Determinants of Capital Structure: Evidence from Hotel and Restaurant Companies in Sri Lanka

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Abstract-

Purpose – The aim of this study is to find out the factors that affect the capital structure of hotels and restaurant companies and to investigate whether the capital structure models derived from Western settings provide convincing explanations for capital structure decisions of the Sri Lankan companies.

Methodology – Different conditional theories of capital structure are reviewed (the trade-off theory, pecking order theory and agency theory) in order to formulate working hypotheses concerning the determinants of capital structure of the hotels and restaurant companies. The investigation is performed for a sample of 15 companies listed on the Colombo Stock Exchange during 2008-2012.

Findings – The results suggest that only profitability is negatively related to the debt ratios (long term; short term and total debt) whereas tangibility (asset structure), size and growth do not appear to be significantly related to the debt ratios. Through the findings we can come to conclusion that Pecking order theory is more relevant to Sri Lankan context.

Practical implications – This study has laid some groundwork to investigate the determinants of capital structure of Sri Lankan companies upon which a more detailed evaluation could be based. Furthermore, findings should help corporate managers and decision makers to make optimal capital structure decisions.

Originality/value – To the authors' knowledge, this is the first study that investigates the determinants of capital structure of hotels and restaurant companies in Sri Lanka. Furthermore, this study somehow goes to confirm that same factors affect the capital structure decisions of firms in developing countries as identified for firms in developed economies.

Index Terms- Capital structure, Trade-off theory, Pecking order theory, Agency theory and Hotels and Restaurant companies.

I. INTRODUCTION

One of the most important decisions confronting a firm in corporate finance is the design of its capital structure. Capital structure describes the proportionate relationship between debt and equity. While debt is majorly made up of long term loans such as debenture, equity includes paid up share capital, share premium, reserves, and surplus or retained earnings. Therefore, a company can finance its investments by debts and/or equity. The pioneering work of Franco Modigliani and Metron Miller (1958) commonly known as the MM theory, on capital structure led to the development of several other theories bent on explaining the basic determinants of the capital structure in firms.

Both theoretical and empirical capital structure studies have generated many results that attempt to explain the determinants of capital structure. As a result of these studies, some broad categories of capital structure determinants have emerged. Titman and Wessels (1988), and Harris and Raviv (1991), however, point out that the choice of suitable explanatory variables is potentially contentious. In other words, what might be applicable in one area may not necessarily define what will work in other areas or regions.

However, most of the research work has been carried out in developed economies and very little is known about the capital structure of firms in developing economies. With this little research, we are not sure whether conclusions from theoretical and empirical research carried out in developed economies are valid for developing countries too, or a different set of factors influence capital structure decisions in developing countries? We are not sure whether conclusions from research on capital structure are portable across countries in general. Rajan and Zingales (1995) studied the G-7 countries while Booth et al (2001) extended this work by including some data from emerging markets. The conclusions from these studies were that there were some common features in the capital structures of firms in different countries but that further research was necessary to identify the determinants of capital structure in particular institutional settings or countries. Thus this study intends to fill this research gap.

The main purpose of this study is to identify the determinants of capital structure of Sri Lankan Hotel and Restaurant companies in the light of the Static Trade off theory, Pecking Order theory and Agency Cost theory.

Further this study intends to identify whether the decision of the companies concerning the leverage is in conformity with the theoretical expectations proclaimed in previous studies. This study investigated the determinants of capital structure of a sample of Sri Lankan listed Hotel and Restaurant companies using descriptive statistic, correlation and regression analysis. Three different leverage measures based on book values have been used: total debt ratio, long term debt ratio and short term debt ratio. The empirical evidences provide that there is a positive association among leverage (long term debt, short term debt and total debt) and tangibility and growth whereas negative association reveals among leverage and profitability (ROA) and size. Particularly in Sri Lankan context, implication of pecking order theory is more relevant than static trade off and agency cost theories.

