



## **Compliance of the Board Structure with Best Practices of Corporate Governance and its Impact to the Financial Performance of Listed Companies in Sri Lanka**

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### **ABSTRACT**

Vanik Incorporation Ltd. in 1998 and Pramuka Savings and Development Bank Ltd. in 2002 in Sri Lanka were collapsed suddenly under the background of mismanagement, unsound, improper, and imprudent practices at so called banks. These failures called for introducing best practices on corporate governance and, as a result of that, Institute of Chartered Accountants of Sri Lanka and Security and exchange Commission jointly introduced the “Code of Best Practices on Corporate Governance in 2008. The purpose of this study is to measure the level of compliance of Sri Lankan Listed Companies with best practices of corporate governance and its impact on the financial performance of the corporates. After excluding number of companies under several industries due to some specific reasons, a sample of 60 Companies for the study was selected randomly based on the probability proportionate sampling technique from the listed companies registered in the Colombo Stock Exchange as at 31st of August 2010 for the period of two years: 2008/09 and 2009/10. The secondary data on board structure (independent variables) were collected from the annual reports through a composite index which was constructed being based on the code of best practices on corporate governance (2008). Financial impact, the dependent variables were measured through Return on Assets (ROA) and Return on Equity (ROE) which were collected from the audited financial statements of each company. The level of compliance with the Code was measured and analysed being based on the descriptive statistics of Mean, Maximum and Minimum values and it was found out that the level of compliance was around 58% and 70% in 2008/09 & 2009/10 respectively. Further, correlation and regression analysis were performed to identify the impact of the compliance towards performance and all the governance variables showed significant positive associations with the performance variables in 2009/10 whereas none of the governance variable demonstrated a significant positive relationship with ROA and ROE in the financial year of 2008/09. Thus, it is concluded that 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.

**Keywords:** *Best Practices, Board Structure, Corporate Governance, Level of Compliance, Performance*

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