**THE EFFECT OF LONG TERM FINANCING POLICY ON FIRM’S VALUE: COMPARATIVE BETWEEN TOP AND LEAST MARKET CAPITALIZATION NON-FINANCIAL COMPANIES LISTED IN SRI LANKA**

***Mohamed Sarifdeen Inshaf***

*CEO, Pebbles Academy, Sri Lanka*

*E -mail: inshaf@pebbles.academy*

**Abstract**

The aim of the study was examine the effect of long-term financing policy on firm’s value of market capitalization listed non-financing companies in Sri Lanka. The study was covered top twenty and least twenty market capitalization no financial companies to compare both classifications to examine the effect of long-term financing policy on value of the firm. The study was used debt to equity ratio and debt to asset ratio as independent variables to measure the long-term financing policy. Price to earnings ratio (Market price to earnings) was used to measure the value of firm.

The study was applied SPSS 20.0 to analyse the data set to provide the results. Based on the correlation analysis and multiple regression analysis, the findings were that long-term financing policy had insignificant effect on value of the firm in top twenty market capitalization non-financial companies (above 1400 Billion) in Sri Lanka while, long-term financing policy had partially insignificant effect on value of the firm in least twenty market capitalization non-financing companies (below 25 Billion) in Sri Lanka. It was concluded that long term financing policy had little bit significant (important) to determine the value of the firm in least twenty market capitalization non-financing companies in Sri Lanka.

**Key words:** Long-term financing policy, value of the firm, price to earnings ratio, non-financial companies.

1. **INTRODUCTION AND BACKROUND**

During the last five decades, the role of financial management has undergone tremendous changes. The ownership structure, size of business terms, security markets, financial systems and instruments have greatly changes. As a result the role of financial manager has become far more important than merely a fundraiser. The finance manager is expected to maximize the economic welfare of the owners, which is represented by the market value of the firm. To achieve this objective, one has to take number of decisions. The most important ones are the investment, financing and dividend decisions. Without any doubt, all business from huge business enterprise to small sole proprietorship needs proper policy of financing its long-term capital and suitable capital structure. Long-term finance planning is the basic thing that must be done by the managers who are in the finance departments and policy makers of the company. It is something that needs extra ordinary planning and sufficient research to be done before it can be used as a company’s financial policies. The main objective of long-term financial planning is to reach optimal capital structure. Optimal capital will occur when the company can minimize its cost of capital by minimizing the cost of capital such as cost of debt (interest on bond) and cost of equity (Dividend). As a result, the company can contribute more income to maximize their shareholder wealth. Capital structure is a part of financial structure. It is the permanent financing represented by long-term debt, preference shares (irredeemable), shareholder equity and the accumulated amount of retained earnings. Capital structure of company of any given time is a result of long-term financial decisions so far taken by the company, such as how much rise through new issues of stocks or debentures, bank loans or through retained earnings without issuing dividends. However, in taking these decisions management has to focus on how would these decisions affect the value of the firm. The choice of decision among these alternatives should be the one, which leads to value maximization of the firm. Also firm should attempt to balance the benefits of interest tax shields accruing from debt financing against various cost of bankruptcy and financial embarrassment.

The concept of value of the firm could be considered as a very broad phenomenon. It has been observed that changes in capital structure convey information to investors, which in turn affects the prices of shares. Through the value maximization does not mean profit maximization, a company could not achieve its wealth maximization objectives without making profit in the long run. The general belief in the finance is that through the utilization of debt capital, profit-making process would be accelerated, as cost of debt is generally cheaper compared to the cost of equity. This happens mainly due to the tax-shield effect of interest on debt financing. On the other hand, the counter argument for high utilization of debt is that if a firm uses more debt in order to finance its assets without a limit, it would increase the firm risk, as interest payment for debt is compulsory. Therefore high utilization of debt would lead to lower share prices, thus having a significant influence on value of the firm.

Under these circumstances, it is important to observe this phenomenon practically. It is interesting to observe that the impact of method of long-term financing Policy on firm’s value. This is to identify whether the higher utilization of debt capital leads to higher level of profitability, thus influencing the shareholders’ value. Also it is interesting to observe whether this relationship is applicable to the Sri Lankan market capitalization companies. As the returns to the investors are affected by the decision of long-term financing decisions, this area of study had drawn the attention of several researchers.

1. **PROBLEM STATEMENT**

The previous researchers were attempted to identify the effect of long term financing policy on firm’s value. The results were found insignificant positive relationship between long term financing policy and value of the firm and someone found significant negative relationship. Besides, they were selected some selected companies from one sector/ more than one sectors and found the results for total selected companies. None of the study was compared the top market capitalization companies and least market capitalization companies. Based on mixed results and sample size of previous studies, the current study was interested to compare top market capitalization non-financing companies and least market capitalization non-financing companies on effect of long term financing policy on value of the firm in Sri Lanka.

**Research Objectives**

The primary objective of the research was to investigate the effect of long-term financing policy on firm’s value in top market capitalization and least market capitalization non-financial companies in Sri Lanka.

This primary objective was breakdown into sub objectives as follows:

* To find out significant relationship between long-term financing policies and firm’s value in top market capitalization non-financial companies in Sri Lanka.
* To find out significant relationship between long-term financing policies and firm’s value in least market capitalization non-financial companies in Sri Lanka.
* To find out significant impact in long-term financing policies on firm’s value in top market capitalization non-financial companies in Sri Lanka.
* To find out significant impact in long-term financing policies on firm’s value in least market capitalization non-financial companies in Sri Lanka.

**Research Questions**

Based on the above problem, the study was designed the following questions.

* Does long term financing policy has a significant relationship with firm’s value in top market capitalization (above 1400 Billion) non-financing companies in Sri Lanka?
* Does long term financing policy has a significant relationship with firm’s value in least market capitalization (below 25 Billion) non-financing companies in Sri Lanka?
* Does long term financing policy has a significant impact on firm’s value in top market capitalization (above 1400 Billion) non-financing companies in Sri Lanka?
* Does long term financing policy has a significant impact on firm’s value in least market capitalization (below 25 Billion) non-financing companies in Sri Lanka?
1. **LITERATURE REVIEW**

Edgar Norton (1991) conducted a study examining factors affecting in Long-term financing decisions. He found several factors that affecting the Long-term financing decisions. The decisions to be made is depends on differing perceptions of signalling, agency costs, tax influences arise from different in industry factors, management preferences, present capital structures, the firms' ability to internally generate funds and the firms competitive position.

Changes in capital structure often serve as a signal to outside investors about management's expectations concerning future earnings prospects for the company. Stuart C Gilson (1997) said optimal leverage should be lower when more of the firm's assets are intangible. Such assets lose more of their value in financial distress, and cause managers to under invest in positive-net present value (NPV) projects.

