CORPORATE GOVERNANCE PRACTICES AND AGENCY COST: EVIDENCE FROM LISTED MANUFACTURING FIRMS IN SRI LANKA

Kevin J.

Department of Financial Management, Faculty of Management Studies and Commerce,

University of Jaffna, Sri Lanka

saseelab@univ.jfn.ac.lk

Keerthana G.

Department of Financial Management, Faculty of Management Studies and Commerce,

University of Jaffna, Sri Lanka

Gand Balagobei S.

Department of Financial Management, Faculty of Management Studies and Commerce,

University of Jaffna, Sri Lanka

Abstract

Corporate governance deals with determining ways to take effective strategic decisions and develop added value to the stakeholders. This study aims to examine the influence of corporate governance practices on agency cost of listed firms in Sri Lanka. Secondary data covering seven year period from 2013 to 2019 was obtained from manufacturing firms listed in Colombo Stock Exchange (CSE). The study applies the governance practices such as board size, board independence, board meetings, and director ownership as a tool in monitoring agency costs based on asset utilization ratio as proxy for agency costs. The techniques of Pearson's Correlation and Multiple regressions were employed in estimating the association between the corporate governance practices and agency cost. The empirical findings reveal that board independent directors statistically significant influence the agency cost of listed manufacturing firms in Sri Lanka whereas board size, board meetings and managerial ownership are not found to have a significant impact on agency cost. Therefore, there is strong evidence that board independent directors have a major effect as a device in mitigating agency costs. The results will support stakeholders, including corporate management, regulators, and investors to improve corporate governance mechanisms and make the effective decisions.

Keywords: Agency cost, Board independence, Board size, Corporate governance practices

1. Introduction

Corporate governance has become a significant facet in managing organizations in the current global and complex environment. It is the framework for managing and directing companies (Cadbury Committee, 1992). Good corporate governance helps the board and management to seek after objectives that are

within the interests of the organization and its partners, encourages compelling observing, and empowers an organization to utilize its assets more effectively while decreasing firm's agency cost. The corporate governance structure and agency cost has been a point of impressive talks within the academic and business communities. A successful governance system is vital because it advances the efficient use of assets inside both the firm and the economy, moreover helping firms and economies in pulling in lower-cost investment capital by means of the increased confidence of investors and lenders, both domestically and internationally. In addition, it makes a difference in expanding the responsiveness of firms to societal needs and desires in improving the long term performance of firms.

A successful governance system is vital because it advances the efficient use of assets inside both the firm and the economy, moreover helping firms and economies in pulling lower-cost investment capital by means of the increased confidence of investors and lenders, both domestically and internationally. In addition, it makes a difference in expanding the responsiveness of firms to societal needs and desire in improving the long-term performance of firms. Agency cost is one of the foremost basic issues facing by the large enterprises. As the organizations extend, the separation of ownership and control broadens. According to Biswas, Bhuiyan, and Ullah (2008), corporations will suffer with increased problems of agency cost when their corporate governance framework is weak and managers of such firms overindulge in personal interests despite optimizing the firm value.

Over the last few decades, corporate governance has attracted huge attention from the stakeholders. There are several failures of corporations such as Paramalt (Italy), WorldCom (USA), Enron (USA), and Satyam (India). Investors' confidence has been crushed due to corporate failures, dubious accounting practices, excessive executive compensation, and abuse of corporate power among others (Arjoon, 2005). The issues related to transparency and accountability, the legal and regulatory environment, risk management measures, information flows, and the responsibility of senior management and the board of directors are vital issues for the successful implementation of governance. The corporate boards are responsible for ensuring effective governance and ethical governance practices. Corporate governance comprises inner and outside control structures aiming to adjust administration with shareholder desires. This depiction is affirmed by numerous studies in this range of study (Bushman and Smith, 2001; Holderness, 2003). As a result, the request for these corporate governance structures is likely to be higher for firms with a high extent of agency cost or agency conflict. So the agency costs and corporate governance structures are assumed to be tied together (Dey, 2008; Armstrong Guay & Weber, 2010).

