Impact of Corporate Governance on Financial Performance: Evidence from Top 50 Market-Capitalized Companies in Listed Sri Lanka

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Abstract

This study investigates the impact of corporate governance on the financial performance of listed companies by examining the influence of managerial ownership, institutional ownership, board meetings, and board size on firm profitability. Firm size and leverage were included as control variables. The study employed panel data collected from 50 listed non-financial companies on the Colombo Stock Exchange over the period 2021–2025, resulting in 250 firm-year observations. Financial performance was measured using Return on Equity (ROE) and Return on Assets (ROA). Panel regression results reveal that managerial ownership and institutional ownership have positive and statistically significant effects on financial performance, indicating that ownership structures strengthen corporate governance and enhance profitability. Board meetings were not found to significantly influence financial performance, whereas board size also exhibited a positive and significant relationship with ROA and ROE. The control variables, firm size and leverage, also demonstrated positive and significant effects on firm performance. The findings support Agency Theory and Resource Dependence Theory, emphasizing the importance of ownership structure, effective governance practices, and efficient resource management in enhancing corporate profitability. These findings provide useful implications for corporate managers, investors, regulators, and policymakers seeking to improve corporate governance standards and long-term organizational performance.

Keywords: Corporate Governance; Managerial Ownership; Institutional Ownership; Board Size; Board Meetings

1. Research Background

Corporate governance has become one of the most important aspects of modern business management, as it promotes accountability, transparency, and effective decision-making within organizations. It comprises the systems, principles, and processes through which companies are directed and controlled, ensuring that managers act in the best interests of shareholders and other stakeholders (Shleifer & Vishny, 1997). The increasing separation of ownership and control in modern corporations has intensified agency conflicts between shareholders and

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managers. Agency theory explains that managers may pursue personal interests rather than shareholder wealth maximization unless appropriate governance mechanisms are established (Jensen & Meckling, 1976). Consequently, effective corporate governance is expected to reduce agency costs, improve monitoring, strengthen accountability, and ultimately enhance corporate performance.

Internal governance mechanisms, particularly ownership structure and board characteristics, are considered fundamental determinants of organizational performance. Managerial ownership aligns managers' interests with those of shareholders by providing managers with a direct financial stake in the company, thereby encouraging value-maximizing decisions. However, excessive managerial ownership may result in managerial entrenchment, reducing effective monitoring. Institutional ownership represents another important governance mechanism because institutional investors possess greater expertise and stronger incentives to monitor management, thereby improving corporate efficiency (Denis & McConnell, 2003). Similarly, board characteristics such as board size and board meeting frequency influence the effectiveness of corporate oversight. A well-structured board with appropriate expertise and regular meetings can strengthen strategic decision-making, enhance monitoring functions, and improve organizational performance (Hermalin & Weisbach, 2003).

The importance of corporate governance has increased significantly following major corporate scandals and financial crises around the world, including Enron, WorldCom, and Parmalat, which exposed weaknesses in governance systems and reduced investor confidence. These events prompted governments, regulators, and international organizations such as the Organization for Economic Co-operation and Development (OECD) to strengthen corporate governance frameworks to improve transparency, accountability, and investor protection (OECD, 2015). Consequently, numerous empirical studies have examined the relationship between corporate governance and firm performance across developed and emerging economies. While many studies report that effective governance mechanisms improve financial performance, others reveal mixed or insignificant relationships, suggesting that the effectiveness of governance depends on institutional environments, ownership structures, and firm-specific characteristics.

In Sri Lanka, corporate governance has received increasing attention following the introduction of the Code of Best Practice on Corporate Governance by the Institute of Chartered Accountants of Sri Lanka together with the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange. Regulatory reforms have been further strengthened following several corporate failures, including the collapse of Pramuka Bank and the Golden Key Credit Card Company, which highlighted the importance of effective governance mechanisms in protecting investors and ensuring financial stability (Manawaduge, 2012; Kariyawasam, 2011). Nevertheless, Sri Lanka's corporate environment is characterized by concentrated ownership, family-controlled businesses, and institutional differences from developed economies, making it necessary to evaluate governance mechanisms within the local context (Claessens & Fan, 2002).

Previous Sri Lankan studies have produced inconsistent findings regarding the relationship between corporate governance and firm performance. Some studies report that stronger governance practices improve profitability and firm performance, while others find weak or insignificant relationships between governance mechanisms and financial performance (Azeez, 2015; Guo & Kumara, 2012; Heenetigala, 2011). Furthermore, many previous studies have focused on governance compliance scores or selected governance attributes, while limited attention has been given to the combined effects of ownership structure and board characteristics among the largest listed companies in Sri Lanka. Therefore, examining the impact of managerial ownership, institutional ownership, board size, and board meetings on the financial performance of the Top 50 market capitalization companies listed on the Colombo Stock Exchange provides important empirical evidence for strengthening governance practices and enhancing corporate performance.

