

Impact of Ownership Structure on Financial Performance of Listed Companies in Sri Lanka.

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ABSTRACT

Public limited companies are generally recognized as the dominant business entities in the financial market and they can contribute much to the economic development of a country. The financial performance is a key for the success of companies. However, it is determined by numerous factors. Corporate Governance, which is defined as the system by which companies are directed and controlled, is considered as one of the significant determinants of the performance of companies. But, the corporate governance is formed by ownership structure, which is represented by the distribution of voting equity shares owned by the shareholders who can be categorized with various identities and magnitudes. This study identified a research problem as a contextual gap in explaining the influence of ownership structure on the variations of financial performance of listed companies in Sri Lanka. Hence, this study examined the level and variations of the ownership structure in terms of 'Concentration' and 'Identities' of shareholders in the companies listed on the Colombo Stock Exchange in Sri Lanka, and it measured the average level and variance in the financial performance of those companies as well. The study further investigated the linear relationship between the ownership structure variables and the financial performance of those companies, and evaluated the direct impact of those variables on their financial performance by controlling company's characteristics, and applying the Ordinary Least Square Regression. The study was carried out using data collected from a sample of 100 listed companies randomly selected from nineteen different sectors which consist of 290 listed companies in Sri Lanka. The concentration and identity of ownership structure across the companies in a past reporting period were measured as the quantitative interval measure variables by the researcher with the retrospective cross sectional observations on distributions of equity shares from the annual reports of a sample of 100 listed companies for the financial period 2024/2025 ended 31st March 2025. The financial performance of those companies was measured with the indicator of the ROA as a retrospective cross sectional observation, which was calculated as an interval measure by the researcher referring to the annual reports of each company for the same financial period. From the data analysis, it was found that the listed companies in Sri Lanka are characterized with a significant degree of Concentrated Ownership and with the identities of Managerial Ownership, Diffuse (Individuals) Ownership, Institutional Ownership, and Foreign Ownership. Most of these variables have positively correlated with the financial performance indicator (ROA), but, the Diffuse Ownership identity has a negative association with the financial performance of those companies, however, it is found insignificant. Further, the simple and multiple regression analysis revealed the ownership structure variables have a significant positive impact on the financial performance, except the Diffuse Ownership variable. Hence, it is concluded that the various identities of ownership structure are present with significant variations among the listed companies in the Sri Lankan context and they have significant positive influence on the financial performance. However, the Concentrated Ownership structure has the most positive effect on the financial performance, which recommends that the ownership structure dominated by few large shareholders could be the ideal one for improving corporate governance, managerial efficiency, and thereby the financial performance of companies, while the ownership identities, such as Managerial, Institutional, and Foreign ownership, can be significant in directing the companies towards better financial performance. Diffuse ownership could not be recommended for companies in the Sri Lankan context since it does not have sufficient empirical evidence to establish a positive effect. However, large size of observations on these variables can result in different conclusions and implication. This study has only applied the conceptual model that could investigate the direct impact of the ownership structure on the financial performance of companies. If this model is modified

to include a mediating or moderating variable related to corporate governance, such as board size, board diversity, and CEO duality, the accuracy of predicting power of ownership concentration and the identities including diffuse ownership on financial performance might be improved.

Keywords-Ownership Structure, Diffuse Ownership, Concentrated Ownership, Managerial Ownership, Institutional Ownership, Foreign Ownership, and Financial Performance.

INTRODUCTION

This study attempts to examine the link between financial performance and ownership structure of firms. Financial performance indicates the extent to which a firm can use its assets from its primary operating activities to generate revenues. This term is also used as a general measure of a firm's overall financial strength over a given period. In many profitable companies, the ownership structure is seen as the key corporate governance tool to lead their success. An effective ownership structure is critical to good corporate governance which in turn leads to organizational success. Reference [5] argued that an effective ownership structure is an important internal factor of an organization and it is a mechanism in Corporate Governance to facilitate increased Financial Performance of a Firm.

The concept of Ownership Structure is described in terms of the distribution of equity about voting and capital and the identity of the equity owners [36]. Hence, an ownership structure consists of two distinct dimensions. The first one is the Ownership Concentration or Ownership Diffusion [31]. When a company is owned by one or few large owners, it is to be said the company having Concentrated Ownership Structure. In contrast, when the company is owned by multiple smaller owners, it is recognized the company having 'Dispersed' or 'Diffused' Ownership Structure. The second dimension is the 'Ownership Identity' or Ownership Composition, which refers to the degree of ownership held by different types of owners such as managers, foreigners, families, institutions, government, and so on. These are typically termed in literature as 'Managerial Ownership' or 'Insider Ownership', 'Foreign Ownership' or 'Outsider Ownership', 'Family Ownership' or 'Individual Ownership', and 'Institutional Ownership' or 'Block Ownership' and so on.

These Ownership Structure are of major importance in Corporate Governance because they determine the incentives of managers and thereby the economic efficiency of the corporations they manage and also it differs from firm to firm. Ownership Structure can also provide effective monitoring systems, which can lead to maximization of managerial utility and thereby the financial performance of the firm. The distribution and effectiveness of different types of ownership structure can significantly vary across the firms, industries, and countries. For example, the joint-stock companies could be less financially efficient than private co-partner companies because the directors would not watch over other people's money with the same apprehensive attention as their own [31].

The ownership structure in most developing countries is highly concentrated in the hands of a small group of shareholders which creates an agency problem between the majority and minority shareholders [10]. On the contrary, in the majority of developed countries, the ownership structure is significantly dispersed. In developing countries which are characterized by a weak legal system that safeguards the investors' interests, the ownership structure is concentrated.

The different types of ownership structure of firms have different impact on their financial performance. In the concentrated ownership structure, majority shareholders have the chance to transfer economic resources to themselves and try to promote their interest over the interest of the minority shareholders. However, in order to protect the minority shareholders in such firms, independent directors are appointed to the board to serve as a check on the management and executive directors. Ownership concentration can be measured by the fraction owned by the five largest shareholders or by the significant shareholders [37]. Concentrated ownership structure enable a group of people to supervise the actions of managers to reduce agency problem, which in turn improves firm performance [37].

The extent of agency problem resulting from the ownership structure of a firm may affect the financial performance of the firm. The diffused ownership structure results in the divergence of objectives between the

principals and managers [36]. The managerial entrenchment in dispersed ownership provides more freedoms and greater autonomy that allow managers to expropriate higher wages and larger incentives [35]. This expropriation of company resources by management teams decreases the firm's value and investors' wealth [13].

Managerial ownership, which refers to the proportion of ownership owned by managers and directors when equity shares are allotted to them as an incentive that is usually offered to improve the interest of managers, can have impact on the financial performance since it provides a direct economic incentive for managers to engage in active monitoring. It can align ownership and control through meaningful directors' stock ownership. When shareholders become insider owners working at the company in the capacity of board of directors or management board, they can play an active role in running the business towards success [21]. However, managerial ownership can also encourage risk-taking [46]. High managerial ownership could lead to improvement of innovation and productivity, which eventually increases the value of the firm [21].

Institutional ownership refers to the percentage of shareholdings owned by the institutions such as pension funds, banks, and insurance companies with a large amount of investment [14]. The institutional ownership can have a direct impact on the financial performance since it provides firms an easy access to capital. As institutional investors have a large stake in the firm, they have a strong incentive to monitor the firm especially in case exit is costly [14]. However, institutional ownership can also result in a negative impact on the financial performance when the institutional investors are interested in speculative profit earnings to satisfy their portfolio needs rather than interested in improving corporate governance and firm performance [64].

Foreign ownership, which refers to the percentage of shareholdings owned by non-residence, can have a positive impact on the financial performance of firms due to the transfer of knowledge of foreign managers and employees to the resident entities [26]. Companies with foreign capital contribution are those companies whose capital is wholly or partly formed by equity holdings subscribed by foreign investors. The term foreign-owned company is often associated with foreign direct investment term. Foreign direct investment is a long-term investment relationship between a resident company and a non-resident company; it usually implies a significant influence on the management of the resident company. In developing economies, transition economies, or emerging economies, foreign investment is seen as a source of economic development, modernization, income growth, and increasing level of employment [47]. Foreign ownership tends to be more beneficial for the financial performance of firms in developing countries. Foreign ownership helps the firms to reduce agency problems, which improves the firm financial performance (Kim et al., 2011).

In Sri Lanka, there are 288 companies listed on the Colombo Stock Exchange (CSE) representing 19 GICS industry groups as of March 31, 2025. The annual reports of these companies disclose information about the distribution of shareholdings. However, the level of the ownership structure and its effectiveness are not described in detail.