The disputes between shareholders and the managers of their companies are typically referred to as agency costs. A shareholder wants the manager to make decisions, which will increase the share value. Instead, managers would choose to grow the company and raise their remuneration, which might not necessarily enhance share value. So it is necessary to find the determinants of agency problems to reduce them. The previous studies have many contradictions in the findings. Jensen and Meckling (1976) predict an inverse linear relationship between managerial ownership and agency cost. Further empirical evidence however establishes a nonlinear relationship between agency cost and managerial ownership (Mc Connell and Servaes, 1990). Further Harris and Raviv (1991) found leverage brings a higher level of agency cost while Fama (1980) explained that debt serves to reduce the agency cost of firms. Some studies have supported the view that the presence of non-executive directors on the boards reduces agency costs (Hermalin & Weisbach, 1991; Byrd & Hickman, 1992), while other studies however find agency costs to increase with the presence of outside directors (Agrawal & Knoeber, 1996). Therefore, it is better to understand the relationship between corporate governance and agency cost.

Several corporate controversies in Sri Lanka have created considerable uncertainty among the owners of the firms. The bankruptcy of Lanka Marine Services Ltd, Pramuka Bank, Vanic Incorporation, Sri Lanka Insurance Corporation, and the Golden Key Credit Card Company (GKCC). These kinds of false practices

made the shareholders monitor the firm too much. So there is necessary to analyze the influence of corporate governance practices on agency costs in Sri Lanka. This study contributes to the existing literature by evaluating the influence of corporate governance practices on the agency cost of listed firms in Sri Lanka. To the best of my knowledge, this is one of the early studies that have attempted in pointing out the corporate governance practices of listed firms in Sri Lanka related to agency cost and contributes heavily to the extant corporate governance literature. In Sri Lanka, most of the studies analyzed the relationship between corporate governance and firm performance (Azeez, 2015; Dharmadasa, Gamage & Herath, 2014; Heenetigala &Armstrong, 2011). There is a dearth of studies concentrated on agency cost. It is therefore important to examine the impact of corporate governance practices on firm agency costs in Sri Lanka. Hence, the objective of the study is to investigate the influence of corporate governance practices on the agency cost of the manufacturing firms listed on the Colombo Stock Exchange.

2. Literature Review

2.1 Theoretical Framework

2.1.1. Corporate governance

Corporate governance is significant in cutting-edge groups because of the separation of control and possession manipulated within the organizations. The pursuits of shareholder's conflict with the pursuits of managers. The most important agent hassle is reflected within the control and route associated troubles because of the differential pursuits of the firm's stakeholders. There is not always a unique definition of corporate governance; instead, it is most likely regarded as one of a kind.

Shleifer and Vishny (1997) define corporate governance by stating that it "deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". A similar concept is suggested by Caramanolis Cotelli (1996), who regards corporate governance as being determined by the equity allocation among insiders (including executives, CEOs, directors or other individual, corporate or institutional investors who are affiliated with management) and outside investors.

2.1.2. Agency theory

Jensen and Meckling (1976) instigated the concern of agency conflict in the finance literature. The conflict of interest between the principal and the agent results in expropriation of resources serving against the interest of minority shareholders. The firm with effective corporate governance tries to opt for various remedial actions to curb the agency-related problem. The literature indicates the consensus on adding the debt, offering stock-based compensation to the manager as a remedial measure to mitigate the agency-related problem (Ang, Cole & Wuh, 2000; Core, Guay, & Verrecchia, 2003; Jensen & Meckling, 1976). The effectiveness of these governance parameters significantly differ in the developed and developing nations.

In a professionally managed company, the separation of ownership and control could lead to managers not putting in enough effort, abusing benefits, selecting inputs or outputs that suit their preferences, or generally failing to optimize firm value. The agency costs of outside ownership effectively equal the value lost as a result of professional managers maximizing their own utility instead of the value of the company. According to theory, selecting a capital structure could reduce these agency costs. The owners of a company that has successfully separated ownership and management are not involved in day-to-day operations. Managers who have a better understanding of the company's financial situation and performance are likely to abuse their position to their own financial advantage. According to Brickley et al. (1997), institutional shareholders are better equipped and more motivated to serve as the company's controllers and monitors, which lower agency costs, than individual shareholders.

