

Capital structure decisions, agency conflicts and corporate performance: Evidence from Sri Lankan listed manufacturing firms

Ratnam Vijayakumaran

Department of Financial Management, University of Jaffna, Jaffna, Sri Lanka.

Abstract

Corporate capital structure decisions are key determinants of firm performance. The agency theory suggests that debt financing is one of the mechanisms to mitigate agency problems and thus to improve firm performance. This paper provides important evidence on the performance effects of capital structure decisions using a panel of listed manufacturing firms in the Colombo Stock Exchange (CSE) over the period 2008-2013. The Generalized Method of Moments (GMM) methodology is used to control for unobserved heterogeneity, endogeneity of capital structure decisions, and their dynamics. The study documents that leverage is non-linearly (U-shaped) related to firm performance.

Keywords : Capital structure, agency problems, endogeneity, performance, Sri Lanka