

IMPACT OF CORPORATE GOVERNANCE AND OWNERSHIP ON FIRM PERFORMANCE IN THE EMERGING MARKET ECONOMY OF SRI LANKA

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ABSTRACT

The purpose of the study is to examine the impact of corporate governance and ownership on firm performance of listed companies in the emerging market of Sri Lanka. This study is confined to listed companies using a sample of 104 companies in Sri Lanka with 728 firm-year observations during the period of 7 years from 2015 to 2021. The statistical techniques of Pearson's correlation and panel data regression were used to analyse the association between corporate governance, ownership and firm performance. The findings of this study reveal that board size produces a positive impact on firm performance of listed companies in Sri Lanka. As per the fixed effects model, board independence, CEO duality and board diversity, board activity, managerial ownership and institutional ownership have not shown any significant impact on firm performance of listed companies in Sri Lanka. Control variables, firm size and firm age have a negative impact whereas leverage has a positive impact on firm performance of listed firms in Sri Lanka. These findings have implications for managers, policymakers, researchers and investors in general and those in developing countries in particular.

KEYWORDS: *Corporate Governance, Firm Performance, Ownership, JEL Classification: G32.*

INTRODUCTION

Corporate governance (CG) is regarded to have an important implication for a company's growth prospects and overall economic development of the nation. Good CG practices play a vital role in minimising the uncertainty for investors, captivating investment capital and enhancing the value of firms. Though, the way where CG is structured varies among countries, based on economic, social and political framework (Heenetigala, 2007). CG is directed to mitigate the

asymmetric information so that the investors can have adequate information in making the investment decision. At the end, it will influence the Firm value.

The significance of good CG practices in firm performance remains one of the more controversial issues in corporate finance. The implementation of good CG in every organisation has been an essential requirement. Good CG practices influence the performance of a firm, and they are also responded positively by external parties (potential investors), which is signified by the improving value of the firm. The purpose of implementing CG practices in Sri Lanka is to provide a system to enhance investors' confidence and support the economic development of the nation.

The relationship between CG practices and firm performance is crucial in devising well-organized corporate management and public regulatory policies (Rouf, 2011). CG is has an imperative role in enhancing the firm performance, and both variables are directly associated in developed countries as well as developing countries (Beiner & Schmid, 2005). But, due to the different conditions of the economic, social and regulatory framework, there are divergences in direction, degree, nature and practices of operation of the relationship among the countries (Ahunwan, 2003). Poor CG will lead to enhancing the possibility of business collapse (Lakshan & Wijekoon, 2012). Based on the previous literature, there is evidence that CG practices influence the improvement of firm performance.

Besides, Sri Lanka is one of the emerging economies striving for economic growth and development. Over the last years, CG concern has been a prominent issue due to recent corporate scandals and globalization on-going-effects, as the national economy incorporates the global economy, and companies strive to achieve global competitiveness after civil-war in 2009. Several multinational corporations collapsed due to inefficient and ineffective CG (Sorensen & Miller, 2017). Sri Lankan corporations also endured corporate failure. Large organisations namely Pramuka savings and development bank, Golden key credit card company, Vimukthi Corporation and Lanka Marine Services Ltd collapsed as a result of poor CG practices (Senarathne & Gunarathne, 2008). Hence, it has become imperative to revisit the existing CG mechanisms to investigate their effect on firm performance and recommend the ways to bring about changes if necessary. In addition, recent government investigations into the poor CG have implicated a number of public and private companies (e.g., Sri Lankan Air Lines, EAP, and Perpetual Treasury). As a result, all public and private entities, as well as the government and the general public, are interested in learning how Sri Lankan businesses adhere to good corporate governance in their operations.

CG practices and their effects on firm performance remain a widely debated area. Over the recent years, empirical studies have exposed a significant influence of diverse CG practices on firm performance and *agency theory* has become a cornerstone of CG. More empirical studies on CG are followed by the theoretical perspective of the agency theory advanced by Fama and Jensen (1983), Fama (1980), and Jensen and Meckling (1976). Particularly, this theory states that because of lower agency costs, a better-governed firm should have a higher valuation. It is supported by many empirical studies. For instance, Gompers, Ishii, and Metrick (2003) portray that better CG is correlated with superior firm valuation as measured by Tobin's Q. According to Brown and Caylor (2009), well-governed U.S. firms have a higher return on equity and return on assets and better Tobin's Q. Nevertheless, Klein, Shapiro and Young (2005) emphasize there is no universal support to identify that good CG enhances firm performance. Hence, investors are

still much sceptic about the existence of the association between good CG practices and firm performance. Therefore, the purpose of this research is to examine the impact of CG and ownership on firm performance of listed companies in Sri Lanka.

