DO THE PUBLICLY LISTED NON-BANK FINANCE COMPANIES COMPLY WITH CORPORATE GOVERNANCE POLICIES & PRACTICES HAVE BETTER FINANCIAL PERFORMANCE IN THE SRI LANKAN CONTEXT?

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ABSTRACT

Corporate finance scandals were raised due to the corporate governance issues. It led to a wave of regulation to prevent such kind of events in future. The companies look for a secured economics to diversify their investment portfolio to maximize the returns they equally pay the attention towards the corporate governance practices. Among the companies, financial companies understood that the investors reluctant to invest in these companies as they feel insecurity in their investments. So finance companies bias towards the corporate governance factors to build up a secure in the minds of investors. The competition among Sri Lankan finance companies is very high and strong. All of them try to put a step further and before their competitors and through it maximize the wealth of shareholders. As well as want to show a strong image & higher financial performances in their annual financial figures. This research evaluates the impact of corporate governance variables on firm's financial performance in the Sri Lankan context and also tries to find out whether there is any significant relationship between corporate governance policy disclosures & financial performance of the companies. The purpose of this research is to find out whether there is a relationship between compliance of the corporate governance and the financial performance in Sri Lankan finance companies. Further, the research focuses to identify the degree of impact of corporate governance on firm's performance. Data & details on corporate governance mechanisms are extracted from "Corporate Governance Code of Best Practice" published by ICASL, CBSL guidelines and annual reports of the companies through Colombo Stock Exchange (CSE) or referring to web sites of the companies. Index is created based on the collected data to identify the degree of compliance of corporate governance. Multiple regression analysis is employed to test the relationship between firm's financial performance measuring through ROA, ROE, Net interest income, Total asset growth ratio and corporate variables such as board size, composition of the board & CEO duality using the financial companies listed in CSE.

Corporate governance becomes a vital area where everyone pay attention towards it due to the major corporate collapses reported in the world history for instance Enron, WorldCom, in Sri Lankan context Golden key and Sakwithi. Due to agency dilemma, there are instances where shareholders lose their confidentiality to invest in companies. Therefore corporate governance supports to enhance the shareholder confidence on companies. This research examines the impact of corporate governance factors on firm's financial performance. The study therefore conclude that there is uniformity in the disclosure of companies' corporate governance practices which was issued by ICASL while voluntary practices are not being concerned by all the companies. There are some limitations of this study within which findings need to be interpreted carefully and the limitations of the study have prompted suggestions for further research such as explore the relationship in more in specific categories for example, banks, not-for-profit organizations and government organizations and consideration more time frame.

Key Words: Corporate governance, Non-bank financial companies, Sri Lanka

Introduction

Enron, WorldCom had been caught of getting involved in accounting scandals, which leads to reduce the investors' confidence and have raised questions on the effectiveness of the internal control and the governance structure. It was caused by the non-disclosure of remuneration of the management, no separation between CEO and Chairman which leads to power imbalance, off balance sheet transactions etc. It points out the importance of strong corporate governance for a company that has to deal with effects of unexpected crises and uncertainties.

The term corporate governance is defined by many parties and there is no universally accepted definition. Among them one of the widely used definitions is "The system by which companies are directed and controlled" (Cadbury report, 1992). This implies that corporate governance is an accumulation of the authority, accountability, stewardship, leadership, direction and control exercised in the process of managing organizations. According to Morin and Jarrell (2001) the corporate governance mechanism is a framework that controls and safeguards the interest of the relevant players in the market which includes managers, employees, customers, shareholders, executive management, suppliers and the board of directors.

In a period of volatile and uncertain markets, investors seek to place their funds in well governed companies. So the well governed companies are in a position to access to external finance and foreign investments easier than the companies without proper governance. Fair treatment and accountability of the managers enhance the stakeholder value and reputation of the company. Further employees are encouraged to work for the betterment of the organization when they feel the organization adhere to corporate governance practices. Corporate governance is a voluntary code introduced by the ICASL (Institute Of Chartered Accountants In Sri Lanka) where the companies can rather comply or explain the practices which can be considered as a form of self-regulation which ensures that the investors are given the full facts of corporate governance compliance by listed companies. But some corporate governance rules have been mandated by the Securities and Exchange Commission for the listed companies. Firm performance is a vital concept that relates to the way and manner in which financial resources available to an organization are used to achieve the overall corporate objective of an organization.

This study is interested in finding whether there is a significant relationship between selected corporate governance practices and firm financial performance based on the 34 publicly listed financial companies in Sri Lanka. Scope of the study limited to the selected corporate governance practices for the Board of directors, Director Remuneration, Relations with shareholders, Accountability and audit, Institutional Investors and other investors and Sustainability reporting while the size of the company, sales volume ,number of years the company has operated in the market are keeping as the controlling factors.

Problem Statement & Research Questions

Corporate governance concepts play a vital role in a corporate environment around the world. Governance issues affect to financial distress & corporate collapses of various types of companies in the world history since the middle of 20th century. Nowadays corporate governance concepts, policies, procedures & practices are very powerful tool for measure the performance of a company.

The study addresses issues relating to the following important questions; Is there a significant relationship between board of directors and financial performance of the publicly listed non-bank finance companies in Sri Lanka? Is there a significant relationship between remuneration scheme of the company and financial performance of the publicly listed non-bank finance companies in Sri Lanka? Is there a significant relationship between shareholders and financial performance of the publicly listed non-bank finance companies in Sri Lankan context? Is there a relationship between accountability and audit practices and financial performance of the publicly listed non-bank finance companies in Sri Lankan context? Is there a relationship between institutional & other investors and financial performance of the publicly listed non-bank finance companies in Sri Lankan context? Is there a relationship between sustainability performance and financial performance of the publicly listed non-bank finance companies in Sri Lankan context?

