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CORPORATE GOVERNANCE AND FIRM PERFORMANCE: EMPIRICAL EVIDENCE FROM EMERGING MARKET

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ABSTRACT

Corporate governance (CG) has become a dominant theme in developed and developing countries. This study aims to investigate the impact of CG on firm performance of listed companies in Sri Lanka. Fifty listed companies were selected as a sample by using proportion random sampling method. Apart from that secondary data were collected from the annual report of listed companies in Sri Lanka from 2010 to 2015. This study considers the CG which is measured by board size, board independence, CEO duality, director's ownership and audit committee as the independent variable while firm performance which is measured by ROA and Tobin's Q as a dependent variable. Multiple regressions and Pearson's correlation analyses were employed as the main tool of analyzing data. The results reveal that the board size and audit committee have significant impact on ROA and board size has significant impact on Tobin's Q, whereas board independence, CEO duality and director's ownership have insignificant impact on both firm performance measures such as ROA and Tobin's Q. Furthermore the board size and audit committee have negative relationship with firm performance. This study suggests that small boards are associated with higher firm performance, possibly through closely monitored managements.

Contribution/ Originality: This study investigates the impact of corporate governance on firm performance of listed companies which are included in all business sectors in Colombo Stock Exchange.

1. INTRODUCTION

This study focuses on the impact of CG on firm performance of firms listed in Sri Lanka. CG refers to the system an organization is directed, administrated or controlled. It consists of rules and regulations that influence on the manager's effective decision and contributes to the way firm is perceived by the existing and potential stakeholders. The CG structure recognizes the distribution of rights and responsibilities among several stakeholders in the firm such as; boards, managers, investors and other stakeholders and spells out the rules and procedures and also decision making assistance on business affairs. CG is concerned with the ways in which stakeholders involved in the prosperity of the firms strive to ensure that mangers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders.

As a result of the process of globalization and the rising complications of business, there is more reliance on the private sector as the engine of growth of all countries. Corporations are legal bodies created by the people because