



A Comparative Study of Board Effectiveness and Corporate Performance in Sri Lanka

Rathnaweera, K.K.W.H^a and Deepal, A.G^b

^a*Faculty of Graduate Studies, University of Ruhuna, Matara, Sri Lanka*

^b*Faculty of Management and Finance, University of Ruhuna, Matara, Sri Lanka*

hareendraboc@gmail.com

ABSTRACT

Corporate Governance is identified as a principle which has an enormous impact on the financial performance of limited liability companies. Under the umbrella concept of “corporate governance”, the “board effectiveness” is considered one of the main aspects debated and broadly discussed in the literature. It was observed that there is a dearth of comparative empirical studies carried out on the developing countries in the world. Therefore, this study was conducted to fulfill this empirical gap. The purpose of this study is to examine the impact of the Corporate Governance Best Practices (CGDP) concerning the Board Effectiveness on the financial performance of listed manufacturing companies in Sri Lanka. The objectives of the study are to examine the compliance level of Corporate Governance Best Practices (CGDP) concerning the board effectiveness in listed manufacturing companies and to analyze the impact of the same to the financial performance of listed manufacturing companies in Sri Lanka for the years of 2015/16 and 2019/20. Governance variables related to board effectiveness such as CEO Duality, Size of the Board, Number of Board Committees and Number of Independent Non-Executive Directors were used as independent variables, while Return on Assets and Return on Equity were used as the dependent variables of the study. The level of compliance with Corporate Governance Best Practices was measured using a composite index, and the Regression analysis was performed to identify the impact of independent variables on the dependent variables. It is concluded that the compliance level of Corporate Governance Best Practices is gradually increasing from 2015/16 to 2019/20. Considering the impact of independent variables on the dependent variables, it was concluded that CEO Duality and Board Size impact the performance variables. At the same time, it is hard to see the impact of the Number of Board Committees and Number of Independent Non-Executive Directors on the performance. The findings of this study implies that the board of directors and governance-related committees in companies should pay attention to Corporate Governance principles when making policy decisions.

Keywords: *Board effectiveness, Corporate governance, Performance, ROA, ROE*

01.Introduction

Corporate Governance is a vital topic in the corporate world. According to Cadbury Report (1992), Corporate Governance is the system by which companies are directed and controlled. Further it says Corporate Governance mainly refers rules, practices, and processes by which a company is controlled and directed. According to Becht et al. (2005), Corporate Governance is the course of actions to reconcile the problems may arise among various stakeholders of a company like stockholders, borrowers, suppliers, employees, customers, and board of directors. There is a discussion in recent times on whether Corporate Governance enhance performance of the companies. It is evident that one of the crucial factors affect to Corporate Governance is the board effectiveness. The effectiveness of the board on its activities is decided by its independence, the size of the board and its composition (John & Senbet, 1998). Hence, this study considers the factors affects to the Board's effectiveness, as CEO Duality, Board Size, Number of Board Committees, Number of Independent Non-Executive Directors, and the impact of those factors towards the financial performance of the companies in manufacturing sector.

However, the way in which corporate governance is organized differs between countries, depending on the economic, political and social contexts (Heenatigala, 2011). Good Corporate Governance is a method to build market confidence and business integrity while weak Corporate Governance practices may be negatively affected on firm performance. Further, Corporate Governance practices reduces the risk on the firm performance (Aluchna & Idowo, 2017). Therefore, companies should follow the CGBP and identify the problem relating to those practices to enhance their financial performances.

1.1. Research problem

The requirement of the application of CGBP of Sri Lankan companies have increased in the competitive world. The firms are highly depending on their investors and customers' trust (Ganesan, 1994). On the other hand, the firms have great responsibility to ensure that investments are more efficient. (Oehmke & Opp, 2020). Well performance of firm positively impacts on economic stability and weak performance negatively impact on economic stability (Yildirim & Gökalp, 2016). As a developing country, the empirical studies on the significance of the Board Effectiveness on corporate performance is rare in Sri Lanka. Deepal (2014) conducted a study on the compliance level of CGBP and its impact on the corporate performance in dominant industry sectors in Sri Lanka and found mixed results. Corporate governance and company financial performance has been researched by Achchuthan and Kajanathan (2013). Heenatigala (2011) has carried out a study on corporate governance and financial performance of listed companies in Sri Lanka. Those are the few historical evidence on the previous studies conducted in the domain of corporate governance in Sri Lanka.

