Impact of Ownership Structure on Firms' Performance of Manufacturing Companies in Sri Lanka

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Abstract- This study investigates the effect of ownership structure on firm performance of listed manufacturing companies in Sri Lanka. The study was used secondary data for conducting this research. Ownership structure consists with two variables. Those are institution ownership and block ownership. And also researcher used some control variables. Return on Equity (ROE) was used as measurements to measure the firm performance. This study was used 20 companies for the analysis to achieve the set objectives. The Descriptive statistics, Correlation analysis and Multi- variant analysis were used in this study to analysis the data. The study found that the block ownership have negative and insignificant relationship with firm performance. Institutional ownership has positive and insignificant relationship with firm performance, and also firm size has positive and significant relationship with firm performance

Index Terms- Ownership Structure, Firm Performance, Corporate Governance

I. INTRODUCTION

Survival of the organizations depends on their performance, particularly the financial performance, while the performance is depending upon the ownership structure which is measured in terms of investment. Ownership structure is an important internal mechanism of corporate governance. Companies have equity share and preference share. Family, institutional, foreign and government are invested in the company. When they invest in the company's share, how performance of the company is. Organizational performance refers to extend to which the goals of others are achieved. Efficiency and effectiveness are demystified performance through ownership structure. Effectiveness is usually described through as "doing the right things" while efficiency means "doing things right".

Corporate Governance is one of the most important controlling mechanisms in current organization. There are various definitions for corporate governance has given by persons, institutes, researchers...etc. According to the Cadbury Report (1992) Corporate Governance is "the system by which companies are directed and controlled". Corporate Governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. The above definitions disclosed that Corporate Governance can be identified as a control mechanism of the organization.

Recent past the concept of Corporate Governance is developed globally. Also it plays a vital role in current economies. So, there is a debate among the companies, policy makers, about the impact of Corporate Governance on firm performance. The concept developed by Jensen and Meckling (1976) .They were able to build up Agency Theory which has been characterized as "A theory of the ownership structure". The most companies face Agency problem. It is a fundamental problem to the organization. The present most of the organizations give their attention towards Corporate Governance to mitigate this Agency problem.

II. LITERITURE RIVIEW

Corporate governance can be defined as a "Corporate governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders also the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (Organization for economic Co-operation and Development principle of corporate Governance-2004).

Corporate governance involves a set of relationship between a company management, its board, and its shareholders. And also, the structure through which have objectives of the company are sat, and the means of attaining those objectives and monitoring performance are determined Organization for Economic Co-Operation and Development (OECD) principal of corporate governance (2004).

Mohammad & Fatimah (2012) studied the impact of Corporate Governance on the firm performance of bank in Nigeria. The result of this study showed that the Corporate Governance positively effect of firm performance in banks. In this study used 9 banks as a sample and analysis 10 years annual reports of selected sample. The study used multi -variant analysis for data analysis.

Pathirajawasam & Wickremasinha (2012) investigates the impact of ownership concentration and the other related factors on the firm performance of companies listed on the CSE in Sri Lanka. And also this study investigated the impact of ownership portion of the largest owner and the other controlled variables on the firm performance of selected listed companies in Sri Lanka. The ROA used the study as a performance measured. The sample included 102 companies from the five largest sector, excluding bank, finance and insurance sector. The selected period of this study is from 2008 to 2009. The result of this study shows that ownership concentration has a positive relationship on the firm performance, but it is not a statistically significant determinant of firm performance.

(Abdolkhani & Jalal, 2013) investigates the relationship between Corporate Governance and firm return. It exams the effect of managerial ownership concentrated on firm performance in Iran Stock Exchange.The study results shows that the there is a significant and negative relationship between managerial ownership concentration and firm value. And also it described there is a significant and negative relationship between ownership of executives or board directors and firm value.

(Warokka, Hilman, Jose & Duran, 2012) examined the relationship between ownership structure and firm performance in East Asian Companies. Tobin's Q was used as a performance measures. The results of this study shows that the there is a positive and significant relationship ownership concentration and firm performance. And also there is a positive and significant relation between impact of external block holder ownership (EBO) and Tobin's Q. The results of this study describe the large owners are more capable of controlling the management and it thereby contribute to the corporate Performance. And also a negatively and significantly influence of managerial ownership at low level bears the entrenchment argument. It describes that managerial ownership at low – level has a strong and negative impact on performance.

