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<https://www.ijmsbr.com/>

Impact Factor: 6.049

DOI: 10.5281/zenodo.7882775

Corporate Governance and Firm Performance in Sri Lanka's Banking, Financial Services, and Insurance Industries

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Abstract

The primary goal of this research is to explore the impact of corporate governance on the company performance of Sri Lanka's banking, finance, and insurance sectors. The study specifically looked at CEO duality, the number of directors, the adoption of three key committees, the proportion of independent directors on the board, the proportion of independent directors on the audit committee, the proportion of independent directors on the remuneration committee, the proportion of shares held by the independent directors on the audit committee, the proportion of shares held by the CEO, and the proportion of shares held by the directors excluding the CEO, and how the proportion of shares held by the directors excluding the CEO.

Return on Assets was used to assess corporate performance. (ROA). The population comprised 25 companies registered on the Colombo Stock Exchange in the banking, finance, and insurance sectors. (CSE). The study relied on secondary data, including documentary information from Company annual reports from 2016 to 2020. A multiple linear regression model was used to evaluate the data.

The study discovered a weak association between the Corporate Governance procedures under consideration and the financial performance of the firms. The formation of three Board sub-committees, the number of independent directors, and the proportion of shares held by independent directors on the audit committee and CEO were found to positively improve insurance firms' financial performance. However, the CEO duality, Board size, and proportion of independent directors on the audit committee, proportion of independent directors on the pay committee, and proportion of shares held by the directors excluding the CEO all had a negative impact on financial performance. In order to improve financial performance, the banking, finance, and insurance industries should establish suitable board subcommittees and increase the number of independent directors on the board. Board size should also be lowered as much as feasible, as larger board sizes significantly reduce financial performance.

Keywords: *Corporate governance, financial performance*

1.0 Introduction

The modern business environment presents a lot of issues that necessitate effective decision making and good corporate governance standards. According to Edwards and Clough (2005), recent corporate governance failures have resulted in the growth of corporate governance rules that emphasize responsibility and conformity measures in firms. The purpose of these codes is to define what constitutes excellent

corporate governance in a company. To achieve good performance, any firm must be able to adopt traditional good corporate governance traits outlined in codes such as the Cadbury code in the United Kingdom (UK).

Despite the strong regulatory structure implemented in Kenya, the banking, finance, and insurance sectors in Sri Lanka confront a variety of governance issues. Guze (2012) discovered that the effect of corporate governance on the performance of public firms in Kenya plays a significant role in determining the degree of performance.

Despite the enormous number of publications published over the last decades, there are crucial areas of corporate governance that remain unexplored, such as the use of corporate governance in determining the performance of the banking, finance, and insurance sectors, which are currently subject to strict regulation. There is a significant gap because few of them address the effects of ownership structure on corporate governance and performance in the banking, finance, and insurance sectors in Sri Lanka. The chosen plays an important part in the country's economy as a financial sector that provides financial infrastructure to the economy. The prominence of the banking, financial, and insurance sectors raises the issue of responsibility, accountability, transparency, and justice in the industry's activities. At the moment, the idea of having adequate corporate governance standards is being overlooked in Sri Lanka's corporate sector. As a result, it is critical to investigate its impact on firm performance. If it has an impact on the performance of the firms, there may be major consequences. In reality, the purpose of this research is to look into the impact of corporate governance on company performance, as well as the relationship between board characteristics as a governance tool and corporate performance in Sri Lanka.

As corporate governance variables, chairman characteristics, basic board structure, board independence, and ownership structure are used, and ROA is used for firm performance, determining whether corporate governance practices influence the performance of the banking, finance, and insurance sector in Sri Lanka. This has been investigated by examining the association between the performance of chosen companies and corporate governance traits. This study sought to answer the question, "Do corporate governance practices influence the performance of Sri Lanka's banking, finance, and insurance sectors?" The goal of this research is to see if there is a link between corporate governance policies and the performance of the banking, finance, and insurance industries in Sri Lanka.