Agency costs can manifest in various forms, including self-serving behavior on the part of managers that is focused on status or empire-building objectives, excessive perquisite consumption, non-optimal investment decision-making or acts of accounting mismanagement or corporate fraud. The adverse implications of these actions are then felt in the form of the destruction of shareholder wealth and wider impacts on other corporate stakeholders (Yegon, Sang, & Kirui, 2014).

Based on implicit and explicit agreements between owners and managers, agency costs are related to the division of ownership and management (Cai et al., 2015). It was necessary to build a number of corporate governance measures in order to keep the manager's estimates under control and to uphold the standard of the financial reports. Agency cost reduction is more successful when there is strong corporate governance (Mishra & Ratti, 2011; Cai et al., 2015; Fauver & McDonald, 2015). There is evidence in the literature that audit committees encourage managerial responsibility and are a useful corporate governance tool. In order to address the level of agency issues that are inherent in the firm, audit committees' usefulness must be raised since they provide better guarantee of the accuracy of financial reporting (Mahmood, Hussein, & Hussein, 2018).

2.2 Empirical Review and Hypothesis Development

2.2.1. Board size

Board size is an important governance mechanism as it leads to effective monitoring and guidance. The board size can influence other parameters of corporate governance such as compensation, degree of diversity, proportion of outside directors or independent directors, group dynamics, and various aspects of decision-making. Adams and Mehran (2003) provide evidence suggesting that larger boards increase monitoring effectiveness and guarantee greater board expertise. This evidence, thus, suggests that large boards can help to reduce agency costs (Shamil, Shaikh & Krishnan, 2014). However, their results are contradicting with Yermack (1996) who observed negative relationship between firm performance and board size by using a sample of 452 U.S. firms. The basic argument is that small board size leads to operational efficiency in the functioning of the board and process of decision-making. In addition, smaller boards tend to perform better, due to which the director turnover is low. Moreover, boards in all survey firms raise the agency cost (measured by percentage of asset utilization and liquidity ratio of assets). The percentage of female participants has a very small positive influence on US businesses, a negative impact on agency costs in the Norwegian survey and is not relevant on the Russian sector (Garanina & Kaikova, 2016).

In Kenya, the smaller boards are found effective in lowering the agency cost (Yegon, Sang & Kirui, 2014). The review of extant literature raises debate on the relationship between the board size and its benefit to the firm. The inconclusive results have positive and negative evidence, which are likely to differ due to a country-specific framework that provides exogenous externalities. In spite of all these evidences and debate, there is no consensus on identifying the optimal board size. Mallin (2005), Jensen (1993), and Kiel and Nicholson (2003) have provided the evidence of smaller boards being effective because the flow of information and coordination of activities can be managed with minimal cost and efforts. Hillman and Dalziel (2003) and Pearce and Zahra (1991) argue that larger boards are more effective because it enables better monitoring as compared with smaller board. In other words, the larger board is likely to have greater positive externalities with the network and its diversity. Therefore, the hypothesis is as follows.

H_1**:** The board size positively influences the agency cost.

2.2.2. Board independence

The proportion of independent directors with industry experience in a corporate board is positively significant with firm performance (Masulis, Wang, & Xie, 2012) because independent directors have lower

conflict of interest with the operations of the firm. Cheng and Firth (2006) identified that non-executive directors could influence the management compensation as well. These studies corroborate that role of independent directors is significant in reducing the overall costs. Setia-Atmaja, Haman, and Tanewski (2011) investigated family-owned firms and revealed that increased proportion of independent directors in family-owned firms helps in mitigating agency problems because the managers of such firms are more careful in expropriating the resources through accruals. Therefore, it curbs the opportunistic behavior of managers. Further McKnight and Mira (2003) find out that number of independent director increases, the agency costs decreases and suggested that independent directors may be beneficial to firm value given their knowledge and skills. Marciukaityte, Szewczyk, and Varma (2009) report that the independence of audit committee helps in increasing the accuracy of financial reporting. Most often, firms reward equity-based compensation to outside directors (Ryan & Wiggins, 2004). Therefore, compensation provided in the form of equity helps in reducing the act of monitoring the independent directors. Hence, stock price performance provides the best option as a substitute to monitor the board independence (Aggarwal, Erel, Ferreira, & Matos, 2011). The independent directors by nature are non-executive directors, and their relationship with the firm is non-pecuniary in nature. As a result, their presence is likely to curb the agency cost.

