OWNERSHIP STRUCTURE, BOARD STRUCTURE, AND FIRM PERFORMANCE OF LISTED CONSUMER SERVICES FIRMS IN SRI LANKA

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INTRODUCTION

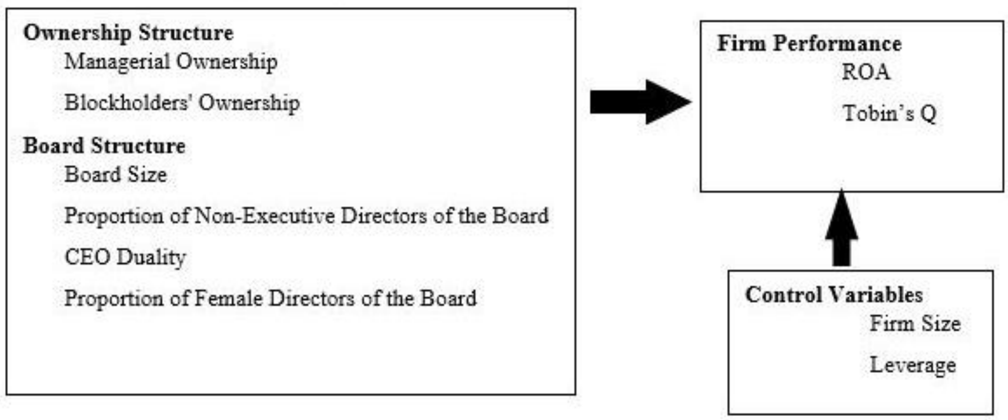
Since corporate failures and collapses happened in significant firms worldwide, linked to poor Corporate Governance (CG) practices, the focus on corporate governance has become a vital component. Examples of such failures brought on by poor CG practices include the Enron scandal in 2001 and the Asian financial crisis in 1997. The shortcomings of businesses like Pramuka Savings and Development Bank Ltd, Lanka Cement Ltd, Vanik Incorporation Limited, Ferntea Ltd, Associated Hotel Co. Ltd, and Galadari Hotels (Lanka) Ltd in the Sri Lankan context emphasize the necessity of good CG practices. At this juncture, the researchers examine the effect of ownership and board structures on the performance of listed consumer service firms. The internal governance mechanism of CG is having a BOD to control the firm's internal management. The BOD should consist of a mix of expertise, independence, and legal power to have control over the management. BOD acts as a powerful governance mechanism. The ability to control and to what extent the board has authority over the management depends on the composition and leadership of the board of the company. The BOD's role is to set corporate goals by transforming strategies taken by the management of the firm to maximize the value of the shareholders of the firm. As a vital component shaping firm performance, the ownership structure was considered one independent variable, measuring managerial ownership (MO) and block holders' ownership (BO). MO refers to the percentage of shares owned by managers in a firm. The consensus in the literature is that MO helps align the interests of managers with those of shareholders, reducing the likelihood of managers diverting the firm's resources for personal gain. Morck et al. (1988) found a significant relationship between MO and firm performance. Many scholars argued that an optimal level of MO maximizes firm performance. However, some other researchers argued that excessive MO might negatively impact firm performance beyond that threshold. BO, which indicates a more significant fraction of ownership of the firm's common shares, is crucial for firm performance. Various studies have noted negative associations between BO and firm performance (Alabdullah, 2016; Hillman & Dalziel, 2003), while a few found (Aggarwal et al., 2011) an insignificant association between both variables. On the other hand, the board structure plays a crucial role in setting corporate goals, evaluating strategies, and effectively executing decisions (Wijethilake et al., 2015). The impact of CG variables on firm performance has ended with mixed findings. Overall, the impact of ownership structure and CG variables on firm performance is inconclusive. As a result, the present study aimed to investigate whether ownership structure and board structure affect the performance of listed consumer service companies in Sri Lanka. This sector was chosen due to its significant contribution to the country's economy, being the third-largest and fastest-growing source of foreign currency in 2018. This study was analyzed to analyse the effect of the Lanka. Sri Lanka generated around 1.08 billion US dollars in the tourism and hotel sector alone. This corresponds to 1.3% of its gross domestic product and approximately 6 % of all international tourism receipts, as in South Asia mentioned in the report of the Sri Lanka Tourism Development Authority 2022.

METHODOLOGY

The independent variable mainly consists of two measures: ownership structure and board structure, as indicated in Figure 1. Moreover, the Return on Assets (ROA) and Tobin's Q, which reflect financial and market measurements, respectively, were used to measure the dependent variable: firm performance. Firm size and leverage were the control variables of the present study.

