

Impact of Corporate Governance on Capital Structure

Decisions of the Listed Companies in Sri Lanka

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Abstract

The objective of the study is to investigate whether corporate governance attributes such as board size, outside directors, CEO duality, Board experience, and director remuneration impact on capital structure decisions of listed companies in Sri Lanka. Most of the prior studies examined the relationship between corporate governance and performance of listed companies. However, limited research has been done on corporate governance and capital structure decisions in developing countries particularly in Asian and Sri Lankan context. This gap in the literature provides the rationale for the study. The sample of the research includes 50 companies from material and Food, Beverage & Tobacco sector. Data were collected from annual reports of companies for five year period. The findings indicate that the size of the board, external directors and the experience of the board are positively related to the overall debt ratio and the long-term debt ratio, while the remuneration of directors is negatively related. The duality of CEO is negatively linked to the long-term debt ratio. CEO duality in all regressions is considered strongly negligible. Total debt ratio and the long-term debt ratio are negatively related to control variables such as profitability and liquidity, while firm size is positively related. The tangibility of assets is linked positively to the long-term debt ratio and negatively to the total debt ratio. While Sri Lankan firms, relative to firms in developed countries, have poor internal and external corporate governance structures, the empirical findings indicate that corporate governance characteristics partially explain the financing actions of Sri Lankan firms. The empirical findings of this study provide useful insights to corporate managers in building an appropriate capital structure and regulatory authorities in enacting legislation and improving institutional support to make the country's corporate governance structures function more efficiently. This study contributes to the literature by providing empirical evidences from a developing country, Sri Lanka.

Keywords: Capital structure decisions, Corporate governance, Colombo Stock Exchange, Listed Firms