

CORPORATE GOVERNANCE AND INVESTMENT EFFICIENCY: EVIDENCE FROM FINANCIAL SECTOR IN SRI LANKA

S. Anandasayanan^{1}*

¹Department of Financial Management

University of Jaffna

Sri Lanka

¹asayan@univ.jfn.ac.lk

ABSTRACT

Corporate governance is a system that includes the rules and regulations that stakeholders of companies should obey. Investment efficiency refers to how well a firm uses its resources, including capital and labor, to make profitable investments while effectively managing associated risks. The main purpose of this survey is to measure the effect of corporate governance practices implemented by the financial sector on investment efficiency. Fifty financial institutions listed under the financial sector in the Colombo Stock Exchange are randomly selected for this study and the data for the study covers the period from 2017 to 2022. In order to analyze the investment efficiency of the financial sector, return on Assets was used. In addition, to measure the corporate governance, board composition, size of the audit committee, number of meetings and board size were considered as explanatory variables. To analyze the data, the panel data regression analysis was exercised. As per the results, it is quite obvious that the board composition and board meetings have a major impact on the efficiency of investment in the financial sector. These findings depict that, the financial institutions precisely build the board committee in association with independent directors and they conduct meetings to implement the proper plans, in which both of these lead to increase in the investment efficiency. On the other hand, audit committee and board size do not have statistical significance. These findings imply that neither the audit committee size nor the board size has a meaningful impact on investment efficiency. By ensuring the presence of a liaison between corporate governance practice and investment efficiency, the financial sector should adopt the corporate governance requirements suggested by code of best practices in Sri Lanka. When firms adopt corporate governance practices, this implies that those firms are acting on a best interest of the stakeholders.

Keywords: Audit Committee, Board Meeting, Board Size, Board Composition and Panel Data.

1. BACKGROUND OF THE STUDY

The volatility in capital markets, considered one of the most severe crises, has prompted scholars and policymakers to re-evaluate the weaknesses in corporate governance (CG) practices from a broader perspective. Following corporate scandals involving large organizations in US, CG has become a critical focus of academic research and policy discussions worldwide (Ali et al. 2021). A main component of corporate governance is the function of the board of directors in directing management to alleviate problems arising from the agency problem, which refers to the conflicts of interest between shareholders (principals) and executives (agents). In Sri Lanka, strong corporate governance is seen as essential for ensuring accountability within companies, improving the quality and reliability of financial reporting, and ultimately enhancing the integrity and performance of capital markets (Heenetigala, 2011). This, in turn, helps to build investor confidence and trust (Laing et al. 2019).

The financial sector, particularly the banking sector in Sri Lanka, was significantly disrupted by the economic crisis triggered by the COVID-19 pandemic in 2020. Economic instability began in late 2021 and expanded by April 2022. The non-performing loan ratio increased notably in Sri Lanka as it had been experiencing its sovereign debt default. For instance, the non-performing loan percentage in 2021 which was 7.6% became 13.3% in 2023 following the economic crisis. At the same time during this period the banking industry had to pay a higher interest rate on the fixed deposits (Weerasinghe and Thilakasiri, 2024). In a competitive environment, studying investment efficiency is vital to maximizing the return and minimizing risk. Investment efficiency refers to the effectiveness with which firms, including banks, allocate capital to profitable ventures while managing associated risks. Theories of corporate governance suggest that firms with strong governance mechanisms are more likely to make efficient investment decisions, as they reduce agency problems, improve transparency, and ensure that managers act in the best interests of shareholders (Rooley, 2022). The literature on corporate governance and investment efficiency demonstrates a strong link between effective governance mechanisms and the ability of firms to make optimal investment decisions. Good corporate governance, including strong boards, aligned ownership structures, appropriate executive compensation, and enhanced transparency, leads to more efficient resource allocation, improved risk management, and better long-term performance. As a result, firms with strong governance frameworks are more likely to make investments that maximize shareholder value and minimize the risks associated with poor decision-making (Usman and Yahaya, 2023). Investment efficiency is a key factor for business sustainability, especially in developing economies like Sri Lanka. One main way to achieve investment efficiency is through cost reduction. This allows firms to use their limited resources more effectively and stay competitive. However, during crises, such as the recent economic downturns and the Covid-19 pandemic, cost reduction became a significant challenge in Sri Lanka. Government imposed import bans, higher tariffs, and unstable economic conditions disrupted supply chains and raised input costs. This

