The Effect of the Firm Size on the Firm's Financial Performance in an Egyptian Floating Environment

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Abstract:

This research aims to study and test the relationship between firm size and the firm's financial performance in an Egyptian floating environment, which is studied by testing effect of a macroeconomic variable which is exchange rate floatation, that took place in Egypt in November 2016, October 2022 and January 2023 on the firm's financial performance. These relations were tested in the presence of three control variables that are determinants of the firm's financial performance. These control variables are firm liquidity, firm loss and firm leverage.

The study was conducted on 319 firm-year observations of non-financial manufacturing firms listed on the Egyptian Stock Exchange (EGX) during the period 2015 – 2023. These firm-year observations encompass observations that took place in the years of floating exchange rate and others in the years of fixed exchange rate

The results of the empirical study concerning the first hypothesis indicated that there is a positive and significant effect of the firm size on the firm's financial performance in the presence of control variables. And the research results of the empirical study concerning the second hypothesis indicated that there is a positive direction, insignificant effect of the exchange rate floatation on the firm's financial performance in the presence of control variables.

Keywords: Firm Size, Financial Performance, Exchange Rate Floatation

1. Introduction

The agency theory states that there is a separation relationship between the agent (firm's management) and the principal (firm's owner). Financial statements are the main source of information for the owners, investors, and all stakeholders as the financial statements reflect the firm's financial position and financial performance (Wati et al., 2023; Mihail et al., 2022). The agency theory states that this separation relationship can cause agency problems represented in the conflict of interest between the agent and the principal as the management is always expected to maximize the firm's profit and thus the information presented to the owners may be inaccurate and doesn't reflect the actual financial position and performance of the firm (Wati et al., 2023; Junus et al., 2022) the same as in the case of Enron firm which had manipulated financial reports representing its high profits.

Firm's financial performance is defined as the ability of the firm to acquire and use its resources to develop a competitive advantage (Chiadamrong & Wattanawarangkoon, 2023) and used to measure the firm's performance and

profitability over time using its financial measures to evaluate its strengths and weaknesses (Ali, 2024). Then the firms must understand the main factors that affect high or poor performance of the firm (Wati et al., 2023) as it is an indicator for the investors to make a decision whether to invest in the firm or not (Porzio et al., 2023; Wati et al., 2023) then it is considered as a key of interest for current and potential investors and policy makers (Ahamed et al., 2022).

Financial performance and position had been recently of a great concern and challenge after the different economic events in Egypt such as devaluation of the currency, inflation, and COVID-19 (Ali, 2024), then it is important to investigate the factors affecting the firm's financial performance (Ahamed et al., 2022). Thus, the firm's financial performance is affected by different determinants whether internally or externally. It can be affected by internal factors such as capital structure, corporate governance, corporate social responsibility, firm size, liquidity, leverage, cost of goods sold ratio, asset utilization and tangibility as a ratio to firm's total assets (Ali, 2024; Chiadamrong & Wattanawarangkoon, 2023; Wati et al., 2023). Concerning the external factors such as macroeconomic variables such as Gross Domestic Product (GDP), inflation, money supply, interest rate and exchange rate of currency (Mwenda et al., 2023).

Accordingly, one of the most important determinants that affects the firm's financial performance is the firm size. Firm size can be defined according to Wati et al., (2023), as it is the number of assets owned by the firm, the larger the firm the, the greater its assets and the smaller the firm the lower its assets. Then firm size can influence current and potential investors to make decision investing in the firm and can also give them information about the management's ability to generate profits (Wati et al., 2023; Hai et al., 2022). Then the firm size can be referred to and measured by the firm's total assets.

Meanwhile, there are other external factors that may affect the firm's financial performance. These factors are related to the macroeconomic variables, such as: registration and deletion rules, inflation, exchange rate flotation, GDP, financial soundness indicators, employment rate, inflation, money supply, interest rate and exchange rate of currency (Mwenda et al., 2023).

This research will specifically focus on the effect of the exchange rate floatation, that took place in Egypt in November 2016, October 2022, and January 2023, whether it affects the firm's financial performance or not.

The problem of this research lies in that the firm's financial performance is of a high concern for investors, owners and other stakeholders, and this financial performance is determined based on several different factors. One of the most important internal determinants of the firm's financial performance is the firm size. In addition to one of the most important external determinants of the firm's financial performance is the exchange rate floatation that the Central Bank of Egypt (CBE) decided in November 2016, October 2022, and January 2023.

Based on the above discussion, the problem of this research lies in answering empirically two questions which are:

1- Is there a significant relationship between firm size and firm's financial performance in manufacturing firms listed on EGX?

2- Is there a significant relationship between exchange rate floatation and the firm's financial performance in manufacturing firms listed on EGX?

The objective of this research is to address and test the impact firm size on the firm's financial performance and to test also the impact exchange rate floatation that took place in November 2016, October 2022, and January 2023 on the firm's financial performance. These relationships will be tested empirically on a sample of non-financial manufacturing firms listed on the Egyptian Stock Exchange (EGX) during the period from 2015 to 2023.

The remainder of this research is organized as follows **Section 2:** includes the theoretical review which analyzes previous literature and derivation of the research hypothesis. **Section 3:** describes the research variables, methodology and design of the empirical study. **Section 4:** presents the analysis of the results of the empirical study and other analysis. **Section 5:** includes the conclusion, limitations, recommendations, and implications for future research.

2. Literature Review and Hypotheses Development

2.1 Firm's financial performance

Firm's financial performance is an indicator for measuring the firm's success in terms of financial terms and the firm can use these financial terms to analyze its current and previous performance as to predict the upcoming periods and maintain the firm's sustainability in the future (Abdullah et al., 2019). Then firm's financial performance is defined as the ability of the firm to acquire and use its resources to develop a competitive advantage (Chiadamrong & Wattanawarangkoon, 2023) and it is used to measure the firm's performance

and profitability over time using its financial measures to evaluate its strengths and weaknesses (Ali, 2024). Gofwan (2022) defines the firm's financial performance as a subjective matter of how the firm utilizes its assets to generate revenues. It can also be used as an indicator of the firm's financial health for a given period of time using the firm's financial ratios, which can be used to compare firms in the same industry.

Firm's financial performance have been a matter of concern after the latest economic events in Egypt such as devaluation of the currency, inflation, and COVID-19 (Ali, 2024), then it is used as an indicator for current and potential investors, owners and stakeholders to make decision investing in the firm, as they use financial performance as a benchmark to make decision by comparing the current period with the previous periods so that they can predict the firm's performance for the upcoming periods. If the result of the analysis is shown to be good, investors make a decision to invest in this firm. Then financial performance is crucial for firms to get capital intake. The financial performance of the firms also reflects the economy's health, as poor financial performance of the firms may have adverse consequences on the whole country's economy due to the loss in income and jobs (Ali, 2024).

