Performance implication of ownership structure and ownership concentration: evidence from Sri Lankan firms

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Abstract

Purpose - This paper seeks to examine the impact of ownership concentration and ownership structure on firms' performance of a sample of public listed companies in Sri Lanka in the premise of an agency theory framework.

Design/methodology/approach - The paper first investigates the nature of ownership structure and concentration and then examines whether there is strong evidence to support the observation that the variations of ownership structure across firms result in systematic variations in firm performance. This hypothesis is tested by assessing the impact of ownership structure and concentration on firm performance measured in terms of accounting profitability and market performance using data for 45 Sri Lankan listed companies.

Findings – The main finding indicates that there is a significant relationship between ownership concentration (SH10) and the performance of Sri Lankan companies measured in terms of an accounting performance measure of Return on Assets (ROA). However, no significant relationship was found between the Herfindahl index (HERF), which is a measure of ownership concentration, and any of the performance measures tested in the study. The insignificance of the HERF suggests that there could be a nonlinear relationship between ownership concentration and a firm's performance. This study also did not find a relationship between market-based performance measures of companies and ownership concentration or the ownership structure of the Sri Lankan companies. This finding suggests the existence of market anomalies common to most of the emerging markets.

Keywords

Performance, implication, ownership, structure, ownership, concentration, Evidence, from, Sri, Lankan, firms

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PERFORMANCE IMPLICATION OF OWNERSHIP STRUCTURE AND OWNERSHIP CONCENTRATION: EVIDENCE FROM SRI LANKAN FIRMS

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Keywords: corporate ownership, ownership concentration, corporate governance, performance, emerging markets, Sri Lanka

Introduction

Effective corporate governance is of importance to any country because of its direct influence on economic development. Hence, designing corporate governance mechanisms for effective decision-making is paramount. The concept of corporate governance covers large number of distinct economic relations. One such relation is corporate ownership structure and its influence on corporate performance which is the main focus of this paper. Much of the literature on the governance of modern corporate entities is based on the assumption that the corporate ownership is widely dispersed where the ownership and control is separated between owners (principal) and managers (agent).

This notion originally derives from Berle and Means (1932) and has been much propagated after the seminal work by Jensen and Meckling (1976). However, recent literature shows a high level of ownership concentration in corporate entities in many developed and developing countries especially outside the Anglo-Saxon countries (Shleifer and Vishny, 1997; La Porta et al., 1999). It is therefore important to examine the impact of ownership structure and concentration on a firm's performance in this context. Theoretically, it can be argued that the ownership concentration may improve performance by decreasing monitoring costs or decline due to the possibility that large shareholders use their control rights to achieve private benefits (Shleifer and Vishny, 1986).

Performance implications of ownership concentration have been examined empirically by various researchers and have produced mixed results. For example Demsetz and Lehn (1985) find no effect of ownership concentration on accounting profit whereas Leech and Leahy (1991) find a negative relationship between the ownership concentration and firm's value and profitability. On the other hand, Zeitun and Gary (2007) find significant positive relationship between ownership concentration and the accounting performance measure of return on assets (ROA) and return on equity (ROE) and Morck et al. (1988) find a non-linear relationship between insider ownership and firm performance in their examination of examining Fortune 500 firms for the year 1980. However, most research on ownership concentration and performance has been conducted in developed countries. There is an increasing awareness that the theories originated based on the evidence collected on developed countries such as the USA and the UK may have limited applicability to emerging market due to the vast differences in political, socio-cultural and business contexts between the developed and developing countries.

In general emerging markets have distinct political economic and institutional characteristics which limit the application of an empirical model originated in developed markets. Recent studies on corporate governance suggest that social, economic and cultural factors of a country affect corporate ownership structure which in turn impacts on a firm's performance (Zeitun and Gary, 2007). Due to historical and economic reasons, Sri Lankan companies' governance structure and practices are very much influenced by neo-liberal reinforcement of good governance practices (Alawattage and Wickramasinghe, 2004). However, the ownership structure of Sri Lankan companies is characterized by the controlling shareholder usually being another corporate entity; wide prevalence of family ownership as the ultimate owners; extensive use of a pyramid ownership structure, cross-holdings and participation in management by controlling shareholders to enhance corporate control; and an absence of a large community of arms-length institutional shareholders (Senaratne and Gunaratne, 2007). Corporate control is therefore often in the hands of a few individuals, families or corporate groups who hold the majority of ownership. These features have created a unique business environment which is vastly different to that found in developed countries.