2.0. Literature Review

2.1 Corporate Governance

The notion of corporate governance (CG) is gaining traction as a result of a variety of causes, including the changing business environment. Regulations from the EEC (European Economic Community), GATT (General Agreement on Tariffs and Trade), and WTO (World Trade Organization) have also contributed to raising awareness and requiring us to think about adhering to good governance principles. Because of the nature of the idea, CG cannot be precisely defined. There are, however, no two ways about it: "effective accountability to all shareholders is the essence of corporate governance." CG is more than just corporate management; it encompasses a fair, efficient, and transparent administration to achieve well-defined goals. It is a method of structuring, operating, and controlling a business in order to satisfy shareholders, creditors, employees, customers, and suppliers while also meeting legal and regulatory requirements and meeting environmental and local community needs. When done under a well-defined system, it contributes to the formation of a legal, commercial, and institutional framework and delineates the boundaries within which these functions are carried out (OECD Principle, 1999, 2004)

The definition that follows should help us better understand the notion. Corporate governance is the system that directs and controls businesses. (Cadbury Committee, 1992), Corporate Governance is defined as a set of mechanisms that protect outside investors from expropriation by insiders (La Porta et al., 2000), According to Berle and Means (1932) and Jensen and Meckling (1976), while the shareholders' goal is a

return on investment, managers are likely to have other goals, such as the power and prestige of running a large and powerful organization, or entertainment and other requirements of their position. This conflict between two sides resulted in the introduction of CG into organizations.

Corporate Governance, in its narrow definition, refers to a system of relationships between the company's management and its board of directors, shareholders, auditors, and other stakeholders (OECD Principles, 1999). These interactions involve numerous rules and incentives, giving the structure through which the company's objectives are set, as well as the means of achieving these objectives and measuring performance. As a result, fundamental characteristics of strong corporate governance include transparency of company structures and activities, manager accountability to shareholders, and corporate responsibility to stakeholders (OECD Principles, 1999)

In a broader sense, Good Corporate Governance refers to the extent to which businesses are run in an open and honest manner. This is important for overall market confidence, the efficiency of capital allocation, the growth and development of a country's industrial base, and, ultimately, the country's overall wealth and welfare. It is vital to notice that the notions of disclosure and transparency take center stage in both narrow and broad definitions. In the first case, they build confidence among financing suppliers at the firm level. In the second case, they boost overall confidence in the economy as a whole. They result in efficient capital allocation in both circumstances.

2.2 Summary of Theories

The purpose of corporate governance theories is not to examine how managers govern, but rather how organizations are governed (Gerard Charreaux, 2004). This viewpoint is more closely aligned with the concept of control than with the concept of management (de Andres-Alonso and Santamara-Mariscal, 2010).

Agency theory describes the relationship between business owners and administrators that results from the separation of ownership and control. The theory addresses the issue between owners and managers where divergent interests cause management to fail in order to maximize shareholder welfare (Jensen & Meckling 1976). In contrast to the agency theory, stewardship theory offers a distinct model of management in which managers are viewed as good stewards who act in the owners' best interests (Donaldson & Davis, 1991). According to the stewardship theory, the managers' primary objective is to maximize the firm's performances, as managers' needs of achievement and success rate are satisfied when the firm is performing well. Consequently, managers are protected and maximize the shareholders' wealth through the firm's performances (Wesley, 2010).

According to the stakeholder theory (Freeman et al., 2004), businesses should develop strategies that take into account the interests of all stakeholders, or groups or individuals who can influence or are influenced by the organization's mission. The stakeholder theory is superior to the agency theory in explaining the role of corporate governance because it emphasizes the various firm constituents (Coleman, 2008). Concerning the CG, stakeholder theory has suggested an alternative to the traditional shareholder wealth-maximizing firm. In contrast to the singular objective of increasing shareholder returns, the firm has multiple objectives related to its diverse stakeholders.

Resource dependence theory developed by Pfeffer and Salancik (1978) has implications for the optimal divisional structure of organizations, recruitment of Board members and employees, production strategies, contract structure, and many other facets of organizational strategy. It highlights the significant role played by the Board of Directors in providing access to the resources that would enhance the company's performance and provide protection against external factors.