Literature Review Hypotheses development

Board Size

The importance of the board size is well recognized in CG mechanisms (Cheng, Evans & Nagarajan, 2008). From the resource dependence perspective, a large board will enhance firm performance (Dalton et al. 1999). Lawal (2012) stated that effective deliberation among the directors to make the good decisions are determined by the board size. When monitoring is taken into consideration, the larger board size is more important for monitoring management since the larger members can have more abilities and competency to solving the problem (Chaganti, Mahajan & Sharma, 1985) and gain the advantages from broad range of views as well as outside networks (Peng & Luo, 2000). Furthermore, Jackling and Johl (2009) demonstrate that larger corporate boards improve the effective decisions in a way that ultimately influence firm performance. It is more indispensable in avoiding business failure (Dallas, 2001) whereas Saravanan (2012) demonstrated that a large-sized corporate board is strongly associated with firm performance.

H₁: Board size significantly impacts the firm performance of listed companies.

Board Independence

Board independence has an essential role of overseeing management activities for stockholders, (Tong et al., 2008; Fama, 1980) as well as providing adequate access to essential resources (Chen & Hsu, 2009; Pfeffer & Salancik, 1978) in a firm. These both functions are important in agency theory and resource dependence theory. From an agency perspective, role of control is delegated by the shareholders to management (Jensen & Meckling, 1976). According to this theory, the corporate board is to ensure that managers' behaviour is aligned with the shareholders' goals. Based on the resource dependence theory, independent directors should improve process of decision making independently using their unique expertise. Some extant studies indicated that independent directors are positively associated with firm value (Giraldez & Hurtado, 2014; Aggarwal et al., 2009; Jackling & Johl, 2009). On the contrary, a few studies identified that the independent directors are negatively correlated with corporate performance (Bhagat & Black, 1999; Yermack, 1996), whereas some studies revealed that percentage of outside directors is not related to firm performance (Zabri et al., 2016; Zhang, 2012; De Andres et al., 2005).

H₂: Board independence significantly impacts the firm performance of listed companies.

CEO Duality

CEO duality means that the CEO performs as the chairman of the board at the same company. From the agency perspective, when one person involve in two top roles in the company simultaneously, the issues regarding the interests between management and shareholders will arise (Fama & Jensen, 1983; Jensen & Meckling, 1976). If there is a clear division of roles and responsibilities between CEO and chairman, it will provide an effective system to oversee managers' activities and firm performance (Rechner & Dalton, 1991). Jensen (1993) argued that CEO's dual role will deteriorate the overseeing tasks of the corporate board. According to the

agency theory, CEO duality has adverse effects on them (Fama & Jensen, 1983; Jensen & Meckling, 1976). In contrast, stewardship perspective suggests a collaborative association between management and shareholders towards shared goals. This theory stated that CEO duality has a favorable effect, and organizational efficiency increases shareholders' wealth (Bhagat & Black, 2001; Brickley et al. 1997; Dahya et al., 1996). Extant research identified a positive relationship between CEO duality and firm value (Rechner & Dalton, 1991) whereas few existing studies found that CEO duality is not significantly associated with firm performance (Zhang, 2012; Wan & Ong, 2005; Abdullah, 2004).

H₃: CEO duality significantly impacts the firm performance of listed companies.

