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IMPACT OF INTERNAL CORPORATE GOVERNANCE MECHANISMS ON ENTERPRISE VALUE: EVIDENCE FROM LISTED COMPANIES IN SRI LANKA

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ABSTRACT

Corporate governance is crucial for gaining investor confidence and unlocking shareholder value. The aim of the study is to examine the influence of internal corporate governance mechanisms on enterprise value of listed companies in Sri Lanka. This study is confined to listed companies using a sample of 104 companies in Sri Lanka with 728 firm-year observations during the period of 7 years from 2015 to 2021. The statistical techniques of Pearson's correlation and Generalized Methods of Moments (GMM) were used to analyze the association between internal corporate governance mechanisms and enterprise value. The findings of this study revealed that board size positively influences the enterprise value of listed companies in Sri Lanka whereas Chief Executive Officer Duality (CEOD) and managerial ownership have a negative influence on enterprise value. Board independence, board diversity, board activity and audit committee size have not shown any significant influence on enterprise value. Moreover, control variables, firm size, firm age and leverage have positive effects on enterprise value. These findings have implications for managers, policymakers, researchers and investors in general and those in developing countries in particular. This paper offers contributions to both literature and practice on what internal corporate governance dimensions are important to enhance the enterprise value of listed companies.

Keywords: Corporate governance, board size, enterprise value, managerial ownership JEL classification: G32**Corresponding* saseelab@univ.jfn.ac.lk

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1. Introduction

Corporate Governance (CG) is regarded to have an important implication for a company's growth prospects and the overall economic development of the nation. Sound CG mechanisms play a vital role in minimising uncertainty for investors, improving investment opportunities and enhancing the value of firms. Though, the way where CG is structured varies among countries, based on economic, social and political frameworks (Heenetigala, 2007). CG is directed to mitigate the asymmetric information so that the investors can have adequate information in making the investment decision. In the end, it will influence the Enterprise Value (EPVA).

The significance of good CG mechanisms in EPVA remains the most important controversial issue in corporate finance. The implementation of good CG in every organisation has been an essential requirement. Good CG mechanisms influence the performance of a firm, and they are also responded to positively by external parties (potential investors), which is signified by the improving value of the firm. The purpose of implementing CG mechanisms in Sri Lanka is to provide a system to enhance investors' confidence and support the economic development of the nation.

The rapport between CG and EPVA is crucial in devising well-organized corporate management as well as public regulatory policies (Rouf, 2011). CG has an imperative role in enhancing the EPVA, and both variables are directly associated in developed and developing countries (Beiner & Schmid, 2005). Nevertheless, due to the different conditions of the economic, social and regulatory framework, there are divergences in the direction, degree, nature and practices of operation of the relationship among the countries (Ahunwan, 2003).

The downward trend and fluctuation of the value of companies listed in Sri Lanka indicate a lack of consistency in rules, control procedures, guidelines and methods to assure accountability and fiduciary duty. Poor CG will lead to enhancing the possibility of business collapse (Lakshan & Wijekoon, 2012). Based on the extant studies, there is evidence that CG mechanisms influence the improvement of EPVA.

Besides, Sri Lanka is one of the emerging economies striving for economic growth and development. Over the few years, CG concern has been a prominent issue due to recent corporate scandals and globalization on-going-effects, as the national economy incorporates the global economy, and companies strive to achieve global competitiveness after the civil-war in 2009. Several multinational corporations collapsed due to inefficient and ineffective CG (Sorensen & Miller, 2017). Sri Lankan corporations also endured corporate failure. Large organisations namely Pramuka savings and development bank, Golden key credit card company, Vimukthi Corporation and Lanka Marine Services Ltd collapsed as a result of poor CG practices (Senarathne & Gunarathne, 2008). Hence, it has become imperative to revisit the existing CG mechanisms to investigate their effect on EPVA and recommend ways to bring about changes if necessary. In addition, recent government investigations into the poor CG have implicated a number of public and private companies (e.g., Sri Lankan Air Lines and Perpetual Treasury). As a result, all public and private entities, as well as the government and the general public, are interested in learning how Sri Lankan businesses adhere to good CG in their operations. Hence, the research question is formulated, how far internal CG mechanisms influence EPVA of companies listed in Colombo Stock Exchange (CSE).