Research Objectives

Our overall research objective is to review the Sri Lankan experience concerning the relationship between board characteristics such as size and composition and corporate performance using a sample of publicly listed non-bank finance companies in the finance sector. Generally this research carries out to explore the relationship between corporate governance policies and practices and financial performances of the publicly listed non-bank finance companies in Sri Lanka. However following specific aims help to identify the main objective.

1. To examine how board of directors has influenced on financial performance of the publicly listed non-bank finance companies in Sri Lanka.
2. To see whether remuneration scheme of the company has affected to the financial performance of the publicly listed non-bank finance companies in Sri Lanka.
3. To see whether there is a relationship between shareholders and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.
4. To see whether there is a relationship between accountability and audit practices and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

5. To see whether there is a relationship between institutional & other investors and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.
6. To examine how sustainability performance and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

Significance of the Study

Corporate governance systems are important and necessary for contemporary business environment since Accounting, Economics, Regulation and Social changes are not effective to eliminate confliction among stakeholders. Besides, corporate governance rules and regulations may enhance firms' financial performance and market value in public limited companies.

OECD principles describe corporate Governance in terms of relationship between management of company, its shareholders, its board and other stakeholders. It is a system which is used for the purpose of controlling and directing the companies. Corporate governance is not a new concept to the world but it has got the popularity in the last few decades due to the various crises such as; East Asia Crisis of the late 1990s and various other fraudulent activities in the corporate world. Now every country recognizes that the good corporate governance is essential for the efficiency and growth of domestic economy. Globalization has increased the volume as well as complexity of business due to which the external control is becoming more difficult and thus the concept of corporate governance is getting popularity.

For financial institutions, the scope of corporate governance goes beyond the shareholders (equity governance) to include debt holders, insurance policy holders and other creditors (debt governance). Some include the state as stakeholder, but the role of the state is better understood as setting the rules of the game in a regulated industry. Although the public limited companies comply with corporate governance practices up to a superior level or lower level, it is compulsory for the financial companies since they are an important sub-system in the business world which facilitate by handling funds (Funds; The most critical resource except human) as an intermediary between the excess parties and deficit parties (Excess parties; lending funds/Deficit parties; Borrowing). There are many researchers who have conducted their studies based on the corporate governance but not based on financial companies, researchers has not focused enough on corporate governance of financial companies in Sri Lanka.

According to the existing literature, researchers have not paid enough attention on Corporate Governance practices of finance companies in Sri Lanka, we attempted to explore whether there is a relationship between corporate governance and financial performance in financial companies with relevant to the Sri Lankan context.

We identified three main significances of studying the financial companies' performance on practicing of corporate governance.

i. **Identifying the relationship between corporate governance and financial performance**

Corporate governance is a practice which is not a mandatory regulation to the companies but most of the companies are eager to use corporate governance practices. So by conducting this study we try to find out whether there is a relationship between corporate governance and financial performance and whether there is an advantage of using the corporate governance on financial performance.

ii. **Find out the impact of corporate governance on firm performance.**

Financial indicators are the most critical measurements for a company. By conducting this research we are able to identify how corporate governance can impact on financial indicators of the company such as ROA, EPS and ROE and how board composition, separation of Chairman and CEO (duality role), existence of the committees (Audit committee, Remuneration committee, and nomination committee) affect to increase performance of financial companies.

iii. **Suggest the financial organizations to adapt good governance practices towards the performance.**

Through the outcome of this study, we are able to say whether there is a positive or negative impact on financial performance while complying with the corporate governance. If the results expressed a positive relationship companies can comply with similar corporate governance practices and develop and sustain in the industry.

Literature Review

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. It involves balancing the interests of the stakeholders. This study tests the relationship between corporate governance practices and the firm financial performance. Board of directors, Directors remuneration, Relation with shareholders, Accountability and audit, Institutional Investors and other investors and sustainability reporting are the corporate governance mechanisms while the performance measures are ROA, ROE, and Net Interest Income. This chapter attempts to provide the view of different scholars/researchers based on their researches conducted on the relationship between corporate governance and firm performance.

Origin of the corporate governance is based on the agency theory. Jensen and Meckling, in 1976 expressed the agency theory as divorce between management and ownership. It raises agency cost to the shareholders due to the conflict of interests. Therefore, shareholders have to incur cost of monitoring, bonding and residual loss. The research conducted by Teh and Chor in 2009, concluded that there is a positive

relationship between board composition and board size with the firm's financial performance by using ROA as the financial indicator. The results of the research conducted by the National Changhua University of Education stated that there is a significant negative relationship between board composition and the board size with the firm performance. They implied that large size board has negative impact on the effective decision making which caused to detriment the firm performance. According to the conclusion of both researches mentioned above are found that there is a significant positive relationship between the board independence and the performance of the company.