Board diversity

Board diversity is recognized as a vital tool that can encourage oversight mechanisms (Gallego-Alvarez et al. 2010). The relationship between board diversity and firm performance is largely debated in the agency theory perspective, which points out the overseeing function of board. Hence, it is vital to enhance the percentage of female members on board that may improve CG, by mitigating agency issues and increasing firm value. According to some empirical evidences (Alazzani et al., 2017; Kyaw et al., 2017; Carter et al., 2010) female directors enhance the performance of a company. Previous studies show that board diversity improves the effectiveness of internal CG by improving the efficiency of monitoring function (Adams & Ferreira, 2009). Thus, it is supportive that board diversity assists in reducing agency issues and would improve firm value by using a well-recognized monitoring system. Most of the previous studies have identified positive association (Terjesen et al., 2016; Isidro & Sobral, 2015), while few studies have documented negative relation (Ahern & Dittmar, 2012; Larcker et al., 2007), some found no linkage between board diversity and performance (Chapple & Humphrey, 2014; Siciliano, 1996), a few studies expose mixed findings (Abdullah et al., 2016). The inconclusive findings may be because of considering different, in time frames for analysis (Campbell & Mi'nguez-Vera, 2008), social and political pressures (Green & Homroy, 2018), institutional settings (Sabatier, 2015), a dearth of consistent measurement of performance (Terjesen et al., 2016) and endogeneity issues (Campbell & Mi'nguez-Vera, 2008).

H₄: Board diversity significantly impacts the firm performance of listed companies.

Board Activity

Board activity plays a crucial role in CG mechanisms. According to resource dependence theory, the time allocated by the corporate board for the meetings can be regarded as a resource to the firm (Lipton & Lorsch, 1992), whereas from agency theory perspectives, enhancing board activity can improve the function of monitoring and control in the corporate board. The findings of prior studies on the association between board meetings and performance are not conclusive. Kanagaretnam et al. (2007) suggested that board meetings assist in carrying out overseeing processes more diligently with the top-executives. Furthermore, frequent board meetings enhance the efficiency of the corporate board and issue reports to the stakeholders for improving the confidence of the stakeholders, reducing information asymmetry issues and improving transparency of a firm (Ajina et al., 2013). Reducing the agency issues and enhancing the confidence of shareholders will enhance performance and reduce volatility of shares (Elbadry et al., 2015; Schwartz-Ziv & Weisbach, 2013). The improved frequency of meetings leads to superior performance (Lipton & Lorsch, 1992). Liang et al. (2013) identified that the board

meetings positively influence performance of banks. Karamanou and Vafeas (2005) exposed that board meetings frequency improved the expectation, which improves the decision-making processes in a firm. Brick and Chidambaran (2010) also stated that board activity positively affects the firm value. But, Vafeas (1999) indicated that the various costs that occur with an increase in frequency of board meetings, for instance, organizing times and expenditures, travel expenses and directors' payments for attending meetings. The expenses negatively influence financial reports and decrease the company' performance. Christensen et al. (2015) exposed that poor performance of companies is followed by wide-ranging board meetings to provide the solution for the issues and improve firms' operations. But, the extant studies exposed that board meetings are not correlated with performance measured by ROA and Tobin's Q (Jackling & Johl, 2009). Mehdi (2007) argued that board meetings have no correlation with economic performance of a firm and the decisions of board are influenced when acquisition is made or change in CEO.

H₅: Board activity significantly impacts the firm performance of listed companies.

Managerial Ownership

Ownership is a significant aspect in determining firm performance (Demsetz & Lehn, 1985). More previous studies show that managerial ownership increases firm value. Brickley et al. (1988) stated that shares owned by managers and directors provide them an incentive to confirm that a company operates well and to oversee managers cautiously. Morck et al. (1988) and Shleifer and Vishny (1997) believe in manipulation of company effects by management to favor themselves. Some researchers found that managerial ownership is endogenously decided (Demsetz & Lehn, 1985; Cho, 1998). Therefore; alignment of goals of managers and shareholders through managerial ownership is assessed to increase firm value. The corporate board directors with higher level of share ownership can increase their gains (Jensen & Meckling, 1976) and, hence, they can have more encouragement to improve performance, the 'incentive alignment effect' (Huang, Hsiao & Lai, 2007; Morck, Shleifer & Vishny, 1988). Extant studies identified that performance of a firm is favorably related to managerial ownership, where enhanced ownership aids to align the shareholders' interests with managers' goals based on the agency theory, and enhance the firm performance (Huang, Hsiao & Lai, 2007; Yermack, 1996; Jensen & Meckling, 1976). But, the strong association will subside with an increase in managerial ownership, the 'entrenchment effect', where managers may conceal the information about their CG practices, and therefore, it is very difficult for shareholders to restrict such managers' activities (Hussainey & Al-Najjar, 2012; Mcconnell & Servaes, 1990; Morck, Shleifer & Vishny, 1988; Hermalin & Weisbach, 1988). In contrast, Randoy, Down and Jenssen (2003) identified that there is no association between executive ownership and profitability, as opposed to agency theory.