Figure 1

Conceptual Framework of the Study



The population of the study is the listed consumer service sector companies, which consist of hotels, restaurants, leisure companies, and diversified consumer services companies in Sri Lanka. As of September 30, 2022, there were 34 companies in this sector, and the entire population was considered the current study's sample. The data used for the study was secondary, extracted from the financial statements of the sample companies over the past five financial years. The gathered data was analyzed descriptive, correlation, and multiple regression on panel data using STATA 15.0 software. Further, to choose the appropriate effect on each model, the Hausman test was employed.

Table 1

Operationalization of Variables

Indicators	Symbol	Measurement	Reference/s
Independent Variables			
Managerial ownership	MO	Percentage of shares owned by executives and non-executive directors	Shoaaib and Yasushi (2015)
Block holders' ownership	BO	The part of capital owned by external shareholders having more than 5%	Ellili (2020)
Board Size	BZ	Number of directors on the board	Chaghadari (2011); Mohapatra and Mishra (2021)
The proportion of NEDs of the Board	NED	Total no. of NEDs / Total no. of board directors	Bhatt and Bhattacharya (2015)

CEO Duality	CEOD	1= duality, 0 = for otherwise	Wahba (2014); Krause et al., (2014)
The proportion of Female Directors on the Board	FDP	No. of female directors / Total board size	Scholes et al., (2010)
Dependent Variable			
Return On Asset	ROA	EBT / Total Assets	Rostami et al., (2016)
Control Variables			
Firm Size	FS	Natural logarithm of total assets of the firm	Saraswati et al. (2021)
Leverage	LEV	(Debt Capital / Equity Capital) * 100	Ibhagui and Olokoyo (2018)

RESULTS AND DISCUSSION

Before doing the primary analyses, the multicollinearity test was performed and ensured that the data used for the analyses was free from multicollinearity issues.

According to descriptive table (not tabulated), the percentage of shares owned by executives and non-executive directors is 5.903%, and it spreads from the minimum 0% up to 20% with a standard deviation of 0.0533 within the sample firms. Further, the part of capital owned by external shareholders having more than 5% held by the consumer services sector listed companies is 7.48%. Maximum insider ownership is 29.95%. The mean of BZ, NED, CEOD, and FDP are respectively 8.276, 0.662, 0.882, and 0.123, where the average of ROA and TBQ represents 0.015 and 1.640, respectively.

Table 2

Result of Regression Analyses

	Model 01 (ROA) - (Random Effect)				Model 02 (Tobin's Q) - (Random Effect)			
	Coef.	St.Err.	t-value	p-value	Coef.	St.Err.	t-value	p-value
MO	0.058	0.137	0.420	0.672	-19.364	19.57	-0.9900	0.322
BO	0.000	0.001	-0.430	0.667	-0.035	0.096	-0.360	0.719
BZ	0.002	0.003	0.470	0.641	0.154	0.374	0.410	0.681
NED	-0.109	0.039	-2.760	0.006*	-1.094	4.097	-0.270	0.789
CEOD	0.007	0.024	0.310	0.755	2.485	3.699	0.670	0.502
FDP	0.050	0.056	0.900	0.368	0.159	7.438	0.020	0.983
FZ	0.000	0. 000	-1.190	0.234	0. 000	0.000	-0.880	0.380
LEV	0.062	0.006	0.410	0.682	-0.812	0.958	-0.850	0.397
Constant	0.033	0.045	0.720	0.470	2.220	6.135	0.360	0.717
R^2			0.150				0.069	
Hausman test								
$\chi 2$			9.610				2.094	
Prob.			0.142				0.911	

N=170, ** $p<0.01$ $*p<0.05$.

The regression analyses on panel data were employed to achieve the research objectives, and the results are depicted in Table 2. The Hausman test was conducted, and its result confirms the appropriateness of the Radom effect for each proposed model. Accordingly, the results were summarized.

As per Table 2, the R square value of model 1 is 0.150, and, 0.069 for model 2. It indicates that the explanatory power of the selected independent variables of each model is considerably low. Surprisingly, other than the impact of NED on firm performance (ROA), none of the other variables indicate a significant impact on firm performance. Although the present findings are not as hypothesized, they are consistent with prior scholars' findings (Nureen et al., 2023; Maswadeh, 2021).

CONCLUSION AND IMPLICATIONS

The results of the present study do not indicate ownership structure and board structure as the determining factors in the firm performance of selected sample companies except for the impact of NED on ROA. Thus, the given findings do not suggest that management considers ownership and board structure factors as a matter of their firm performance. However, the study acknowledges several limitations, such as the small sample size of 34 companies, reliance on publicly available data, and using only ROA and Tobin's Q as performance measures. Consequently, the researchers recommend further research on corporate governance in Sri Lanka's consumer services sector and suggest considering other performance measures such as return on equity (ROE) and market share growth. Additionally, the researchers recommend expanding the sample size while collecting the primary data to enrich the reliability of the secondary data.

Keywords: Board structure, ownership structure, return on assets, tobin's Q

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