test	46
5.3.4 Multiple Regression Analysis	48
5.3.5 Hypothesis Testing	54
5.6 Summary	57
CHAPTER SIX	58
DISCUSSION	58
6.1 Introduction	58
6.2. Descriptive statistics for independent variables	58
6.3. Descriptive statistics for the dependent variable	58
6.4. Descriptive statistics for the moderate variables	59
6.5 Discussion on multiple regression analysis	59
6.5.1. The relationship between STDAR and ROA of Banks and Diversified Financials in Sri Lanka	59
6.5.2. The relationship between LTDAR and ROA of Banks and Diversified Financials in Sri Lanka	61
6.5.3. The relationship between DER and ROA of Banks and Diversified Financials in Sri Lanka	61
6.5.4 The impact of moderate variables relationship between STDAR and ROA of Banks and Diversified Financials in Sri Lanka	63
6.5.5 The impact of moderate variables relationship between LTDAR and ROA of Banks and Diversified Financials in Sri Lanka	64
6.5.6 The impact of moderate variables relationship between DER and ROA of Banks and Diversified Financials in Sri Lanka	65
6.6 Summary	66
CHAPTER SEVEN	67
CONCLUSION AND RECOMMENDATION	67
7.1 Introduction	67
7.2 Conclusions	67
7.2.1 The conclusion of the relationship between STDAR and ROA of Banks and Diversified Financials in Sri Lanka	68
7.2.2. The conclusion of the relationship between LTDAR and ROA of Banks and Diversified Financials in Sri Lanka	68
7.2.3. The conclusion of the relationship between DER and ROA of Banks and Diversified financials in Sri Lanka	68
7.2.4. The conclusion of the impact of moderate variables relationship between STDAR and ROA of Banks and Diversified Financials in Sri Lanka	68

7.2.5. The conclusion of the impact of moderate variables relationship between LTDAR and ROA of Banks and Diversified Financials in Sri Lanka.	69
7.2.6. The conclusion of the impact of moderate variables relationship between DER and ROA of Banks and Diversified Financials in Sri Lanka.	69
7.3 Recommendations	69
7.3.1 The recommendation of the relationship between STDAR and ROA of Banks and Diversified Financials in Sri Lanka.	70
7.3.2. The recommendation of the relationship between LTDAR and ROA of Banks and Diversified Financials in Sri Lanka.	70
7.3.3. The recommendation of the relationship between DER and ROA of Banks and Diversified Financials in Sri Lanka.	71
7.3.4. The recommendation of the impact of moderate variables relationship between STDAR and ROA of Bank and Diversified Financials in Sri Lanka. ...	71
7.3.5. The recommendation of the impact of moderate variables relationship between LTDAR and ROA of Bank and Diversified Financials in Sri Lanka. ...	71
7.3.6. The recommendation of the impact of moderate variables relationship between DER and ROA of Banks and Diversified Financials in Sri Lanka.	72
7.4 Limitation of the study	72
7.5 Summary	73
REFERENCES.....	74
APPENDIX.....	81