The listed companies are concerned on monitoring agents as management is responsible to control the company's resources on behalf of shareholders. Corporate governance mechanisms play a vital role in monitoring the agents of organizations and it affects to the company's financial and non-financial performance favourably. (Reddy, K., & Locke, S.2008)

Composition of board of directors of a company is also discussed under corporate governance practices. According to the code of best practice the board should consist with combination of independent as well as non-independent directors. A greater proportion of non-independent directors will be able to monitor the self-interested actions of managers and able to minimize the agency cost. As well as code discussed the duality role. It means the same person should not hold the CEO and chairman role simultaneously as it will create an imbalance in power. Research conducted using the above mentioned variables they found that there is a strong positive correlation between variables and firm's performance. Tobins Q, Operating income and ROA used as the financial measurements. (Geoffrey, C., & Gavin, J.2003)

While Kumudini (2011) expressed in her article that there is a positive relationship between the 3 board committee and the firm performance, Achchuthan and Kajananthan stated that there is no significant relationship between the board committees and performance as out of their sample only 4 companies have the 3 board committees where the others having only one or two boards. Most of the studies discussed about the relationship between corporate governance practices and firm's financial performance, a considerable attention should be given towards the non-financial performance of the company as well. According to the study carried out by Mohamed Saleh Darweesh, 2015 revealed that board size had a significant but negative relationship with market value, while board committees had a negative and insignificant relationship with market value.

Research Design and Methods

Overview

The study was conducted among the selected finance companies which were listed in Colombo Stock Exchange and data were collected by referring to the Annual reports published by the companies, CSE website, and corporate governance practices through corporate governance code of best practice published by ICASL. Data analysis part was done through spread sheet, developing an index based on the collected

data and statistical technique which was multiple regression analysis was used to test the relationship between corporate governance variables and firm's financial performance.

Variable name	Measurement Type	Measurement scale
Independent Variables		
Board Of Directors	Quantitative/ Qualitative	Assigning "1" point if the practice is complied, otherwise "0"
Directors Remuneration	Quantitative/ Qualitative	Assigning "1" point if the practice is complied, otherwise "0"
Relationship with Shareholders	Quantitative/ Qualitative	Assigning "1" point if the practice is complied, otherwise "0"
Accountability & Audit	Quantitative/ Qualitative	Assigning "1" point if the practice is complied, otherwise "0"
Institutional Investors & Other Investors	Quantitative/ Qualitative	Assigning "1" point if the practice is complied, otherwise "0"
Sustainability Reporting	Qualitative	Assigning "1" point if the practice is complied, otherwise "0"
Dependent Variables		
ROA	Quantitative	Net income divided by total assets
ROE	Quantitative	Net income divided by equity
Net Interest Income	Quantitative	Interest Income-Interest Expense
Total Assets Growth	Quantitative	Total $Assets_{(t)}$ -Total $Assets_{(t-1)}$ /Total $Assets_{(t-1)}$
Control Dependent Variables		
Debts to Equity Ratio	Quantitative	Total Debts/Total Equity
Debts to Total Assets Ratio	Quantitative	Total Debts/Total Assets
Operational Efficiency ratio	Quantitative	Total operating Expenses/Gross Income

Table 1: Hypothesis

Following hypothesis are developed to get a highly useful answers to research questions and to realize the research objectives in their null forms.

$H0_1$ - There is no significant relationship between board of directors and financial performance of the publicly listed non-bank finance companies in Sri Lanka.

H0 - There is no significant relationship between remuneration scheme of the company and financial performance of the publicly listed non-bank finance companies in Sri Lanka.

$H0_3$ - There is no significant relationship between shareholders and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

$H0_4$ - There is no relationship between accountability and audit practices and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

$H0_5$ - There is no relationship between institutional & other investors and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

$H0_6$ - There is no relationship between sustainability performance and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

Population and Study Sample

There are 43 finance companies in Sri Lanka and we considered 34 companies among them since 11 out of them are private limited companies. As we collected data through annual reports PLC only were taken as our sample stud. The research was conducted on 34 finance companies (excluding banks) listed in the Colombo Stock Exchange (CSE) which was the population of this research. Since we have accessibility for all 34 companies' annual reports we collected data for the population.

Sample Size and Selection of Sample

Whole population was taken for our study since we had accessibility to all 34 non-banking listed finance companies by considering 5 years from 2012 to 2016.

Sources of Data

The main sources of data were Companies' published Annual Reports and Colombo Stock Exchange (CSE) website.

Collection of Data

There are three different types of approaches to a research, Quantitative, Qualitative and Mixed methods. These approaches should be in line with the research question. Content analysis was the main data collection method which we used in our quantitative research. We used secondary data collection methods (Refer the public listed finance companies websites, Colombo Stock Exchange web site (CSE).Further; we referred to the code of best practice & corporate governance published by ICASL and CBSL guidelines. In addition we interviewed professionals in finance industry in Sri Lanka to search for voluntary disclosures.

Exposure Assessment

Quantitative method was used as the data collection methods, mainly the secondary data collection method. Whole population was taken for our study for the purpose of keep higher confidentiality of findings.

Data Management

Data were collected through referring to the annual reports published by the financial companies.

We prepared indices for the collected data to convenience the analysis in a particular way.

Data Analysis Strategies

Spreadsheets were used to prepare indices as the data analysis strategy and Statistical Package for Social Sciences (SPSS) was used to assess and analyze the collected data to examine the relationship between corporate governance practices and firm performance. There were two methods of analysis used in this study, which are descriptive and correlation analysis.

Ethics and Human Subjects Issues

Since we were using the published annual reports of selected financial companies, no issues were occurred regarding the data.

Data Presentation and Analysis

Introduction

Considering the year 2012 as the year of initiation for the Sri Lankan non-bank finance companies industry, this chapter presents the analysis of the secondary data collected from the company's annual reports. The data from these sources are therefore presented using tables and charts, depicting the frequency distributions for easy understanding. Data analysis as well as testing of the hypotheses formulated previously is also covered.

