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Audit Committee Dynamics, Chief Executive Officer Attributes, and Financial Performance: Evidence from Listed Diversified Financial Companies in Sri Lanka

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ABSTRACT

Corporate governance plays a pivotal role in ensuring financial stability and enhancing firm performance, particularly within the financial services sector, where governance lapses can trigger systemic risk and substantial investor losses. Within this context, audit committee dynamics and CEO attributes emerge as critical governance mechanisms that shape monitoring effectiveness, financial reporting quality, and strategic decision-making. The purpose of this study is to assess the impact of audit committee dynamics and CEO attributes on the financial performance of listed diversified financial companies in Sri Lanka. The analysis is based on a sample of 28 diversified financial companies listed on the Colombo Stock Exchange over the period 2016–2025, using secondary data derived from annual reports. Audit committee dynamics and CEO attributes were analyzed using regression to assess their impact on financial performance (ROA), controlling for firm size. The findings reveal that audit committee size exerts a negative effect on financial performance, while member expertise and meeting attendance demonstrate a positive and significant impact. Other variables, including audit committee independence, meeting frequency, chair tenure, and CEO attributes are found to be statistically insignificant. These results indicate that governance effectiveness depends more on functional quality and engagement of audit committees than structural or positional characteristics. Thus, the study suggests that boards and regulators should prioritize competency-based audit committee appointments and foster active participation, while investors may incorporate these factors into their evaluation of firm performance. Overall, the findings indicate that only selected governance mechanisms influence financial performance, emphasizing the importance of quality and engagement over structural or executive attributes.

Keywords: Corporate Governance, Audit Committee Dynamics, CEO Attributes, Financial Performance, Colombo Stock Exchange, Sri Lanka

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INTRODUCTION

Corporate governance has attracted considerable scholarly and regulatory attention as a framework for enhancing organizational accountability and safeguarding stakeholder interests, particularly in complex and highly regulated sectors such as financial services (Tricker, 2019). In such contexts, the effectiveness of governance mechanisms becomes crucial in mitigating information asymmetry, strengthening internal controls, and ensuring the credibility of financial reporting (Jensen & Meckling, 1976; DeFond & Zhang, 2014). Among these mechanisms, the audit committee assumes a central monitoring role by overseeing financial reporting processes, internal control systems, and external audit functions (DeZoort et al., 2002). At the same time, the characteristics of top leadership, particularly those of Chief Executive Officers (CEOs), significantly influence strategic decision-making and organizational outcomes (Hambrick & Mason, 1984). Therefore, both audit committee dynamics and CEO attributes are considered critical factors influencing firm performance and governance quality.

In the Sri Lankan context, corporate governance has come under increased scrutiny following several failures of regulated financial institutions, including high-profile cases such as the collapse of Golden Key Credit Card Company and the crisis surrounding ETI Finance Limited. Prior studies indicate that weaknesses in internal governance mechanisms, such as ineffective audit committees, lack of board independence, and inadequate internal control systems, have contributed to the distress and collapse of several financial companies in the country (Gnanasothy & Balagobei, 2022; Perera & Munasinghe, 2023). These incidents emphasize the critical importance of strengthening governance practices, particularly within highly regulated sectors such as diversified financial services. The effectiveness of audit committees is often influenced by factors such as audit committee size, independence, member expertise, meeting frequency, and leadership structure, which collectively contribute to the quality of financial reporting and oversight (Karim et al., 2024). Similarly, CEO attributes, including tenure and duality, shape managerial decision-making and influence corporate performance. From an upper echelon’s perspective, CEO tenure and CEO duality are theoretically relevant as they reflect managerial experience, cognitive orientation, strategic discretion, and the distribution of decision-making authority at the top of the organization (Hambrick & Mason, 1984; Brahma & Economou, 2024). CEO tenure may enhance firm performance through accumulated firm-specific knowledge, strategic continuity, and stakeholder familiarity; however, excessively long tenure may also encourage managerial entrenchment and reduce responsiveness to environmental change. Similarly, CEO duality may affect firm performance by concentrating executive and monitoring authority in one individual, thereby raising agency concerns regarding board independence, managerial oversight, and accountability (Jensen & Meckling, 1976; Kaur & Singh, 2019).

Although prior studies have examined the relationship between audit committee characteristics and firm performance, as well as the relationship between CEO attributes and firm performance, three specific gaps remain. First, existing Sri Lankan evidence has largely focused on banks and other sector-specific samples, while listed diversified financial companies remain relatively underexplored despite the governance concerns and regulatory sensitivity associated with Sri Lanka’s financial sector (Balagobei & Velnampy, 2018; Madhurangi & Abeygunasekera, 2021; Gnanasothy & Balagobei, 2022; Perera &

Munasinghe, 2023). Second, prior studies have often examined audit committee characteristics and CEO attributes separately, resulting in limited understanding of how audit committee-based monitoring mechanisms and executive leadership attributes jointly influence firm performance (Kaur & Singh, 2019; Rahman & Chen, 2023; Suherman et al., 2023; Karim et al., 2024). Third, less attention has been given to functional audit committee characteristics such as meeting attendance and audit committee chair tenure, particularly when examined together with CEO tenure and CEO duality (Chou & Buchdadi, 2017; Alodat et al., 2023a; Chikunda et al., 2025). These limitations create an important empirical and contextual gap, as, from agency theory and upper echelons theory perspectives, both board-level monitoring and executive decision-making may influence firm performance through their effects on oversight quality, managerial discretion, and strategic decision-making (Jensen & Meckling, 1976; Hambrick & Mason, 1984). Accordingly, this study addresses this gap by examining the combined influence of audit committee dynamics and CEO attributes on the financial performance of listed diversified financial companies in Sri Lanka. Drawing on panel data from diversified financial companies listed on the Colombo Stock Exchange (CSE) over the period 2016–2025, the study examines how these governance mechanisms influence firm performance, measured by return on assets (ROA). By integrating these governance dimensions within a unified empirical framework, this research contributes to the corporate governance literature and offers practical insights for regulators, investors, and corporate boards seeking to enhance governance practices and improve organizational performance in Sri Lanka's diversified financial sector. The paper is organized into five sections. Section 2 presents the literature review and the development of the hypothesis. Section 3 outlines the research methodology. Section 4 presents the results and discussion, and Section 5 concludes the paper with implications and future research directions.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Theoretical Underpinnings