Financial performance describes how a firm's business activities are carried out and what has been achieved from business activities, which is illustrated by generating profit (Abdullah et al., 2019). Then profit can be used as an indicator of measuring the firm's successful financial performance. Previous studies confirmed that a firm's financial performance can be measured using subjective which can be measured quantitatively or objective methods which can be measured qualitatively (Kanaan-Jebna et al., 2022). The quantitative method uses different profitability ratios that describe the firm's performance such as: Return on Assets (ROA), Return on Equity (ROE), Return on Investment (ROI) and Earnings per share (EPS) and be measured also using Tobin's Q, market value and sales growth. Whereas the qualitative method is used by obtaining respondents' opinions on a standard, which can then be supported by another method, such as an interview, to form a qualitative measurement method (Kanaan-Jebna et al., 2022).

Concerning the qualitative methods that are used to measure a firm's financial performance are divided into accounting-based performance measures, which include ROA, ROE, EPS and sales growth, and market-based performance measures, which include Tobin's Q, market value, market-to-book ratio and stock return.

Concerning the accounting-based performance measures, they depend on using historical data from the financial statements which can be subjected to management manipulation and differences in the accounting methods and procedures used between different firms. These measures include ROA, ROE, ROI, EPS and sales growth.

Return on Assets (ROA) is a profitability measurement that indicates the earnings produced from the firm's resources and capital investment to assess the firm's financial strength, which can be calculated by dividing net income by the total assets (Ali, 2024; Ahamed et al., 2023; Chiadamrong & Wattanawarangkoon, 2023; Mwenda et al., 2023; Wati et al., 2023; Zaiane & Ellouze, 2023; Mihail, 2022; Kyere & Ausloos, 2021).

Return on Equity (ROE) is a profitability measurement that indicates the earnings produced from the firm's equity and indicates how successfully a firm's management creates value for its shareholders., which can be calculated by dividing net income by the total equity (Ali, 2024; Ahamed et al., 2023; Chiadamrong & Wattanawarangkoon, 2023; Zaiane & Ellouze, 2023; Mihail, 2022).

Sales growth shows the change or growth in sales over a period of time, which can be calculated by dividing the change in sales in two consecutive years by the sales of the previous year (Ahamed et al., 2023).

Return on Investment (ROI) is a profitability measurement that determines the investment's profitability by comparing its gain or loss with its cost which aims to quantify the amount of return on a single investment against the cost of the investment, which can be calculated by dividing the return on investment by the cost of investment in the form of a percentage (Ali, 2024). Earnings per Share (EPS) can be calculated by dividing net income by the number of outstanding common shares (Ahmed et al., 2023).

Market-based performance measures are more forward-looking than accounting measures and depend on the investors' expectations in the market. These measures include Tobin's Q, market value, market-to-book ratio and stock return.

Tobin's Q is derived from the value maximization problem of the firm, and the Q-statistic indicates the extra benefit the firm obtains from an additional unit of capital, which can be calculated by dividing total market value of firm's equity and total liabilities by the total assets value (Ahamed et al., 2023; Zaiane & Ellouze, 2023; Mihail, 2022; Kyere & Ausloos, 2021; Tobin, 1969).

Stock return which shows the change in market price of the stock over a period of time, this change is the excess return, which can be calculated using Capital Asset Pricing Model (CAPM) (Ahamed et al., 2023).

Market-to-book ratio is used to compare the net assets of the firm to its stock's market price, which can be calculated by dividing the market value of the firm's stock by the book value of the stock, where the market value is the current closing price of all outstanding shares and the book value is the amount of the difference between the firm's assets and liabilities (Ahamed et al., 2023).

The market value of the stock is also used as measurement for the firm's financial performance as it is an indicator of the investors' perceptions of the firm's future plans (Ahamed et al., 2023).

Firm's financial performance and position had been recently of a great concern and challenge after the different economic events that happened in Egypt such as devaluation of the currency, exchange rate floatation, inflation, and COVID-19 (Ali, 2024), then it is important to investigate the factors and determinants affecting the firm's financial performance (Ahamed et al., 2022). Thus, the firm's financial performance is affected by different determinants whether internally or externally. It can be affected by internal factors such as capital structure, corporate governance, corporate social responsibility, firm size, liquidity, leverage, cost of goods sold ratio, asset utilization and tangibility as a ratio to firm's total assets (Ali, 2024; Chiadamrong & Wattanawarangkoon, 2023; Wati et al., 2023). Concerning the external factors such as macroeconomic variables such as Gross Domestic Product (GDP), inflation, money supply, interest rate and exchange rate of currency (Mwenda et al., 2023).

Concerning the internal factors affecting a firm's financial performance that are related to the management of the firm that affect the firm's strength which will then reveal the firm's financial power which will consequently have a better financial position, then better financial position will achieve a better financial performance (Chiadamrong & Wattanawarangkoon, 2023). These factors include capital structure, corporate governance, corporate social responsibility, firm size, liquidity, leverage, cost of goods sold ratio, asset utilization and tangibility as a ratio to firm's total assets (Ali, 2024; Chiadamrong & Wattanawarangkoon, 2023; Wati et al,2023).

Liquidity is defined as the ability of the firm to meet its short-term debts and obligations from its current assets (Pham, 2022; Subramanyam, 2014). It indicates the firm's ability to efficiently use its current resources and transfer

them into quick assets to be able to pay its current obligations, then the firms with high level of current assets will have high financial performance (Chiadamrong & Wattanawarangkoon, 2023).

Leverage is defined as the ability of the of the firm to meet its financial obligations, it refers to the use of debts for the purchases of assets (Pham, 2022), then the firms with high leverage ratio will have high risk paying off their obligations, which will consequently harm the firm's financial performance (Chiadamrong & Wattanawarangkoon, 2023).

Cost of Goods Sold (COGS) is defined as the total relevant cost of goods or services, if this cost is lower, the firm will have a competitive advantage over other firms which will consequently increase the firm's financial performance, then there is a negative relationship between COGS and firm's financial performance (Chiadamrong & Wattanawarangkoon, 2023).

Asset utilization indicates the efficiency in utilizing the firm's assets to generate revenues or sales (Chiadamrong & Wattanawarangkoon, 2023; Ablanedo-Rosas et al., 2010). Previous studies found that asset utilization affects the firm's financial performance, as efficient asset utilization results in a better financial performance (Chiadamrong & Wattanawarangkoon, 2023; Seema and Surendra, 2011)

Asset tangibility is defined according (Chiadamrong & Wattanawarangkoon, 2023; Jensen and Meckling, 1976) to be the ratio of fixed assets to total assets. Tangibility is reported to have a positive relationship with firm performance (Ahmed et al., 2010), as he fixed assets can improve the firm's financial performance as well as fixed assets are efficiently used to generate higher amount of revenues, however excess amount of fixed assets may negatively affect the financial performance if they are not efficiently utilized.

Concerning the external factors affecting a firm's financial performance that are related to economic events or the external environment, but they are outside the management's control. These factors include macroeconomic variables such as Gross Domestic Product (GDP), inflation, money supply, interest rate and exchange rate of currency (Mwenda et al., 2023).

