

MANAGEMENT AND FIRM CHARACTERISTICS: AN EMPIRICAL STUDY ON PECKING ORDER THEORY AND PRACTICE ON DEBT AND EQUITY ISSUANCE DECISION OF LISTED COMPANIES IN SRI LANKA

Riyad Rooly M.S.A¹, Weerakoon Banda Y.K², Jamaldeen A.³

Introduction

Capital structure decision is imperative for every business organization as it is a challenge to management globally to meet the interest of shareholders in which it relates with firms' value maximization, deal with debt and equity issuance decisions (Modigliani and Miller 1958). At the end of the ethnic war in May 2009, the Sri Lankan stock market was reported as one of the best performing stock markets in the world (Daily News 2009), but the volatility of stock market operations due to insider trading, manipulation, malpractices and asymmetric information infested the popular perceptions on Stock Exchange (Myers and Majluf 1984). Inefficient stock market operations cause shares undervaluation problem and also the higher interest rate causes in increasing the finance cost which directly affects the firm value as well as shareholders wealth. The wrong decision of financing for investment opportunities leads to financial distress cost and bankruptcy and affect the image of the firm. It seems that it is vital to balance cost and benefit of debt while maximizing wealth of the shareholders through maximizing value of firms. Referring to this situation, Daily FT (April 20th, 2012) pointed out that the recent rising domestic interest rates in Sri Lanka steals the appeal for equities and also it gives the relative asset allocation disconnect between equities and interest rates, it could dent the pace of corporate earnings growth for those companies that are highly levered. How do firms take corporate financing decisions? To what extent do management and firm characteristics.