made it hard for businesses to improve their investments just through financial changes (Usman and Yahaya, 2023). As a result, many firms had to sacrifice important aspects like innovation, corporate governance, ethical standards, and sustainable practices to survive in a competitive market. In Sri Lanka, recent research has started to examine the link between corporate governance and investment efficiency, especially within the non-financial sectors. Nazar (2021) identified key factors such as managerial ownership, board independence, and CEO duality as significant influences on investment decisions. Managerial ownership was positively correlated with investment, whereas CEO duality showed a negative impact on asset changes but a positive effect on Tobin's Q, indicating the complex nature of governance mechanisms. Meanwhile, Weerasinghe and Thilakasiri (2024) found only a weak connection between corporate governance and stock liquidity, implying that other factors may have a stronger influence on liquidity than governance alone. Together, these studies reflect a growing understanding of the role corporate governance plays in investment efficiency in Sri Lanka and underscore the importance of developing tailored frameworks to improve governance practices and investment outcomes. Addressing this gap is especially relevant in Sri Lanka, where businesses face frequent economic uncertainties and policy changes. The objective of this study is to examine the impact of corporate governance (CG) practices on the investment efficiency of listed financial sector in Sri Lanka during the period from 2017 to 2022.

2. REVIEW OF LITERATURE ON CORPORATE GOVERNANCE AND INVESTMENT EFFICIENCY

2.1 Theoretical and Empirical Literature

The role of corporate governance, stakeholder pressure, and sustainability reporting in enhancing sustainable development has been widely discussed in the theoretical literature. Stakeholder theory (Freeman and Phillips, 2002), as highlighted in the study by Almagtome et al. (2020), underpins the argument that companies bear responsibilities not only to shareholders but also to a broad set of stakeholders including employees, customers, suppliers, and the wider community. This perspective emphasizes the importance of addressing diverse stakeholder interests to achieve long-term sustainability. However, while stakeholder theory expands the corporate accountability framework, critics argue that it often lacks clarity in prioritizing conflicting stakeholder demands, particularly in complex or crisis situations.

Additionally, agency theory (Meckling and Jensen 1976) offers a complementary perspective by focusing on the governance mechanisms that align managerial actions with shareholder interests. Strong corporate governance structures are posited to reduce agency costs, limit managerial opportunism, and promote better investment decisions. Almagtome et al. (2020) indirectly support this view by demonstrating that companies with higher corporate governance ratings engage more robustly in sustainability reporting, signaling better alignment with long-term organizational objectives. Resource Dependency Theory (Pfeffer and Salancik, 2015) also provides relevant insights, suggesting that larger firms due to their broader resource base are

better positioned to manage external pressures and fulfill extensive reporting obligations. This implies that firm size can enhance organizational capacity to respond to stakeholder demands and regulatory requirements.

Additionally, resource dependency theory (Pfeffer and Salancik, 2015) provides a useful framework for interpreting the influence of firm size on sustainability practices. According to this theory, larger organizations possess greater resources and external linkages, which better equip them to handle complex sustainability reporting requirements and stakeholder pressures. Moreover, Bimo et al. (2022) highlight the critical role of financial information transparency in improving investment efficiency. Transparency reduces information asymmetry, enabling better decision-making and increasing investor confidence, which in turn supports more efficient resource allocation. In crisis prone economies such as Sri Lanka, where businesses face recurrent economic shocks, policy uncertainty, and resource constraints, the dynamics between governance, stakeholder engagement, and investment efficiency may operate differently.

