THE IMPACT OF CORPORATE GOVERNANCE FACTORS ON PERFORMANCE OF LISTED BANKS IN SRI LANKA

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Abstract

Whereas banks operate under different management, board of directors, ownership structures, and government regulations, there is no specific optimal corporate governance model that may be applied to all banks. The main objective of this study is examining the impact of Corporate Governance factors on the Performance of Banks.

Eleven listed banks in the Colombo Stock Exchange were selected as a sample. All the data were collected from annual reports of each banks from 2006 to 2015 and data were analyzed by using Descriptive statistics, Pearson Correlation and Regression Analysis. Mainly four Corporate Governance components were used in this study, such as Board Size (BZ), Non-Executive Directors Proportion (NED), CEO Duality (CED) and Ownership Structure(OS). Furthermore, the firm performance is measured by accounting base measurements Return on assets and Return on equity.

According to the descriptive analysis, approximately the average board size was nine members on the board and nine non-executive directors included in the board. In accordance to the correlation and regression analysis, it showed negative and significant relationship between corporate governance factors on ROA and also significant negative impact. But mixed result found that corporate governance factors with ROE, there was positive correlation between board size and ROE, & negative correlation with non-executive directors' proportion and ownership structure, both are not significant. There was significant negative impact on ROE except ownership structure.

Keywords: Board Size, CEO Duality, Non-Executive Directors Proportion, Ownership Structure, Bank's Performance.

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