



The Determinants of Profitability of Listed Finance Companies in Sri Lanka

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Abstract

The profitability is one of the major concerns in any business entity as the success and growth of a business largely depends on its profitability. Hence, identifying the determinants of profitability is similarly important. However, the reported results on profitability determinants in the literature show contradictory findings while it is hard to find sufficient evidence in this regard for Sri Lankan context. Therefore, this study aims at identifying the firm specific determinants and macro-economic determinants of the profitability referring to the listed finance companies in Sri Lanka. Company size, capital ratio, loan ratio and deposits ratio were taken as firm specific determinants while inflation and GDP growth rates were considered as macro-economic variables. The Return on Assets and Return on Equity were considered as the proxy for the profitability. 125 firm year observations were taken as the sample of this study covering 25 listed finance companies for five years period from 2011 to 2015. Random effect regression model was used to analyse the strongly balanced panel data set of the study. The result revealed that the company size, capital ratio, loan ratio and GDP growth rate have a positive and significant impact on profitability while Company size and the GDP growth rate show the highest relationship. However, the deposits ratio and inflation show a negative impact on profitability. This study recommends the corporate managers to maintain healthy capital ratios to improve the size with diversified branch networks and invest in more on loans and advances to enhance the profitability.

Introduction

The term profitability means the ability of the business organization to maintain its profit year after year. The long-term survival of a business entity largely depends on its profitability. The profitability of a firm is one of the most important indicators for the investors and it influences on savings and investment decisions of the companies. The rise in profits improves the cash flow position of companies and offers greater flexibility and facilitates greater investments which improve productivity, competitiveness and employment (Menicucci & Paolucci, 2016). Therefore, any business organization must pay considerable attention on their profitability. Accordingly identifying the determinants of profitability is more important for any business entity.

The importance of the Listed Finance Companies (LFCs) sector towards economic development has been identified in the recent past and the importance of the profitability of the LFCs is also highlighted in order to ensure depositor safety and to maintain system stability, attract depositors, provide safeguard for deposits and improve the transparency of their services. The LFCs play a key role in Sri Lankan economy by catering to a large segment of the population and providing alternative avenues for investments. It facilitates the finance of vehicles through hire purchase and lease, mortgage and other credit facilities, pawning advances and property development accepting deposits except demand deposits. LFCs are the major contributor in developing the small and medium enterprises and the micro finance sector. Further, LFCs complement the role of commercial banks by filling the gap of financial intermediation through offering

a wide range of financial products and they function to bridge the gap between savers and borrowers (Akbas, 2012).

Several studies have been conducted around the world to identify the profitability determinants of the banks. The reported results of such studies show- mix and controversial evidences on the determinants of profitability. Olweny & Shipo (2011) and All (2014) argued that the banks' characteristics are the most important and significant factors which have most impact on profitability. Acaravci & Çalim (2013) indicate that macroeconomic factors are the least important factor that influences profitability. However, the reported results of Martani & Munaiseche (2010) shows that macroeconomic factors have a significant impact on the companies' profitability. Studies on the determinants of profitability have been done for different sectors like insurance (Abdul, et al., 2015), European Union firms (Altunbas & Marques, 2008), multi-finance companies (Martani & Munaiseche, 2010) and resource based, construction, manufacturing and population linked services industries (Arnold & deVries, 2000) etc. There are several studies which examined the determinants of banks' profitability while there is no sufficient evidence regarding the determinants of listed finance companies' profitability.

Empirical studies on the profitability of financial companies have been carried out on the context of a single country and as well as panels of countries. Angbazo (1997), Abreu & Mendes (2002), Staikouras & Wood (2004) analysed the panel of countries while the researchers like Goddard, et al., (2004), Athanasoglou, et al., (2008), Garcia-Herrero, et al., (2009) conducted their analysis on the context

of a specific country. Most of the reported empirical evidences were focused on international market settings like Greece, UK, Australia, Kenya, China and Turkey while there are insufficient evidences found for Sri Lankan Context.