II.   REVIEW OF LITERATURE

Following on from the pioneering work of Modigliani and Miller (1958) on capital structure has generated strong interest among financial researchers. Thus, it has fulfillment with new elements over the years, such as taxes, bankruptcy costs, agency costs and the information asymmetry. In recent years, a number of theories have been proposed to explain the variation in debt ratios across firms. The theories suggest that firms select capital structure depending on attributes that determine the various costs and benefits associated with debt and equity financing. Thus theories suggest that the capital structure affect company's value. Among them there are three conflicting theories such as static trade-off, pecking order, and agency cost theories of capital structure, which are briefly discussed.

Static Trade-off Theory

According to the Trade-Off theory of Myers (1977), a firm must define a target debt-equity ratio after considering nature and requirement of business and then put its efforts to attain that target. This theory suggests that debt financing offers more benefit to an organization as compared to equity financing since it gets tax shield on interest paid on debt while equity income is charged with tax. The trade-off theory says that a firm's adjustment toward an optimal leverage is influenced by three factors namely taxes, costs of financial distress and agency costs.

Pecking Order Theory

Donaldson (1961) was the first who introduced the idea of Pecking Order Theory. He observed, "Management strongly favored internal generation as a source of new funds even to the exclusion of external funds except for occasional bulges in the need for funds."

Later on Myers. C and Majluf. N (1984) and Myers (1984) observed the conclusion of Donaldson and proposed Pecking order theory with the assumption of information asymmetry. Theoretically, this theory proposes that insiders (managers) have more information about the investment decisions and returns associated with these investments as compared to those outside the organization. Thus, investors are willing to buy stocks on discount in case if there is an information asymmetry between managers and investors. In order to overcome this problem, a firm defines its hierarchy in financing its assets. This hierarchy leads the firm prefers retained earnings over debt financing and debt financing over equity financing.

Agency Cost Theory

Debt agency costs arise due to a conflict of interest between debt providers on one side and shareholders and managers on the other side (Jensen and Mackling, 1976). Managers have the motivation to invest funds in risky business for shareholders' interest, because if the investment fails, the lenders are likely to bear the cost as the shareholders have limited liability. The use of short-term sources of debt, however, may mitigate the agency problems, as any attempt by shareholders to extract wealth from debt holders is likely to restrict the firms' access to short-term debt in the immediate future.

Empirical findings

Amidu (2007) took initiative to determine financing behavior of banks in Ghana, suggested that profitability, asset structure, size, growth and corporate tax have significant influence on banks' financing pattern and findings were consistent with corporate finance theories such as trade-off, agency cost and pecking order theories.

Haque (1989) empirically tested the Bangladeshi firms and finds that capital structure do significantly vary among industries and it has no significant impact on firm's profitability, dividend and market value.

Chowdhury (2004), based on Bangladeshi and Japanese panel data, did another study on capital structure determinants with agency variables and finds agency-debt, bankruptcy risk, growth rate, profitability and operating leverage to significantly affect capital structure choice.

Titman and Wessels, 1988; Rajan and Zingales (1995) find a positive relationship between tangibility and leverage, the empirical studies in developing countries find mixed relationship.

Booth et al, (2001) in ten developing countries, and Huang and Song (2002) in China, find that tangibility is negatively related to leverage. It is argued, however, that this relation depends on the type of debt.

Bevan and Danbolt (2000 and 2002) also find a positive relationship between tangibility and long-term debt, whereas a negative relationship is observed for short-term debt and tangibility in the UK.

Rajan and Zingales (1995), Wiwattanakantang (1999), Booth et al (2001), Pandey (2001), Al- Sakran (2001), and Huang and Song (2002) find a significant positive relationship between leverage ratios and size in developing countries. On the other hand, Bevan and Danbolt (2002) report that size is found to be negatively related to short term debt and positively related to long term debt.

Antoniou et al, (2002) argue that several studies find that the size of a firm is a good explanatory variable for its leverage ratio. Bevan and Danbolt (2002) also argue that large firms tend to hold more debt, because they are regarded as being 'too big to fail'.