Corporate governance is widely recognized as a fundamental determinant of corporate performance, as effective governance strengthens accountability, transparency, monitoring, and managerial decision-making. Nevertheless, empirical evidence on the relationship between corporate governance and financial performance remains inconclusive. Previous studies have examined diverse governance mechanisms, including board size, board independence, board meetings, CEO duality, board diversity, managerial ownership, institutional ownership, and ownership concentration. However, their findings vary considerably across institutional settings, ownership structures, industries, and periods, indicating that the effectiveness of governance mechanisms is highly context dependent.

This issue is particularly relevant in Sri Lanka, where listed firms operate within a distinctive ownership and governance environment characterized by concentrated ownership and significant involvement of institutional and controlling shareholders. Recent Sri Lankan studies have reported mixed evidence regarding the effects of board characteristics and ownership structures on financial performance. For instance, Balagobei and Velnampy (2023) found that board size was positively associated with firm performance, while several other governance mechanisms, including managerial and institutional ownership, were insignificant. Similarly, Kumara and Walakumbura (2023) reported varying relationships between board characteristics and financial performance among listed commercial banks. More recent evidence by Uthayakumar (2025) further demonstrates that ownership structures continue to have differing implications for firm performance in Sri Lankan listed companies.

The relevance of this issue has increased following the introduction of enhanced corporate-governance requirements by the Securities and Exchange Commission of Sri Lanka in 2023. These reforms strengthened requirements relating to board responsibilities, independence, risk management, internal controls, corporate disclosures, ESG practices, and accountability. The period 2021–2025 therefore provides an important setting for examining governance-performance relationships, as it captures the economic disruptions associated with COVID-19, Sri Lanka's severe economic crisis in 2022, the subsequent recovery, and the implementation of enhanced governance requirements from 2023 onwards.

Despite the growing body of literature, a clear research gap remains. Existing Sri Lankan studies have frequently examined individual governance mechanisms, broad samples of listed firms, or earlier periods, while relatively limited recent evidence simultaneously investigates managerial ownership, institutional ownership, board size, and board meetings among the country's leading listed companies. Limited attention has been given to the Top 50 companies based on market capitalization, despite their substantial importance to the Sri Lankan capital market, investor confidence, and economic activity.

Accordingly, this study examines the effect of managerial ownership, institutional ownership, board size, and board meetings on the financial performance of the Top 50 companies listed on the Colombo Stock Exchange during 2021–2025, while controlling for firm size and leverage. By focusing on a recent period characterized by significant economic and regulatory developments, the study seeks to provide updated empirical evidence on the effectiveness of selected corporate-governance mechanisms in enhancing the financial performance of Sri Lanka's leading listed companies. To what extent does corporate governance affect the financial performance of the Top 50 companies by market capitalization listed on the Colombo Stock Exchange during the period 2021–2025? To examine the effect of corporate governance on the financial performance of the Top 50 companies by market capitalization listed on the Colombo Stock Exchange during the period 2021–2025.

2. Literature Review

2.1 Theoretical Review

The relationship between corporate governance and financial performance is primarily explained by Agency Theory, introduced by Jensen and Meckling (1976). Agency theory argues that the separation of ownership and management creates conflicts of interest because managers may pursue personal objectives rather than maximizing shareholders' wealth. These conflicts, known as agency problems, increase agency costs and may reduce organizational performance. Corporate governance mechanisms are therefore established to align the interests of managers and shareholders through effective monitoring and control.

Ownership structure and board characteristics are among the most important internal governance mechanisms that reduce agency conflicts. Managerial ownership aligns managers' interests with those of shareholders by giving managers a direct financial stake in the company, thereby encouraging value-maximizing decisions. Institutional ownership also strengthens corporate governance because institutional investors possess greater expertise and incentives to monitor management activities. Similarly, an effective board of directors provides strategic guidance, monitors managerial decisions, and safeguards shareholders' interests. Board size and board meeting frequency influence the effectiveness of board oversight by facilitating better decision-making and improving accountability (Shleifer & Vishny, 1997; Denis & McConnell, 2003).

According to agency theory, stronger governance mechanisms reduce information asymmetry, improve transparency, and enhance organizational efficiency, which ultimately leads to better financial performance measured by accounting-based indicators such as Return on Assets (ROA) and Return on Equity (ROE). Therefore, agency theory provides the principal

theoretical foundation for examining the impact of managerial ownership, institutional ownership, board size, and board meetings on the financial performance of listed companies.