The relative importance of the knowledge of the profitability determinants, the contradictory findings available in this regard for international context and the insufficient knowledge available for Sri Lankan context creates the necessity for studying this matter further. Hence, this study focused on identifying the determinants of profitability of the licensed finance companies listed in Colombo Stock Exchange Sri Lanka.

The remainder of the research paper has been organised as follows. The section 2 discusses the literature review and the section 3 describes the research methodology used in this study while the section 4 focuses on the results and discussion and finally the conclusion and recommendations of this study is explained.

Literature Review

This study was conducted with the objective of identifying the determinants of profitability of the licensed finance companies in Sri Lanka. The profitability determinants were studied under two major categories namely the firm specific factors and the macro-economic factors while ROA and ROE were taken as the proxies for the LFC's profitability. Company size, capital ratio, deposits and loan ratio were considered under the firm specific factors and GDP growth rate and inflation are considered as the macroeconomic factors.

Internal / Firm specific determinants

Firm specific determinants are the internal factors of the finance companies and it can be controlled by the management. Consequently, it reflects the different management policies and practices (Guru, et al., 2002). These determinants can be evaluated by analyzing the financial statements of the finance companies.

Company size

Company size is considered to be an important determinant of its profitability. The reason is that large size will reduce the cost of gathering and processing information (Boyd & Runkle, 1993). According to the previous literature, total assets of the company are used as a proxy for company size (All, 2014). Further, the company size is introduced to capture potential economies of scale or diseconomies of scale in the market (Ramadan, et al., 2011). Economics of scale leads to positive correlation with profitability while diseconomies of scale leads to lower profitability (Sufian, 2011). Most of the studies have been argued that a growing firm size is positively related to profitability. Hoffmann (2011) indicates that the profitability is improved by enhancing the industry best practice using management structure and technology than by increasing the company size. Moreover, he determines that company size positively influences the capital adequacy of banks, since large banks can raise capital less expensively and as a result it leads to increase the banks' profitability (Li et al, 2018). Therefore, that profitability is improved by increasing the company size. Hoffmann (2011) determines that the extent to which various legal and financial factors influence profitability is closely linked to the firm's size. According to Sufian & Chong (2008) argued that up to a certain extent size may be positively influence on profitability and beyond that limit it could be negative due to bureaucracy. Sufian (2011) investigated that the large banks with extensive branch networks across the nation may have an advantage because they may attract more deposits and loan transactions, and it leads to higher levels of profitability.

Boyd & Runkle (1993) and Martani & Munaiseche (2010) found that there is a significant negative relationship with company size and profitability. However, some researchers highlighted a positive relationship between size and profitability (Ramadan, et al., 2011). In the case of Pakistan, Gul, et al., (2011) found that company size has positive correlation with profitability (ROA). Hence, there is a mixed relationship between profitability and company size. Moreover, some identified that there is a U-shaped relationship between company size and profitability (Sufian & Chong, 2008). Moreover, most of the researchers have shown that the relationship between the company size and

profitability can be positive or negative. Therefore, there is no clear idea regarding the relationship between profitability and the company size and it is expected to be positive.

Capital ratio

The capital ratio is essential to run a finance companies to absorb unexpected situations that they may experience. The capital ratio ensures the strength and stability of LFCs and safeguard the deposits. The improvement of profitability will enhance the capitalization of LFCs with higher internal rate of capital generation. The equity to assets ratio is a measurement of the overall capital strength. Hoffmann (2011) states that the high equity may ignore potential profitable investment and conclude the negative relationship between profitability and capital. Olweny & Shiphoo (2011) state that the regulators are willing to use higher capital requirements to minimize the losses, but bankers argue that it is expensive and difficult to obtain additional capital and identified that high capital cause to lower profitability. Most of the empirical studies determined that there is a positive relationship between capital ratio and profitability. Athanasoglou, et al., (2005) states that sound capital support to handle unexpected losses, and hence support to increase profitability. Naceur & Goaid (2005) investigated that there is a positive relationship between capital ratio and profitability of bank. Flamini, et al., (2009) and Staikouras & Wood (2011) assume that the well capitalized institutions may enjoy cheaper and less risky funds and also they investigated positive relationship between capital ratio and profitability. Hence, the high capital ratio is reduced the external funding requirement and it cause to higher profitability.