It is evident in the existing literature that there is a dearth of empirical studies on the importance of effectiveness of the board towards the corporate financial performance in Sri Lanka. On the other hand, relatively few papers were discovered while searching for comparative research on this subject area. Consequently, the problem of the study is presented as “How corporate governance best practices with relevant to the board effectiveness effect on the financial performance of listed manufacturing companies in Sri Lanka?”.

Accordingly, two research questions (RQs)were derived from the above research problem as follows,

RQ 1: What is the compliance level of Corporate Governance Best Practices (CGBP) with respect to the Board Effectiveness of listed manufacturing companies in Sri Lanka?

RQ 2: Is there an impact of application of CGBP with respective to the board effectiveness to the financial performance of listed manufacturing companies in Sri Lanka?

Consequently, following objectives are expected to achieve at the end of the study,

01. Examining the compliance level of Corporate Governance Best Practices with respect to the board effectiveness of listed manufacturing companies in Sri Lanka.
02. Analyzing the impact of the adoption of Corporate Governance Best Practices respect to board effectiveness to the financial performance of manufacturing companies in Sri Lanka.

1.2. Rational and Significance of the Study

Over the last few decades, there were some collapses in some financial institutes in Sri Lanka because of mismanagement and low level application of corporate governance principles (Ex. Pramuka bank). At present, all institutions are getting better knowledge from regulators and applying the directions to their operation. Hence, this study will be important to investors to get an idea of CGBP and performance of the companies. Further, this study will be helpful to all shareholders, suppliers, and employees to enhance and expand their performance in operation. Subsequently, government and the policy makers of the country always oversee the performance of the companies to secure the rights of the stakeholders. Therefore, this study helps them all to recognize the value of the CGBP pertaining to the effectiveness of the board to make decisions for the betterment of the industries. Financial stability is the most important factor to an economy of a country. Therefore, the accurate implementation and stability of the manufacturing sector is very much essential to maintain the financial system stability and whole economic stability of the country.

This study investigates the affection of CGBP relevant to the board to the company financial performance. It will facilitate the decision maker to get a proper decision about the firm's performance. It causes to increase the strength of the firm. Further, it helps Sri Lankan companies to attract new investment to their firms.

This study will benefit to all relevant parties to improve their standards for best practices. And also, it will facilitate future researchers as a tool to evaluate CG practices pertaining to the board effectiveness. The findings of this study can be used by the policy makers to make relevant policies for the development of the corporate sector as well as the country as a whole. They can create effective boards in government owned organizations to turn them into profit making institutions and can increase the standard of the service offered by service offering institutions to the public. Not only the policy makers, the decision makers in both government and private sector can understand the importance of the board effectiveness of a successful organization referring to the findings of this study. Therefore, they can make correct decisions towards the success of the organizations. Investors must make corrective decisions to success of their investments. Numbers of factors to be considered when making investment decisions. Subsequently, they can use CGBP with relevant to board effectiveness of the companies when they are going to invest in such companies.

2. Literature Review

It is observed that the Corporate Governance has become more famous topic in the modern corporate world. The reason behind it is the usage of Corporate Governance practices assuring company performances, hence the fact has received the worldwide attention too. Therefore, review of the related literature is very important to understand the Corporate Governance Best Practices in Sri Lanka. (Heenetigala, 2011).

2.1 Evolution of Corporate Governance

“The Modern Corporation and private property” written by Berley and Means (1932) presents the foundation for the modern Corporate Governance practices while Adrian Cadbury (1992) is considered as Corporate Governance Guru in the corporate world. Corporate Governance Best Practices were introduced to Sri Lanka in 1997 by way of voluntary code of best practices by Securities Exchange Commission and Chartered Institute of Sri Lanka and applicability of the same to the companies in selected sectors (eg. Banking) was made mandatory from 1st April 2008 (Heenetigala, 2011). The initial Corporate Governance code introduced to Sri Lanka was a clear blueprint of Cadbury Code introduced in 1992 and the amendments were done to the code to suit with the recent developments in economic conditions in 2002, 2003, 2008, 2013 and 2017 by Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission.

2.2. Definition of the Concept of Corporate Governance

The Guru of Corporate Governance, Cadbury (1992), has defined Corporate Governance as holding the balance between economic and social goals and between individual and common goals. According to Rezaee (2008), Corporate Governance is a process through which shareholders induce management to act in their interest, providing a degree of confidence that is necessary for capital markets to function effectively.