In this section, we also provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helps us to describe the relevant aspects of the phenomena under consideration and provide detailed information about each relevant variable. For the inferential analysis, we used the Spearman's correlation and the regression analysis. While the Spearman's correlation measures the degree of association between variables under consideration, the regression estimates the impact of the corporate governance variables on profitability peroxided by return on assets (ROA), return on equity (ROE), net interest income (NII) and total assets growth (TAG).

For the purpose of examining the level of corporate governance practices of the sampled listed non-bank financial companies, a disclosure index has been developed using "Corporate Governance Code of Best Practice" published by ICASL and other practical practices. Variables on corporate governance practices are classified into 6 main categories; board of directors, directors' remuneration, relationship with shareholders, accountability & audit, institutional investors & other investors and sustainability reporting. Under all these main subcategories a total of 72 variables have been considered. Corporate annual reports of the companies were examined to collect the data and each non-bank financial company was awarded a score of '1' if it complies with the disclosure and '0' otherwise.

Years	**AFSL**	**ALLI**	**AMWC**	**ARPI**	**AAF**	**AMF**	**BFN**	**BLI**	**NIFL**
2016	50	44	43	49	48	51	50	49	42
2015	51	46	49	48	50	52	48	49	40
2014	49	45	45	51	48	50	52	47	42
2013	48	43	46	47	46	47	48	46	40
2012	49	46	49	54	52	52	51	49	43
Total	247	224	232	249	244	252	249	240	207
Avg.	49.4	44.8	46.4	49.8	48.8	50.4	49.8	48	41.4
% (out of 72)	0.69	0.62	0.64	0.69	0.68	0.70	0.69	0.67	0.58

Years	**CAP**	**CFIN**	**CIF**	**CFL**	**CDB**	**COCR**	**CLF**	**DSF**	**LFIN**
2016	41	49	38	46	49	47	43	47	57
2015	41	46	35	47	49	43	47	45	53
2014	40	50	34	40	44	44	44	43	50
2013	35	40	33	45	47	43	41	47	50
2012	37	45	32	45	50	49	45	41	53
Total	194	230	172	223	239	226	220	223	263
Avg.	38.8	46	34.4	44.6	47.8	45.2	44	44.6	52.6
% (out of 72)	0.54	0.64	0.48	0.62	0.66	0.63	0.61	0.62	0.73

Years	**LOFC**	**MERC**	**MFL**	**CSF**	**PLF**	**PMF**	**SFCL**	**SFIN**	**SFL**
2016	43	49	47	49	51	47	46	45	50
2015	42	48	47	44	51	46	48	45	46
2014	40	50	44	46	50	46	45	42	46
2013	37	46	43	47	48	43	46	41	42
2012	43	48	48	44	51	46	47	43	48
Total	205	241	229	230	251	228	232	216	232
Avg.	41	48.2	45.8	46	50.2	45.6	46.4	43.2	46.4
% (out of 72)	0.57	0.67	0.64	0.64	0.70	0.63	0.64	0.60	0.64

Years	**SIF**	**SEMB**	**CRL**	**SFS**	**TFC**	**TFI**	**VFIN**
2016	55	45	37	35	40	38	54
2015	52	49	38	36	36	35	47
2014	50	43	40	33	37	39	47
2013	51	48	34	39	36	34	45
2012	50	47	38	35	38	38	47
Total	258	232	187	178	187	184	240
Avg.	51.6	46.4	37.4	35.6	37.4	36.8	48
% (out of 72)	0.72	0.64	0.52	0.49	0.52	0.51	0.67

Table 2: Level of Corporate Governance Disclosure of Listed Non-Bank Finance Companies in Sri Lanka

The above tables present a summary of the average corporate governance disclosure data by the 34 listed non-bank financial companies in Sri Lanka. The table reveals that all the companies present a statement of their corporate governance practice. However, the extensiveness of the statement varies between companies. Based on the 72 governance indices used for assessment, LB Finance PLC and Siyapatha Finance PLC emerged with the highest number of corporate governance disclosure with 52.6 and 51.6 disclosure variables (i.e. 73% and 72% respectively) during the period under review. On the other hand, Central Investment & Finance PLC and Swarnamahal Finance Services PLC disclosed the least governance variables. Central Investment & Finance PLC disclosed an average of 34.4 variables (48%), Swarnamahal Finance Services PLC disclosed 35.6 variables and this is approximately 49%.

CGD Variables	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Avg. no of companies	34	34	33.6	34	30.8	29.4	32.6	23	20
% of companies	100%	100%	99%	100%	91%	86%	96%	68%	59%
CGD Variables	**10**	**11**	**12**	**13**	**14**	**15**	**16**	**17**	**18**
Avg. no of companies	18	30.2	33	12.8	17.2	11.2	11.6	9	11.6
% of companies	53%	89%	97%	38%	51%	33%	34%	26%	34%
CGD Variables	**19**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**
Avg. no of companies	10.4	11	13	12.6	15.4	30.6	29	28	28
% of companies	31%	32%	38%	37%	45%	90%	85%	82%	82%
CGD Variables	**28**	**29**	**30**	**31**	**32**	**33**	**34**	**35**	**36**
Avg. no of companies	32	13.8	12.8	12.6	13.8	12.6	30.6	33.4	33.2
% of companies	94%	41%	38%	37%	41%	37%	90%	98%	98%
CGD Variables	**37**	**38**	**39**	**40**	**41**	**42**	**43**	**44**	**45**
Avg. no of companies	31	11.2	11.4	12	10.6	6.6	34	33	33
% of companies	91%	33%	34%	35%	31%	19%	100%	97%	97%
CGD Variables	**46**	**47**	**48**	**49**	**50**	**51**	**52**	**53**	**54**
Avg. no of companies	34	33.4	34	34	34	33.6	29.6	34	9.4
% of companies	100%	98%	100%	100%	100%	99%	87%	100%	28%
CGD Variables	**55**	**56**	**57**	**58**	**59**	**60**	**61**	**62**	**63**
Avg. no of companies	10	10.6	9.6	3.8	32.4	30.4	31.6	31.2	24.4
% of companies	29%	31%	28%	11%	95%	89%	93%	92%	72%
CGD Variables	**64**	**65**	**66**	**67**	**68**	**69**	**70**	**71**	**72**