2.2 Empirical Finding in Sri Lanka

Nazar (2021) presents an insightful analysis of the determinants of investment efficiency among non-financial listed companies, focusing on key corporate governance mechanisms. From an analytical standpoint, the study reveals a positive relationship between managerial ownership and investment efficiency, suggesting that equity participation by managers aligns their interests with those of shareholders. This alignment appears to incentivize more disciplined and value-maximizing investment decisions, reducing agency conflicts associated with capital allocation. In contrast, Weerasinghe and Thilakasiri (2024) explored the link between corporate governance and stock liquidity an indirect measure of market-based investment efficiency. The study reported only a weak relationship, suggesting that corporate governance structures alone may not be sufficient to improve liquidity and market responsiveness in Sri Lanka. This highlights the role of external market conditions, regulatory frameworks, and investor behavior as complementary factors in shaping investment outcomes.

Rooly (2022) further examined board composition and its impact on shareholder wealth creation across listed companies. The study revealed that larger boards and a higher proportion of non-executive directors contribute positively to performance metrics such as dividend per share and dividend yield. While not directly measuring investment efficiency, these results imply that a well-composed board enhances strategic decision-making and resource allocation, which are core components of efficient investment practices. Azeez (2015) analyzed key governance variables such as board size, board composition, and CEO duality and found that larger boards positively impact firm performance, while CEO duality undermines it highlighting the significance of board independence and separation of powers in governance structures.

Similarly, Guo and Kga (2012) reported a positive correlation between adherence to corporate governance practices and firm performance among listed Sri Lankan firms. Their findings suggest that even in emerging markets, effective governance

frameworks contribute to improved financial outcomes, particularly when firms engage in voluntary disclosures.

Building on this, Dissanayake et al. (2021) concluded that substantive compliance beyond mere formal adherence significantly enhances financial performance, especially through mechanisms like audit committees and independent boards, underscoring the importance of governance quality over quantity. In a more market-focused perspective, Jayathilaka et al. (2021) explored the internal governance attributes affecting firms' value relevance. Their results indicate that factors such as frequent board meetings enhance market confidence, whereas concentrated ownership presents mixed outcomes, possibly due to entrenched control in family owned businesses. However, a key limitation in the Sri Lankan literature is the lack of sector-specific and longitudinal studies, especially in the financial sector. Most existing research excludes banks and financial institutions, despite their pivotal role in the economy.

2.3 Hypothesis Development

Corporate governance mechanisms such as board size, board composition, audit committee effectiveness, and board meeting frequency have been widely studied for their influence on investment efficiency in listed firms, including those in the financial sector.

2.3.1 Board Size

Empirical studies offer mixed evidence on the impact of board size on investment efficiency. Larger boards may bring diverse expertise and improved monitoring capabilities, which can reduce overinvestment and underinvestment problems (Bimol et al, 2022). However, excessively large boards may lead to coordination problems and slower decision-making, adversely affecting investment decisions. In the context of the CSE financial sector, it is hypothesized that an optimal board size positively influences investment efficiency by balancing monitoring and decision-making effectiveness.

Hypothesis 1 (H_1): Board size has a significant impact on investment efficiency in listed financial sector in the CSE.

2.3.2 Board Composition

The presence of independent, non-executive directors is generally considered a key governance mechanism to mitigate agency conflicts and improve monitoring of managerial investment decisions (Bhagat et al, 2008). Therefore, it is expected that board composition, measured by the proportion of independent directors, positively affects investment efficiency in CSE-listed financial firms.

Hypothesis 2 (H_2): Board composition (proportion of independent directors) has a significant impact on investment efficiency in listed financial firms in the CSE.

2.3.3 Audit Committee

A strong and active audit committee plays a critical role in overseeing financial reporting and internal controls, thus indirectly influencing the quality of investment decisions. Accordingly, it is hypothesized that the presence and effectiveness of audit committees enhance investment efficiency among financial sector in the CSE.

Hypothesis 3 (H₃): Audit committee significantly impact on investment efficiency in listed financial firms in the CSE.

2.3.4 Board Meetings

Frequency of board meetings is a proxy for board diligence and active engagement. More frequent meetings may indicate closer monitoring of management and quicker responses to investment opportunities or risks (Azeez, 2015). Thus, it is hypothesized that increased board meeting frequency positively influences investment efficiency in the financial sector companies listed in the CSE.