Good Corporate Governance procedures identified as a valuable tool to minimize the risks faced by the investors, appealing new venture capital and developing the yields of firms. (Heenetigala & Amstrong, (2011). According to Keong (2002) good Corporate Governance Best Practices will increase the quality of the management, maximize the utilization of company resources, increase the firm performance, share prices, and ultimately increase the value of shareholding significantly.

2.3. Theories Related to CG

Agency Theory, Stewardship Theory and Stakeholder Theory were used to construct Corporate Governance principles. Agency Theory based upon the conflict interest among shareholders, Corporate Managers and Debt holders. Brennan (1995) explained that the agency problems may arise when the results of the actions taken by the agent for the betterment of the agent not for the principal. Stewardship theory presents a different type of management by which those managers are counted as perfect stewards who will act for the best favor to the investors totally opposite to the agency theory (Donaldson & Davis, 1991). Stakeholder theory creates the discipline of management and gradually design to comprise corporate duty and liability for a range of stakeholders. A stakeholder is a person who can affect or can be affected because of any action taken by a firm when it trying to achieve its goals. (Freeman & Reed, 1983).

2.4. Board Effectiveness

Different board structures represent main two opposite opinions. The first view is that the boards are created to maximize the control of the management by proper usage of internal information and identifying the real needs of the organization with control of independent outside directors. (Berley & Means, 1932). According to the second view, the Board of Directors is created to minimize the agency cost by monitoring the behavior of the management by outside directors and reducing the gap between shareholder interest and the interest of the management (Fama, 1980; Fama & Jensen, 1983). The above said two opinions are at the two ends of the Corporate Governance spectrum. Therefore, almost all Corporate Governance structures of the corporation falls between said two ends (Petra, 2007).

Corporate Governance board structures considered in this study are the CEO duality, board size, number of board committees and the number of independent directors on the board.

2.5. Financial Performance

Financial performance of a company to be calculated by numerous formulas. These formulas can be categorized mainly into two as market based and accounting-based measures (Klein, 2002). Operating income, earnings before interest and taxes and net asset value can be taken as common examples of financial performance. However, it is important to note that there is no unique evaluation method to calculate monetary performance of a firm. The Performance Variables used in this study were Return On Assets(ROA) and Return On Equity (ROE).

ROA is used broadly as an accounting-based measures in CG literature (Finkelstein & D'aveni 1994; Weir & Laing 2001). It shows the efficiency of the assets deployed in the firm (Bonn et al., 2004). ROE is one of the other important accounting centered measurement uses in Corporate Governance to assess the quality of the operation of the firms (Baysinger & Butler 1985; Dehaene et al., 2001). The ROE measures and show shareholders how much of the profits have been generated by their capital investments in the firm (Epps & Cereola, 2008).

2.6. Empirical Studies on Board Effectiveness and Company Performance

The boards are the live blood of Corporate Governance tool generate investor confidence, allow better access to financing, minimize the cost of agency and finally develop the efficiency of the structure of the firm (Ferrero & Sánchez, 2017). According to Berle & Means (1932), Board of Directors (BoD) introduced with the purpose of increasing corporate performances by efficient usage of resources, internal information and by identifying the real requirements of the firm without depending on external independent directors.

According to Azeez(2015) , Small boards are more effective and increase firm performances. Further he has found that two separate persons holds the positions of CEO and Cahirman bring more performances to the firms. This research was done considering 100 companies registered in CSE. Kumara and Guo (2012) have found that firm size and director holdings have positive impact to the performance of companies. This research was done by using 174 companies listed in CSE. Danoshana and Ravivathani (2019) found that there is a positive impact available on the board size and the audit committee size to the performance of the company. This study was done analyzing 25 listed financial institutions of CSE. According to Heenetigala and Armstrong (2011) there is a positive relationship between corporate governance variables, separate leadership, board composition and board committees with company performance. 37 companies of 50 top listed companies have been analyses to arrive this finding by them.

3. Methodology

Methodology is discussed under five main topics as 1. Sample and Sample Selection, 2. Data and data collection and 3. Conceptual Framework 4. Operationalization of Variables and 5. Method of Data Analysis.

3.1. Sample and Sample Selection

Manufacturing companies, listed on the CSE used in this study. There are 296 companies have been registered in the CSE. All the companies have been categorized into 20 industry groups (Energy, Material, Capital Goods, Food beverage and Tobacco, etc.) based on the nature of their business. Those 20 industry groups are known as Global Industry Classification Standard (GICS). Manufacturing Sector was primarily selected for this study. There are 40 companies listed under Manufacturing Sector. 33 companies were selected and data collected relevant to the financial years 2015/16 and 2019/20 for this research. The sample size is 82.5%. The manufacturing sector is the prime sector one with having the biggest total turnover and number of employees. Further, lots of companies in the manufacturing sector were well established in Sri Lanka. Therefore, the manufacturing sector was selected for this study.

