

The Impact of Corporate Governance Characteristics on the Financial Performance of the Listed Finance Companies in Sri Lanka

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ABSTRACT

Purpose: Corporate governance has become a major issue that is gaining more attention nowadays as a result of the various business difficulties that have occurred throughout the world. The primary goal of this study is to investigate the impact of corporate governance characteristics on the financial performance of Sri Lankan listed companies.

Design/Methodology/Approach: This research study uses random sampling approach to choose 130 organizations as the sample and the data is collected from annually audited annual reports and the published database of the CSE for the period from 2018 to 2021. The Board size (BSIZE), CEO duality (CEODUA), Board committee (BCOM), and CEO characteristic (CEOCHA) were considered as independent variables, whereas, Return on assets (ROA) and Return on equity (ROE) were dependent variables. A regression model is used to establish the relationship between corporate governance characteristics and firm performance.

Findings: The result revealed that there is a positive impact on composition favoring a majority of non-executive directors and the financial performance; there is a negative impact on two persons being elected as the CEO and the chairman of the company and the financial performance of the company; there is a negative impact on the number of board committees of the company and the financial performance of the company; and there is a negative impact on the CEO's working experience and the financial performance of the company. According to the adjusted R squared value, 100% of changes in performance (ROA) depend on other factors. But 20.33% of changes in performance (ROE) are explained by the selected independent variables. According to this study, the corporate governance characteristics impact on firm performance of listed companies in Sri Lanka.

Originality: Corporate governance promotes company transparency, which is essential for establishing shareholder trust. There have been few studies conducted in Sri Lanka. It contributes to economic stability by boosting organizational performance and increasing access to external resources. The research used recent data and the findings can be used to implement new policies as well.

Keywords: *Board Size, Board Committee, CEO duality, CEO Characteristic, Return on Assets, Return on Equity*