Observing the financial performance as indicated by the return of assets of some sample companies for the past periods, a significant variation was noted by the researcher. For example, one of the leading listed companies on the Colombo Stock Exchange (CSE) in Sri Lanka reported losses in its business operations in past years even though its shareholders have elected strong governance systems. The annual reports describe the role of the management boards of the company in formulating the overall business strategy in association with corporate management and determines corporate goals to achieve higher financial performance.

In the annual report for 2024, the company has reported a significant change in the composition of board of directors which was appointed in the beginning of the year by the new diverse group of shareholders in order to enhance their financial performance. As a result, the company has reported a profit in 2024. This kind of occurrence of variations in performance draws the attention of the researchers to investigate the relationship between the diversity of the ownership structure that determine the quality of corporate governance system and its outcome in financial performance.

Many researchers in the past have studied the phenomenon that ownership structure has a significant influence on firm performance in many empirical study settings and concluded with various results. For example, researchers had explored different types of ownership structure and their effect on the corporate financial

performance of an emerging market consisting of 146 manufacturing firms listed at the Pakistan Stock Exchange (PSX) for the period 2003–2012. They concluded that institutional ownership, insider ownership, and government shareholdings have a significant positive effect on the financial performance of manufacturing firms.

In the Sri Lankan context, Reference [51] conducted a study on the effects of equity ownership structure on financial performance over a period from 2004 to 2009 using a sample of 152 companies listed in the Colombo Stock Exchange (CSE). Reference [51] examined the impact of ownership concentration and the other endogenous factors on the financial performance of listed companies of the five largest businesses on CSE. But, this study found that the ownership concentration within the listed companies did not have a statistically significant positive relationship with the ROA. Reference [6] examined the impact of ownership structure and concentration on firm performance in Sri Lanka.

Problem Statement

In Sri Lanka, a lack of empirical studies has been conducted to evaluate the impact of the ownership structure on financial performance among the listed companies across all the sectors. Some studies have been conducted only on specific industries such as manufacturing, banking, and finance. [6]– [70]. The major limitation of these studies was the validity of the measurement of variables with the limited observations of data obtained from the particular sector, even longitudinally. It is therefore important to investigate the impact of the different types of ownership structure on financial performance among the listed companies with the observations and measurement of variables in many sectors. In order to fill the empirical and validity gaps in previous research, this study attempted to study, with improved research designs, the impact of the ownership structure on the financial performance of selected listed companies across various industries in Sri Lanka.

Hence, from the background described above, the problem of the study was defined as an interrogative statement that “To what extent of the ownership structure of listed companies across the various industries in Sri Lanka have impact on their financial performance”?

Research Questions

Based on the research problem identified above, the following research questions were raised for the study:

1. What is the extent of Concentrated Ownership, Diffused Ownership and other different types of Ownership Identities are prevailing among selected listed companies in Sri Lanka and their financial performance?
2. What is the impact of Concentrated Ownership on the Financial Performance among selected listed companies in Sri Lanka?
3. What is the impact of Diffused Ownership on the Financial Performance among selected listed companies in Sri Lanka?
4. To what extent does the Managerial Ownership structure influence the Financial Performance among selected listed companies in Sri Lanka?
5. What is the degree of effect the Institutional Ownership structure has on the Financial Performance among selected listed companies in Sri Lanka?
6. How does the Foreign Ownership structure influence the Financial Performance among selected listed in Sri Lanka?

Objectives of the Study

Based on the research questions raised above, the following objectives for the study were set for the study:

1. To find out the extent of prevalence of Concentrated Ownership, Diffused Ownership and other different types of Ownership Identities among selected listed companies in Sri Lanka and level and variations their financial performance?
2. To evaluate the impact of Concentrated Ownership on the Financial Performance among selected listed companies in Sri Lanka.

3. To ascertain the impact of Diffused Ownership on the Financial Performance among selected listed companies in Sri Lanka.
4. To find out extent to which the Managerial Ownership structure influences the Financial Performance among selected listed companies in Sri Lanka.
5. To evaluate the impact of the Institutional Ownership structure on the Financial Performance among selected listed companies in Sri Lanka.
6. To determine the extent to which the Foreign Ownership structure influences the Financial Performance among selected listed companies in Sri Lanka.

LITERATURE REVIEW

The concept of Ownership structure is an important subject within the broad concept of corporate governance. The ownership structure is a mechanism of corporate governance. The corporate governance system is considered as one of the essential factors of growth and development [29]. Ownership structure consists of two dimensions. They are ownership concentration or diffusion, and ownership identity or ownership composition. If the majority part of equity capital of a company is owned by one or few large shareholders, the ownership structure is called as Concentrated Ownership, while in case the entire equity capital is contributed by multiple small shareholders, then it is termed Diffused or Dispersed Ownership [70]. Ownership identity or ownership composition is defined as the types of owners or shareholders of a company. They can be individuals or families; institutions; managers, CEOs, promoters or insiders; foreigners, non-residents or outsiders; and the government. This study focus on both ownership concentration and ownership identity. The relative explanatory power of these variables in explaining the variations in the financial performance of companies has to be empirically studied and updated in the literature. The definitions and measurements of those variables are reviewed as follows:

Concentrated Ownership

Ownership concentration is a significant internal governance mechanism in which owners can control and influence the management of the firm to protect their interests. Concentrated ownership is defined as the distribution of the ownership rights among different parties who collectively own the firm [70]. Ownership concentration, as defined by the proportion of shares held by a single individual or entity, can reflectively impact corporate governance structures and decision-making processes [16]. The percent of shares held denotes the size of the ownership stake [16]. In the airlines industry for example, the largest 10 institutional investors own 20% of the global market capitalization. In the concentrated ownership structure, the focus of monitoring shifts from the manager to the controlling shareholder. concentrated - where the main shareholder owns more than 50% of the company's ownership. Ownership concentration implies that a limited set of people are active as the major stakeholders of a firm, and that these people are more likely to be active in the day-to-day operations of the firm. The two most common forms of concentrated ownership are family-owned firms and big business groups. Ownership concentration by the largest shareholder – is ownership concentration measured by the percentage of shares owned by the largest shareholder. Concentrated ownership may reduce agency costs by increased monitoring of top management. However, concentrated ownership may also provide dominating owners with private benefits of control. In a US company with ‘large shareholders’, there is a group who hold a sizable fraction of all voting shares. The fraction of shares of one large shareholder is above 5% of the shares of the whole company, because this implies significant voting power over the company [72]. As a consequence, a group of large shareholders is typified with high ownership concentration. The power to control the management is a characteristic of large shareholders.

Diffused Ownership Structure

When no single investor owns enough shareholding to control a company it is to be recognized the company has diffused or dispersed ownership structure. With dispersed ownership, an entity has at least several owners/shareholders, and the running of the entity is delegated to the management team and a board of directors. Dispersed ownership refers to many shareholders with none having the ability to exercise power over the corporation individually.

Ownership models can have a big impact on companies' performance, and it's been argued for example that higher ownership dispersion improves market liquidity. On the other hand, a higher level of ownership concentration - with institutional investors such as pension funds playing a leading role - can often provide more effective monitoring of a company. Owners with significant amounts of shares can take aggressive actions over controversial corporate decisions, while small investors may have less incentive and ability to intervene over a firm's strategy. 'Dispersed ownership structure in US means that there is no individual or group with either the voting power or the incentive to exercise control and enforce profit maximization' [41]. The fraction of shares of one shareholder is below 5% of the shares in the whole company. As a consequence, dispersed ownership is typified with low ownership concentration. Characteristics of dispersed ownership are the separation of risk over more shareholders and the specialization by the management [41].

Managerial Ownership Structure

Managerial ownership is defined as the percentage of shares held by the management who actively participate in corporate decisions including the commissioners and directors. Managerial ownership allows managers to dominate the company and decide which strategies and policies the company will take because in this case the manager also acts as a shareholder. Managerial ownership (insider ownership) is the proportion of shareholders from the management who actively participate in corporate decisions (directors and commissioners). The proportion of managerial ownership is the number of shares held by the management within the company. For the calculation of managerial ownership, it can be measured by using the percentage of the number of shares owned by the management (Directors and Commissioners) divided by the outstanding shares [18].

Institutional Ownership Structure

Institutional Ownership refers to the Ownership stake in a company that is held by the large financial organizations, pension funds or endowments. The institution generally Purchase a large block of a company's outstanding shares and can exert considerable influence upon its management" (Financial Dictionary). Institutional shareholders have a greater incentive to monitor Managers and members of the board to guarantee sufficient benefits and also are most important to the Organization because Institutional owners represent the higher amount of total ownership [21].

