# THE INFLUENCE OF OWNERSHIP STRUCTURE ON THE CORPORATE PERFORMANCE OF LISTED COMPANIES IN SRI LANKA

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## INTRODUCTION

Corporate governance is the mechanism that is designed to safeguard both shareholders and other stakeholders of the organization. Separation of ownership and control is a key area in finance as well as corporate governance. There are various types of ownership structures in the organizational context such as institutional ownership, managerial ownership, concentrated ownership, foreign ownership, government ownership (Mao-Feng, Lynn, & Aziz, 2019; Samarakoon, 1999). This study will be very important to make the right investing decisions by getting the knowledge, experience, and awareness regarding the effect of ownership composition on firm performance. Therefore, findings and the conclusions of the scholarly articles of other countries cannot similarly apply to a country like Sri Lanka. The previous works of literature mainly focused on concentrated ownership and managerial ownership. However, this study will examine the composition between the several ownership types under various control variables. Unless there are significant studies have been done around the globe, there is a lack of research studies conducted especially for developing countries like Sri Lanka. It will fill the research gap in this study. Further, they commonly used accounting-based performance measurements to evaluate and measure the financial performance of the firm ( (Zukaa, Mouselli, & Abdulraouf, 2018; Dahlquist & Robertsson, 2001).The main objective has been broken down into the following sub-objectives as: To identify the nature of the relationship between ownership and firm performance of listed companies in Sri Lanka and to measure the individual effect of block holders' ownership, institutional ownership, foreign ownership, and insider ownership on firm performance.

## METHODOLOGY

The quantitative research method is used to examine the impact of the ownership structure on the firm performance. The study takes four types of ownership structures as independent variables such as block holders, institutional, foreign, and insider ownership. As the dependent variables, it has considered Return on Assets (ROA) and (Return on Equity) ROE as the accounting performance measurements while Tobin's Q and market-to-book value of equity are taken as the market-based performance measurement bases. It similarly uses several control variables such as firm size, leverage, growth opportunity, dividend payout ratio & big-4 audit firms between independent and dependent variables. The study sample is the top 25 listed companies on the Colombo Stock Exchange in terms of their market capitalization. Data analysis is processed using the SPSS.

## RESULTS AND DISCUSSION

Return on Assets (ROA)

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**Table 1**

*Coefficient of ROA*

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | β | Std. Error | β | | |
| (Constant) | 1.77 | 0.54 | | 3.31 | 0.00 |
| Block-holders' own. | 0.09 | 0.14 | 0.08 | 0.65 | 0.52 |
| Institutional ownership | -0.16 | 0.13 | -0.16 | -1.22 | 0.23 |
| Foreign ownership | 0.25 | 0.07 | 0.36 | 3.85 | - |
| Insider ownership | 0.07 | 0.13 | 0.07 | 0.54 | 0.59 |
| Firm size | -0.06 | 0.02 | -0.40 | -3.37 | 0.00 |
| Growth opportunity | -0.06 | 0.09 | -0.05 | -0.63 | 0.53 |
| Leverage | -0.06 | 0.09 | -0.07 | -0.66 | 0.51 |
| Dividend pay-out ratio | 0.01 | 0.02 | 0.05 | 0.59 | 0.55 |
| Firm age | 0.00 | 0.00 | -0.01 | -0.17 | 0.87 |
| a. Dependent Variable: Return on assets | | | | | |

Based on the coefficient table, the following hypotheses can be evaluated.

**Table 2**

*Hypotheses Testing*

| | Coefficient | Significance | Decision |
|---|---|---|---|
| $H1_a$ - block-holders' ownership has a significant relationship with return on assets | .089 | .519 | Not Supported |
| $H2_a$ - Institutional ownership has a significant relationship with return on assets | -.159 | .225 | Not Supported |
| $H3_a$ - Foreign ownership has a significant relationship with return on assets | .249 | .000 | Supported |
| $H4_a$ - Insider ownership has a significant relationship with return on assets | .067 | .591 | Not Supported |

**Return on Equity (ROE)**

**Table 3**

*Coefficient of ROE*

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|
| | β | Std. Error | β | | |
| 1 (Constant) | 1.13 | 1.66 | | 0.68 | 0.50 |
| Block-holders' own. | 0.34 | 0.43 | 0.10 | 0.80 | 0.43 |
| Institutional ownership | 0.08 | 0.41 | 0.03 | 0.20 | 0.84 |
| Foreign ownership | 0.84 | 0.20 | 0.40 | 4.14 | 0.00 |
| Insider ownership | -0.04 | 0.39 | -0.01 | -0.10 | 0.92 |
| Firm size | -0.05 | 0.06 | -0.11 | -0.87 | 0.39 |
| Growth opportunity | 0.01 | 0.29 | 0.00 | 0.05 | 0.96 |
| Leverage | -0.31 | 0.27 | -0.12 | -1.15 | 0.25 |
| Dividend pay-out ratio | 0.06 | 0.07 | 0.07 | 0.75 | 0.45 |
| Firm age | 0.00 | 0.00 | 0.01 | 0.16 | 0.87 |
| a. Dependent Variable: Return on Equity | | | | | |

Based on the coefficient table, the following hypotheses can be evaluated.