Agency theory explains that conflicts that arise between managers (agents) and shareholders (principals) are due to differences in their interests, necessitating the use of appropriate governance mechanisms to align these interests. Such conflicts give rise to agency-related issues, including information asymmetry and agency costs (Balagobei & Velnampy, 2018). The theory further assumes that managers may not always act in the best interests of shareholders; therefore, principals seek to mitigate these conflicts by implementing monitoring mechanisms and incentive structures, which often involve additional costs aimed at limiting opportunistic behavior (Jensen & Meckling, 1976). Principals may use incentive and monitoring mechanisms to align agents' actions with shareholder interests while reducing opportunistic behaviour (Bonazzi & Islam, 2006). Previous studies suggest that independent and financially literate audit committees help reduce agency costs by strengthening governance practices and improving monitoring effectiveness. Such committees play a critical role in mitigating information asymmetry between managers and shareholders, particularly in complex organizational settings (DeZoort et al., 2002; DeFond & Zhang, 2014). This vulnerability arises from the complexity of financial processes and the heavy reliance on accurate financial reporting within such firms.

Stakeholder theory extends the traditional shareholder-focused perspective by recognizing a broader group of stakeholders, including employees, creditors, customers, and regulators. From this perspective, audit committees are not only responsible for protecting shareholder interests but also for promoting transparency and accountability to build trust among diverse stakeholder groups (Freeman, 1984; DeZoort et al., 2002). Accordingly, it emphasizes the alignment of governance practices with broader objectives of corporate responsibility and sustainability, which have become increasingly important in the contemporary business environment. When focusing on the diversified financial sector, where companies are typically subject to stringent regulations and operations, it is imperative to consider the concerns of various stakeholders. Thus, stakeholder theory facilitates the inclusion of diverse perspectives in audit committees and, therefore, ensures that decisions made capture the interests of a broad spectrum of parties, thereby resulting in long-term financial sustainability and performance. In this context, effective audit committees respond to stakeholder expectations by ensuring the provision of high-quality financial reports and relevant disclosures. Such practices of audit committees enhance stakeholder trust, which plays a crucial role in sustaining diversified financial institutions, particularly when they are perceived as credible and well-governed (DeZoort et al., 2002; Cohen et al., 2004).

The importance of skills and diversity in audit committees and CEO attributes can also be discussed with reference to the Resource Dependence Theory. This theory posits that organizations depend on external resources, and that audit committees with diverse expertise are better positioned to manage financial complexities and enhance decision-making effectiveness (Pfeffer & Salancik, 1978). This perspective is particularly relevant to diversified financial companies, whose operations are characterized by complex financial structures and stringent regulatory environments. Prior studies indicate that financial expertise within audit committees enhances decision-making quality and strengthens financial performance. In particular, members with accounting and auditing expertise play a critical role in ensuring regulatory compliance, detecting irregularities, and supporting informed decision-making (DeZoort et al., 2002; DeFond & Zhang, 2014). Furthermore, Hazzaa et al. (2024) suggest that CEO experience can significantly influence firm performance. Collectively, these insights highlight the importance of constituting audit committees with relevant knowledge and skills aligned with organizational complexities, particularly in sectors characterized by operational and financial challenges.

In addition to agency, stakeholder, and resource dependence perspectives, Upper Echelons Theory provides a direct theoretical basis for linking CEO attributes with firm performance. The theory suggests that organizational outcomes are partly shaped by the experiences, values, cognitive bases, and strategic choices of top executives; therefore, observable CEO attributes can be used as indicators of managerial orientation and decision-making behaviour (Hambrick & Mason, 1984). In this study, CEO tenure represents the extent of firm-specific knowledge, managerial experience, and strategic familiarity accumulated by the CEO, which may improve resource allocation and organizational performance. However, longer tenure may also reduce managerial flexibility and increase the risk of entrenchment. CEO duality, meanwhile, reflects the concentration of leadership and monitoring authority within a single individual. From an agency perspective, such concentration may weaken board oversight and increase agency conflicts, while separation of the CEO and chairperson roles may strengthen independent monitoring (Jensen & Meckling, 1976; Kaur & Singh, 2019; Brahma & Economou, 2024). Accordingly, CEO attributes are treated in this study not merely as demographic characteristics, but as theoretically meaningful governance attributes that may influence financial performance through managerial discretion, strategic decision-making, and oversight quality.

Audit Committee Dynamics and Financial Performance

A substantial body of empirical research has explored the role of audit committee characteristics on firm performance. Commonly examined attributes include audit committee size, independence, financial expertise, and meeting frequency, which are widely regarded as indicators of audit committee effectiveness. Balagobei and Velnampy, (2018) posit that audit committee members' financial expertise and meeting frequency positively influence organizational performance among listed hotel and travel companies in Sri Lanka, although audit committee size was found to be insignificant. Nonetheless, Madhurangi and Abeygunasekera (2021), focusing on the Sri Lankan banking sector, report that audit committee size and meeting frequency do not have a significant effect on financial reporting quality. These inconsistent findings suggest that the effectiveness of audit committee characteristics may vary across industries and institutional contexts. Accordingly, Alodat et al. (2023a) highlight that audit committee chair expertise and tenure positively influence firm performance, while Chou and Buchdadi (2017) highlight the importance of audit committee meeting attendance in improving accounting-based profitability. Collectively, these findings suggest that the relationship between audit committee characteristics and firm performance is context-dependent rather than uniform. From an agency theory perspective, structural audit committee attributes such as size, independence, and meeting frequency may strengthen monitoring and reduce information asymmetry; however, prior empirical findings show that these characteristics do not consistently translate into improved firm performance across all settings (Balagobei & Velnampy, 2018; Jensen & Meckling, 1976; Madhurangi & Abeygunasekera, 2021). In contrast, functional attributes such as financial expertise and meeting attendance may better reflect the substantive monitoring capacity of audit committees as they indicate members' ability and willingness to engage actively with financial reporting, internal control, and oversight responsibilities (Chou & Buchdadi, 2017; DeFond & Zhang, 2014; DeZoort et al., 2002). Therefore, the mixed findings in Sri Lankan and international studies indicate the need to examine both structural and functional audit committee characteristics within a sector-specific empirical setting.