Cassar and Holmes (2003) and Hall et al. (2004) found a positive association between firm size and long-term debt ratio, but a negative relationship between size and short-term debt ratio.

Contradicting this, Booth et al (2001) revealed that, generally a positive relationship exists between growth and debt ratios in all countries in their sample, except for South Korea and Pakistan.

Pandey (2001) also argued that there is a positive relationship between growth and both long term and short term debt ratios in Malaysia.

Myers (1984) argues that there is a positive relationship between tangibility and financial leverage. Consistent to his argument, empirical evidences were also reported by Titman and Wessel (1988) and Rajan and Zingales (1995) in developed countries.

Smith and Watts (1992) provide empirical evidence, using US data that support a negative relation between leverage and growth opportunities and Titman and Wessels (1988) also estimate a negative empirical relationship between leverage and

R&D expenses. R&D is frequently treated as a proxy for growth opportunities. Consistent with these predictions, Chung (1993) as well as Rajan and Zingales (1995) find a negative relationship between growth and the level of leverage on data from developed countries.

Jensen and Meckling (1976) argue that the use of secured debt might reduce the agency cost of debt. Um (2001), however, suggests that if a firm's level of tangible assets is low, the management for monitoring cost reasons may choose a high level of debt to mitigate equity agency costs. Therefore, a negative relationship between debt and tangibility is consistent with an equity agency cost explanation.

Velnampy and Nimalathasan (2008) examined about firm size on profitability between Bank of Ceylon and Commercial Bank of Ceylon in Sri Lanka during ten years period from 1997 to 2006 and found that there is a positive relationship between Firm size and Profitability in Commercial Bank of Ceylon Ltd, but there is no relationship between firm size and profitability in Bank of Ceylon. Various studies identified the determinants of profitability (Islam and Mili, 2012, Velnampy, 2005 & 2005, 2013, Velnampy and Pratheepkanth, 2012, and Niresh and Velnampy, 2012).

Several works show a positive relationship between firm size and leverage (see Barclay and Smith, 1996; Friend and Lang, 1988; Barton et al., 1989; MacKie-Mason, 1990; Kim et al., 1998; Al-Sakran, 2001, Hovakimian et al., 2004). Their results suggest that smaller firms are more likely to use equity finance, while larger firms are more likely to issue debt rather than.

Table 1: Summary of the implications of capital structure theories and empirical evidences on the relationship of capital structure determinants with leverage.