Over the recent years, empirical studies have exposed a significant effect of various CG attributes on performance and agency theory has become a cornerstone of CG. More empirical studies on CG are based on the agency perspective advanced by Fama and Jensen (1983) and Jensen and Meckling (1976). Particularly, this theory states that because of lower agency costs, a better-governed corporation should have a higher EPVA. That is, a well-governed corporation has a higher Return On Equity (ROE) and return on assets (ROA) and better Tobin's Q (Brown & Caylor, 2009). Nevertheless, according to Klein, Shapiro and

Young (2005), there is no evidence that sound CG improves the firm value. Hence, stakeholders are still much sceptic about the association between good CG mechanisms and EPVA. Therefore, the purpose of this research is to examine the effect of internal CG mechanisms on EPVA of companies listed in CSE.

2. Literature Review

Board Size

The importance of the board size is well recognized in CG mechanisms (Cheng, Evans & Nagarajan, 2008). From the resource dependence perspective, a large board will enhance a firm performance (Dalton et al. 1999). Lawal (2012) stated that effective deliberation among the directors to make good decisions is determined by the board size. When monitoring is taken into consideration, the larger board size is more important for monitoring management since the larger members can have more abilities and competency to solve the problem (Chaganti, Mahajan & Sharma, 1985) and gain the advantages from a broad range of views as well as outside networks (Peng & Luo, 2000). Furthermore, Jackling and Johl (2009) demonstrated that larger corporate boards improve effective decisions in a way that ultimately influences firm performance. It is indispensable in avoiding business failure (Dallas, 2001) whereas Saravanan (2012) and Varghese and Sasidharan (2020) demonstrated that a large-sized corporate board is strongly associated with corporate value.

H₁: Board size significantly influences the EPVA of listed companies.

Board Independence

Board independence has an essential role in overseeing management activities for stockholders, (Tong et al., 2008) as well as providing adequate access to essential resources (Chen & Hsu, 2009; Pfeffer & Salancik, 1978) in a firm. These both functions are important in agency theory and resource dependence theory. From an agency perspective, the role of control is delegated by the shareholders to management (Jensen & Meckling, 1976). According to this theory, the corporate board is to ensure that managers' behaviour is aligned with the shareholders' goals. Based on the resource dependence theory, independent directors should improve the process of decision-making independently using their unique expertise. Some extant studies indicated that independent directors are positively associated with firm valuation (Varghese & Sasidharan, 2020; Giraldez & Hurtado, 2014; Aggarwal et al., 2009; Jackling & Johl, 2009). On the contrary, a few studies identified that independent directors are negatively correlated with corporate performance (Khosa, 2017; Bhagat & Black, 1999; Yermack, 1996), whereas some studies revealed that the percentage of outside directors is not related to firm performance (Zabri et al., 2016; Zhang, 2012; De Andres et al., 2005).

H₂: Board independence significantly influences the EPVA of listed companies.

Chief Executive Officer Duality

CEOD means that the CEO performs as the chairman of the board at the same company. From the agency perspective, when one person involved in two top roles in the company simultaneously, issues regarding the interests between management and shareholders will arise (Fama & Jensen, 1983; Jensen & Meckling, 1976). If there is a clear division of roles and responsibilities between CEO and chairman, it will provide an effective system to oversee managers' activities and firm performance (Rechner & Dalton, 1991). Jensen (1993) argued that CEO's dual role will deteriorate the overseeing tasks of the corporate board. According to the agency theory, CEOD has adverse effects on them (Fama & Jensen, 1983; Jensen & Meckling, 1976). In contrast, the stewardship perspective suggests a collaborative association between management and shareholders toward shared goals. This theory stated that CEOD has a favorable effect, and organizational efficiency increases shareholders' wealth (Bhagat & Black, 2001; Brickley et al. 1997; Dahya et al., 1996). Extant research identified a positive relationship between CEOD and firm value (Varghese & Sasidharan, 2020; Rechner & Dalton, 1991) whereas few existing studies found that CEOD is not significantly associated with firm performance (Zhang, 2012; Wan & Ong, 2005; Abdullah, 2004).

H₃: CEOD significantly influences the EPVA of listed companies.

