Macrothink Institute™
International Journal of Accounting and Financial Reporting
ISSN 2162-3082
2017, Vol. 7, No. 2

A Study on Ownership Structure and Financial Performance of Listed Beverage Food and Tobacco Companies in Sri Lanka

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Received: July 9, 2017 Accepted: July 25, 2017 Published: October 10, 2017

doi:10.5296/ijafr.v7i2.11518 URL: https://doi.org/10.5296/ijafr.v7i2.11518

Abstract

The relevant literature suggests that ownership structure is one of the main corporate governance mechanisms influencing the scope of financial performance. The aim of this study is to investigate the relationship between ownership structure and financial performance of listed beverage food and tobacco companies for the period of 2010-2015. This study also examines the impact of ownership structure on financial performance. The sample consists of 10 listed beverage food and tobacco companies in Sri Lanka. In this study, data was collected from secondary sources and hypotheses are examined by using Pearson's correlation and regression analysis. The results reveal that ownership concentration and foreign ownership structure are positively correlated with financial performance of listed beverage food and tobacco companies while institutional ownership structure isn't significantly correlated with financial performance. It is also found that there is a significant impact of foreign ownership structure on financial performance. Higher the foreign ownership structure in listed beverage food and tobacco companies, the higher the financial performance which is preferable for the shareholders and it improves the wealth of companies.

Keywords: corporate governance, financial performance, institutional ownership, ownership concentration

JEL: G34

1. Introduction

Corporate governance has become an issue of global significance. Ownership structure is an important internal mechanism of corporate governance. It is defined by the distribution of equity with regard to votes and capital as well as the identity of the equity owners. These structures are of major importance in corporate governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage (Jensen and Meckling, 1976). The term 'ownership structure' has two widely applied dimensions: ownership concentration and owner identity. Ownership concentration measures the degree of concentration of voting right in listed corporations, it is measured by the voting right of the largest shareholders. Owner identity is based on the type of the largest shareholder.

Financial performance is a subjective evaluation of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's general financial health over a given period of time, and can be used to compare similar firms within the same industry or to compare industries or sectors in aggregate (Fauzi, 2007).

The relationship between ownership structure and corporate performance are assumed to exist, because ownership concentration and owner identity influence the incentives of each party within the firm, and thus influence the firm's ability to solve agency problems (Chen, 2012). However, the relationship between ownership structure and firm performance remains blurred in previous studies. To illustrate with the effect of ownership concentration on the corporate performance, the effect has contradicting conclusions from former studies. While Shleifer and Vishny (1986) and Ødegaard (2003) found positive effect of high concentration; Hindley (1970), and Fama and Jensen (1983) found the effect to be negative. Furthermore studies related to owner identities and firm performance also have contradicting conclusions.

Demsetz and Lehn (1985) mentioned that ownership structure is about the concentration of shares held by shareholders; the researchers made a distinction between top five and top twenty shareholders. Ownership identity argues about "who are the owners". Ownership identity considers two types of ownership, insiders and outsiders. Insiders are shareholders who work or have worked at the company; outsiders are shareholders who have never been employees of the firm (Bauguess et al., 2009). There are different types of owners for listed firms: institutional ownership, foreign ownership and government ownership.

In Sri Lanka, apart from weak regulatory and institutional frameworks, increasing oil prices, overvalued exchange rates and rising inflation have been growing macroeconomic problems that were further worsened by the Tsunami and global finance crisis which in turn affected the performance of firms. Remarkably, despite all these setbacks, the stock market in Sri Lanka has generally continued to perform well. This situation offers a good opportunity for investigating the relationship between the ownership Structure and financial performance of listed beverage food and tobacco companies in Sri Lanka during the period of 2010-2015.