The “Systematic Sampling Method” has been used in this research to select the corporates in the manufacturing sector. Firstly, names of all companies in Manufacturing sector were coached by ascending order (“A” to “Z”) and selected 20 companies using odd numbers starting from 1(eg.1,3,5, etc.) in the first round. Subsequently, the balanced companies (20) coached ascending order again and selected 13 companies using the same method as in Deepal (2013). Ultimately the total number of companies selected from the list were 33 and it was 82.5% from the population (Manufacturing Sector).

3.2. Data and Data Collection

Secondary data was used for this study. The annual reports of the firms were used to gather the facts and figures. Data extracted covering the periods of 2015/16 and 2019/20. Information relates to the Corporate Governance practices and financial performance were taken from the annual reports of the companies. This study used the Corporate Governance disclosures, CEO’s and Managing Director’s messages, Chairman’s report and other relevant disclosures included in the annual reports to gather the data related to independent variables.

3.3. Conceptual Framework

The Conceptual framework of the study is presented as follows.

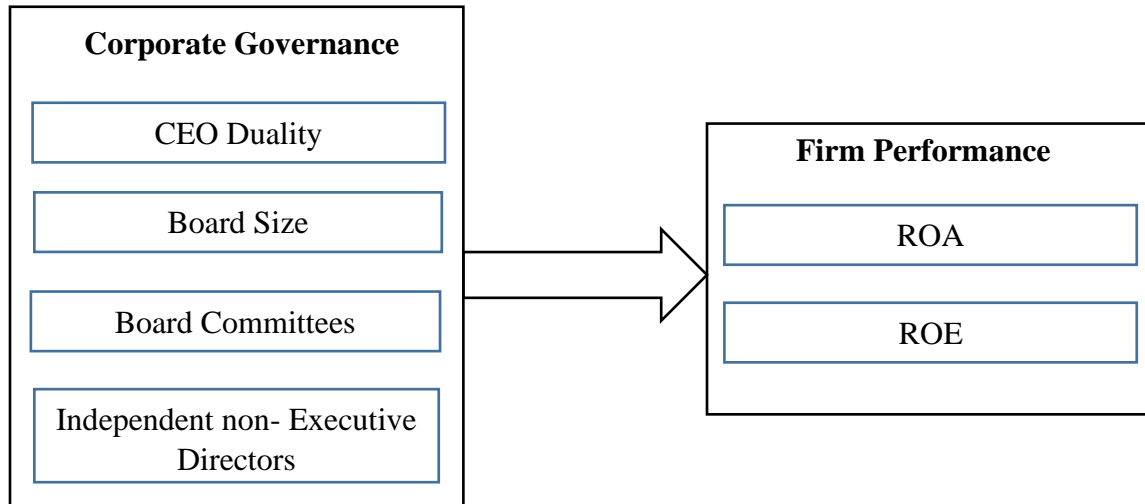


Figure 1: Conceptual Model of the study

3.4. Operationalization of Variables

ROA and ROE have been used as dependent variables while CEO Duality, Board Size, Number of Board Committees and Number of Non-Executive Directors have been used as independent variables in this study. Those variables are operationalized in brief in table 1 as follows.

Table 1: *Operationalization of Variables*

Concept	Type of Variable	Measurement
Company Performance	(Dependent Variables) - Firm Performance Return On Assets (ROA) Return on Equity (ROE)	Year-end Profit After Tax (PAT) divided by Total Assets. Year-end PAT divided by No: of share issued.
Corporate Governance Characteristics	(Independent Variables) • CEO Duality	If the same person holds both positions/posts of CEO and the Chairman.

Table 1: Operationalization of Variables (Continued)

• Board Size	The number of Directors in the Board BSIZE
• Board Committees	Number of Board Committees available BCOM
• Number of Independent Non-Executive Directors	Ratio of Independent non-executive directors to the total number of directors on the board. INED

3.5. Methods of Data Analysis

Composite index is used as the mechanism to gather the data on the level of compliance of Corporate Governance Best Practices of companies using the selected annual reports in this study. Statistical Mean value, Minimum value and Maximum value relating to the selected sample calculated using the data included in the composite index. Those data used to measure the compliance level of Corporate Governance Best Practices adopted by the firms. Regression Analysis was used to examine the impact of Corporate Governance Best Practices to the Financial Performance of listed Manufacturing companies.