This study examines the relationship between ownership structure and firm performance. The firm size used as control variables. The results of this study shows significant and negative relationship between firm size and firm performance in way that when firm size increases its performance decreases too(Abdolkhani & Jalal,2013).

III. METHODOLOGY

The population of this study included all listed companies in CSE in Sri Lanka. It has 295 listed companies representing 20 business sectors. The research sample consisted 50% of manufacturing companies that are listed on the CSE in Sri Lanka. In this study sample include 20 companies which were having complete data of Corporate Governance structures and financial data of period from 2010/11 to 2014/15.

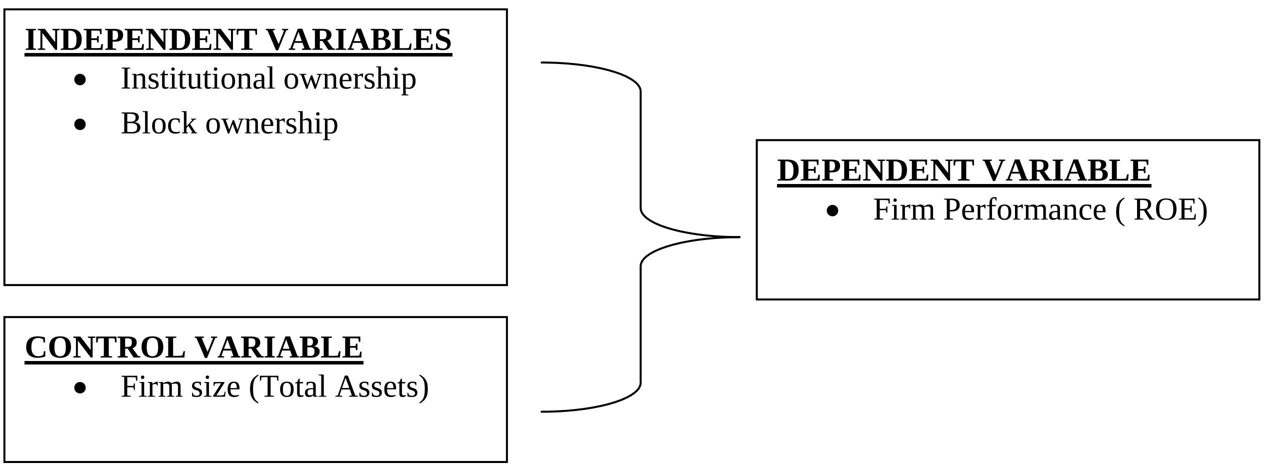

Figure 1 Conceptual Framework

According to conceptual framework which has been developed by the researchers, there are two independent variables, one control variable and one dependent variable. In various studies, researchers have searched lots of types of ownerships and the impact of them towards performance. Here, in this study researchers have identified that the institutional ownership and block ownership are the major type of ownership structure types which are existing in Sri Lankan listed manufacturing companies. Researchers have identified it by studying a sub sample of this study. Researchers have studied the annual reports 20 of 2014/15 of Sri Lankan manufacturing companies to identify the most practical ownership structure types.

Ownership Structure type	Institutional Ownership	Block Ownership	Other
Percentage from total number of shares in Sri Lankan Manufacturing companies	37%	58%	5%

Table 1 Results of Pre study

Table 01 is showing the results of pre study which was done by the researchers to identify the most popular ownership structures (independent variables) in Sri Lankan context. According to it researchers have identified that the ownership structure and block ownership structure are the most popular ownership structure type in Sri Lankan manufacturing companies recently.

Independence Variables

Institutional ownership: -Institutional Ownership refers to the ownership stake in a company that is held by large financial organization, pension funds or endowments. Institution generally purchase large block of a company's outstanding shares and can exert considerable influence upon its management (Financial Dictionary). Institutional Ownership is most important to the Organization, because institutional owners represent the higher amount of total ownership.

Block Ownership :- Block ownership is "A shareholder with an exceptionally large amount or value of stock, while there was no specific definition of how many shares constitute a block, most people using the term refers to holding more than 5% of shares .Almost invariably, block holders are institutional investors". (Financial Dictionary). In this study Researcher considered top twenty companies as block owners. Block ownership also most important to the company. Because they have most shares in the company and their contribution of capital structure is more important.

Dependent Variable

Firm performance was a depended variable in this study. "Any of many different mathematical measures to evaluate how well a company is using its reassures to make a profit. Common examples of financial performance included operating income, earnings before interest and taxes, and net assets value. It was important to note that no one measure of financial performance should be taken on its own. Rather than, a thorough assessment of a company's performance should take into account many different measures". (Financial Dictionary). According to above definition the most factors ware effect to the firm performance. The researcher identified ownership structure as a one of the most important factor of the firm performance. In the other hand firm performance depend on ownership structure.

