

Impact of Corporate Governance on the Financial Performance of Commercial Banks in Sri Lanka

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ABSTRACT

Introduction – Commercial banks in Sri Lanka are playing an important and specific role in the economy. With the significant impact of failures in banks on the Sri Lankan economy, it brings the importance to study this phenomenon of corporate governance due to the existence of little literature. In today's modern business world, corporate governance has been one of the most important topics and this has attracted the attention of many researchers. Hence, this study attempts to examine the impact of corporate governance on the financial performance of the commercial banks.

Design/Methodology/Approach - The study used commercial banks registered and operational in Sri Lanka. To measure the financial performance, return on assets and return on equity have been used as the dependent variable and as the independent variables, board independence, the board size, CEO duality, and audit committee have been used. Firm size and firm age were used as the control variables to enhance the validity and accuracy of the tests. The research has adopted a descriptive statistic and multiple regression analysis as the research method and the study selected 10 commercial banks from 2014 to 2018. The analysis was conducted using SPSS statistical software.

Findings -. As per the correlation analysis, there is a significant weak negative relationship between board independence and ROE while there is a weak positive relationship with the board size. Moreover, ROA and board size have an insignificant weak negative relationship and with the board independence there is an insignificant weak positive relationship.

Conclusion – This paper provides the level of the impact of corporate governance variables on the commercial banks' performance. The Sri Lankan economy has to strengthen the corporate governance practices to improve financial performance. Nevertheless, good corporate governance practices will help prevent financial collapses and fraudulent activities within the corporate world.

Keywords: *Corporate Governance Characteristics, Financial Performance, Commercial banks*