OWNERSHIP DIVERSITY EFFECT ON FIRM PERFORMANCE: EVIDENCE FROM NON-FINANCIAL FIRMS LISTED IN COLOMBO STOCK EXCHANGE

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INTRODUCTION

Ownership diversity can be defined as the spread of ownership and control among many different types of shareholders (Roberson et al., 2017; Mayo et al., 2017). According to La Porta et al. (2000), finding the effect of ownership diversity on firms' performance is very important and exciting to all stakeholders participating in the capital market. According to Shleifer and Vishny (1986), major shareholders actively improve their financial performances to minimize their significant loss when there is a concentrated ownership structure in the business entity. In this situation, the significant shareholders attempt to maximize the firm's value by reducing information asymmetries and agency problems and recovering the business entity from financial distress (Claessens et al., 2002). In contrast, Jensen (1993) argues that when the ownership structure is concentrated (not diversified), it creates information asymmetries between major and minor shareholders. Due to creating information asymmetries between the major and minor shareholders, the major shareholders try to achieve their private benefits by ignoring the minor shareholders' interests which leads to the reduced financial performance of the business firms (La Porta et al., 2000).

In recent years, many Sri Lankan companies' ownership structure has been increasingly diverse regarding ethnicity, nationality, gender, and socioeconomic status. These diversified ownership structures have created performance problems in Sri Lankan companies during the last few years. Therefore, finding the effect of ownership diversity on firm performance is significant for all stakeholders participating in the capital market. Many research studies have been carried out to determine the impact of ownership structure on firms' performance. However, only very few studies investigate the impact of ownership diversity on the firm's performances, measured using an acceptable diversity index. In the Sri Lanka context, it is rare to find studies that investigated the ownership diversity impact on the firms' performances. Considering this research gap, the researcher used different theories, including the agency theory, stewardship theory, and entrenchment theory, to investigate how to affect ownership diversities on the firm's performance of listed non-financial companies on the Colombo Stock Exchange (CSE).

METHODOLOGY

This research study investigated ownership diversity's effect on firms' performances by taking a sample of 186 non-financial firms listed on the CSE from 2012 to 2021. The researcher used

Tobin's Q (TQ), Return on Assets (ROA), and Return on Equity (ROE) to measure the firms' financial performances. As a generally accepted indicator of measuring diversity, this study used Herfindahl-Hirschman Index to measure the ownership diversity of listed non-financial companies in the CSE. To calculate the diversity index, the researcher incorporates block holdings of domestic individual ownership percentage, domestic institutional ownership percentage, foreign individual and institutional ownership percentage, and government ownership percentage of the listed non-financial companies in the CSE. The researcher incorporated firm size, net profit margin, payout ratio, leverage, and sales growth as control variables of this study. The study used descriptive statistics to provide summary statistics on the variables of the research study. Correlation analysis was used to establish the association between variables and to investigate the impact of ownership diversity on firms' performances; three-panel regression models were used. Marginal probability analysis was also carried out to identify the likelihood of change in probability associated with the study's variables.

RESULTS AND DISCUSSION

Table 1 presents the descriptive statistics of all variables adopted in estimating the relationship between ownership diversity and financial performance on a sample of 186 firms listed on the CSE from 2012 to 2021.

Table 1 Descriptive Statistics

Variable	Observations	Mean	Median	SD	Kurtosis	Skewness	Min.	Max.
Dependent Variable (Financial Performances)								
TQ	1860	0.192	0	0.394	3.440	1.562	0	1
ROA	1860	0.053	0	0.224	16.891	3.986	0	1
ROE	1860	0.525	1	0.499	1.010	0.102	0	1
Independent Variable (Ownership Diversity)								
OD	1860	0.127	0	0.190	2.239	0.982	0	0.624
Controlling Variables								
FS	1860	6.443	6.499	0.649	4.072	0.475	3.814	8.229
PM	1860	0.722	0.081	10.567	506.506	15.263	-158.86	303.489
PR	1860	3.664	0.500	9.680	33.596	5.082	0.0007	95.770
LV	1860	0.336	0.341	0.223	2.500	0.493	0.0002	0.999
SG	1860	0.384	0.054	3.980	288.374	15.648	-14.458	92.000

The summary statistical results revealed that most non-financial companies have a non-diversified ownership structure. This finding is consistent with the results of investigations carried out by Manawaduge & Zoysa (2013) and Samarakoon (1999).