Based on the discussion above, the researcher can imply that a firm's financial performance is a mirror that reflects the stakeholder's impression about the activities and actions of the firms which then reflect the firm's market share and profitability. It can be determined by different internal factors which include capital structure, corporate governance, corporate social responsibility,

firm size, liquidity, leverage, cost of goods sold ratio, asset utilization and tangibility as a ratio to firm's total assets, and can also be determined by different external factors which include macroeconomic variables such as Gross Domestic Product (GDP), inflation, money supply, interest rate and exchange rate of currency

2.2 Firm size

According to the previously mentioned internal factors and determinants affecting the firm's financial performance, one of the most important determinants is the firm size. Firm size can be defined according to Wati et al., (2023), as it is the number of assets or resources owned by the firm, the larger the firm the, the greater its assets and the smaller the firm the lower its assets. Then firm size can influence current and potential investors to make decision investing in the firm and can also give them information about the management's ability to generate profits (Wati et al., 2023; Hai et al., 2022), as investors believe that large firm tend to provide more detailed information to meet their needs (Hapsoro & Falih, 2020) Then the firm size can be referred to and measured by the firm's total assets.

Prior studies used different measures to measure firm size in addition to the firm's total assets which was extensively utilized in prior studies. It can also be measured using ln total assets, ln total sales, market capitalization (Margono & Gantino, 2021) and total equity (Suwardika and Mustanda, 2017)

By investigating the impacts of firm size whether positive or negative, it may affect the firm value where Margono & Gantino (2021) studied the impact of firm size on the firm value, as the firm value is the investor's perception about the firm which is related to the firm's share prices. A large firm generally has a large number of outstanding shares and is more encouraged to issue new shares to meet production and sales activities than a relatively small firm. He studied the impact of firm size on the firm value on a sample of firms in the food & beverage sub-sector listed on IDX during the period 2016-2019 and resulted that the firm size has no impact on the firm value. While Hirdinis (2019) found that there is a positive effect of the firm size on the firm value. Consistently, Hapsoro & Falih (2020) investigated the effect if firm size on firm value on a sample of firms working in oil, gas and coal industry during the period 2015-2018, and found that the firm size has a significant positive relation on the firm value.

Based on the discussion above, the researcher can imply that firm size is a significant variable in accounting research, influencing firm value and its

financial performance, as it provides insights into the theoretical perspectives and measurement approaches. Thus, understanding the role of firm size enhances understanding of the determinants that influence decisions made by investors and stakeholders.

2.3 Relation between firm size and firm's financial performance

The accurate relation between the firm size and firm's financial performance is still not agreed upon. Then prior studies investigated the impact of firm size on the firm's financial performance and the results were inconclusive. On the one hand, some studies found that there is **a positive relationship** between firm size and firm's financial performance. For instance, Wati et al. (2023) investigated the relationship between firm size and firm's financial performance on a sample of 720 manufacturing firms listed on the Indonesia Stock Exchange (IDX) during the period 2017-2022 and found that there a positive significant relationship between firm size and firm's financial performance. Consistently, Chiadamrong & Wattanawarangkoon (2023) investigated the relationship between firm size and firm's financial performance on a sample of 111 listed firms that entered the SET between 2003 and 2014 and found that reducing the level of the company size seemed to have to effect on firm performance, but increasing the level of the company size could benefit the performance of low performance firms. Abdi et al. (2022) examined the moderating effect of firm size on the impact of sustainability on the firm value and financial performance of firms on a sample of 38 airlines worldwide during the period 2009-2019 and found that there is a significant moderating effect of firm size on the relationship between sustainability on the firm value and financial performance. On the same viewpoint, Babalola (2013) investigated the relationship between firm size and firm's financial performance on a sample of 80 manufacturing non-financial firms listed in the Nigerian Stock Exchange during the period 2000-2009 and found that the firm size measured in both terms of total assets and total sales has a positive impact on the profitability.

On the other hand, other studies **didn't find a significant relationship** between firm size and firm's financial performance. For instance, Niresh & Thirunavukkarasu (2014) investigated the relationship between firm size and firm's financial performance on a sample of 15 firms listed on Colombo Stock Exchange (CSE) during the period 2008-2012 and found that firm size has no profound impact on profitability of the listed manufacturing firms in Sri Lanka.

On the other hand, some studies found that there is a **negative relationship** between firm size and firm's financial performance. For instance, Zaiane & Ellouze (2023) investigated the moderating effect of firm size on the relationship between corporate social responsibility and firm's financial performance on a sample of 407 European firms listed in STOXX Europe during the period 2002-2018 and found that the moderating effect of firm size is positive for environmentally sensitive industries and negative for environmentally non-sensitive industries.

Based on the inconclusive prior literature findings, the researcher can predict that firm size has a positive effect on the firm's financial performance, as large firms are more able to satisfy their stakeholders and improve their reputation, which will potentially enhance their performance. Although, large firms are often more mature, have specified goals and better developed procedures than small firms they have effective management characteristics such as expertise and capabilities that make them more likely to boost the firm's growth and performance. Moreover, better performance is favorable for larger firms since they will have more competitive power to survive in a highly competitive market. In addition, larger firms can better exploit economies of scale to reduce costs and increase profit.

Accordingly, from the above discussion, the first research hypotheses can be formulated as follows:

H1: There is a significant effect of firm size on firm's financial performance for manufacturing firms listed on the Egyptian Stock Exchange.

2.4 Exchange Rate Floatation: from a financial accounting perspective

According to what was previously mentioned, there are external factors and determinants affecting the firm's financial performance that are outside of the firm's management control which are called macroeconomic variables (Mwenda et al., 2023), one of the most important determinants is the exchange rate floatation. The exchange rate is defined as the price of the domestic currency in relevance to other foreign currencies, which is considered as one of the main macroeconomic factors that plays an important role in the external economic activities carried out by the countries (Nasr, 2024; Elshahawany, 2022). Concerning the exchange rate floatation, it is defined as the policy that will reflect the value of the Egyptian pound against other foreign currencies through the forces of supply and demand within the framework of a flexible

exchange rate system, giving priority to the Central Bank's (CBE) primary goal to achieve price stability in the country (Nasr, 2024, Central Bank of Egypt, 2022). Exchange rates have two regimes, either fixed or floating. Fixed exchange rate is decided by central banks of a country, while floating exchange rate is decided by the market forces of demand and supply (Egbunike & Okerekeoti, 2028; The Economic Times, 2017).