Hypothesis 4 (H₄): The frequency of board meetings has a significant impact on investment efficiency in listed financial firms in the CSE.

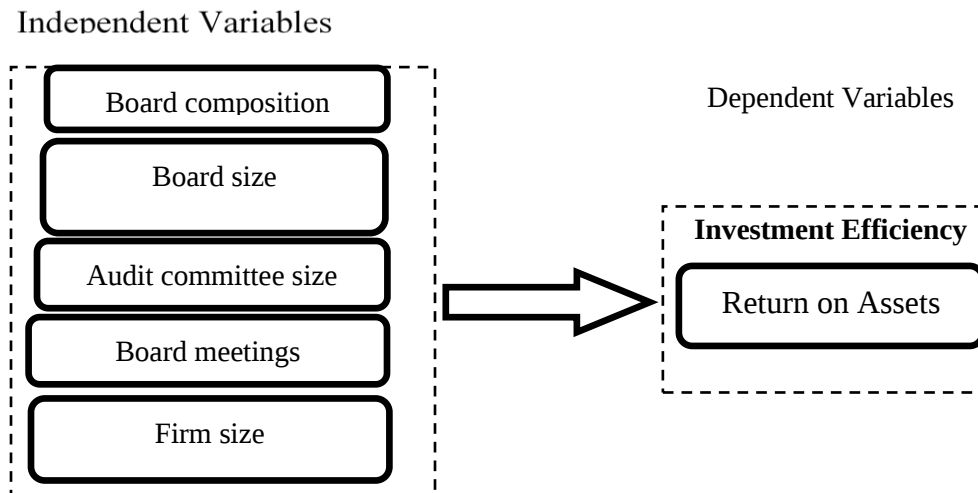
3. METHODOLOGY

3.1 Population, Sampling and Data Collection

The population for this research includes the financial institutions listed on the CSE under the bank, finance, and insurance sectors. The sample consists of 50 randomly selected financial institutions from these sectors. The focus on financial institutions is due to their significant responsibility to society, as their operations are largely funded by public money. The study relies on secondary data collection, with data sourced from the annual reports of the relevant financial institutions. The data covers the period from 2017 to 2022, providing a comprehensive view of the sector over several years.

3.2 Conceptualization

The following conceptual model was developed after reviewed related empirical findings.



Source: Developed by the researcher

Figure 1: Conceptual Model

3.3 Variables of this Study

3.3.1 Independent Variables

Board Size

The number of directors on a company's board is referred to as its board size

Board Composition

Board composition refers more broadly to the overall structure of the board, including not only independence but also diversity of expertise, skills, member backgrounds, and experiences that influence monitoring, strategic guidance, and resource provision.

Audit committee size

The number of directors on a company's audit committee is referred to as the audit committee size

Board meeting

It is commonly stated that a number of board meetings are held during a financial year to ensure proper oversight and decision-making.

3.3.2 Dependent variables

Return on Assets

ROA gauges how well a business makes use of its resources to turn a profit.

3.3.3 Control Variable

Firm size

Firm size refers to the scale or magnitude of a company's operations and is commonly measured using log value of total assets.

3.4 Operationalization

To ensure clarity and consistency in the measurement of key variables, the following table presents the operationalization of the main concepts used in this study.

Table 1: Operationalization

Key concepts	Variable	Indicators	References
Corporate governance	Independent Variables		
	Board size	Total number of directors represent the board.	Heenetigala (2011)
	Board composition	Total number of independent (non-executive directors) represent the board.	Nandi& Ghosh (2013)
	Audit committee size	Number of audit committee directors.	Musa & Yahaya, (2023)
	Board meetings	Total number of meetings held in a financial year.	Ali et.al (2021)
Investment Efficiency	Dependent Variable		
	Return On Assets	Net Income/Assets	Nazar(2021)
Control Variables	Firm Size	Log of assets	Almagtome et al., (2020)

Source: Developed by the researcher

5. RESULTS & DISCUSSION

5.1 Descriptive Statistics

Descriptive statistics show that profitability metrics like ROA have a mean value of 0.236. The mean for Board composition is 0.38. The average values for Audit committee, board meeting, and board size are 3.77, 10.19, and 8.67, respectively. Additionally, the FS average is 10.48.