Another stream of literature emphasizes the insignificant or negative impact of board independence on the firm performance (Core et al., 1999; Black, 2002; Raheja, 2005). These results are in contradiction with the beliefs that the involvement of independent directors will result in having a positive impact on governance mechanism. Another recent study by Black and Kim (2012) use Korean data and support that corporate governance reforms involving independent directors on the board exhibit positive relationship in emerging economies. The review of these studies indicates the mixed empirical evidence in terms of relating board independence and firm performance. So this study proposes the following hypothesis

H_2: The board independence positively influences the agency cost.

2.2.3. Managerial ownership

The separation of ownership and control and the resultant misaligned incentives of managers and owners in modern corporations generate agency costs, such as shirking, excessive consumption of perks, or other non-value maximizing behavior by managers (Jensen & Meckling, 1976; Fama & Jensen, 1983). To solve this problem, the prescription of agency theory (Jensen & Meckling, 1976) is to give managers incentives in the form of equity ownership stakes in the firm. This helps to resolve managers' moral hazard problems by aligning their incentives with the interests of the shareholders. By strongly linking the future financial outcomes of the managers to shareholders' returns, equity ownership motivates managers to direct their commitment, preferences, and efforts toward those actions and corporate policy choices that maximize shareholders' wealth. Further, providing managers with equity ownership in their firm is specially considered as an appropriate mechanism when it is difficult or costly to monitor managers' behavior due to information asymmetries between insiders and outside shareholders, or when it is difficult to make priori judgments about the benefits and costs of specific actions taken by managers (Eisenhardt, 1989).

Although studies on the performance effect of managerial ownership provide mixed evidence (Morck, Shleifer & Vishny 1988; McConnell & Servaes, 1990; Himmelberg, Hubbard & Palia 1999; Demsetz & Villalonga, 2001) studies on agency costs unanimously and consistently present strong evidence that managerial ownership is inversely associated with agency costs. This is consistent with the Jensen & Meckling (1976) convergence of interest hypothesis (Ang *et al.*, 2000; Singh and Davidson, 2003; Fleming, Heaney & McCosker 2005; McKnight & Weir, 2009; Rashid, 2015; Mac Night & Weir, 2009). Therefore, this study hypothesizes,

H_3: The managerial ownership negatively influences the agency cost.

2.2.4. Board meetings

Board meetings are considered as an important channel through which the board of directors delivers their duties (Vefeas, 1999). The underpinning theoretical framework for such roles lies in the Agency Theory, where the agency costs can be reduced by intensifying the monitoring activities of the board through regular meetings (Conger, Finegold & Lawler 1998). According to Vafeas (1999), board activities by conducting regular meetings helps to better appraise managers while remaining constantly aware of the firm's operations making it easier to address any arising issue in a timely and effective manner. As stated by Lipton and Lorsch (1992) and Jensen (1993), the frequency of board meetings is considered a measure of the monitoring power and effectiveness of the board of directors. The higher the frequency of board of director's meetings throughout the year, the better the firm can reduce the agency cost. Empirically, board meetings and activities are statistically and significantly associated with the performance of the firms (Vafeas, 1999; Mangena & Tauringana, 2008). On the other hand, El Mehdi (2007) found that board activities do not have a necessarily positive relation to firm performance. Based on more meetings are signal of more discussion of the companies' operations the following hypothesis is developed,

H_4: The board meetings positively influence the agency cost.