Two linear regression models developed to measure the relationship between the level of compliance of Corporate Governance Best Practices and firm performance as follows,

$$\text{Model 1: } ROA = \beta_0 + \beta_1 DCEO + \beta_2 BSIZE + \beta_3 BCOM + \beta_4 INED + \varepsilon$$

$$\text{Model 2: } ROE = \beta_0 + \beta_1 DCEO + \beta_2 BSIZE + \beta_3 BCOM + \beta_4 INED + \varepsilon$$

Definitions

ROA - Return on Assets

ROE - Return on Equity

β_0 - Intercept

DCEO - CEO Duality

BSIZE - Board Size

BCOM - Number of Board committee

INED - Number of Independent Non-Executive Directors

ε - Standard Error of the Sample

4. Results and Discussion

4.1. Analysis of the Level of Compliance with Corporate Governance Best Practices of Listed Companies in the Manufacturing Sector in Sri Lanka

Table 2 depicts the descriptive statistics such as Average Values, Minimum Values and Maximum Values with respect to compliance level with CGBP for the listed companies in the manufacturing sector for the years of 2019/20 and 2015/16.

Table 2: *Descriptive Statistics for the Manufacturing Sector in the Sample*

Index	Mean Value		Maximum Value		Minimum Value	
	2019/20	2015/16	2019/20	2015/16	2019/20	2015/16
Overall CG scores with relevant to Board effectiveness (out of 15)	11.6 (77.3)	8.2 (54.6)	14.2 (94.7)	11.3 (75.3)	4.5 (30.0)	3.1 (20.6)
DCEO (out of 01) Percentage value	0.9 (90)	0.5 (50)	1.0 (100)	1.0 (100)	0 (0)	0 (0)
BSIZE (out of 3) Percentage value	2.1 (70)	1.2 (40)	3.0 (100)	3.0 (100)	0 (0)	0 (0)
BCOM (out of 6) Percentage value	4.2 (70)	2.8 (46.6)	5.4 (90)	3.2 (53.3)	2.3 (38.3)	1.8 (30)
INED (out of 5) Percentage value	4.4 (88)	3.7 (74)	4.8 (96)	4.1 (82)	2.2 (44)	1.3 (26)

The composite index was built being based on the voluntary “Code of Best Practices on Corporate Governance” issued by the Institute of Chartered Accountants of Sri Lanka and Security Exchange Commission, and it included 15 attributes (scores) regarding the board effectiveness. Hence, “overall Corporate Governance Scores” shows the values out of 15 scores. The mean value 11.6 (2019/20) and 8.2 (2015/16) represents the summation of mean values of 15 scores related to Board Effectiveness, 01 score for DCEO, 03 scores for BSIZE, 06 scores for a BCOM and 05 scores for INED.

Table 2 further shows that there is a considerable improvement of 3.4 scores (11.6-8.2) which is equal to 22.7% (77.3% - 54.6%) in the compliance level of Corporate Governance Best Practices in the year 2019/20 compared to that of 2015/16.

When considering the Maximum Values, 94.7% compliance level adherence have been shown for 2019/20 while it was 75.3% to 2015/16. It shows an improvement of 2.9 scores (14.2-11.3), which is equal to 19.4% (94.7%-75.3%). The Minimum value of compliance level adherence in the year 2019/20 is 30% and it is 20.6% for 2015/16. It shows an improvement of 1.4 scores (4.5-3.1), which is equal to 9.4%. The difference between the Minimum and Maximum level of compliance shows the huge difference of 9.7 (14.2-4.5) scores 64.7% (94.7%-30.0%) in 2019/20 and 8.2 (11.3-3.1) scores 54.7% (75.3%-20.6%) in 2015/16 are considerably significant. It shows that there are some companies having 94.7% compliance level, whereas some of the other companies in the same sector having 30.0% level. It is interesting to reveal that, this finding is same for both years of 2019/20 and 2015/16, and it is observed that the gap between Maximum and Minimum Scores have been slightly increased in the year 2019/20.

4.2. Analysis of the impact of Corporate Governance Best Practices to the financial performance of the companies in Manufacturing sector of Sri Lanka.