This paper examines the impact of ownership structure and ownership concentration on firms' performance of a sample of public listed companies in Sri Lanka in the premise of an agency theory framework. This paper is motivated by the lack of evidence about the relationship between corporate structure and firm performance in Sri Lankan firms. Samarakoon (1999) examined the ownership structure of companies listed on the Colombo Stock Exchange (CSE) and found that the ownership of these companies is highly concentrated, with a controlling shareholder in most companies. The existing governance structure of Sri Lankan companies being dominated by controlling shareholders, shows some similarity to the inside systems corporate governance model. However, whether there is an

impact from the presence of controlling shareholders' participation in corporate management on firm performance is the question examined in this study.. Hence, this study examines whether agency theory is equally valid for explaining the relationship between performance and ownership structure in the developing economy of Sri Lanka.

The reminder of this paper is organized as follows. Section two provides a brief review of the existing literature on the effects of ownership structure and concentration on firms' performance. Section three explains the data and variables selection methods employed for the study. The empirical analysis and results are presented in the fourth section. Section five concludes the discussion.

Literature review

Governance issues arise when ownership of a legal entity is separated from its management (Tricker, 2000). This intensifies the need to search for good governance practices, as identified by Berle and Means (1932). Central to this analysis is agency theory which explains the conflict of interest between inside owners and outside shareholders (Jensen and Meckling, 1976). Jensen and Meckling (1976) argue that relative to the amount of ownership held by insiders, managers are provided with incentives to pursue activities to serve their own benefits, which in turn are aligned also to enhance the firm value. According to their hypothesis, both a firm's value and its performance increase with the level of insider ownership.

The market centric economies are largely characterized by the existence of a widely held ownership structure, highly liquid stock markets due to good investor protection and control of companies by professional managers on behalf of scattered shareholders (Bhasa2004). In these economies, corporate management has more power to make decisions, and these decisions may frequently be in their own interest, which may give rise to an agency cost. Agency theory argues that ownership concentration may improve firm performance by decreasing agency costs (Shleifer and Vishny, 1986). Jensen and Meckling (1976) claim that agency costs consist of three different components: monitoring costs, bonding costs and residual loss. Monitoring costs are the control costs incurred by the principal to mitigate the devious behavior of the manager. Bonding costs are incurred to ensure that the manager takes decisions beneficial to the principal. Residual loss is a political cost that occurs when both the above kind of costs fails to control the divergent behavior of the manager. Further, Jensen and Meckling (1976) showed formally how the allocation of shares among insiders and outsiders can influence the agency cost and value of the firm. Since then, the relationship between ownership and firm performance has attracted special attention. Agency theory perspective and empirical literature thereof usually considers insider ownership as the main corporate mechanism that affects firm value. However, empirical evidence regarding the relationship between ownership concentration and the financial performance or firm's value has shown mix results (e.g., Agrawal and Knoeber, 1996; Demsetz and Villalonga, 2001; Thomsen et al., 2006). Despite the wealth of research the question whether a large number of owners, or a concentration of ownership, contributes to reduced agency costs, thereby improving the firm value and financial performance remains unanswered.

The agency theory hypothesis that ownership concentration may improve firm performance by decreasing agency costs was first challenged by Demsets (1983), who argues that the ownership structure of a corporation should be thought of as an endogenous outcome of decisions that reflect the influence of shareholders. According to Demsetz (1983), there

should be no systematic relation between variations in ownership structure and variations in firm performance. Demsetz and Lehn (1985) provide evidence of the endogeneity of a firm's ownership structure. They used a measure of the profit rate on a fraction of shares owned by the five largest shareholding interests and found no evidence of any relation between the profit rate and the ownership concentration. However, Shleifer and Vishny (1986) show the importance of the role played by large shareholders, and how the price of a firm's shares increases as the proportion of shares held by large shareholders rises. They argue theoretically for a positive relationship between ownership concentration and firm value.

In a seminal study, Morck et al. (1988) ignored the endogeneity issue altogether and re-examined the relation between corporate ownership structure and performance measured in terms of Tobin's Q and proposed a non-linear relationship between insider ownership and firm performance. They found a positive relationship between corporate ownership structure and Tobin's Q for less than 5 per cent board ownership range, a negative relationship between 5 per cent to 25 per cent range and a positive relationship for ownership exceeding 25 per cent. However their results are not supported with accounting based performance measures. Wu and Cui (2002) found that there is a positive relation between ownership concentration and accounting profits, indicated by return on assets (ROA) and return on equity (ROE), but the relation is negative with respect to the market value measured by the share price-earning ratio (P/E) and market price to book value ratio (M/B).