Foreign Ownership Structure

Foreign ownership is the stake of being owned by a person or company from another country. It's stipulated that firms with Foreign Ownership operating in developed countries performed better than their domestically owned counterparts. However, in developing countries findings are mixed [4].

Financial Performance

Financial performance is a subjective measure of how well a firm can use assets from its principal operations to generate revenues. The company's financial performance can be viewed from the financial statements reported by the company [20]. The company's success is basically explained by its performance over a certain period of time. The financial performance of a firm indicates the extent to which its financial goals have been achieved [10]. Financial performance principally reflects business sector outcomes and results that show the overall financial strength of the sector over a definite period of time [16]. It indicates how well an entity is utilizing its resources to maximize the owner's wealth and profitability. Financial performance also shows the strength of the financial position of an organization.

The Relationship between Ownership structure and Financial Performance

The ownership structure of a firm forms an integral part of its management process and affects its level of performance. Ownership structure are very important to determine the economic efficiency of the Organization [36]. It is, therefore, important for an organization to adopt efficient ownership structure that may provide more true results of the firm's financial performance [16]. The researcher tries to investigate the relationship between ownership structures on the financial performance of selected listed companies in Sri Lanka. Previous

researchers had considered different dimensions to measure the ownership structure normally by foreign ownership, managerial ownership, institutional ownership, and Individual Ownership. In addition, most of the scholars had measured the financial performance using Return on Assets. The ownership structures and firm performance are defined in the following sections.

Theories relevant to Ownership structure and Financial Performance

This study reviews various fundamental theories underlining corporate financial governance which is determined by ownership structure. These theories are agency theory, stewardship theory, stakeholder theory, resource dependency theory, and transaction cost theory.

Agency Theory

Agency theory having its roots in economic theory was expounded by the Reference [1]. Agency theory is defined as “the relationship between the principals, such as shareholders and agents such as the company executives and managers”. In this theory, shareholders who are the owners or principals of the company hire the agents to perform work. Principals delegate the running of the business to the directors or managers, who are the shareholder’s agents [15]. Agency theory is concerned with aligning the interests of owners and managers [35] and is based on the premise that there is an inherent conflict between the interests of a firm’s owners and its management [35]. The recognition of this conflict is documented as far back, but its salience was not realized until the expansion of capitalism in the late 1800s and early 1900s led to widespread separation of the ownership and control functions of the firm [8].

In agency theory, the agent may have succumbed to self-interest, opportunistic behavior, and falling short of congruence between the aspirations of the principal and the agent’s pursuits. Even the understanding of risk defers in its approach. Although with such setbacks, agency theory was introduced basically as a separation of ownership and control [9]. Agency theory suggests that the agent will act in a way that will promote his interest instead of the interest of the principal unless proper corporate governance mechanisms are put in place to prevent that. The agency problem is expected to be minimal when the interest of the agent and the principal is aligned through ownership of a stake in a company by the management and directors.

To this end, indicates agency theory affects the profit maximization motive of a corporation, not necessarily the absolute profit level. Thus, firms can be highly profitable when agency costs are present. By focusing on the monitoring role, agency theory appears to discount the impact of other board functions, such as advising management and providing access to valuable resources. The stakeholder approach explains the firm and its environment and has been a powerful heuristic device intended to broaden management's vision of its roles and responsibilities beyond the profit maximization function to include the interests and claims of non-stockholding groups [35]. Stakeholder theory is a view of capitalism that stresses the interconnected relationships between a business and its customers, suppliers, employees, investors, communities, and others who have a stake in the organization. The theory argues that a firm should create value for all stakeholders, not just shareholders. This theory supports the idea that the ownership structure, consisting of stakeholders’ participation, is essential to creating an effective budgetary system for organizational success. Most organizations use the rate of return on firm assets (ROA) and the rate of return on equity (ROE) to measure their financial performance. The return on total assets shows the performance of management in utilizing company assets to generate profits in the specified year. A higher ROA indicates the better productivity of assets in obtaining net profits. The higher ratio may also increase the attractiveness of the company to investors, shareholders, and other related stakeholders. The company's stock price also increases due to the increase in ROA [35].

Stewardship Theory

Stewardship theory has its roots in psychology and sociology and is defined as “a steward protects and maximizes shareholder’s wealth through firm financial performance because by so doing, the steward’s utility functions are maximized” [34]. In contrast to agency theory, stewardship theory posits that managers are essentially trustworthy individuals and so are good stewards of the resources entrusted to them [19]. Since inside (or executive) directors spend their working lives in the company they govern, they understand the businesses better

than outside directors and so can make superior financial decisions [19]. As a result, proponents of stewardship theory contend that superior corporate financial performance will be linked to a majority of inside directors as they naturally work to maximize profit for shareholders. Stewardship theory is based on two premises; namely, that managers are naturally trustworthy and/or that agency costs will be minimized as a matter of course, as senior executives are unlikely to disadvantage shareholders for fear of jeopardizing their reputations. Further, even if agency costs are a significant concern to a company and monitoring is necessary, stewardship theorists also hypothesize that outside or independent directors will lack the knowledge, time, and resources to monitor management effectively.

Moreover, stewardship theory suggests unifying the role of the CEO and the chairperson to reduce agency costs and to have a greater role as stewards in the organization. It was evident that there would be better safeguarding of the interest of the shareholders. It was empirically found that the returns have improved by having both these theories combined rather than separated them [19]. To this end, Stewardship theory also ignores other benefits that outside directors can bring to a firm, in particular, the independent advice that directors can offer [11] and the significant role that they can play in facilitating access to much-needed resources. It would appear that stewardship theory, like agency theory, offers a glimpse of one aspect of the financial performance relationship as opposed to a holistic view [50].

Stakeholders Theory

This theory was embedded in the management discipline in 1970 and gradually developed by the Reference [24] incorporating corporate accountability to a broad range of stakeholders. The main contender to value maximization as the corporate objective is called “stakeholder theory.” Stakeholder theory says that managers should make decisions that take account of the interests of all the stakeholders in a firm. Stakeholders include all individuals or groups who can substantially affect, or be affected by, the welfare of the firm- a category that includes not only the financial claim holders, but also employees, customers, communities, and government officials. In contrast to the grounding of value maximization in economics, stakeholder theory has its roots in sociology, organizational behavior, and the politics of special interests.

Stakeholder theory can be defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”. Unlike agency theory in which the managers are working and serving the stakeholders, stakeholder theorists suggest that managers in organizations have a network of relationships to serve – this includes the suppliers, employees, and business partners. In addition, it was argued that this group of the network is important other than owner manager-employee relationship as in agency theory [35]. This theory focuses on managerial decision-making and interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others.

A major objective of the firm was to attain the ability to balance the conflicting demands of various stakeholders in the firm. Categorized the development of the stakeholder concept into a corporate planning and business policy model and a corporate social responsibility model of stakeholder management. The corporate planning and business policy model of the stakeholder concept focuses on developing and evaluating the approval of corporate strategic decisions by groups whose support is required for the corporation to continue to exist. The behavior of various stakeholder groups is considered a constraint on the strategy that is developed by management to best match corporate resources with its environment. In this model, stakeholders are identified as customers, owners, suppliers, and public groups and are not adversarial.

Resources dependency theory

The Resources Dependency Theory (RDT) was developed by the American business theorist, Jeffrey Pfeffer, and the American organizational theorist, Gerald R. Salancik, in the year 1978 at Stanford University [59]. The concept of the RDT was first published in their work: “The External Control of Organizations, A Resource Dependence Perspective”. The purpose of the RD is to present a guide on how to design and manage organizations that are externally constrained [59]. Resource dependence theory (RDT) has become one of the most influential theories in organizational theory and strategic management. RDT characterizes the corporation

as an open system, dependent on contingencies in the external environment [59]. As Pfeffer and Salancik state, “to understand the behavior of an organization you must understand the context of that behavior- that is, the ecology of the organization.” RDT recognizes the influence of external factors on organizational behavior and, although constrained by their context, managers can act to reduce environmental uncertainty and dependence. Central to these actions is the concept of power, which is the control over vital resources [68].

Resource dependency theory concentrates on the role of board directors in providing access to resources needed by the firm [30]. Contend that resource dependency theory focuses on the role that directors play in providing or securing essential resources to an organization through their linkages to the external environment. Resource dependence theory draws from both the sociology and management disciplines there is no universally accepted definition of what is an important resource. Sociologists have tended to concentrate on three distinct types of links, namely the links that a board provides to a nation’s business elite access to capital or links to competitors.