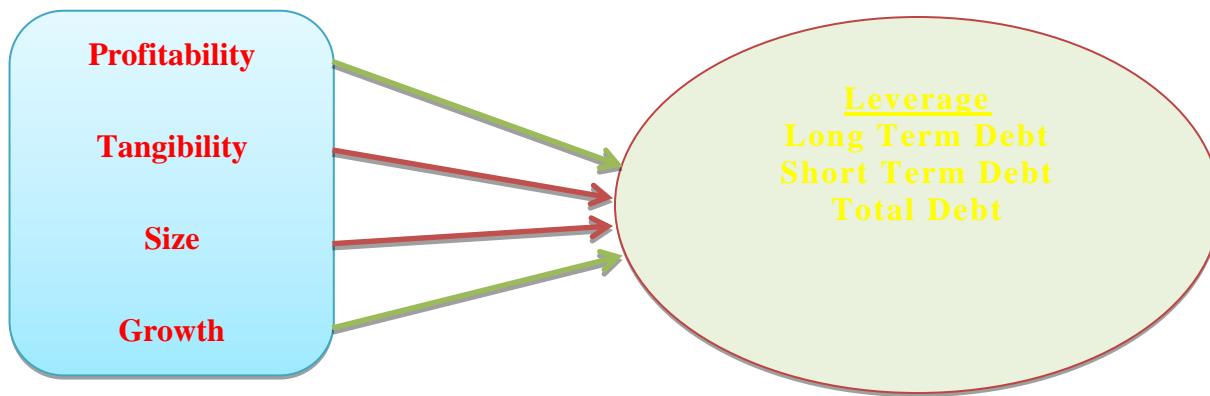| Determinants	Predicted sign by the theories	Sample empirical evidence
Profitability	_(Pecking order)	Titman and Wessels (1988), Rajan and Zingales (1995), Antoniou et al, (2002) and Bevan and Danbolt (2002), Booth et al. (2001), Pandey (2001), Um (2001), Wiwattanakantang (1999), Chen (2004), Al-Sakran (2001), Afza and Hussain (2011), Céspedes et al. (2010), Cheng and Shiu (2007), Fama and French (1998), Gill et al. (2009), Gleason, Mathur, and Mathur (2000), Gropp and Heider (2010), Hammes (1998), Hovakimian et al. (2001), Khrawish and Khraiwesh (2010), Sharif et al. (2012), Shah and Khan (2007).
	+(trade-off, signaling)	Aggarwal (1994), Burgman (1996), DeAngelo and Masulis (1980).
Size	_(Pecking order) +(trade-off, signaling)	Mishra and Tannous (2010), Shah and Khan (2007). Céspedes et al. (2010), Cheng and Shiu (2007), De Jong, Kabir, and Nguyen (2008), Deesomsak, Paudyal, and Pescetto (2004),Fama and French (2002), Guney et al. (2011), Gropp and Heider (2010), Istaitieh and Rodríguez-Fernández (2006),Khrawish and Khraiwesh (2010), Serrasqueiro and Rogão (2009),Sharif et al. (2012),Wald (1999), Rajan and Zingales (1995), Wiwattanakantang (1999), Booth et al (2001), Pandey (2001), Al- Sakran (2001), and Huang and Song (2002), Barclay and Smith, 1996; Friend and Lang, 1988; Barton et al., 1989; MacKie-Mason, 1990; Kim et al., 1998; Al-Sakran, 2001, Hovakimian et al., 2004
Growth	_(trade-off)	Bevan and Danbolt (2002), Chen et al. (1997), Fama and French (2002), M.C. Jensen and Meckling (1986), Rajan and Zingales (1995), Shah and Khan (2007), Myers (1977), Titman and Wessels (1988), Smith and Watts (1992, Chung (1993) as well as Rajan and Zingales (1995).
	+(Pecking order)	Booth et al (2001), Pandey (2001), Céspedes et al. (2010), Drobetz and Fix (2003), Kashyap, Rajan, and Stein, (1998), Tang and Jang (2007), Yang et al. (2010),

Tangibility	+(trade-off) +(Pecking order)	Titman and Wessels, 1988; Rajan and Zingales (1995), Myers (1984, Titman and Wessel (1988) and Rajan and Zingales (1995).

Source: Compiled from various studies

Sri Lanka is a developing country with one stock exchange, the Colombo Stock Exchange (CSE) being the one and only one. Nearly 287 companies are listed on CSE. Like other developing economies, the area of capital structure is relatively unexplored in Sri Lanka. Limited research work exists in this area. The purpose of this study is to fill this void to some extent by providing empirical evidence from a developing country's perspective. However, this study was confined only to hotels and restaurant sector companies. However this sector plays an important role in the Sri Lankan economy after ethnic war. The service sector is the largest component of GDP (Gross Domestic Production).

CONCEPTUALIZATION:

Source: Author's Constructed

III. HYPOTHESES OF THE STUDY

The hypotheses below are operationalized as a basis for analysis and conclusion on the determinants of capital structure.

H1: There is a negative relationship between leverage ratios and profitability.

$H1_a$: There is a negative relationship between short term debt and profitability.

$H1_b$: There is a negative relationship between long term debt and profitability.

$H1_c$: There is a negative relationship between total debt and profitability.

H2: There is a positive relationship between leverage ratios and tangibility.

$H2_a$: There is a positive relationship between short term debt and tangibility.

$H2_b$: There is a positive relationship between long term debt and tangibility.