Further Hoffmann (2011) identified two framework of capital such as the efficiency-risk hypothesis and franchise-value hypothesis. The efficiency-risk hypothesis shows that the efficient companies have a tendency to select low capital ratio and as a result it will secure the company against liquidity risks, distress and default. The franchise-value hypothesis means that more efficient companies are likely to use high capital ratio to protect the future income which are generated from high profit efficiency. Some studies highlighted that capital ratio is caused to handle unexpected losses, and hence supported increasing profitability. According to Sufian (2011) strong capital is necessary for finance institutions in developing countries to safeguard depositors. Thus, it is clear that capital is one of the key determinants of finance companies' profitability and it is expected to be positive.

Loan ratio

The loan ratio is a measurement of income source of banks and it is expected to affect positively for banks' profitability. According to the prior literature, loan ratio is considered as an indicator of liquidity, and much literature investigated a positive relationship between loan ratio and profitability (Sufian & Habibullah, 2009). Alper & Anbar (2011) state that this ratio is one of the important determinant of asset quality. Most of the researchers argue that the companies with high loan growth often faces more losses. Therefore, the loan ratio may negatively affect firms' profitability. Olweny & Shiphoo (2011) determine that the poor monitoring on loans and advances cause to be less profitable. Chaudhry, et al., (1995) investigated a negative relationship of loan ratio with profitability in small and medium sized banks in USA. Further, Flamini, et al., (2009) show the significant positive correlation with loan ratio and the profitability.

In the case of Pakistan, Gul, et al., (2011) considered that loan ratio has positive correlation with profitability. Abreu & Mendes (2002) revealed a positive relationship between loan ratio and banks' profitability in Portugal, Spain, France and Germany. Staikouras & Wood (2004) and Hassan & Bashir (2005) reflected that a higher loan ratio negatively influences profitability. Hence, the impact of the loan ratio on companies' profitability is very difficult to predict and it is expected to be positive.

Deposits

Deposits mean the primary sources of funds and it can invest to generate revenue. The total deposits to total assets ratio is used to measure the amount of deposits held by a bank proportional to its size (Acaravci & Çalim, 2013). The banks will be able to provide their deposits to customers and then it will be able to generate further profits (Menicucci & Paolucci, 2016). That is the huge

opportunity to the banks and can conclude that more deposits can generate more profits. However, Flamini, et al., (2009) justify that banks which are more dependent on deposits are less profitable. However, Gul, et al., (2011) highlight that the firms which depend on deposits for funding requirements can achieve better return. Lee & Hsieh (2013) conclude that additional deposits can provide advantage to banks in producing more profits and low deposits may impact negatively on their profitability. Davydenko (2010) states that the deposits are positively impact to the companies' ROA. The higher growing deposits would be able to expand the business and generate more profits (Menicucci & Paolucci, 2016). The best-performing banks are those which used high levels of deposit accounts related to their assets (Ben Naceur & Goaid, 2008). Hence, the effect of deposits on profitability is more important to financial institutions and that is expected to be positive.

External / Macroeconomic Determinants

The external / macroeconomic determinants are the events that occur externally. The changes in macroeconomic conditions impact into the profitability of financial institutions and financial health. These external factors show the economic indicators such as inflation, GDP growth, interest rate and exchange rate. Hence, to find the actual factors of profitability this study considered the macroeconomic factors such as inflation and GDP growth.