Transaction cost theory

Transaction Cost Theory (TCT), or Transaction Cost Economics (TCE), has become an increasingly important anchor for the analysis of a wide range of strategic and organizational issues of considerable importance to firms. In particular, the TCT has been employed in studying firms’ boundaries, vertical integration decisions, the rationale for conducting an acquisition, the networks, and other hybrid governance forms. The TCT has expanded its breath to strategic management and international business in seeking to explain how firms internationalize and the structural arrangements required to improve the odds of financial success. It is reasonable to put forward that the TCT has become a pervasive theory in organizational studies [45].

The main governance implication of TCT is that the most efficient governance structure for organizing economic exchanges will depend on several characteristics of the transactions themselves. For instance, nonspecific transactions of both occasional and recurrent contracting will be principally governed by the market. As assets became more and more specific, other forms of governance will be needed ranging from trilateral to unified governance structure (the firm) [71]. Reference [71] argued that asset specificity drives vertical integration, which contrasts with the traditional arguments of monopolistic market power. This has important policy implications because vertical integration is often viewed as being anti-competitive and subject to anti-trust litigation. When the transaction cost logic is applied and the concept of relative efficiency has been introduced the benefits of vertical integration are more clearly understood.

To this end, the agency theory, stewardship theory, stakeholder theory, resource dependency theory, and transaction cost theory can be closely associated with corporate financial governance. Moreover, an effective and good corporate financial governance cannot be explained by one theory but it is best to combine a variety of theories, addressing not only the social relationships but also emphasizing the rules and legislation and stricter enforcement surrounding good financial governance practice and going beyond the norms of a mechanical approach towards corporate financial governance.

Then also, the agency theory can be introduced as one of the well-known underpinning theories of corporate financial governance. This theory brings out an understanding of the relationship between ownership structure and financial performance. The ownership structure in most developing countries is highly concentrated in the hands of a small group of shareholders which creates an agency problem between the majority and minority shareholders [10]. Thus, majority shareholders may transfer economic resources to themselves and try to promote their interest over the interest of the minority shareholders. To protect the minority shareholders, independent directors are appointed to the board to serve as a check on the management and executive directors. The extent of agency problem resulting from the ownership structure of a firm may affect the financial performance of a company and the financial performance of a firm may affect its ownership structure when shareholders of a poorly financial performing firm decide to dispose of their shareholdings thereby altering the ownership structure.

Relevance of Theories

With the review of theoretical framework in the literature, it is concluded that the Agency theory greatly become

relevant to this research of studying the effect of ownership structure on the financial performance. Further, the Stakeholder theory and resources dependency theory also relate to the elements in the corporate governance. These theories support for the importance of ownership structure on the determination of corporate governance that ensure financial performance.

Review on Previous Empirical Studies

A study was conducted by the Reference [48] focusing evaluating the impact of the ownership structure on corporate performance. They used two main dimensions of ownership structure i.e. ownership concentration and owner identities including promoters, non-promoters, institutional non-promoters, and non-institutional non-promoters to study their impact of firm's financial performance.

According to the Reference [2], an investigation into the relationship between ownership structure and economic performance has been done. Dimensions of this study are institutional ownership, real ownership, ownership concentration. The ownership structure consists of two variables. Those are institution ownership and block ownership. Institutional Ownership refers to the ownership stake in a company that is held by a large financial organization, pension funds, or endowments. Block ownership is "A shareholder with an exceptionally large amount or value of the stock.

Reference [74] investigated the relation between Ownership structure (concentration and mix) and financial Performance in a panel data of Islamic Banks. The sample of this study is 53 Islamic Banks scattered over 15 countries for five years (2005 to 2009). Return on assets (ROA) and return on equity (ROE) were used to measure financial performance. This paper finds that concentrated equity Ownership is a common feature in Islamic banks. The largest investor owns about 48.75% of bank capital. Since the top fifth shareholders dominate more than 70 percent of equity, they conclude that ownership of Islamic financial institutions is highly concentrated. In addition, this research finds that family and state ownership positively affect banks' performance and indicates that banks with institutional and foreign shareholders are not performing than those who are Government and family-owned.

Reference [39] analyzed the relationship of Ownership structure with Firm Financial Performance in non-financial companies listed at Karachi Stock Exchange during the period 2008 to 2010. The ownership structure is represented by managerial ownership and concentrated ownership. This research found that Managerial ownership had a significant negative relationship with firm financial performance, whereas concentrated ownership had shown an insignificant relationship with firm financial performance. Leverage, a controlled variable had shown a significant negative relationship with Firm financial performance while an insignificant relationship was found between Assets Turnover (AT) and Firm Financial Performance. Firm Performance critically depends on managerial ownership. Agency problems arise due to an increase in managerial shareholdings in the Pakistani context, which ultimately affects the financial performance of the firms.

Reference [42] investigated the effect of equity Ownership structure on Firm financial performance in South Korea. This research focused on the role of two main dimensions of the Ownership Structure: Ownership concentration (The distribution of shares owned by majority shareholders) and identity of owners (foreign investors and institutional investors). This study used panel data for South Korea in 2000-2006. Also, firm financial performance measured by the accounting rate of return on assets (ROA) generally improves as ownership concentration increases, but the effect of foreign ownership and Institutional ownership is insignificant and there exists a hump-shaped relationship between ownership concentration and firm financial performance, in which firm performance peaks at intermediate levels of ownership concentration.

Reference [73] explored the impact of Ownership Structure and (mix and concentrate) on a company's financial performance and failure in a panel estimation using 167 Jordanian companies during 1989-2006. ROA, Tobin's Q were used to measure the financial performance. The study finds that inefficiency is related to Ownership concentration and Institutional ownership and a negative correlation between Ownership concentration and Firm Financial Performance both ROA and Tobin's Q, is found, while there is a positive impact on firm financial performance.

Reference [54] investigated the impact of different types of Ownership Structure on bank Performance. This study used Malaysian commercial banks from 2000 to 2011 and tested the five categories of ownership structure such as insider, family, government, institutional and foreign ownership. The finding of the study showed that bank performance varies with different types of ownership structure.

Reference [43] investigated the effect of Ownership diffusion and Inside Ownership on Firm Financial Performance during the financial crisis from 2008 until 2011. More specifically, this paper analyzed a random sample of 66 (49 valid) German industrial companies over the period 2008 to 2011. This paper concluded that Ownership Structure is an endogenous variable that is not related to Firm Financial Performance while a (weak) relationship between inside ownership and firm financial performance does exist, but Inside Ownership by the supervisory board is highly uncommon among German firms.

Reference [56] investigated the Ownership Structure on Firm Financial Performance of Listed Companies on the Ghana Stock Exchange. The sample of study involved only financial institutions listed on the GSE. This sample is made up of Cal Bank, HFC, Ecobank Ghana Limited, Ghana Commercial Bank, SG-SSB, Standard Chartered Bank. This research finds that Ownership Concentration and Firm Financial Performance have a negative relationship but are not significant and there is a positive and significant relationship between manager ownership has a positive effect on firm financial performance.

Reference [75] examined the impact of ownership structure i.e. concentrated, managerial, government, and foreign on the firm financial performance of the Malaysian listed Trading and Services firms. The sample of the study consists of 73 listed Trading and Services firms in Malaysia for a period of six years (2005 to 2010). The during the period of study, the subprime crisis happened around 2007 and 2008. Hence, this research further captures the impact of ownership structure on firm financial performance under three different stages namely pre-crisis, during the crisis, and post-crisis. The empirical result shows that concentrated firm positively influences firm financial performance. However, the influence is not significant for the pre-crisis period. The higher the managerial ownership, the firm reported high financial performance. Whereas, poor firm financial performance can be seen with increases in government ownership. Foreign ownership firm only gains benefit after the crisis period. The higher the firm foreign ownership, the better it performs during the post-crisis period.

Reference [69] investigated the effects of equity ownership structure on the financial performance of Sri Lankan listed businesses. Using the dynamic panel generalized method of the moment this study found an inverse hump shape relationship between insider ownership and firm financial performance. The results of this study confirm that the effect of insider ownership on firm performance is more positive and significant where legal protection for investors is weak. It suggests that although new legislative reforms have been enacted, Sri Lankan companies are highly dependent on internal governance mechanisms. There is potential merit in promulgating new rules to control the expropriation of minority shareholders

Reference [27] examined the Impact of Ownership Structure on the financial performance of listed insurance firms in Nigeria. The study used panel data for seventeen (17) firms for the period 2001 – 2010. There are several aspects and dimensions of corporate governance, which may influence a Firm's Financial Performance but this study focuses on two aspects of Ownership Structure, namely Managerial and Institutional shareholding. A firm's financial performance has been measured through Return on Asset (ROA) Findings indicate that there is a positive significant relationship between ownership structure and a firm's financial performance as measured by ROA and ROE.