Avg. no of companies	30.4	6.6	8.8	4.8	16.6	5.6	8.2	6.6	3.6
% of companies	89%	19%	26%	14%	49%	16%	24%	19%	11%

Table 3: Percentage of listed non-bank finance companies' compliance to corporate governance disclosures

It was generally observed that all the companies (i.e. 100%) reported more on governance disclosure variables 1, 2, 4, 43, 46, 48, 49, 50 and 53. Disclosure variables 17, 54, 55, 57, 58, 65, 66, 67 and 69 to 72 were the least reported items with less that 30% of the companies disclosing them.

Below is detailed information on how the companies responded to some of the governance practices.
On the average of the five years considered, the mean of 1 was recorded for below mentioned practices. This implies that all the companies comply with a brief resume of each Director should be published in the annual report including the areas of expertise (1), the board consist of a professional persons of various areas like accounting & finance, marketing, business administration, economics etc. (2) and division of responsibilities of the Chairman and Chief Executive Officer should be disclosed (4).
Only 50% (approximately) of the companies were seen to have disclosed information on nomination committee reviews the new appointments and to the Board with strategic direction of the Company to attract and retain Board members with relevant experience and qualifications (10), board controlled by a powerful majority of independent outsiders (14) and sustainability report has been disclosed (68).

Consulting (audit related and other) fees are less than audit fees (58), half of the top 10 investors includes more than 50 % institutional investors (65), material amount of voting rights have an internal parties of the organization (67), company disclosed about green policy procedures (69), company involving adequate number of environmental protection campaigns & advisory programmes (71) and company always try to say they are work in an environmentally healthy situation & it helps to increase the motivation of employees as well as corporate image of the company (72) these practices were disclosed less than 7 companies (Less than 20% of companies). Among them 69, 71 and 72 are coming under sustainability reporting subcategory. It implies that most of the companies don't comply with such kind of governance practices.

Data Analysis (Preliminary)

	N	Minimum	Maximum	Mean	Std. Deviation
Return On Assets (ROA)%	170	-23.5000	16.5200	3.256480E0	4.5683790
Return On Equity (ROE)%	170	-2.0000E2	93.4700	1.422569E1	25.0928972
Net Interest Income (NII)%	170	-70.5900	164.0000	3.375833E1	31.5254164
Total Assets Growth %	170	-26.2900	227.8117	2.730704E1	34.8314496
Board Of Directors=23	170	8	20	14.36	2.518
Directors Remuneration=10	170	3	9	6.27	1.318
Relations With Shareholders=9	170	3	7	5.29	.952
Accountability & Audit=16	170	9	15	12.06	1.190
Institutional Investors & Other Investors=9	170	1	9	5.90	1.340
Sustainability Reporting=5	170	0	5	1.19	1.068
Valid N (list wise)	170				

Table 4: Descriptive Statistics

Generally, from the 170 observations as seen in, ROA has a minimum figure of -23.5% recorded by Swarnamahal Finance Services PLC. This implies that the company with the least disclosure has a disclosure index of 49% while the maximum disclosure of 73% was disclosed by LB Finance PLC in one of the five years reviewed. This further compliments the result of average disclosure for the 34 companies in table. The mean disclosure is about 3.26% with standard deviation of approximately 4.6%. This means that the disclosure can deviate from mean to both sides by 4.6%.

The table further revealed that on average, the companies included in our sample generates Return on Equity (ROE) of about 14.23% and a standard deviation of 25.09%. This means that the value of the ROE can deviate from mean to both sides by 25.09%. The maximum and minimum values of ROE are 93.47% and -200% respectively. However, a Return on Asset (ROA) of 3.26% was generated on the average, with a minimum and maximum percentage of -23.5% and 16.52% respectively.

According to these models, the average board of directors (related practices) from the 170 observations is about 14.36 suggesting that non-bank finance companies in Sri Lanka have relatively moderate disclosures

on board of directors with a maximum 20 and deviation of 2.5. In addition, the average proportion of the practices over accountability and audit is 12.06 and on average, 5.9% of the practices over institutional and other investors.

Data Analysis (Inferential Analyses)

Under the advance analysis, correlation analysis was first used to measure the degree of relationship between different variables under consideration while the regression analysis was used to determine the impact of the corporate governance variables on profitability, in the performance of financial companies in Sri Lanka.

Pearson's Correlation Coefficient Analysis

In this section, we measured the degree of association between the governance variables and profitability variable i.e. if the governance proxies (board size, director remuneration, relations with shareholders, accountability and audit, institutional investors and sustainability) will increase profitability.

