

Effect of Leverage on Firm Growth: With Special Reference to Food, Beverage and Tobacco Companies Listed in Colombo Stock Exchange

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Abstract

This study investigates the effect of leverage on firm growth with special reference to the food, beverage and tobacco companies listed in Colombo Stock Exchange. The relationship between leverage and firm growth in food, beverage and tobacco industry in developing countries have not adequately addressed in the previous literatures and there is a debate in findings of previous researches about the relationship between leverage and firm growth. The main problem of this study is to investigate whether the leverage influences negatively or positively on signaling the firms' growth. This study uses secondary data from annual reports of every selected company for 5 years. The sample comprises 20 firms from 2015-2019. This study will use a panel regression model to examine the relationship between variables. Overall leverage, long-term leverage and short term leverage are used as independent variables and Revenue Growth rate is used as the dependent variable. In addition, firm size and Asset Tangibility use as control variables in the econometric model. According to the results of this study managers can optimize firm revenue and firm growth by changing financial leverage. The findings of this study will help to managers and further researchers to get an idea about the effect of the leverage on firm growth.

Keywords: Financial Leverage, Revenue Growth Rate, Firm Size, Asset Tangibility