

Impact of Owner - Based and Lender - Based Governance Mechanisms on Firm Financial Performance of Listed Food, Beverage and Tobacco Companies in Sri Lanka

G.B.P.S.K Rathnayaka¹, A.H. Kelumdeniya² and
J.M.N. Wijekumara³

^{1,2,3} *Department of Accountancy and Finance,
Rajarata University of Sri Lanka*

¹ *prasaki@gmail.com*, ² *ashinik@mgt.rjt.ac.lk*
³ *nishantha@mgt.rjt.ac.lk*

ABSTRACT

Purpose: Corporate governance mechanisms play a significant role in solving agency problems within organizations and it supports in ensuring the stability of companies by increasing the firm financial performance. Corporate governance research has concentrated on the governance executed by the shareholders, among several stakeholders of a firm. Owners and lenders-based mechanisms are suffering from firm financial performance problems. This study attempted to answer this problem by identifying the impact of both owner-based and lender-based governance mechanisms on the firm financial performance of listed food, beverage, and tobacco companies in Sri Lanka.

Design/methodology/approach: The research model was conceptualized by using independent variables, corporate governance mechanisms along with the two dimensions OG mechanisms: ownership concentration, board size, board composition & LG mechanisms: loan amount, loan magnitude and the dependent variables, firm financial performance along with the three dimensions firm profitability, firm value, firm distress level. This quantitative study sampled for twenty companies from 2019-2023 using the simple convenience sampling method. Descriptive statistics, correlation analysis, and regression analysis were used as the analytical tools.

Findings: The results indicate that the OG mechanisms would enhance the firm profitability and firm value while significantly impacts on firm distress level. The LG mechanism significantly impacts firm profitability, firm value, and firm distress level. Therefore, both structures of governance must be regarded as relevant factors in assessing various types of financial success of companies.

Practical implications: The results of this study have significant ramifications for various parties in order to ensure the financial stability, to mitigate the weaknesses of good corporate governance.

Keywords: *Corporate Governance, Agency Problem, OG Mechanism, LG Mechanism*