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The Impact of Board Leadership and Ownership Structures on Firm Performance: Evidence from Non-Financial Firms in Sri Lanka

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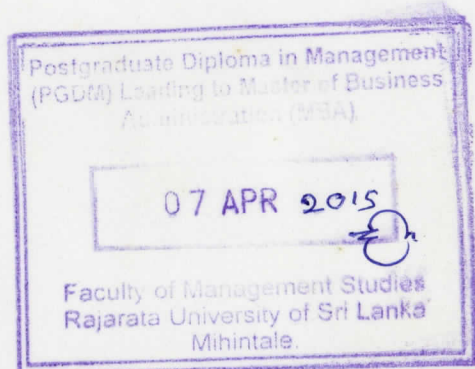
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Abstract

This study aims empirically to investigate the impact of board leadership and ownership structures on firm performance of non-financial firms, listed on the Colombo Stock Exchange (CSE) of Sri Lanka. The study intended to mainly (i) examine the board leadership structure of non-financial firms in Sri Lanka; (ii) identify the significant differences between separate and combined leadership structures in relation to firm performance; (iii) assess the impact and relationship between ownership concentration and firm performance; and (iv) investigate the impact and relationship between owner identity (institutional, foreign and domestic shareholdings) and firm performance. To explore the impact of board leadership and ownership structures on firm performance, the study employed Independent Samples T-Test and the Ordinary Least Square (OLS) regression model for a given set of data during 2009 to 2013 by analysing 215 firm-year observations. Firm performance was measured by two different measures such as Return on Assets (ROA) and Tobin's Q ratio.

Empirical results revealed that (i) around 35 % of firms had one individual holding the two positions of chairman & CEO, while about 65 % was separated; (ii) firms with separation of the top positions performed better than the firms with combined leadership structure in the ROA measure; (iii) when controlled and measured by ROA, ownership concentration and foreign shareholdings had a significant and negative impact on firm performance, whereas impact of institutional and domestic shareholdings was found to be positive along with high significant; and (iv) when controlled and measured by Tobin's Q, foreign and institutional shareholdings positively and significantly influenced firm performance, though ownership concentration and domestic shareholdings showed a negative and insignificant impact on performance.

As this analysis was carried out using a sample of 43 non-financial firms listed, which were drawn from the top-fifty, this may not represent the whole population during the period of the study. Further, this study explored the impact of board leadership and ownership structures on firm performance using the most recent data set of Sri Lankan firms. This study would help policy makers, financial managers and investors to better understand the implications of making investment decisions.

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