CEO Attributes and Financial Performance

Building on Upper Echelons Theory and Agency Theory, CEO attributes are considered important determinants of firm performance as they influence managerial discretion, strategic decision-making, resource allocation, and the effectiveness of governance oversight. CEOs influence organizational strategy, resource allocation, and managerial decisions, making their personal attributes significant for corporate outcomes. Chikunda et al. (2025) found a positive relationship between CEO tenure and firm performance, suggesting that experienced CEOs accumulate firm-specific knowledge and expertise that enhance organizational performance. Nevertheless, the study also indicates that excessively long CEO tenure may reduce performance due to managerial entrenchment. Rahman and Chen, (2023) analyzed CEO characteristics in Chinese private firms and reported that CEO age, tenure, and political connections positively influence corporate performance. Similarly, Suherman et al. (2023) reveal that CEO gender diversity and education positively contribute to firm performance in Southeast Asian firms. In contrast, Kaur and Singh, (2019) report mixed findings in the Indian context, where CEO ownership and duality positively influence firm performance, while longer CEO tenure has a negative influence on performance. These conflicting findings suggest that CEO attributes do not influence firm performance in a uniform manner. Upper Echelons Theory argues that organizational outcomes are shaped by the experiences, values, and cognitive bases of top executives, implying that CEO tenure may influence firm performance through firm-specific knowledge, strategic orientation, and managerial decision-making (Hambrick & Mason, 1984; Chikunda et al., 2025). However, agency theory suggests that CEO duality and prolonged tenure may also increase managerial power, reduce board monitoring effectiveness, and create the risk of managerial entrenchment (Jensen & Meckling, 1976; Kaur & Singh, 2019; Brahma & Economou, 2024). Accordingly, the effect of CEO attributes may depend on the governance environment, board monitoring mechanisms, regulatory context, and the extent of managerial discretion available to the CEO (Rahman & Chen, 2023; Suherman et al., 2023). Therefore, CEO tenure and CEO duality should be examined not only as individual leadership characteristics but also in relation to wider governance mechanisms such as audit committee effectiveness.

RESEARCH GAP

Despite the growing body of literature on corporate governance and firm performance, several important gaps remain. Much of the existing research has primarily examined individual governance mechanisms, such as audit committee characteristics or CEO attributes, rather than considering their combined influence on firm performance. For instance, Sri Lankan studies have largely focused on audit committee attributes in relation to firm performance or financial reporting quality without incorporating executive leadership characteristics into the analysis (Balagobei & Velnampy, 2018; Madhurangi & Abeygunasekera, 2021). Similarly, studies on CEO characteristics have generally examined demographic and governance-related attributes such as age, tenure, gender, ownership, and duality independently of board-level monitoring mechanisms (Kaur & Singh, 2019; Rahman & Chen, 2023; Suherman et al., 2023). As a result, the way in which executive leadership attributes and audit committee monitoring mechanisms jointly influence firm performance remains insufficiently explored.

Furthermore, empirical studies in the Sri Lankan context have mostly focused on specific industries such as banking, manufacturing, or hospitality, while limited attention has been given to the diversified financial sector (Balagobei & Velnampy, 2018; Madhurangi & Abeygunasekera, 2021). This represents an important contextual gap because diversified financial companies operate within a highly complex and regulated environment, where governance mechanisms are expected to play a critical role in maintaining financial stability, strengthening oversight, and improving performance (Gnanasothy & Balagobei, 2022; Perera & Munasinghe, 2023). In addition, prior research has mainly emphasized traditional audit committee characteristics such as size, independence, financial expertise, and meeting frequency, while functional governance indicators such as audit committee chair tenure and committee meeting attendance have received comparatively limited empirical attention, particularly when examined together with CEO tenure and CEO duality (Chou & Buchdadi, 2017; Alodat et al., 2023a; Kaur & Singh, 2019; Chikunda et al., 2025).

Taken together, prior literature suggests that governance mechanisms may influence firm performance differently depending on whether they operate as formal structural arrangements or as substantively engaged monitoring mechanisms. Agency theory emphasizes the importance of monitoring mechanisms in reducing agency conflicts and information asymmetry, while resource dependence theory highlights the value of expertise and knowledge resources in strengthening governance effectiveness (Jensen & Meckling, 1976; Pfeffer & Salancik, 1978). At the same time, upper echelons theory suggests that CEO attributes may influence strategic decision-making and firm outcomes through managerial discretion, executive experience, and cognitive orientation (Hambrick & Mason, 1984). Therefore, the conflicting findings on audit committee characteristics and CEO attributes indicate that governance effectiveness may be shaped by sectoral, institutional, and regulatory conditions. Addressing these gaps, the present study examines the combined influence of audit committee dynamics and CEO attributes on financial performance within Sri Lanka's diversified financial sector.

Formulation of Hypotheses

Building on the theoretical foundations and empirical evidence discussed above, the following hypotheses are developed.

