

Leverage and Firm Growth: With Special Reference to Companies in Food and Beverage Industry Listed in Colombo Stock Exchange

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ABSTRACT

Introduction: Optimum capital structure leads to growth of any organization. Review of literature suggest that the relationship between leverage and firm growth is inconclusive. Hence researcher intends to identify the relationship between leverage and firm growth in terms of Revenue growth and asset growth for the companies in food and beverage industry listed in Colombo Stock Exchange.

Design/ Methodology/ Approach: Probability Sampling method of systematic sampling technique were used to select 20 companies out of 47 companies that were listed under the food and beverage sector. Panel data for the period from 2011 to 2020 with 20 cross sections were tested using Ordinary least square estimates to analyze the data. The dependent variable is firm growth which were tested in two models in terms of revenue growth and Asset growth. The independent variable used was leverage which was calculated using debt to asset ratio. Further the control variables of firm size, ROA and investment opportunities were used to measure the impact from them on firm growth.

Findings: There is a significant positive relationship between leverage and revenue growth and an insignificant positive relationship between leverage and asset growth. Further the Firm size is negatively related to firm growth while the profitability is positively related to firm growth.

Conclusions: This study concludes how leverage effect to firm growth of food and beverage industry in Sri Lanka. This is important because companies use leverage for expansion and innovation which in term increases firm growth. Therefore, the Outcome of this study is very crucial to managers of a company to make better decisions regarding to financial resources of a company and to manage the company for high financial efficiency.

Keywords: *Asset growth, Revenue growth, Leverage, ROA, Firm size*