Influence of Market Power on Leverage of Listed Manufacturing Companies in Sri Lanka

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Main purpose of this study is to investigate whether there is an impact of market power on leverage of listed manufacturing companies in Sri Lanka because the manufacturing sector has grown fast, and it has a large number of listed companies compared to other sectors in the Sri Lankan economy. The population of the study is forty-one companies, and thirty five companies were selected based on the data availability for the study. Annual reports of the listed manufacturing companies from 2013 to 2017 were used as the secondary data source to collect data. Market power, profitability, growth & tangibility are used as independent variables, and leverage is used as the dependent variable. Data analysis was conducted using Eviews statistical package and several statistical measures such as descriptive analysis, correlation analysis and panel data regression analysis were used as analytical techniques. The study has proved that there is a significant and positive relation between market power and leverage. Profitability & tangibility remained significantly negative with leverage, whereas growth remained significantly positive with leverage. The study generates valuable insight in the area of market power and leverage as little is known in Sri Lankan context.

Keywords: Leverage, Market Power, Trade-off Theory, Pecking Order Theory