Reference [53] examined the effect of different dimensions of ownership structure in corporate performance. The data that were used in this study included 29 non-financial firms listed on the Qatar Exchange from 2006 through 2011. Firm performance was estimated by three measures: Tobin's Q, ROA, and ROE. The two regression models that are used to test the effects of ownership structure and firm performances are the panel data regression model and the linear regression model. The empirical evidence in this study shows that concentrated ownership, board ownership, and foreign ownership have a positive effect on firm financial performance. Furthermore, the board owner has a positive and significant relationship with ROA and ROE, whereas concentrated ownership has a positive and significant effect on ROA, ROE, and Tobin's Q. On the other hand, institutional ownership has a negative significant effect on Tobin's Q.

Reference [5] examined the impact of the ownership structure on firm performance in Jordan. This study employed the multiple-regression model and fixed regression effect to analyze the data. The sample included all Jordanian first market firms listed on the Amman Stock Exchange (ASE) from 2012 to 2018. The paper's findings reveal a positive and significant relationship between institutional ownership and both accounting measure Return on Assets (ROA) and market measure Tobin's Q (TQ). Other ownership structure types, such as concentration of ownership, also affect ROA and TQ. While managerial ownership shows a negative relationship with ROA, but there is no association with TQ. This study has comprehensive practical implications that are good for policymakers. On the one hand, it adds to the debate on agency theory from the ownership structure and firm's performance relationship. On the other hand, it helps the Jordanian Government formulate policies and regulations to strengthen corporate governance (CG), which increases the interests of all stakeholders in the Jordanian market.

Reference [55] investigated the effect of different types of ownership on firm financial performance in Kenya and contended that while state ownership harms firm financial performance; foreign ownership has a significant positive impact. The researcher argued that foreign investors help improve management systems and provide access to massive resources.

Reference [3] examined the relationship between the ownership structure (concentration and composition of ownership) and firms' performance on a sample of 130 non-financial firms that were listed on the Kuwait Stock Exchange from 2009 to 2012. The results based on a market measure (Tobin's Q) suggested that the concentration of ownership among large shareholders does not significantly affect firms' performance. It also was indicated that the same was true for three different large shareholders in Kuwait, i.e., institutional, government, and families (individuals) shareholders. However, based on market measures (ROA), the concentration of ownership by all shareholders and by institutional investors does not impact firms' performance, while it was found that concentration of ownership by government and families (individuals) had positive effects on firms' performance.

Reference [61] examined the Ownership Structure of firms listed in the Colombo Stock Exchange as of financial year-end 1997-1998. In addition, the research finds that a small number of shareholders with large shareholdings control a significant portion of voting rights. On the other hand, individual shareholders' ownership constitutes a relatively large portion of shareholders and their equity ownership is relatively low. And also institutional shareholders account for a small proportion of shareholders and their equity stake is relatively high. Foreign shareholders' ownership is small and the majority of directors hold shares in their respective firms.

Reference [56] investigated the effect of equity Ownership Structure on the financial performance of Sri Lankan listed businesses. Ownership Structure is analyzed in terms of insider ownership percentage, ownership type (institutional or board), and ownership identity (local or foreign). The sample consists of all companies, except financial sector firms, listed on the Colombo Stock Exchange (CSE) over the period 2004 to 2009. The final sample consisted of 152 companies. The researcher used panel data for conducting the research. Finally, they find that an inverse hump shape relationship between insider ownership and firm financial performance. The results of this study confirm that the effect of insider ownership on firm performance is more positive and significant where legal protection for investors is weak.

Reference [11] evaluated the impact of Ownership Concentration and other firm-specific factors on company financial performance of 102 listed companies at Colombo Stock Exchange (CSE) over two years from 2008 to 2009. The data are gathered through annual reports of respective companies. ROA is used as a dependent variable of the study. The final results of the study show that ownership concentration does not have a significant positive relationship with ROA. However, firm size, quick ratio, and inventory have a positive impact on ROA.

Reference [44] examined the impact of ownership structure and concentration on firm performance in Sri Lanka, an emerging market in Asia. The study estimates a series of regressions using pooled data. The sample in the study consists of 157 non-financial Sri Lankan companies listed on the CSE over the period 2000–2008 to investigate the impact of ownership concentration and structure on firm performance based on agency theory framework, using both accounting and market-based performance indicators. The results of the study provide evidence for a strong positive relationship between ownership concentration and accounting performance measures. This suggests that a greater concentration of ownership leads to better performance. However,

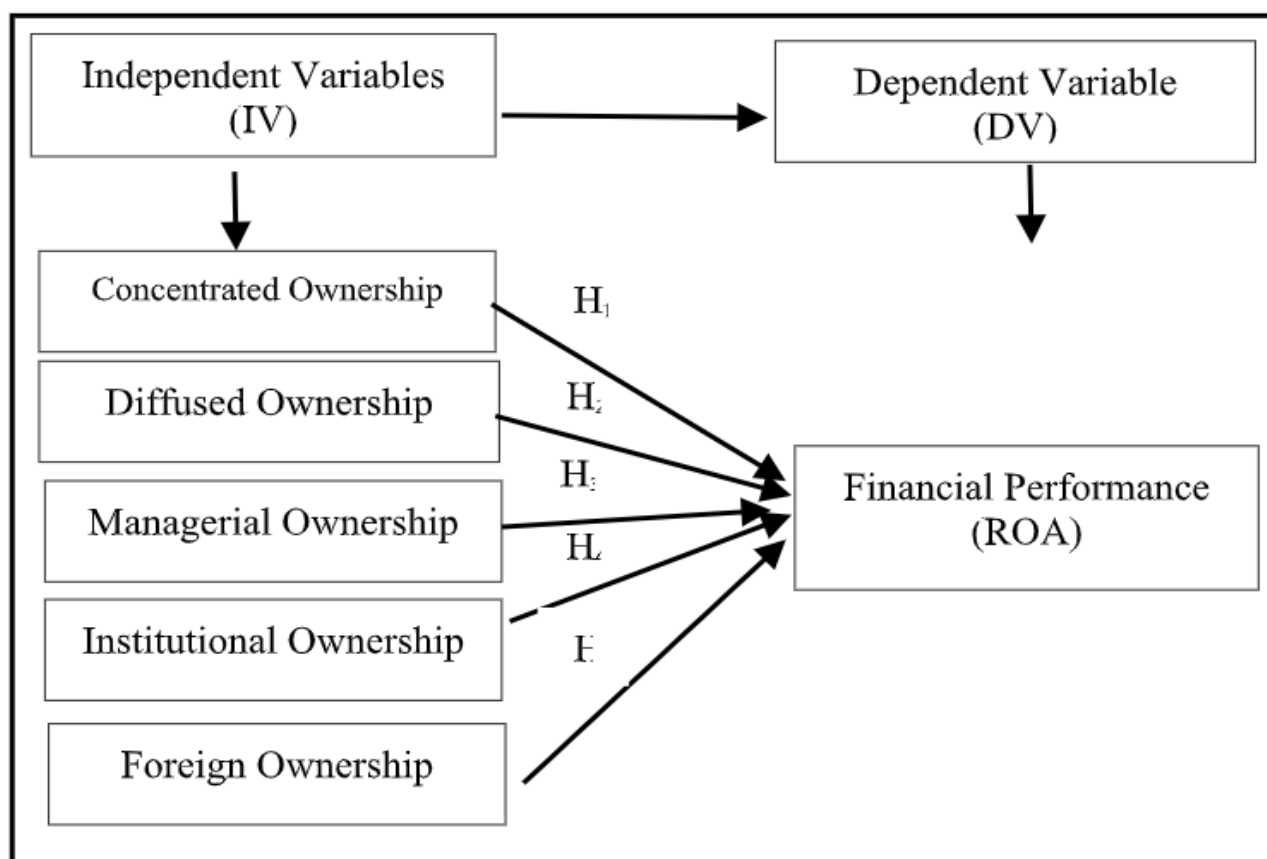
researchers found no significant impact using market-based performance measures, which suggests the existence of numerous market inefficiencies and anomalies. Furthermore, the findings of the study show that ownership structure does not have a significant distinguishable effect on financial performance.

CONCEPTUALIZATION OF VARIABLES

This study was a cross-sectional explanatory study. The main concepts of the study are the Ownership structure and the Financial Performance. The first concept is indicated with concentrated ownership, diffused ownership, managerial ownership, institutional ownership, and foreign ownership. The latter is indicated by Return on Asset. These Ownership structure variables were measured by the formulas that are substituted with the relevant data obtained from the annual reports of selected listed companies in Sri Lanka, and the Return on Assets was measured by the calculation of the ratio using data contented in the annual reports of the same companies.