This research seeks to shed light on the potential implications of exchange rate floatation policies in the Egyptian business environment and the subsequent impact on firm-level outcomes, as this policy can have significant implications for the macroeconomic environment, including inflation rates, change in interest rates, and change in the overall economic stability. The Central Bank of Egypt (CBE) announced its intention to float the Egyptian pound four times recently in November 2016, March and October 2022, and January 2023 to meet International Monetary Fund (IMF) standards. According to this decision, the Egyptian pound's exchange rate will float freely, and its value will be determined by supply and demand forces. As a result of this judgment, the Egyptian pound has lost about 132% of its value against the US dollar in 2016, then lost about 58% of its value against the US dollar in 2022, this decision was taken as a consequence to the spread of the Covid-19 and closure policies, followed by the Russian-Ukrainian conflict, which had severe economic repercussions, and then lost about 25% of its value against the US dollar in 2023. This devaluation in currency appears in the following figure: This caused pressure on the Egyptian economy, as it faced the exit of foreign investors' capital as well as a rise in commodity prices (Central Bank of Egypt, 2022).
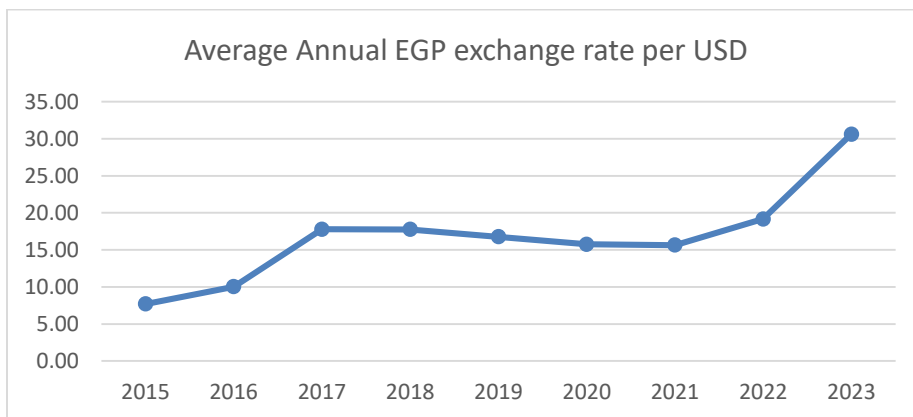
Source: International Monetary Fund (IMF) E-data

Firms in Egypt experienced a significant amount of uncertainty when valuing various accounting balances and transactions after the decisions of exchange rate floatation. Since the impact of floating the exchange rate varies depending on whether the firm imports or exports goods and whether it has assets valued in the foreign currency or not. Concerning the importing firms, they have a disadvantage due to the Egyptian pound's devaluation as they face higher costs when fulfilling contracts held in foreign currency. And concerning the exporting firms and those with assets valued in foreign currency, they benefit from receiving highly valued foreign currency upon the contract settlement (Nasr, 2024; Badawy and Zaki, 2023).

Concerning the managerial and financial accounting response to the exchange rate floatation decision, in February 2017, an appendix to Egyptian Accounting Standard No. 13 "Effects of Changes in Foreign Currency Rates" was issued to help firms understand how this decision affects their financial statements and accounting treatment. The appendix allows corporations to account for foreign currency fluctuations in other comprehensive income when translating assets and liabilities valued in foreign currency on the floating exchange rate date (Nasr, 2024; Badawy and Zaki, 2023; El Rashidy and Elsayed, 2017).

2.5 Relation between exchange rate floatation and firm's financial performance

Firms always play a reactive role in response to the change in macroeconomic variables as it has no control over inflation, exchange rate floatation and interest rates, and the only response is that the firms must adapt with these changes and apply an alternative solution, which may ultimately have a negative impact on the firm's financial performance (Mwenda et al., 2023).

The effect of exchange rate floatation on the firm's financial performance is still not agreed upon. Then prior studies investigated the impact of exchange rate floatation on the firm's financial performance and the results were inconclusive. On the one hand, some studies have found that there is **a negative relationship** between exchange rate floatation and a firm's financial performance. For instance, Mwenda et al. (2023) investigated the relationship between macroeconomic variables including exchange rate floatation and firm's financial performance on a sample of 21 listed firms during the period 2000-2021 and found that exchange rates had significant negative impact on the firm's financial performance. Consistently, Otambo (2016) investigated the

relationship between macroeconomic variables including exchange rate floatation and firm's financial performance on a sample of all the banks in Kenya during the period 2006 – 2015, found that exchange rates had a significant negative impact on the firm's financial performance.

On the other hand, some studies have found that there is **no significant relationship** between exchange rate floatation and a firm's financial performance. For instance, Egbunike & Okerekeoti (2018) investigated the relationship between macroeconomic variables including exchange rate and firm's financial performance on a sample of 163 Nigerian firms listed on the Nigerian Stock Exchange during the period 2011-2017 and found that that macroeconomic factors including exchange rate have insignificant effect on the firm's financial performance. Consistently, Rao (2016) investigated the relationship between macroeconomic variables including exchange rate and firm's financial performance on a sample of 5 firms listed under the energy and petroleum sector of the Nairobi Stock Exchange during the period 2004 – 2015 and found that exchange rate has insignificant effect on the firm's financial performance.

Based on the inconclusive prior literature findings, the researcher can predict that exchange rate floatation has a significant effect on the firm's financial performance, but this effect will be positive or negative according to whether the firm is importing or exporting, as for the importing firms it will negatively affect their financial performance as the cost of importing goods or materials in foreign currency will increase, then it will decrease the firm's financial performance, while it will positively affect the exporting firms as the revenue from selling goods or materials in foreign currency will increase, then it will increase the firm's financial performance.

Accordingly, from the above discussion, the second research hypotheses can be formulated as follows:

H2: There is a significant effect of the exchange rate floatation on firm's financial performance for manufacturing firms listed on the Egyptian Stock Exchange.

3. Research Design and Methodology

To test the research hypotheses, an empirical study will be carried out, and hereafter the researcher will present the following: research objectives, research population and sample, research variables and measurement, and research model.

3.1 Empirical study objectives

The empirical study primarily aims to test the research hypotheses practically in business and Egyptian professional practice environment to test whether there is a significant impact of firm size on firm's financial performance. The study also aims to test whether there is a significant impact of exchange rate floatation on the firm's financial performance.

3.2 Research sample and population

Research population consists of manufacturing firms listed in the Egyptian Stock Exchange (EGX) during the period from 2015 to 2023. The research data were obtained from financial statements and audit reports of the firms which were prepared according to Egyptian Standards issued in 2008, which are available on www.mubasher.info and www.egx.com.eg. Banks and financial firms are excluded because they are subject to different regulatory requirements and corporate governance practices. In addition, financial firms have their unique characteristics and different operations, which might require specific audit efforts (Badawy and Zaki, 2023; Ezat, 2015). The research depends only on manufacturing firms only whose data can be collected and excluding firms in other industries. After excluding observations of firms with missing data, the final sample was 319 firm-year observations.

3. 3 Research variables

3.3.1 Dependent variable: Firm's Financial Performance (FPERF)

It is defined as; the ability of the firm to acquire and use its resources to develop a competitive advantage (Chiadamrong & Wattanawarangkoon, 2023) and it is used to measure the firm's performance and profitability over time using its financial measures to evaluate its strengths and weaknesses (Ali, 2024). It is measured by using Return on Assets (ROA) by dividing net income by the total assets (NI/TA) (Ali, 2024; Ahamed et al., 2023; Chiadamrong & Wattanawarangkoon, 2023; Mwenda et al., 2023; Wati et al., 2023; Zaiane & Ellouze, 2023; Mihail, 2022; Kyere & Ausloos, 2021).