Inflation

The Inflation is an important macroeconomic condition, which may affect the costs and revenues of banks (Kosmidou, 2008). According to Alper & Anbar (2011) percentage increase in Consumer Price Index for all goods and services called the inflation. Staikouras & Wood (2004) determine that inflation can have a substantial effect and undermine the stability of the financial system. They further state that unexpected rises of inflation may be a basis for cash flow difficulties to borrowers which may further lead to losses. Martani & Munaiseche (2010) investigated that there is a significant negative relationship between profitability and inflation. However, Staikouras & Wood (2004) investigated that inflation may have direct and indirect effects on the banks' profitability. Guru, et al., (2002) found that there is a positive impact of inflation on profitability. Further, Flamini, et al., (2009) investigated a significant positive effect on companies' profits which explains the firms' prediction on future inflation. The effect of inflation on banks depend on whether the inflation is anticipated or not. In the anticipated case there is a positive impact on profitability and in unanticipated inflation case there is a negative impact on bank profitability (Perry, 1992). According to Sufian (2011) investigated the impact of inflation positively related to the Korean banks' profitability. In the case of Pakistan, Gul, et al., (2011) considered that inflation has positive correlation with profitability. Moreover, Molyneux & Thornton (1992) have shown a positive relationship between inflation and profitability. Therefore, there is no clear understanding regarding the impact of inflation to the firms' profitability. According to the prior literature it is expected to be positive.

GDP Growth

GDP growth is one of the primary indicator which used to analyze the total economic activity within the country (Akbas, 2012). The annual change of the GDP, is used as a measurement of the economic growth (Kosmidou, 2008). Further, GDP impacts over several factors such as asset quality and credit expansion. There are number of researches found a relationship between GDP and profitability of financial institutions. Demircug-Kunt & Huizinga (1999), Athanasoglou, et al., (2008), Flamini, et al., (2009) and Dietrich & Wanzenried (2011) investigated a positive relationship between GDP and profitability (Ramadan, et al., 2011). High economic growth supports banks to lend more with higher charge of margins and may be able to improve the asset quality (Sufian & Chong, 2008). Sufian & Parman (2009) further justify that during stable economic periods the default is less, the profitability is increased. However, Staikouras & Wood (2011) investigated the negative relationship between profitability and GDP. Sufian (2011) examined the determinant of bank profitability in Malaysian commercial banks and he also suggested that there was an inverse relationship between economic growth and profitability. Moreover, Naceur & Goaid (2005) and Athanasoglou, et al., (2005) investigate that there is no relationship between GDP and bank's profitability. Finance

companies in Sri Lanka have significantly improved their asset and deposit base by using favorable economic conditions arisen after 2009. Therefore, the impact of GDP growth on finance companies is essential. Therefore, the impact of GDP on finance companies' profitability is expected to be positive.

Profitability

The profitability is an important indicator for the investors and other interested parties. It influences the savings decisions and investment of companies. The term profitability means the ability of the business organization to maintain its profit year after year. Martani & Munaiseche (2010) state that profitability is closely related to the ability of companies to gain benefit. Hence, that rise in profits improves the cash flow position of companies, offers greater flexibility and facilitates greater investments and also that causes to improve productivity, competitiveness and employment (Menicucci & Paolucci, 2016). According to previous literature, the profitability is identified as the response variable and it can be calculated using different measures. There are accounting based and economic based measures. Return on equity (ROE), Return on assets (ROA) and Net interest margin (NIM) which are considered as accounting based measures and Economic value added (EVA) and Risk adjusted return on capital (RAROC) are identified as economic based measures. In the banking literature most of the researchers like Athanasoglou, et al., (2005), Martani & Munaiseche (2010), Sufian (2011) and Ramadan, et al., (2011) used both ROA and ROE as a proxy for profitability. Thus, this research focuses on ROA and ROE as two alternative profitability measures.

Return on Assets

Return on assets (ROA) represents the ability of generate profits from the assets, and it indicates operational performance and the efficiency of the financial institutions (Golin, 2001). According to Athanasoglou, et al., (2005) determined that ROA is a reflection of the ability of management to generate profit from their assets, although sometimes it may be biased because of the off-balance-sheet activities. As a key indicator, ROA is defined as the results of net profit after-tax by total assets (Martani & Munaiseche, 2010). Sufian(2011) states that ROA of any bank depends on the bank's policy decisions and uncontrollable factors related to the economy and government regulations. Most of the researchers Sufian & Chong (2008), Ben Naceur & Goaid (2008), Kosmidou (2008), Flamini, et al., (2009), Sufian & Parman (2009), Sufian & Habibullah (2009), Alper & Anbar (2011) and Staikouras & Wood (2011) used ROA as a profitability measure and they define it as dependent variable of their studies.

