The Effect of Internal Business Factors on the Financial Leverage: Reference to Listed Manufacturing Firms in Colombo Stock Exchange

K.M.C.N. Lakmal[1,*], D.D.K. Sugathadasa[2] and J.M.N. Wijekumara[3]
[1,2,3]*Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka, Mihintale, Sri Lanka*

*Corresponding author: cnuwanlakmal@gmail.com

Abstract

Financial leverage is the most important factor for a company because it helps to maintainequity and debt when making various financial decisions of a company. There can be internal factors that affected the financial leverage. Therefore, aware of such factors is most important. The objective of this study was to determine the effect of business internalfactors on the financial leverage of manufacturing firms listed on the Colombo Stock Exchange (CSE). As far as researchers observed, a few studies have also examined the financial leverage of manufacturing firms listed on CSE in Sri Lanka despite being donebefore 2015. Though there are studies on financial leverage of other industries; banking,insurance, agriculture in recent, those results can't be applied to the manufacturing firmsas the results are different from industry to industry, firms to firms, and organization to organization. Therefore, this study was found factors that affect manufacturing firms. Thedependent variable of this study was financial leverage and the independent variables were liquidity, tangibility, firm size, and firm age. The population of this study was 41 manufacturing companies listed on CSE. The sample was 20 companies and those were selected by simple random sampling technique. This study was used secondary data fromthe annual reports within five years from 2015 to 2020 of the selected companies and those were analysed using descriptive analysis, regression analysis, and correlation analysis. The regression analysis showed that there was an effect of liquidity and firm size on the financial leverage while tangibility and firm age were not affected by financialleverage. As liquidity and firm size were showed a significant effect on financial leverage,manufacturing firms should be considered more about those when making decisions on financial leverage. When managers are making decisions about the financial leverage of the firm, firms can pay more attention to liquidity and firm size. If the manufacturing firms try to enhance the firm size by debt or equity, it may affect the financial leverage ofthe firm. And also, when making decisions on current assets and current liabilities affectsthe financial leverage of the firm. Debt holders can be aware of the ability to re-gain the loans and goods that are issued based on the credit for the manufacturing companies. Furthermore, this study was important for the policymakers and other competing firms inthe market.

Keywords: Business internal factors, firm age, financial leverage