3.3.2 Independent variable (a): Firm Size (FSIZE):

It is defined as; the number of assets or resources owned by the firm, the larger the firm the, the greater its assets and the smaller the firm the lower its assets (Wati et al., 2023). It is measured by using the natural logarithm of total assets (Ln Total assets) (Nasr, 2024; Wati et al., 2023; Niresh & Thirunavukkarasu, 2014)

3.3.3 Independent Variable (b): Exchange Rate Floatation (FLOAT):

It is defined as; the exchange rate that will reflect the value of the Egyptian pound against other foreign currencies through the forces of supply and demand within the framework of a flexible exchange rate system, giving priority to the Central Bank's primary goal of achieving price stability (Nasr, 2024, Central Bank of Egypt, 2022). It is measured by using a dummy variable that takes the value (1) if the observation year (t) in 2016, 2022 and 2023, which are the years of the Central Bank of Egypt's decision to float the exchange rate, and (0) otherwise (Nasr, 2024; Badawy and Zaki, 2023).

3.3.4 Control Variable: Liquidity (LIQ):

It is defined as the ability of the firm to meet its short-term debts and obligations from its current assets (Pham, 2022; Subramanyam, 2014). It can be measured by the ratio of current assets to current liabilities of firm (i) in year (t) (Nasr, 2024; Pham, 2022; Osman, 2021).

3.3.5 Control Variable: Firm loss (LOSS):

It is defined that the firm has difficulties in generating profit or incurring losses which may affect the financial performance of the firm in the future. It can be measured by a dummy variable that takes the value (1) if the firm (i) has negative net income in year (t) and (0) otherwise (Nasr, 2024; Amr, 2022; Pham, 2022; Osman,2021).

3.3.6 Control Variable: Firm leverage (LEV):

It is defined as the ability of the of the firm to meet its financial obligations, it refers to the use of debts for the purchase of assets. It can be measured as the ratio of total liabilities to total assets of firm (i) in year (t) (Nasr, 2024; Pham, 2022).

Table (1) Variables description

Type of variable	Variable	Definition	Measurement
Dependent variable	**Firm's Financial Performance (FPerf)**	It is defined as; the ability of the firm to acquire and use its resources to develop a competitive	It is measured by using Return on Assets (ROA) by dividing net income by the total assets (NI/TA)

		advantage (Chiadamrong & Wattanawarangkoon, 2023) and it is used to measure the firm's performance and profitability over time using its financial measures to evaluate its strengths and weaknesses (Ali, 2024).	(Ali, 2024; Ahamed et al., 2023; Chiadamrong & Wattanawarangkoon, 2023; Mwenda et al., 2023; Wati et al., 2023; Zaiane & Ellouze, 2023; Mihail, 2022; Kyere & Ausloos, 2021).
Independent variable (a)	**Firm Size (FSize)**	It is defined as; the number of assets or resources owned by the firm, the larger the firm the, the greater its assets and the smaller the firm the lower its assets (Wati et al., 2023).	It is measured by using the natural logarithm of total assets (Ln Total assets) (Nasr, 2024; Wati et al., 2023; Niresh & Thirunavukkarasu, 2014)
Independent Variable (b)	**Exchange Rate Floatation (FLOAT)**	It is defined as; the exchange rate that will reflect the value of the Egyptian pound against other foreign currencies through the forces of supply and demand within the framework of a flexible exchange rate system, giving priority to the Central Bank's primary goal of achieving price stability (Nasr, 2024, Central Bank of Egypt, 2022).	It is measured by using a dummy variable that takes the value (1) if the observation year (t) in 2016, 2022 and 2023, which are the years of the Central Bank of Egypt's decision to float the exchange rate, and (0) otherwise (Nasr, 2024; Badawy and Zaki, 2023).
Control Variable	**Liquidity (LIQ)**	It is defined as the ability of the firm to meet its short-term debts and obligations from its current assets (Pham, 2022; Subramanyam, 2014).	It can be measured by the ratio of current assets to current liabilities of firm (i) in year (t) (Nasr, 2024; Pham, 2022; Osman, 2021).
Control Variable	**Firm loss (LOSxS)**	It is defined that the firm has difficulties in generating profit or incurring losses which may affect the performance of the firm in the future (Pham, 2022)	It can be measured by a dummy variable that takes the value (1) if the firm (i) has negative net income in year (t) and (0) otherwise (Nasr, 2024; Amr, 2022; Pham, 2022; Osman,2021).

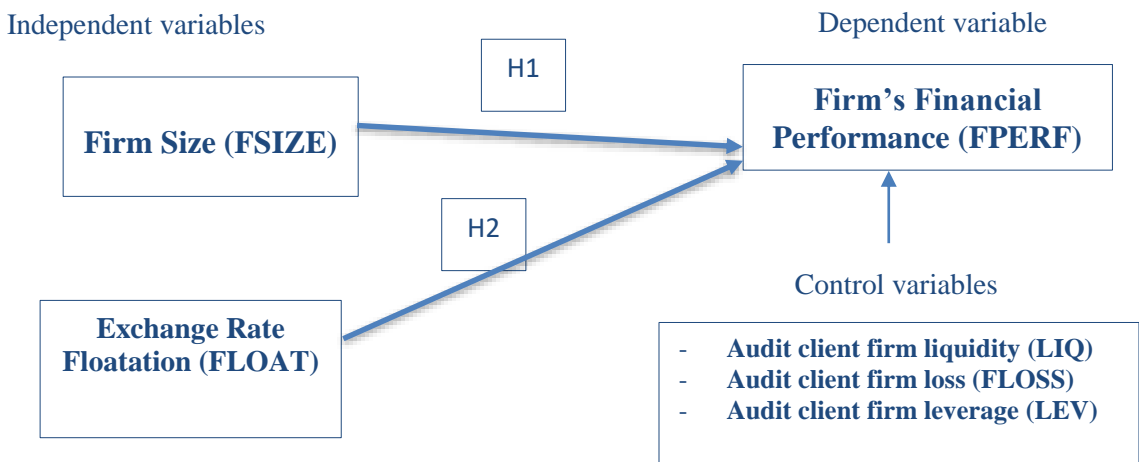| Control Variable	Firm leverage (LEV)	It is defined as the ability of the of the firm to meet its financial obligations, it refers to the use of debts for the purchase of assets (Pham, 2022).	It can be measured as the ratio of total liabilities to total assets of firm (i) in year (t) (Nasr, 2024; Pham, 2022).