$H2_c$: There is a positive relationship between total debt and tangibility

H3: There is a negative relationship between leverage ratios and size.

$H3_a$: There is a negative relationship between short term debt and size.

$H3_b$: There is a negative relationship between long term debt and size.

$H3_c$: There is a negative relationship between total debt and size

H4: There is a positive relationship between leverage ratios and growth.

$H4_a$: There is a positive relationship between short term debt and growth.

$H4_b$: There is a positive relationship between long term debt and growth.

$H4_c$: There is a positive relationship between total debt and growth.

H5: There is significance impact of profitability, tangibility, size and growth on short term debt.

H6: There is significance impact of profitability, tangibility, size and growth on long term debt.

H6: There is significance impact of profitability, tangibility, size and growth on total debt.

IV. METHODOLOGY

DATA SOURCE:

The present study used secondary data for the analysis. The data utilized in this study is extracted from the comprehensive income statements and financial position of the sample trading

companies quoted in Colombo Stock Exchange (CSE) database. In addition to this, scholarly articles from academic journals and relevant text books were also used.

SAMPLING DESIGN:

Sampling design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt on selecting items for the sample (Kothari, C.R., 2004). The sample of this study is confined to the hotels and restaurant sector consists of 15 trading companies listed in the Colombo Stock Exchange (CSE).

V. MODE OF ANALYSIS

In the present study, we analyze our data by employing correlation; multiple regressions & descriptive statistics. For the study, entire analysis is done by personal computer. A well-known statistical package like 'Statistical Package for Social Sciences' (SPSS) 16.0 Version was used in order to analyze the data. The following liquidity and profitability ratios are taken into accounts which are given below.

Table-2: Calculations of dependent and independent variables

Independent Variables	
Profitability	= Earnings Before Interest and Tax (EBIT)/ Total Assets
Tangibility	= Net Fixed Assets / Total Assets
Size	= Natural Logarithm of Sales
Growth	= Changes in Total Assets
Dependent Variables	
Long Term Debt Ratio	= Long Term Liability / Total Assets
Short Term Debt Ratio	= Short Term Liability / Total Assets
Total Debt Ratio	= Total Liability / Total Assets

Multiple regression analysis was performed to investigate the impact of independent variables on capital structure which the model used for the study is given below.

Capital Structure = f (PRTY; TANG; SZE and GRH)

It is important to note that the Capital Structure depend upon Profitability (PRTY); Tangibility (TANG); Size (SZE) & Growth (GRH). The following three models are formulated to measure the impact of Liquidity and Profitability**.**

STD = β_0 + β_1 **PRTY** +β_2 **TANG** +β_3 **SZE**+ β_4 **GRH**+e ----------------------------------- (1)

LTD = β_0 + β_1 **PRTY** +β_2 **TANG** +β_3 **SZE**+ β_4 **GRH**+e ------------------------------------- (2)

TD = β_0 + β_1 **PRTY** +β_2 **TANG** +β_3 **SZE**+ β_4 **GRH**+e ----------------------------------- (3)

Where,

β_0, β_1, β_2, β_3 are the regression co-efficient

LTD ⟶ Long Term Debt
STD ⟶ Short Term Debt
TD ⟶ Total Debt
PRTY ⟶ Profitability
TANG ⟶ Tangibility
SZE ⟶ Size
GRH ⟶ Growth

VI. RESULTS & ANALYSIS

DESCRIPTIVE STATISTICS:

Table 3:Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Total Debt Ratio	15	3.21	351.27	51.5789	85.53076
Long Term Debt Ratio	15	.44	204.81	27.7592	52.91393
Short Term Debt Ratio	15	2.77	146.45	23.8198	35.93273
Return on Assets	15	-12.39	11.58	1.6249	6.88032
Tangibility	15	1.34	298.43	76.3809	67.95212
Size	15	5.22	8.95	7.5927	1.16663
Growth	15	-.86	375.56	53.5012	97.69872
Valid N (listwise)	15				

