

EFFECT OF CORPORATE GOVERNANCE ON CAPITAL STRUCTURE OF QUOTED PUBLIC COMPANIES IN SRI LANKA

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ABSTRACT

There is a great awareness among the researchers to carry out the researches on corporate governance. But there is a gap in studies focusing on corporate governance and capital structure in the context of Sri Lanka. The aim of this study is to empirically investigate whether attributes of corporate governance affect to decisions on capital structure of listed firms in Sri Lanka. The sample of the study consisted of 138 non financial listed companies for four year period from 2009-2012. Board size, board composition, leadership structure, board committees, and managerial ownership were used as corporate governance variables whereas leverage ratio as the measure of capital structure and return on assets (ROA) and firm size as control variables. The statistical tests were used includes: descriptive statistics, correlation and regression analysis.

Descriptive statistics initiate that listed companies are complying well with the recommendations of corporate governance practices. The results of the hypothesis testing show that proportion of non executive directors positively and number of board committees negatively impact on the leverage ratio. However the other corporate governance variables are not significantly impact on capital structure decisions. In general, this study finds the issue of corporate governance is not significantly affected on financial decisions of listed companies in Sri Lanka.

Key words: corporate governance, capital structure, leverage ratio, Colombo Stock Exchange, multiple regression analysis