H₆: Managerial ownership significantly impacts the firm performance of listed companies.

Audit committee Size

The audit committee plays a crucial role in enhancing the firm performance by adopting the CG principles. The prior empirical evidences indicated that audit committee has a positive association with ROA and Tobin's Q (Afza & Nazir, 2014; Kyereboah-Coleman, 2007). Obradovich and Gill (2013) identified that audit committee positively impacts the value of USA manufacturing companies when they examine the influence of CG and financial leverage on the value of USA

companies. But, Mir and Seboui (2008) identified that audit committee with more auditors may lead to inefficient governance and large-sized audit committee with regular meetings could increase the expenses to companies' budgets which adversely affect their performance. Larger audit committee could mitigate the cooperation among the members. Furthermore, they indicated that large numbers of auditors in the audit committee may create unwanted discussions and spend more time in making decisions (Lin et al., 2009). The previous studies exposed that the audit committee size is adversely correlated with the earnings quality which is inappropriate to enhancing the numbers of auditors of the audit committee based on performance (Hamdan et al., 2013). Al-Matari et al. (2012) denoted that the audit committee size adversely affects the firms' performance based on Tobin's Q. On other hand, Darko et al. (2016) investigated the influence of CG on performance, and demonstrated that audit committee size has no significant impact on firms' performance whereas Ghabayen (2012) identified that AC size has no association with the performance in terms of ROA. Vafeas and Theodorou (1998) documented that no evidence proved that the structure of board subcommittees significantly influences the performance. But, few researchers identified a weak association between audit committee size and performance of a firm (Menon & Williams, 1994; Pincus et al., 1989).

H₇: Audit committee size significantly impacts the firm performance of listed companies.

Institutional Ownership

Institutional shareholders play an energetic role in overseeing the performance of their investment as well as promoting the good CG. Douma et al. (2006) stated that foreign institutional investors have superior monitoring abilities, resource endowments and capabilities to exert their benefits. Hence, foreign ownership has a strong incentive to monitor management and performance of a firm, and positively influences CG (Ni et al., 2017; Yang & Ren, 2017). Kyereboah-Coleman (2007) suggested that institutional shareholding is a key player to other investors of the potential firm performance which could lead to a rise in demand for shares of the company and enhance the market value in the share market. But McConnell and Servaes (1990; 1995) and Smith (1996) argued that they have an impact on performance. The empirical findings from extant studies on the impact of institutional ownership on performance are inconsistent. Boehmer (2000) and Gorton and Schmid (2000) found a positive association between them. Prowse (1992) and Zoido (1998) identified no systematic association which leaves the subject still open to empirical debates.

H₈: Institutional ownership significantly impacts the firm performance of listed companies.

Research Design

This study is based on the quantitative techniques to collect the panel data so as to ascertain the influence of CG and ownership on firm performance of listed companies.

Sample and Data

Secondary data needed for the study was collected from the audited annual reports of the listed companies in Sri Lanka. This data was used for the present study during the seven years from 2015 to 2021 to measure CG, ownership and firm performance of listed companies in Sri Lanka. The population includes all listed firms in CSE for the period of 2015 to 2021. Hundred and four listed companies are included in the sample which is 33.89% of the total companies listed in the CSE using stratified sampling method.

Variable Definition and Measurement

The present study uses firm performance as dependent variable and CG and ownership as independent variables. Moreover, firm size, firm age and leverage are considered as control variables. Dependent variable is firm performance of this study. The research employs the quantitative method consisting of the measurement of Tobin's Q (TQ) as indicators for the firm performance. TQ is also used as the proxy for the firm performance. It is calculated as market value of equity plus book value of debt divided by book value of total assets (Isidro & Sobral, 2015). Board size is measured by number of directors on board while board independence denotes the proportion of independent directors on board. CEO duality is assessed by binary variable which equals one when the CEO also serves as board chairman, zero otherwise. Board diversity is evaluated by proportion of female directors on board and board activity implies the number of meetings held per year. Managerial ownership is measured by the proportion of outstanding shares owned by the directors. Audit committee size is assessed by the number of the auditors in audit committee. Institutional ownership is measured as the proportion of the shares held by institutional investors. Firm specific variables namely firm size, leverage and firm age are regarded as control variables in this study. Firm size is assessed by logarithm of total assets of the firm. It is evaluated so as to recognize the possible economies of scale and scope accruing to large companies. Leverage is described based on the long term debt to total assets of the company since high degree of the debts mitigates free cash flow and influences performance (Jensen, 1986). Firm age is another key aspect that influences the firm performance. According to the life-cycle theory, after reaching the growth and maturity stages, a firm moves to decline stage with lower performance and fewer prospects to grow. So, the number of years a company was established on the stock market is used as a control variable in this study.

