



IMPACT OF COMPLIANCE WITH PRINCIPLES ON BOARD OF DIRECTORS AND CORPORATE PERFORMANCE: EMPIRICAL EVIDENCE FROM SRI LANKAN LISTED COMPANIES

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ABSTRACT

Board of directors in corporate governance connotes the ability of a firm to constrain and direct corporate power so that it efficiently creates economic value and equitably distributes economic wealth. Accordingly, this study examines the relationship between the level of compliance with the principles pertaining to board of directors and corporate performance of listed firms in Sri Lanka using secondary data related to 133 listed companies for the period 2009 and 2016. A Board Governance Index (*BGI*) that captures the overall monitoring capacity of the board was constructed based on key board principles that were derived from different corporate governance codes. Using a quantitative approach, this study employs correlation analysis and a panel regression model to examine the relationship between the Board Governance Index (*BGI*) and corporate performance (i.e., captured using Return on Assets, Return on Equity, and Tobin's Q). The correlation and panel regression results (after controlling for fixed effects) suggest that *BGI* is positively associated with firm financial performance (i.e., with Return on Assets and Return on Equity), which is also consistent with prior studies and provides empirical support for the agency perspective. This paper provides new evidence on this dimension pertaining to the Sri Lankan context, and is expected to have significant policy implications.

Keywords: Agency Perspective, Board of Directors, Corporate Governance