Return on Equity

Return on equity (ROE) indicates the return to shareholders on their equity and equals ROA times the total assets-to-equity ratio (Al-Omar & Al-Mutairi, 2008). Further, ROE can be considered as a measure of how efficiently banks use shareholder equity for profit generation purpose (Akbas, 2012). According to the prior literature ROE usually uses to measure profitability and it is not the unique indicator in assessing the profitability. However, ROE as well has a major weakness since it neglected the financial leverage (Athanasoglou, et al., 2005). Athanasoglou et al., (2005) states that firms which usually report a lower ROE and higher ROA due to higher equity (lower leverage). Furthermore, as an alternative measure of profitability of banks, return on equity (ROE) which is the ratio of net profit before tax to average shareholders' equity is used. In the literature Sufian (2011), Martani and Munaiseche (2010), Athanasoglou et al., (2005), Ramadan et al., (2011) also used both ROA and ROE as a proxy for profitability.

Conceptual framework

According to the prior literature, this study identified the determinants that affect the profitability of financial companies and it has been grouped as firm-specific and macroeconomic determinants. Based on the prior literature conceptual framework is developed as follows.

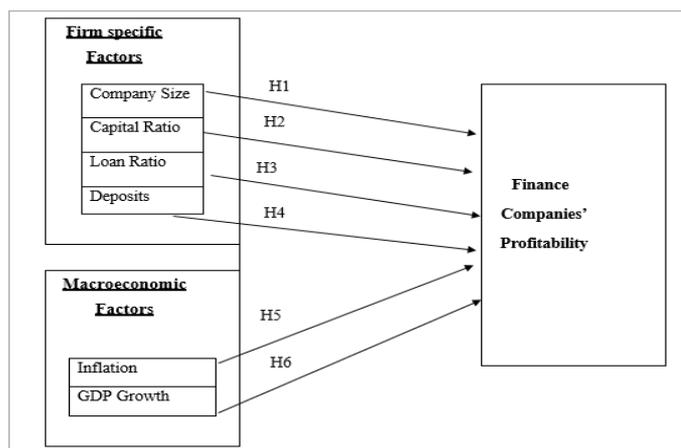


Figure 1: Conceptual Framework
 Source: Menicucci & Paolucci, 2016; Anchor et al., 2017

Methodology

Population and Sample

The population of this study is all the listed finance companies under bank finance and Insurance sector in CSE. There are 32 finance companies listed under CSE as at end of the February 2017. The sample size of the study was 125 firm year observations obtained from 25 listed finance companies and the sample period spans for five years from 2011 to 2015

Data and Data Collection

The entire study was based on secondary data. Data for firm-specific variables are collected from the published financial statements of the companies considered in the sample. The macroeconomic determinants include inflation and the GDP growth. With regard to determinants, this study includes both annual inflation rate and annual GDP growth rate in Sri Lanka. These determinants are retrieved from the Central bank of Sri Lanka's annual reports. Further, this study used two different profit measures, which are ROA and ROE. The data was gathered from the published financial statements.

Variables and Calculation

This section presents the proxies that are used to operationalize the variables and the table represents measurement of firm specific and macroeconomic determinants and profitability. The variables, measurements and notation are developed as follows.

Table 1: Variables and Calculations

Variables	Measure	Notation
Profitability	ROA (Net profit after tax / Total assets) * 100	ROA
	ROE (Net profit after tax / Total equity) * 100	ROE
Firm Specific Determinants	Company Size (Log (Total Assets))	SIZE
	Capital Ratio (Equity / Total Assets) * 100	CAPR
	Loan Ratio (Loans & Advances / Total Assets) * 100	LOAN
	Deposit (Total Deposits / Total Assets) * 100	DEPO
Macroeconomic Determinants	Inflation (Annual Inflation Rate)	INF

GDP Growth	Annual GDP Rate	GDP
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Data Analysis Techniques

The descriptive statistics, correlation coefficient analysis and regression analysis techniques were used to analyze the collected data in order to achieve the research objectives. This study used panel data regression analysis technique as it endows regression analysis with both a spatial and temporal dimension. As per the Housman specification test, the best panel model for the data set of this study was random effect regression model.

