ANALYZE THE DETERMINANTS OF CAPITAL INVESTMENT STRATEGY IN HOTEL INDUSTRY

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REGISTRATION NO: SEU/IS/06/MG/023

INDEX NO: MG 0498

A Dissertation Submitted to the Faculty of Management & Commerce, South Eastern University of Sri Lanka, in Partial Fulfillment of the Requirements of the Degree of Bachelor of Business Administration. (Specialization in Accounting)

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OLUVIL
2012

ABSTRACT

Firm capital structure is one of the most widely researched topics in corporate finance world. However, in the Sri Lankan context, it is hardly found that research carried out on capital structure of hotel industry. This research examines the effect of different variables including tax, liquidity, information asymmetry, agency cost, inflation, legal system, suppliers of capital, dividends, profitability, business risk, growth rate and bankruptcy costs on the capital structure of the Sri Lanka hotels. The empirical investigation was conducted using survey questionnaire and interviews. The data were obtained from twenty seven hotels in Colombo metropolitan area.

The regression analysis and Pearson correlation analysis were conducted in order to find out which variables have the significant effect on the capital structure. Under the regression analysis, multiple regression was conducted to find out the significant variable. However, due to the existence of multicollinearity problem it cannot be identified the significant variables. Hence, step wise regression has been run. Pearson correlation analysis was done in order to find out the correlation between the variables.

The results show that only tax variable has the significant impact on the determinant of the capital structure of Sri Lankan hotels. There is a positive relationship between the tax variable and the debt finance the result exhibits 1% increases in tax results in 7% increases in debt percentage of the firm.

In order to determine the degree of association between the different variables the Pearson's correlation analysis was undertaken. The result shows that there is significant relationship between variables