2.2 Empirical Review

Managerial ownership can serve as an internal monitoring mechanism by creating greater alignment between managers' personal wealth and the interests of shareholders. When managers hold a meaningful proportion of the firm's equity, their incentives may become more closely connected with long-term organizational outcomes, potentially discouraging decisions that prioritize personal interests over shareholder wealth. McConnell and Servaes (1990) established a significant association between insider ownership and firm value, while Morck et al. (1988) demonstrated that the ownership-performance relationship may vary across different levels of managerial shareholding. Their findings imply that managerial ownership can generate both alignment benefits and entrenchment concerns. Evidence from Sri Lanka also remains inconclusive. Balagobei and Velnampy (2023) reported an insignificant relationship between managerial ownership and firm performance, whereas Balagobei et al. (2025) and Uthayakumar (2025) provided evidence that ownership structures can significantly influence the financial outcomes of Sri Lankan listed firms. The variation in these findings indicates that the performance consequences of managerial ownership remain unresolved within the Sri Lankan corporate environment. Therefore, the following hypotheses are developed:

H_{1a}: *There is a relationship between managerial ownership and Return on Assets (ROA).*

H_{1b}: *There is a relationship between managerial ownership and Return on Equity (ROE).*

Institutional ownership may also shape corporate performance by strengthening external monitoring and increasing the pressure placed on managers to act in shareholders' interests. Institutional investors generally possess greater financial resources, analytical expertise, and voting power than individual shareholders, enabling them to exercise greater influence over corporate decisions. Hartzell and Starks (2003) demonstrated the importance of institutional investors in corporate monitoring, while Cornett et al. (2007) found that institutional ownership can be associated with stronger operating performance. However, institutional ownership does not automatically translate into effective monitoring, as its influence may depend on investor engagement and the nature of the institutional shareholder. This is reflected in the Sri Lankan evidence. While Manawaduge (2012) emphasized the contribution of institutional investors to corporate governance, Balagobei and Velnampy (2023) found no significant relationship between institutional ownership and firm performance. More recent studies have continued to report evidence that ownership structure is relevant to firm performance, although the effects differ across ownership categories (Balagobei et al., 2025; Uthayakumar, 2025). These contrasting findings create a clear empirical basis for reassessing the role of institutional ownership among Sri Lanka's leading listed companies. Accordingly:

H_{2a}: *There is a relationship between institutional ownership and Return on Assets (ROA).*

H_{2b}: *There is a relationship between institutional ownership and Return on Equity (ROE).*

Board size represents the structural capacity of the board to provide managerial oversight, strategic guidance, and diverse expertise. A larger board may provide access to a wider range of knowledge and professional experience, particularly where firms operate in complex and uncertain environments. However, increasing board size may also create coordination difficulties and weaken the efficiency of monitoring and decision-making. Lipton and Lorsch (1992) and Jensen (1993) emphasized the potential disadvantages associated with overly large boards, whereas Coles et al. (2008) argued that larger boards may be valuable for firms with greater operational complexity. Consistent with this theoretical debate, Guest (2009) reported a negative association between board size and firm performance. Evidence from Sri Lanka also presents no definitive conclusion. Balagobei and Velnampy (2023) identified a positive association between board size and firm performance, while other Sri Lankan studies have reported differing results for board composition and related characteristics (Anandasayanan, 2022; Kumara & Walakumbura, 2023). Evidence concerning non-executive directors, board independence, and female representation has likewise produced varying outcomes (Azeez, 2015; Kaluarachchi, 2025; Rajakaruna, 2021). Collectively, these findings demonstrate that the effectiveness of board structures may be context-specific and warrant further investigation within the selected sample. Therefore:

H_{3a}: *There is a relationship between board size and Return on Assets (ROA).*

H_{3b}: *There is a relationship between board size and Return on Equity (ROE).*

Board meetings provide an avenue through which directors can exercise oversight, evaluate managerial actions, review organizational performance, and respond to emerging risks. A higher frequency of meetings may therefore indicate greater board involvement in corporate affairs. Vafeas (1999) demonstrated that board meeting frequency is associated with firms' monitoring requirements, while Brick and Chidambaran (2010) provided evidence that enhanced board monitoring can contribute to firm value. Nevertheless, meeting frequency alone may not adequately capture the effectiveness of board oversight. A high number of meetings may instead reflect operational difficulties, increased monitoring demands, or inefficient decision-making. Danoshana and Ravivathani (2013) found evidence that excessive board meetings may not necessarily improve corporate performance. Sri Lankan evidence similarly remains mixed, with studies reporting varying relationships between board activity and financial performance (Balagobei & Velnampy, 2023; Kumara & Walakumbura, 2023). Consequently, whether frequent board meetings translate into superior financial performance remains an empirical question, particularly among large and economically significant listed firms. Hence, the following hypotheses are proposed:

H_{4a}: *There is a relationship between board meetings and Return on Assets (ROA).*

H_{4b}: *There is a relationship between board meetings and Return on Equity (ROE).*

Firm size and leverage are included as control variables because financial performance may also be shaped by firm-specific financial and operational characteristics. Larger firms may benefit from economies of scale, broader access to financing, and stronger market positions, although their organizational complexity may generate additional monitoring challenges. Rajan and Zingales (1995) and Zeitun and Tian (2007) demonstrate the importance of firm

characteristics in explaining differences in corporate performance. Similarly, leverage influences financial performance through financing costs, tax considerations, and exposure to financial distress. Zeitun and Tian (2007) reported a generally negative association between leverage and firm performance, suggesting that excessive reliance on debt may constrain profitability. Controlling these factors therefore allows the study to assess the relationship between the selected governance mechanisms and financial performance while reducing the potential influence of important firm-specific characteristics.

3. Methods

This study examines the impact of corporate governance mechanisms on the financial performance of the Top 50 market capitalization companies listed on the Colombo Stock Exchange (CSE). The population of this study comprises all companies listed on the Colombo Stock Exchange (CSE). However, the study focuses specifically on leading publicly listed companies; therefore, the sample is restricted to the top 50 companies based on market capitalization. The selection of the Top 50 companies is justified by their relatively greater market significance, visibility, and economic importance within the Sri Lankan capital market. Focusing on companies with higher market capitalization also provides a more representative basis for examining corporate governance and financial performance among prominent listed firms, while maintaining a manageable and consistent sample for detailed analysis.

The study covers a five-year period from 2021 to 2025, which provides sufficient longitudinal observations to examine variations in corporate governance practices and financial performance over time. Companies were selected based on their market capitalization ranking on the CSE and the availability of complete annual reports and corporate governance information throughout the study period. Companies with incomplete financial data or insufficient corporate governance disclosures were excluded to ensure the reliability, consistency, and comparability of the observations. Accordingly, the final sample consists of 50 companies, generating 250 firm-year observations (50 companies × 5 years). Since observations are available for all selected companies across the entire study period, the resulting dataset forms a balanced panel, making it appropriate for panel data regression analysis.

Financial and corporate governance information was collected from the published annual reports of the selected companies and the official Colombo Stock Exchange database. Information relating to managerial ownership, institutional ownership, board size, board meetings, firm size, leverage, Return on Assets (ROA), and Return on Equity (ROE) was extracted from the companies' annual reports.

To examine the relationship between corporate governance mechanisms and financial performance, two panel regression models are estimated and illustrated in equations 1 and 2. In equations 1 and 2, *ROA* is return on assets, *ROE* is return on equity, *MO* is managerial ownership, *IO* is institutional ownership, *BS* is board size, *BM* is board meetings, *FS* is firm size, *LEV* is leverage, β_0 is the constant, β_1–β_6 are regression coefficients, and ε_{it} is the error term for firm *i* in year *t*.

$$\mathrm{ROA_{it}} = \beta_0 + \beta_1 \mathrm{MO_{it}} + \beta_2 \mathrm{IO_{it}} + \beta_3 \mathrm{BS_{it}} + \beta_4 \mathrm{BM_{it}} + \beta_5 \mathrm{FS_{it}} + \beta_6 \mathrm{LEV_{it}} + \varepsilon_{it} \quad (1)$$

$$\mathrm{ROE}_{it} = \beta_0 + \beta_1 \mathrm{MO_{it}} + \beta_2 \mathrm{IO_{it}} + \beta_3 \mathrm{BS_{it}} + \beta_4 \mathrm{BM_{it}} + \beta_5 \mathrm{FS_{it}} + \beta_6 \mathrm{LEV_{it}} + \varepsilon_{it} \quad (2)$$

Table 1: Operationalization of the variables

Variable	Indicator	Measurement
Return on Assets (ROA)	Profitability	(Net Profit after Tax / Total Assets) × 100
Return on Equity (ROE)	Profitability	(Net Profit after Tax / Total Shareholders' Equity) × 100
Managerial Ownership (MO)	Ownership Structure	Percentage of ordinary shares held by directors and executive management (Shares held by directors & executive management ÷ Total Ordinary Shares × 100)
Institutional Ownership (IO)	Ownership Structure	Percentage of ordinary shares held by institutional investors (Shares held by institutional investors ÷ Total Ordinary Shares × 100)
Board Size (BS)	Board Characteristics	Total number of directors on the board
Board Meetings (BM)	Board Activity	Total number of board meetings held during the financial year
Firm Size	Total Assets	Total Assets
Leverage (LEV)	Debt to Equity Ratio	Total Debt ÷ Total Assets

4. Results and Discussions

Table 2 presents the descriptive statistics for the dependent, independent, and control variables based on 250 firm-year observations. Return on Equity (ROE) indicates considerable variation in shareholders' returns across the sampled companies. Regarding the control variables, leverage (LEV) indicates considerable reliance on debt financing among the sampled firms.