The optimal capital structure that minimizes the firm's cost of capital and thereby maximizes the value of the firm. Pandey (1999) said that the financing or capital structure decision is a significant managerial decision. It influences the shareholders return and risk. Consequently, the market value of the share may be affected by the capital structure decision. The company will have to plan its capital structure initially at the time of its promotion. Subsequently, whenever funds have to be raised to finance investments, a capital structure decision is involved.

Dhankar and Boora (1996) conducted sound-financing decisions of a firm. Dhankar and Boora said that the sound-financing decisions of a firm basically should lead to an optimal capital structure. Over the years, these decisions have been recognized as the most important decisions that a firm has to take. This is because of the fact that capital structure affects the cost of capital, net profit, earning per share, dividend pay-out ratio and liquidity position of the firm. These variables coupled with a number of other factors determine the value of a shareholder. So an optimal capital structure is very important determinant of the value of a firm.

Modigliani and Miller (1958 and 1963) found the financial leverage is unrelated to firm value, but in a world with tax-deductible interest payments, firm value and capital structure are positively related. Miller (1977) added personal taxes to the analysis and demonstrated that optimal debt usage occurs on a macro-level, but it does not exist at the firm level. Interest deductibility at the firm level is offset at the investor level. Other researchers have added imperfections, such as bankruptcy costs (Baxter, 1967; Stiglitz, 1972; Kraus and Litzen berger. 1973: and Kim, 1978), age, costs (Jensen and Meckling, 1976), and gains from leverage-induced tax shields (DeAngelo) and Masulis, 1980) to the analysis and have maintained that an optimal capital structure may exist.

Other researchers found largely supports bankruptcy costs or agency costs as partial determinants of leverage and of optimal capital structure. The DeAngelo-Masulis model implies that a firm's optimal capital structure will be industry related in part because of the evidence that tax rates vary across industry (Vanils, 1978; Siegfried, 1984: and Rosenberg, 1969).

The relevance of capital structure to firm value has progressed in academic model to practical reality in Modigliani and Miller's (1958). In a frictionless and perfect markets world, the irrelevant capital structure of Modigliani and Miller (1958) argued that firm value was independent of firm capital structure, and there was no optimal capital structure for a specific firm.

However, Modigliani and Miller's (1958) perfect market assumptions: such as no transaction cost, no taxes, symmetric information and identical borrowing rates, and risk debt, were contradictory to the operations in the real world. Modigliani and Miller (1963) state that assumption by incorporating corporate tax benefits as determinants of the capital structure of firms. The key feature of taxation is the recognition of interest as a tax-deductible expense.

A firm that pays taxes receives a partially offsetting interest “tax-shield" in the nature of lower taxes paid. In other words, the firm value is increased through the use of debt in the capital structure, due to the tax deductibility of interest payments on debt. This is a tacit admission in which capital structure affects firm value. Consequently, as Modigliani and Miller (1963) said that firms should use as much debt capital as possible to maximize their value.

Allan J. Taub (1975) attempted to examine the factors influencing the firm's choice of a debt- equity ratio. He dealt explicitly with the relationship between overall debt equity ratio of the firm and its choice of new financing. The following factors are affecting the firm’s choice of debt-Equity. The expected future return on firm's capital and pure rate of interest, the uncertainty of the figure earning of the firm, the size of the firm, tax rate, Firm's period of solvency, and the debt equity ratio.

Modigliani and Miller's (1958) provided the huge literature concerning the behaviour of corporation’s capital structure. The main proposition of this work (Modigliani and Miller, 1958) said that, under a number of assumptions, the value of a company is independent from its financial structure. This work led to the formulation of alternative theories such as the trade-off theory, the pecking order theory and the agency theory. These theories point out a number of firm specific factors that may affect the capital structure choice of firms.

The long term financing it can be begin with the theoretical principals underling long term financing and discuss the empirical literature on firm level variables that determinant the long term finance policies. The long-term financing policy of the firm i.e. whether company would go for equity capital or debt capital is determined by the number of factors. In a comparative cross country study, Rajan and Zingles (1995) found the following four important variables: growth, tangibility, profitability and size. Many other studies also show risk (earnings volatility) and investment opportunity (market-to-book value) as important determinants of debt.

The effective tax rate has been used as a possible determinant of the capital structure choice. Modigliani and Miller (1958) as interest payments on debt are tax-deductible; firms with enough taxable income have an incentive to issue more debt. It must also be pointed out that higher corporate tax rates reduce firms' internal funds and increase their cost of capital. In other words, higher taxes might decrease the formation of fixed capital and demand for external funds (Kremp et al, 1999).

Myers (1977) conducted a study examining the relationship between Leverage and growth opportunities. He found that due to information asymmetries, companies with high leverage ratios might have the tendency to undertake activities contrary to the interests of debt holders (under-invest in economically profitable projects). Therefore,

it can be argued that companies with growth opportunities (proxies by the ratio of the market value to the Book value of total assets) tend to have low leverage ratios. The empirical evidence regarding the relationship between leverage and growth opportunities is, at best, mixed. Some researchers found that there is a Negative relationship, while Kester (1986) does not find any significant relationship. George W. Rester and Mansor MD Isa (1989) said that the internal equity as first choice of long term financing. Bhat's (1980) concerned the impact of size, growth, business risk, dividend policy, profitability, debt service capacity and the degree of operating leverage on the leverage ratio of the firm. The study used the multiple regression model to find out the contribution of each characteristics. Business Risk (defined as earnings instability), profitability, dividend pay-out and debt service capacity were found to be significant determinants of the leverage ratio.

Pandey (1985) conducted a study examining the industrial patterns, trends, and volatilities of leverage and the impact of size, profitability, and growth on leverage. For this purpose, data of 743 companies in 18 industrial groups were analysed. It was found that about 72 to 80 percent of the assets of sample companies were financed by external debt, including current liabilities.

The study also indicated that classifying leverage percentages by the type of industry does not produce any patterns which may be regarded as systematic and significant. The trends and volatilities associated with the leverage percentages also did not give any support to the belief that the type of industry had an impact on the degree of leverage. It was also revealed that there was some evidence of the tendency of large size companies to concentrate in the high levels of leverage. But it is difficult to say conclusively that size has an impact on the degree of leverage since a large number of small firms were also found employing high levels of debt.

The study also did not show a definite structural relationship between the degree of leverage and profitability. Chakraborty (1977) has also conducted a study to investigate debt-equity ratio in the private corporate sector in India. He tested the relation of debt-equity ratio with age, total assets, retained earnings, profitability and capital intensity. He found that age, retained earnings and profitability were negatively correlated while total assets and capital intensity was positively related to debt-equity ratio. He also attempted a prediction equation for debt-equity for each industry. Chakraboty (1977) also used a very simple methodology, for calculating the cost of capital.

Presanna Chandra conducted a study examining the determinants of share prices. His methodology included multiple regression analysis with standard ordinary least square assumptions. To overcome the problem of heteroscedasticity’ either variables may be deflated or log-linear model may be used.

