

Corporate Governance and Profitability Evidence from Sri Lankan Banking Industry

Herath, H. M. S. L.¹ and Basnayake, W. B. M. D.²

Department of Finance, Faculty of Commerce and Management, University of Kelaniya

¹herathsepalika@ymail.com and ²Dananji.basnayake@gmail.com

The purpose of this research is to explore the impact of corporate governance mechanisms (board size, board independence, composition of the audit committee, firm size, firm leverage and CEO duality) on firm performance (return on equity) in Sri Lankan banking industry. Governance is taken from the Greek word "Kybernan" which does mean to steer, guide or govern. Corporate governance when broadly defined means the relationship of the firm to all its stakeholders and the society" (Yasser, 2011). According to Mayers and Raghuram (1995), corporate governance in the wider sense and argued that "corporate governance should be regarded as the set of institutional arrangements for governing the relationship among all of the stakeholders that contribute firm special assets. Ruin(2001) stated that corporate governance as a group of people getting together as one united body is empowered to regulate, determine, restrain, curb and exercise the authority given to it. There have been number of studies that have examined the effects of corporate governance on firm performance, how corporate governance affect to the failure of banks, and financial distress and corporate governance in particular banks. This research attempts to find if there is any significant impact of corporate governance mechanisms on firm performance in Sri Lankan banking industry while addressing the independent variables of board size, board independence, audit committee composition, firm size, firm leverage and CEO duality. There are 34 banks in Sri Lanka presently. Researcher selected 13 banks out of 34 banks as a sample for this research. The data of corporate governance (board size, board independence, and composition of the audit committee, firm size, and firm leverage and CEO duality) collected from 13 banks (including both licensed commercial bank and licensed special bank) from 2005 to 2014. Researcher expects to employ panel data methodology as a method of estimation. Descriptive statistics, ANOVA and t-test would be applied on data by using SPSS. As well as

researcher would expect to use correlation techniques method to test the hypotheses, solve the research problem, and achieve goals and objectives of the study. This study ultimately focuses on identifying how corporate governance affects bank profitability. Because corporate governance is very much important to every company to achieve its objectives while satisfying the stakeholders of the company. Researcher expects that there is a considerable significant impact of corporate governance on Performance of the banking industry in Sri Lanka. The limitation of the study is that researcher had a small sample due to the time constraint but it provides a research framework for future studies. Even though researcher selects CEO duality as one of the independent variables, as far as Sri Lankan banking industry is considered, it is impossible to one person holding both the CEO and chairperson positions. Due to repeated results researcher had to remove it from independent variable list.

Keywords: *Corporate Governance, Board Size, Board Independence, Audit Committee Composition, Firm Size, Firm Leverage, Bank Performance*