From table 3, it can be seen that companies have an average rate of profitability (1.62 percent) and maximum and minimum profitability is -12.39 and 11.58 respectively. The asset structure of this selected companies have average assets is 76.38% and maximum is 298.43% of the total assets. The size of the companies almost same. Because it have lower standard deviation. The growth rate on average is 53.50 percent and the range is too high [(Max-Min = 375.56-(-0.86)]. The ratio of total

debt on average is 51.58 percent of total book value of assets. The ratio of long term debt on average is 27.76 and maximum is 204.81. This implies that companies prefer long term loans rather than short term ones. The substantially high amount of long term debt reflects the fact that the listed hotels and restaurant companies are mainly financed by debt capital rather than share capital.

CORRELATION; REGRESSION AND RELIABILITY ANALYSIS:

Table 4: Correlation, Regression & Reliability Values

Model	Dependent	Independent	R	P – value	R^2	F-Value	Durbin-Watson
1	STD	PFTY TANG SZE GRH	-0.559* 0.137 -0.154 0.446	0.030 0.627 0.584 0.096	0.588	3.563 (0.047)	2.604
2	LTD	PFTY TANG SZE GRH	-0.683** 0.045 -0.041 0.204	0.005 0.874 0.885 0.465	0.507	2.571 (0.103)	2.471
3	TD	PFTY TANG SZE GRH	-0.657** 0.085 -0.039 0.314	0.008 0.763 0.889 0.265	0.540	2.936 (0.076)	2.587

*, Correlation is significant at the 0.05 level (2-tailed)
**, Correlation is significant at the 0.01 level (2-tailed).

The above mentioned table indicates the relationship between the various independent and dependent variables used in the study. As it is observed in the table, the correlation values were found to be mixed (both positive and negative) between the variables. Tangibility and growth have positive association with all leverage ratios (short term, long term and total debt) whereas other two variables profitability and size have negative association with all dependent variables. Only the variable tangibility reveals significant relation (significant at 5 percent level of significance) with all dependent variables.

VII. REGRESSION

Regression analysis is used to test the impact of variables on capital structure of the listed hotels and restaurant companies in CSE. As we mentioned in mode of analysis, three models were formulated and the results are summarized in the above Table-3. The specification of the four variables such as Profitability (PFTY); Tangibility (TANG); Size (SZE) and Growth (GRH) in the above model revealed the ability to determine capital structure (R^2 = 0.588; 0.507 & 0.540). In this model R^2 value of above three leverage measures denote that 58.8%; 50.7% & 54% to the observed variability it can be explained by the differences in four independent variability namely PFTY; TANG; SZE and GRH. The remaining 31.2%; 49.3% & 46% are not explained, because the remaining part of the variance in capital structure is related to other variables which are not depicted in the model.

An examination of the model summary in conjunction with ANOVA (F–value) indicates that the model explains the most possible combination of predictor variables that could contribute to the relationship with the dependent variables. Only model 1 indicates the significant combination of selected variables. For model 1- F value is 3.563 and respective P value is 0.047 which is statistically significant at 5 percent level of significance. In this case it reveals that only PFTY has a significant impact on short term debt at 5 percent level of significance. However, it should be noted here that there may be some other variables which can have an impact on capital structure, which need to be studied. In addition to the above analysis Durbin-Watson test also carried out to check the auto correlation among the independent variables. The Durbin-Watson statistic ranges in value from 0 to 4. A value near 2 indicates non-autocorrelation Model 1, 2 and 3 have the value is 2.604; 2.471 and 2.587 respectively. This indicates that there is no auto correlation.

