12th Students' Research Symposium 2023/2024
ISSN 2279-3097

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

A.K.G.D. Kaushalya[1], S.D.P.Piyananda[2]

Department of Finance, University of Kelaniya, Sri Lanka[1,2]
Kaushaly-bm18213@stu.kln.ac.lk[1], dhanushkap@kln.ac.lk[2]

Abstract

Introduction: Corporate governance is a widely regarded core organizational concept that is crucial for the development, sustainability, and competitiveness of businesses. Strong business ethics, sensible policies and processes, and effective monitoring systems are thus regarded as elements of a system of competent corporate governance. The main objective of this study was to investigate the impact of Corporate Governance on the financial performance of listed finance companies in Sri Lanka.

Methodology: Return on Assets (ROA) and Return on Equity (ROE) were used as proxies for firms performance whereas explanatory variables include Board Size, Board Composition, Audit Committee Size, Goard Gender. The sample picked out 20 listed finance companies based on companies with the highest market capitalization in financial statements as of 31st August 2023. The secondary data were collected through the annual report in these listed finance firms. Secondary data were collected using documentary information from the Company's annual report for the period 2018 to 2022. Data analysis was conducted using techniques such as, panel regression, descriptive analysis, and correlation analysis.

Findings: Looking at the overall correlations suggests that factors such as board size, board meetings, board gender, and firm size have more positive impacts on ROA and ROE. And board composition has negative impacts on return on assets. But overall, these variables are not significant impact on ROA and ROE. Understanding the corporate governance mechanisms on financial performance is an important area of interest to academics, practitioners, and regulators.

Conclusion: The empirical result of the study shows that all the CG variables (board size, board independence, and board gender) have positive and insignificant impacts on financial performance at 5% level of significance with the following, respectively. This suggests that board size is essential to achieving board effectiveness and increased firm performance, which is consistent with the findings of earlier studies. This finding is supported with the previous empirical finding of Mohammed Ibrahim and Buhari Baba (2019) who found positive association between board size, board independence, and board gender and firm performance.

KEYWORDS: Corporate Governance, Financial Performance, Return on Equity, Return on Assets, Listed financial companies