Table 2: Descriptive statistics

Variables	Obs	Mean	St. Dev.	Minimum	Maximum
ROE	250	2.573	2.430	-0.054	16.800
ROA	250	1.008	0.5375	-0.031	2.000
MO	250	0.4183	0.4857	0.0000	7.5841
IO	250	2.541	0.325	1.201	6.215
BM	250	0.654	0.152	0.321	5.125
BS	250	0.65334	0.2451	1.000	1.000
LEVERAGE	250	0.8253	0.1350	0.2864	0.9469
SIZE	250	27.0893	1.5071	23.3221	29.5747

Table 3 presents the Pearson correlation coefficients among ROE, ROA, the corporate governance variables, and the control variables. Pearson correlation analysis is useful for identifying the direction and strength of bivariate associations among variables and for providing an initial indication of potential multicollinearity before estimating the regression models (Gujarati & Porter, 2009; Hair et al., 2022). A strong positive correlation is observed between ROE and ROA (r = 0.8813, p < 0.01), indicating that firms demonstrating stronger asset-based profitability also tend to generate higher returns for shareholders. This strong

association is theoretically reasonable because ROA and ROE are both profitability measures, although they assess performance from different perspectives (Brigham & Ehrhardt, 2022).

Managerial Ownership shows a very weak negative correlation with both ROE (r = -0.0243, $p < 0.05$) and ROA (r = -0.0269, $p < 0.05$). Although the relationships are statistically significant according to the reported correlation matrix, their magnitudes are negligible, suggesting that managerial ownership has little linear bivariate association with financial performance. The negative direction can be viewed in light of the entrenchment argument, which suggests that higher managerial ownership may, under certain circumstances, enable managers to pursue their own interests and weaken monitoring mechanisms (Morck, Shleifer, & Vishny, 1988). This contrasts with the alignment argument of Jensen and Meckling (1976), which proposes that managerial share ownership can align managers' interests with those of shareholders.

Institutional Ownership is positively correlated with ROE (r = 0.1660, $p < 0.05$) and ROA (r = 0.1097, $p < 0.05$). Although these associations are relatively weak, their positive direction suggests that firms with greater institutional participation tend to exhibit better financial performance. This finding is consistent with the monitoring perspective of Shleifer and Vishny (1997), which emphasizes the capacity of institutional investors to monitor managerial decisions, and with empirical evidence provided by Cornett et al. (2007) regarding the relationship between institutional ownership and operating performance.

Board Meetings demonstrate positive relationships with both ROE (r = 0.4125) and ROA (r = 0.4895). These results suggest that firms with more frequent board meetings tend to exhibit stronger financial performance at the bivariate level. Regular meetings can provide opportunities for directors to monitor management, discuss strategic issues, and respond to emerging organizational challenges (Lipton & Lorsch, 1992; Vafeas, 1999). However, correlation does not establish causality, and the subsequent regression analysis is therefore necessary to determine whether board meeting frequency retains its explanatory power after controlling other factors.

Board Size is positively associated with ROE (r = 0.1186, $p < 0.05$) and exhibits a stronger positive relationship with ROA (r = 0.5829, $p < 0.05$). The positive association may reflect the resource-provision role of boards, as larger boards can provide firms with broader expertise, knowledge, experience, and access to external resources (Pfeffer, 1972). Nevertheless, larger boards may also create communication and coordination difficulties, potentially reducing decision-making efficiency (Jensen, 1993). Thus, the eventual effect of board size on financial performance requires assessment through multivariate analysis.

Among the control variables, Firm Size is negatively correlated with ROE (r = -0.3000, $p < 0.01$) and ROA (r = -0.2558, $p < 0.01$). This indicates that larger firms in the sample tend to exhibit relatively lower profitability at the correlation level. One possible explanation is that larger organizations may face greater administrative complexity and coordination costs, although the direction of this relationship can differ across firms and institutional settings (Titman & Wessels, 1988; Lee, 2009). Leverage is positively correlated with ROE (r = 0.3078,

$p < 0.01$), suggesting a positive association between debt financing and shareholders' returns, whereas its relationship with ROA is weak and statistically insignificant ($r = 0.1092$, $p > 0.05$).

