

**THE RELATIONSHIP BETWEEN COMPANIES'
PERFORMANCES AND FINANCIAL STRUCTURE IN
CONSTRUCTION COMPANIES IN SRI LANKA**

Sashika Madurangi Aluthwaththa

(118420 K)

Degree of Master of Science in Project Management

Department of Building Economics

University of Moratuwa

Sri Lanka

January 2016

**THE RELATIONSHIP BETWEEN COMPANIES'
PERFORMANCES AND FINANCIAL STRUCTURE IN
CONSTRUCTION COMPANIES IN SRI LANKA**

Sashika Madurangi Aluthwaththa

(118420 K)

Thesis/Dissertation submitted in partial fulfillment of the requirements for the
Degree of Master of Science in Project Management

Department of Building Economics

University of Moratuwa
Sri Lanka

January 2016

DECLARATION

I declare that this is my own work and this thesis does not incorporate without acknowledgement any material previously submitted for a Degree or Diploma in any other University or institute of higher learning and to the best of my knowledge and belief it does not contain any material previously published or written by another person except where the acknowledgement is made in the text.

Also, I hereby grant to University of Moratuwa the non-exclusive right to reproduce and distribute my thesis/dissertation, in whole or in part in print, electronic or other medium. I retain the right to use this content in whole or part in future works (such as articles or books).



11.03.2016

Signature:

Date:

(A.V.S.M.ALUTHWATHTHA)

The above candidate has carried out research for the M.Sc. Dissertation under my supervision.

Signature of the supervisor:

Date

(.....)

ABSTRACT

Corporate finance is mainly concerned primarily three types of financial decisions which are investments, financing and dividend decisions. Financing decision which is capital structure decision is the fundamental one because it is directly affect to the profitability of a company. The successful selection and use of financial structure is one of the key elements of the firm's financial strategy.

The success of modern enterprises depends on the adoption and implementation of good management practices. According to the economic condition organizations should be change their corporate strategies to achieve the firms' objective and goals. Therefore proper care and attention need to be given by organizations to determine the financial structure decision.

The purpose of this study is to investigate the relationship between financial structure and performances of construction companies in Sri Lanka. The study is limited for seven corporate construction organizations in Sri Lanka. The study is achieved through three objectives which are organizations' motivation with different financial arrangements, organizations' performance with financial decision making under different economic conditions and relationship between organizations' and financial structures. The data has been analyzed by using descriptive statistics and correlation analysis. Capital structure has been indicated through debt to equity, debt to Assets and Long term Debt to Assets and organizations' performance has been indicated through Return on equity, Return on assets, Net Profit margin and Earnings per share .These measures are in accordance with typical corporate Performa measures.

Results show that Long term and Equity shares are the major sources of finance in Sri Lankan Construction Corporate organizations. Further it has found While during an economic down, the companies are arranging their capital structure with retained earnings, less equities and less debt, it is arranged with equity shares and long term loan in an economic growth. It shows that negative relationship between financial structure and organizations' performance except the association between capital structure indicators and Net Profit margin. Further results show that Sri Lankan

Corporate construction organizations are the geared institutions as average level. Therefore capital structure measures will be a sound basis for financial measures for the corporate management in construction in Sri Lanka.

Key Words: Financial Structure, organizations' performance, Debt, Equity, Corporate Finance

ACKNOWLEDGEMENT

A special thank you must be given to my supervisor Dr.K.A.K Devapriya, Senior Lecture of the Department of Building Economics for his excellent supervision. His invaluable guidance and encouragement significantly contribute towards the successful completion of this research.

I would like to thanks Dr. Y.G. Sandanayake, Research Coordinator and Administrative staff of the Masters of the science degree in project management for her help given during the research.

In this special occasion, I sincerely thanks to Ms Lakshmi Siriwardana for the support gave throughout the whole period of doing the research.

Finally I want to thanks my parents, husband and friends, for their support provided me during the period of this research.

TABLE OF CONTENTS

DECLARATION.....	iii
ABSTRACT.....	iv
ACKNOWLEDGEMENT	vi
LIST OF TABLES	xi
LIST OF FIGURES	xii
LIST OF ABBREVIATIONS	xiii
LIST OF APPENDICES	xiv
CHAPTER 1	1
INTRODUCTION.....	1
1.1 Background to the study.....	1
1.2 Behavior of the construction industry with different economical cycle.....	1
1.2.1 Behavior of Sri Lankan construction industry with different economical cycle.....	2
1.2.2 Mechanism implemented by Government for different economical cycle..	4
1.3 Organizations' behavior with different economical cycle	5
1.3.1 Corporate Organizations	5
1.3.2 Organizations' behavior with different economical cycle.....	6
1.4 Corporate performance management	7
1.5 Problem Statement of the research	8
1.6 Aims and Objectives.....	8
1.7 Research Method	9
1.8 Scope and Limitation.....	9
1.9 Chapter breakdown.....	10
1.10 Summery	10
CHAPTER 2	11
LITRATURE REVIEW	11