The Conceptual Framework is shown in the fig.1. The Ownership structure is assumed to the independent concept, and the Financial Performance is the dependent concept. The concept of the ownership structure is operationalized into independent variables or constructs as mentioned above. Financial Performance is operationalized into a single dependent variable or construct, such as the Return on Assets (ROA).

Fig. 1: Conceptual Framework (Source: Developed by the researcher for the study purpose)



Ownership structure

The concept of ownership structure consists of two dimensions. They are ownership concentration or diffusion, and ownership identity or ownership composition. If the majority part of equity capital of a company is owned by one or few large shareholders, the ownership structure is called as 'Concentrated Ownership', while in case the entire equity capital is contributed by multiple small shareholders, then it is termed 'Diffused or Dispersed Ownership' [31]. Ownership identity or ownership composition is defined as the types of owners or shareholders of a company. They are identified as managerial ownership, institutional ownership, and foreign ownership for this study [32].

Concentrated Ownership

Concentrated ownership is defined as the distribution of the ownership rights among different parties who collectively own the firm [2]. Ownership concentration, as defined by the proportion of shares held by a single individual or entity, can reflectively impact corporate governance structures and decision-making processes [3].

Diffused Ownership

Diffuse ownership refers to a situation where a company's shares are widely held by a large number of shareholders, each of whom holds a small percentage of the total shares. This is in contrast to concentrated ownership, where a small number of shareholders (such as a family or a single large investor) hold a significant percentage of the company's shares [42].

Managerial Ownership

Management or board ownership is also called insider ownership. Insider ownership is one part of the Ownership Structure. The shares that are given to the managers or a board of directors are an incentive that is usually offered to improve the interest of managers, which in turn might be reflected in the maximization of the firm's financial value [73]. Insiders are the shareholders who work at the company; this can be in the board of directors or management board, so inside owners play an active role in running the business. Inside ownership can be divided into managerial ownership and family ownership. Managerial ownership is the managers of the firm who have a share in the firm. Because insiders work at the firm, most of the surplus will be kept in the firm, which increases shareholder value [21]. Managerial ownership can provide a direct economic incentive for managers to engage in active monitoring. It can also align ownership and control through meaningful directors' stock ownership. However, managerial ownership can also encourage risk-taking [46]

Institutional Ownership

Institutional ownership refers to the percentage of shareholdings owned by the institutions. Institutional owners are institutions that have a large amount of capital to invest. The capital invested by institutional investors is not their capital. Institutional investors invest for others; such as pension funds, banks, or insurance companies. Institutional ownership is defined as "the fraction of a firm's shares that are held by institutional investors" [14].

Foreign Ownership

Foreign ownership is the percentage of shareholdings owned by non-residence [26]. Companies with foreign capital participation are those companies whose capital is wholly or partly formed by contributions subscribed by foreign investors. The term foreign-owned company is often associated with foreign direct investment term [47].

Financial Performance

Financial performance is a general measure of a firm's overall financial performance over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregate. Financial performance is a subjective measure of how well a firm can use assets from its principal business activities to generate revenues. Financial performance is the degree to which financial goals are being or have been achieved [67].

Financial performance is measured by Return on assets (ROA), which is a profitability ratio that helps determine how efficiently a company utilizes its assets. ROA is a comprehensive efficiency metric that explains how efficiently and effectively a company is using its assets to generate profits. The higher ratio will be better for the company itself. If a particular company has a higher ROA, it can generate higher profits, which tends to attract more investors to buy its shares. ROA is the ratio between net profit after interest and taxes and total assets.

Hypotheses

To answer the research questions of this study, the following hypotheses were formulated based on the literature review:

Impact of Concentrated ownership on Financial Performance.

A significant positive impact of Concentrated ownership on Financial Performance is hypothesized for this study based upon the previous empirical studies [28] & [58] as:

H₀: There is no significant positive impact of Concentrated ownership on the financial performance of selected listed companies in Sri Lanka.

H₁: There is a significant positive impact of Concentrated ownership on the financial performance of selected listed companies in Sri Lanka.

Impact of Diffuse ownership on Financial Performance.

A significant positive impact of Diffuse ownership on Financial Performance is hypothesized for this study based upon the previous empirical studies [3] & [8] as:

H₀: There is no significant positive impact of Diffuse ownership on the financial performance of selected listed companies in Sri Lanka.

H₂: There is a significant positive impact of Diffuse ownership on the financial performance of selected listed companies in Sri Lanka.

Impact of Managerial Ownership on Financial Performance.

A significant positive impact of Managerial Ownership on Financial Performance is hypothesized for this study based upon the previous empirical studies [17], [48]- [76] as:

H₀: There is no significant positive impact of Managerial Ownership on the financial performance of selected listed companies in Sri Lanka.

H₃: There is a significant positive impact of Managerial Ownership on the financial performance of selected listed companies in Sri Lanka.

Impact of Institutional ownership on Financial Performance.

A significant positive impact of Institutional ownership on Financial Performance is hypothesized for this study based upon the previous empirical studies [42], [61]- [76] as:

H₀: There is no significant positive impact of Institutional ownership on the financial performance of selected listed companies in Sri Lanka.

H₄: There is a significant positive impact of Institutional ownership on the financial performance of selected listed companies in Sri Lanka.

Impact of Foreign ownership on Financial Performance.

A significant positive impact of Foreign ownership on Financial Performance is hypothesized for this study based upon the previous empirical studies [47], [60] - [76] as:

H₀: There is no significant positive impact of Foreign ownership on the financial performance of selected listed companies in Sri Lanka.

H₄: There is a significant positive impact of Institutional ownership on the financial performance of selected listed companies in Sri Lanka.

Operationalization of Variables

Concentrated ownership was operationalized by identifying indicators which were measured using the quotient obtained by dividing the number of equity shares held by a major shareholder by the total number of equity shares in a company. The Diffuse ownership was operationalized by identifying indicators which were measured using the quotient obtained by dividing the number of equity shares held by more than ten individual shareholders excluding directors and managers by the total number of equity shares in a company [12]. The proportion between the number of equity shares owned by the directors and managers and the total number of equity shares in the company was applied to measure the Managerial Ownership [21]. Similarly, the quotient calculated by dividing the number of equity shares held by all institutional investors by the total number of equity shares in a company. Foreign ownership was measured by applying the proportion of the number of equity shares held by investors from foreign country in relation to the total number of equity shares in a company [47]. The financial performance was operationalized with a single indicator, Return on Assets (ROA), which was measured by the calculation of ratio, net income after tax being the numerator and total assets being the denominator [12], [21]-[67].

METHODOLOGY

The study was carried out using data obtained from the sample of 100 out of 288 listed companies operating in 19 GICS sectors representing the Energy (1), Materials (8), Capital Goods (9) Commercial & Professional Services (1), Transportation (1), Automobiles & Components (1), Consumer Durables & Apparel (4), Consumer Services (12), Retailing (5), Food & Staples Retailing (2), Food, Beverage & Tobacco (17), Household & Personal Products (1), Health Care Equipment & Services (3), Banks (4), Diversified Financials (18), Insurance (3), Telecommunication Services (1), Utilities (2), and Real Estate (7) industries in Sri Lanka. The sample of companies was selected on a stratified random sampling method, being the strata as the type of industry.

The data on net profit after tax and total assets were extracted from the annual reports of 100 companies for the reporting period of year 2024/2025 to be used in calculating the rate of Return on Assets in order to measure the financial performance of the companies as for the cross section of a reference period. Similarly, the number of equity shares and the composition were obtained from the same annual reports for the period in order to measure ownership structure identities taken into the study.

Method of Data Analysis and Hypothesis Testing

The descriptive, correlation, and regression analyses were applied as techniques to analyze and evaluate the data collected using the software SPSS version 29.0. The descriptive analysis was made to find out the frequency distribution, skewness, mean, and standard deviation for every variable. Correlation and regression analyses were done between the ownership structure variables and the return on assets in the reference year of study conducted as a cross section in time.

The fitted multiple regression model was: $Y = \beta_0 + \beta_1 (CO)_i + \beta_2 (DO)_i + \beta_3 (MO)_i + \beta_4 (IO)_i + \beta_5 (FO)_i + \epsilon$, where, Y = Financial Performance (ROA); β_0 = Intercept of formula; $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Slope coefficient; CO = Concentrated Ownership; DO = Diffuse Ownership; MO = Managerial Ownership; IO = Institutional Ownership; FO = Foreign Ownership; ϵ = Random Error Term; i = Firm; t = Time period.