3. 4 Research Model

Independent variables

Dependent variable

H1

Firm Size (FSIZE)

Firm's Financial Performance (FPERF)

H2

Control variables

Exchange Rate Floatation (FLOAT)

- Audit client firm liquidity (LIQ)
- Audit client firm loss (FLOSS)
- Audit client firm leverage (LEV)

3. 5 Statistical analysis tools

The researcher will rely on some descriptive statistics methods for research variables such as mean, standard deviation, median, minimum and maximum, and Pearson coefficients will be calculated between these variables. To test the research hypotheses, the multiple linear regression model is used as it is a statistical test used to predict continuously distributed outcomes, where the dependent variable FPerf will be measured using continuous numbers, while multiple logistic regression is not used in the study as it evaluates predictions of single binary variable using one or more other variables. Multiple linear regression model will be employed as follows:

Model 1: To test the first hypothesis of the research (H1); which tests the Effect of firm size on firm's financial performance for manufacturing firms listed on the Egyptian Stock Exchange, the multiple linear regression model will be employed as follows:

$$FPERF_{it} = \beta_0 + \beta_1 FSIZE_{it} + \beta_2 LIQ_{it} + \beta_3 LOSS_{it} + \beta_4 LEV_{it} + e_{it}$$

Where:

Fsize: Firm size
Fperf: Firm's Financial Performance
Liq: Firm's Liquidity

Loss: Firm's Loss
Lev: Firm's Leverage

Model 2: To test the second hypothesis of the research (H2); which tests the Effect of Exchange Rate Floatation on the firm's financial performance for manufacturing firms listed on the Egyptian Stock Exchange, the multiple linear regression model will be employed as follows:

$$FPERF_{it} = \beta_0 + + \beta_1\,FLOAT_{it} + \beta_2\,LIQ_{it} + \beta_3\,LOSS_{it} + \beta_4\,LEV_{it} + e_{it}$$

Where:
FLOAT: Year of Exchange Rate Floatation
Fperf: Firm's Financial Performance
Liq: Firm's Liquidity
Loss: Firm's Loss
Lev: Firm's Leverage

4. Empirical Findings
4.1 Descriptive Statistics

In this section, the researcher will present the descriptive statistics, mean, median, standard deviation, minimum, maximum and quartiles of the independent, dependent and moderating variables used in the research using IBM SPSS 27. **Table (2)** shows the descriptive statistics for the research variables. Concerning **Firm size (FSIZE)** ranges between 17.52and 25.46 with an average of 20.41 and standard deviation of 1.41.

Concerning **the Firm's financial performance (FPERF)** ranges between -131.61% and 202.74% with an average of 4.95% and standard deviation of 18.10%.

Concerning the **exchange rate floatation (FLOAT)** ranges between 0 and 1 with a standard deviation of 0.47 and an average of 0.33, which means that 33% of the firm year observation sample are related to the exchange rate floatation year in 2016, 2022 and 2023.

Concerning the control variables, concerning the **liquidity of the audit client firm (LIQ),** it ranges between 0.03 and 44.75 with a standard deviation of 3.88 and mean 2.28, which means that the current assets of the firm can cover its current liabilities 2.28 times. Concerning the **audit client firm loss (LOSS),** it ranges between 0 and 1with a standard deviation of 0.44 and mean 0.26, which means that 26% of the firm year observation sample achieved losses. Finally, concerning the **advantage of audit client firm (LEV)** ranges between -5.08 and 3.18 with a mean of 0.46 and standard deviation of 0.54.

Table (2) Descriptive Statistics Table

		Financial Performance	Firm Size	Exchange rate Float	Liquidity	Leverage	Loss
N	Valid	319	319	319	319	319	319
Mean		4.95%	20.41	.33	2.28	.46	.26
Median		4.37%	20.44	.00	1.23	.47	.00
Std. Deviation		18.10%	1.41	.47	3.88	.54	.44
Minimum		-131.61%	17.52	0	.03	-5.08	0
Maximum		202.74%	25.46	1	44.75	3.18	1
Percentiles	25	-0.47%	19.59	.00	.96	.314	.00
	50	4.37%	20.44	.00	1.23	.47	.00
	75	12.55%	21.22	1.00	1.71	.68	1.00

Source: IBM SPSS 27 output

4.2 Bivariate Correlations

To make a preliminary analysis of the relationship between firm size and firm's financial performance, the researcher made a Pearson Bivariate correlation test as demonstrated in **table (3).** The correlation results show that there is a positive direction between firm size (FSIZE) and firm's financial performance (FPERF) with a significance of 0.000 (< 0.01), which means that the firm size significantly affects the firm's financial performance. Concerning the control variable Firm's leverage (LEV) which has a negative direction with significance of 0.000 (<0.01), which means that it affects the firm's financial performance. The same as the firm's loss (LOSS) as a control variable which has a negative direction with significance of 0.000 (<0.01), which means that it affects the firm's financial performance. In contrast to the other control variables which were proved to be determinants of the firm's financial performance, the firm's liquidity (LIQ) has a positive and insignificant relation with significance of 0.566 (>0.01), which means that it doesn't affect the firm's financial performance. Concerning the moderating variable exchange rate floatation (FLOAT), it is shown in the table that it has a positive direction but insignificant effect on the firm's financial performance with significance 0.353 (> 0.01).

Table (3) Bivariate Pearson Correlations

		Financial Performance	Firm Size	Exchange rate Float	Liquidity	Leverage	Loss
Financial Performance	Pearson Correlation	1					
	N	319					
Firm Size	Pearson Correlation	.338**	1				
	Sig. (2-tailed)	.000					
Exchange rate Float	Pearson Correlation	.052	.073	1			
	Sig. (2-tailed)	.353	.191				
Liquidity	Pearson Correlation	.032	-.091	-.054	1		
	Sig. (2-tailed)	.566	.105	.340			
Leverage	Pearson Correlation	-.424**	.170**	.069	-.197**	1	
	Sig. (2-tailed)	.000	.002	.219	.000		
Loss	Pearson Correlation	-.520**	-.438**	-.046	-.080	.014	1
	Sig. (2-tailed)	.000	.000	.416	.152	.804	

**. Correlation is significant at the 0.01 level (2-tailed).

Source: IBM SPSS 27 output

4.3 Hypothesis Testing

4.3.1 Testing (H1)

To test the first research hypothesis, the multiple linear regression will be used in the study as it evaluates predictions of continuously distributed outcomes, where the dependent variable firm's financial performance (FPERF) will be measured using Return on assets (ROA), which is a continuous variable, while the Binary Logistic Regression model is not used as it is a statistical test used to predict a single binary variable using one or more other variables. **Table (4), model (1)** shows the results of testing the first hypothesis (H1) which assumes that: there is a significant effect of firm size on firm's financial performance for firms listed on the Egyptian Stock Exchange.

As presented in **table (4), model (1)** the regression F-test model is significant (F = 40.921, Sig. = 0.000) indicating that the researcher can rely on the results of the model to analyze the effect of the firm size on the firm's financial performance. Also, it is shown in **table (4), model (1)** the adjusted R square is 0.112, indicating that the firm size can interpret and predict 11.2% of the firm's financial performance. Furthermore, Durbin Watson statistic = 1.479 which indicates that the regression model does not contain serial correlation (Badawy and Zaki, 2023). Concerning the effect of the firm size on the firm's

financial performnce, it is shown that the firm size positively and significantly affects the firm's financial performance (t = 6.397, Sig. = 0.000).

These results contradict with (Zaiane & Ellouze, 2023; Niresh & Thirunavukkarasu, 2014), and is consistent with the previous studies (Wati et al., 2023; Chiadamrong & Wattanawarangkoon, 2023; Abdi et al., 2022; Babalola, 2013), as large firms have better financial performance than small firms, as they have better physical, human and technological abilities which help the firm to have higher investment in intangible assets specially research and development (R&D), higher ability for sustainability and higher market share. As a result of higher market share, the firm will have higher financing opportunities from the banks with lower debt financing costs. This reduction in the cost of financing will improve the firm's financial performance.

As a result, the first hypothesis (H1) which states that "There is a significant effect of firm size on firm's financial performance for manufacturing firms listed on the Egyptian Stock Exchange" is supported.