Table 2: Descriptive Statistics

	Board Comp osition	AC	BM	BS	FS	ROA
Mean	0.38	3.77	10.19	8.67	10.48	0.236
Median	0.34	4.00	12.00	8.00	10.39	0.123
Maximum	0.67	9.00	21.00	16.0	12.24	0.494
Minimum	0.25	3.00	2.00	4.00	8.907	-0.197
Std. Dev.	4.21	1.75	4.058	2.57	0.793	0.0603

Source: Survey data

4.2 Correlation Analysis

As per the correlation matrix, Return on Assets has relatively weak correlations with the other variables, with p values indicating some of these correlations are statistically significant (like with BC, AC, BS, and FS), while Board size is not significant. Findings of Heenetigala (2011), Kiel and Nicholson (2003), Black et al, (2006), and Laing and Weir (1999), are consistent with these positive significant associations. Strong corporate governance practices, like more independent boards, more frequent board meetings, and efficient audit committees, have also been emphasized in these studies as being crucial for improving investment efficiency, which is demonstrated by better financial measures like Return on Assets (ROA).

Table 3: Results of Correlation

Correlation					
Probability	BC	AC	BM	BS	FS
BC	1.000				
AC	0.586	1.000			
	(0.123)	-----			
BM	0.284986	0.321911	1.000000		
	(0.234)	(0.0013)	-----		
BS	0.365337	0.651319	0.200000	1.000000	
	(0.341)	(0.032)	(0.0723)	-----	
FS	0.566614	0.642179	0.518147	0.535384	1.000000
	(0.007)	(0.023)	(0.421)	(0.432)	-----
ROA	0.012998	0.123348	0.005963	0.134128	0.212544

(0.0046) (0.0208) (0.0283) (0.1421) (0.0012)

Source: Survey data

4.3 Variance Inflation Factor Test (VIF Test)

Therefore, the VIF test is applied to identify the degree to which the independent variable is influenced among them in order to prevent the multicollinearity problem. In general, VIF greater than 10 is considered indicative of probable multicollinearity issues among the predictor variables. However, Table 04 shows that the VIF for all variables is beneath 10, suggesting that there is no association among the predictor variables which were considered in this study.

Table 4: VIF test

VIF values			
	Coefficient.	Uncentered	Centered
Predictor Variables	Varian.	VIF value	VIF value
Audit Committee	0.000169	11.30677	1.698185
Board Composition	0.000436	14.12537	2.517445
Board meeting	4.510015	10.16654	1.385433
Board size	0.000150	22.94141	1.850796
Firm size	0.002057	425.5089	2.412012

Source: Survey data

4.4 Impact of CG Practices on Investment Efficiency measured by Return on Assets

A panel data evaluation was conducted to examine the impact of CG practices on investment Efficiency of listed financial sector and the Results were presented in Table 5.

Table 5: Results of Panel Data Analysis

Variable	Model I		Model II		Model III	
	Pooled Regression		Fixed Effect		Random Effect	
	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	0.207	0.0018	0.17	0.3727	0.133	0.0139
Audit Committee	0.004	0.2636	0.0008	0.1262	0.003	0.2004

Board composition	0.016	0.0306	0.0012	0.0401	0.0008	0.0411
Board meeting	0.022	0.0404	0.002	0.0250	0.0008	0.0006
Board size	0.0003	0.8758	0.0004	0.9061	0.257	0.7974
Firm size	0.027	0.0004	0.014	0.0404	0.018	0.0404
Rsquared	0.178355		0.460289		0.124914	
Ad.R squared	0.157783		0.309532		0.113149	
Fvalue	3.808743		3.053184		1.144688	
P value	0.002486		0.0000		0.037654	

Source: Survey data

4.4.1 Results of Pooled Regression

According to the summary of the pooled regression results, both board composition and the occurrence of board meetings have statistically significant effect on investment efficiency, as measured by Return on Assets (ROA) (p-value < 0.05). This implies that higher investment efficiency is associated with a greater percentage of independent directors and a higher number of board meetings. These findings align with previous research by Brown and Caylor (2004); Jamal and Mahmood (2018), both of which identified a positive correlation between board composition and investment efficiency. On the other hand, the audit committee and board size show insignificant coefficients, with p values greater than 0.05, indicating that these factors do not have a noticeable effect on ROA. Additionally, the positive and statistically significant coefficient for firm size (p-value < 0.05) indicates that larger firms tend to have higher ROA. The F-statistic and corresponding p value confirm that the model is statistically significant as a whole.

