

Corporate Governance Practices and Firms' Financial Performance of Manufacturing Companies in Sri Lanka

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Abstract

Corporate governance came into popular use in the 1980's to broadly describe the general principles by which the business and management of companies were directed and controlled. It expected much attention during the last two decades owing to certain economic reforms in the countries and dilemma of economic history such as regional market crisis and large corporate debacles. Good corporate governance maximizes the profitability and long term value of the firm for shareholders. There is enormous awareness among the intellectual to carry out the researches in the corporate governance. The main objective of the study is to identify the significant difference between corporate governance practices on Firm performance. Further, the secondary objective is to suggest the listed manufacturing firms in Sri Lanka to obtain the efficiency in the firm performance through the adoption best corporate governance practices. The present study is initiated to examine corporate governance practices and firm performance with the samples of 28 manufacturing companies in the Colombo Stock Exchange using the data representing the periods of 2007 – 2014. Data on corporate governance and firm performances were collected from secondary sources as annual reports of the manufacturing companies, Colombo stock exchange publications and URL of the Colombo stock exchange. Analysis was conducted using the IBM SPSS statistics 20 software package. Ratio analysis, descriptive statistics techniques and correlation analysis were used to find out the significant difference between corporate governance practices on firm performance. Board Leadership Structure (BLS), Board Committee (BC) and Proportion of Non-Executive Directors (PNED) were used as the determinants of corporate governance, whereas return on assets (ROA) was used as the measures of firm performance. The study found that, determinants of corporate governance are not correlated to the performance measures of the organization. Correlation analysis shows BLS and BC are negatively correlated with ROA, which is not significant. PNED is positively correlated which is not significant. Regression model showed that corporate governance doesn't affect companies' ROA. Finding revealed that, there is no significant relationship between the firm performance among corporate governance practices as board leadership structure, board committees, and proportion of non-executive directors. Researchers have suggested that, corporate governance practices should be reviewed in the systematic way to frame the best practices in the present Sri Lankan context.

Key words: Corporate Governance, Firm Performance, Board Leadership Structure, Board Committee, Proportion of Non-Executive Directors

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