Larger audit committees may possess a broader range of expertise and greater resources, thereby enhancing the quality of oversight and decision-making (Pfeffer & Salancik, 1978). Nonetheless, excessively large committees may become less effective due to coordination and communication challenges, which can hinder timely decision-making and reduce overall effectiveness (Jensen, 1993). Madhurangi and Abeygunasekera (2021) report that audit committee size does not have a statistically significant impact on financial reporting quality in the Sri Lankan banking sector. In contrast, prior studies document a positive association between audit committee size and firm performance, suggesting that larger committees may enhance monitoring effectiveness (Kallamu & Saat, 2015). Based on literature, the following hypothesis is developed.

H_1: Audit committee size has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka.

Active monitoring and increased vigilance in financial reporting and internal control systems are often reflected in more frequent audit committee meetings, which may enhance organizational performance. Abeygunasekera and Madhurangi (2021) found that audit committee meeting frequency does not have a significant impact on financial reporting quality in the Sri Lankan banking sector. In contrast, prior studies report a positive and significant association between meeting frequency and firm performance among listed companies (Kallamu & Saat, 2015). Given these mixed findings, the following hypothesis is formulated.

H_2: Audit committee meeting frequency has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka

Audit committee members with financial expertise and relevant academic qualifications are better capable of overseeing complex financial reporting, thereby enhancing firm performance. Financial expertise is widely recognized as a critical component of effective governance. Prior studies have operationalized this through the proportion of members with accounting or financial qualifications (Madhurangi & Abeygunasekera, 2021), while Balagobei and Velnampy (2018) indicate that the audit committee expertise significantly influences the organizational performance. Accordingly, the following hypothesis is proposed:

H_3: Audit committee expertise has a significant impact on the financial performance of listed diversified financial companies

Independent audit committee members are more likely to provide objective oversight, reducing agency conflicts and enhancing firm performance. Madhurangi and Abeygunasekera (2021) included audit committee independence as a key governance attribute when examining audit committee characteristics. In a sector-specific study, Balagobei and Velnampy (2018) found that audit committee independence significantly influences organizational performance. Based on these findings, the following hypothesis is formulated.

H_4: Audit committee independence has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka

Consistent attendance by audit committee members reflects diligence and active engagement in governance processes, which enhances monitoring effectiveness and reduces information asymmetry (Jensen & Meckling, 1976). Prior studies also suggest that more active and engaged governance bodies are associated with improved firm performance and financial reporting quality (Vafeas, 1999; Xie et al., 2003). Chou and Buchdadi (2017) examined meeting attendance as part of broader governance mechanisms and highlighted the collective importance of governance structures in influencing firm performance; nevertheless, the effect of individual attributes, such as meeting attendance, was not examined separately. Accordingly, the following hypothesis is proposed.

H_5: Audit committee meeting attendance has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka

The audit committee chair's role has a critical influence on the effectiveness of the audit committee. Alodat et al. (2023a) has employed audit committee chair tenure as an audit committee characteristic when investigating the audit committee chair effectiveness and firm performance, which was mediated by the role of sustainability disclosures. Based on this evidence, the following hypothesis was developed.

H_6: Audit committee chair tenure has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka

CEO tenure is theoretically linked to firm performance through the experience, knowledge, and strategic orientation accumulated by the CEO over time. From an Upper Echelons Theory perspective, longer-tenured CEOs may possess deeper firm-specific knowledge, stronger stakeholder relationships, and greater familiarity with internal processes, which can improve strategic decision-making and performance (Hambrick & Mason, 1984; Chikunda et al., 2025). However, agency theory suggests that excessive tenure may also increase managerial entrenchment, reduce adaptability, and weaken governance discipline. Therefore, CEO tenure may have a significant influence on firm performance, although the direction of the effect may vary depending on the governance context. Accordingly, the following hypothesis is developed:

H_7: CEO tenure has a significant impact on the financial performance of listed

diversified financial companies in Sri Lanka

CEO duality reflects the governance structure in which the CEO also holds the position of board chairperson. From an agency theory perspective, CEO duality may weaken board independence and reduce the effectiveness of monitoring, as decision-making and oversight authority become concentrated in one individual (Jensen & Meckling, 1976). However, prior empirical evidence remains mixed, with some studies suggesting that CEO duality may support unified leadership and faster decision-making, while others indicate that it may weaken governance effectiveness and firm performance (Kaur & Singh, 2019; Rahman & Chen, 2023). Given these competing arguments, the following hypothesis is proposed:

H_8: CEO duality has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka.

METHODOLOGY

Research Design, Sample Selection, and Data Collection

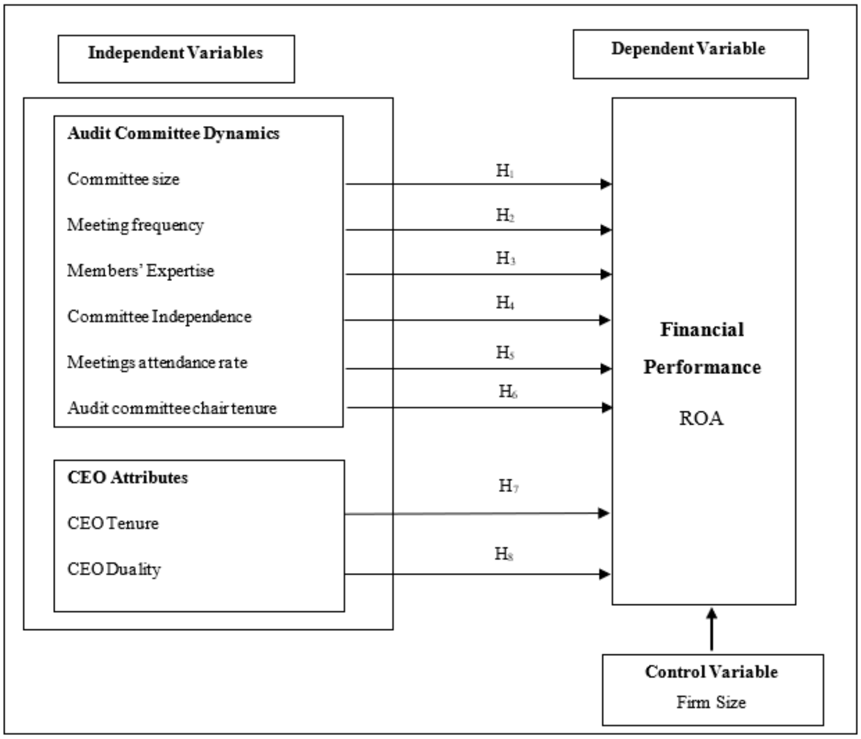
This study adopts a quantitative explanatory research design based on secondary panel data to examine the impact of audit committee dynamics and CEO attributes on the financial performance of listed diversified financial companies in Sri Lanka. The hypotheses are developed from established corporate governance theories, including agency theory, resource dependence theory, and upper echelons theory, and are empirically tested using firm-year observations (Jensen & Meckling, 1976; Pfeffer & Salancik, 1978; Hambrick & Mason, 1984). The use of panel data is appropriate as it enables the analysis to capture both cross-sectional variation across firms and time-series variation over the period 2016–2025, while controlling for unobserved firm-level heterogeneity (Baltagi, 2005). Accordingly, the research design allows the study to examine whether variations in audit committee dynamics and CEO attributes are associated with variations in firm performance after controlling for firm-specific effects. The sampling frame consists of all companies classified under the diversified financial sector of the Colombo Stock Exchange (CSE). Therefore, a total population sampling approach was initially adopted, whereby all firms within this sector were considered for inclusion. This approach is appropriate due to the relatively small and well-defined population and is consistent with prior sector-specific corporate governance studies (Kallamu & Saat, 2015).