Chandra's empirical evidence showed that log-linear model approach was better than the use of deflated variables. In the examining the determinants of share prices, Chandra's five independent variables were return, growth, risk, leverage and size. Chandra found significant relation between share price and the independent variables, including leverage.

Pandey et. al.(2000) used these six variables in this study as independent variables and discuss below the theoretical and empirical considerations underlying each one of them.

Growth:

Firms whose sales grow rapidly often need to expand their fixed assets. Thus high growth firms have greater future need for funds and also retain more earnings. According to trade-off theory, the retained earnings of high growth firms increase and they issue more debt to maintain the target debt ratio. Thus, positive relationship between debt ratio and growth is expected based on this argument.

The same relationship is supported by pecking order theory too. According to this, growth causes firms to shift financing from new equity to debt, as they need more funds to reduce the agency problem. Baskin (1989) reports a significant positive relation between growth and leverage. On the other hand, Titman and Wessels (1988) found no relationship.

Investment opportunities:

Investment opportunities represent a firm's intangible value that does not have collateral value. The intangible value is likely to be lost if financial distress takes place. The risk of under-valuation and resource diversion is quite high for firms with high intangible value (Myers, 1977). He suggests a negative relationship between debt ratio and investment opportunities. But the agency problem may be lower for short-term debt than long term debt (Myers, 1977; Barclay and Smith, 1996 and 1999; Michaeles et. al. 1999). Balance sheet does not capture the future investment opportunities rather share price reflects them. Therefore, market-to-book value ratio is used as a proxy for investment opportunities. Empirical evidence on the relationship between investment opportunities (reflected through market-to-book value ratio) and capital structure is not conclusive.

Studies confirming a negative relation between investment opportunities and long-term debt or total debt ratios include Titman and Wessels (1988), Barclay et. al. (1995), Lasfer (1995). Rajan and Zingales (1995), Barclay and Smith (1996). However, Michaelis et. al. (1999) reported a positive relation of investment opportunities with long-term and total debt ratio as well as with short-term debt ratio. Stohs and Mauer (1996) and Barclay and Smith (1996) found negative relationship between growth opportunities and all types of debt.

Profitability:

According to the interest tax shield hypothesis, which is derived from Modigliani and Miller (1963) firms with high profits would employ high debt to gain tax benefits. On the contrary, the pecking order or asymmetric information hypothesis of Myers (1984) and Majluf (1984) postulates that companies prefer internal financing to debt to equity.

Firms with higher profitability will employ higher retained earnings and less debt. The interest tax shield hypothesis may also not work for those firms that have other avenues, like depreciation, to shield their taxes (DeAngelo and Masulis, 1980). Most empirical results confirm the pecking order hypothesis.

Risk:

According to the trade-off theory, higher risk (earnings volatility) increases the probability of financial distress. Thus, it predicts a negative relationship between leverage and risk. However, it is shown that for a negative relationship between risk and leverage, bankruptcy costs should be quite large (Castanias, 1983; Bradley, Janell and Kim, 1984).

Further, Thies and Klock (1992) stated that risk has negative relationship with long-term debt but positive relationship with short-term debt as high variability shifts financing from long-term debt to short-term debt and equity. Empirical results do not provide an unequivocal answer to the relationship between risk and capital structure. Bradley, Janell and Kim (1980) find an inverse relationship between earnings variability and leverage. But some researchers found there is no association between earnings variability and leverage.

Size:

Large firms are likely to be more diversified and less prone to bankruptcy (Rajan and zingales, 1995). They are also expected to incur lower direct costs in issuing debt or equity. Thus, large firms are expected to employ higher amount of debt than small firms. It is also argued that smaller firms would have less long-term debt and more short-term debt because of shareholders-lenders conflict (Michael. et. al., 1999; Titman and Wessels, 1988; Stohs and Mauer, 1996).

The empirical evidence is mixed. A large number of studies find a significant positive relation between size and debt ratio (Lasfer, 1995; Raj. and Zingales, 1995; Barclay and Smith, 1996; Berger et. al., 1997). Kester (1986) and Remmers et. al. (1974) find no significant effect of size on capital structure. Some studies reveal a positive relation between size and debt maturities (Barclay and Smith, 1996; Stohs and Mauer, 1996; Michaclas et. al., 1999). It has also been shown that the relationship between size and capital structure is sensitive to the chosen method of estimation (van der Wijst and Thurik, 1993; Barclay et. a1, 1995).

Tangibility:

According to trade-off hypothesis, tangible assets act as collateral and provide security to lenders in the event of financial distress. Collaterally also protects lenders from moral hazard problem caused by the shareholders-lenders conflict (Jensen and Mekling, 1976). Thus, firms with higher tangible assets are expected to have high level of debt.

According to the maturity principle, net fixed assets shift financing from short-term-debt to long-term debt while inventory shills financing from equity to short-term-debt and long-term debt (Thies and Klock, 1992). As regards the empirical evidence, some studies report a significant positive relationship between tangibility and total debt (Titman and Wessels, 1988; Rajan and Zingales, 1995). There are other studies that found a positive relationship between tangibility and long-term debt, but a negative relationship between tangibility and short-term debt (vander Wijst, and Thurik, 1993; Chittenden et. al., 1996; Smits and Mauer, 1996). Masulis (1980, 1983), Brennen and Schwanz (1978), and Jensen and Meckling (1976) also advocated the existence of an optimal capital structure in an imperfect market, while using different mechanisms.

Masulis R. (1983) studies the valuation effects of leverage alteration capital structure changes. A linear wan developed to estimate firm valuation effects from stock announcement return and actual capital structure changes, and then was estimated using ordinary least square. The evidence from empirical work was consistent with tax based model of optimal capital structure, and leverage induced wealth transfers across security as well as with information effect concerning firm value which is positively related to change in firm's debt level.

Dimitrov and Jain (2006) measure the effect of leverage changes on stock returns as well as on earnings-based measures of performance. Their results reveal a negative correlation between debt-to-equity ratio and risk-adjusted stock returns. DeAngelo et al. (2006) maintain that although high leverage mitigates agency problems, it also reduces financial flexibility, in which case the relationship under study may be negative.

George and Hwang (2010) argue that the negative relationship is due to the sensitivity of high leverage companies to financial distress risk. Muradoglu and Sivaprasad (2009) show that equity returns increase in leverage for some risk classes and decrease in leverage for others. Firms in the majority of industries experience abnormal returns that decrease in leverage, which supports the findings of authors using mixed samples of firms. Hamada (1969) and Conine (1980) show that if the CAPM holds; betas should increase in financial leverage by an arbitrage mechanism.

 This rationale can be extended to show that all factor loadings in a multifactor model should increase in financial leverage. Kaplan and Stein (1990) find that asset betas seem to have decreased after the increase in financial leverage, while Grullon and Michaely (2004) argued that asset betas must have declined in a sample of share repurchase programs (which effectively increase leverage). When studying the relationship between capital structure and firm value, to measure firm value, Yu- Shu Cheng, Yi-Pei Liu and Chu-Yang Chien (2010) uses return on equity (ROE).