2.3 Firm Performance

A company's performance may depend not only on the company's own efficacy but also on the industry in which it operates. In the financial sector, also known as financial stability or financial health, various financial measures can be used to evaluate a company's performance. Revenue, return on equity, return on assets, profit margin, sales growth, capital adequacy, liquidity ratio, and stock prices are among the common financial measures (Baysinger & Butler, 1985)

Moreover, depending on the company's industry, some financial ratios will be more informative than others. In a manufacturing company, the key ratios to monitor may include total unit sales, return on assets, and inventory turnover. For financial institutions, the key ratios may include stock prices, cash flow, revenue, and operating income (Kiel & Nicholson, 2003). Given that consulting is not a particularly asset-intensive industry, the consulting firms' return on assets and inventory turnover may not be significant (Velnampy & Pratheepkanth, 2013). The relative value of a company's financial measures in relation to competitors within the same specific industry is another factor to consider when evaluating the performance of a company, as each industry is unique and comparisons across industries may provide a biased interpretation of a company's performance. Comparing return on assets between a manufacturing company and a consulting company, for instance, may be meaningless because one is asset intensive and the other is not (Halimatusadiah, Sofoanty and Ermaya, 2015)

Banking, Finance, and Insurance (BFI) firms are heavily engaged in the management of the economy's funds, generating a vital need for the confirmation of accountability and transparency, as the country's financial health would be jeopardized by their absence. The lack of research studies conducted in the BFI sector with regards to Corporate Governance characteristics and their impact on firm performance in the Sri Lankan context, as well as the corporate scandals that have arisen in Sri Lanka within this sector, highlight the importance of conducting research in the respective field with regards to corporate governance practices. Consequently, this study will contribute to the existing corpus of knowledge regarding the influence of Corporate Governance characteristics on firm financial performances.

3.0 Methodology

3.1 Research Design

Kothari (2004) defines research design as a framework that indicates how problems under investigation will be solved. A descriptive survey is a design that involves determining what is happening in relation to a specific variable. This was a descriptive survey of selected Sri Lankan banking, finance, and insurance organizations. It was deemed relevant for this study because it allowed the researcher to use both qualitative and quantitative data in attempting to determine the effect of corporate governance on the financial performance of Sri Lanka's banking, finance, and insurance sectors.

3.2 Population and Sampling

A population is a well-defined or set of people, services, elements, and events, as well as a group of things or houses, that are being studied. The study's population consists of enterprises registered on the Colombo Stock Exchange in the banking, finance, and insurance sectors. This sector is more important than any other because it has an impact on the overall economic stability. The study's population consists of 72 enterprises listed on the Colombo Stock Exchange in the Banking, Finance, and Insurance sector.

This study's population is made up of companies that are listed on the Colombo Stock Exchange. All CSE-listed companies are divided into 20 categories; the Banking, Finance, and Insurance sector has been chosen as the population size for this study, with 72 organizations. Purposive or judgemental sampling was used to choose 25 enterprises from the relevant sector. The company data sample consists of 25 banks from 2016 to 2020, with a total sample size of $25 \times 5 = 125$ observations for each variable.

On the Colombo Stock Exchange, there are 72 companies listed in the Banking, Finance, and Insurance sector, of which 25 have been chosen as a sample size for this study.

3.4 Data Collection

This data is entirely based on secondary sources. The researcher obtained the yearly reports for the five-year period (2016-2020) via their website, www.cse.lk. In the event of any conflicts, the researcher further checked the data's veracity on the firms' websites.

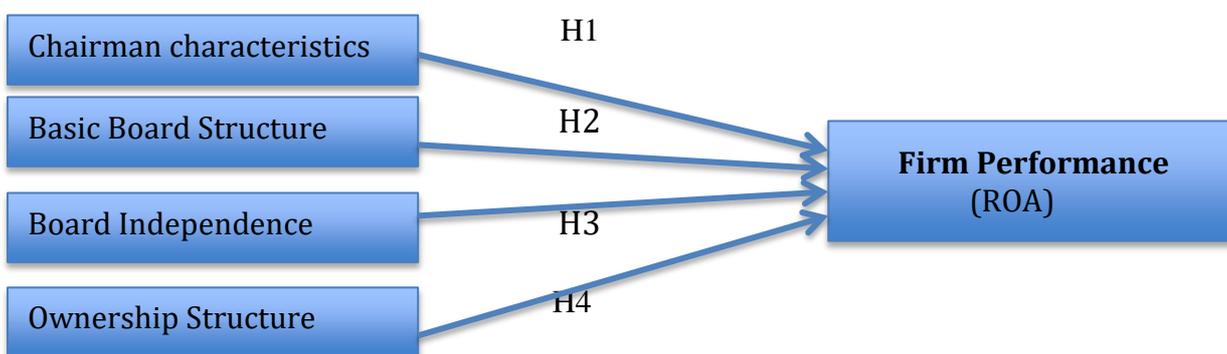
3.5 Conceptual framework and Hypothesis development

