

The relationship between ownership structure and firm's financial performance: A case study on listed companies in Sri Lanka

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Abstract

Firms that are listed in the Colombo Stock Exchange (CSE) in Sri Lanka are characterized by ownership structure, and it is one of the main determinant factors that influence the company's financial position. The investors who owned more than 5 percent of shares have the power to influence firms' management to protect their interest. Many researchers have given the importance of the company's ownership structure in corporate with governance mechanisms, studies on ownership structure and financial performance of firms has yielded non-conclusive empirical findings. Hence, the purpose of this study is to examine the impact of ownership structure on the financial performance of companies listed on the CSE. The sample of this study is drawn from the 290 firms which were listed in the CSE during the period of 2015 to 2019. Based on the ownership diversification three sectors were selected as the sample namely diversified holdings, healthcare, and telecommunication. It represented 24 listed companies out of 290 listed companies for the period from 2015 to 2019. The data were collected from secondary sources and hypotheses were examined by using Pearson's correlation and panel regression analysis. The return on assets (ROA) is used as the performance measure, and both ownership concentration and ownership identity (institutional ownership, foreign ownership, and individual ownership) are used to measure the ownership structure. The result of this study reveals that institutional ownership and foreign ownership are significantly and positively correlated with the financial performance of listed companies in Sri Lanka while individual ownership and ownership concentration are negatively correlated with financial performance and only individual ownership is significant. Further, ownership concentration has a significant impact on the company's financial performance, and the ownership identity has an impact on the company's financial performance, which is not significant. Also, the study revealed that the ownership structure has 34.97 percent ability to predict the company's financial performance. These findings may help investors and policymakers to make decisions regarding ownership structure.

Keywords: *Financial performance, ownership concentration, ownership identity, ownership structure.*