The Impact of Corporate Governance on Capital Structure and Firm Performance: Evidence from Sri Lanka

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Abstract

Corporate governance is a growing area of management research, especially among listed companies, and has received much attention in recent years. Changes in the economic environment and competition have made company's survival and success more important than ever, hence companies need adequate financial resources and better earnings to promote their goals. Therefore, factors affecting the capital structure and profitability of companies should be carefully considered. This study examines the impact of corporate governance on the capital structure and firm performance in the listed companies of Sri Lanka. Several prior studies have examined this relationship in developed and emerging economies. However, there is a dearth of literature available in the Sri Lankan context and they provide mixed results. Moreover, Sri Lanka is a developing country and the extant literature provides results and findings that significantly deviates from those of developed countries. This study adopts a quantitative research approach where the secondary data of the listed companies obtained from the audited annual reports of the companies for a period of five years from 2014 to 2018 is analyzed. The sample consists of 47 listed companies from two sectors namely customer service sector and customer durable and apparel sector. This study utilizes correlation and panel regression model to analyze the collected data. The result of this study will give a clear idea of the current state of Sri Lanka and the impact of corporate governance of the selected companies on financial performance and capital structure. Further, this study will provide useful insight of financial manager to make policies and decisions and it will be useful to see the overall performance of these sectors. In addition, these results can be of great importance for investors, creditors, financial analysts and scholars.

Keywords: Corporate Governance, Capital Structure, Firm Performance, ROA, Debt ratio, Board size; Board composition; CEO duality.