Nevertheless, out of 34 diversified financial sector companies listed in CSE, the study focused on 28 diversified financial companies as the sample based on the availability of complete and consistent financial and corporate governance data over the study period. Companies with missing or incomplete data were excluded to ensure the reliability and comparability of the analysis. Accordingly, the study covers a ten-year period from 2016 to 2025, resulting in a balanced panel dataset of 280 firm-year observations. Secondary data was collected from the published annual reports of the selected companies, which are prepared in accordance with regulatory requirements and thus provide comprehensive information on financial performance and corporate governance practices.

Conceptual Framework

The conceptual framework of the study presented in Figure 1 below illustrates the impact of audit committee dynamics and CEO attributes on the financial performance of listed diversified financial companies in Sri Lanka, with firm size included as a control variable. Audit committee dynamics, represented by both structural and functional characteristics, are expected to influence financial performance through enhanced monitoring and oversight of financial reporting processes. Similarly, CEO attributes reflect leadership-related factors that may affect strategic decision-making and organizational outcomes. Firm size is included as a control variable to account for differences in organizational scale.

Figure 1: Conceptual Framework



Source: Author Developed

Operationalization of Variables

The study employs independent, dependent, and control variables to investigate the impact of audit committee dynamics and CEO attributes on financial performance. The independent variables consist of two main dimensions: audit committee dynamics and CEO attributes. Audit committee dynamics are operationalized using several structural and functional characteristics, including audit committee size, meeting frequency, financial expertise, audit committee chair tenure, independence, and members' meeting attendance. These variables reflect the monitoring capacity and effectiveness of the audit committee in overseeing financial reporting and internal control processes. Prior research suggests that the structure and competency of audit committees play a crucial role in strengthening corporate governance and improving firm value (Madhurangi & Abeygunasekera, 2021). In addition, CEO attributes, represented by CEO tenure and CEO duality, are included as governance-related leadership characteristics that may influence managerial decision-making and firm outcomes. The dependent variable is financial performance measured using Return on Assets (ROA), which reflects the efficiency with which a company utilizes its assets to generate profits. ROA is widely used in corporate governance research as a reliable accounting-based performance measure (Alqatamin, 2018). Firm size is included as a control variable and is measured as the natural logarithm of total assets. This variable is incorporated to control for the potential influence of firm scale on financial performance, as larger firms may exhibit different governance structures and performance dynamics (Madhurangi & Abeygunasekera, 2021). Thus, the Table1 below presents the operationalization of variables of the study.

Table 1: Operationalization of Variables

Variable	Measurement	Source
Independent Variables		
Audit Committee Size (ACS)	Total number of members in the audit committee	Balagobei and Velnampy (2018); De Silva and Hewage (2022)
Audit Committee Meeting Frequency (ACMF)	Number of audit committee meetings held per year	Balagobei and Velnampy (2018); De Silva and Hewage (2022)
Audit Committee Members Expertise (ACME)	Total number of expertise members with expertise knowledge in accounting, auditing, and finance on the audit committee	Balagobei and Velnampy (2018); De Silva and Hewage (2022)
Audit Committee Independence (ACI)	Proportion of independent non-executive directors in the audit committee	Balagobei and Velnampy (2018)
Audit Committee Meeting Attendance Rate (ACMAR)	Attendance percentage = (Meetings attended ÷ Total meetings) × 100	Chou and Buchdadi (2017)
Audit Committee Chair Tenure (ACCT)	The number of years since the AC chair joined the board	Alodat et al. (2023a); Nipper (2021)
CEO Tenure (CEOT)	Number of years the CEO has continuously served in the position (calculated as year of	Chikunda et al. (2025)

	observation – year of CEO appointment)	
CEO Duality (CEOD)	Dummy variable: coded 0 if the CEO also serves as the Chairperson of the Board, and 1 if the two roles are separated	Kaur and Singh (2019); Rahman and Chen (2023)
Dependent Variable		
Firm performance	Return on Assets (ROA) = (Net profit ÷ Total assets)	Alqatamin (2018); De Silva and Hewage (2022)
Control Variable		
Firm Size (FS)	Natural logarithm of Total Assets	Alqatamin (2018); Madhurangi and Abeygunasekera (2021)