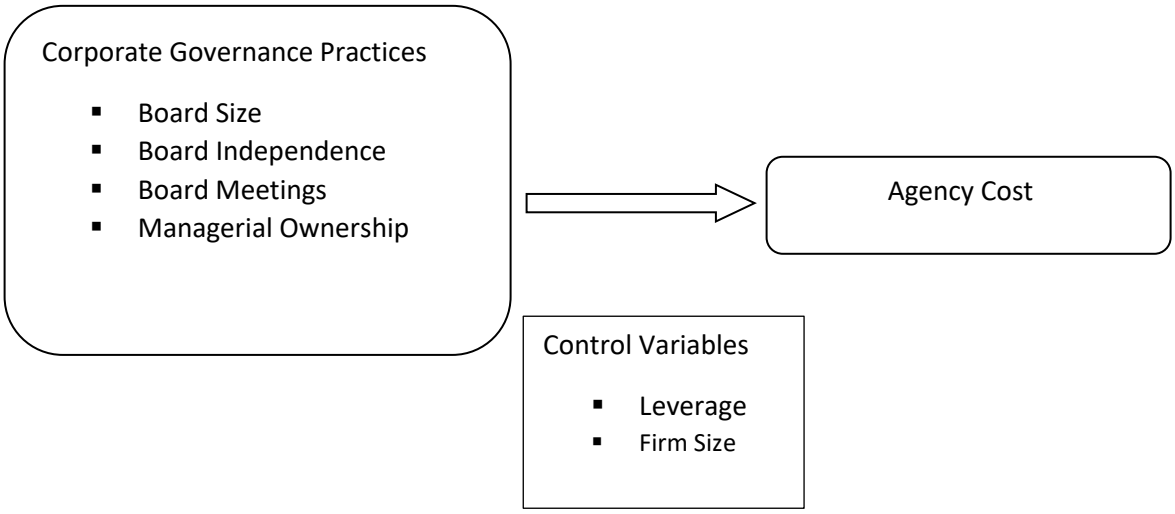
3. Methodology

Based on the literature review the following conceptual framework is developed to represent the association between corporate governance practices and agency cost.

3.1. Conceptual Framework

Figure 1

Conceptual Framework



Source: Author's Creation

Table 1

Operationalization of the Variables

Variables	Acronyms	Measurement
Board Size	BSIZ	Total number of members on the board of directors
Board Independence	BINDED	Proportion of independent directors on the board
Board Meetings	BMEET	Number of board meetings held during the year
Managerial Ownership	MOW	Percentage of shares held by director
Leverage	LEV	Total debt / Total assets
man	FSIZ	Natural Logarithm of total assets
Agency Cost	AC	Total revenue / Total assets

3.2. Data Collection and Sampling

This study employed a cross-sectional design. The study's population consists of all manufacturing companies listed on the Colombo stock exchange as it contributes largely to the gross domestic product in Sri Lanka. The simple random sampling approach is used to choose the sample size to prevent biases in choosing any companies as a sample constituent and to ensure that each segment of the population is given the same opportunity (Oaikhenan & Udegbunam, 2004). However, the final sample is determined by the data available in the yearly report. The paper ends up with 189 firm year observations over the period 2013-2019 for this empirical study. To increase the reliability, audited annual reports of listed companies have been used in this study.

3.3. Operationalization and Variable selection

Agency costs represent one of the central aspects of the linkages between corporate governance and corporate finance (Jensen & Meckling, 1976). Assets utilization ratio (Assets turnover) is used as an inverse proxy for agency costs (Ang *et al.,* 2000). It is argued that the asset utilization ratio which is defined as the ratio of total sales to total assets, measures the efficiency with which management uses the firm's assets to generate sales. As inefficient assets utilization results in revenue loss to the firm, agency costs are inversely related to this ratio. A firm with higher turnover ratio indicates that the firm is generating significant sales out of its assets and thus facing low agency costs. In contrast, a firm with lower ratio indicates management's sub-optimal behavior such as poor investment decisions, insufficient effort/ shirking, or consumption of excessive perks. This would indicate conflict of interest between managers and shareholders, which in turn result in higher agency costs for shareholders.

