

The Impact of Financial Risk on Financial Performance Before and During the Crisis: Evidence from Listed Consumer Service Sector Companies in Sri Lanka

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Abstract

Introduction: The purpose of this study is to investigate the impact of financial risk on financial performance of listed consumer service sector companies in Sri Lanka before and during the crisis. This research aims to identify whether the financial performance measures and financial risk measures have been statistically different before and during the crisis and to identify the causal relationship between financial risk and financial performance.

Methodology: Panel regression analysis is used in the study to investigate how operational risk, liquidity risk, market risk and credit risk impacts Return on Equity and Return on Assets. 19 Listed Consumer service sector companies selected, and the sample period was from 2016 to 2023. Secondary data collected from the annual reports and websites. For testing the statistical difference between before and during the crisis this study used a Sample t-test with unequal variances and Wilcoxon rank sum test.

Findings: Operational risk, market risk has a significant positive impact on both ROE and ROA, liquidity risk has a statistically insignificant effect on both ROE and ROA. Credit risk has a negative but significant relationship with both ROE and ROA. According to the Sample T test with unequal variances and Wilcoxon rank sum test indicate all variables statistically different between before and during the crisis.

Conclusion: This study highlights the critical role of effective financial risk management in sustaining profitability during economic crises. While operational and market risks were associated with improved financial outcomes, higher credit risk severely impaired financial performance. The significant decline in both ROE and ROA during the crisis emphasizes the vulnerability of consumer service sector companies to economic disruptions.

Keywords: Consumer service sector, Sri Lanka, Financial risk, financial