

Impact of Institutional Ownership on Value Relevance of Accounting Information in Sri Lanka

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Abstract

The value relevance of accounting information has received significant attention in both developed and developing countries for last few decades. This study investigates the impact of institutional ownership on value relevance of accounting information in Sri Lankan context. There are only few prior studies have conducted to assess the value relevance of accounting information and influence of institutional ownership level in Sri Lankan context. Further, those studies haven't considered how it might be affected by firm level characteristics such as institutional ownership, growth, firm size, firm industry, leverage and governance. Therefore, this study tries to fill this research gap by assessing the impact of institutional ownership and other firm specific characteristics on value relevance of accounting information. This study employs Ohlson (1995) price regression model to investigate the value relevance of accounting information. It explains Market Price per Share (MPPS) using earnings per share (EPS), book value of per share (BVPS), institutional ownership level, growth in assets, changes in financial leverage and firm size. The sample comprises 35 firms and 175 firm-year observations constitute to list manufacturing in CSE. This study will use a panel regression model to estimate model. The finding of this study will promote the understanding of the influence of institutional investors on firm's market value. Further this study can serve as a guide for accounting researchers studying other emerging markets. Capital market regulators can provide guidelines in the form of information characteristics and elements of financial statements that need improvement and enhance the quality of accounting information by identifying the strengths and weakness in their financial reports.

Keywords: Colombo Stock Exchange, Institutional Ownership, Sri Lanka, Value Relevance.