2.1 Introduction	11
2.2 Corporate Financial Structure.....	11
2.2.1 Function of corporate finance	12
2.2.2 Capital Structure and Corporate Strategy	16
2.2.3 Agency Problem	21
2.3 Organizations' Behavior.....	23
2.3.1 Organizations' performance and corporate strategies under economic down turn, company bankruptcy	23
2.3.2 Organizations' performance and corporate strategies under Economic growth and Corporate Strategies.....	29
2.4 Corporate Governance Indicators.....	32
2.4.1 Sources of finance.....	32
2.4.2 Corporate performance measurement.....	35
Source: Hani, Ibrahim and Khalid ,2013.....	38
2.4.3 Corporate governance	40
2.6 Summery	41
CHAPTER 3	42
RESEARCH METHODOLOGY.....	42
3.1 Introduction	42
3.2. Research process and design	42
3.3 Research Philosophy	45
3.4 Research Approach.....	46
3.4.1 Qualitative approach	46
3.4.2 Quantitative approach	46
3.5 Research Techniques	47
3.5.1 Data collection	47
3.5.2 Data analysis techniques.....	49
3.5.3 Hypothesis testing.....	50
3.6 Summery	51

CHAPTER 4	52
DATA ANALYSIS AND FINDINGS	52
4.1 Introduction	52
4.2 Company Profile and share performances.....	52
4.2.1 Company One: Contractor Company	52
4.2.2 Company Two: Piling Company	53
4.2.3 Company Three: Construction and mechanical company	55
4.2.4 Company Four: Industrial Chemical Company	56
4.2.5 Company Five: Mini Hydropower Company	57
4.2.6 Company Six: Thermal and Mini Hydropower Company	58
4.2.7 Company Seven: Mini Hydropower Company	60
4.3 Data Analysis	61
4.3.1 Description of the survey	61
4.4 Objective One:.....	61
4.4.1 Common sources of finance	62
4.4.2 Sources of finance for the new project	63
4.4.3 Significant factors affecting on selection of financial arrangement on a new project	65
4.4.4 Ratios, techniques using for selection of financial structure	67
4.5 Objective Two:	68
4.5.1 Common corporate strategies	68
4.5.2 Corporate strategies used during and post crisis period	70
4.5.3 Corporate strategies used during growth period.....	72
4.6 Objective Three:	73
4.6.1 How is the important of capital structure as a measure of corporate governance?	73
4.6.2 How is the significant of following measures on measuring on organizations' performance?.....	74
4.6.3 How is the importance of following factors which are the determination of corporate organizations' performance	75
4.7 Analysis of Corporate Performance Management	76
4.7.1 Relationship among Corporate Performance Measures	76

4.7.2 Hypotheses.....	77
4.7.3 Descriptive analysis	78
4.7.4 Correlation analysis	79
4.7.5 Hypothesis testing.....	81
CHAPTER 5	83
CONCLUSION	83
5.1 CONCLUSION AND RECOMONDATION	83
5.2FURTHER RESEARCH.....	86
REFERENCES	87

LIST OF TABLES

Table 2.1 Key performance indicators	38
Table 4.4.1: Common Sources of Finance	62
Table 4.4.2: Sources of Finance for a new project.....	64
Table 4.4.3: Factors affecting on financial arrangements	65
Table 4.4.4: Ratios, techniques using for selection of financial structure	67
Table 4.5.1: Common corporate strategies	68
Table 4.5.2: Corporate strategies used during and post crisis period.....	70
Table 4.5.3: Corporate strategies used during growth period	72
Table 4.6.3: Factors which determines of Organizations' Performance	75
Table 4.7.1: Descriptive analysis	78
Table 4.7.1: Correlation analysis	79
Table 4.7.3: Hypothesis testing.....	81

LIST OF FIGURES

Figure 1.2 Chapter Break down	10
Figure 2.1 Sources of finance.....	34
Figure.3.1: Research Process	43
Figure.3.2: Nested Research Methodology	44
Figure 4.2.1: Construction Sector Share Market Performance vs Company 1 Share performance.....	53
Figure 4.2.2: Construction Sector Share Market Performance vs Company 2 Share performance.....	54
Figure 4.2.3: Construction Sector Share Market Performance vs. Company 3 Share performance.....	55
Figure 4.2.4: Construction Sector Share Market Performance vs. Company 4 Share performance.....	57
Figure 4.2.5: Construction Sector Share Market Performance vs. Company 5 Share performance.....	58
Figure 4.2.7: Construction Sector Share Market Performance vs. Company 7 Share performance.....	60
Figure 4.1: Common Sources of Finance.....	62
Figure 4.4.2: Sources of Finance for a new project	63
Figure 4.4.3: Factors affecting on financial arrangements.....	66
Figure 4.4.4: Ratios, techniques using for selection of financial structure	67
Figure 4.5.1: Common corporate strategies	69
Figure 4.5.2: corporate strategies used during and post crisis period	71
Figure 4.5.3: Corporate strategies used during growth period.....	72
Figure 4.6.3: Factors which determines of Organizations' Performance.....	75
Figure 4.7.1: Capital Structure and organizations' Performance indicators	77

LIST OF ABBREVIATIONS

Abbreviations	Description
CFROI	Cash Flow Return On Investment
CVA	Cash Value Added
EVA	Economic Value Added
EPS	Earnings per share
GDP	Gross Domestic Product
IRR	internal rate of return
LD	Long term debt
NI	Net income
NP	Net Profit margin
ROA	Return on assets
ROE	Return on equity
ROCE	Return on Capital Employed
TA	Total Asset
TD	Total debt
TE	Total Equity
VAT	Value Added tax

LIST OF APPENDICES

Appendix A	Questionnaire.....	89
Appendix B	Data Collection.....	99