THE IMPACT OF CHANGE IN OWNERSHIP ON FINANCIAL PERFORMANCE OF FIRMS IN SRI LANKA

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ABSTRACT

Government intervention and Government policies into the economy can be varied according to its political and economic objectives etc. Privatization policy can be described as an economic policy which was began in 1977 with new economic transformation policies. After 1995 this Privatization policy was spared through the international forces and ownership of most of the national industries transferred to the foreign and large local investors. Government wanted to reduce the huge loss of national industries which can be a burden on the national budget. At the same time huge foreign direct investments come to the country by reducing the burden on the national trade balance. In recent decades we can see a structural economic policy in the national industries called corporate ownership structure. In that context this study is going to examine the impact of change in ownership on financial performance of firms in Sri Lanka.

The main objectives of the study were to find out the impact of change in firms' Ownership on Profitability, Liquidity, and Leverage.

The sources of data include the yearly publications of the Colombo Stock Exchange (CSE), the Central Bank publications, and the annual reports of the selected companies and some related web sites such as www.cbsl.lk, www.sec.gov.lk, www.slstock.com/stock, and www.cse.lk.

The samples consisted of 7 companies. Data for the study covered the 5 years before change owner ship and 5 years after change owner ship.

The variables in the research model (performance related factors such as Net profit margin, Current Ratio, and Leverage Ratio) were measured through ratios which the selected companies recorded as at 31st of each year. Then the financial performance of the firms which were faced to the change of owner ship has increased in considerable amounts due to the firms' Net profit margin which has increased during the transformation period, the leverage of the firms which has been reduced. The Current ratio does not show a significant change. Because of the Change of financial structure, Job security of employee has increased and satisfied employees give their maximum contribution to the firms and Government financial strength & ability to absorb the resiliencies of firms. As we used a short term evaluation there is a long term evaluation is needed to study the long term impact of these changes.

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