Corporate governance mechanisms vary around the world and can produce different ownership effects on firms' performance. Corporate governance literature identifies the existence of four different models of governance viz., outsider system (market-centric model) insider system (relationship-based model), transition model and emerging governance model. These models are widely different in terms of how those associated are accountable in the process of the separation of ownership and control within the organization (Bhasa, 2004). In countries such as USA and UK where market-centric mechanisms are in operation, firms substantially rely on the legal protection of investors and an ownership structure that is dispersed. In Europe and Japan where relationship mechanism is in operation, there is less reliance on elaborate legal protections, and more reliance on large investors and banks. In the rest of the world, ownership is typically heavily concentrated in families, in which the legal protection is weaker than the other types of ownership. The market-centric and relationship-based governance models have been widely discussed in governance literature providing evidence as to how the differences in economic characteristics bring about different governance practices with different performance efficiency. Nevertheless, emerging governance models have not been extensively examined. While an increasing body of literature has referred to the potential differences in economic characteristics of developing counties, much less discussion is available in respect of the corporate structure, governance practices and their influence on performance of the firm.

Corporate governance issues are extensively examined under various theoretical perspectives such as the agency, stewardship, stakeholder and the political models. These theoretical perspectives provide different viewpoints to investigate firms and their governance (Turnbull, 1997). However, the dominant focus in mainstream literature has been from an agency perspective of the firm with a view to securing owners' interests by reducing agency cost. Most of these theories are developed and examined in the developed economies assuming contextual conditions of these economies provide universal reference. Tricker (cited in Turnbull, 1997) states "stewardship theory, stakeholder theory and agency theory are all essentially ethnocentric. Although the underlying ideological paradigms are seldom

articulated, the essential ideas are derived from Western thought, with its perceptions and expectations of the respective roles of individual, enterprise and the state and of the relationships between them." An increasing body of literature has referred to the potential differences in economic characteristics of developing countries. However, interaction of these economic characteristics with governance and corporate structures and performance implications of these factors have not been examined extensively even though the empirical studies on ownership structure on firms' performance, mostly from developed countries, have provided divergent evidence. These contextual differences across countries therefore, create another dimension to the ownership structure and performance issue. In an attempt to reconcile this divergent evidence, Udayasankar and Das (2007) notionally explained the performance implication of corporate governance in the context of the exogenous environment supported with multiple theories of corporate governance such as agency, stakeholder, resource-dependence, and institutional theories and created an argument that the regulation and competitive forces in the environment interact with the governance practices of firms, resulting in idiosyncratic effects on performance.

Because of the contextual differences across countries, different relations between ownership and firm value could be expected. For example, in emerging economies, where firm ownership is highly concentrated with family ownership, a positive and significant effect of ownership concentration on firm performance is proposed. This argument is confirmed by the study of Zeitun and Gary (2007). They examine the relationship of ownership concentration, and firm performance both in term of accounting measures and market measures using a sample of public listed companies in the Jordan stock exchange, and found that there is a significant relation between ownership concentration and the accounting performance measures. Abor and Biekpe (2007) investigated whether the effects of corporate governance and ownership structure on the performance of SME's in Ghana. They find that board size, board composition, CEO duality, inside ownership and family ownership have significant positive impacts on profitability.

In spite of all these efforts to investigate the effect of ownership structure on firms' performance until now there are few studies which analyze the ownership structure and its main characteristics, but there is no study to the effect of ownership structure on firms' performance on Sri Lanka companies.

Data and variables

Data

The data used in this study included 45 publicly listed companies on the Colombo Stock Exchange (CSE) for the year 2007/2008. These companies are selected randomly covering fourteen different industrial sectors out of twenty industrial sectors represented in the CSE. The sectors represented include Beverage Food & Tobacco, Chemical, Diversified, Heath Care, Hotel & Travel, Investment Trust, Land & Property, Manufacturing, Motors, Plantation, Power & Energy, Services, Telecommunications and Trading. However, the Banking, Finance and Insurance sector is excluded from the initial sample selection process since applicable regulation for this sector especially in respect of share ownership; profitability measures and liquidity assessment are vastly different from the firms in the other industrial sectors. The major items of interest are balance sheets, income statements, ownership structure, and the percentage holdings of all main shareholders. As per the listing rules of the CSE, all listed companies should prepare financial statements based on the Sri

Lanka Accounting Standards which are adopted from International Accounting Standards. Furthermore, information in respect of distribution of shares, composition of shareholders in terms of institutional and individual and the shareholding of twenty major shareholders has to be disclosed in the annual reports. Table 1 presents the profile of companies in the sample.

