



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

Rathnaweera, K.K.W.H<sup>a</sup> and Deepal, A.G<sup>b</sup>

<sup>a</sup>*Faculty of Graduate Studies, University of Ruhuna, Matara, Sri Lanka*

<sup>b</sup>*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 is 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*