Board diversity

Board diversity is recognized as a vital tool that can encourage oversight mechanisms (Gallego-Alvarez et al. 2010). The relationship between the board diversity and EPVA is largely debated from the agency theory perspective, which points out the overseeing function of board. Hence, it is vital to enhance the percentage of female members on board which may improve CG, by mitigating agency issues and increasing EPVA. According to some empirical evidence (Toumi, Benkraiem & Hamrouni, 2016; Alazzani et al., 2017; Kyaw et al., 2017; Carter et al., 2010) female directors enhance the performance of a company. Previous studies show that board diversity improves the effectiveness of internal CG by improving the efficiency of monitoring functions (Adams & Ferreira, 2009). Thus, it is supportive that board diversity assists in reducing agency issues and would improve EPVA by using a well-recognized monitoring system. Most of the previous studies have identified a positive association (Terjesen et al., 2016; Isidro & Sobral, 2015), while few studies have documented negative relations (Ahern & Dittmar, 2012; Larcker et al., 2007).

H₄: Board diversity significantly influences the EPVA of listed companies.

Board Activity

Board activity plays a crucial role in CG mechanisms. According to resource dependence theory, the time allocated by the corporate board for the meetings can be regarded as a resource to the firm (Lipton & Lorsch, 1992), whereas from agency theory perspective, enhancing board activity can improve the function of monitoring and control in the corporate board. The findings of prior studies on the association between board meetings and performance are not conclusive. Kanagaretnam et al. (2007) suggested that board meetings assist in carrying out overseeing processes more diligently with the top executives. Furthermore, frequent

board meetings enhance the efficiency of the corporate board and issue reports to the stakeholders for improving the confidence of the stakeholders, reducing information asymmetry issues and improving the transparency of a firm (Ajina et al., 2013). Reducing agency issues and enhancing the confidence of shareholders will enhance performance and reduce the volatility of shares (Elbadry et al., 2015; Schwartz-Ziv & Weisbach, 2013). The improved frequency of meetings leads to superior performance (Lipton & Lorsch, 1992). Liang et al. (2013) identified that board meetings positively influence the performance of banks. Karamanou and Vafeas (2005) exposed that board meeting frequency improved the expectation, which improves the decision-making processes in a firm. Brick and Chidambaran (2010) also stated that board activity positively affects the EPVA.

H₅: Board activity significantly influences the EPVA of listed companies.

Managerial Ownership

Ownership is a significant aspect in determining firm valuation (Demsetz & Lehn, 1985). More previous studies show that managerial ownership increases EPVA. Brickley et al. (1988) stated that shares owned by managers and directors provide them an incentive to confirm that a company operates well and to oversee managers cautiously. Morck et al. (1988) and Shleifer and Vishny (1997) believe in the manipulation of company effects by management to favor themselves. Some researchers found that managerial ownership is endogenously decided (Demsetz & Lehn, 1985; Cho, 1998). Therefore, alignment of goals of managers and shareholders through managerial ownership is assessed to increase EPVA. The corporate board directors with higher level of share ownership can increase their gains (Jensen & Meckling, 1976). Extant studies identified that performance of a firm is favorably related to managerial ownership, where enhanced ownership aids to align the shareholders' interests with managers' goals based on the agency theory, and enhance the firm performance (Yermack, 1996; Jensen & Meckling, 1976). But, the strong association will subside with an increase in managerial ownership, the 'entrenchment effect', where managers may conceal the information about their CG practices, and therefore, it is very difficult for shareholders to restrict such managers' activities (Hussainey & Al-Najjar, 2012; McConnell & Servaes, 1990; Morck, Shleifer & Vishny, 1988; Hermalin & Weisbach, 1988). In contrast, Randoy, Down and Jenssen (2003) identified that there is no association between executive ownership and profitability.

H₆: Managerial ownership significantly influences the EPVA of listed companies.

