The Effect of Firm Size on Financial Leverage: Evidence from Sri Lanka

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Abstract

Leverage is simply the amount of debt used to finance assets by a company. Firm size, profitability, tangibility, and firm age are some factors that influence financial leverage. Among these, one of the most important factors influencing financial leverage is firm size. The financial leverage of each company is unique, and it varies according to firm size. It has an impact on the firm's value since it determines the best capital structure by balancing the cost of capital and return on investment.

There is a debate about the behavior of a firm's financial leverage based on its size and no absolute research study based on the effect of firm size on financial leverage of both manufacturing and service sector companies in the Sri Lankan context. So, this study investigates the effect of firm size on financial leverage of manufacturing and service sector companies in Sri Lanka.

The study is conducted quantitatively. Use data from 2015/16 to 2019/20 over five years. The sample consists of 15 manufacturing and 15 service companies that are listed on the Colombo Stock Exchange. The dependent variable is financial leverage, while the independent variable is firm size. The study use firm age, asset tangibility, and profitability as control variables. A regression model is used to analyze data in the study. The study found that firm size is positively and significantly affected to the financial leverage in both manufacturing and service sector companies in Sri Lanka.

Key words: *Financial Leverage; Firm Size; Manufacturing Sector; Service Sector.*