

PECKING ORDER OF FINANCING: EMPIRICAL EVIDENCE IN THE SRI LANKAN CAPITAL MARKET

Samanthi Senaratne

ABSTRACT

This study investigates the applicability of the pecking order theory of financing in the Sri Lankan capital market. This theory posits that firms prefer internal finance and if internal finance is inadequate, they raise funds in the external market first issuing debt, then convertible bonds, and finally equity shares as a last resort. The findings of the study confirm that the pecking order theory of capital structure is partially followed by Sri Lankan companies. Although Sri Lankan companies prefer internal finance to external finance, straight debt to convertible debt, equity financing is preferred over debt financing in raising external finance.