The highest correlation among the explanatory and control variables is between Firm Size and Leverage ($r = 0.6984$), followed by Board Size and Leverage ($r = 0.6584$) and Board Meetings and Board Size ($r = 0.6325$). Since the reported pairwise correlations among the explanatory variables remain below 0.80, there is no indication of severe multicollinearity based on the correlation matrix. This supports the inclusion of the variables in the subsequent regression models, although correlation analysis alone should not be regarded as a complete diagnostic for multicollinearity (Gujarati & Porter, 2009; Hair et al., 2019).

Table 3: Correlation analysis

	ROE	ROA	MO	IO	BM	BS	FS	LEV
ROE	1.0000							
ROA	0.8813	1, 0000						
	0.0000							
MO	-0.0243	-0.0269	1. 0000					
	0.0244	*0.0496*						
IO	0.1660	0.1097	0.3988	1. 0000				
	0.0153	*0.0104*	*0.0000*					
BM	0.4125	0.4895	0.4568	0.5642	1. 0000			
	0.0568	*0.0602*	*0.0000*	*0.1459*				
BS	0.1186	0.5829	-0.0539	-0.0375	0.1245	1. 0000		
	0.0341	*0.0238*	*0.4337*	*0.5858*	*0.6325*			
FS	-0.3000	-0.2558	-0.0151	-0.3479	0.2259	0.2456	1. 0000	
	0.0000	*0.0002*	*0.8262*	*0.0000*	*0.3482*	*0.0489*		
LEV	0.3078	0.1092	0.0221	0.1072	-0.2658	0.6584	0.6984	1. 0000
	0.0000	*0.1120*	*0.7484*	*0.1187*	*0.0000*	*0.0451*	*0.2111*	

Note: p=values are in italics

4.1 Effect on ROE

The Hausman supported the selection of the Random Effects model for estimating the relationship between corporate governance and ROE (Hausman, 1978; Baltagi, 2021). The Random Effects model is statistically significant overall, with an F-statistic of 4.1089 ($p < 0.01$). The model records an R-squared value of 0.5438, indicating that approximately 54.38% of the variation in ROE is explained jointly by managerial ownership, institutional ownership, board meetings, board size, firm size, and leverage. The remaining variation may be attributable to other firm-specific and external factors not incorporated into the model.

Managerial Ownership has a positive and statistically significant effect on ROE ($\beta = 0.6572$, $p = 0.0428$). This indicates that greater managerial share ownership is associated with improved shareholders' returns, holding the other variables constant. The finding supports the alignment perspective of Agency Theory, which argues that managerial ownership can align managers' interests with those of shareholders and consequently reduce agency conflicts (Jensen & Meckling, 1976). Similar evidence regarding the association between insider ownership and corporate performance has been reported by Morck et al. (1988) and McConnell and Servaes (1990).

Institutional Ownership also demonstrates a positive and statistically significant relationship with ROE ($\beta = 0.5177$, $p = 0.0487$). This result suggests that greater institutional participation is associated with higher shareholder returns. The finding is consistent with the monitoring hypothesis, which proposes that institutional investors possess greater incentives and resources to monitor managerial behaviour and influence corporate decision-making (Shleifer & Vishny, 1997). It is also consistent with the empirical evidence of Cornett et al. (2007), who documented a positive association between institutional ownership and corporate operating performance.

Board Meetings have a positive coefficient but do not achieve statistical significance at the 5% level ($\beta = 0.7110$, $p = 0.0601$). Although the positive coefficient suggests that more frequent meetings may be associated with improved ROE, the evidence is insufficient to conclude that meeting frequency has a statistically significant effect at the conventional 5% level. This finding supports the argument that the effectiveness and quality of board deliberations may be more important than meeting frequency alone (Vafeas, 1999). Therefore, simply increasing the number of board meetings may not necessarily translate into improved financial performance.

Board Size requires particular attention because of an inconsistency in the reported results. Table 4 reports a coefficient of $\beta = 0.2685$ with $p = 0.0051$, which would indicate a positive and statistically significant relationship between Board Size and ROE at the 5% level. However, the written discussion elsewhere in the paper reports $p = 0.0951$ and consequently describes the relationship as insignificant. The original statistical output should therefore be checked before submission. If the correct p-value is 0.0051, the finding would support the resource dependence perspective, which suggests that larger boards can provide broader expertise, knowledge, and external resources (Pfeffer, 1972). If the correct p-value is 0.0951, the relationship should instead be reported as statistically insignificant at the 5% level.

