

The Impact of Corporate Governance on Financial Performance: Evidence from Sri Lankan Banking Industry

Perera, W.T.N.M.¹ and Aruppala, W.D.N.²
navinimperera@gmail.com¹, dilini@kln.ac.lk²

Banking industry undertakes the critical and vital roles in the financial system; the well-being of the economy and the mechanism of the banking system interconnected. The concept of Corporate Governance has become conspicuous in conjunction with banking industry. Attention to Corporate Governance has quite a long history since the seminal paper on the subject of the “Principal – Agent Problem” by Meckling which argued that the Principal – Agent problem as a consequence of the separation of ownership and control. Over the last two decades; Sri Lankan economy has encountered substantial fluctuations from countless amalgamation with the global economy ((CBSL), 2013). In 1990 Sri Lanka has utilized the capital market reforms and adopted the Anglo American Structure of Corporate Governance (Edirisinghe, 2015). The regulatory requirements which affianced with the Corporate Governance in Sri Lanka; governed by the Banking Act No. 13 of 1988, Companies Act No. 07 of 2007, Codes of Best Practices and Regulations issued by the Institute of Chartered Accountants of Sri Lanka (ICASL) and Securities and Exchange Commission (SEC) of Sri Lanka. This research empirically examines the quality of Corporate Governance practices in Sri Lankan banking industry and their impact on banks’ financial performance in the context of an emerging market such as Sri Lanka. The study concludes that there is no equivalence in the disclosure of corporate governance practices made by banks in Sri Lanka. Nevertheless they all disclose their corporate governance practices, but what is disclosed does not conform to any particular standard. Furthermore this study conclude that a positive relationship exist between financial performance, number of board meetings and education level. Besides that the study conclude that a negative relationship exist between financial performance, board size, gender, outside directors and CEO duality.

Keywords: Corporate Governance, Financial performance, Corporate Governance Index, Commercial banks, Banking Industry, Sri Lanka