A hypothesis testing was done by forming the Null Hypothesis (H_0) and Alternate Hypothesis (H_A). Hypotheses were tested using the results of Ordinary Least Square (OLS) regression (linear) analyses choosing a probability level of significance (p value) at 5% for measuring the error judgment. Decision Criteria for the Results of

Regression were: If $P \geq 0.05$, then there is no significant impact of an assumed independent variable on the dependent variable. If $P \leq 0.05$, then there is a significant impact of the independent variable on the dependent variable.

RESULTS AND DISCUSSION

A descriptive analysis was done on the data collected on the ownership structure variables and return on assets to find answer to the first research question in the study. The results of the analysis, as presented in Table 1, indicated that the data recorded on all the variables are approximately normally distributed. The mean values of 0.4487, 0.5158, 0.4031, 0.2809, and 0.1719 were found for the proportions of Concentrated Ownership, Diffuse Ownership, Managerial Ownership, Institutional Ownership, Foreign Ownership respectively, and 11.38% of average to the Return on Assets. The degree of the ownership structure variables was found within the range of 0.01 and 0.90 among the companies selected as the sample for the study, and the variations in the ownership structure variables and return on assets are significant, as indicated by the standard deviations and other statistics.

Table 1 Descriptive Statistics

Variables	N	Mean	Std. Deviation	Minimum	Maximum	Skewness	Kurtosis
Concentrated Ownership	100	0.4487	0.1793	0.04	0.84	-0.069	-0.193
Diffuse Ownership	100	0.5158	0.1712	0.15	0.90	0.122	-0.253
Managerial Ownership	100	0.4031	0.1588	0.04	0.76	-0.113	-0.251
Institutional Ownership	100	0.2809	0.1120	0.03	0.53	0.025	-0.274
Foreign Ownership	100	0.1719	0.0679	0.02	0.32	-0.124	-0.165
Financial Performance (ROA)	100	0.1138	0.0432	0.01	0.21	-0.005	-0.153

Source: Output of SPSS Analysis

Pearson's Correlation analysis as extracted in Table 2 indicated that the ownership structure variables - Concentrated Ownership (CO), Managerial Ownership (MO), Institutional Ownership (IO) and Foreign Ownership (FO) are positively and significantly correlated with the Returns on Assets (ROA) of the companies, with coefficients of 0.766, 0.400, 0.588, and 0.474 respectively while the Diffuse Ownership (DO) has negatively and insignificantly correlated with the Returns on Assets (ROA) with the coefficient of -0.035. Further, it is found that Concentrated Ownership (CO) is strongly positively correlated with the ROA while other ownership identities, MO, IO, and FO are moderately and positively associated with the ROA.

Table 2 Pearson Correlation between the Ownership Structure Variables and Financial Performance

Variables	ROA	CO	DO	MO	IO	FO
ROA	1.000	-	-	-	-	
CO	0.766**	1.000	-	-	-	
DO	- 0.035	0.460	1.000	-	-	
MO	0.400**	.227*	-0.318**	1.000	-	

IO	0.588**	0.397*	0.008	0.377*	1.000	
FO	0.474**	0.451*	0.760	0.001	0.026	1.000

Correlation is significant at the 0.01 level (2-tailed).

Correlation is significant at the 0.05 level (2-tailed).

Source: Output of SPSS Analysis

The simple regression analysis was done to determine the functional relationship between the following set of an Independent variable (IV) and the Dependent variable (DV) in order to find out the answers to the research questions 2,3,4,5 and 6:

1. Concentrated Ownership (CO) and Financial Performance (ROA)
2. Diffuse Ownership (DO) and Financial Performance (ROA)
3. Managerial Ownership (MO) and Financial Performance (ROA)
4. Institutional Ownership (IO) and Financial Performance (ROA)
5. Foreign Ownership (FO) and Financial Performance (ROA)

Linear regression analysis, as summarized in Table 3, revealed that the b value of the Concentrated Ownership (CO), the gradient of the regression, is 0.185, which is significant at 95% (Sig.t = < 0.001). As indicated by R Square, 58.6% of the variance of ROA is explained by Concentrated Ownership with a standardized beta of 0.766. The F value is 138.8, which is significant at 95% (Sig.F.= < 0.001), which suggests that Concentrated Ownership structure has significantly explained 58.6% of the variance of the Financial Performance of the companies.

Table 3 Statistics of Simple Regression between each of the Ownership Structure Variables- Concentrated Ownership (CO), Diffuse Ownership (DO), Managerial Ownership (MO), Institutional Ownership (IO), and Foreign Ownership (FO)- with the Financial Performance (ROA)

Regressing	CO with ROA	DO with ROA	MO with ROA	IO with ROA	FO with ROA
Method	Linear	Linear	Linear	Linear	Linear
R	0.766	0.350	0.400	0.588	0.474
R Square	0.586	0.001	0.160	0.346	0.225
Adjusted R Sq	0.582	-0.009	0.151	0.339	0.217
Standard Error	0.028	0.434	0.398	0.351	0.038
Sum of Square	0.108	0.000	0.155	0.121	0.042
F	138.8	0.121	18.66	51.88	28.42
Sig. F	0.001	0.729	0.001	0.001	0.001
T	11.780	-0.348	4.320	7.203	5.331
Sig. T	0.001	0.729	0.001	0.001	0.001
b - Constant	0.031	0.118	0.070	0.050	0.062

b	0.185	-0.009	0.109	0.227	0.302
Beta	0.766	-0.348	0.400	0.588	0.474

Source: Output of SPSS Analysis

The b value of the Diffuse Ownership (DO), the gradient of the regression, is -0.009, which is insignificant at 95% (Sig.t = 0.729). As indicated by R Square, only 1.0% of the variance of ROA is explained by Diffuse Ownership with a standardized beta of -0.035. The F value is 1.21, which is insignificant at 95% (Sig.F = 0.729), which suggests that Diffuse Ownership has insignificantly explained 1.0% of the variance of Financial Performance of the companies.

The b value of the Managerial Ownership (MO), the gradient of the regression, is 0.109, which is significant at 95% (Sig.t = < 0.001). As indicated by R Square, only 16.0% of the variance of ROA is explained by Managerial Ownership with the standardized beta of 0.109. The F value is 18.659, that is significant at 95% (Sig.F = < 0.001), which suggests that Managerial Ownership has significantly explained 16% of the variance of Financial Performance of the companies.

The b value of the Institutional Ownership (IO) is 0.227, which is significant at 95% (Sig.t = < 0.001). As indicated by R Square, 58.8% of the variance of ROA is explained by Institutional Ownership with the standardized beta of 0.588. The F value is 51.88, that is significant at 95% (Sig.F = < 0.001), which suggests that Institutional Ownership has significantly explained 22.7% of the variance of Financial Performance of the companies.

The b value of the Foreign Ownership (FO) is 0.302, which is significant at 95% (Sig.t = < 0.001). As indicated by R Square, 47.4% of the variance of ROA is explained by Institutional Ownership with the standardized beta of 0.474. The F value is 28.42, that is significant at 95% (Sig.F = < 0.001), which suggests that Foreign Ownership has significantly explained 47.4% of the variance of Financial Performance of the companies.

As a multivariate analysis, the Multiple Regression analysis was done in order to investigate the simultaneous impacts of all the independent variables on the dependent variable. The results of regressing the five independent variables (CO, DO, MO, IO and FO) against the dependent variable (ROA) are shown in Table 4.

The statistics of Linear multiple regression analysis as summarized in Table 4 revealed that the five ownership structure variables have conjointly significantly explained the variations in Return on Assets that is the indicator of financial performance, with the R^2 value of 0.746.

The square of the multiple R is 0.746, which indicates that 74.6% of the variation in Financial Performance (ROA) of the companies is explained by the five independent variables jointly. The F value is 6.23, which is significant at 95% (Sig.F = < 0.001), which suggests that the five independent variables of Ownership structure have significantly explained 74.6% of the variation in the Financial Performance (ROA) of the companies.

Table 4 Multiple Regression between the Ownership Structure Variables-Concentrated Ownership (CO), Diffuse Ownership (DO), Managerial Ownership (MO), Institutional Ownership (IO), and Foreign Ownership (FO)-and Financial Performance

Method	R	R ²	Adjusted R ²	Standard Error of the Estimate	F	Sig. F
Linear	0.865	0.749	0.735	0.0224	55.965	<0.001

Source: Output of SPSS Analysis

The strengths of the influence that each of the independent variable have on the dependent variable (ROA) were determined by the use of multi regression coefficients of the independent variables. The influence of each

independent variable is shown in the Table 5.