In recent years, the relationship between Corporate Governance (CG) and business performance has garnered a lot of attention in the financial economics literature. The amount of Ownership Concentration is one of the fundamental pillars of CG. (OC). Conceptually, it has been suggested that the greater the concentration of ownership in a corporation, the lower its performance [(Jensen and Meckling, 1976), (Demsetz, & Villalonga, 2001)]. In industrialized economies, studies have recorded conclusive evidence on this association [(Holderness et al, 1999), (Demsetz and Villalonga, 2001), (Agrawal and Sahiba, 2004)].

The following conceptual model can be created based on the literature review. The model illustrates the link between corporate governance and firm performance. The conceptual research also outlines the dependent and independent variables, which are utilized to investigate the relationship between the variables. Indeed, the independent and dependent variables are established in order to establish a link between corporate governance and firm performance.

For this study, the following conceptual model / framework was created to demonstrate the relationship / connection between these two types of variables.

Figure1: Conceptual Framework



3.6 Hypothesis Development

Based on the literature review as well as some previous empirical studies, the researcher indicated the impact of corporate governance characteristics on firm's performance through CEO duality, board size, independent board, and committees as an independent variable (based on the defined hypotheses as chairman characteristics, basic board structure, board independence, and ownership structure), while the performance of the company is dependent variable (ROA). Based on these backgrounds, the researcher has been developed the following hypotheses.

H₁: There is a significant relationship between the Chairman Characteristics and Firm's Financial Performance.

H₂: There is a significant relationship between the Basic Board Structure and Firm's Financial Performance.

H₃: There is a significant relationship between the Board Independence and Firm's Financial Performance.

H₄: There is a significant relationship between the ownership Structure and Firm's Financial Performance.

4.0. Presentation and Analysis of Data

4.1 Frequencies Statistics

2 observations out of 125 observations show that chairman plays dual role of the company as well as CEO of the company. Other 123 observations shows that the role of chairman and CEO are not play by the same person. According to the above table researcher can concluded that most of the companies (98.4%) listed under Banking, Finance, and Insurance sector in CSE clearly separated the position of Chairman and CEO.

21 observations have 5 board members, 10 observations have 6 board members, 18 observations have 7 board members, 20 observations have 8 board members, another 20 observations have 9 board members, 12 observations have 10 members, 6 observations have 11 board members, 11 observations have 12 board members, 2 observations have 13 board members, and 5 observations have 16 board members. According to the above table, Researcher can come to the conclusion that, most of the companies listed under Banking, Finance, and Insurance sectors in CSE having seven to nine board members as board size.

56 observations out of 125 total observations shows that, some companies having Audit Committee and Remuneration Committee. Other 69 observations show that, many of the companies having Audit Committee, Remuneration Committee, and Nomination Committee. According to the above table researcher can concluded that most of the companies (55.2%) listed under Banking, Finance, and Insurance sector in CSE having three committees.

4.2 Descriptive Statistics

Descriptive statistics are used to describe the basic features of the study and it provides brief summaries about the sample and the measures.

Table 1: Descriptive Statistics

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation	Variance
Duality	125	0	1	0.02	.126	.016
Numdir	125	5	16	8.44	2.680	7.184
Committees	125	2	3	2.55	.499	.249
IndDir	125	5.00%	77.00%	43.3920%	13.59844%	184.918
AudInDir	125	11.00%	60.00%	31.6480%	11.02143%	121.472
RemIndDir	125	0.00%	60.00%	28.4320%	11.02661%	121.586
AudIndSh	125	0.0000%	7.5000%	0.084802%	0.6870322%	.472
CEOSh	125	0.0000%	50.6500%	2.501265%	10.0009364%	100.019
DirSh	125	0.0000%	62.000%	4.319678%	9.9909402%	99.819
Valid N (Listwise)	125					

The table1 shows that minimum numbers of the board members are 5 as well as maximum numbers of board members are 16 and averagely 8 members are board members. Minimum there are 5% of board size is non-executive independent board members as well as maximum there are 77% of board size is non- executive independent board members and averagely 43.4% of board size is non- executive independent board members.

