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**OWNERSHIP STRUCTURE AND PERFORMANCE IN  
SRI LANKAN SMEs  
WITH SPECIAL REFERENCE TO VAVUNIYA DISTRICT**

BY

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## Abstract

This research study mainly focuses on how does ownership structure affect performance in SMEs. The study comprises two types of ownership structures in SMEs. Owner control SMEs and manager control SMEs. Owner control SMEs has another two types of control mechanism such as family ownership and owner – manager ownership structure.

Field survey was adopted in order to collect the data. This study is based on the primary as well as secondary data. The sample covers 32 SMEs out of 179 registered SMEs in Vavuniya district. Questionnaire was used to collect information about ownership structure, form of SMEs, age of the firm and types of the production. Five years annual reports and other data such as present value of the capital and replacement value of the assets were collected to calculate the performance of the SMEs. Decision making power was considered to identify the ownership structure. Performance was calculated by accounting performance of ROA \_ net income, ROA \_ lagged and market performance of Tobin Q. Three control variables were incorporated such as Assets tangibility, Size of the firm by log value of revenue and Age of the firm. The variables were analyzed by using the cross sectional ordinary least – square (OLS) regression model.

The results have shown and confirmed the first hypothesis that the manager controlling firms are less profitable than owner controlling firms. This relationship is also significant and proved by the testing of the variables such as Tobin Q, ROA \_ lagged and ROA \_ net income. The second hypothesis is also shown that the owner controlling firms are more profitable than manager controlling firms. This relationship is also significant and proved by the Tobin Q. Other two performance variables are not significant and have low negative correlation between owner managers. The last hypothesis proves the family ownership firms are more profitable than other ownership structures. All three performance variables are positively correlated and significant at moderate level.

The main findings indicate that among the sample SMEs there are 78% of the firms is controlled by owners and among these firms 44% are family controlled firms. The

family ownership firms are more profitable than other types of ownership structures. The manager control mechanism has negative impact on firms' performance. Further, the study shows that the ownership structures in the SMEs have a significant influence on firms' performance. Another finding is the control variables assets tangibility and age of the firm have significant influence on the firms' performance and revenue of the firm does not have influence on the firms' performance. Assets tangibility has a negative impact on ROA \_ net income and Tobin Q. Age has a positive impact on Tobin Q. Therefore the conclusion of the study is that the family firms are functioning in a successive way and provided better performance; manager controlling firms have less profit. This study is another proof for the agency theory. Because the agency theory believes that the agent will not always act in the best interest of the principal.

