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## **Corporate Governance in Sri Lanka: An Investigation of the relationship Between Corporate Governance Structure and Firm Performance**

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### **ABSTRACT**

The debate on the theme of Corporate Governance Best Practices received much attention during the last two decades due to the certain economic crises and major collapses of corporate giants around the world. As far as Sri Lankan context is concerned, scandals in Pramuka Savings and Development Bank Ltd. and Vanik Incorporation Ltd. occurred mainly under the background of misconduct, unsound and imprudent practices of the management and, as a result of that, the Code of Best practices on Corporate Governance was issued in 2008 and it is observed that many companies are being taking actions to comply with these conventions from 2008. Hence, the main objectives of this study are to measure the level of compliance with the best practices of corporate governance and to investigate its impact to the financial performance of Listed Companies in leading industry sectors in Sri Lanka. A Sample of 100 companies listed in Colombo Stock Exchange in Sri Lanka is selected randomly based on Probability Proportionate Sampling Technique and data were collected for the years of 2008/09, 2009/10 & 2012/13. The secondary data on governance variables were gathered from the Annual Reports of respective years whereas the data on performance variables were collected from the Audited Financial Statements of each company. The level of compliance of companies which was measured through descriptive statistics was found to be around 45%, 59 and 89% in 2008/09, 2009/10 & 2013/14 respectively. The multiple regression is applied to investigate the impact of corporate governance structure on firm performance and none of governance variables was significantly associated with performance in 2008/09. However, Accountability and Audit in 2009/10 and all the other variables except relations with shareholders have significant positive impact on financial performance of listed companies in Sri Lanka in 2013/14. Hence, it is concluded that the level of compliance with best practices is being continuously improved after the introduction of the Code whereas the improved level of compliance to corporate governance structure directly influences the performance of the corporates in Sri Lanka.

**Keywords:** *Best practices, Corporate governance, Listed companies, Performance, Sri Lanka*