		Return On Equity (ROE)%	Board Of Directors=23	Directors Remuneratio n=10	Relations With Shareholders =9	Accountability & Audit=16	Institutional Investors & Other Investors=9	Sustainability Reporting=5
Return On Equity (ROE)%	Correlation Coefficient	1.000	.164*	.172*	-.096	.321**	.129	.175*
	Sig. (2-tailed)	.	.033	.025	.211	.000	.095	.023
	N	170	170	170	170	170	170	170
Board Of Directors=23	Correlation Coefficient	.164*	1.000	.422**	.104	.166*	.217**	.303**
	Sig. (2-tailed)	.033	.	.000	.177	.030	.004	.000
	N	170	170	170	170	170	170	170
Directors Remuneration=10	Correlation Coefficient	.172*	.422**	1.000	.093	.055	.282**	.278**
	Sig. (2-tailed)	.025	.000	.	.226	.480	.000	.000
	N	170	170	170	170	170	170	170
Relations With Shareholders=9	Correlation Coefficient	-.096	.104	.093	1.000	-.005	.151*	.248**
	Sig. (2-tailed)	.211	.177	.226	.	.951	.049	.001
	N	170	170	170	170	170	170	170
Accountability & Audit=16	Correlation Coefficient	.321**	.166*	.055	-.005	1.000	.358**	.161*
	Sig. (2-tailed)	.000	.030	.480	.951	.	.000	.036
	N	170	170	170	170	170	170	170
Institutional Investors & Other Investors=9	Correlation Coefficient	.129	.217**	.282**	.151*	.358**	1.000	.171*
	Sig. (2-tailed)	.095	.004	.000	.049	.000	.	.026
	N	170	170	170	170	170	170	170
Sustainability Reporting=5	Correlation Coefficient	.175*	.303**	.278**	.248**	.161*	.171*	1.000
	Sig. (2-tailed)	.023	.000	.000	.001	.036	.026	.
	N	170	170	170	170	170	170	170

Table 5: Pearson's Correlation Coefficient Analysis

From the correlation result from the above table board size has a positive correlation of .164 with return on equity which is significant at 1% and 5%. This implies that how large the size of a board is does have a positive effect on the level of profitability in financial companies in Sri Lanka. This also implies that an increase in the board size will lead to an increase in profitability (ROE).

Similar trend was observed from the correlation results for director remuneration, accountability and audit, institutional investor and sustainability with return on Equity. But it was observed that relations with shareholders have a negative correlation of -.096 with return on equity. It means that increase in shareholder relationship will decrease the profitability.

		Return On Assets (ROA)%	Board Of Directors=23	Directors Remuneratio n=10	Relations With Shareholders =9	Accountability & Audit=16	Institutional Investors & Other Investors=9	Sustainability Reporting=5
Return On Assets (ROA)%	Pearson Correlation	1	.126	.142	.040	.104	.000	.158*
	Sig. (2-tailed)		.102	.065	.605	.178	.995	.039
	N	170	170	170	170	170	170	170
Board Of Directors=23	Pearson Correlation	.126	1	.421**	.150	.180*	.237**	.264**
	Sig. (2-tailed)	.102		.000	.051	.019	.002	.001
	N	170	170	170	170	170	170	170
Directors Remuneration=10	Pearson Correlation	.142	.421**	1	.087	.058	.227**	.286**
	Sig. (2-tailed)	.065	.000		.259	.455	.003	.000
	N	170	170	170	170	170	170	170
Relations With Shareholders=9	Pearson Correlation	.040	.150	.087	1	-.010	.139	.217**
	Sig. (2-tailed)	.605	.051	.259		.896	.070	.004
	N	170	170	170	170	170	170	170
Accountability & Audit=16	Pearson Correlation	.104	.180*	.058	-.010	1	.401**	.219**
	Sig. (2-tailed)	.178	.019	.455	.896		.000	.004
	N	170	170	170	170	170	170	170
Institutional Investors & Other Investors=9	Pearson Correlation	.000	.237**	.227**	.139	.401**	1	.175*
	Sig. (2-tailed)	.995	.002	.003	.070	.000		.022
	N	170	170	170	170	170	170	170
Sustainability Reporting=5	Pearson Correlation	.158*	.264**	.286**	.217**	.219**	.175*	1
	Sig. (2-tailed)	.039	.001	.000	.004	.004	.022	
	N	170	170	170	170	170	170	170

Table 6: Pearson Correlation on ROA

Considering the Return on Assets all the variables showed a positive relationship under 1% and 5% significant levels. This means that the more compliance on the independent variables such as board size, director remuneration etc. higher the financial performance of the financial companies in Sri Lanka in terms of ROA.

The corporate governance disclosure index is positively correlated for all the variables except for the relations with shareholders related to total asset growth as shown in the below table. This is also seen to be significant at both 1% and 5%. This further indicate that financial companies that discloses more on corporate governance issues are likely to perform better than those that disclose less. Relations with shareholders reflected a negative relationship with total asset growth ratio which expressed that the performance of the company will reduce when increasing the relations with shareholders.