Accordingly, the following regression model was developed for this study.

$$PRFTit = a + \beta Xit + uit + \epsilon it$$

Where,

PRFTitb Profitability for finance company i at time t (can be measured by ROA or ROE)

A Intercept

Xit Independent variable that varies across time

β The coefficient for explanatory variable

uit between entity error term

ϵit within entity error term

Under the random effect model, F statistics used to select the best dependent variable for analysis of this study. Consequently, this regression equation was tested for Multi-colinearity using variance inflation factor (VIF) analysis. Levin-Lin-Chu unit root test was used to test the stationarity of the data set. Further the researcher tested auto correlation using Durbin- Watson test statistics (D-W test).

Results and Discussion

Descriptive Statistics

The table 4.1 provides the summary of descriptive statistics and it clearly shows that deposits ratio has the highest mean value (59.25) with a standard deviation of 24.53. The highest standard deviation is reported in ROE which is 68.87.

Table 2: Descriptive Analysis

Variable	Mean	Std. Dev	Minimum	Maximum
ROA	1.7895	4.5463	-27.7100	11.4900
ROE	9.4714	68.8723	-721.430	154.7200
SIZE	9.8835	0.5859	8.7700	11.0400
CAPR	17.3915	19.8728	-54.4500	85.7900
LOAN	36.2329	24.2106	1.8600	83.2200
DEPR	59.2527	24.5260	2.4800	140.6800
INF	4.7400	2.4859	2.1000	9.2000
GDP	6.1200	2.2319	3.4000	9.1000

Panel Data Analysis

The major analysis technique used in this study was panel data regression analysis as the data set of this study which consists of both time series and cross-sectional dimensions. At the outset, the researcher tested for panel unit roots by occupying the Levin, Lin & Chu test. The results of the Levin, Lin & Chu unit root test presented in the table 4.2 shows that the panels do not contain unit roots and prove that the panels are stationary in nature.

Table 3: Levin, Lin & Chu Test

Variables	t-Statistic
ROA	-10.7454***
ROE	-10.6806***
SIZE	-2.9774***
CAPR	-8.1165***
LOAN	-4.9655***
DEPR	-4.4840***
INF	-3.0546***
GDP	-6.6989***

Further this study used Hausman specification test to decide the applicable model out of fixed effect regression model and random effect regression model. The results are shown in the table 4.3 below. As per the reported results of the Hausman test (P-values of Hausman test are more than 0.05) the random effects model is appropriate for this analysis. Hence, the rest of the analysis follows the random effects model.

Table 4: Results of Hausman Test

Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random effect-ROA	2.4775	0.8710
Cross-section random effect-ROE	0.0000	1.0000

According to the random effect model, it shows the probability F statistics under ROA and ROE as 0.0000 and 0.9042 respectively. The rule is that if the P-value is less than 0.05 the model is highly significant and that is the appropriate model. Hence, the model which shows under table 4.4 is the appropriate model to discuss the determinant of finance companies' profitability in Sri Lanka. R-squared statistics and the adjusted R squared statistics of the model is 0.3489 and 0.3158 respectively. The adjusted R squared value 31.58% indicates the total variability of determinant of finance companies' profitability was explained by the variables in the model. Thus, these variables collectively, are good explanatory variables to determine the profitability of listed finance companies' in Sri Lanka.

Table 5: Result of Random Effect Model Under ROA

Variable	Coefficient	Std. Error	t-Statistic
C	-26.0603	9.5443	-2.7304***
SIZE	2.6129	0.8697	3.0043***
CAPR	0.1139	0.0280	4.0686***
LOAN	0.0358	0.0165	2.1722***
DEPR	-0.0472	0.0217	-2.1799***
INF	-0.1751	0.1463	-1.1966***
GDP	0.3879	0.1658	2.3397***
R-squared	0.3489		
Adjusted R-squared	R- 0.3158		
F-statistic	10.5379***	Durbin-Watson stat	1.9658