Regression coefficient enables to evaluate the relative influence of several independent variables on the dependent variable. Since the predictions almost always depend upon multiple factors in the real world, Multiple Regression Analysis is realistic when investigating the impact on the independent variables.

Table 3: *Results of Regression Analysis -2019/20*
Dependent Variables: ROA & ROE

VARIABLES	ROA	ROE
	Beta Coefficient	Beta Coefficient
DCEO	0.318*** (2.103)	0.317*** (2.082)
BSIZE	0.293*** (1.880)	0.234*** (1.496)
BCOM	0.024 (0.194)	0.026 (0.213)
INED	0.043 (0.320)	0.129 (0.964)
R²	0.342	0.336
Adjusted R²	0.294	0.287
F-Value	7.151***	6.947***

Note: T-Values have been stated within parentheses

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

According to the table 3 above, it is observed that the highest impact or the contribution towards ROA & ROE have been given from DCEO which is .318 significant at 0.01 Significance Level ($t=2.103$, $\beta=.318$, $p<0.01$) and 0.317 significant at 0.01 Significance Level ($t=2.082$, $\beta=.317$, $p<0.01$). The second highest impact is from Board Size which is 0.293 significant at .01 with respect to ROA ($t=1.880$, $\beta=.293$, $p<0.01$) and 0.234 significant at 0.01 with respect to ROE ($t=1.496$, $\beta=.234$, $p<0.01$). The next relatively important factor in predicting the corporate performance is the number of INED showing the Standardized Beta Coefficient as .043 for ROA and 0.129 for ROE which are insignificant, and finally the Number of BCOM showing Standardizes Beta Coefficient of 0.024 for ROA and 0.026 for ROE which are also insignificant. Considering the Beta Coefficients, it is noted that the relative importance of DCEO is higher than other three independent variables in predicting the performance in selected listed companies under manufacturing sector in Sri Lanka.

Multiple R^2 and the adjusted multiple R^2 of the model related to ROA are 0.342 and 0.294 respectively. R^2 , which is also referred as a “measure of the goodness of the fit”, indicates the amount of variation in the dependent variable associated with all of the independent variables considered together. Therefore, multiple R^2 shows the extent of the dependent variable “explained” by the independent variables combined. Hence, it can say that 29.4% of the variation of Corporate Performance (ROA) can be expressed by the independent variables of this research in 2019/20. On the other hand, it shows that, 70.6% (100 %– 29.4%) of the variation with ROA has not been explained by these independent variables. The adjusted R^2 of the model is concerned, 28.7% of the variation of Corporate Performance (ROE) can be explained from the independent variables of the study in 2019/20. However, it reveals that 71.3% (100-28.7%) of the variation in corporate performance has not been explained by these independent variables.

Further, the significance level of the model was tested and it is noticed that the regression model is statistically significant (F-ratio=7.151, $p<.001$ with respect to ROA) at 0.01 significance level and (F-ratio=6.947, $p<.001$ with respect to ROE) at 0.01 significance level. It means that the chances are about .01 that the results of regression model are due to random events other than of a true relationship. Hence the independent variables used in this model do predict the corporate performance (ROA & ROE for the year 2019/20).

According to the above table 3, it is noticed that the highest impact or the contribution towards ROA and ROE has been reported a number of Independent Non-Executive Directors (($t=1.434$, $\beta=.187$) and ($t=1.854$, $\beta=.237$)) respectively. But said the impact is not significant. The next highest impact towards ROA and ROE has been reported DCEO (($t=0.650$, $\beta=.128$) and ($t=1.192$, $\beta=.231$)) significant at 0.01 confidence level. BCOM are the next highest impact towards ROA and ROE (($t=0.135$, $\beta=.872$) and ($t=0.532$, $\beta=.081$)) reported but not significant.

The least impact towards ROA and ROE has been reported by the BSIZE with standard beta coefficient of 0.019 and 0.075 respectively but the impact is not significant. DCEO is the only variable which has a significant positive impact for the performance of listed companies in the Manufacturing sector in Sri Lanka for the year 2015/16.

Multiple R² and the Adjusted Multiple R² of the model with respect to ROA are 0.089 and .022 and that of ROE are 0.122 and .059 respectively. It means that 2.2 % of the variation of corporate performance can be explained from the independent variables of this study in 2015/16 with respect to ROA and 5.9% that of for ROE. However, it reveals that 97.8% (100%-2.2%) and 94.1% (100%-5.9%) of the variations in ROA and ROE respectively have not been explained by these independent variables. In addition to that, the significance of the model was examined and it is noticed that the regression model is statistically not significant (F-ratio=1.339, P>.10 for ROA and F-ratio= 1.919, P>.10 for ROE). Hence, the independent variables used in this model do not predict the corporate performance for the year 2015/16.