Control Variable

The firm performance depends on various variables. In this study researcher consider about relationship between ownership structure and firm performance. And also firm performance depends on other control variable. Such as firm size, firm age….etc.

In the case of measure the impacts and inter relationships among the variables researchers have used correlation analysis and regression analysis and following hypothesis have been tested by the researchers.

IV. RESULTS AND DISCUSSIONS

		IO	BO	Firm size	ROE
Institutional Ownership(IO)	Pearson Correlation	1			
	Sig. (2 tailed)				
	N	100			
Block Ownership(BO)	Pearson Correlation	.408	1		
	Sig. (2 tailed)	.074			
	N	100	100		
Firm Size (Total Assets)	Pearson Correlation	.037	.265	1	
	Sig. (2 tailed)	.877	.259		
	N	100	100	100	
Return On Equity(ROE)	Pearson Correlation	**.137**	**-.376**	**.255***	1
	Sig. (2 tailed)	**.565**	**.102**	**.077**	
	N	**100**	**100**	**100**	100

Table 2 Results of Correlation Analysis

Table 2 describes the summary of the correlation between independent variables and dependent variable of the study at 10% significant level. According to the data analysis of the correlation, block ownership has negative and insignificant relationship with ROE. Institutional ownership has positive and insignificant relationship with ROE. And also firm size has positive and significant relationship with firm performance. As per calculation correlation with institutional ownership with ROE is 13.7%. The results indicate that institutional ownership increase firm performance and there is an insignificant relationship. ROE of the firm and block ownership has negative and insignificant relationship, and also firm size has positive and significant relationship with ROE.

Firm Performance (ROE)= α+ β1IO +β2BO +β4FS +e

Illustration

ROE =Return on Equity
α= Constant
β1,β2,β3, β4=Co –Efficient
IO=Institutional Ownership
BO = Block Ownership

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.631a	.399	.286	13.53242

Table 3 Model Testing Summary

According to the table 3, R value is .631 and R2 is .399 with ROE. The R value represents the strong positive correlation between independent variable with ROE. Value of R2 .399 it implies that the model is normally appropriate to show the relationship between independent variable and dependent variable. It means that 39.9% of variances of ROE explained by the independent variable. According to the Adjusted R square value there is a moderate positive low impact between independent and dependent variable.

	Model	Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	1941.932	3	647.311	3.535	.039b
	Residual	2930.023	16	183.126		
	Total	4871.955	19			

Table 4 ANOVA-ROA

According to the table (ANOVA-ROA) F ratio in the model is 3.535 which is significant at 5%. The F ratio represents the fitness of the model. This results indicate the there is a significant relationship, between independent variables with ROE.

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-83.444	59.275		-1.408	.178
	IO	.392	.218	.383	1.800	.091
	BO	-.753	.259	-.641	-2.905	.010
	LOGFIRMSIZE	13.185	6.471	.411	2.038	.058
DependentVariable: ROE						

Table 5 Co-efficient

ROE can be building up with the other independent variables as follows.

Firm Performance (ROE) = α + β1IO + β2BO + β4FS + e According to the table 5 results,

Firm Performance (ROE) = -83.444 + .392IO + (-.753BO) + 13.185LOGFS

According to the above developed model, constant value is -83.444.It represents the value of ROE at zero level of all independent variable at the model. In here institutional ownership has positive β value and it is significant at 10% level. As a result of table 4.5, block ownership has been negatively affected to the ROE and it is significant at 10% level. Block ownership shows negative relationship with ROE.-753

V. RECOMENDATIONS

According to this study ownership structure consisted of Institutional ownership and block ownership. But sometime that can be change. Other type of owners can be included into ownership structure. As a foreign owners…etc. Therefore future study related to this topic should deeply consider the ownership structure

A prerequisite to formulating effective manufacturing policies to some extent depends on the understanding of how ownership structure influences the firm performance. To add to the above, it is often the desire of top management of every manufacturing firm to make prudent financing decision in order to remain profitable and competitive. A prerequisite to achieve this also to some extent needs a sound knowledge of how ownership structure influences profitability of manufacturing in Sri Lanka.

Finally the Sri Lankan context the Corporate Governance is not mandatory requirement. It is voluntary requirement. In here the study suggested that if it is become mandatory requirement, it is most important to all companies

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