Table 4: Panel Regression Results - ROE Model

Variable	OLS	Random Effects	Fixed Effects
C	0.5685	0.5692	0.9192
	0.0000	*0.0007*	*0.0263*
MO	0.6723	0.6572	0.6638
	0.0282	*0.0428*	*0.0461*
IO	0.4187	0.5177	0.5302
	0.0345	*0.0487*	*0.4157*
BM	0.6588	0.7110	0.8300
	0.0672	*0.0601*	*0.0814*
BS	0.3379	0.2685	0.1148
	0.0000	*0.0051*	*0.4962*
FS	0.2548	0.3541	0.2563
	0.0651	*0.0546*	*0.0152*
LEV	0.6213	0.5489	0.6548
	0.0325	*0.0215*	*0.0256*

Note: p-values are in italics

Among the control variables, Leverage has a positive and statistically significant effect on ROE ($\beta = 0.5489$, $p = 0.0245$). This suggests that, within the sampled firms, effective use of debt financing is associated with higher returns for shareholders. The result is consistent with the financial leverage argument, whereby debt financing can magnify shareholders' returns when firms generate returns on their assets above the effective cost of debt (Modigliani & Miller, 1963).

Firm Size has a positive coefficient ($\beta = 0.3541$), but its p-value of 0.0546 is slightly above the 5% significance threshold. Therefore, it should not be described as statistically significant at the 5% level. Nevertheless, the positive coefficient suggests that larger firms tend to be associated with higher ROE, potentially reflecting economies of scale, stronger market access, and greater resource availability. Overall, the ROE model provides evidence of significant positive effects from managerial ownership, institutional ownership, and leverage, while the statistical significance of board size depends on verification of the inconsistent p-value reported in the study.

4.2 Effect on ROA

For the ROA model, the Hausman specification test support the use of the Random Effects model (Hausman, 1978; Baltagi, 2021). The Random Effects model is statistically significant overall, as demonstrated by an F-statistic of 45.1089 ($p < 0.01$). The model records an R-squared value of 0.6574, indicating that approximately 65.74% of the variation in ROA is jointly explained by managerial ownership, institutional ownership, board meetings, board size, firm size, and leverage. This relatively high explanatory power suggests that the selected governance and firm-specific variables provide substantial information for explaining differences in asset-based financial performance among the sampled companies.

Managerial Ownership has a positive and statistically significant effect on ROA ($\beta = 0.2372$, $p = 0.0038$). This finding indicates that firms with greater managerial ownership tend to achieve higher returns from their assets. The result is consistent with Agency Theory, particularly the alignment argument of Jensen and Meckling (1976), which suggests that managerial share ownership can reduce conflicts of interest by aligning managers' incentives with those of shareholders.

Institutional Ownership also has a positive and statistically significant effect on ROA ($\beta = 0.2877$, $p = 0.0125$). This finding suggests that institutional investors may contribute to improved asset-based performance through stronger monitoring and greater involvement in corporate governance. The result is consistent with the monitoring hypothesis of Shleifer and Vishny (1997) and the empirical evidence reported by Cornett et al. (2007), which highlights the potential role of institutional investors in improving managerial discipline and operating performance.

Board Meetings exhibit a positive but statistically insignificant effect on ROA ($\beta = 0.6589$, $p = 0.0658$). Although the coefficient is positive, the probability value exceeds the 5% significance threshold. Thus, the results do not provide sufficient evidence that the frequency of board meetings independently improves ROA. This finding is consistent with Vafeas (1999), who emphasizes that the relationship between board meeting frequency and performance

depends not merely on the number of meetings but also on the quality and effectiveness of board oversight.

Board Size has a positive and statistically significant effect on ROA (β = 0.6489, p = 0.0387). This indicates that larger boards are associated with improved asset-based financial performance. The result is consistent with Resource Dependence Theory, which argues that boards can provide valuable expertise, knowledge, information, and access to external resources that may support organizational performance (Pfeffer, 1972). It is also broadly consistent with Dalton et al. (1999), whose meta-analytic evidence indicates that board characteristics can be related to organizational outcomes, although the direction and strength of such relationships may vary across contexts.