5. CONCLUSION

According to the study, the level of application of Corporate Governance Best Practices to the manufacturing sector of Sri Lanka is clearly increasing. The overall application score for the year 2015/16 was 54.6% and it has considerably increased to 77.3% in 2019/20. The reason should be the improved desire of management to improve the level of application of Corporate Governance Best Practices to their own companies. According to the findings of empirical studies, the same findings have been evident in the previous studies. Weir and Laing (2000) studied the compliance effect and the performance effect prior and after the introduction of the Cadbury recommendations and found out that the level of compliance to the CG principles have been improved in a significant manner in the sample studied in U.K Corporate Sector. According to Barco and Briozzo (2020), compliance level of Colombian companies increased and reached to 71% in the period of 2008-2014 due to the introduction and implementation of corporate governance code. Consequently, Deepal (2014) came to the conclusion that an enhanced degree of compliance with the CGBP regarding board effectiveness has a substantial influence on the financial performance of corporations that are listed in Sri Lanka.

The findings of this study indicate that DCEO has an impact on the performance factors in both years. This finding has been well supported by the literature too. According to Khan et al. (2020), DCEO will create a powerful CEO and then he/she will be able to take straight decisions and to control the behavior of the board which will ultimately lead to increased firm performance. This is further supported as “when corporates improve their level of compliance with best practices on corporate governance, it leads to improve the financial performance of listed companies in Sri Lanka” Deepal (2012, p.61).

When the impact of BSIZE and Corporate performance concerned, BSIZE has an impact to the performance variables in 2019/20. However, it is hard to see any impact of BSIZE to performance variables in 2015/16. However, according to Pathan et al. (2007) BSIZE has significant negative impact to the performance of the company. According to the study, there is no impact of BCOM on the performance variables in both years analyzed. The same finding was supported by Weir et al. (2002) and explained that no impact of BOCM exists on the performance of the companies in the UK context. Finally, it shows that there is no impact of INED to the performance variables in both years analyzed. However, contrary to that finding of this research, Pathan et al. (2007) has explained that INED has a significant impact on the performance of the company.

5.3. Implications for Further Research

The findings of this study can be used by the policy makers of the country. ICASL & SEC, the main governing bodies of Corporate Governance of Sri Lanka can use these findings when making future policies relevant to the companies. CBSL can use these findings when making decisions to control the finance sector while the banking sector can use these findings when making decisions. Future and potential investors can use these finding to smooth their investment plans and to secure their investments. Furthermore, the researchers may use the composite index which was used to measure (quantify) the governance variables pertaining to board effectiveness in their future studies as well. Finally, the learners of Corporate Governance can use these findings to improve their knowledge.

ROA and ROE have been used as the dependent variables in this study. Researchers can use the ratios like Tobin's Q and Earning Per Share (EPS) are as the dependent variables for their further research. Manufacturing sector companies have only been considered for this study. Future researchers can consider the other sectors as well to arrive perfect picture about all industries. Future research may use primary data too for their analysis as this study used only secondary data. Consequently, further research may be conducted to examine the connection from the opposite perspective as well. Hence, it will be more interesting to investigate whether the corporate financial performance has an impact on the upliftment of the level of compliance of corporate governance best practices.

References

Aluchna, M., & Idowu, S. O. (2017). *Responsible Corporate Governance*. Springer.

Azeez, A. A. (2015). Corporate governance and firm performance: evidence from Sri Lanka. *Journal of Finance*, 3(1), 180-189.

Barco, E., & Briozzo, A. E. (2020). Corporate governance code in Argentina: analysis of the compliance level.

Baysinger, B. D., & Butler, H. N. (1985). Corporate governance and the board of directors: Performance effects of changes in board composition. *Journal of Law, Economics, & Organization*, 1(1), 101-124.

Becht, M., Jenkinson, T., & Mayer, C. (2005). Corporate governance: an assessment. *Oxford Review of Economic Policy*, 21(2), 155-163.

Berle, Jr., A.A. & Means, G.C. (1932). *The Modern Corporation and Private Property*,

Bonn, I., Yoshikawa, T., & Phan, P. H. (2004). Effects of board structure on firm

Brennan, M. J. (1995). Corporate finance over the past 25 years. *Financial Management*, 9-22.