Audit committee Size

The Audit Committee (AC) plays a crucial role in enhancing the EPVA by adopting CG principles. The prior empirical evidence indicated that AC has a positive effect on firm valuation (Afza & Nazir, 2014; Kyereboah-Coleman, 2007). Obradovich and Gill (2013) identified that AC positively impacts the value of USA manufacturing companies when they examine the influence of CG and financial leverage on the value of USA companies. But, Mir and Seboui (2008) identified that AC with more auditors may lead to inefficient governance and large-sized AC with regular meetings could increase the expenses to companies' budgets

which adversely affect their performance. Larger AC could mitigate the cooperation among the members. Furthermore, they indicated that large numbers of auditors in the AC may create unwanted discussions and spend more time in making decisions (Lin et al., 2009). The previous studies exposed that the AC size is adversely correlated with the earnings quality which is inappropriate to enhancing the numbers of auditors of the AC based on performance (Hamdan et al., 2013). Al-Matari et al. (2012) denoted that the AC size adversely affects the firms' performance based on Tobin's Q. On other hand, Darko et al. (2016) investigated the influence of CG on performance, and demonstrated that AC size has no impact on firms' performance while Ghabayen (2012) identified that AC size has no association with the performance in terms of ROA. Vafeas and Theodorou (1998) documented that no evidence proved that the structure of board subcommittees significantly influences the performance. But, few researchers identified a weak association between AC size and performance of a firm (Menon & Williams, 1994).

H₇: AC size significantly influences the EPVA of listed companies.

3. Research Methodology

Research Design

The study analyses the association between internal CG mechanisms and EPVA. Hence, the positivism paradigm is employed since the hypotheses about the impact of internal CG on EPVA and related to theories are empirically tested by applying researchers' analytical techniques. The study uses the deductive approach as it is needed to study the casual associations among the variables so as to examine the hypotheses and, then, generalize the findings rather than create new theories. Quantitative techniques are used to collect the panel data so as to ascertain the effect of internal CG on EPVA of listed companies.

Sample and Data

Secondary data needed for the study was gathered from the audited annual reports of the listed firms in Sri Lanka. This data was used for the present study during the seven years from 2015 to 2021 to measure internal CG mechanisms and EPVA of listed firms in Sri Lanka. To enhance quality and reliability, data that consisted of internal CG characteristics were extracted by hand from firms' annual reports.

The population includes all listed firms in CSE from 2015 to 2021. Out of 20 industries only six industries were selected based on their relative importance to the development of the country. It comprises manufacturing, beverage food and tobacco, hotels and travels, diversified and holdings, trading and power and energy sectors. The banking, insurance, and finance industry (highly leveraged) was excluded due to it's the unique characteristics of the businesses. The sample company from selected sectors must meet the standard criteria of (i) the firm should be listed on the CSE between the period of 2015 to 2021; (ii) The information needed for the study should be available and accessible for the period of 2015 – 2021. Based on the criteria, hundred and four companies belonging to six sectors are included in the sample which is 33.89% of the total

companies listed in the CSE. Table 1 represents the distribution of samples across different industries in CSE.

Table 1: Sample Distribution

Industries	Population of Industries	Number of selected listed firms
Manufacturing	35	28
Beverage Food and Tobacco	21	19
Hotels and Travels	34	28
Diversified and Holdings	16	14
Trading	08	07
Power and Energy	07	08
Total	121	104

Measurement of Variables

Measurements of the variables used in this study are as follows,

- EPVA = Log [Market Capitalization + Market Value of Debt – Cash and Equivalents]
- Board size = Number of directors on board.
- Board independence = Number of independent directors / number of directors on board.
- CEOD = A binary variable which equals one when the CEO also serves as board chairman, zero otherwise.
- Board diversity = Number of female directors/ number of directors on board.
- Board activity = Number of meetings held per year.
- Managerial ownership = Number of shares owned by the directors/ Total number of shares.
- AC size = Number of the auditors on AC.
- Firm size = Natural logarithm of total assets.
- Leverage = long-term debt/total assets.
- Firm age = Number of years since the company was founded.

Model Specification

The study uses the regression model to test the hypotheses based on the prior literature. The Model tests the association between internal CG mechanisms and EPVA of listed firms. It is shown as follows,

$$EPVA = \beta_0 + \beta_1 BSIZE + \beta_2 BINDE + \beta_3 CEOD_{it} + \beta_4 BDIV_{it} + \beta_5 BACT_{it} + \beta_6 MOWS_{it} + \beta_7 ACSIZ_{it} + \beta_8 FSIZE_{it} + \beta_9 FAGE_{it} + \beta_{10} LEVE_{it} + e_i$$

Where: BSIZE- Board size, BINDE = Board independence; CEOD= Chief executive officer duality; BDIV= Board diversity; BACT= Board activity; MOWS= Managerial ownership; ACSIZ= Audit committee size; FSIZE = Firm Size; FAGE = Firm Age; LEVE = Leverage; EPVA- Enterprise value; e_i = Error term.