The empirical model includes a set of corporate governance variables related to board structure such as board size, board independence, board meetings, and managerial ownership. Leverage and firm size are also incorporated as control variables. To examine the influence of corporate governance practices on agency cost, the following econometric model was developed for this study.

$$AC_{it} = \beta_0 + \beta_1 BSIZ_{it} + \beta_2 BINDED_{it} + \beta_3 BMEET_{it} + \beta_4 MOW_{it} + \beta_5 LEV_{it} + \beta_6 FSIZ_{it} + \varepsilon_{it}$$

Where;

AC: Agency Cost

BSIZ:Board Size

BINDED: Board Independence

BMEET: Board Meetings

MOW: Managerial Ownership

LEV: Leverage

FSIZ:Firm size

ε: Error

i: Firms

t: Years

4. Results and Discussion

4.1. Descriptive Statistics

Descriptive statistics are useful to make general observations about the data collected. They report on the trends and patterns of data and provide the basis for comparisons between variables. Table 2 presents descriptive statistics for the variables of corporate governance practices and agency cost used in the study for pooled sample. The pooled mean and standard deviation of agency cost are 0.912 and 0.947 respectively. The average of board size is 7.99 with the minimum of 3 and maximum of 14 members. The average of board independence is 0.374. The average of board meetings is 6.98 with the minimum of 2 and maximum of 15 meetings. The average of managerial ownership is 0.111. With respect to the control variables included in model, the average of firm size is 9.316. Finally, the average leverage is 0.974. These summary statistics indicate that the sample used in this study is comparable to those used in prior research in the context of Sri Lanka.

Table 2

Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Board size	189	3.000	14.000	7.990	1.859
Board independence	189	0.111	0.800	0.374	0.125
Board meeting	189	2.000	15.000	6.980	3.604
Managerial ownership	189	0.000	0.626	0.111	0.247
Firm size	189	8.273	10.447	9.316	0.498

Leverage	189	0.034	14.000	0.974	1.497	
Agency cost	189	0.111	8.848	0.912	0.947	
Valid N (listwise)	189					

Correlation Analysis

Table 3

Correlation Matrix

	BSIZ	BINDE	BMEET	MOW	FSIZ	LEV
BSIZ	1.000					
BINDE	-0.307**	1.000				
	0.000					
BMEET	0.000	0.153*	1.000			
	1.000	0.035				
MOW	-0.080	0.014	0.184*	1.000		
	0.276	0.848	0.011			
FSIZ	0.202**	0.172*	0.445**	0.127	1.000	
	0.005	0.018	0.000	0.082		
LEV	0.031	0.017	0.183*	0.061	0.064	1.000
	0.673	0.815	0.012	0.405	0.383	
AC	-0.113	0.230**	-0.136	-0.029	-0.161*	-0.058
	0.120	0.001	0.063	0.691	0.027	0.428

significance levels $p < 0.1$

** significance levels $p < 0.05$

Table 3 reports the Pearson's correlation coefficient between corporate governance practices and agency cost. To find out the relationship among variables correlation analysis was carried out. The correlation coefficient between independent directors and agency cost measured by asset utilisation ratio is positive and statistically significant of the listed manufacturing firms in Sri Lanka ($r = 0.230$, $p = 0.001 < 0.01$). The results indicate that the more independent directors on the board are efficient in their asset utilisation. High asset utilisation ratio indicates low agency costs. Then Firm size is often considered to be significantly and negatively associated with assets utilization ratio ($r = -0.161$, $p = 0.027 < 0.05$) which imply increased firm size leads to reduce the assets utilization. Low assets utilization shows high agency cost. Further, it shows that board size, board meeting, managerial ownership, and leverage have a statistically insignificant relationship with agency cost ($p > 0.05$).

Table 4
Multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
Board size	0.823	1.215
Board independence	0.844	1.185
Board meetings	0.754	1.326
Managerial ownership	0.951	1.052
Firm size	0.725	1.380
Leverage	0.964	1.038

According to the Table 4, the VIF values for all independent variables, control variables are below 10 at the acceptable levels (between 1.038 and 1.380), and it doesn't show any multicollinearity problem. When VIF values are less than 10, then there is no multicollinearity problem. (Gujarati, 2009)

4.2. Regression Analysis

The econometric model for corporate governance and agency cost was assessed based on the pooled regression result in Table 5. The dependent variable is the asset utilization ratio. This ratio varies inversely with agency costs. Thus, a negative sign of the estimated coefficient of independent variables indicates higher agency costs for the firm.

