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DETERMINANT FACTORS OF DEBT FINANCING DECISION: EMPIRICAL EVIDENCE FROM SRI LANKAN LISTED COMPANIES

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Abstract

The primary objective of an organization is to maximise wealth for its shareholders and for this purpose, several financial decisions are made by the finance manager. Determining the sources of financing for its assets is one of the major decisions and it includes owners' equity and debt financing from external parties. Several factors influence on the decision related to mix of equity and debt financing. These determinant factors of equity and debt financing decision may be differing. Therefore, aim of this study is to identify the factors that determine the debt financing decision in Sri Lankan listed companies. There are 298 companies listed in Colombo Stock Exchange (CSE) in December, 2017. Data were collected from randomly selected 40 non-financial companies for the period from 2007/08 to 2016/17. Total debt to total assets (Debt ratio), long term liabilities to total assets, current liabilities to total assets were considered as dependent variables and size of the organizations, Return on Assets (ROA), Tobin Q, assets tangibility, Market to book ratio (MBR), non-debt tax shield (NDTS) and block ownership were used as independent variables. Descriptive statistics, correlation analysis, pooled, fixed and random effect models results revealed that all independent variables are important variables to determine the debt financing decision.

Keywords: Debt Finance, Long Term Liabilities, Short Term Liabilities.