Studying the impacts of capital structure on profitability, Joshua Abor (2005) used return on equity (ROE) to measure firm value. Research by Chien-Chung Nieh, Hwey-Yun Yau, and Wen-Chien Liu (2008) used ROE and EPS to identify firm value. On the other hand, researches by Samy Ben Naceur And Mohamed Goaied (2002), Feng-Li Lin and Tsangyao Chang (2008) adopt the ratio of market-to-book value (MTB) to identify firm value. Additionally, researchers by Chung , K.H and S.W. Pruitt (1994), Feng-Li Lin (2010) use Tobin’s q to measure firm value.

The behavior of long-term debt is an important field of research. Barcley and Smith, (1995a; b) found that firms with few growth options are large and have more long-term debt in their capital structure. Caprio and Deminrguc-Kunt (1998) found that long-term finance is associated with higher productivity. Masulis (1983) said that changes in leverage are positively related to changes in stock returns. He makes use of daily stock returns following exchange offers and re-capitalizations where re-capitalizations occur at a single time.

Bhandari (1988) indirectly tests the second of Modigliani and Miller's (1958; 1963) propositions by examining whether expected common stock returns are positively related to the ratio of debt in the cross-section of all firms, without assuming various industry-defined risk classes. His results provide evidence that leverage has a significant positive effect on expected common stock returns. Kee (1998) found that the firm with a higher asset diversification and a larger fixed asset ratio tends to use more long-term debt, while firms in regulated industries use more long-term debt.

Fama and French (1998) analyzing the relationship among taxes, financing decisions, and the firm’s value, concluded that the debt does not concede tax benefits. Besides, the high leverage degree generates agency problems among shareholders and creditors that predict negative relationships between leverage and profitability.

Therefore, negative information relating debt and profitability obscures the tax benefit of the debt. Graham (2000) concluded in his work that big and profitable companies present a low debt rate. Booth et al. (2000) developed a study attempting to relate the capital structure of several companies in countries with extremely different financial markets. Booth et al. (2001) concluded that the variables that affect the choice of the capital structure of the companies are similar, in spite of the great differences presented by the financial markets. Besides, concluded that profitability has an inverse relationship with debt level and size of the firm. Mesquita and Lara (2003) found in their study that the relationship between rates of return and debt indicates a negative relationship for long-term financing. However, they found a positive relationship for short-term financing and equity.

A number of other studies as Gulnur Muradoglu and Sheeja Sivaprasad (2006), Andreas Stierwald (2009) also found a negative relationship between profitability and debt ratio. Joshua Abor (2005) found in his study that a significantly positive relation between the ratio of short-term debt to total assets and ROE. However, a negative relationship between the ratio of long term debt to total assets and ROE was found. With regard to the relationship between total debt and return rates, the results show a significantly positive association between the ratio of total debt to total assets and return on equity.

Mallik (2005) discovered that there is a positive association between leverage and performance. Pornsit Jirapom and Yixin Liu (2007) analyzed the relationship Capital Structure, Staggered Boards, and Firm Value. The results demonstrate no significant adverse impact on firm value due to excess leverage. Walaa Wahid ElKelish (2007) investigates the impact of financial structure on firm value. Empirical results show that debt to equity ratio has no impact on firm value.

Nimalathasan and Valeriu Brabete (2010) conducted study on "Capital Structure and Its Impact on Profitability: A Study of Listed Manufacturing Companies in Sri Lanka. The analysis of listed manufacturing companies shows that Debt to equity ratio is positively and strongly associated to all profitability ratios.

Puwanenthiren Pratheepkanth (2011) conducted study on "Capital Structure and Financial Performance: Evidence from selected listed business companies in Colombo Stock Exchange Sri Lanka". He found the relationship between the capital structure and financial performance is negative association at -0.114 and insignificant level of the Business Companies in Sri Lanka.

Nicholas Apergis and John Sorros (2010) conducted a study on "Long term debt and the Value of the Firm: Evidence from International Listed Manufacturing firms". He found that long term leverage boost negative and statically significant impact on the value of the Firm.

Long term debt is a resource that is owed to lenders for a period of more than one year from the date of the current balance sheet (Lancett, 2008).Long-term debt converts to short-term debt when the period left until the debt must be repaid becomes less than one year with the passage of time. Long-term debt is used to finance business investments that have longer payback periods. Long term debt financing is advantageous as it is usually less prone to short term shocks as it is secured by formally established contractual terms. Hence, they are relatively more stable than short-term debt Lancett, 2008.

Long term debt financing is directly linked to the growth of the company's operating capacity. The purchase of capital assets such as machinery. Long-term debt financing is normally well structured and defined (Lancett, 2008). Thus fewer resources have to be channelled to monitor and maintain long-term debt financing accounts compared to short term debt financing such as supplier credit which, changes overtime and need to be monitored on a regular basis. Long term debt financing options such as leases offer a certain degree of flexibility, compared to having to purchase the asset (Lancett, 2008). Long term debt financing is a widely used mode of financing around the world. Long term debt financing is a fast growing concept in the Sugar industry with little attention paid to its literature.

Anandasayanan & Subramaniam (2013) examined the Effect of Capital Structure on profitability of Listed Sugar Manufacturing Companies in Sri Lanka. Their results revealed that the more companies used long term debt in their capital structure the company’s recorded better financial performance. Ahmad et al., (2012), sought to investigate the impact of capital structure on performance of Malaysia sugar firms. The researchers used return on assets and return on equity to evaluate the effect that long term debt has on the financial performance of the firms’. The study established that long-term debt had significant negative effect on return on assets. It was also established that long term debt had significant negative effect on return on equity.

Antwi, et al(2012), did a research on the effect of capital structure on company’s value by taking all listed Sugar companies on Ghana stock exchange. Simple regression analysis was used to determine the effect of long term debt on firm performance as long term debt had been used as the independent variable. The results of the study indicated that long term debt had a positive effect on a firms’ value. Aliakbar et al.,(2013) researched on the relationship between capital structure decisions and firm performance. The research was a Comparison between big and small industries in firms listed on Tehran Stock Exchange.” They found that long term debt has a positive and significant effect on firm performance as measured by Tobin’s Q in big and small industries.

Corporate governance received much attention during the last two decades owing to certain economic reforms in countries and accidents of economic history such as regional market crisis and large corporate debacles ( Senaratne and Gunaratne,2008). Corporate governance is considered as the significant implications for the growth of an economy. Good corporate governance practices are important in reducing risk for investors; attracting investment capital and improving the performance of companies (Velnampy & Pratheepkanth, 2012) .Scholars normally describe the evolution of the corporate governance in terms of changes in relationship between ownership and

control (Chandler, 1977; Fligstein, 1990). The idea of corporate governance was quickly adopted in different parts of the world but with some major variations because circumstances vary from country to country (Mulili and Wong, 2011). In this context, two main approaches of corporate governance can be identified as Agency theory and

Stewardship theory.

