

# **The Impact of Firm-Specific and Macroeconomic Factors on Financial Performance: Evidence from Companies in the Listed Food, Beverage and Tobacco Industry in Sri Lanka**

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## **Abstract**

**Introduction:** Financial performance is a crucial aspect of assessing a company's overall financial health and can provide insights into its profitability, efficiency, and growth potential. A firm's financial performance is influenced by both internal (micro) and external (macro) factors. The purpose of this study is to examine the impact of firm-specific and macroeconomic factors on the financial performance of companies listed in the food, beverage and tobacco industry in Sri Lanka.

**Methodology:** The population was forty-five listed food, beverage and tobacco firms in Sri Lanka. The representative sample consists of the twenty listed Sri Lankan food, beverage and tobacco companies based on their overall market capitalization. Consequently, ten companies with the highest market capitalization and ten companies with the lowest market capitalization. Firm size, liquidity and leverage were considered as firm-specific factors and interest rate, inflation rate and GDP growth rate were considered as macroeconomic factors. In contrast, the return on assets ratio (ROA) was used to measure the financial performance. Using a quantitative approach, this study collected secondary data from the annual reports of the selected companies from 2014 to 2023. A series of random-effects panel regression model was used to evaluate the hypotheses. STATA software was then used to analyze the data.

**Findings:** The findings showed that firm size and liquidity positively influenced the financial performance of food, beverage and tobacco companies exhibiting the highest level of significance at 1%. The inflation rate is statistically significant at the 5% level, while the GDP growth rate demonstrates significance at the 10% level positively with ROA. However, leverage and interest rate do not emerge as a significant factor and negatively affect for the financial performance of food, beverage and tobacco companies in Sri Lanka. In conclusion, this study revealed that firm characteristics and macroeconomic factors significantly impact the financial performance of food, beverage and tobacco industry in Sri Lanka.

**Conclusion:** This research offers crucial insights for policymakers, investors, and management teams in Sri Lankan food, beverage, and tobacco companies. The findings provide strategic

guidance for improving financial performance, particularly for food, beverage and tobacco companies operating in similar macroeconomic conditions, supporting informed decision-making and fostering industry growth.

**Keywords:** Firm characteristics, Macroeconomic factors, financial performance, Food, beverage and tobacco companies, Sri Lanka.