## The Impact of Leverage on Market Value Added (MVA): A Study of Listed Manufacturing firms in Sri Lanka

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### ABSTRACT

**Introduction**: This study aims analyze the impact of Leverage on MVA in the context of companies listed on the Colombo Stock Exchange (CSE) and provide empirical evidence.

**Design/ Methodology/ Approach**: Correlation analysis has been carried out to identify the cause and effect relationship between the predictor variables and the dependent variable. Additionally, multiple regression analysis has been employed to test the relationship between measures of Leverage and MVA. The study covers 20 companies classified as manufacturing sector companies that have been listed and considered period ranges from years, 2013 to 2018.

**Findings**: The results show that the DFL and DTL (Combination of DOL and DFL) are the most significant predictor of MVA. Whereas, DOL found to be statistically insignificant. The study relied on MVA as a measure of value creation and other measures, like the DFL, DOL and DTL have an impact on MVA (i.e. Shareholder's value creation), and this impact was found to be a statistically significant and negative. Furthermore, MVA of the previous year (MVA (t-1)) has shown a significant relationship with the current year MVA.

**Conclusion:** The study identifies DFL as the most significant predictor of change in MVA. Financial managers will thus be motivated to maintain optimal capital structure to ensure higher value creation for their shareholders.

**Keywords:** *Market Value Added (MVA), Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL), Degree of Total Leverage (DTL).*

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