Corporate Governance Practices and Firm Performance: A Study on Banking Sector in Sri Lanka

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The corporate governance becomes one of the crucial aspects in developing counties due to the past financial crisis. In order to increase the performance of banks, department of bank supervision in central bank of Sri Lanka plays a major role to improve the corporate governance practices of banking sector in Sri Lanka. The main aim of this research is to investigate the impact of corporate governance practices on firm performance of banking sector in Sri Lanka. For this purpose, licensed commercial banks are selected as the sample of this study. The Board size, Board composition, CEO duality and Board meeting frequency are considered as independent variables to measure the corporate governance practices. As a dependent variable, financial performance of banking sector is assessed by measuring Return on assets and Return on equity and Tobin's Q is used to evaluate market value of the firm. Secondary data has been derived from annual report of the banks from 2011–2015 for this study. Descriptive statistics analysis, Karl Pearson correlation and regression analysis are used to analyse the data for testing hypothesis. The result of this research shows that ROA and ROE positively related to the board size and board meeting frequency. There is a significant positive impact of all variables of corporate governance on performance of banking sector. This research tries to fill the gap in literature identified in the study. Good corporate governance is very important for improving performance of the banking industry, but it is not sufficient for enhancing the performance of such sector. Therefore, further research has to be conducted with various suitable variables.

Key words: *Corporate governance, Firm performance, Return on assets, Return on equity, Banking sector.*