

Corporate Governance Index and Financial Performance Evidence of Listed Family Firms: Evidence from Sri Lanka

P.W.K.K. Sarathchandra, D.H.S.W. Dissanayake, M.O.S. Mendis*

Department of Accountancy, Faculty of Business Studies & Finance,

Wayamba University of Sri Lanka

**oshanimendis33@gmail.com*

ABSTRACT

Corporate governance compliance is an essential criterion for achieving resilience during COVID-19 period. Due to the practical importance, inconclusive results of the empirical literature, and the dearth of studies related to the family firms, this study investigated the impact of compliance of corporate governance on the financial performance of listed family firms at Colombo Stock Exchange based on agency theory and stewardship theory. The study constructed an unweighted Corporate Governance Index (CGI) to measure the compliance of the CA Sri Lanka Code of Best Practices 2017. Content analysis was performed using audited annual reports of 52 firms between 2019 and 2020. CGI consists of six sub-indices, including the Board of directors, Remuneration committee, Relations with shareholders, Accountability and Audit, Institutional investors and other investors, and sustainability reporting. This study used Return on Asset (ROA) and Return on Equity (ROE) as financial measures and, firm size and leverage as control variables. Regression analysis was performed to explore the effect of compliance of cooperate governance on financial performances. According to descriptive analysis, accountability and audit have the highest corporate governance compliance, and the remuneration committee and board of directors comply, respectively. In contrast, sustainability reporting has the minimum compliance. there is low compliance of CGI observed in both 2019 and 2020. The findings of multiple regression showed that there is no relationship between the compliance of corporate governance practices and family firm performance. The main reason behind this could be the low level of corporate governance compliance in family firms. Thus, measures are required to improve family firms' corporate governance.

Keywords: Corporate Governance Index, Family Firms, Firm Performance, ROA, Sri Lanka