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The Impact of Corporate Governance on Firms' Financial Performance: Evidence from Listed Banks in Sri Lanka

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Abstract

Introduction: Today, corporate governance has become a worldwide issue, and the rapid development of corporate governance compliance can be evidenced in many jurisdictions around the world. This study aims to empirically test the impact of corporate governance on a firm's financial performance.

Methodology: This study collected data from 10 firms listed on the Colombo Stock Exchange for a sample period of eleven years, from 2011 to 2022. Using quantitative approach, this study collected secondary data from the annual reports of the selected companies. Board size, board activism, the number of non-executive directors, board independence, and the gender of the board members were used as the explanatory variables to reflect the corporate governance of the companies selected. Both return on equity and return on assets were used to measure the financial performance of the selected company. Further, firm size was used as the control variable. A series of fixed-effects panel regression models was used in this study to analyze the data.

Findings: The results of the study revealed that there is a significant impact between ROA and the gender of the board members, whereas all the other hypotheses were rejected. In conclusion, this study revealed that the gender of the board members significantly impacts the financial performance of the listed banks in Sri Lanka.

Conclusion: The findings of the study have practical implications for the strategic leaders of the banking industry, as they shall consider women with quality skills, experience, and strong decision-making abilities when making decisions on women's recruitment as board members. Because women are relatively emotional when making decisions, it can affect their financial performance.

KEYWORDS: Corporate governance, Financial performance, Return on equity, Return on Assets, Gender of board members.