Ownership Structure and Firm Performance: Evidence from Listed Beverage Food and Tobacco Companies

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Corporate governance is the system of internal controls and procedures by which individual companies are managed. Firms with a completely dispersed ownership are rare. Controllers always hold some ownership of the firm equity they control. Thus, ownership structure is a critical corporate governance mechanism.The ownership structure is defined by the distribution of equity with regard to votes and capital, but also by the identity of the equity owners. Ownership structures are also of major importance in corporate governance because they affect the incentives of managers, and thereby the efficiency of firms. One of the indications of best corporate governance control over managers' decisions is how far ownership of the firm is concentrated on major shareholders and its impact on finance performance. Firm performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. As the agency theory states that the agency relationship is an agreement between principals and agents, it is clear that the main duty and responsibility of the agents is to run the firms successfully to maximize profits. The relationship of ownership structure and firm performance is an important area of study in the broader field of Corporate Governance from last two decades. This study examines empirically the relationship between ownership structure and firm performance of listed Beverage foods and Tobacco companies in Sri Lanka, from an 'agency perspective'. There are number of studies conducted in the field of Ownership structure and Firm performance many studies found positive and negative link of Ownership Structure on firms performance in various industries. According to the above studies, there is a question arise is there any relationship between Ownership Structure on Firm Performance? So the effect of ownership structure on firm Performance will be investigated.The main objective is to examine the relationship between ownership structure and firm performance of listed Beverage foods and Tobacco companies in Sri Lanka.

The ownership structure-firm performance relationship has been receiving significant attention in financial literature. Demsetz (1983) claimed that ownership structure is an endogenous aspect that maximizes the profit and value of a firm. Based on the above arguments, managers along with shareholders should have a united objective of increasing firm value (Jensen, 2000). Similarly, ownership structure can be categorized into widely held firms and firms having controlling owners/concentrated ownership where the former category of firms' owners does not have substantial control rights (Ibrahim & Samad, 2011). Furthermore, Fazlzadeh, Hendi and Mahboubi (2011) claimed that ownership structure plays a key role in firm performance and provides policy makers with insights for enhancing corporate governance system. In the majority of developed countries, ownership structure is significantly dispersed. On the contrary, in the developing countries characterized by a weak legal system safeguarding the investor' interests, the ownership structure is concentrated (Ehikioya, 2009). As such, the present study focuses on the examination of the ownership structure-firm performance relationship.

Although the essence of the ownership structure, role is to improve performance, there are extensive studies, ignoring the examination of this role in firm performance. However, there are many studies that confined their study to only the relationship between board characteristics, audit committee, CEO with firm performance. In addition, only a few researchers have investigated the association between some factors of ownership structure with firm performance (e.g. Akimova & Schwodiauer, 2004; Chen, Chen & Chung, 2006; Douma et al., 2006; Ganguli & Agrawal, 2009; Kapopoulos & Lazaretou, 2007; Lemmon & Lins, 2001; Mollah & Talukdar, 2007; Sánchez-Ballesta & García-Meca, 2007). Therefore, given the importance of ownership structure, role to attract investors either local or foreign, to ensure future investment, this study investigates the relationship between ownership structure and firm performance.

Kapopoulos and Lazaretou (2007) tried to find out the relation between ownership structure and firm performance.They investigate it by hypothesis testing using sample of 175 Greek firms. They empirically found the impact of ownership structure on performance of the firm measured by profitability. They suggested that when a firm has high concentrated ownership, the profitability of that firm is also high. Jelinek and Stuerke (2009) examined that there is positive relation between managerial ownership and return on asset but negatively associated with the expense ratio.Daraghma and Alsinawi (2010) examined the effect of capital structure, board of directors and management ownership on the financial performance. They found that management ownership has positive effect on the financial performance.

This study utilized the listed Beverage food and Tobacco companies in SriLanka as its population. The sample of this study composed of Eighteen Beverage foods and Tobacco companies on the Colombo Stock Exchange by using the random sampling method. This study utilized the data collection, by using the secondary sources which means that the data have been collected over the sample period of 2012 to 2016.This study considers domestic ownership and foreign ownership as independent variables while return on assets, return on equity and TobinsQas dependent variable whereas firm size and leverage are controlling variable. Stata software programmed exclusively applicable to statistical processing is used for processing the data.

The result of this study revealed that two components of ownership structure variables such as foreign ownership and domestic ownership. In the case of ROA, ROE and Tobins Q the shareholding of residence (DOR) has significant positive relationship at the 1 Precent significant level. In respect of ROA ROE and Tobins Q the foreign ownership has significant negative relationship. Therefore, the foreign ownership has significant impact on firm performance in Sri Lanka. This may arise due to the appropriate government policies regarding the foreign direct investments.

The following suggestions are recommended to increase the firm financial performance of the beverage food and tobacco Industry based on ownership structure. An appropriate mix of ownership should be adopted in order to increase the firm financial performance of Beverage Food and Tobacco Companies. A prerequisite to formulating effective tobacco policies to some extent depends on the understanding of how ownership structure influences the firm financial performance. To add to the above, it is often the desire of top management of every beverage food and tobacco 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 Beverage Food and Tobacco sector in Sri Lanka.

Keywords: Corporate Governance; Ownership Structure; Firm Performance; Tobinsq; Listed Beverage Food and Tobacco Companies

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