Model Specification

The study uses the panel regression model with random and fixed effects to test the hypotheses based on the prior literatures. Model tests the association between CG, ownership and TQ of listed firms. It is shown as follows,

$$TQ_{it} = \beta_0 + \beta_1 BSIZE_{it} + \beta_2 BINDE_{it} + \beta_3 CEOD_{it} + \beta_4 BDIV_{it} + \beta_5 BACT_{it} + \beta_6 MOWS_{it} + \beta_7 ACSIZ_{it} + \beta_8 INSOW_{it} + \beta_9 FSIZE_{it} + \beta_{10} FAGE_{it} + \beta_{11} LEVE_{it} + e_i$$

Where: BSIZE- Board size, BIND= Board independence; CEOD= CEO duality; BDIV= Board diversity; BACT= Board activity; MOWS= Managerial ownership; ACSIZ= Audit committee size; INSOW = Institutional ownership; FSIZE = Firm Size; FAGE = Firm Age; LEVE = Leverage; Tobin's Q – TQ; e_i = Error term.

Data Analysis and Discussion

Correlation Matrix

The relationship between CG, ownership and firm performance of listed companies is identified using the Pearson correlation analysis. Table 1 presents the correlation matrix between CG, ownership and firm performance. Table 1 depicts the correlation coefficient between CG variables, ownership and firm performance measured by TQ of listed companies. Board size is positively associated with TQ of the listed firms in Sri Lanka ($r = 0.14$, $p = 0.00 < 0.01$).

Board independence has a statistically insignificant relationship with TQ ($r = -0.04$, $p = 0.18 > 0.05$). Hence there is no significant association between board independent directors and firm

performance. But CEO duality is negatively correlated with TQ ($r = -0.07, p = 0.03 < 0.05$). In addition, board diversity has a statistically insignificant relationship with TQ ($r = -0.00, p = 0.87 > 0.05$). Hence, board diversity has not shown any significant association with firm performance. Furthermore, board activity is not statistically associated with TQ ($r = 0.01, p = 0.74 > 0.05$) while audit committee size has not shown any significant relationship with TQ ($r = -0.01, p = 0.60 > 0.05$). But, the correlation coefficient of managerial ownership with TQ is -0.07 which is significant at 0.05 levels, representing there is a negative relationship between managerial ownership and TQ of listed firms in Sri Lanka. Moreover, control variables, firm size is positively correlated with TQ ($r = 0.14, p < 0.01$) while firm age is also positively associated with TQ ($r = 0.26, p < 0.01$). But leverage is positively correlated with only TQ ($r = 0.08, p < 0.05$).