Confirming the results related to the first hypothesis, the researcher ran the regression model again after adding the control variables in addition to the independent variable. As presented in **table (4), model (2),** the adjusted R square has improved to be 0.486 indicating that the independent variable (FSize) and control variables (LIQ, LEV and LOSS) in the model can explain and predict about 48.6% of the firm's financial performance. Also, VIF statistics in the models before and after adding control variables is below 10, which means that there is no multicollinearity problem (Badawy and Zaki, 2023; Jessica et al., 2021). Concerning the effect of the firm size on the firm's financial performnce, it is shown that the firm size positively and significantly affects the firm's financial performance (t = 4.958, Sig. = 0.000).

Table (4)

	Model (1)				Model (2)			
	Beta β	t	Sig.	VIF	Beta β	t	Sig.	VIF
(Constant)		-6.025	.000			-3.435	.001	
FSIZE	.338	6.397	.000	1.000	.227	4.958	.000	1.302
LIQ					-.074	-1.779	.076	1.059
LEV					-.471	-11.314	.000	1.073
LOSS					-.420	-9.281	.000	1.268
R	.338				.702			
R Square	.114				.493			
Adjusted R Square	.112				.486			
Std. Error of the Estimate	17.05779%				12.97166%			
Durbin-Watson	1.479				1.645			

F	40.921	76.233
Sig.	.000	.000
N	319	319

Source: IBM SPSS 27 output

And concerning the research question regarding the used control variables (Firm liquidity, firm leverage, and firm loss) which is:

Q1: Do Firm liquidity, firm leverage, and firm loss, each one separately, affect the relation between firm size and firm's financial performance, in the context of the relation being tested?

To Answer this question, as shown in **table (4) model (2)**, firm liquidity (LIQ) has a regression coefficient (β_2) is equal to (-.074) (t = -1.779, Sig. = 0.076), which indicates the negative direction of the relation, and a significant level of 0.076which is higher than 0.01, then the firm liquidity does not affect the firm's financial performance.

In contrast, concerning firm loss (LOSS) has a regression coefficient (β_3) is equal to (-0.420) (t = -9.281 Sig. = 0.000), which indicates the negative direction of the relation, and a significant level of 0.000, which is lower than 0.01, then it is accepted that firm loss negatively affects the firm's financial performance. Concerning firm leverage (LEV) has a regression coefficient (β_4) is equal to (-0.471) (t = -11.314, Sig. = 0.000), which indicates the negative direction of the relation, and a significant level of (0.000), which is lower than 0.01, then firm leverage negatively affects the firm's financial performance.

4.3.2 Testing (H2)

To test the second research hypothesis, the multiple linear regression will be used in the study as it evaluates predictions of continuously distributed outcomes, where the dependent variable firm's financial performance (FPERF) will be measured using Return on assets (ROA), which is a continuous variable, while the Binary Logistic Regression model is not used as it is a statistical test used to predict a single binary variable using one or more other variables. **Table (5)** shows the results of testing the second hypothesis (H2) which assumes that: there is a significant effect of the exchange rate floatation on the firm's financial performance for firms listed on the Egyptian Stock Exchange.

As presented in **table (5)** the regression F-test model is significant (F = 65.755, Sig. = 0.000) indicating that the researcher can rely on the results of the model to analyze the effect of the exchange rate floatation on the firm's financial performance in the presence of the control variables. The adjusted R square is 0.449 indicating that the independent variable (FLOAT) and control variables (LIQ, LEV and LOSS) in the model can explain and predict about

44.9% of the firm's financial performance. Also, VIF statistics in the models in the presence of control variables is below 10, which means that there is no multicollinearity problem (Badawy and Zaki, 2023; Jessica et al., 2021). Furthermore, Durbin Watson statistic = 1.619 which indicates that the regression model does not contain serial correlation (Badawy and Zaki, 2023). Concerning the effect of the exchange rate floatation on the firm's financial performnce, it is shown that the exchange rate floatation positively and insignificantly affects the firm's financial performance (t = 1.285, Sig. = 0.200).

These result contradicts with Mwenda et al. (2023) and Otambo (2016) who found that the exchange rate floatation had a negative significant effect on the firm's financial performance. and is consistent with the previous studies (Egbunike & Okerekeoti, 2018); Rao, 2016) who found that the exchange rate floatation had an insignificant effect on the firm's financial performance, as exchange is considered as an external determinant for the firm's financial performance, but it affects only certain accounting calculations and conversions such as translation of foreign currency transactions and foreign receivables, which are not found in most of the Egyptian manufacturing firms. This insignificance may be also because the impacts of the exchange rate floatation depending on whether the firm imports or exports goods.

As a result, the second hypothesis (H2) which states that "There is a significant effect of exchange rate floatation on firm's financial performance for manufacturing firms listed on the Egyptian Stock Exchange" is rejected.

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Table (5)

	Model			
	Beta β	**t**	**Sig.**	**VIF**
(Constant)		12.987	.000	
FLOAT	.054	1.285	.200	1.009
LIQ	-.093	-2.180	.030	1.049
LEV	-.438	-10.308	.000	1.009
LOSS	-.519	-12.418	.000	1.044
R	.675			
R Square	.456			
Adjusted R Square	.449			
Std. Error of the Estimate	13.43448%			
Durbin-Watson	1.619			
F	65.755			
Sig.	.000			
N	319			

</div>

Source: IBM SPSS 27 output

And concerning the research question regarding the used control variables (Firm liquidity, firm leverage, and firm loss) which is:

Q1: Do Firm liquidity, firm leverage, and firm loss, each one separately, affect the relation between exchange rate floatation and firm's financial performance, in the context of the relation being tested?

To Answer this question, as shown in **table (5)** firm liquidity (LIQ) has a regression coefficient (β_2) is equal to (-0.093) (t = -2.180, Sig. = 0.030), which indicates the negative direction of the relation, and a significant level of 0.076which is higher than 0.01, then the firm liquidity does not affect the firm's financial performance.

In contrast, concerning firm loss (LOSS) has a regression coefficient (β_3) is equal to (-0.0519) (t = -12.418, Sig. = 0.000), which indicates the negative direction of the relation, and a significant level of 0.000, which is lower than 0.01, then it is accepted that firm loss negatively affects the firm's financial performance. Concerning firm leverage (LEV) has a regression coefficient (β_4) is equal to (-0.438) (t = -10.308, Sig. = 0.000), which indicates the negative direction of the relation, and a significant level of (0.000), which is lower than 0.01, then firm leverage negatively affects the firm's financial performance.

4.4 Other Analysis

In this section, the researcher will conduct other additional and sensitivity analysis to enhance the understanding of the of the main research relationships, provide other insights about the findings and test the robustness of the main results.

4.4.1 Using Exchange Rate Floatation as a moderating variable to the relationship between firm size and firm's financial performance

After treating the Exchange Rate Floatation as a moderating variable, on the relationship between firm size and firm's financial performance, instead of being an independent variable, it was found to be contradictory to the findings of the main research. The regression F-test model is significant indicating that the researcher can rely on the results of the model to analyze the moderating effect of the exchange rate floatation on the relationship between firm size and the firm's financial performance. But it was found that the model had a problem of multicollinearity (VIF >10). This can be interpreted as the exchange rate floatation is closely related and collinear to firm size, because large firms will not be affected by the change in exchange rates to determine its performance, the same as small firms' financial performance will be highly affected by the change in the exchange rate.

