

SECTION F

701/F

Ownership concentration and firm performance: Evidence from selected listed companies in Sri Lanka

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Identifying company performance is considered important to deal with current and future market situations and to fulfil expectations of stakeholders of businesses. The purpose of this study was to identify the pattern of ownership concentration and its relationship to performance of firms in banking, finance and insurance sectors in Sri Lanka.

Data for companies in banking, insurance and finance sectors that are listed in the Colombo Stock Exchange for financial year 2006/2007 were gathered from annual reports, Hand Book of Listed Companies, and from the internet. Descriptive, correlation, multiple regression, and ANOVA were used to analyze the data. Tobin's Q was used to measure the performance of firms and was considered the dependent variable in the regression analysis. Independent variables used were percentage shares held by five largest shareholders, percentage shares held by twenty largest shareholders, size of the company, years of experience and leverage. Percentage shares held by five largest shareholders and the same by twenty largest shareholders were also used as dependent variables in a separate regression.

Findings revealed that percentages of shares held by large shareholders and size of the firm have significant impact on firm performance. There is a relationship between firm performance and majority shareholders' shareholding percentage in this industry and this relationship is stronger with more shareholders than with less stakeholders. Firms perform better if shareholdings are spread over more shareholders than a few shareholders.

This study concludes that the ownership concentration is more important and shareholders are seeking companies' performance in order to make their investment decision. Increased control power with large shareholders has strong effects on firm performance in banking, insurance and the finance industry in Sri Lanka.

Keywords: Business performance; listed companies; shareholders; ownership concentration; Tobin's Q ratio