 According to the Kiel and Nicholson (2003), Agency theory is viewed as the separation of control from ownership. It implies that the professional managers manage a firm on behalf of the firm’s owners. Further, a solution was given to the agency conflict that a firm’s top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management (Mulini and Wong, 2011; Mallin, 2004). In contrast the Stewardship theory is considered as stake holder’s theory. The theory suggests that a firm’s board of directors and its CEO, acting as Stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests (Mulini and Wong, 2011). Furthermore, Kajananthan (2012) have identified the dimensions of the corporate governance practices as leadership style, board committee, board size, board meeting, and board composition in the Sri Lankan Manufacturing firm’s perspective.

Short term debt financing have a maturity period of one year or less, they must be repaid quickly within 90-120 days. Term loans with short maturities help to meet immediate need for financing without long term commitment (Peavler, 2014). The cost of servicing short term debt is less taxing on the company. Short term loans usually offer lower interest charges, and most lenders do not charge interest until all credit allowance period is breached. The study by Ebaid (2009) sought to establish the relationship between debt level and financial performance of companies listed on the Egyptian stock exchange. The study found out that there was a negative impact of short term debt on return on assets.

Cecchetti et al. (2011) studied the effects of debt on firms and concluded that moderate debt level improves welfare and enhances growth but high levels can lead to a decline in growth of the firm. Rainhart and Rogoff (2009) argued that when debt impacted positively to the growth of a firm only when it is within certain levels. When the ratio goes beyond certain levels financial crisis is very likely. The argument is also supported by Stern Stewart and Company which argues that a high level of debt increases the probability of a firm facing financial distress. Over borrowing can lead to bankruptcy and financial ruin (Ceccetti et al., 2011). High levels of debt will constrain the firm from undertaking project that are likely to be profitable because of the inability to attract more debt from financial institutions.

The nature of debt is an important determinant of productivity of a firm. Jaramillo and Schiantarelli (1996) stated that the availability of long-term finance allows firms to improve their productivity. If a firm has access to long-term debt finance, it can invest in new capital and equipment which helps to increase productivity. According to Marcouse et al. (2003), by investing in more modern and sophisticated machines, productivity per worker increases. Ventire et al. (2004) adds that modern know-how fuels greater output per unit of effort. The firm can also invest in new technologies which are more productive. The inability to access long-term finance can force firms to use short-term debt to finance long-term projects. This will create mismatches of assets and liabilities and depletes working capital. Depletion of working capital will negatively affect firm operations. It is crucial that the primary source of loan repayments should be cash flows from the project.

A high proportion of debt in the capital structure of a firm will harm investment using internal funds. A study by Yuan and Kazuyuki (n. d.) using a sample of Chinese listed companies showed that total debt ratio had a negative impact on fixed investment. A firm with a high debt ratio will channel most of its income to debt repayments thereby forgoing investment using internal funds. As more debt is employed in the capital structure of a firm, the business risk also increases. He and Matvos (2013) stated that leveraging may increase the risk of bankruptcy and financial distress during temporary industry and economy-wide downturns. It will become increasingly difficult to attract more debt for investment purposes as creditors will charge high interest rates to compensate for the high business risk. Yuan and Kazuyuki argued that creditors will be reluctant to lend more funds to a highly indebted firm which can result in underinvestment. Firm operations will be affected if insufficient investment is undertaken.

Ahmad, Abdullar and Roslan (2012) carried a study in Malaysia which sought to investigate the impact of capital structure on firm performance by analysing the relationship between return on assets (ROA), return on equity (ROE) and short-term debt and total debt. The study established that short-term debt and long-term debt had significant relationship with ROA. It was also established that ROE had significant relationship with shortterm debt, long-term debt and total debt.

The study by Ebaid (2009) partially agreed with Ahmad et al (2012). In the study Ebaid wanted to establish the relationship between debt level and financial performance of companies listed on the Egyptian stock exchange. The study used return on assets, return on equity and gross profit margin as dependent variables and short-term debt, long-term debt and total debt as independent variables. The results from the study showed that there was a negative impact of short-term debt and total debt on return on assets (ROA). The study also concluded that there was no significant relationship between long-term debt financing AND ROA. Ebaid also concluded that there was insignificant relationship between total debt, short-term debt and long-term debt and financial performance measured by gross profit margin and ROE.

Soumadi and Hayajneh (2012) studied the relationship between capital structure and corporate performance on Jordanian shareholdings firms. The study used multiple regression models by least squares (OLS) to establish the link between capital structure and corporate performance of firms over a period of 5 years. The results showed that capital structure was associated negatively and statistically with the performance of the firms in the sample. Another finding from the study was that there was there was no significant difference to the impact of financial leverage between high financial leverage firms and low financial leverage firms in their performance. The study also concluded that the relationship between capital structure and firm performance was negative for both high growth firms and low growth firms.

Maritala (2012) examined the optimal level of capital structure which enabled a firm to increase its financial performance. The study found that there was a negative relationship between the firm’s debt ratio and financial performance measured by return on assets and return on equity.

Fosu (2013) did a research in South Africa which investigated the relationship between capital structure and corporate performance paying particular attention to the degree of competition. The paper examined the extent to which the relationship between capital structure and corporate performance depended on the level of product market competition. The findings from the research showed that there was positive relationship between capital structure and corporate performance. The study also found out that product market competition enhanced the performance effect of leverage.

Very recent research (Ogebe, Patric and Alewi, 2013) investigated the impact of capital structure on corporate performance in Nigeria from 2000 to 2010.The study paid particular attention to macroeconomic variables (Gross Domestic Product and inflation) on firm performance. The study concluded that there was a strong relationship between leverage and corporate performance. The study concluded that there was a significant negative relationship between capital structure and corporate performance. The negative relationship was also confirmed by Mumtaz et al (2013) in their study in Pakistan. They wanted to establish the relationship between leverage and firm performance. The findings from the study showed that financial performance of firms was significantly negatively affected by their capital structure. Further research( Saeed, Gull and Rusheed ,2013) examined the impact of capital structure and corporate performance using multiple regression models to estimate the relationship between capital structure and corporate performance of the banking performance. The findings from the study showed that there was a negative relationship between capital structure and performance of the banking industry.

Soumadi and Hayajneh (2012) studied the relationship between capital structure and corporate performance on Jordanian shareholdings firms. The study used multiple regression model by least squares (OLS) to establish the link between capital structure and corporate performance of firms over a period of 5 years. The results showed that capital structure was associated negatively and statistically with the performance of the firms in the sample. Another finding from the study was that there was there was no significant difference to the impact of financial leverage between high financial leverage firms and low financial leverage firms in their performance. The study also concluded that the relationship between capital structure and firm performance was negative for both high growth firms and low growth firms.