**Table 4**

*Hypotheses Testing*

|  | Coefficient | Significance | Decision |
|---|---|---|---|
| H1$_b$ - Block-holders' ownership has a significant relationship with return on equity. | .341 | .428 | Not Supported |
| H2$_b$ - Institutional ownership has a significant relationship with return on equity. | .083 | .839 | Not Supported |
| H3$_b$ - Foreign ownership has a significant relationship with return on equity. | .835 | .000 | Supported |
| H4$_b$ - Insider ownership has a significant relationship with return on equity. | -.038 | .923 | Not Supported |

**Tobin's Q**

**Table 5**

*Coefficient of Tobin's Q*

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|
|  | β | Std. Error | β |  |  |
| 1  (Constant) | 42.00 | 8.26 |  | 5.09 | 0.00 |
| Block-holders' ownership | -1.44 | 2.13 | -0.08 | -0.67 | 0.50 |
| Institutional ownership | -1.09 | 2.01 | -0.07 | -0.54 | 0.59 |
| Foreign ownership | 3.59 | 1.00 | 0.33 | 3.59 | 0.00 |
| Insider ownership | -0.25 | 1.92 | -0.02 | -0.13 | 0.90 |
| Firm size | -1.50 | 0.29 | -0.59 | -5.12 | 0.00 |
| Growth opportunity | 2.23 | 1.42 | 0.12 | 1.57 | 0.12 |
| Leverage | 1.24 | 1.33 | 0.09 | 0.93 | 0.36 |
| Dividend pay-out ratio | -0.95 | 0.36 | -0.21 | -2.61 | 0.01 |
| Firm age | -0.02 | 0.01 | -0.19 | -2.32 | 0.02 |

a. Dependent Variable: Tobin's Q.

Based on the coefficient table following hypothesis can be evaluated.

**Table 6**

*Hypotheses Testing*

|  | Coefficient | Significance | Decision |
|---|---|---|---|
| H1$_c$ - Block-holders' ownership has a significant relationship with Tobin's Q. | -1.435 | .501 | Not Supported |
| H2$_c$ - Institutional ownership has a significant relationship with Tobin's Q. | -1.086 | .590 | Not Supported |
| H3$_c$ - Foreign ownership has a significant relationship with Tobin's Q. | 3.589 | .000 | Supported |

| | Coefficient | Sig. | Decision |
|---|---|---|---|
| H4$_c$ - Insider ownership has a significant relationship with Tobin's Q. | -.245 | .899 | Not Supported |

**Market-to-book Value of Equity**

**Table 7**

*Coefficient of Market-to-book Value of Equity*

| Model | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | β | Std. Error | β | T | Sig. |
| 1 (Constant) | 120.64 | 24.66 | | 4.89 | 120.64 |
| Block-holders' ownership | 0.22 | 6.35 | 0.00 | 0.03 | 0.22 |
| Institutional ownership | 6.30 | 6.01 | 0.12 | 1.05 | 6.30 |
| Foreign ownership | 8.04 | 2.98 | 0.23 | 2.69 | 8.04 |
| Insider ownership | -1.34 | 5.75 | -0.03 | -0.23 | -1.34 |
| Firm size | -4.82 | 0.87 | -0.60 | -5.53 | -4.82 |
| Growth opportunity | 13.27 | 4.24 | 0.22 | 3.13 | 13.27 |
| Leverage | 6.77 | 3.99 | 0.16 | 1.70 | 6.77 |
| Dividend pay-out ratio | -1.46 | 1.09 | -0.10 | -1.34 | -1.46 |
| Firm age | -0.04 | 0.02 | -0.14 | -1.85 | -0.04 |

a. Dependent Variable: Market-to-book value of equity

Based on the coefficient table, the following hypotheses can be evaluated.

**Table 8**

*Hypotheses Testing*

| | Coefficient | Sig. | Decision |
|---|---|---|---|
| H1$_d$ - Block-holders' ownership has a significant relationship with the Market-to-book value of equity. | 0.218 | 0.973 | Not Supported |
| H2$_d$ - Institutional ownership has a significant relationship with the Market-to-book value of equity. | 6.299 | 0.296 | Not Supported |
| H3$_d$ - Foreign ownership has a significant relationship with the Market-to-book value of equity. | 8.040 | 0.008 | Supported |
| H4$_d$ - Insider ownership has a significant relationship with the Market-to-book value of equity. | -1.336 | 0.817 | Not Supported |

**CONCLUSION AND IMPLICATIONS**

In this analysis, firm performance has been measured using both accounting and market-based measurement bases. Return on Assets and Return on Equity are taken as the accounting-based measurement bases while Tobin's Q and Market to book value of equity are considered as the market-based measurement bases. Based on the regression analysis it can be accepted the following hypothesis while others are rejected according to the coefficient value analysis with its significance.

*H3$_a$*: Foreign ownership has a significant relationship with return on assets.

*H3$_b$*: Foreign ownership has a significant relationship with return on equity.

$H3_c$: Foreign ownership has a significant relationship with Tobin's Q.

$H3_d$: Foreign ownership has a significant relationship with the Market-to-book value of equity.

Foreign ownership refers to a company that has a particular percentage of foreign investors participating in the local market. Foreign shareholding is disclosed by the companies in the annual report with a fraction of shareholding between residents and non-residents. Foreign investors, who are more prone to be in the dark and come from less transparent regimes, may demand more financial data disclosure than local investors, who are more informed and may have access to the information they need. Foreign investors may be more prepared to deal with systemic change since they have experienced it in a variety of countries. Foreign investors may be able to bring skills and experience to the table that complement the latter's in-depth knowledge of working in family-based networks.

Investors can get a better understanding of the ownership structure and financial performance through this study to make better investing decisions. In the organizational context, some companies are still reluctant to disclose information regarding the ownership structure of their companies. The study is conducted for the top 25 companies in the Colombo Stock Exchange based on market capitalization. It has the potential to conduct this study sector-wise and identify the impact of ownership structure on the performance of the specific sectors. This study is only focused on financial information. Therefore, there is a space to use non-financial measurement indicators to measure the firm performance.

*Keywords:* Corporate governance**,** firm performance, ownership structure

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