Total Assets

Rs. Millions	Frequency	%
0-100	7	16%
101-500	8	18%
501-1000	11	24%
1001-5000	12	27%
5001-10000	5	11%
>10000	2	4%
	45	100%

Descriptive statistics	Rs. Millions
Mean	3,883
Standard Deviation	11,248
Minimum	8
Maximum	69,907

Sales

Rs. Millions	Frequency	%
0-25	4	9%
26-100	11	24%
101-1000	16	36%
1001-2500	7	16%
2501-10000	5	11%
>10000	2	4%
	45	100%

Descriptive statistics	Rs. Millions
Mean	1,851
Standard Deviation	4,949
Minimum	4
Maximum	31,129

Age

Years	Frequency	%
0-5	1	2%
6-15	3	7%
16-30	21	47%
31-50	8	18%
51-100	11	24%
>100	1	2%
	45	100%

Descriptive statistics	Years
Mean	36
Standard Deviation	25
Minimum	5
Maximum	164

ROA

Per cent	Frequency	%
<1	8	18%
1-2.5	5	11%
2.5-7.5	16	36%
7.5-15	11	24%
20	3	7%
>20	2	4%
	45	100%

Descriptive statistics	Per cent
Mean	6.68
Standard Deviation	6.73
Minimum	-4.60
Maximum	27.80

Table 1: Profile of the Companies in the Sample

As shown in Table 1, there is a significant dispersion between the size of sample companies measured by either total assets or the sales. The total assets of sample companies ranged from 8 million rupees to 69,907 millions, showing a massive disparity. While the average total assets of companies amounted to 3,883 million rupees, the total assets of the majority of companies (58%) were less than 1,000 million rupees. A similar situation is observed when the size of the companies is measured in terms of sales, which varied from 4 million rupees to 31,129 million rupees between companies, also showing a huge disparity between sample companies in terms of sales. The sample companies consisted of both young and old companies with the age of companies ranging from 5 to 164 years. The majority of companies in the sample (56%) were less than 30 years old and 74 per cent of companies were less than 50 years old. As for the profitability level of companies, once again there was

a wide disparity. While 41 companies in the sample were profitable, the remaining 4 companies were earning negative returns on their assets in the year 2008. The average profitability ratio of the sample companies in 2008 was 6.7% while the majority of companies (65 %) earned less than 7.5% of return on their assets.

Variables

Return on assets (ROA) is used as an accounting performance measure while Tobin's Q (TQ) and market-to-book value ratio (MBR) are employed as the market performance measures of firms. These performance variables represent the dependent variables used separately in the regression model. The concentration ratios, ownership fraction ratio, and other control variables are used as explanatory variables.

To determine the ownership concentration initially five variables have been constructed namely the percentage held by the largest shareholder (SH1), the percentage held by two largest shareholders (SH2), the percentage held by first three largest shareholders (SH3) the percentage held by first five largest shareholders (SH5) and the percentage held by first ten largest shareholders (SH10). Further, the Herfindahl Index (HERF) of ownership concentration i.e. the sum of squared percentage of shares controlled by each top five shareholders is also used as a concentration variable. Table 2 presents descriptive statistics for the concentration variable for the sample. All concentration ratios indicate that ownership is highly concentrated. The average of largest shareholder's ownership is 44 per cent whereas first ten largest shareholders' ownership average is as high as 80 percent. The data also reveal that there is a substantial variation across firms in ownership concentration. Despite the high average, the largest owner's ownership varies between 10 per cent and 83 per cent. The average value of median of largest shareholder's ownership in France and Spain is 20 and 34 per cent respectively (Becht and Roell, 1999). The range of median in Sri Lankan firms is considerably high by this standard.

