Extended Abstract

1. Introduction

In recent decades, increasing attention has been paid to leverage adjustment behavior, as firms actively seek to move toward their target capital structure. The speed at which firms adjust their leverage is critical, as deviations from the optimal leverage ratio can impose adjustment costs, increase financial risk, and reduce firm value. Among the factors influencing this process, customer concentration has emerged as a key determinant due to the strategic importance of major customers in shaping firms' operational stability and financial policies.

Firms with highly concentrated customer bases often face heightened exposure to demand shocks and bargaining power asymmetries. At the same time, close relationships with major customers may provide stable revenues, reduce information uncertainty, and facilitate access to external financing. These opposing forces suggest that customer concentration can significantly influence firms' capital structure decisions and their ability to adjust leverage efficiently.

Moreover, cash flow volatility plays a central role in the leverage adjustment process. Volatile cash flows increase financial risk and adjustment costs, potentially slowing firms' movement toward their target leverage. Customer concentration may affect leverage adjustment speed indirectly by influencing the stability or volatility of operating cash flows.

Accordingly, this study examines the effect of customer concentration on the speed of leverage adjustment, with particular emphasis on the mediating role of cash flow volatility, in companies listed on the Tehran Stock Exchange.

2. Research Hypotheses

Firm-specific and market-related risks influence the speed at which companies converge toward their optimal financial leverage. Effective management of these risks enables firms to adjust more rapidly to their target capital structure. Drawing on capital structure theory and prior empirical evidence, the following hypotheses are proposed:

- **H1:** Customer concentration has a positive and significant effect on the speed of leverage adjustment.
- **H2:** Cash flow volatility mediates the relationship between customer concentration and the speed of leverage adjustment.

3. Research Method

This applied study addresses the informational needs of various stakeholders, including investors, managers, financial analysts, capital market participants, and auditors. The sample consists of 113 companies listed on the Tehran Stock Exchange over the period 2010–2023.

Panel data regression techniques are employed to examine the direct effect of customer concentration on leverage adjustment speed and to test the mediating role of cash flow volatility.

4. Results

The empirical findings indicate that customer concentration has a positive and statistically significant effect on the speed of leverage adjustment, enabling firms to reach their target leverage ratios more rapidly. In addition, the results confirm that cash flow volatility serves as a mediating variable in the relationship between customer concentration and leverage adjustment speed.

These findings suggest that customer structure is an important determinant of firms' capital structure dynamics and adjustment behavior.

5. Discussion and Conclusion

In firms with high customer concentration, the strategic importance of retaining major customers and maintaining firm value motivates managers to adjust leverage more quickly toward the target ratio, thereby enhancing corporate reputation and financial credibility. At the same time, customer concentration influences the stability of operating cash flows, which in turn affects the firm's ability to adjust leverage efficiently.

The results highlight cash flow volatility as a key transmission channel through which customer concentration affects leverage adjustment speed. Overall, this study contributes to the capital structure literature by identifying customer concentration as a significant determinant of leverage dynamics and by clarifying the mediating role of cash flow volatility in this relationship.

Keywords

Cash flow volatility; Customer concentration; Leverage adjustment speed; Financial leverage; Capital structure