

# **Impact of Corporate Governance Practices on Firm Performance of Banking Sector of Sri Lanka**

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## **Abstract**

Corporate governance is the structure of rules, practices, and processes that use to direct and manage a company. The banking industry undertakes critical and vital roles in the financial system as well as the well-being of the economy. Thus, this study is carried out to examine the impact of corporate governance practices on firm performance in the banking sector of Sri Lanka. The main objective is to find the impact of corporate governance structure on firm performance in the Sri Lankan banking sector. The dependent variable of the research is firm performance and independent variables are the separation of leadership, board composition, board committee, and Corporate Social Responsibility activities. Dependent variables are measured by using Return on Assets and Return on Equity. The banks listed in Colombo Stock Exchange (CSE) for 2014 to 2020 years are the population of the study and accordingly, 32 banks represent the banking sector. Therefore, the sample of the research includes 11 banks listed in CSE from 2014 to 2020. Descriptive analysis, correlation analysis, and regression analysis were used to analyse the data. Results of the regression analysis demonstrated that there is a significant impact of the separation of leadership, board composition, board committee on the firm performance whereas there is no significant impact of corporate social responsibility activities on firm performance. The findings of the investigation revealed that corporate governance practices of separation of leadership, board composition, and board committee impact significantly on firm performance. Findings of the investigation conclude the requirement of an effective legal framework that indicates the rights and obligations of a bank, board of directors, shareholders, specific disclosure requirements, and also the necessity of effective enforcement of the law.

*Keywords:* Board committee, board composition, corporate governance, firm performance, separation of leadership