Variable	Mean	SD	Minimum	Median	Maximum
SH1	44.24	21.21	10.57	47.00	83.15
SH2	57.04	19.82	20.70	57.75	92.01
SH3	63.62	17.74	25.27	64.86	93.91
SH5	71.14	15.19	30.27	70.65	95.99
SH10	79.35	12.06	41.49	81.03	100.00
HERF	2724.70	1823.77	270.97	2537.82	6923.55

Table 2: Ownership Concentration Variables

Variable	SH1	SH2	SH3	SH5	SH10	HERF
SH1	1					
SH2	0.934145	1				
SH3	0.884755	0.980014	1			
SH5	0.778855	0.8903	0.953456	1		
SH10	0.564655	0.684845	0.781763	0.91311	1	
HERF	0.976334	0.927397	0.891786	0.806802	0.623622	1

Table 3: Correlation Matrix of Concentration Variables

To determine the appropriate concentration variables for the regression model, the correlation coefficient matrix of the variables has been constructed as presented in Table 3. After eliminating highly correlated variables, SH10 and HERF index are used as indictors of

ownership concentration to investigate whether ownership concentration increased firms' performance.

Most of the studies about the relation between ownership structure and firm performance used managerial ownership as the measure of ownership structure. However, the ownership structure of Sri Lankan companies is characterized by peculiar features such as the controlling shareholder is usually another corporate entity; wide prevalence of family ownership as the ultimate owners; extensive use of a pyramid ownership structure and cross-holdings (Senaratne and Gunaratne, 2007). In this sample 38 of the companies have another company as its major shareholder. Further, very high percentage of shares is owned by institutional investors. These shareholders are different in their interests in the firm and their incentives and ability to monitor the firm. To determine whether there is an influence of this ownership structure on firm performance two fraction ratios (F) i.e. the fraction of shares owned by other institutions (F-Com), and the fraction owned by individuals (F-Ind) are constructed. Table 4 present descriptive statistics for the fraction variables for the sample. An important question addressed in this study is whether ownership structure has an impact on performance.

Variable	Mean	SD	Minimum	Median	Maximum
Percentage of shares owned by another institutions (F-Com)	68.64	23.90	11.59	73.76	99.99
Percentage of shares owned by individuals (F-Ind)	31.36	23.90	0.01	26.24	88.41

Table 4: Ownership Structure

Factors other than ownership structure may also affect a firm's performance. To take them into account, a set of control variables have been incorporated into the regression model. These control variables include total assets (T-Ast), total sales (TS), firm age (Age), total debt to total asset (TD/TA) and total debt to total equity ratio (TD/TE). The relationship between variables is estimated using regression analysis.

Analysis and results

This study examines the relationship between variations in ownership concentration variables and ownership structure variables, and the firms' performance. The hypothesis tested is that ownership concentration does affect the firm's performance positively.
The estimated equation to test the hypothesis is as follows.

$$\mathbf{Y = \beta_0 + \beta_1 (SH10) + \beta_2 \,Log\,(Sales) + \beta_3 \,Log\,(Age) + \beta_4 (TD/TA) + \beta_5 (F) + e \quad (1)}$$

where Y is alternatively ROA, TQ, and MBR for firm i as a measure of performance. The independent variables are represented by the concentration ratio (SH), ownership fraction ratio (F), log sales, log age and TD/TA ratio. Only SH10 and the HERF are used as concentration ratios in the estimation to investigate the effect ownership concentrations on firm's performance. F is alternatively F-Com and F-Ind where as e is an error term.

The results of the regression are reported in Table 5 where SH10 is used for the ownership concentration. Table 6 presents the regression results where HERF is used for the ownership concentration. The SH10 variables were found to have a positive and significant impact on ROA at least at a 5 percent level of significance for various equations as indicated in Table 5.

However, the estimated coefficient of HERF has no impact on ROA. Neither the HERF nor the SH10 have any explanatory power for both Q and MBR.

