

IMPACT OF CAPITAL EXPENDITURE ON FIRM PROFITABILITY OF LISTED MANUFACTURING COMPANIES IN COLOMBO STOCK EXCHANGE

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ABSTRACT

Organizations worldwide require investment in capital expenditure in order for them to achieve their business objectives and maximize shareholders wealth. It is therefore expected that investment in capital expenditure should be followed by an increase in the financial performance of an entity. The study sought to establish the effect of capital expenditure on firm profitability of organizations listed at the Colombo Stock Exchange (CSE). A study comprising of a total of 28 manufacturing companies that were listed at the CSE during the period 2011 to 2015 was conducted by way of a desk review of published company annual financial statements. The linear regression model was used to establish the relationship between capital expenditure and financial performance. The study concludes that capital expenditure and profitability of the firm relationship is positive, but the result is not statistically significant. Therefore, the result did not suggest any strong positive impact of investment in fixed assets on the operating profit of manufacturing firms in Sri Lanka. This conclusion underpins the importance of senior management understanding the impact of capital expenditure strategies on a firm's ability to maximize shareholders wealth.

Keywords: Capital Expenditure, Firm size, Leverage, Profitability