4.4.2 Results of Fixed Effect Model

As per the results of fixed effect regression, board composition (BC), Board Meetings and firm size (FS) are statistically significant among the independent variables With p-values of 0.0401 ,0.0250 and 0.0404, respectively, These numbers point to a positive impact on the Return on Assets, suggesting that greater financial efficiency (higher ROA) is linked to a higher percentage of independent directors on the board and larger business sizes. This result confirms earlier research (Rhoades et al. 2000) that implies independent directors may enhance corporate governance, resulting in higher performance and decision-making. Similarly, economies of scale, greater resources, and stronger market positioning may help larger businesses achieve better financial results. Board meetings (BM) also show statistical significance, with a p-value of 0.0250, suggesting a positive impact on ROA. This aligns with research that

highlights the importance of board activity and engagement in overseeing and improving company performance (Larmou and Vafeas, 2010).

On the other hand, audit committee and board size do not show statistical significance, with p-values of 0.1262 and 0.9061, respectively. These findings imply that neither the audit committee size nor the board size has a meaningful impact on ROA in this model. This is consistent with some studies that have found mixed or insignificant relationships between audit committee characteristics and financial performance (Anderson et al. 2006) or board size and company outcomes. The model's R-squared of 46.03% indicates that it explains a significant portion of the variance in ROA, even though the adjusted R-squared of 30.95% accounts for the number of predictors in the model. These figures suggest that even if the model explains a sizable portion of the variation in financial efficiency, additional, unseen factors might be at work. The F-statistic p-value of 0.0000 indicates that the model is statistically significant overall and validates the combined significance of the independent variables in explaining the dependent variable.

The Durbin-Watson value of 2.58, which also demonstrates no discernible autocorrelation in the residuals, indicates that the error components are unrelated to one another, which is a necessary assumption for the validity of the regression conclusions. Consequently, the model provides reliable insights into the relationship between board composition, firm size, and financial success.

4.4.3 Results of Random Effect Model

As per the summary of random effect regression (Table 05) Board composition board meetings and are statistically significant on the Return on Assets. The results indicate that board composition has a positive impact on investment efficiency which is consistent with the previous findings of Usma and Yahaya (2023). In this regard, the importance of non-executive directors in terms of their external experience in relation to the sound financial and legal basis is revealed in the positive relationship. Thus the ratio of board composition rises and the firms tend to perform better. This is because external board members have knowledge and information on financing sources. Increasing access of finance thus has the tendency of boosting the company's bottom line. Furthermore board meetings (BM) is statistically significant on the Return on Assets. It implies that greater ROA or better performance is linked to both more frequent board meetings (BM). These results corroborate earlier research that suggests active board participation and independent boards can strengthen corporate governance and increase efficiency of investment (Larmou and Vafeas, 2010; Rhoades et al. 2000).

However the audit committee (AC) and board size (BS) are not statistically significant as p-values of 0.2004 and 0.7974, respectively. The audit committee's lack of relevance is in line with certain studies (Anderson et al., 2006) that indicates that audit committee features have little to no impact on investment efficiency. Likewise, research indicating that larger boards would not always result in improved firm performance is consistent with the lack of importance for board size (Fazila and Hijriah, 2024).

Firm size (FS) is statistically significant and positively affects the dependent variable with a p-value of 0.0404. In line with the claim that larger companies typically have more resources, economies of scale, and stronger market positions all of which may lead to superior financial performance this implies that larger companies typically perform better. R-squared value of 0.1249, which shows that the model explains around 12.5% of the variation in the dependent variable. The total model is statistically significant, as indicated by the F-statistic of 1.1447 and the p-value of 0.0377. This implies that the model as a whole offers significant insights into the connections between the independent variables and the dependent variable.