1. **METHODOLOGY**
	1. **Sample and Data Collection**

The study was covered top twenty market capitalization and least twenty-market capitalization non-financial companies listed on CSE. This study was carried out based on the secondary data. It was collected from annual reports of selected companies for the period from 2012/2013 to 2017/2018.

* 1. **Data Analysis**

The study was used SPSS 20.0 to investigate the objectives by descriptive statistics, correlation analysis and multiple regression analysis. Descriptive statistics was used to understand the basic characteristics of study variables. Correlation analysis and multiple regression analysis were used to test the hypothesis.

**4.3 Research Model**

The study was used debt to equity ratio (DE) and debt to asset ratio (DA) as independent variables to measure the long-term financing policy. Price to earnings ratio (PE) was used to measure the value of firm. The study was developed following regression model to investigate the objectives.

PEit = B0 + B1 (DEit) +B2 (DAit) + E

Where,

PE = Price to earnings ratio of company “i” for the period “t”

DE = Debt to equity ratio of company “i” for the period “t”

DA = Debt to asset ratio of company “i” for the period “t”

B = Coefficients

E = Error

**4.4 Definitions of Key Terms**

**4.4.1 Debt to Equity Ratio**

The debt-to-equity (D/E) ratio is calculated by dividing a company’s total liabilities by its shareholder equity. These numbers are available on the balance sheet of a company’s financial statements.

Debt to Equity Ratio = $\frac{Total Liabilities}{Shareholders Equity}$

**4.4.2 Debt to assets Ratio**

The debt to asset ratio is a leverage ratio that measures the amount of total assets that are financed by creditors instead of investors. In other words, it shows what percentage of assets is funded by borrowing compared with the percentage of resources that are funded by the investors.

Debt to asset Ratio = $\frac{Total Debt}{Total Assets}$

**4.4.3 Price to Earnings Ratio**

The price-to-earnings ratio (P/E ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings ([EPS](https://www.investopedia.com/terms/e/eps.asp)). The price-to-earnings ratio is also sometimes known as the price multiple or the earnings multiple.

Price to earnings ratio = $\frac{Market Value per share}{Earnings per share}$

**4.5 Theoretical Framework**

 Independent Variable Dependent Variable

**Value of the firm**

Price Earnings Ratio (PE Ratio)

**Long-term financing policy**

Debt to Equity(DE)

Debt to Asset(DA)

Figure 1: Conceptual framework

**4.6 Hypotheses**

For studying the relationship between method of long-term financing and the value of the firm. The researcher developed the following hypothesis;

H1: There is a significant relationship between long-term financing policy and firm’s value in top twenty market capitalization non-financial companies in Sri Lanka.

H2: There is a significant relationship between long-term financing policy and firm’s value in least twenty market capitalization non-financial companies in Sri Lanka.

H3: There is a significant impact of long-term financing policy on firm’s value in top twenty market capitalization non-financial companies in Sri Lanka.

H4: There is a significant impact of long-term financing policy on firm’s value in least twenty market capitalization non-financial companies in Sri Lanka.

1. **RESULTS AND DISCUSSIONS**

**5.1 Descriptive statistics**

Table provides the summary of descriptive statistics for the variables of all the top twenty market capitalization non-financial companies. It presents the sample size, minimum, maximum, mean and standard deviation for the variables of top twenty market capitalization non-financial companies in Sri Lanka for the sample data from 2012 to 2017.

|  |
| --- |
| **Table 1: Results of the Descriptive Statistics of top twenty market capitalization non-financial** **companies**  |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| DE | 120 | 0.01 | 24.25 | 1.299 | 2.541 |
| DA | 120 | 0.01 | 4.58 | 0.404 | 0.468 |
| PE | 120 | 4.96 | 102.00 | 20.385 | 15.676 |
|  |  |  |  |  |  |

Table 1 was showed the results of the descriptive analysis of Top twenty market capitalization non-financial companies in Sri Lanka. The mean of DE ratio was 1.299. It meant that, the top twenty market capitalization non-financial companies had an average of 1 rupee for settle the debt of 1.299 rupees. The standard Deviation was 2.541. It meant that method of long term finance could be deviated from mean to both sides by 2.541. The maximum value of DE ratio was 24.25 for a company in the year 2012 while the minimum of another company was 0.01 in the year 2017.The mean of the DA ratio was 0.404. It meant that, the top twenty market capitalization non-financial companies averagely have 1 rupee asset to settle 0.404 debts. The standard deviation was 0.468. It means method of long term finance can deviation from mean to both sides by 0.468. The maximum value of DA ratio was 4.58 for a company in the year 2012 while the minimum of another company was 0.01 in the year 2017.

The mean of the PE ratio was 20.385. The PE ratio was calculated by dividing MPS by EPS. The standard deviation was 15.676. The maximum value of PE ratio was 102 for a company in the year 2014 while the minimum of another company was 4.96 in the year 2012. According to the descriptive statistics of the top twenty market capitalization non-financial companies in Sri Lanka, the DE ratio of the companies were relatively good and the DA ratio also in good condition. Therefore, the capital structures of the top twenty market capitalization non-financial companies were fairly good.

Table 2 provides the summary of descriptive statistics for the variables of all the least twenty market capitalization non-financial companies. It presents the sample size, minimum, maximum, mean and standard deviation of the variables for least twenty market capitalization non-financial companies in Sri Lanka for the sample data from 2012 to 2017.

|  |  |
| --- | --- |
|

|  |
| --- |
| **Table 2: Results of the Descriptive Statistics of least twenty market capitalization non-financial companies** |

 |
|  | N | Minimum | Maximum | Mean | Std. Deviation |
| DE | 120 | -18.14 | 24.21 | 1.231 | 4.217 |
| DA | 120 | 0.00 | 4.94 | 0.570 | 0.683 |
| PE | 120 | -1285.71 | 2214.29 | 1.613 | 356.719 |
|  |  |  |  |  |  |

Table 2 was showed the results of the descriptive analysis of least twenty market capitalization non-financial companies in Sri Lanka. The mean of DE ratio was 1.231. It meant that, the least twenty market capitalization non-financial companies had an average of 1 rupee for settle the debt of 1.231 rupees. The standard Deviation was 4.217. It meant that, method of long term finance could be deviated from mean to both sides by 4.217. The maximum value of DE ratio was 24.21 for a company in the year 2015 while the minimum of another company was -18.14 in the year 2012.

The mean of the DA ratio was 0.570. It meant that, the least twenty market capitalization non-financial companies averagely had 1 rupee asset to settle 0.570 debts. The standard deviation was 0.683. It meant that, method of long term finance could be deviated from mean to both sides by 0.683. The maximum value of DA ratio was 4.94 of a company in the year 2015 while the minimum of another company was 0.00 in the year 2012.