The company size is identified as significant with a positive coefficient of 2.6129 and it indicates that larger banks succeed better than smaller ones in achieving a higher profitability. At the same time when the size of companies is increased, they can increase their capital and which help them to do more business and enjoy with economies of scale. The Capital ratio is positively correlated with profitability with the coefficient of 0.1139 and it means that the higher equity leads to increase profitability. The results of loan ratio exhibit a positive coefficient of 0.0358 at 0.0312 significant level. It indicates that finance companies with more loans and advances are more profitable than others and the significant relationship shows that the effect is conclusive. The deposits of the finance company are identified as significant with a negative coefficient of -

0.0473. It shows that the more deposits are cause to reduce the finance companies' profitability.

Moreover, the inflation shows that a negative coefficient of -0.1751 and it indicates that the inflation causes to reduce profitability. Finally, GDP growth is positively correlated with 0.3879 coefficient value which means that the favourable economic conditions lead to enhance profitability. In addition to that, the GDP records the highest coefficient value and which means that GDP does the high level of intensity on profit determination of listed finance companies in Sri Lanka.

According to the autocorrelation analysis the value of Durbin-Watson stat is provided as 1.9658. This value lies between 1.5 to 2.5 and it summarizes that the residuals become independent and those are not serially correlated. Thus, there is no serial correlation problem and model is highly valid.

According to the collinearity diagnostic the VIF value is 1.5358 and it is less than 10. All the tolerance values are more than 0.1. This proves that there is no multicollinearity problem in regression result. Model is silent.

The P values between the independent variables and residuals are more than 0.05. Therefore, the association between residuals and independent variables are insignificant. Therefore, they are not correlated and the model is highly valid.

Table 6: Correlation Analysis between independent variables and Residuals

Correlation	RESID	SIZE	CAPR	LOAN	DEPR	GDP
SIZE	0.0119					
	0.8955					
CAPR	-0.0120	-0.4705				
	0.8944	0.0000				
LOAN	0.0089	-0.3282	0.0959			
	0.9215	0.0002	0.2876			
DEPR	0.0017	0.2232	-0.7445	0.0859		
	0.9854	0.0123	0.0000	0.3408		
GDP	3.22E-16	-0.1635	0.1578	-0.0713	-0.1095	
	1.0000	0.0685	0.0789	0.4296	0.2241	
INF	-5.37E-16	-0.1385	0.1191	-0.0821	-0.0563	0.7102
	1.0000	0.1235	0.1859	0.3624	0.5329	0.0000

Conclusion and Recommendations

This study was conducted to investigate the determinant of the profitability of listed finance companies in Sri Lanka. Four firm specific determinants namely, Company size, Capital ratio, Loan ratio and Deposits ratio and two Macro-economic determinants namely, GDP growth and Inflation were considered under this study. The results of the statistical analysis revealed that the company size, capital ratio, loan ratio and GDP growth were positively impact on the profitability of finance companies in Sri Lanka while the company size and the GDP growth rate show the highest positive relationship. Further the results revealed that the Deposits ratio and the Inflation are negatively impact on the profitability.

In conclusion, the company size was identified as the most significant firm specific determinant of profitability and the GDP growth is the most significant macro-economic determinant of the profitability of the listed finance companies in Sri Lanka. Hence the researcher recommends the corporate management to maintain healthy capital ratios to improve the company size with diversified branch networks and invest in more on loans and advances and utilize favourable economic conditions to enhance the profitability of listed fiancé companies in Sri Lanka.

Limitation of the Study

This study only considered the Finance Companies listed in Colombo Stock Exchange and the data were taken only for five years period from 2011 to 2015. Hence the reported results of this study cannot be generalized to any other sectors. Further this study only considered four firm specific determinants and only two Macro-economic determinants. However, there may be more determinants of profitability other than those factors. In this study, the profitability was studied only considering ROA and ROE but there are much more profitability measures could be found.

Future Research Directions

As this study only considered six determinants, any future research could be done by accommodating more determinants to improve the reliability of findings and can be expand the study to other sectors of Colombo Stock Exchange as well as it can be further expanded as comparative study with national and international market settings. Further, the examination of differences in the determinants of profitability between small and large finance companies or high and low profitable companies is also possible. Moreover, future researches can be done by covering longer time period to obtain more accurate results.

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