IMPACT OF CORPORATE GOVERNANCE ON CAPITAL STRUCTURE: MODERATING ROLE OF FIRM'S AGE: EMPIRICAL EVIDENCE FROM SRILANKA

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Every corporation has the intention to continue its existence to perpetuity through sustainable profitability. At the particular risk level due to the rise of the income of the shareholders, the market price of the shares also increases. That is to say whichever the combination of the debt to equity equates the risk and return is called as optimum capital structure. The objective of this study is to find out the moderating role of firm's age on the relationship between corporate governance mechanism and capital structure of listed companies in CSE. In order to reach this research's purpose, secondary data, which were taken from the 50 selected companies' annual reports retrieved from CSE official webpage, have been used. Data garnered from these annual reports belong to the period from 2016 to 2021. To ascertain the moderating effect of firm's age on the corporate governance and capital structure, the given Hierarchical regression models were exercised. In accordance with the results summary of models, board size, CEO duality and institutional ownership, whose p values are notably less than 0.05; those have significantly positive impact in debt to equity ratio. Accordingly companies that own higher board size have the ability to gain debt easily. Here, there's optimistic effect in CEO duality on capital structure (coefficient 0.188, p=0.001). This finding is supported by Duggal et al(1999) and Bhatt et al(2017). In line with resource dependence theory, larger boards are useful when a firm seeks quality advice (Cohen et al, 2013). Cohen argued that a larger board would improve the quality of its deliberation. Afterwards, the results confirmed that Interaction term (Board Size*firm's age, CEO* firm Age and Insown*Firm Age) have significant impact on the capital structure. The study has provided contribution to the existing literature by adding the moderating effect of firm's age between the relationship of corporate governance and capital structure.

Keywords: Corporate Governance, Capital Structure, Debt to Equity ratio, Board size, CEO duality