4.4.4 Testing Hypothesis

Based on the panel data regression results, hypothesis testing was conducted to assess the significance of corporate governance variables on investment efficiency. The results indicate that Board Composition, Board Meetings, and Firm Size consistently support to accept the hypothesis across most models ($p < 0.05$), confirming their statistically significant positive influence. In contrast, Audit Committee and Board Size fail to support the hypothesis ($p > 0.05$), indicating no meaningful impact.

4.4.5 Hausman Test

Table 06: Hausman Test

Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	8.025551	5	0.1548

Source: Survey data

This finding implies that the random effects model is suitable for this study when deciding between fixed effects and random effects models. In particular, it suggests that there is no substantial correlation between the independent variables and the variations among cross-sections. Thus, the random effects model is the best method for examining the data in this instance, according to the p-value.

5. LIMITATION OF THIS STUDY

This study is limited to the financial sector, including banks, finance, and insurance companies listed on the Colombo Stock Exchange. While this sector is critical to the economy, the findings may not be generalizable to other sectors such as manufacturing, services, or trading.

6. IMPLICATIONS

These studies collectively underscore that strong internal governance mechanisms foster transparency, accountability, and better decision making, which in turn enhance investment efficiency. For policymakers, the findings highlight the need to ensure not only the formal adoption of governance frameworks but also their effective implementation.

7. FUTURE RESEARCH DIRECTIONS

Future research should go beyond compliance metrics and include qualitative governance attributes such as board diversity, director expertise, meeting frequency, and decision-making transparency.

8. CONCLUSION

In the panel regression analysis, all models indicate that board composition and board meetings have a significant positive impact on investment efficiency measured by Return on Assets (ROA). This suggests that a greater ratio of independent directors on the board and numerous board meetings are positively associated with better investment efficiency of listed banks in Sri Lanka. This is particularly relevant in the context of Sri Lanka, where the significant role of board committees in enhancing investment efficiency. Further More frequent board meetings likely allow for better monitoring, quicker responses to market changes, and more effective strategy implementation, contributing to superior investment efficiency.

As per the analysis of the study on the impact of CG practices on the investment efficiency of listed financial institutions in Sri Lanka, it was found that among the predictor variables only board composition (BC) and board meeting have a positive impact on investment efficiency. This suggests that the presence of non-executive directors and a well-structured board composition are crucial factors in enhancing investment efficiency. As per the findings, it is recommended that listed financial firms in Sri Lanka focus on strengthening corporate governance practices, particularly by increasing the proportion of non-executive directors and improving board composition. These efforts could help boost investment efficiency, thereby contributing to improved firm performance. Strengthening these governance mechanisms may also foster better decision-making, reduce agency problems, and associate the interests of management with those of shareholders, leading to enhanced long-term financial outcomes.

REFERENCES

- Ali, S., Fei, G., Ali, Z. and Hussain, F. (2021). Corporate governance and firm performance: Evidence from listed firms of Pakistan. *Journal on Innovation and Sustainability RISUS*, 12(1), pp.170-187.
- Ali, T., Hussain, S., & Waheed, A. (2021). Executive remuneration, corporate governance and corporate performance: Evidence from China. *Economic research-Ekonomska istraživanja*, 34(1), 3092-3118.
- Almagtome, A., Khaghaany, M. and Önce, S. (2020). Corporate governance quality, stakeholders' pressure, and sustainable development: An integrated approach. *International Journal of Mathematical, Engineering and Management Sciences*, 5(6), p.1077.
- Anderson, R.C., Mansi, S.A. and Reeb, D.M. (2006). Managerial ownership and behaviour: The impact on corporate creditors. Fox School of Business, Fuller Research Fellow, Temple University, Philadelphia.