Variable		Constant	SH10	Sales	Age	TD/TA	F-Ind	F-Com	R2	Adj. R2
ROA	Coefficient	(13.82)	0.18	2.43	(3.40)	(9.19)	0.05		0.25	0.15
	t-Statistic	(1.25)	1.79*	2.05**	(0.93)	(1.92)*	0.93			
ROA	Coefficient	(9.19)	0.18	2.43	(3.40)	(9.19)		(0.05)	0.25	0.15
	t-Statistic	(0.98)	1.79*	2.05**	(0.93)	(1.92)*		(0.93)		
TQ	Coefficient	20.46	(0.05)	(4.25)	4.37	14.89	(0.04)		0.09	(0.03)
	t-Statistic	0.78	(0.23)	(1.52)	0.50	1.32	(0.34)			
TQ	Coefficient	16.41	(0.05)	(4.25)	4.37	14.89		0.04	0.09	(0.03)
	t-Statistic	0.74	(0.23)	(1.52)	0.50	1.32		0.34		
MBR	Coefficient	43.48	(0.10)	(9.70)	9.93	34.12	(0.09)		0.09	(0.02)
	t-Statistic	0.74	(0.19)	(1.54)	0.51	1.34	(0.34)			
MBR	Coefficient	34.50	(0.10)	(9.70)	9.93	34.12		0.09	0.09	(0.02)
	t-Statistic	0.69	(0.19)	(1.54)	0.51	1.34		0.34		

Note: ***, **, * indicate significant at 1 percent, 5 percent and 1 percent level respectively.

Table 5: Ownership Concentration (SH10), Structure and Firm's Performance

Variable		Constant	HERF	Sales	Age	TD/TA	F-Ind	F-Com	R2	Adj. R2
ROA	Coefficient	(0.83)	0.00	2.74	(2.97)	(9.22)	(0.00)		0.18	0.08
	t-Statistic	(0.09)	0.05	2.15**	(0.78)	(1.85)*	(0.04)			
ROA	Coefficient	(1.04)	0.00	2.74	(2.97)	(9.22)		0.00	0.18	0.08
	t-Statistic	(0.12)	0.05	2.15**	(0.78)	(1.85)*		0.04		
TQ	Coefficient	18.97	(0.00)	(3.74)	3.**75**	15.29	(0.08)		0.10	(0.01)
	t-Statistic	0.95	(0.71)	(1.30)	0.43	1.36	(0.65)			
TQ	Coefficient	10.73	(0.00)	(3.74)	3.75	15.29		0.08	0.10	(0.01)
	t-Statistic	0.54	(0.71)	(1.30)	0.43	1.36		0.65		
MBR	Coefficient	41.69	(0.00)	(8.50)	8.56	35.03	(0.19)		0.10	(0.01)
	t-Statistic	0.94	(0.72)	(1.31)	0.44	1.39	(0.68)			
MBR	Coefficient	22.60	(0.00)	(8.50)	8.56	35.03		0.19	0.10	(0.01)
	t-Statistic	0.50	(0.72)	(1.31)	0.44	1.39		0.68		

Note: ***, **, * indicate significant at 1 percent, 5 percent and 1 percent level respectively.

Table 6: Ownership Concentration (HERF), Structure and Firm's Performance

The significant impact of the concentration ratios on ROA is in support of the Shleifer and Vishny (1986) hypothesis that concentrated ownership might reduce the agency cost, and hence increase the firm's performance. These results are consistent with Zeitun and Gary (2007); that ROA and ROE are the most important factor used by investors rather than the market measure of performance. This finding is also consistent with the result of Wu and Cui (2002) that there is a positive relationship between ownership concentration and accounting profits measured in terms of ROA. The insignificant results of concentration variables in both Q and MBR equations could be due to inefficiency of the Sri Lankan equity market where company fundamentals are not impounded into share price efficiently. Further, this may be due to the incapability of capturing other types of inherent market anomalies which are common to small markets.

In summary, empirical evidence suggests that ownership concentration has a positive effect on a firm's performance. The positive effect of ownership concentration has a stronger effect on the accounting performance measurements than on market ratios of performance measurements

Conclusions

This paper investigates the relationship between ownership structure and concentration and firm performance for a sample of 45 Sri Lankan public companies listed on the CSE. This study provides useful information on the performance level and the impacts of ownership concentration on both accounting performance and market performance. This paper not only studies the relationship between ownership concentration and firm's performance, but also investigates whether the ownership structure, measured in term of fraction of shares owned by institutions and fraction of shares owned by individuals has an effect on a firm's performance.

The paper produces significant and consistent results in respect of accounting performance. First, empirical findings indicate that there is a significant relation between ownership concentration (SH10) and the accounting performance measure ROA. Secondly, the HERF is not significant at any level of significance in any measure of performance. The insignificance of the HERF shows that there could be a nonlinear relationship between ownership concentration and a firm's performance. Furthermore, ownership concentration or ownership structure did not show any effect on market based performance measures. This finding suggests the existence of market anomalies in Sri Lanka which are common to most of the emerging markets.

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