The mean of the PE ratio was 1.613. The PE ratio was calculated by dividing MPS by EPS. The standard deviation was 356.719. The maximum value of PE ratio was 2214.29 for a company in the year 2013 while the minimum of another company was -1285.71 in the year 2012.

According to the descriptive statistics of the least twenty market capitalization non-financial companies in Sri Lanka, the DE ratio of the companies were relatively good and the DA ratio also in good condition. Therefore, the capital structures of the least twenty market capitalization non-financial companies were fairly good.

According to the descriptive statistics of the top twenty market capitalization companies and least twenty market capitalization non-financial companies in Sri Lanka; long term financing (DE ratio and DA ratio) had no significant differences. It was meant that, there were almost same of long term financing of top twenty and least twenty non-financial companies in Sri Lanka. Therefore, it was concluded that the capital structure of both top twenty and least twenty non-financial companies were fairly good in condition.

* 1. **Correlation Analysis**

Correlation coefficient was used to identify the relationship between method of long term financing and value of the firm in overall in top twenty and least twenty market capitalization non-financial companies in Sri Lanka.

The table 3 represents the correlation analysis of the top twenty market capitalization non-financial companies in the Sri Lanka.

|  |
| --- |
| **Table 3: Correlation Analysis of top twenty market capitalization non-financial companies** |
|  | DE | DA | PE |
| DE | Pearson Correlation | 1 | .303\*\* | .064 |
| Sig. (2-tailed) |  | .001 | .486 |
| N | 120 | 120 | 120 |
| DA | Pearson Correlation | .303\*\* | 1 | .099 |
| Sig. (2-tailed) | .001 |  | .281 |
| N | 120 | 120 | 120 |
| PE | Pearson Correlation | .064 | .099 | 1 |
| Sig. (2-tailed) | .486 | .281 |  |
| N | 120 | 120 | 120 |

Table 3 was showed the relationship among the dependent and independent variables of the top twenty market capitalization non-financial companies in Sri Lanka. The dependent variable PE and the independent variable DE had the positive insignificant relationship since p-value was greater than 0.05. The dependent variable PE and the independent variable DA had also positive insignificant relationship since p-value was greater than 0.05. Therefore, H1 was rejected. It was concluded that, long-term financing (capital structure) had no significant relationship with value of firm in top twenty market capitalization non-financial companies in Sri Lanka.

The coefficient value between independent variables DE and DA was 0.303 which was significant at 5% level. However, the coefficient value was less than 0.8. It was shown that, there was no multicollinearity problem in this study. As suggested by Authors Bryman and Cramer (1997), the correlation between each pair of independent variables should not exceed 0.8; otherwise, independent variables with coefficient in excess of 0.8 may be suspected of exhibiting multicollinearity. Therefore, the study could be used both capital structure indicators to examine the relationship with value of firm in the top twenty market capitalization non-financial companies in Sri Lanka.

The table 4 represents the correlation Analysis of the least twenty market capitalization companies in the Sri Lanka.

|  |  |
| --- | --- |
|

|  |
| --- |
| **Table 4: Correlation Analysis of least twenty market capitalization non-financial companies**  |

 |
|  | DE | DA | PE |
| DE | Pearson Correlation | 1 | -.037 | .040 |
| Sig. (2-tailed) |  | .688 | .663 |
| N | 120 | 120 | 120 |
| DA | Pearson Correlation | -.037 | 1 | -.267\*\* |
| Sig. (2-tailed) | .688 |  | .003 |
| N | 120 | 120 | 120 |
| PE | Pearson Correlation | .040 | -.267\*\* | 1 |
| Sig. (2-tailed) | .663 | .003 |  |
| N | 120 | 120 | 120 |

Table 4 was showed the relationship among the dependent and independent variables of the least twenty market capitalization non-financial companies in Sri Lanka. The dependent variable PE and the independent variable DE had the positive insignificant relationship since p-value was greater than 0.05. The dependent variable PE and the independent variable DA had negative significant relationship since p-value was less than 0.05. Therefore, H2 was partially accepted. It was concluded that, long-term financing (capital structure) had little bit significant relationship with value of firm in least twenty market capitalization non-financial companies in Sri Lanka.

The coefficient value between independent variables DE and DA was -0.037 which was significant at 5% level. However, the coefficient value was less than 0.8. It was shown that, there was no multicollinearity problem in this study. Therefore, the study could be used both capital structure indicators to examine the relationship with value of firm in the least twenty market capitalization non-financial companies in Sri Lanka.

* 1. **Multiple Regression Analysis**

Regression Analysis is made out for finding the impact of independent variables on dependent variable. The study was used multiple regressions Analysis since, it had more than one independent variables (DE and DA) Therefore, the multiple regression analysis was made for finding how the independent variables (DE and DA) impact on the dependent variable (PE Ratio).

* 1. **Overall Summary**

**Table 5: Overall summaries of top twenty market capitalization non-financial companies in the impact of long-term financing on value of firm**

|  |  |
| --- | --- |
| R value | 0.105 |
| R-squared value | 0.011 |
| Adjusted R-squared value | -0.006 |
| f-Value | 0.658 |
| F-sig | 0.020 |
| Durbin-Watson | 1.768 |

According to the table 5, the R value of the top twenty market capitalization non-financial companies in Sri Lanka was 0.105. It was said that, long-term financing had weak positive correlation with value of firm in top twenty market capitalization non-financing companies in Sri Lanka since R- value was between 0-0.5. The R square value (R2) was 0.011 which was showed that only 1.1% variation in value of firm was explained by long-term financing in top twenty market capitalization non-financial companies in Sri Lanka and other 98.9% of variations in value of firm come from other factors which were not considered in this study.

F-value was 0.658 which was significant at 5% level since p-value was less than 0.05. It was concluded that model was fitted to explain the impact of long-term financing (Capital structure) on value of firm in the top twenty market capitalization non-financial companies. The Durbin-Watson value was 1.768 which was not in the range of 1.5-2.5. Authors Tharmila and Nimalathasan (205), Vogt and Johnson (2011) were indicated that, there is no auto correlation problem when the Durbin-Watson statistic is between1.5 to 2.5. Therefore, the study was concluded that there was no auto correlation problem.

**Table 6: Overall summaries of least twenty market capitalization non-financial companies in the impact of long-term financing on value of firm**

|  |  |
| --- | --- |
| R value | 0.269 |
| R-squared value | 0.072 |
| Adjusted R-squared value | 0.057 |
| f-Value | 4.567 |
| F-sig | 0.012 |
| Durbin-Watson | 1.876 |

According to the table 6, the R value of the least twenty market capitalization non-financial companies in Sri Lanka was 0.269. It was said that, long-term financing had weak positive correlation with value of firm in least twenty market capitalization non-financing companies in Sri Lanka since R- value was between 0-0.5. The R square value (R2) was 0.072 which was showed that only 7.2 % variation in value of firm was explained by long-term financing in least twenty market capitalization non-financial companies in Sri Lanka and other 92.8 % of variations in value of firm come from other factors which were not considered in this study.