VIII. HYPOTHESES TESTING

Table 4: Testing of Hypotheses

No	Hypotheses	Results	Tools
H_1	*There is a negative relationship between leverage ratios and profitability.*	Accepted Accepted	Correlation Correlation

	H1ₐ: There is a negative relationship between short term debt and profitability.	Accepted	Correlation
	H1_b: There is a negative relationship between long term debt and profitability.	Accepted	Correlation
	H1_c: There is a negative relationship between total debt and profitability.		
H₂	*There is a positive relationship between leverage ratios and tangibility.*	Accepted	Correlation
	H2ₐ: There is a positive relationship between short term debt and tangibility.	Accepted	Correlation
	H2_b: There is a positive relationship between long term debt and tangibility.	Accepted	Correlation
	H2_c: There is a positive relationship between total debt and tangibility.	Accepted	Correlation
H₃	*There is a negative relationship between leverage ratios and size.*	Accepted	Correlation
	H3ₐ: There is a negative relationship between short term debt and size.	Accepted	Correlation
	H3_b: There is a negative relationship between long term debt and size.	Accepted	Correlation
	H3_c: There is a negative relationship between total debt and size	Accepted	Correlation
H₄	*There is a positive relationship between leverage ratios and growth.*	Accepted	Correlation
	H4ₐ: There is a positive relationship between short term debt and growth.	Accepted	Correlation
	H4_b: There is a positive relationship between long term debt and growth.	Accepted	Correlation
	H4_c: There is a positive relationship between total debt and growth.	Accepted	Correlation
H₅	*There is significance impact of profitability, tangibility, size and growth on short term debt.*	Accepted	Regression
H₆	*There is significance impact of profitability, tangibility, size and growth on long term debt.*	Rejected	Regression
H₇	*There is significance impact of profitability, tangibility, size and growth on total debt.*	Rejected	Regression

IX. CONCLUSION & RECOMMENDATION

The findings of this study contribute towards a better understanding of capital structure decisions in the Sri Lankan context. This study analyses the determinants of the capital structure of 15 Sri Lankan hotels and restaurant companies from 2008 to 2012, and the extent to which the influence of these determinants on leverage decision. The results of regression find that profitability was confirmed to be a relevant determinant for Sri Lankan hotels and restaurant companies. More profitable companies would tend to have fewer debts, since they use the retained earnings rather than debts. Tangibility, Size and Growth variables were confirmed not to have material effect in capital structure decisions for Sri Lankan hotels and restaurant companies. There was a strong evidence to support the pecking order theory by hotels and restaurant companies based on the relevant determinant of profitability variable. Nevertheless, both static trade off and agency cost theory cannot be rejected due to their correct prediction of the sign of Tangibility, Size and Growth variable of companies. Therefore it could be concluded that implication of pecking order theory is more relevant in Sri Lankan context.

This paper has laid some groundwork to explore the determinants of capital structure of Sri Lankan hotels and restaurant sector listed companies, upon which a more detailed evaluation could be based. Further work is required to develop new hypotheses for the capital structure decisions of Sri Lankan companies and to design new variables to reflect the institutional influence. A larger, comprehensive, and detailed database is also required for a further detailed capital structure study.

The following are the major implications related to the debt financing behavior of the companies in Sri Lankan context.

- The average debt ratio of Sri Lankan companies is around 50%.
- Leverage decision is influenced only by the Profitability variable. Strangely tangibility which in theory should have great influence on decision pertaining to leverage is found to be insignificant as arrived at in this study.
- Factors other than selected variables could have an influence on leverage decision.
- In Sri Lankan context, implication of pecking order theory is more relevant than static trade off and agency cost theory.

X. LIMITATIONS & SCOPE FOR FURTHER RESEARCH

The study suffers from certain limitations which are mentioned below.

1. As the study is purely based on listed hotels and restaurant companies, so the results of the study are only indicative and not conclusive.

2. Furthermore, data representing the period of 5 years were used for the study.

In addition, the findings of this study imply areas that need further study. The scope of this study covers the operations of only hotels and restaurant companies listed in Colombo Stock

Exchange for the period of five years. Giving enough time and resources it is possible to attempt to study some other listed companies in Sri Lanka over a long period of time and using different statistical methods in order to have a more comprehensive result. The analyses and findings this study show that there are other factors than the independent variables used for this study that affect leverage. Research could be conducted to identify those other factors so as determine the capital structure.

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