

**CORPORATE GOVERNANCE, OWNERSHIP TYPE AND CORPORATE
PERFORMANCE IN EMERGING ECONOMIES: EMPIRICAL EVIDENCE FROM
SRI LANKA**

Nambukara Gamage Bandula Sisira Kumara

M Com (Kelaniya, Sri Lanka), LICA (CA, Sri Lanka), BBA (Hons) (Ruhuna, Sri Lanka)

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**School of Business
Faculty of the Professions
University of New England
Armidale, NSW
Australia**

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ABSTRACT

This study examines the relationship between firm performance and ownership type and also the relationship between firm performance and corporate governance. In addition this study investigates whether there is a link between performance measures. Although many researchers have made an effort to investigate whether there is a link between ownership type and organizational performance, corporate governance and corporate performance in developed countries, the empirical evidence on these areas are weak in Sri Lanka, being a developing country and emerging economy with a unique economic situation. Another aspect of corporate performance studies are some potentially important biases related to the selection of the performance measures used in studies on corporate performance. This is due to many researchers having chosen only one or two measurement techniques out of financial/accounting, market based and production efficiency measurement techniques to measure corporate performance. Therefore different conclusions can be achieved using one or the other measures of empirical evidence. Consequently the validity of results of many studies on corporate performance in the literature is questioned (Bozec, Dia, & Breton, 2006). To overcome this problem, multi-dimensional measures are required (Carton & Hofer, 2006). Accordingly, three dimensions of performance measures (financial/accounting, market based and production efficiency) were used in this study. These performance measurement techniques have been compared to determine whether there are potential relationships among them.

This study makes four significant contributions to the study of the performance of - public, private and mixed enterprises in Sri Lanka, especially via multiple approaches to address the research issue of corporate performance. Firstly, it fills the gap in un-researched areas among the state, private and mixed enterprises performance evaluation. Secondly, this study employs two production efficiency measures: DEA-Malmquist and Bootstrap/Tobit method for the first time to augment the value of findings from this study using the more traditional accounting cum financial and Tobin's Q performance measures. Thirdly, the application of the Bootstrap and the Tobit regression methods, enterprises allow us to investigate firm specific factors, if any, that may be contributing to the efficiency performance. Finally, this study observes for the first time the linkage between the firms' performance using the traditional accounting/financial ratios with their production efficiency performance measures from employing the DEA- Malmquist

methodology. Therefore this study contributes greatly to the existing literature in that the previous studies conducted in Sri Lanka applied very small data sets or focused on only one industry. Furthermore, this approach is noteworthy in that the research methodology is an innovative approach to studying this area. In addition the data used in this study is unique to this study being compiled from sources within Sri Lanka. Taken as a whole, this is the first research published in Sri Lanka using the DEA- Malmquist index, accounting ratios and Tobin's Q as well. Consequently, the findings of this study will be helpful to policy makers of the government of Sri Lanka particularly and policy makers of other emerging nations generally. Furthermore decision makers regarding privatization and board governance, analysts, and investors will be aided in determining the drivers of the value of firms and important corporate governance aspects in Sri Lanka.

This study adopts accounting ratios, Tobin's q and a non parametric Data Envelopment Analysis (DEA) and the Malmquist Productivity Index (MPI) to measure accounting/financial, market-based and production efficiency performance of matched 38 State Owned Enterprises (SOE's), 123 Private Enterprises (PE's) and 36 Mixed Enterprises (ME's) over a five year period from 2003 to 2007.

The results show that board size has a positive relationship with market performance levels and there is no significant relationship in relation to accounting and production efficiency performance levels of enterprises in Sri Lanka. While non executive directors' ratio has a positive relationship with accounting and production efficiency performance, there is no significant relationship with market performance. CEO duality and corporate performance has a negative relationship with production, accounting and market performance measures. However, performance levels vary among industries.

In general the overall performance of private sector enterprises is better in terms of accounting and market performance measures applied, compared with SOEs and MEs. However the type of ownership explain the differences in production efficiency levels of SOEs PEs and MEs in Sri Lanka only with regard to technology (the technological development is higher in PEs), but no significant differences occur among ownership types based on managerial efficiency or labor efficiency.

The comparison among three performance measurement techniques indicates that even though most of financial/accounting performance measures are associated with production efficiency performance measures, they have very low correlation coefficients among them. However, Tobin's Q does not have significant relationships with either accounting or production efficiency performance measures. In Conclusion, the use of one method to assign performance is not appropriate. Therefore it could be suggested that the use of all those three sets of measures are needed in order to pass judgment on corporate performance.

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ABBREVIATIONS

SOEs - State Owned Enterprises

PEs – Private Enterprises

MEs- Mixed Enterprises

CSE- Colombo Stock Exchange

DEA- Data Envelopment Analysis

MPI- Malmquist Productivity Index

TFP- Total Factor Productivity

GDP- Gross Domestic Product

IMF- International Monetary Fund

CRS- Constant Returns to Scale

VRS- Variable Returns to Scale

ROE - Return on Equity

ROA - Return on Assets

SPE - Sales Per Employee

NIE - Net Income Efficiency

ROS – Return on Sales

EM – Equity Multiplier

TE – Technical Efficiency

LCTE - Labor Contribution to Technical Efficiency

PERC- Public Enterprise Reform Commission

EBIT - Earnings Before Income and Taxation

TFPCH - Total Factor Productivity Change

EFFCH - Efficiency Change

TECHCH - Technology Change