Multicollinearity

Table 2 shows Tolerance level and Variance Inflation Factor (VIF) values for the explanatory variables and control variables. The multicollinearity occurs, if the VIF for any variable is more than 10, or if the tolerance value of any variable is less than 0.1(Gujarati, 2003). As seen table 2, the value of VIF for all variables are at the acceptable levels ranging from 1.459 to 1.034, well below the threshold VIF value of 10, indicating the absence of multi-collinearity problem.

Table 2: Results of Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Board size	.829	1.207
Board independence	.895	1.117
CEO	.918	1.089
Board diversity	.954	1.049
Board activity	.933	1.071
Managerial ownership	.685	1.459
AC size	.861	1.161
Firm size	.831	1.203
Firm age	.953	1.049
Leverage	.967	1.034

Unit Root Test

Table 3: Augmented Dickey Fuller (ADF) test for the variables

Variables	Level	
	t-statistic	Prob.*
Board size	-10.156	0.000
Board independence	-10.032	0.000
CEO	-10.122	0.000
Board diversity	-9.270	0.000
Board activity	-7.561	0.000
Managerial ownership	-9.232	0.000
AC size	-11.896	0.000
Firm size	-5.539	0.000
Firm age	-5.436	0.000
Leverage	-14.096	0.000
EPVA	-5.252	0.000

Augmented Dickey Fuller (ADF) test is employed to identify the presence of the unit root in the variables of this study. It is an essential statistical tool to check whether a series of data is stationary or not before employing it in a regression model. As per table 3, all variable series of this study are stationary at the level (the p-values for the test statistics are less than 0.01).

4. Data Analysis and Discussion

Descriptive Statistics

The table 4 presents descriptive statistics for internal CG mechanisms and EPVA of firms listed in Sri Lanka. As per the table 4, the mean and median of board size is about eight (8.106 and 8 respectively) while the maximum board size is 15. However, the size of the board differs among the listed companies based on the size and requirements of an organization. Board independence averaged 0.384 across the overall analysis period. Thus, the minority of directors on boards of listed firms are independent. Furthermore, in the overall samples of this study, 34.5 % of the selected firms have CEO, which means 65.5% of the firms adopt the separation of the chairman and CEO positions. An average of 8.1 percent of directors is female directors on the corporate boards. Female representation on the board is very low in the listed firms. The average board activity of the listed companies is 5.690 times per year which is consistent with the minimum requirement of Code of best practice of 2017. The result also indicates that the average managerial ownership represents 10.2 % in total shareholding of the firms. An AC size ranges between 2 and 6 members, with an average of 3 members in AC. Mean value of firm size for the listed companies is 9.472 with the minimum value of 7.662 and the maximum value of 11.11. The maximum age of the selected companies is around 152 years with a minimum age of 1 year and average age of 39 years. As per the table 4, the leverage of the companies represents a mean value of 0.336. EPVA is generally a more accurate reflection of an organization's value compared to the market capitalization. It averages 9.566 across the overall analysis period with maximum and minimum EPVA of listed firms of 11.427 and 7.1428 million respectively.

Table 4: Descriptive Statistics

	Board size	Board independence	CEO	Board diversity	Board activity	Managerial ownership	AC size	Firm size	Firm age	Leverage	EPVA
Mean	8.106	0.384	0.345	0.081	5.690	0.102	3.163	9.472	39.21	0.336	9.566
Median	8.000	0.375	0.000	0.077	4.000	0.006	3.000	9.431	34.00	0.319	9.485
Maximum	15.000	0.800	1.000	0.429	16.000	0.782	6.000	11.11	152.0	0.970	11.427
Minimum	3.000	0.000	0.000	0.000	1.000	0.000	2.000	7.662	1.000	0.0005	7.142
Std. Dev.	1.959	0.128	0.476	0.093	3.023	0.187	0.711	0.602	27.18	0.217	0.704

Correlation Matrix

The relationship between internal CG mechanisms and EPVA of listed companies is identified using the Pearson correlation analysis. Table 5 presents the correlation matrix between internal CG mechanisms and EPVA. Correlation coefficient between board size and EPVA is 0.30 which is significant at 0.01 levels, representing there is a positive relationship between board size and EPVA.