***Source*:** Authors compiled

Empirical Model

To examine the relationship between audit committee dynamics, CEO attributes, and financial performance, this study employs panel data regression analysis. Panel data methods are appropriate for this study as they enable the analysis of firm-level variations over the study period while controlling for unobserved heterogeneity across firms (Baltagi, 2005). To determine the appropriate model specification, the Hausman test is conducted to compare the fixed effects and random effects models. The results of the Hausman test indicate that the fixed effects model is preferred over the random effects model, as the test is statistically significant ($p < 0.05$), suggesting that the individual effects are correlated with the explanatory variables. Accordingly, the fixed effects model is adopted to ensure consistent and reliable estimates and the following regression model is estimated:

$$\begin{aligned} ROA_{it} = {} & \beta_0 + \beta_1 ACS_{it} + \beta_2 ACMF_{it} + \beta_3 ACME_{it} + \beta_4 ACI_{it} + \beta_5 ACMAR_{it} + \beta_6 ACCT_{it} \\ & + \beta_7 CEOT_{it} + \beta_8 CEOD_{it} + \beta_9 FS_{it} + \alpha_i + \varepsilon_i \end{aligned}$$

In the above model, ROA_{it} represents the financial performance of firm *i* in year *t,* where *i* denotes each listed diversified financial company, while *t* denotes the year of observation from 2016 to 2025. ACS_{it}, $ACMF_{it}$, $ACME_{it}$, ACI_{it}, $ACMAR_{it}$, and $ACCT_{it}$ represent audit committee dynamics, while $CEOT_{it}$ and $CEOD_{it}$ represent CEO attributes. FS_{it} represents firm size as the control variable. The term α_i captures unobserved time-invariant firm-specific effects, while ε_{it} represents the idiosyncratic error term. The inclusion of firm-specific effects is consistent with the fixed-effects panel regression approach adopted based on the Hausman test results and is appropriate for controlling firm-level heterogeneity in panel data analysis (Baltagi, 2005).

DATA ANALYSIS AND DISCUSSION

Descriptive Statistics

The descriptive statistics for the study variables are depicted in Table 2. The audit committee size (ACS) shows a mean of 3.432, indicating that, on average, listed diversified financial companies in Sri Lanka include around three audit committee members in the audit committee. The value of the variable represents moderate variation (SD = 0.9778) between a minimum of 2 and a maximum of 6 audit committee members. The mean frequency of audit committee meetings (ACMF) is 7 meetings per year, with a large spread (SD = 3.8291) of 1 to 24 meetings, indicating the large variation in the level of how often the audit committees are held. The mean value of the audit committee members' expertise (ACME) is 2.589, which corresponds to about 3 audit committee members with expert knowledge in the accounting, finance, or auditing field. The range gave a moderate variation between 1 and 6 audit committee members (SD = 0.86). Audit committee independence (ACI) shows a mean value of 0.699, indicating that 70% of audit committee members are independent, with a narrow range between 0.675 and 0.729. The variable displays very minimal variation (SD = 0.01). The average attendance rate (ACMAR) of the audit committee meetings is 0.92, and the standard deviation (SD) is 0.02. The lowest and the highest audit committee meetings stand at 0.85 and 0.97, respectively. The average period of audit committee chair tenure (ACCT) is 5.34 years, with a range of 3.35 to 7.21 years. The standard deviation (SD = 0.66) suggests moderate variation in audit committee chair tenure. CEO tenure records a mean value of 9.59 years, with a considerable range from 0.09 to 20.09 years. The standard deviation (SD = 3,72) indicates moderate variation among firms in CEO tenure, which implies some companies have long CEO tenure, and some companies have newly appointed their CEOs.

Table 2: Descriptive Statistics Results

	Mean	Median	Maximum	Minimum	Std. Dev
ACS	3.4321	3	6	2	0.9777
ACMF	7.1250	6	24	1	3.8291
ACME	2.5893	2	6	1	0.8630
ACI	0.6993	0.7000	0.7292	0.6750	0.0129
ACMAR	0.9156	0.9160	0.9717	0.8484	0.0168
ACCT	5.3436	5.3880	7.2130	3.3518	0.6615
CEOT	9.5883	9.3241	20.085	0.0921	3.7183
ROA	0.0272	0.0253	0.1040	-0.0369	0.0261
FS	23.6169	23.688	25.2072	21.7677	1.2271

Source: Authors compiled

Financial performance measured by ROA shows a mean of 0.027, with values ranging from -0.037 to 0.104. The standard deviation (SD = 0.026) indicates low variation, although the presence of both positive and negative values indicates differences in profitability across firms. Firm size (FS) records a mean of 23.70, with a range from 21.77 to 25.21. The standard deviation (SD = 1.22) shows moderate variation in firm size within the sample.

Correlation Analysis

Table 3 presents the Pearson correlation matrix for the variables included in the study. The correlation coefficients provide preliminary evidence regarding the direction and strength of the relationships among the variables while also serving as an initial assessment of potential multicollinearity. Overall, the pairwise correlations among the independent variables are generally low to moderate, with no correlation coefficient exceeding the commonly accepted threshold of 0.80. This suggests that multicollinearity is unlikely to pose a serious concern in the subsequent regression analysis.

With respect to the dependent variable, financial performance (ROA) exhibits a statistically significant negative correlation with audit committee size (ACS) ($r = -0.303$, $p < 0.01$), indicating that firms with larger audit committees tend to report lower financial performance. In contrast, audit committee independence (ACI) ($r = 0.252$, $p < 0.01$), audit committee meeting attendance rate (ACMAR) ($r = 0.308$, $p < 0.01$), audit committee chair tenure (ACCT) ($r = 0.152$, $p < 0.05$), and firm size (FS) ($r = 0.147$, $p < 0.05$) are positively associated with ROA. These findings suggest that stronger audit committee engagement and larger organizational size are associated with improved financial performance.

