

The Internal Corporate Governance Mechanisms on Capital Structure Decisions: Evidence from Sri Lankan Listed Companies

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Abstract

Corporate governance had become significant issue due to the globalization of businesses. The listed firms in Sri Lanka try to enhance the quality of the internal controls by adapting good internal corporate governance mechanisms. Therefore the aims of this empirical study is to investigate whether internal corporate governance mechanisms affect capital structure decisions of Sri Lankan listed firms.

This study employees 50 listed firms for five years from 2016-2020 as the sample of the study. Board of directors, ownership concentration and CEO duality are used as corporate governance variables (independent variables) whereas debt to equity ratio as the measure of capital structure (dependent variable). The variables are empirically tested by multiple regression analysis.

The results suggest that board size and ownership concentration are positively related to debt-to-equity ratio whereas CEO duality is found to be highly insignificant.

This paper contributes to the current capital structure and internal corporate governance literature, by proposing new evidence on the effect of internal corporate governance on capital structure. The results will help policymakers in different countries in estimating the sufficiency of the available internal corporate governance reforms to improve capital structure decisions.

Key words: *Internal corporate governance, Capital structure, CEO duality, Ownership concentration.*