Maximum proportion of independent directors in the Audit Committee is 60% as well as minimum proportion of independent directors in the Audit Committee is 11%. Likewise maximum proportion of independent directors in the Remuneration Committee is 60% as well as minimum proportion of independent directors in the Remuneration Committee is 0%, which means there are some observations shows that none of the members in the Remuneration Committee are independent directors. According to the above table minimum directors' ownership is 0%, maximum 62% of shares are holding by directors of the company accordingly average of 4.32% shares are holding by the directors of the company excluding the shares held by the CEO. Minimum CEO's ownership is 0%, which means some companies' CEOs are not holding any shares, at the same time maximum of 50.65% shares are held by the CEOs, hence as an average

2.5% of shares are held by the CEOs as per the table.

4.3 Correlation Analysis

Correlation is the term used to describe the strength of a link between two variables. The correlation coefficient analysis is used in this study to determine the association between board features and firm performance. What link existing between variables can be stated. In this case, the dependent variable company performance is linked to the independent variable board qualities.

The correlation coefficients between the dependent and independent variables are shown in Table 2. The correlation matrix analysis revealed a substantial association between the dependent variable (ROA) and the financial performance variables Duality, NumDir, Committees, IndDir, AudIndDir, RemIndDir, AudIndSh, CEOSh, and DirSh. According to the table below, there is a significant inverse relationship between CEO duality and business performance as assessed by ROA. Furthermore, the proportion of shares held by the Audit Committee's independent directors shows a substantial negative association with ROA. The proportion of independent directors on the board, the adoption of three committees, and the proportion of shares held by the CEO are all positively connected with ROA, however the correlation is not statistically significant. The proportion of independent directors on the Audit Committee, the proportion of independent directors on the Remuneration Committee, and the proportion of shares held by the Board of Directors excluding the CEO all have a negative connection with ROA, though it is not statistically significant.

Further, Table 2 indicates a correlation matrix between dependent variables and independent variables.

Table 2: Correlation of variables

Correlations	ROA	Duality	Num Dir	Commitees	Ind Dir	Aud Ind Dir	Rem Ind Dir	Aud Ind Sh	CEO Sh	Dir Sh
Pearson Correlation- ROA	1									
Sig. (2-tailed)										
Pearson Correlation - Duality	-.275**	1								
Sig. (2-tailed)	.002									
Pearson Correlation – NumDir	.157	-.020	1							
Sig. (2-tailed)	.83	.827								
Pearson Correlation - Committee	.004	-.143	.225*	1						
Sig. (2-tailed)	.964	.115	.012							
Pearson Correlation – IndDir	.025	-.053	-.27	.355**	1					
Sig. (2-tailed)	.785	.563	.769	.000						
Pearson Correlation - AudIndDir	-.112	.073	-.501**	-.104	.482**	1				
Sig. (2-tailed)	.219	.424	.000	.251	.000					
Pearson Correlation - RemIndDir	-.093	-.041	-.420**	.196*	.395**	.562**	1			
Sig. (2-tailed)	.308	.649	.000	.029	.000	.000				

Pearson										
Correlation –	-	-.031	-.023	.195*	-.015	-.175	-.018	1		
AudIndSh	.310**									
Sig. (2- tailed)		.737	.800	.031	.871	.052	.840			
	.000									
Pearson										
Correlation –	.31	-.008	-.255**	-.276**	.207*	.528**	.213*	-.039	1	
CEOSh										
Sig. (2- tailed)	.736	.933	.004	.002	.022	.000	.018	.667		
Pearson										
Correlation –	-.024	-.052	.012	-.115	-.211*	-.046	-.119	.182*	-.034	1
DirSh										
Sig. (2- tailed)	.790	.570	.891	.207	.019	.611	.189	.044	.711	

** - Correlation is significant at the 0.01 Level (2- tailed)

* - Correlation is significant at the 0.05 Level (2- tailed)

4.4 Regression Analysis

A multivariate regression model was used to determine the relative importance of each of the four variables with respect to financial performance. This had led to the adoption of a set of indicators, which were indicative of the bank’s current status, and the extent of its ability to achieve the desired objectives. The indicator ROA has been adopted. The multiple regression models for the study could be defined as:

$$\text{FirmPerformance(ROA)} = \alpha + \beta_1 \text{CEODuality} + \beta_3 \text{NumDir} + \beta_4 \text{Committees} + \beta_5 \text{IndDir} + \beta_6 \text{AudIndDir} + \beta_7 \text{RemIndDir} + \beta_8 \text{AudIndSh} + \beta_{10} \text{CEOSh} + \beta_{11} \text{DirSh}$$

Where, Dependent variable (ROA) measuring Firm Performance, as Return On Assets (ROA) calculated; net income divided by total assets.