Cadbury, A. (1992). *Report of the committee on the financial aspects of corporate companies in Sri Lanka* (Doctoral dissertation, Victoria University).

Danoshana, S., & Ravivathani, T. (2019). The impact of the corporate governance on firm performance: A study on financial institutions in Sri Lanka. *SAARJ Journal on Banking & Insurance Research*, 8(1), 62-67.

Deepal, A.G.(2012). Compliance of the Board Structure with Best Practices of Corporate Governance and its Impact to the Financial Performance of Listed Companies in Sri Lanka. *Proceedings of the 09th Academic Sessions, University of Ruhuna, Sri Lanka*, 61.

Deepal A.G. (2013). Compliance of the Code of Best Practices and its Impact of Directors Remunerations on Financial Performance of Quoted Public Companies under the Dominant Industry Sectors in Sri Lanka. *Proceedings of the 10th Academic Sessions, University of Ruhuna, Sri Lanka*, 46.

Deepal, A.G. (2014). The Impact of Being Compliant with Best Practices of Corporate Governance on the Financial Performance of Listed Companies in Sri Lanka(With special reference to the Dominant Industry Sectors), *Proceedings of the 5th International Conference on Business and Information, University of Kelaniya, Sri Lanka*, 25-32.

Dehaene, A., De Vuyst, V., & Ooghe, H. (2001). Corporate performance and board structure in Belgian companies. *Long range planning*, 34(3), 383-398.

Donaldson, L. & Davis, J.H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, 16,49-64.
earnings. *Economics of Governance*, 8(2), 129-152. *economy*, 88(2), 288-307.

Epps, R. W., & Cereola, S. J. (2008). Do institutional shareholder services (ISS) corporate governance ratings reflect a company's operating performance? *Critical Perspectives on Accounting*, 19(8), 1135-1148.

Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of political*

Fama, E.F & Jensen M.C. (1983). Separation of Ownership and Control, *Journal of Law and Economics*, 26-39.

Finkelstein, S., & D'aveni, R. A. (1994). CEO duality as a double-edged sword: How boards of directors balance entrenchment avoidance and unity of command. *Academy of Management journal*, 37(5), 1079-1108.

Freeman, R. E., & Reed, D. L. (1983). Stockholders and stakeholders: A new perspective on corporate governance. *California management review*, 25(3), 88-106.
governance (Vol. 1). U.S.A.

Guo, Z., & Kga, U. K. (2012). Corporate governance and firm performance of listed firms in Sri Lanka. *Procedia-Social and Behavioral Sciences*, 40, 664-667.

Heenetigala, K. (2011). *Corporate governance practices and firm performance of listed*

Heenetigala, K., Armstrong, A. (2011). Corporate regulation and corporate governance of small businesses in Australia. *Journal of Law and Governance*, 6(3).

John, K and Senbet, L.W. (1998). Corporate governance and board effectiveness. *Journal of Banking & Finance* , 22, 371-403.

Keong, L. C. (2002). Corporate governance: An Asia-pacific critique. *Singapore journal of legal studies*, 655-658.

Kang, H., Cheng, M., & Gray, S.J. (2007). Corporate governance and board composition: Diversity and independence of Australian boards. *Corporate Governance: An International Review*, 15(2), 194-207.

Klein, A. (2002). Audit committee, board of director characteristics, and earnings

Macmillan, New York. *Management*, 3(1), 105-125. management. *Journal of accounting and economics*, 33(3), 375-400.

Martínez-Ferrero, J., & García-Sánchez, I. M. (2017). Sustainability assurance and assurance providers: Corporate governance determinants in stakeholder-oriented countries. *Journal of Management & Organization*, 23(5), 647-670.

Pathan, S., Skully, M., & Wickramanayake, J. (2007). Board size, independence and performance: An analysis of Thai banks. *Asia-Pacific Financial Markets*, 14(3), 211-227.

Petra, S. T. (2007). The effects of corporate governance on the informativeness of earnings. *Economics of Governance*, 8(2), 129-152.

Rezaee, Z. (2008). *Corporate governance and ethics*. John Wiley & Sons.

Weir, C and Laing, D. (2000). The Performance-Governance Relationship: The Effects of Cadbury Compliance on UK Quoted Companies, *Journal of Management and Governance* 4: 265–281

Weir, C., Laing, D., & McKnight, P. J. (2002). Internal and external governance mechanisms: their impact on the performance of large UK public companies. *Journal of Business Finance & Accounting*, 29(5-6), 579-611.