This multicollinearity problem can be solved in future research by different solutions, firstly, by increasing the sample size to reduce standard errors, secondly, by using different measurements for the variables used in the model to reduce the correlations.

4.4.2 Using ROE as another measure of the firm's financial performance

After measuring the firm's financial performance using Return on Equity (ROE) instead of using Return on Assets (ROA) in the main analysis, as presented in **table (7)**, **model (H1)** it was found to be contradictory to the findings of the main research. the regression F-test model is significant (F = 5.619, Sig. = 0.000) indicating that the researcher can rely on the results of the model to analyze the effect of the firm size on the firm's financial performance. Also, it is shown in **table (7), model (H1)** the adjusted R square is 0.055, indicating that the firm size and the three control variables can interpret and predict 5.5% of the firm's financial performance. Furthermore, Durbin Watson statistic = 1.988 which indicates that the regression model does not contain serial correlation (Badawy and Zaki, 2023). Concerning the effect of the firm size on the firm's financial performnce, it is shown that the firm size positively but has insignificant effect on the firm's financial performance (t = 0.443, Sig. = 0. 658).

As presented in **table (7)**, **model (H2)** it was found to be the same as the findings of the main research. the regression F-test model is significant (F = 5.923, Sig. = 0.000) indicating that the researcher can rely on the results of the model to analyze the effect of the exchange rate floatation on the firm's financial performance. Also, it is shown in **table (7), model (H2)** the adjusted R square is 0.058, indicating that the exchange rate floatation and the three control variables can interpret and predict 5.8% of the firm's financial performance. Furthermore, Durbin Watson statistic = 1.988 which indicates that the regression model does not contain serial correlation (Badawy and Zaki, 2023). Concerning the effect of the firm size on the firm's financial performnce, it is shown that the firm size positively but has insignificant effect on the firm's financial performance (t = 1.153, Sig. = 0. 250).

Table (7)

	Model (H1)				Model (H2)			
	Beta β	T	Sig.	VIF	Beta β	t	Sig.	VIF
(Constant)		-.156	.876					
FSIZE	.028	.443	.658	1.302				
FLOAT					.063	1.153	.250	1.009

	Model (H1)				Model (H2)			
	Beta β	T	Sig.	VIF	Beta β	t	Sig.	VIF
LIQ	-.030	-.541	.589	1.059	-.030	-.541	.589	1.049
LEV	-.002	-.044	.965	1.073	-.002	-.035	.972	1.044
LOSS	-.245	-3.999	.000	1.268	-.255	-4.659	.000	1.009
R	.258				.265			
R Square	.067				.070			
Adjusted R Square	.055				.058			
Std. Error of the Estimate	103.59997%				103.41376%			
Durbin-Watson	1.988				1.988			
F	5.619				5.923			
Sig.	.000				.000			
N	319				319			

Source: IBM SPSS 27 output

5. Conclusions, Limitations, and Implications for Future Research

This research aims to study the relationship between the firm size and its financial performance on non-financial firms listed on the Egyptian Stock Exchange (EGX) in the presence of some control variables (firm loss, liquidity, and leverage), in addition to testing the effect of a macroeconomic variables specifically exchange rate floatation, which took place in Egypt several times in November 2016, March 2022, October 2022, and January 2023, on the firm's financial performance

Firm performance indicates the capability of a firm to acquire and utilize its resources in order to develop a competitive advantage over others. It is considered as the measurement of business performance over time according to financial measures that demonstrate the firm's fiscal strengths or weaknesses. The evaluation of a firm's financial performance is often based on financial measures that are calculated using standard accounting measurements.

There are different determinants that affect the firm's performance, such as its liquidity, leverage, cost of goods sold ratio, asset utilization, tangibility ratio as a percentage of the firm's total assets and the firm size.

This research will focus on the effect of the firm size on the firm's financial performance. It is the material, human and technological capabilities of the firm and its ability to generate operating income from its operations as it represents the total assets owned by the firm.

The firm's financial performance can be affected in the presence of macroeconomic variables which affects the country's economy to raise or fall due to factors inside or outside the control of the government such as: inflation, interest rates, fiscal policy, national income, GDP, employment, and exchange rate floatation. In this research, the researcher will focus on one of these macroeconomic variables, which is exchange rate floatation whether it will affect the firm's financial performance.

From a financial accounting, perspective, regarding the decision of the Central Bank of Egypt (CBE) to float the exchange rate, is that this decision will affect the preparation of financial statements. As according to an appendix to the Egyptian Accounting Standard No. 13 "Effects of Changes in Foreign Currency Rates" which was issued in February 2017, that the firms may recognize the differences in translating foreign currencies of assets and liabilities valued in foreign currency in the other comprehensive income.

This research will be conducted on a sample of 319 firm-year observations on non-financial manufacturing firms listed on Egyptian Stock Exchange, during the period from 2015 to 2023, where the exchange rate floatation took place in 2016, 2022 and 2023 in Egypt.

The results of the empirical study indicated a positive significant effect of the firm size on firm's financial performance, while the results indicated a positive direction, insignificant effect of the exchange rate floatation on the firm's financial performance. Thus, the first hypothesis (H1) was accepted, and the second hypothesis (H2) was rejected.

Finally, these relations took place in the presence of control variables that affect the relation between firm size and firm's financial performance, and the relation between exchange rate floatation and firm's financial performance in the context of the relations being tested. These control variables are firm liquidity, firm leverage and firm loss, and it was proven that firm liquidity has negative insignificant effects on the relations, while firm loss and firm leverage have negative significant effects on the relations.

The research results are subject to several **limitations**, the research is limited to only studying non-financial manufacturing firms only, regardless to financial firms and other industries which are out of the scope of the research. The research also is limited on focusing on one macroeconomic factor only which is exchange rate floatation, regardless to other macroeconomic factors such as: inflation, interest rates, fiscal policy, national income, GDP, and employment which are out of the scope of the research. The research is limited

also to testing the effect of firm size only as an internal determinant for the firm's financial performance rather than other internal factors such as: capital structure, corporate governance, corporate social responsibility, asset tangibility and asset utilization. Finally, the researcher investigated the effect of exchange rate floatation that took place in 2016, 2022 and 2023, regardless to the floatation that took place in 2024 which is out of the scope of the research.

Accordingly, **these limitations can be studied in the future research,** by investigating the relationship between firm size and financial performance across different sectors in Egypt and investigating the effect of other macroeconomic variables other than exchange rate floatation as, inflation, interest rates, national income, GDP and unemployment. Future research can also investigate the effects of internal factors affecting the firm's financial performance other than the firm size such as: capital structure, corporate governance, corporate social responsibility, asset tangibility and asset utilization. Finally, future research can also investigate the effect firm size on the firm's financial performance, taking into consideration the moderating effect of exchange rate floatation on this relationship.

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