

**The Effect of Corporate Governance on Financial Leverage of Companies  
Listed at Colombo Stock Exchange**

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**ABSTRACT**

**Introduction:** Good corporate governance enables the companies to reduce the risk and cost of capital, reduce the conflict and fraud, increase the overall company performance and improve the efficiency and effectiveness of financial markets. Hence, the purpose of this study was to examine the effect of corporate governance on financial leverage of companies listed at Colombo Stock Exchange.

**Design/ Methodology/ Approach:** The study is conducted based on quantitative approaches by using financial information of 77 listed companies in the Colombo Stock Exchange during the time period from 2013 to 2020. Stratified sampling method is used to select the 77 listed companies. Dynamic panel data: Generalized Method of Moments (GMM) regression is used to identify the relationship between the corporate governance and financial leverage. The dependent variable is Financial Leverage (FL) while independent variables are CEO Duality (CEOD), Board Size (BSIZE), Board Composition (BCOMP), Board Committees (BCOMM) and Managerial Ownership (MO).

**Findings** The finding reveal that the CEO duality and board size are significantly negatively related to the financial leverage, whereas board committees are found to be significantly positively correlated. Although there was no significant relationship between financial leverage, board composition and managerial ownership.

**Conclusion:** This study concluded that better corporate governance Mechanisms significantly affect the financial leverage of listed companies in the Colombo Stock Exchange in Sri Lanka except for board composition and managerial ownership. Hence, corporate governance mechanisms have an impact on financial leverage of companies listed on the Colombo Stock Exchange.

**Keywords:** *Financial leverage, Corporate Governance, CEO duality, Board size, Board composition*