Table 3: Correlation Analysis Results

Variables	ROA	ACS	ACMF	ACME	ACI	ACMAR	ACCT	CEOT	CEOD	FS
ROA	1.000									
ACS	-0.303	1.000								
ACMF	-0.075	-0.115	1.000							
ACME	0.087	0.343	-0.119	1.000						
ACI	0.252	-0.147	-0.082	-0.044	1.000					
ACMAR	0.308	-0.251	0.239	-0.047	0.175	1.000				
ACCT	0.152	0.019	-0.049	-0.055	0.050	0.175	1.000			
CEOT	-0.138	0.146	-0.075	0.024	-0.187	-0.033	0.078	1.000		
CEOD	0.000	-0.018	0.315	-0.005	-0.440	0.044	-0.152	0.054	1.000	
FS	0.147	-0.134	0.348	-0.100	-0.124	0.218	0.009	0.232	0.347	1.000

Source: Authors compiled

The remaining governance variables demonstrate relatively weak relationships with ROA. Audit committee meeting frequency (ACMF) ($r = -0.075$, $p > 0.05$), audit committee members' expertise (ACME) ($r = 0.087$, $p > 0.05$), CEO tenure (CEOT) ($r = -0.138$, $p < 0.05$), and CEO duality (CEOD) ($r = 0.000$, $p > 0.05$) exhibit weak associations with firm performance. Although CEO tenure shows a statistically significant negative correlation, its magnitude is relatively small, indicating a limited bivariate relationship with ROA.

Among the independent variables, the highest correlation is observed between audit committee size and audit committee members' expertise (r = 0.343), followed by firm size and audit committee meeting frequency (r = 0.348), and CEO duality and audit committee meeting frequency (r = 0.315). Since these coefficients remain well below the conventional threshold for multicollinearity, the independent variables appear sufficiently distinct to be included simultaneously in the regression model. Therefore, the correlation analysis provides preliminary support for the regression analysis while indicating that multicollinearity is unlikely to affect the reliability of the estimated coefficients.

Regression Analysis

According to the findings of the regression analysis, which were presented in Table 4, some audit committee variables proved to have a significant impact on financial performance, whereas others did not. The size of the audit committee (ACS) had a significant negative impact on the ROA (P < 0.01), which implied that when the audit committee size was increased, it led the firm to lower financial performance.

This result supports the first hypothesis, which is that audit committee size significantly impacts on financial performance of listed diversified financial companies. The level of expertise of the members (ACME) was also influential (P = 0.028), and the positive coefficient is an indication that an increase in the expertise of the audit committee members led to a better ROA. This result was aligned with the hypothesis which is higher expertise members in the audit committee lead the better financial performance.

The attendance rate at audit committee meetings (ACMAR) was also significant (P = 0.0031), and a positive coefficient indicates that an increased attendance rate at audit committee meetings enhanced financial performance. This result supports the hypothesis, which is higher attendance rate of audit committee members leads to better financial performance (ROA) of listed diversified financial companies. Conversely, some of the variables in the audit committee were not statistically significant. The frequency of meetings (ACMF) had a non-significant P-value (P = 0.551), meaning that it produced no meaningful effect despite having a negative coefficient. The independence of the audit committee was insignificant (P = 0.7882), indicating that the degree of independence did not influence ROA, although the coefficient was positive.

The tenure of the audit committee chair (ACCT) also exhibited a nonsignificant effect (P = 0.2431), which means that the audit committee chair tenure did not affect ROA statistically significantly, even though it had a positive coefficient. Hypotheses that were developed on audit committee meeting frequency, audit committee chair tenure, and audit committee independence were not supported by the regression output. Overall, the experience and involvement of the audit committee greatly contribute to financial performance, but structural or formal features like independence, tenure of the chair, and frequency of the meetings do not play an important role in influencing the firm's performance. In terms of CEO attributes, the findings show that CEO tenure (CEOT) was not found to be significant (P = 0.8159), implying that the years of service of the CEO did not affect financial performance.

CEO duality (CEOD) was statistically insignificant at 5% level but marginally significant at the 10% level (P = 0.0987). It shows that there is insufficient evidence that the two positions of CEO and chairperson can affect financial performance, and that impact is not deemed to be statistically significant at the traditional 5% level. All these results suggest that the CEO tenure and CEO duality, which were two CEO attributes discussed under the second objective, have no significant effect on the financial performance, supporting the assumption that governance performance in this sector is more strongly determined by the efficiency of the audit committee instead of the attributes of the CEO. The fixed-effects panel regression model examines the influence of audit committee characteristics, CEO attributes, and firm size on firm performance measured by ROA. The model is statistically significant ($F = 8.6668$, $p < 0.000$), indicating that the explanatory variables collectively explain a meaningful portion of the variation in ROA. The adjusted R^2 value of 0.4769 shows that approximately 47.69% of the variation in firm performance is captured by the model. Based on the regression results provided in Table 4, the following equation for the model has been formed.

Table 4: Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob
C	-0.6400	0.1806	-3.5438	0.0005
ACS	-0.0066	0.0015	-4.4895	0.0000*
ACMF	-0.0004	0.0006	-0.5971	0.5510
ACME	0.0038	0.0017	2.2112	0.0280**
ACI	0.0593	0.2204	0.2690	0.7882
ACMAR	0.2913	0.0976	2.9834	0.0031*
ACCT	0.0023	0.0020	1.1701	0.2431
CEOT	-0.0001	0.0006	-0.2331	0.8159
CEOD	0.0235	0.0142	1.6574	0.0987***
FS	0.0145	0.0022	6.5919	0.0000*

Effect Specification	
R-squared	0.5444
Adjusted R-squared	0.4769
F-statistic	8.0667
Prob (F-statistic)	0.0000
Durbin-Watson stat	1.6454

*, **, and *** indicates statistically significant at 1%, 5% and 10% respectively.
Source: Authors compiled

$$ROA_{it} = -0.6400 - 0.0066ACS_{it} - 0.0004ACMF_{it} + 0.0038ACME_{it} + 0.0593ACI_{it} + 0.2913ACMAR_{it} + 0.0023ACCT_{it} - 0.0001CEOT_{it} + 0.0235CEOD_{it} + 0.0145 FS_{it} + \alpha_i + \varepsilon_i$$

DISCUSSION

The study focuses on how audit committee features and CEO qualities affect the financial performance of listed diversified financial firms in Sri Lanka. The results indicate that the performance of a firm has a substantial influence on certain audit committee dynamics, and CEO attributes have no influence on the performance of a firm.