EPVA has not shown any significant association with board independence ($r = -0.04$, $p = 0.27 > 0.05$), CEO (-0.03 , $p = 0.40 > 0.05$) and board diversity ($r = -0.00$, $p = 0.85 > 0.05$). The correlation coefficient between board activity and EPVA is 0.16 which is significant at 0.01 levels, representing there is a positive relationship between board activity and EPVA of listed firms in Sri Lanka. It implies that an increase in the number of meetings held per year paves the ways to increase the EPVA of listed companies in Sri Lanka. The correlation coefficient of managerial ownership with EPVA is -0.12 which is significant at 0.01 levels, representing that there is a negative relationship between managerial ownership and EPVA.

Furthermore, the correlation coefficient between AC size and EPVA is 0.16 which is significant at 0.01 levels, indicating that there is a positive relationship between AC size and EPVA. Control variables, firm size ($r = 0.91$, $p < 0.01$) and firm age ($r = 0.23$, $p < 0.01$) are positively correlated with EPVA at 0.01 significant levels. But leverage is not correlated with EPVA ($r = 0.04$, $p < 0.05$) at 0.05 significant level.

Table 5: Correlation Matrix for CG mechanisms and enterprise value

	BSIZE	BINDE	CEOD	BDIV	BACT	MOWS	ACSIZ	FSIZE	FAGE	LEVE
BIND	-0.18 (0.00)									
CEOD	-0.02 (0.56)	-0.05 (0.12)								
BDIV	0.03 (0.41)	-0.05 (0.13)	0.01 (0.70)							
BACT	0.04 (0.25)	0.12 (0.00)	0.03 (0.38)	-0.05 (0.15)						
MOWS	-0.03 (0.41)	0.06 (0.10)	0.09 (0.00)	-0.00 (0.80)	0.02 (0.54)					
ACSIZ	0.28 (0.00)	0.04 (0.28)	-0.22 (0.00)	-0.02 (0.56)	0.11 (0.00)	-0.06 (0.07)				
FSIZE	0.25 (0.00)	-0.03 (0.38)	0.00 (0.98)	0.01 (0.64)	0.15 (0.00)	-0.05 (0.11)	0.16 (0.00)			
FAGE	0.07 (0.03)	-0.06 (0.06)	0.11 (0.00)	-0.02 (0.44)	0.046 (0.21)	-0.00 (0.94)	0.04 (0.19)	0.16 (0.00)		
LEVE	0.01 (0.62)	-0.04 (0.21)	0.00 (0.86)	-0.03 (0.32)	0.11 (0.00)	-0.02 (0.42)	0.02 (0.43)	-0.01 (0.73)	0.08 (0.02)	
EPVA	0.30 (0.00)	-0.04 (0.27)	-0.03 (0.42)	-0.00 (0.85)	0.16 (0.00)	-0.12 (0.00)	0.16 (0.00)	0.91 (0.00)	0.23 (0.00)	0.04 (0.27)

(Note: BSIZE- Board size, BINDE = Board independence; CEOD= CEO; BDIV= Board diversity; BACT= Board activity; MOWS= Managerial ownership; ACSIZ= Audit committee size; FSIZE = Firm Size; FAGE = Firm Age; LEVE = Leverage; EPVA- Enterprise value; e_i = Error term.

Impact of Internal Corporate Governance on Enterprise value

Table 6 represents the influence of internal CG mechanisms on EPVA under GMM regression model. It displays that board size ($\beta = 0.031$, $p < 0.01$) has a positive influence on EPVA at 0.01 significant levels. Hence,

the larger board size will increase the EPVA and vice versa. Hence H_1 is supported by finding which is in line with previous studies (Mishra & Kapil 2018; Zhou et al. 2018; Ezzeddine & Jarboui 2015; Rouf 2011). From resource dependence theory, a large number of directors on the board will enhance EPVA, leading to a positive association between these two variables. Because, the larger board size can provide the quality of deliberation among the directors and the capability to make effective corporate decisions. CEO ($\beta = -0.048$, $p < 0.01$) and managerial ownership ($\beta = -0.175$, $p < 0.01$) have negative influence on EPVA at 0.01 significant levels while control variables namely firm size ($\beta = 1.012$, $p < 0.01$), firm age ($\beta = 0.002$, $p < 0.01$) and leverage ($\beta = 0.030$, $p < 0.01$) have a significant positive impact on EPVA of listed companies. So, H_3 and H_6 are supported by findings. Managerial ownership adversely influences EPVA as high level of managerial ownership will entrench management and lead to agency issues. However board independence, board activity, board diversity and AC size have not shown any significant influence on EPVA of listed firms in Sri Lanka. Therefore, H_2 , H_4 , H_5 , and H_7 are not supported by findings.