		Total Assets Growth %	Board Of Directors=23	Directors Remuneratio n=10	Relations With Shareholders =9	Accountability & Audit=16	Institutional Investors & Other Investors=9	Sustainability Reporting=5
Total Assets Growth %	Correlation Coefficient	1.000	.151*	.083	-.063	.224**	.266**	.011
	Sig. (2-tailed)	.	.049	.283	.416	.003	.000	.889
	N	170	170	170	170	170	170	170
Board Of Directors=23	Correlation Coefficient	.151*	1.000	.422**	.104	.166*	.217**	.303**
	Sig. (2-tailed)	.049	.	.000	.177	.030	.004	.000
	N	170	170	170	170	170	170	170
Directors Remuneration=10	Correlation Coefficient	.083	.422**	1.000	.093	.055	.282**	.278**
	Sig. (2-tailed)	.283	.000	.	.226	.480	.000	.000
	N	170	170	170	170	170	170	170
Relations With Shareholders=9	Correlation Coefficient	-.063	.104	.093	1.000	-.005	.151*	.248**
	Sig. (2-tailed)	.416	.177	.226	.	.951	.049	.001
	N	170	170	170	170	170	170	170
Accountability & Audit=16	Correlation Coefficient	.224**	.166*	.055	-.005	1.000	.358**	.161*
	Sig. (2-tailed)	.003	.030	.480	.951	.	.000	.036
	N	170	170	170	170	170	170	170
Institutional Investors & Other Investors=9	Correlation Coefficient	.266**	.217**	.282**	.151*	.358**	1.000	.171*
	Sig. (2-tailed)	.000	.004	.000	.049	.000	.	.026
	N	170	170	170	170	170	170	170
Sustainability Reporting=5	Correlation Coefficient	.011	.303**	.278**	.248**	.161*	.171*	1.000
	Sig. (2-tailed)	.889	.000	.000	.001	.036	.026	.
	N	170	170	170	170	170	170	170

Table 7: Correlation Coefficient on Total Asset Growth

The result further showed that there is a significant positive relationship between institutional investors and other investors with total asset growth ratio. This is due to the communication of investing and divesting information for the shareholders and encouragement to vote on decisions of the directors on AGM .Next highest positive relationship reported from the accountability and audit.

		Net Interest Income (NII)%	Board Of Directors=23	Directors Remuneration=10	Relations With Shareholders =9	Accountability & Audit=16	Institutional Investors & Other Investors=9	Sustainability Reporting=5
Net Interest Income (NII)%	Correlation Coefficient	1.000	.119	.065	.180*	.089	-.008	.145
	Sig. (2-tailed)	.	.123	.400	.019	.248	.920	.059
	N	170	170	170	170	170	170	170
Board Of Directors=23	Correlation Coefficient	.119	1.000	.422**	.104	.166*	.217**	.303**
	Sig. (2-tailed)	.123	.	.000	.177	.030	.004	.000
	N	170	170	170	170	170	170	170
Directors Remuneration=10	Correlation Coefficient	.065	.422**	1.000	.093	.055	.282**	.278**
	Sig. (2-tailed)	.400	.000	.	.226	.480	.000	.000
	N	170	170	170	170	170	170	170
Relations With Shareholders=9	Correlation Coefficient	.180*	.104	.093	1.000	-.005	.151*	.248**
	Sig. (2-tailed)	.019	.177	.226	.	.951	.049	.001
	N	170	170	170	170	170	170	170
Accountability & Audit=16	Correlation Coefficient	.089	.166*	.055	-.005	1.000	.358**	.161*
	Sig. (2-tailed)	.248	.030	.480	.951	.	.000	.036
	N	170	170	170	170	170	170	170
Institutional Investors & Other Investors=9	Correlation Coefficient	-.008	.217**	.282**	.151*	.358**	1.000	.171*
	Sig. (2-tailed)	.920	.004	.000	.049	.000	.	.026
	N	170	170	170	170	170	170	170
Sustainability Reporting=5	Correlation Coefficient	.145	.303**	.278**	.248**	.161*	.171*	1.000
	Sig. (2-tailed)	.059	.000	.000	.001	.036	.026	.
	N	170	170	170	170	170	170	170

Table 8: Correlation Coefficient on Net Interest Income

Among the governance variables, while institutional investors and other investors recorded a negative correlation, other all variables have a positive correlation with net interest income. It means compliance with the corporate governance practices leads to the better financial performance in the company.

Regression Analysis

In this section, we used regression analysis to investigate the impact of corporate governance on financial companies in Sri Lanka with financial performance based on return on equity and return on asset.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.331[a]	.110	.077	24.1109983	1.632

a. Predictors: (Constant), Sustainability Reporting=5, Institutional Investors & Other Investors=9, Relations With Shareholders=9, Board Of Directors=23, Accountability & Audit=16, Directors Remuneration=10

b. Dependent Variable: Return On Equity (ROE)%

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11652.981	6	1942.163	3.341	.004[a]
	Residual	94758.459	163	581.340		
	Total	106411.440	169			

a. Predictors: (Constant), Sustainability Reporting=5, Institutional Investors & Other Investors=9, Relations With Shareholders=9, Board Of Directors=23, Accountability & Audit=16, Directors Remuneration=10

b. Dependent Variable: Return On Equity (ROE)%

Table 6: Regression Analysis on ROE

The result from the regression equation is shown in the above table. The equation employs return on equity as its dependent variable while sustainability reporting, institutional and other investors, relations with shareholders, board of directors and director remuneration are the independent variables. For the model, the F values which are significant at 1% level indicate that our models do not suffer from specification bias. However, from model, the coefficient of determination (R) indicates that about 11% of change in return on equity is accounted for by the explanatory variables.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.223[a]	.050	.015	4.5344622	1.218

a. Predictors: (Constant), Sustainability Reporting=5, Institutional Investors & Other Investors=9, Relations With Shareholders=9, Board Of Directors=23, Accountability & Audit=16, Directors Remuneration=10

b. Dependent Variable: Return On Assets (ROA)%

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	175.545	6	29.257	1.423	.209[a]
	Residual	3351.500	163	20.561		
	Total	3527.045	169			

a. Predictors: (Constant), Sustainability Reporting=5, Institutional Investors & Other Investors=9, Relations With Shareholders=9, Board Of Directors=23, Accountability & Audit=16, Directors Remuneration=10

b. Dependent Variable: Return On Assets (ROA)%

Table 10: Regression Analysis on ROA

The regression results for the ROA model further revealed that the relationship between the independent variables such as board composition, disclosure of director remuneration, size of the board, existing of 3committees, communication to shareholders and the performance are in line with our stated expected results. As the F value is greater than 0.05 the H1 is accepted and it means that there is a relationship between the variables and the firm performance.

