

**A Research on Capital Structure in Manufacturing Firms in  
Sri Lanka and Recommendations Based on Pecking Order  
Theory**

**Tiran Dileepa Gurusinghe**

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Department of Computing

Informatics Institute of Technology, Sri Lanka in Collaboration with

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## **Abstract**

This study empirically examines whether the pecking order model is able to explain the financing behavior of listed manufacturing companies in the CSE. The research examines the problem of does the pecking order hypothesis explain the financing behavior of listed manufacturing companies in the Colombo Stock Exchange (CSE)? If not what are the recommendations and forecasts we can predict as to how the capital structure should be in future. The sample used in this study consists of 32 manufacturing firms listed in CSE. All the collected data are secondary in nature and they were collected from the firms' financial statements from financial year 2015/2016 to financial year 2019/2020. A time series analysis is also performed using key variables of 29 companies from 2010/2011 to 2019/2020. The results of the analysis indicate that profitability is the most important variable that explains the changes in debt level. Overall the results of the analysis showed no support for pecking order in Sri Lankan manufacturing sector. The findings of the study indicated that significant part of the variation in debt level can be explained by the tangibility, firm size, profitability and financing deficit. Many Manufacturing forms utilized these low interest to fund their operations in the middle of the pandemic situation in the country. Overall the results of the analysis showed no support for pecking order in Sri Lankan manufacturing sector. Through the findings this study suggests that as this research did not use any specific country factors, it restricted the generalization of the research findings to other developing countries. Therefore, it is recommended to conduct further studies in this area.

**Key words:** Capital Structure, Colombo stock exchange, debt, manufacturing sector, pecking order theory