As shown in the Table 5, Concentrated Ownership has the strongest significant effect on the Financial Performance with a standardized beta of 0.490. Managerial Ownership also has a significant effect on the Financial Performance with the standardized beta of 0.154. Institutional Ownership too has a significant effect on the Financial Performance with the standardized beta of 0.329. Foreign Ownership has a significant effect on the Financial Performance with the standardized beta of 0.247 as well. However, Diffuse Ownership has no significant effect on the Financial Performance, indicated with the standardized beta of -0.310 at 95% (Sig.T=0.574). In fact, it has a negative and insignificant effect on the ROA. According to results of regression analysis, the Regression Equation for the financial performance is finalized as:

$$FP(ROA) = 0.015 + 0.118(CO) - 0.008(DO) + 0.042(MO) + 0.127(IO) + 0.157(FO).$$

Table 5 Influence of the Independent variables on Dependent Variable (ROA)

Independent Variables	Unstandardized b coefficients	Standard Beta	Standard Error of Beta	t	Sig.t
Constant	0.015	-	0.012	-1.213	0.288
Concentrated	0.118	0.490	0.016	7.563	<0.001
Diffuse	-0.008	-0.310	0.014	-0.563	0.574
Managerial	0.042	0.154	0.016	2.574	0.012
Institutional	0.127	0.329	0.023	5.427	<0.001
Foreign	0.157	0.247	0.038	4.168	<0.001

Source: Output of SPSS Analysis

Hypothesis Testing

Hypothesis 1

The hypothesis H₁ was: The Concentrated Ownership has a significant positive impact on the financial performance (b>0). The null hypothesis was formulated as H₀: The Concentrated Ownership has no significant positive impact on the financial performance (b<0). According to the results of linear multiple regression analysis, the coefficient of regression (b) for this variable is found at 0.118 which was significant at 95% confidence level (P>0.05). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the Concentrated Ownership has a significant positive impact on the financial performance of the listed companies under the study.

Hypothesis 2

The hypothesis H₂ was: The Diffuse Ownership has a significant positive impact on the financial performance (b>0). The null hypothesis was formulated as H₀: The Diffuse Ownership has no significant positive impact on the financial performance (b<0). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at -0.008 which was insignificant at 95% confidence level (P<0.05). Therefore, according to the regression coefficient the null hypothesis is accepted and the alternative hypothesis is rejected since the b value is found negative and insignificant. Hence, the data have not supported the hypothesis that the Diffuse Ownership has a significant positive impact on the financial performance of the listed companies under

the study.

Hypothesis 3

The hypothesis H_3 was: The Managerial Ownership has a significant positive impact on the financial performance ($b > 0$). The null hypothesis was formulated as H_0 : The Managerial Ownership has no significant positive impact on the financial performance ($b < 0$). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at 0.042 which was significant at 95% confidence level ($P > 0.05$). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the Managerial Ownership has significant positive impact on the financial performance of the listed companies under the study.

Hypothesis 4

The hypothesis H_4 was: The Institutional Ownership has a significant positive impact on the financial performance ($b > 0$). The null hypothesis was formulated as H_0 : The Institutional Ownership has no significant positive impact on the financial performance ($b < 0$). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at 0.127 which was significant at 95% confidence level ($P > 0.05$). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the Institutional Ownership has a significant positive impact on the financial performance of the listed companies under the study.

Hypothesis 5

The hypothesis H_5 was: The Foreign Ownership has a significant positive impact on the financial performance ($b > 0$). The null hypothesis was formulated as H_0 : The Foreign Ownership has no significant positive impact on the financial performance ($b < 0$). According to the results of linear multiple regression analysis, the coefficient of regression (b) is found at 0.157 which was significant at 95% confidence level ($P > 0.05$). Therefore, according to the regression coefficient the null hypothesis is rejected and the alternative hypothesis is accepted since the b value is found significant. Hence, the data supported the hypothesis that the Foreign Ownership has a significant positive impact on the financial performance of the listed companies under the study.

CONCLUSIONS AND RECOMMENDATIONS

This study found that the average level of Concentrated Ownership, which is owned by few number of major shareholders, is prevailing among the listed companies under the study at a moderate level of 44.87% of total equity voting shares (mean = 0.4487) with the variation of 17.93% and ranging from 4% to 84%. Further, it was found that there is a significant positive relationship between Concentrated Ownership and the financial performance of the listed companies under the study. This relationship was found to be strong as indicated with the correlation coefficient of 0.766, which is more than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that Concentrated Ownership had a significant positive effect on financial performance (the Beta value of 0.490 at Sig.t = 0.001) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [5], [58], [70] - [75] that the degree of Concentrated Ownership structure to predict better financial performance is significant.

This study found that the average level of Diffuse Ownership, which is owned by large number of small shareholders, is prevailing among the listed companies under the study at a moderate level of 51.58% of total equity voting shares (mean = 0.5158) with the variation of 17.12% and ranging from 15% to 90%. Further, it was found that there is an insignificant negative relationship between Diffuse Ownership and the financial performance of the listed companies under the study. This relationship was found to be weak as indicated with the correlation coefficient of -0.035, which is less than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that Diffuse Ownership had an insignificant negative effect on financial

performance (the Beta value of -0.031 at Sig.t = 0.001) and was found to be an insignificant predictor of financial performance. These findings empirically confirm the arguments given by [12], [13]- [37] that greater the degree of Diffuse Ownership structure leads to poor managerial performance towards financial performance and also reveal that it has no significant positive impact on financial performance. Higher ownership dispersion improves market liquidity. On the other hand, a higher level of ownership concentration can often provide more effective monitoring of a company with more commitment. Few number of owners with significant amounts of equity shares can easily take prompt and stern actions over provocative corporate decisions, while small investors might less be interested and lacking solidarity and power to arbitrate long term corporate investment decisions, that could lead to improved financial performance.

This study found that the average level of Managerial Ownership, which is owned by a number of directors and managers who are holding the voting equity shares in a company, is prevailing among the listed companies under the study at a moderate level of 40.31% of total equity voting shares (mean = 0.4031) with the variation of 15.89% and ranging from 4% to 76%. Further, it was found that there is a significant positive relationship between Managerial Ownership and the financial performance of the listed companies under the study. This relationship was found to be moderate as indicated with the correlation coefficient of 0.400, which is less than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that Managerial Ownership had a significant positive effect on financial performance (the Beta value of 0.154 at Sig.t = 0.011) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [36], [46], [48], [50] - [51] that greater the degree of Managerial Ownership structure leads to good managerial performance towards financial performance and also reveal that it has significant positive impact on financial performance.

This study also found that the average level of Institutional Ownership, which is owned by few number of major shareholders, is prevailing among the listed companies under the study at a low level of 28.09% of total equity voting shares (mean = 0.2809) with the variation of 11.20% and ranging from 3% to 53%. Further, it was found that there is a significant positive relationship between Institutional Ownership and the financial performance of the listed companies under the study. This relationship was found to be strong as indicated with the correlation coefficient of 0.588, which is more than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that Institutional Ownership had a significant positive effect on financial performance (the Beta value of 0.329 at Sig.t = 0.001) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [2], [3], [14], [18], [22], [42] - [62] that the degree of Institutional Ownership structure leads to have better institutional contribution towards good financial performance and also reveal that it has significant power in predicting better financial performance.

This study found that the average level of Foreign Ownership, which is owned by a number of non-residential shareholders, is prevailing among the listed companies under the study at a low level of 17.19% of total equity voting shares (mean = 0.1719) with the variation of 6.79% and ranging from 2% to 32%. Further, it was found that there is a significant positive relationship between Foreign Ownership and the financial performance of the listed companies under the study. This relationship was found to be moderate as indicated with the correlation coefficient of 0.474, which just less than the lower bound of a strong correlation (0.5). The multiple regression analysis revealed that Foreign Ownership had a significant positive effect on financial performance (the Beta value of 0.157 at Sig.t = 0.001) and was found to be a significant predictor of financial performance. These findings empirically confirm the arguments given by [60], [28] - [75] that the higher degree of Foreign Ownership structure enable companies to obtain expertise and collaboration from foreign shareholders and thereby to have better financial performance.

It is concluded that four independent variables of the ownership structure have been moderately, positively, and significantly correlated with the financial performance of the companies listed in the Colombo Stock Exchange, Sri Lanka. Further, the ownership structure variables, except the Diffuse Ownership, have a significant impact on the financial performance of the companies in the industries. Hence, the ownership structure has a significant influence on determining the financial performance of companies in the various industries in Sri Lanka. It is therefore recommended that companies improve their financial performance if they particularly consolidate Concentrated Ownership structure and increase the proportion of foreign shareholders. The findings of this study

suggest that companies that plan to improve their financial performance should give more priority for restructuring the company ownership by having higher proportion of Concentrated ownership and foreign ownership to some extent. Ownership concentration is a significant internal governance mechanism in which owners can control and influence the management of the companies to improve the financial performance and protect their interests.

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