Table 5: Panel Regression Results – ROA Model

Variable	OLS	Random Effects	Fixed Effects
C	0.6425	0.6253	0.6354
	0.0500	*0.0507*	*0.0253*
MO	0.5633	0.2372	0.6838
	0.0082	*0.0038*	*0.0461*
IO	0.7587	0.2877	0.6312
	0.0451	*0.0125*	*0.0326*
BM	0.8456	0.6589	0.6659
	0.1452	*0.0658*	*0.0598*
BS	0.5141	0.6489	0.4568
	0.0045	*0.0387*	*0.0157*
FS	0.6588	0.7850	0.9500
	0.0172	*0.0421*	*0.0514*
LEV	0.4379	0.4635	0.5548
	0.0000	*0.0061*	*0.6562*

Note: p-values are in italics

Firm Size has a positive and statistically significant effect on ROA (β = 0.7850, p = 0.0421). This suggests that larger firms in the sample tend to utilize their assets more effectively to generate profits. The positive relationship may reflect economies of scale, greater operational capacity, and access to financial and organizational resources associated with larger firms (Lee, 2009).

Leverage also has a positive and statistically significant effect on ROA (β = 0.4635, p = 0.0061). This finding indicates that firms that employ debt financing effectively may achieve higher asset-based profitability. From a capital structure perspective, the positive relationship may arise when the returns generated through the use of borrowed funds exceed the associated financing costs (Modigliani & Miller, 1963).

Overall, the Random Effects results indicate that managerial ownership, institutional ownership, board size, firm size, and leverage have positive and statistically significant effects on ROA, whereas board meeting frequency does not have a statistically significant effect at the 5% level. These findings demonstrate that ownership-based governance mechanisms and board

structure may play a more prominent role in explaining asset-based financial performance than the frequency of board meetings alone.

5. Conclusion

The positive and significant relationships between managerial ownership and both ROA and ROE support the argument of Agency Theory that aligning managers' interests with those of shareholders can improve corporate outcomes. When managers hold shares in the company, their personal financial interests become more closely connected to firm performance, which may encourage them to make more efficient decisions and focus on improving profitability and shareholder value. Similarly, the positive and significant effect of institutional ownership suggests that institutional investors can contribute to stronger monitoring and managerial accountability because they generally possess greater resources and expertise to evaluate management decisions. These findings indicate that ownership structure can serve as an important governance mechanism for reducing agency problems and improving financial performance.

The positive and significant relationship between board size and ROA suggests that a board with a broader range of expertise, knowledge, experience, and external connections can contribute to more effective decision-making and better utilization of corporate resources. This finding is consistent with the resource perspective of corporate boards, which emphasizes their ability to provide valuable knowledge and resources to organizations. However, the positive but insignificant relationship between board meetings and financial performance indicates that the frequency of meetings alone may not determine board effectiveness. Frequent meetings do not necessarily result in better decisions if the discussions lack strategic focus or effective monitoring. Therefore, the quality of board deliberations, directors' participation, information availability, and implementation of decisions may be more important than the number of meetings held.

The findings provide theoretical contributions by extending the application of Agency Theory and the resource perspective of corporate governance to the recent Sri Lankan corporate environment. The study demonstrates that governance mechanisms operate through different channels, including managerial incentives, shareholder monitoring, board expertise, and oversight. The results also suggest that corporate governance should not be evaluated solely by the existence or frequency of governance structures; rather, attention should be given to how effectively these mechanisms influence managerial behavior and corporate decision-making. This is particularly relevant given that the study period covers significant economic and institutional developments in Sri Lanka, including the post-pandemic period, the 2022 economic crisis, and strengthened corporate governance requirements introduced during the period.

From a practical perspective, the findings suggest that companies should consider appropriately structured managerial ownership arrangements to strengthen the alignment between managers and shareholders while maintaining adequate monitoring mechanisms. Institutional investors should also be encouraged to take an active role in monitoring management, evaluating strategic decisions, and exercising their shareholder rights. For boards

of directors, the results emphasize the importance of maintaining an appropriate combination of expertise, experience, and capabilities rather than focusing only on board size. Similarly, companies should focus on improving the quality and effectiveness of board meetings rather than simply increasing their frequency.

The findings also have implications for regulators and policymakers. Corporate governance frameworks should encourage substantive governance practices rather than focusing exclusively on formal compliance. Greater attention should be given to effective board oversight, ownership transparency, managerial accountability, institutional investor engagement, and the quality of corporate disclosures. Such practices can strengthen investor confidence and contribute to more sustainable corporate performance.

The study concludes that corporate governance is an important determinant of financial performance among leading Sri Lankan listed companies. Managerial ownership and institutional ownership demonstrate relatively consistent positive effects on both ROA and ROE, while board size contributes positively to ROA and board meeting frequency does not show a statistically significant effect. These findings indicate that effective governance depends less on the mere existence of governance mechanisms and more on their ability to create appropriate incentives, strengthen monitoring, provide relevant expertise, and improve corporate decision-making. Therefore, strengthening the effectiveness and quality of corporate governance mechanisms can contribute to improved financial performance and greater long-term value creation among listed companies in Sri Lanka.

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