- Azeez, A. A. (2015). Corporate governance and firm performance: evidence from Sri Lanka. *Journal of Finance and Bank Management*, 3(1), 180-189.
- Bhagat, S., Bolton, B., & Romano, R. (2008). The promise and peril of corporate governance indices. *Colum. L. Rev.*, 108, 1803.
- Bimo, I.D., Silalahi, E.E. and Kusumadewi, N.L.G.L. (2022). Corporate governance and investment efficiency in Indonesia: The moderating role of industry competition. *Journal of Financial Reporting and Accounting*, 20(2), pp.371-384.
- Black, B.S., Jang, H. and Kim, W. (2006). Does corporate governance predict firms' market values? Evidence from Korea. *Journal of Law, Economics, and Organization*, 22(2), pp.366-413.
- Brown, L.D. and Caylor, M.L., 2004. Corporate governance and firm performance. Available at SSRN 586423.
- Dissanayake, H., Manta, O., Dissabandara, D. B. P. H., Ajward, A. R., Perera, K. L. W., & Palazzo, M. (2024). A systematic literature review on the relationship between corporate governance and corporate sustainability. *Environment, Development and Sustainability*, 1-22.
- Fazila, P. and Hijriah, A. (2024). The Influence of Good Corporate Governance on the Financial Performance of Food and Beverage Companies Listed on the Indonesia Stock Exchange in 2021-2023. *Journal of Accounting and Finance Management*, 5(4), pp.551-563.
- Freeman, R. E., & Phillips, R. A. (2002). Stakeholder theory: A libertarian defense. *Business ethics quarterly*, 12(3), 331-349.
- Guo, Z., & Kga, U. K. (2012). Corporate governance and firm performance of listed firms in Sri Lanka. *Procedia-Social and Behavioral Sciences*, 40, 664-667.
- Heenetigala, K. (2011). Corporate governance practices and firm performance of listed companies in Sri Lanka (Doctoral dissertation, Victoria University).
- Jamal, S. and Mahmood, W. (2018). Impact of corporate governance and capital structure on firm financial performance: evidence from listed cement sector of Pakistan. *Journal of Resources Development and Management*, 44, pp.24-34.
- Jayathilaka, C., Uduwalage, E., & Mendis, O. (2021). Impact on internal corporate governance attributes on firm's value relevance. *The Journal of ARSYM*, 113.
- Kiel, G.C. and Nicholson, G.J. (2003). Board composition and corporate performance: How the Australian experience informs contrasting theories of corporate governance. *Corporate governance: an international review*, 11(3), pp.189-205.

- Laing, D. and Weir, C.M. (1999). Governance structures, size and corporate performance in UK firms. *Management decision*, 37(5), pp.457-464..
- Larmou, S. and Vafeas, N. (2010). The relation between board size and firm performance in firms with a history of poor operating performance. *Journal of Management & Governance*, 14, pp.61-85.
- Meckling, W. H., & Jensen, M. C. (1976). Theory of the Firm. *Managerial behavior, agency costs and ownership structure*, 3(4), 305-360.
- Musa, Z. and Yahaya, O.A. (2023). Corporate governance and firm value. *Budapest International Research and Critics Institute Journal (Humanities and Social Sciences)*, 6(4), pp.204-220.
- Nazar, M. C. A. (2021). The influence of corporate governance on dividend decisions of listed firms: Evidence from Sri Lanka. *The Journal of Asian Finance, Economics and Business*, 8(2), 289-295.
- Pfeffer, J., & Salancik, G. (2015). External control of organizations—Resource dependence perspective. In *Organizational behavior 2* (pp. 355-370). Routledge.
- Rhoades, D.L., Rechner, P.L. and Sundaramurthy, C. (2000). Board composition and financial performance: A meta-analysis of the influence of outside directors. *Journal of Managerial issues*, pp.76-91.
- Rooley, M. R. (2022). The impact of board composition on shareholder wealth creation: evidence from public companies in Sri Lanka. *Journal of Enterprise and Development (JED)*, 4(2), 188-209.
- Usman, M. and Yahaya, O.A., (2023). Do corporate governance mechanisms improve earnings? *China Journal of Accounting Research*, 16, pp.1-13.
- Weerasinghe, I. K. H. N., & Thilakasiri, K. K. (2024). Impact of Corporate Governance on Intellectual Capital Efficiency-Evidence from Sri Lankan Banking Sector.