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Moderating Role of Corporate Governance on the Nexus between Capital Structure and Firm Performance: Evidence from Consumer Service Sector

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ABSTRACT

Purpose: The purpose of this research paper is to identify the moderating effect of Corporate Governance on the relationship between accounting base financial performance i.e., ROA, and ROE and Capital Structure of 12 consumer service sector firms listed in CSE main board.

Design/Methodology/Approach: This study uses secondary data gathered from annual reports for the period of 2012 to 2021. In this study, multiple regression method is used under random effect regression model approach on panel data.

Findings: The findings of the research's regression analysis indicate a negative relationship between the ROE and the independent variable of debt equity ratio (DER) and three moderating variables of board composition (BCOM), board size (BSIZE) and CEO duality (CEOD). When consider the moderating effect only CEO duality shows the significant impact to the DER and ROE. When considering return on assets (ROA) as the dependent variable, only DER has a significant impact on ROA. That means only DER that significantly effects on ROA in consumer service sector companies in Sri Lanka. Additionally, the moderating variables are not shown any significantly impact to the ROA.

Originality: Considering corporate governance factors as moderating factors is a novelty in this study.

Keywords: *Capital Structure, Corporate Governance, Financial Performance, Consumer Service Sector*