TABLE 1: CORRELATION MATRIX FOR CG , OWNERSHIP AND FIRM PERFORMANCE

	BSIZE	BIND	CEOD	BDIV	BACT	MOWS	ACSI	FSIZE	FAGE	LEVE
BSIZE										
BIND	-0.18 (0.00)									
CEOD	-0.02 (0.56)	-0.05 (0.12)								
BDIV	0.03 (0.41)	-0.05 (0.13)	0.01 (0.70)							
BACT	0.04 (0.25)	0.12 (0.00)	0.03 (0.38)	-0.05 (0.15)						
MOW	-0.03 (0.41)	0.06 (0.10)	0.09 (0.00)	-0.00 (0.80)	0.02 (0.54)					
ACSI	0.28 (0.00)	0.04 (0.28)	-0.22 (0.00)	-0.02 (0.56)	0.11 (0.00)	-0.06 (0.07)				
FSIZE	0.25 (0.00)	-0.03 (0.38)	0.00 (0.98)	0.01 (0.64)	0.15 (0.00)	-0.05 (0.11)	0.16 (0.00)			
FAGE	0.07 (0.03)	-0.06 (0.06)	0.11 (0.00)	-0.02 (0.44)	0.046 (0.21)	-0.00 (0.94)	0.04 (0.19)	0.16 (0.00)		
LEVE	0.01 (0.62)	-0.04 (0.21)	0.00 (0.86)	-0.03 (0.32)	0.11 (0.00)	-0.02 (0.42)	0.02 (0.43)	-0.01 (0.73)	0.08 (0.02)	
TQ	0.14 (0.00)	-0.04 (0.18)	-0.07 (0.03)	-0.00 (0.87)	0.01 (0.74)	-0.07 (0.04)	-0.01 (0.60)	0.144 (0.00)	0.263 (0.00)	0.085 (0.02)

(Source: Survey data 2021)

Panel data regression Analysis

Table 2 represents the results of panel data regression analysis to examine the impact of CG and ownership on TQ of listed companies in Sri Lanka. According to the Hausman specification test, fixed effects model is better than the random effects model, owing to the fact that the null hypothesis can be rejected, since estimated chi square value is statistically significant.

TABLE 2: REGRESSION COEFFICIENT FOR TOBIN'S

	Fixed effects	Random effects

	Coefficient	t statistics	Prob.	Coefficient	t statistic	Prob.
Constant	4.698	10.148	0.000	2.401	8.787	0.000
BFSIZE	0.013	1.835	0.046	0.019	3.232	0.001
BIND	-0.127	-1.480	0.139	-0.088	-1.115	0.265
CEOD	-0.045	-1.605	0.108	-0.036	-1.466	0.143
BDIV	0.003	1.136	0.256	0.003	1.246	0.213
BACT	0.006	1.276	0.202	0.007	1.790	0.073
MOWS	0.055	0.781	0.435	0.048	0.779	0.436
ACSIZ	0.043	3.208	0.001	0.031	2.445	0.014
INSOW	-0.047	-0.714	0.475	-0.038	-0.595	0.551
FSIZE	-0.361	-6.540	0.000	-0.173	-5.936	0.000
FAGE	-0.011	-3.248	0.001	0.001	1.545	0.122
LEVE	0.128	2.319	0.020	0.109	2.222	0.026
R-squared	0.7644			0.0748		
Adjusted R-squared	0.7211			0.0619		
F-statistic	17.6334			5.7973		
Prob (F-statistic)	0.0000			0.0000		
Durbin-Watson	1.7299			1.4207		
Chi-Sq. Statistic	104.863698 (0.000)					

As seen in table 2, the results of fixed effects model show that the adjusted R-squared value shows 0.7211 indicating that 72.11% of the observed variability in TQ can be explained by the differences in CG practices such as board size, board independence, CEO duality, board diversity, board activity, managerial ownership and audit committee size as well as control variables of firm size, firm age and leverage. Moreover, the model is fit ($F=17.6334$, $p < 0.01$) and the independent variables are appropriately chosen, combined and exerted. Therefore, the results of the study can be relied upon.

Table 2 indicates that coefficient value of board size stands at 0.013 with t statistics of 1.835 at 0.05 significant levels. It can be stated that board size has a positive impact on TQ. Hence, larger board size will increase the TQ and vice versa. The coefficient value of board independence is -0.127 with t statistics of -1.480 which is not significant at 0.05 levels. Thus, board independence has not produced any significant impact on TQ. The coefficient value of CEO duality is -0.045 with t statistics of -1.605 which is not significant at 0.05 levels. So CEO duality has not shown any significant impact on TQ. The coefficient value of board diversity is 0.003 with t statistics of 1.136 which is not significant at 0.05 levels. Thus, board diversity has no significant impact on TQ.

