

Effect of Corporate Governance on Firm Capital Structure; Evidence from Sri Lankan Context

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Abstract

This study explores the effect of corporate governance on firm capital structure in Sri Lanka. Though the governance on financial decisions has much researched in developed country context, scarcely any local studies have been found. Moreover, prior empirical studies have presented mixed results and have failed to identify most significant governing attributes affecting capital structure. This study fills this gap by taking into consideration significant attributes. Therein study aims to explore the effect of governance mechanisms such as board independence, CEO duality, board committees and board independence on capital structure decisions in Sri Lanka. Multiple regression analysis is employed to identify the association between corporate governance attributes and capital structures of Sri Lankan firms. This study employs a representative sample of all non-financial sector companies for a 5 years of latest period from 2014 to 2019. The sample comprises of 50 non-financial firms and 250 firm-year observations. Thereby, the paper will be of much value for leading Sri Lankan corporates to successfully compete by understanding importance of corporate governance on firm decisions. Educators are expected to gain knowledge and potential researchers will also be beneficiaries.

Keywords: Corporate Governance, Capital Structure, Colombo Stock Exchange, Debt, Sri Lanka