Hypothesis Testing

We formulated six principal testable hypotheses on the relationship between corporate governance and profitability. In this section, we expected to present the results of our descriptive and inferential statistical analyses. Our decision rule is based on the significances of the t-statistics which are represented by the p-values flagged by the statistical packages used. This is based on the fact that the existence of a significant relationship can be inferred from a significant t-statistic.

Based on the fact that more significant relationships are noticed between the governance variables and ROA than in ROE, this implies that ROA is a better performance than ROE.

This study therefore based its decisions on ROA.

1. There is no significant relationship between board of directors and financial performance of the publicly listed non-bank finance companies in Sri Lanka.

In our first hypothesis, we assumed that there is no significant relationship between board of directors and financial performance of financial companies in Sri Lanka. From the analysis, the correlation between board of directors and ROA has a coefficient (r) of -indicating a positive correlation between the two variables. This indicates a significant positive effect of board of directors on the financial performance of the financial companies. Based on these results, since the positive effect is significant, we reject the null hypothesis and accept the alternate hypothesis which states that there is a significant relationship between board of directors and ROA. This means that the board size must be considered while taking financial decisions.

2. There is no significant relationship between remuneration scheme of the company and financial performance of the publicly listed non-bank finance companies in Sri Lanka.

From the hypothesis above, we assume that there is no significant relationship between the remuneration scheme and the financial performance of financial companies. Correlation result shows a positive correlation of 142 which entails that the more disclosure on remuneration of the directors increases the financial performance of financial companies in Sri Lanka. When the directors reveal about their remuneration packages they never misuse the assets of the organization and works towards the increment of wealth of the shareholders.

3. There is no significant relationship between shareholders and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

The correlation result of the hypothesis above shows a positive correlation of .146 between the relation to shareholders and the performance of financial companies in Sri Lanka. Based on this result, we accepted our alternate hypothesis. The result depicts that the more relations with shareholders, the better the firm financial

performance. When there is a good relationship with shareholders the company try to prevent from unethical tasks and work to increase the firm performance.

4. There is no relationship between accountability and audit practices and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

From this hypothesis, a positive correlation of .104 is observed between the accountability and audit practices with ROA which indicates the performance. However, based on these findings, we reject the null hypothesis and accept our alternate hypothesis. This result implies that who disclose more on audit practices are more likely to do better than those that disclose less.

5. There is no relationship between institutional & other investors and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

The correlation for the above mentioned relationship is 0.Which means that there is no relationship between the institutional and other investor with the firm performance.

6. There is no relationship between sustainability performance and financial performance of the publicly listed non-bank finance companies in Sri Lankan context.

The result of above hypothesis is positively correlated which shows that majority of the financial companies disclose more on sustainability as sustainability is a vital topic in current society. This result in better performance than the companies does not disclose sustainability

Conclusion, Limitations and Further Directions

From the analysis above, the study therefore conclude that there is uniformity in the disclosure of companies' corporate governance practices which was issued by ICASL while voluntary practices are not being concerned by all the companies. Mandatory requirements which are issued by ICASL have been complied about 85% from whole practices and less than 40% of voluntary practices are compiled by non-banking financing companies. More than 70% of total companies are following corporate governance practices which are mandatory. Disclosures on sustainability reporting do not provide sufficient details that would enhance any meaningful analysis and companies have less paid attention on disclosing of sustainability reporting.

Limitations of the Study

This section presented the limitation of current study. There are some limitations in this study within which findings need to be interpreted carefully.

This study only includes financial sector companies because the nature of their liabilities which are different from non-financial sector firm. Research regarding complying with the corporate governance code and its impact on non-financial sector firm is important due to Sri Lankan business context more covered by non-financial sector firm. In addition banks which are categorized under finance sector are not considered since separate rules and regulations have been imposed for banks in Sri Lankan context.

This study has provided useful insight into corporate governance variables and firm financial performance of listed companies in Sri Lanka; the findings are based on research of only listed companies in a single country. This survey may not be considered as comprehensive, as only limited financial companies could be examined due to time constraint. Hence the statistical test will not be able to ensure a representative distribution of the population.

The design of the current research was cross sectional, and the data will be gathered at one specific point in time only. No pre and post event testing was used, and nor were longitudinal processes evaluated due to limited time. Furthermore, Sri Lanka as a multicultural country there are some other cultural, education and socio economic factors are aligned with the governance practice of the business and these influence may have not been examined by this study.

Further Directions

The limitations of the study have prompted suggestions for further research as listed below;

1. This research has gone some way to exploring corporate governance and corporate performance of financial companies in Sri Lankan context. Further research could explore the relationship in more in specific categories for example, banks, not-for-profit organizations, and government organizations. Since this study focused on the Sri Lankan finance sector it would be beneficial to have a clear understanding of corporate governance roles in other types of organizations.

2. The period of study for this research is five years i.e. (2011-2016s, which the post consolidation period. Further research can consider more time frame based on the availability of the annual reports.

3. The data used for the current study was derived from 32 financial companies excluding banks and their return on equity, return on assets etc. A larger data set comparing financial and non-financial firms may result in a different model of the relationship between corporate governance and the value of a firm. The inclusion of new corporate governance instruments could also result in additional edge-worth combinations of the internal corporate governance mechanism while other performance measures can also be introduced.

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