Table 2 Correlation Matrix

Variable	TQ	ROA	ROE	OD	FS	PM	PR	LV	SG
TQ	1.000	-	-	-	-	-	-	-	-
ROA	0.282	1.000	-	-	-	-	-	-	-
ROE	0.377	0.182	1.000	-	-	-	-	-	-
OD	-0.578***	-0.766***	-0.664**	1.000	-	-	-	-	-
FS	0.039	-0.070***	0.005	0.065**	1.000	-	-	-	-
PM	-0.294***	-0.024	-0.009	-0.001	0.052**	1.000	-	-	-
PR	-0.418***	-0.256***	0.043*	0.032	0.104***	0.012	1.000	-	-
LV	0.371***	0.088***	0.147***	0.078***	0.076***	-0.036	0.095***	1.000	-
SG	-0.078***	-.0501*	.05100**	-0.007	-0.071***	-0.016	-0.011	-0.037	1.000

The correlation analysis presented in table 2 indicates that ownership diversity is negatively and significantly ($P<0.05$) associated with the firms' performances. This finding is supported by Elstona and Yang (2010) and Dan Hu and Haiyan Zheng (2015).

Table 3 Panel Regression Results

Variables	Model 01: TQ		Model 02; ROA		Model 03: ROE	
	Fixed Effect	**Random Effect**	**Fixed Effect**	**Random Effect**	**Fixed Effect**	**Random Effect**
Independent Variable (Ownership Diversity)						
OD_{it}	-0.126	-0.406**	-00.783**	0.019**	0.478**	-0.102**
	(80.2036)	(37.367)	(140.394)	(65.401)	(3655845)	(2377460)
Controlling Variables						
FS_{it}	16.619	4.136**	30.239	7.356**	-646629	972629.8
	(34.225)	(9.754)	(59.897)	(17.025)	(2688412)	(1648669)
PM_{it}	0.078**	0.009	0.146	0.029	-32.6593	-2689.65*
	(0.060)	(0.053)	(0.106)	(0.093)	(2240.82)	(4243.61)
PR_{it}	0.065**	0.219**	0.114	-0.388	-207612.8	-315569
	(0.217)	(0.261)	(0.379)	(0.456)	(172045)	(256184)
LV_{it}	-54.947	-	-97.548	-183.733***	-2873395	-230313**
	(43.107)	103.688***	(75.440)	(65.952)	(1771999)	(3169328)
		(37.702)				
SG_{it}	-2.011	-0.415	-3.518	-0.723	21669.26	21879.57
	(1.670)	(0.390)	(2.924)	(0.684)	(21739.5)	(21484.12)

The results of the research study's three random effect panel regression analysis in table 3 revealed that the ownership diversity coefficient negatively and statistically ($P<0.05$) impacts the firms' performances (TQ, ROA, and ROE) of the listed non-financial companies of the CSE. The study's regression models further revealed that the net profit margin, payout ratio, and firm size positively and statistically ($P<0.05$) impact the firms' performances. In contrast, negative financial leverage ($P<0.05$) affects the firms' performances negatively and statistically. This finding is supported by Shleifer and Vishny (1986); Elloumi and Gueyie (2001); Claessens et al. (2002); Parker et al. (2002) and Pathirawasam and Wickramasinghe (2012). The marginal probability analysis of the research study indicated a small probability of occurrence among the effect of ownership diversity on the firms' performances.

CONCLUSIONS AND IMPLICATIONS

Based on the above findings, it can be concluded that ownership diversity has a negative impact on the firms' performances. The main reason behind this negative impact could be the cost increase due to the incurring the monitoring cost to monitor the diversified shareholders without creating asymmetric information to obtain the personal benefits and not ignoring the minor shareholders' interest (Elloumi & Gueyie, 2001). The increase in the cost will decrease the film's performance. Based on the above findings, it can conclude that when ownership gets diversified, it will reduce the firms' performance of the listed non-financial companies in the CSE.

Keywords: Agency cost; Colombo stock exchange, firm performance, herfindahl-hirschman index, ownership diversity.

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