CEO Duality = CEO Duality (coded “1” if the chairman also holds the position of CEO, otherwise “0”)

NumDir = Number of Directors_{SEP}

Committees = Committees_{SEP}

IndDir = Independent Directors on the BODs

AudIndDir = Independent Directors on the Audit committee

RemIndDir = Independent Directors on the Remuneration Committee

AudIndSh = Shares held by Independent Directors on the Audit Committee

CEOSh = Shares held by CEO_{SEP}

DirSh = Shares held by Directors excluding CEO

ε = Error Term_{SEP}

β_1 - β_{12} = Coefficient of slope_{SEP}

α = Coefficient of intercept (Constant Value)

Table 3: Model Summary (Overall Analysis)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.476 ^a	.226	.165	4.05083%

- a. Predictors: (Constant), DirSh, NumDir, Duality, AudIndSh, IndDir, CEOSh, RemIndDir, Committees, AudIndDir
 b. Dependent Variable: ROA

Table 3, shows the R which is the correlation between the observed and predicted values of the dependent variable to be 47.6%, while R Square which is the proportion of variation in the dependent variable is 22.6%. The adjusted R square is 16.5% showing a relationship between the observed and predicted values of the dependent variable. This indicates that CEOduality, numdir, committees, inddir, audinddir, reminddir, audindsh, ceosh, and dirsh accounts for 22.6% of the firm performance of banking, finance, and insurance sector in Sri Lanka.

According to the ANOVA table, the results of analysis of variance, sum of squares, degree of freedom (df), mean square, regression and residual values obtained from regression analysis. the mean square, which is the sum of squares divided by the degrees of freedom, was 60.213. The F static which is regression mean square divided by the residual mean was 3.669. The processed data, which is the population parameters, has a significance level of 0.000 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p- value) is less than 0.05.

Table 4: Regression Coefficient

Model	Unstandardized Coefficients		Standardized coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	2.243	2.872		.781	.436
Duality	-8.985	2.962	-.257	-3.033	.003
NumDir	.079	.176	.048	.445	.657
Committees	.103	.931	.012	.111	.912
IndDir	.036	.037	.110	.975	.332
1 AudIndDir	-.098	.057	-.244	-1.714	.089
RemIndDir	-.009	.044	-.023	-.212	.832
AudIndSh	-34.010	8.438	-.363	-4.031	.000
CEOSh	.063	.045	.142	1.383	.169
DirSh	.020	.040	.043	.488	.626

- a. Dependent Variable: ROA

Coefficient of independent variables and the dependent variable (Firm performance - ROA) were presented in the above Table 4. The significance column showed only two predictor (Duality and AudIndSh) and the values are less than 0.05, i.e. P value = 0.003 and 0.000. However, the other predictors were indicated not significant and the values are greater than 0.05 as shown in the table.

Furthermore, The above Table 4 highlights the relationship between independent variables and dependent variable (Firm performance -ROA) in which the independent variables have some impact on the firm performance.

According to the above table linear equation has formulated as mentioned below:

$$\text{Firm Performance (ROA)} = 2.243 - 0.079 \text{Duality} - 0.009 \text{NumDir} + 0.103 \text{Committees} + 0.036 \text{IndDir} - 0.098 \text{AudIndDir} - 0.009 \text{RemIndDir} - 34.010 \text{AudIndSh} + 0.063 \text{CEOSh} - 0.020 \text{DirSh}$$

The regression equation shows that the relationship between board characteristics and ROA. If all board characteristics variables are equal to 0, ROA is to be 2.243. According to the above table Duality has significant negative relationship with ROA at 1% significant level. Board size has significant negative relationship with ROA at 5% significant level. AudIndSh has significant negative relationship with ROA at 5% significant level and AudIndDir has significant positive relationship with ROA at 10% significant level.