The coefficient value of board activity stands at 0.006 with t statistics of 1.276 ($p=0.202 > 0.05$) which is not a significant impact on TQ while coefficient value of managerial ownership is 0.055 with t statistics of 0.781 ($p=0.435 > 0.05$). Hence, managerial ownership is not a significant impact

on TQ. But, coefficient of audit committee size is 0.043 with t statistics of 3.208 at 0.05 levels. Hence, audit committee has a positive impact on TQ. Institutional ownership has not shown a significant impact on TQ. Control variables, firm size ($\beta = -0.361$, $t = -6.540$, $p < 0.01$) and firm age ($\beta = -0.011$, $t = -3.2481$, $p = 0.001 < 0.05$) have a negative impact on TQ while leverage ($\beta = 0.128$, $t = 2.3190$, $p = 0.020 < 0.05$) has a positive impact on TQ.

As per the panel regression analysis, it was found that board size positively impacts Tobin's Q of listed companies in Sri Lanka. Hence H_1 is supported by finding which is collaborated with previous studies (Mishra & Kapil 2018; Zhou et al. 2018; Ezzeddine & Jarboui 2015; Rouf 2011). But, the panel data regression results have not shown any significant influence of board independence, CEO duality and board diversity, board activity, managerial ownership and institutional ownership on TQ. Hence, H_2 , H_3 , H_4 , H_5 , H_6 and H_8 are not supported by findings. But, the finding of the research study is that audit committee has a favourable impact on firm performance of listed companies. It collaborates with previous findings of Rouf (2011), Kyereboah-Coleman (2008). So, H_7 is supported by finding.

Conclusion and Recommendation

The study has investigated the impact of CG and ownership on firm performance of listed firms in Sri Lanka. It is concluded that board size and audit committee size have a positive impact on TQ of listed companies in Sri Lanka. As per the fixed effects model, board independence, CEO duality and board diversity, board activity, managerial ownership and institutional ownership have not shown any significant impact on firm performance of listed companies in Sri Lanka.

Based on the findings of the study, the recommendations are suggested to improve the CG quality and firm performance of listed firms in Sri Lanka. The listed companies should concentrate more on the optimum number of directors on board since the board size and firm performance are positively associated. It is suggested that the board size should be between seven or eight (Jensen, 1993) or ten (Lipton & Lorsch, 1992). Hence, all companies should have the required minimum number of directors on board. The number of the directors in the audit committee should be increased by the organization since the committee is responsible for reviewing the processes to make sure that the firm's internal controls and risk management are adequate, to meet the criteria of the Sri Lanka Auditing Standards. The audit committee should consist of more independent nonexecutive directors. It is of good quality where a member of a recognized professional accounting body occupies as chairman or one member in audit committee. Before attending the meeting, the board of directors should be involved with adequate time and effort to study board papers and request for further information and clarification, and after a meeting they should follow up concerns that arose in the meeting. It should be supplemented by a time allocation for familiarization with business operations, risks and controls.

Limitations and Directions for Future research

The limitation arises from research design utilized in this study as it solely focuses on the firms listed on the CSE. Due to practical reasons, the study overlooked non listed organizations. This research deliberately excludes listed bank, finance and insurance companies, as they are well standardized according to the regulations and their governance structure is significantly different from non-financial firms. Moreover, this study does not consider the perceptions of investors, academics, external auditors, the government and the public. It is vital to comprehend non-listed

firms' existing CG mechanisms in Sri Lanka. So, a comparison of the CG of listed and non-listed companies in Sri Lanka could be another area for future research. Future researches should consider board sub committees, CEO performance, CEO skills, CEO tenure, executive salary and management incentives, staff tenure and staff credentials, since they can be utilized as CG to assess their association with firm performance of listed firms. Future research study can also investigate the associations between CG mechanisms and economic, social and environmental performance in Sri Lankan context. In addition, firms' corporate social responsibility could be studied, as this subject has not been included in this research.

In addition, CG practices can be compared with firm performance before and during the period of Covid 19 pandemic situation. Investigation of external stakeholders' perceptions regarding CG practices in developing nations such as Sri Lanka is one potential area for future research. The future research can take an interdisciplinary approach that includes strategic management, sociology, and political science. Future study could focus on primary data sources to gain an in-depth knowledge of CG in Sri Lankan companies, including board member selection, board responsibilities, board assessments, and board gender and diversity. Future research could also use an interview-based qualitative technique to investigate the factors that influence CG disclosure. This may entail interviewing the firms' top executives. Alternatively, a survey-based approach could be used to investigate this issue on a bigger scale across different nations. A quantitative content analysis, which is a more appropriate method for a relatively huge sample, could be used to examine the CG quality.

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