It explains the model influence in dependent variable in the research study. The R square shows a value of 30.5% of changes in the dependent variable that is agency cost is explained by the variables such as board size, board independence, board meeting, managerial ownership, firm size, and leverage while the remaining of the change 69.5% is as a result of other variables not explained by this model. Further adjusted R square shows an accurate value of influencing agency cost by corporate governance practices which is 27.5%. The results show the F statistics value of 3.540 and the probability of F statistics is being 0.002, this has been explained, as the regression model selected to analyze the impact of corporate governance practices on agency cost is perfectly fits with the studies.

According to the table 5, it is observed that coefficient on proportion of independent directors is statistically significant at 1% confidence level (ß= 421.303) and positively associated with assets utilization ratio since the P value of board independence is being 0.00. Board of independent directors encourages utilizing a firm's assets efficiently, thus reducing agency costs.

Table 5
Regression Coefficient

Model	B	Std. Error	T	Sig.
(Constant)	481.855	268.729	1.793	0.075
Board size	0.609	7.926	0.077	0.939
Board independence	421.303	116.632	3.612	0.000

Board meeting	-5.305	4.272	-1.242	0.216
Managerial ownership	6.811	55.543	0.123	0.903
Firm size	-62.687	31.558	-1.986	0.048
Leverage	-4.402	9.096	-0.484	0.629
R-Squared	.305			
Adj. Squared	.275			
F value	3.540			
Prob >f	0.002			

Regarding control variables firm size has a significant negative impact on asset utilization (increase agency cost) at 5% confidence level (ß = -62.687) as the probability value of firm size is 0.048. However, Board size (ß= 0.609, P=0.939 > 0.05), Board meetings (ß= -5.305, P=0.216 > 0.05), managerial ownership (ß= 6.811, P=0.903 > 0.05) and leverage (ß= -4.402, P=0.629 > 0.05) do not show any significant impact on agency cost.

Therefore, The H_1 is not supported as indicated in table 5 with a p value of 0.939 for board size which is greater than 0.05. It clearly shows that reducing the agency conflict does not need big board size. But, H_2 is supported as indicated in table 5 with a p value of 0.000 for board independence, which is less than 0.01. It implies that board independence significantly influences the agency cost of the firm. This finding is consistent with previous study such as McKnight & Mira (2003), Setia-Atmaja, Haman, and Tanewski (2011). Furthermore, H_3 is not supported because the p value for board meetings is 0.216 which is greater than 0.05. This indicates that there is no significant impact of board meetings on agency cost. The finding express that board meetings does not influence the agency cost of the firm. H_4 is not supported as indicated in table 5 with a p value of 0.903 for managerial ownership which is higher than 0.05. It can be concluded that the managerial ownership does not have any significant impact on agency cost.

5. Conclusion and Implications

The study aims to investigate the influence of corporate governance practices on the agency cost of the manufacturing firms listed on the Colombo Stock Exchange. It has empirically provided evidence on the association between corporate governance practices and agency cost of manufacturing companies listed in CSE. Consequently, based on the findings of the study, the conclusions are drawn. It can be concluded that board independent directors are as effective corporate governance mechanism in mitigating agency costs for the manufacturing firms listed in Colombo Stock Exchange. Because of their education and wide knowledge, experience, reputation, and networks with other institutions, independent directors may play an information and service role, as well as a resource role, and assist in making important strategic decisions for efficient utilisation of assets and reduction of agency cost. Besides the other independent variables such as board size, board meetings and managerial ownership show an insignificant influence on the agency cost measured by assets utilization ratio. Furthermore, the control variable firm size states a significant impact on agency cost while leverage implies an insignificant impact on agency cost. This study insists the proper corporate governance practices. The result of this study is deemed to benefit stakeholder who committed their capital investment in organizational activities. Further, the finding is useful for interested people such as public, government, and other listed firms. Moreover, it will help to

future researchers for further investigation related to this topic. Further, the study only considers listed manufacturing firms in Sri Lanka for seven-year period data for the analysis purpose. However, the results can be further developed by including different sectors in order to find out the overall effect of corporate governance mechanisms on agency cost

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