4.5 Hypothesis Testing

The hypothesis stated on chapter three in which, the output of the relationship with firm performance (ROA) could be defined clearly with the correlation results and it was described as mentioned below,

H₁: There is a significant relationship between CEO duality and firm's financial performance. Based on the correlation results of this research, H₁ will be rejected. Because, the empirical results shows negative weak association between CEO duality and ROA, not significant.

H₂: There is a positive relationship between basic board structure and firm's financial performance. The correlation result of this study shows weak positive association between number of directors and ROA and a weak positive relationship between committees and ROA, though not significant.

H₃: There is a relationship between board independence and firm's financial performance. The correlation result of this study shows that, there is a weak positive association between proportion of independent directors and ROA, Proportion of independent directors on the audit committee and ROA, Proportion of independent directors on the remuneration committee and ROA have weak negative association in between, although not significant.

H₄: There is a significant relationship between ownership structure and firm's financial performance. The correlation result of this study shows that, weak negative association between ownership structure and ROA significant. Therefore, H₄ will be rejected

5.0 Conclusion and Recommendation

5.1 Discussion of findings

The table 1 displays the descriptive statistics; it shows that, minimum numbers of the board members are 5 as well as maximum numbers of board members are 16 and averagely 8 members are board members. Minimum there are 5% of board size is non- executive independent board members as well as maximum there are 77% of board size is non- executive independent board members and averagely 43.4% of board size is non- executive independent board members. Maximum proportion of independent directors in the Audit Committee is 60% as well as minimum proportion of independent directors in the Audit Committee is 11%. Likewise maximum proportion of independent directors in the Remuneration Committee is 60% as well as minimum proportion of independent directors in the Remuneration Committee is 0%, which means there are some observations shows that none of the members in the Remuneration Committee are independent directors. And finally according to the table minimum directors' ownership is 0%, maximum 62% of shares are holding by directors of the company, accordingly average of 4.32% shares are holding by the directors of the company excluding the shares held by the CEOs. Minimum CEO's ownership is 0%, which means some companies' CEOs are not holding any shares, at the same time maximum 50.65% of shares are held by CEOs hence, as an average 2.5% of shares are held by CEOs as per the table.

The Table 2 shows that, correlation coefficients between the dependent and independent variable. According to the table there is a significant negative correlation between the CEO duality and firm performance

measured by ROA. And the proportion of shares held by the independent directors on the Audit Committee has a significant negative correlation with ROA. Board size, Proportion of independent directors on the Board, Adoption of three committees, and Proportion of shares held by the CEO are positively correlated with ROA though not significant. Proportion of independent directors on the Audit Committee, Proportion of independent directors on the Remuneration Committee and the proportion of shares held by the Directors excluding the CEO have negative correlation with ROA though not significant.

According to the Table 3 shows the R, which is the correlation between the observed and predicted values of the dependent variable to be 47.6%, while R Square, which is the proportion of variation in the dependent variable that was 22.6%. The adjusted R square was 16.5% showing a relationship between the observed and predicted values of the dependent variable. This indicates that duality, numdir, committees, inddir, audinddir, reminddir, audindsh, ceosh, and dirsh accounts for 22.6% of the firm performance of banking, finance, and insurance sector in Sri Lanka as per the table.

ANOVA table shows, the results of analysis of variance, sum of squares, degree of freedom (df), mean square, regression and residual values obtained from regression analysis. Accordingly, the mean square, which is the sum of squares divided by the degrees of freedom, was 60.213. The F static which is regression mean square divided by the residual mean was 3.669. The processed data, which is the population parameters has a significance level of 0.000 which shows that, the data is ideal for making a conclusion on the population's parameter as the value of significance (p- value) is less than 0.05. Further, Coefficient of independent variables and the dependent variable (Firm performance - ROA) were presented in the Table 4. The significance column showed only two predictor (Duality and AudIndSh) and the values are less than 0.05, i.e. P value = 0.003 and 0.000. However, the other predictors were indicated not significant and the values are greater than 0.05 as shown in the table.

In addition to that, as per the regression equation shows the relationship between board characteristics and ROA. If all board characteristics variables are equal to 0, ROA is to be 2.243. According to the above table Duality has significant negative relationship with ROA at 1% significant level. Board size has a significant negative relationship with ROA at 5% significant level. AudIndSh has a significant negative relationship with ROA at 5% significant level and AudIndDir has a significant positive relationship with ROA at 10% significant level.