F-value was 4.567 which were significant at 5% level since p-value was less than 0.05. It was concluded that model was fitted to explain the impact of long-term financing (Capital structure) on value of firm in the least twenty market capitalization non-financial companies. The Durbin-Watson value was 1.876 which was not in the range of 1.5-2.5. Therefore, the study was concluded that there was no auto correlation problem.

Table 5 and 6 were concluded that long-term financing of top twenty market capitalization non-financing companies had only 1.1% of impact on value of firm while, least twenty market capitalization non-financing companies had 7.2% of impact on value of firm. Both R2 value were summarized that long-term financing had very less important to determine the value of firms.

* 1. **Coefficients**

The coefficient values of multiple regression analysis were used to measure the impact of independent variables on dependent variable. Table 4.7 showed the coefficient values of long-term financing variables in top twenty market capitalization non-financing companies to report those values impact on value of firm.

**Table 7: Coefficient of Top Twenty Market capitalization non-financial companies**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized coefficient(B) | t | Sig | Collinearity Statistics |
| Tolerance | VIF |
| (Constant) | 18.895 | 9.758 | 0.000 |  |  |
| DE | 0.232 | 0.389 | 0.698 | 0.908 | 1.101 |
| DA | 2.943 | 0.910 | 0.365 | 0.908 | 1.101 |

Table 7 was also reported that there was no multicollinearity problem since tolerance values of DE and DA were greater than 0.1 and VIF values of DE and DA were less than 5 or 10. Authors Ho (2000) , Studenmund (2001) had suggested that a tolerance value less than 0.10 or a VIF value greater than 10, the existence of multicollinearity and requires further investigation.

The same results were reported earlier from correlation analysis. It was concluded that there was no correlation between independent variables in this study. Therefore, long-term financing variables had been used in regression model to examine that impact on value of firm in the top twenty market capitalization non-financing companies in Sri Lanka.

The coefficients of DE and DA were insignificant impact on value of firm since p-value of those variables were greater than 0.05. Therefore, H3 was rejected. It was concluded that, long-term financing had insignificant impact on value of firm in the top twenty market capitalization non-financing companies in Sri Lanka. Capital structure was no important variable to determine the value of firm in the top twenty market capitalization non-financing companies in Sri Lanka.

Table 8 showed the coefficient values of long-term financing variables in least twenty market capitalization non-financing companies to report those values impact on value of firm

**Table 8: Coefficient of least Twenty Market capitalization companies in Sri Lanka**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | Unstandardized coefficient(B) | t | Sig | Collinearity Statistics |
| Tolerance | VIF |
| (Constant) | 77.725 | 1.828 | 0.070 |  |  |
| DE | 2.566 | 0.340 | 0.734 | 0.999 | 1.001 |
| DA | -139.029 | -2.988 | 0.003 | 0.999 | 1.001 |

Table 8 was also reported that there was no multicollinearity problem since tolerance values of DE and DA were greater than 0.1 and VIF values of DE and DA were less than 5 or 10. The same results were reported earlier from correlation analysis. It was concluded that there was no correlation between independent variables in this study. Therefore, long-term financing variables had been used in regression model to examine that impact on value of firm in the least twenty market capitalization non-financing companies in Sri Lanka.

The coefficients of DE was insignificant impact on value of firm since p-value of those variable was greater than 0.05 while, the coefficients of DA was significant impact on value of firm since p-value of those variable was less than 0.05 Therefore, H4 was partially accepted. It was concluded that, long-term financing had little bit significant impact on value of firm in the least twenty market capitalization non-financing companies in Sri Lanka. Capital structure was little bit important variable to determine the value of firm in the least twenty market capitalization non-financing companies in Sri Lanka.

1. **SUMMARY OF FINDINGS AND CONCLUSION**

Market capitalization companies have become increasingly aware of earning high profit and having their own share of market. Among many risky situations it is a major concern for market capitalization companies to get to know the best ways to increase its financial performance. So those companies try to manage its capital structure in a proper way. The capital structures of long term performance of the companies are far more important in the long term survival of the companies. So, the overall research that was done earlier was shown that there is positive impact of Long term financing policy on financial performance.

 Based on the research gap was mentioned in chapter one, the general objective of this research was to identify the effect of long-term financing on value of the firm of top twenty market capitalization non-financing companies and the least twenty market capitalization non-financing companies which are listed in Colombo stock Exchange.

The different methods were used to analyze this study. Descriptive analysis, correlation analysis and regression analysis were used to get the result. They were analyzed with SPSS (20.0) and Microsoft Excel applications.

The descriptive statistics were showed that capital structure of top twenty and least twenty market capitalization non-financial companies in Sri Lanka had no different capital structure of both classification of companies were fairly good.

Based on correlation and multiple regression analysis, the long-term financing had insignificant effect on value of firm in top twenty market capitalization non-financial companies in Sri Lanka while, long-term financing of least twenty market capitalization non-financial companies in Sri Lanka had partially significant effect on value of firm and it was concluded that, capital structure (long-term financing) had little bit effect on value of firm in least twenty market capitalization non-financial companies in Sri Lanka. It was meant that, it was little bit important to determine the value of firm in that companies. However, it was only effect 7.2% on the value of firm.

According to the previous researches, some researchers argued that there is a significant positive effect; Pandey(1999), Dhankar and Boora (1996), DeAngelo and Masulis (1980), Kester (1986), George W.Rester and Mansor MD Isa (1989), Chakraborty (1977) and Baskin (1989) while some researchers argued that there is significant negative effect; Myers (1977), Titman and Wesels (14988), Barclay ((1995), Lasfer (1995), Maritala (2012), and Rajan and Zingales (1995). And some ther researchers found that there is no significant relationship; Ebaid (2009), Hayajenah (2012) and Chadler, (1977).

 There was no significant effect of the long term financing on value of firm in top twenty market capitalization non-financial companies where the reason is the debt to Equity ratio and the debt to asset ratio not affect the market capitalization and earnings per shares of those companies. And, there was partially significant effect of the long term financing on value of firm in least twenty market capitalization non-financial companies where the reason is the debt to Equity ratio and the debt to asset ratio partially affect the market capitalization and earnings per shares of those companies.

1. **LIMITATIONS**

This research was covered a sample of forty non-financial companies of Sri Lanka and collected data for six years period. Task of collecting and analysing data for all companies, was very difficult and impracticable. The following were the major limitations of the study. The key limitation relates to the sample size selected for this analysis. From a total of 298 companies quoted in the Colombo Stock Exchange, only 40 non-financial companies were selected in the sample. The selected companies were divided into top twenty and least twenty market capitalization non-financial companies to compare the objectives on both classifications. The study was only covered six years data since, the data collections were restricted by published annual reports in CSE.

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