Table 6: GMM Regression Model of CG mechanisms and Enterprise value

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.330	0.164	-2.016	0.044
Board size	0.031	0.006	5.491	0.000
Board independence	0.051	0.082	0.627	0.531
CEO	-0.048	0.017	-2.738	0.006
Board diversity	-0.015	0.038	-0.380	0.704
Board activity	0.005	0.003	1.484	0.138
Managerial ownership	-0.175	0.036	-4.857	0.000
AC size	-0.022	0.015	-1.477	0.140
Firm size	1.012	0.018	57.121	0.000
Firm age	0.002	0.000	6.258	0.000
Leverage	0.030	0.007	4.569	0.000
R-squared	0.8579	Mean dependent var		9.5594
Adjusted R-squared	0.8559	S.D. dependent var		0.70492
S.E. of regression	0.2676	Sum squared resid		50.7734
Durbin Watson	0.7908	J-statistic		4.22E-20
Instrument rank	11			

5. Conclusion and Recommendation

The study has investigated the influence of internal CG mechanisms on EPVA of listed firms in Sri Lanka. It is concluded that board size has a positive influence on EPVA whereas CEO and managerial ownership negatively influence EPVA of listed companies in Sri Lanka. Furthermore, firm size, firm age and leverage positively influence EPVA of listed companies in Sri Lanka.

The recommendations are incorporated to improve the internal CG mechanisms and EPVA of listed firms in Sri Lanka. The listed companies should concentrate more on the optimum number of directors on board since the board size and EPVA are positively associated. All companies should have the required minimum number

of directors on board. However, every company's size and nature are different and hence each firm should determine optimal size of its board based on their unique requirements. Moreover, the board size of the company can be decided on the basis of number of directors present at the conclusion of the most recent annual general meeting (Code of best practices of CG, 2017). When appointing the directors on the board, their knowledge, skills, and experience should be considered for conducting the business of the board. Adding qualified directors with expert knowledge and outside links can enhance the value of the companies. Furthermore, adequate financial acumen and financial knowledge are very important to make good judgments and take quick decisions. Managerial ownership adversely influences EPVA as high level of managerial ownership will lead to agency conflicts. CEOD has a negative influence on EPVA. However, board independence, board activity, board diversity and AC size have not shown any significant influence on EPVA of listed firms in Sri Lanka.

6. Limitations and Directions for Future research

The limitation arises from the research design utilized in this study as it solely focuses on the firms listed on the CSE. Due to practical reasons, the study overlooked non listed organizations. This research deliberately excludes listed bank, finance and insurance companies, as they are well-standardized according to the regulations and their governance structure is significantly different from non-financial firms. Moreover, this study does not consider the perceptions of investors, academics, external auditors, the government and the public. It is vital to comprehend non-listed firms' existing CG mechanisms in Sri Lanka. So, a comparison of the CG mechanisms of listed and non-listed companies in Sri Lanka could be another area for future research. Future researches should consider board sub committees, CEO performance, CEO skills, CEO tenure, executive salary and management incentives, staff tenure and staff credentials since they can be utilized as CG mechanisms to assess their association with EPVA of listed firms. Future research study can also investigate the associations between CG mechanisms and economic, social and environmental performance in Sri Lankan context. In addition, firms' corporate social responsibility could be studied, as this subject has not been included in this research.

In addition, CG mechanisms can be compared with EPVA before and during the period of Covid 19 pandemic situation. Investigation of external stakeholders' perceptions regarding CG mechanisms in developing nations such as Sri Lanka is one potential area for future research. Future research can take an interdisciplinary approach that includes strategic management, sociology, and political science. Future studies could focus on primary data sources to gain an in-depth knowledge of CG mechanisms in Sri Lankan companies, including board member selection, board responsibilities, board assessments, and board gender and diversity.

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