As per the above all findings, the researcher can come to a conclusion that, the related hypotheses are confirmed indicating a positive and negative relationship between corporate governance and board characteristics with firm performance (ROA). However, for other models the hypotheses cannot be confirmed, as the p values of all those characteristics are more than 10%. This highlights the fact that there is a mixed relationship between corporate governance characteristics and firm performance of listed companies in BFI sector in Sri Lanka.

5.2 Conclusion

The objective of this study is to find out the relationship between the board characteristics and firm performance. According to the empirical results of this study, the researcher can drive the conclusion regarding the impact of chairman characteristics, basic board structure, board independence, and ownership structure on firm performance. The relationship between corporate governance and firm performance has been investigated by many scholars as well as researchers in local and foreign contexts. Ehikioya (2009) examined the link between CG structure and firm performance for 107 firms listed in the Nigerian Stock Exchange. Makki and Lodhi (2014) investigated the existence of a critical structural relationship between CG, intellectual capital efficiency, and financial performance whereas Swain (2009) reviewed the existing codes of CG in India for the banking sector.

Based on the research question of this study, objectives were established in order to conduct the study as assessing the level of corporate governance practices by developing a comprehensive Corporate Governance

Index, and examining the association between the level of corporate governance practices, level of financial performance and identifying which corporate governance characteristics have a significant impact over the financial performance for 25 companies in the Banking, Finance and Insurance Sector that are listed in the Colombo Stock Exchange for the periods from 2016 to 2020.

The hypotheses of the study were to analyze whether there is an association between corporate governance practices and the firm financial performance. One objective of the study was assessing the level of corporate governance practices of the firms by developing a comprehensive CG index. A comprehensive CG index was developed Based on the firm level of performance on each criteria, a score was provided and firm's CG practice was measured. Measures of central tendency; mean value was used to summarize the firm level of corporate governance performance. In order to achieve the objective of examining the association between Corporate Governance practices and firm performance, a correlation analysis was used to identify the CGs characteristics with a significant impact over the financial performance.

Furthermore, this study contributes to the literature on financial leverage, firm performance, and corporate governance structure in several ways. The study provides empirical evidence of the mechanisms underlying the improvement of firm performance. The research not only considers corporate governance structure, but also examines how corporate boards utilize financial leverage levels to enhance firm performance. The empirical findings of this studies are significant for listed and non-listed firms to consider suitable corporate governance structures, which can enable them to use low leverage to enhance firm performance. Policy makers in different countries can use the findings of this paper to implement governance system allowing firms with various corporate conditions to access debt finance via different channels including banks and non-banks as well as crowd funding portals.

5.3 Suggestion and Recommendations

The results of this study show the importance of corporate governance characteristics should have been highlighted in order to improve the firm performance. According to that, following suggestions are recommended to increase the firm performance based on corporate governance.

- Separate leadership structures will lead to a better performance. Therefore, the separation of the role of CEO and chairman is advisable for Sri Lanka's listed companies particularly in the banking, finance and insurance sector to enhance the firm performance.
- Higher board size may lead to a less performance of the company. Therefore, it is better to maintain eight to nine board members as board size.
- According to the empirical results of this study, increasing the proportion of independent directors on the audit committee may increase the firm performance.

5.4 Limitation of the study

This study however involved several limitations such as data collections were being carried out only through annual reports. If other types of data collections methods are such as interviews and questionnaires could have been incorporated in the study, the analysis could have been more reflective and valid in this respect. Also the research study was carried out only for the listed companies in the banking, finance and insurance (BFI) sector in the Colombo Stock Exchange, while making inferences to this particular sector, it is valid only for the listed companies and not for each and every company, and also states owned banks were not included in the sample because they have not been considered under the sampling frame.

In addition, as mentioned in the first chapter, many companies might be reluctant to provide data's due to limited access to the customers information, causes the possibility of collecting more relevant data's to this research. Sample size was limited to 25 listed companies only to analyze the banking, finance and insurance

sectors in Sri Lanka, which were not sufficient enough. Further, this study didn't focus on the influence of internal and external environments of the institutions; hence these factors might be influenced on the findings of this research.

Therefore, as stated the above limitations, it is recommended that, in-depth study using the case study method could have been carried out.

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