The study concluded that the audit committee size is an important factor that affects the financial performance of the listed diversified financial companies in Sri Lanka. The study by Abeygunasekera et al. (2021) found that the audit committee size is a major factor influencing the financial performance, and it is in line with these findings. Balagobei and Velnampy (2018) state that the size of an audit committee does not matter much in terms of financial performance. This study illustrates that the frequency of the audit committee meeting does not have a significant influence on the financial performance of the listed diversified financial companies in Sri Lanka. This finding was consistent with another study by Alqatamin, (2018), which was carried out within the scope of audit committee effectiveness and firm performance in relation to the Jordan context. In contrast, Balagobei and Velnampy (2018) found that the frequency of audit committee meetings is positively associated with firm performance, which is consistent with the findings of Abeygunasekera et al. (2021), who reported that audit committee attributes significantly influence financial performance.

The experts in the accounting, auditing, or finance field, in turn, play a substantial role in the financial performance of the listed diversified financial companies in Sri Lanka. This was aligned with the study, namely the impact of the audit committee on the organizational performance of listed hotels and travels in Sri Lanka, findings of the study (Balagobei & Velnampy, 2018). This study found that independence of the audit committee has no statistically significant impact on financial performance, aligning with the study of Abeygunasekera et al. (2021), which explains that audit committee independence has no statistically significant impact on the financial performance of the firms. In contrast, Alqatamin (2018) found that audit committee independence has a significant impact on firm performance.

The study, which examined audit committee effectiveness in Jordanian firms, concluded that greater independence within the audit committee positively influences financial performance. And also Balagobei and Velnampy (2018) explain that audit committee independence has a significant influence on financial performance, which was conducted based on hotels and travel companies in Sri Lanka, which contradicts this study. Audit committee meeting attendance rate has a significant impact on the financial performance of listed diversified financial companies in Sri Lanka. This was aligned with the findings of Chou and Buchdadi, (2017) who has studied "Independent Board, Audit Committee, Risk Committee, the Meeting Attendance level and its Impact on the Performance: A Study of Listed Banks in Indonesia".

The study found that audit committee chair tenure has a positive, insignificant impact on the financial performance of listed diversified financial companies, contrasting with the (Alodat et al., 2023a). Alodat et al. (2023a) examined audit committee chair effectiveness and firm performance through the mediating role of sustainability disclosure and reported a significant positive relationship between ACCT and financial performance measures such as ROE and ROA. Abeygunasekera A. (2021) found that experienced chairs contribute to a more stable governance structure, which contradicts this study. According to Alodat et al. (2023b), audit committee chair tenure had a positive yet non-significant correlation with sustainability disclosure, with no moderating effect of firm size on this relationship, which the findings were aligned with this study.

CEO tenure has no significant impact on the financial performance of diversified financial sector companies. According to Chikunda et al. (2025), CEO tenure has positively impacted firm performance up to a certain level, and after that, it has hindered the firm's performance, which slightly agrees and disagrees with the findings of this study. The study by Suherman et al. (2023) older CEOs are reducing the firm's performance, which aligns with this study. CEO duality has no significant impact on the financial performance of the company, which aligns with a study that was conducted by Rahman and Chen (2023) about CEO characteristics and firm performance: evidence from privately listed firms in China. But this was in contrast with the findings of the study, which was conducted by Kaur and Singh (2019) about "Do CEO characteristics explain firm performance in India?". These findings indicate that only selected audit committee dynamics, such as audit committee expertise, meeting attendance, and committee size, play a significant role in enhancing the financial performance of diversified financial firms. And some studies mentioned that CEO attributes do not appear to have a significant impact on firm performance.

CONCLUSION

This study examined the impact of audit committee dynamics and CEO attributes on the financial performance of listed diversified financial companies in Sri Lanka, using ROA as the measure of firm performance. The findings reveal that only certain audit committee characteristics significantly influence financial performance. Specifically, audit committee size shows a significant negative relationship with firm performance, suggesting that excessively large committees may reduce decision-making efficiency, while audit committee members' expertise and meeting attendance rate have a significant positive impact, highlighting the importance of knowledgeable and actively engaged members in strengthening corporate governance and improving firm outcomes. However, audit committee meeting frequency, committee independence, and audit committee chair tenure were found to have no statistically significant influence on performance within the diversified financial sector. Similarly, CEO attributes such as CEO tenure and CEO duality do not significantly affect firm performance, indicating that the structural position or length of service of the CEO alone may not determine financial outcomes. Overall, the findings suggest that specific governance mechanisms related to the competence and engagement of audit committee members play a more influential role in enhancing firm performance than structural governance attributes or CEO characteristics. The study contributes to the corporate governance literature by demonstrating that the effectiveness of governance mechanisms can be sector-specific and highlights the usefulness of panel regression analysis in examining governance–performance relationships. Practically, the results emphasize the importance for corporate boards and regulators to focus on improving the functional effectiveness of audit committees, particularly by appointing members with strong financial expertise and ensuring active participation in meetings. Nevertheless, the study is limited to the listed diversified financial companies in Sri Lanka and uses ROA as the sole measure of financial performance, which may restrict the generalizability of the findings. Future research may expand the analysis to other industries, incorporate additional financial and market-based performance indicators such as ROE and Tobin's Q, and examine moderating or mediating governance factors such as ownership concentration, board diversity, and risk management practices. Moreover, qualitative approaches such as interviews with board members and comparative studies across South Asian countries could provide deeper insights into how governance mechanisms influence firm performance in different institutional contexts.

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