

## **Compliance with Stakeholder Principles of Corporate Governance and Corporate Performance: Empirical Evidence from Sri Lankan Listed Companies**

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With the contemporary corporate scandals that had taken place and the recent updating of the Code of Best Practices on Corporate Governance of the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities Exchange Commission (SEC) in 2017, there is a rekindled interest in corporate governance (CG). On the other hand, extant studies find that compliance with stakeholder principles is a highly important and a crucial dimension of CG. Nevertheless, it is observed that not much research attention is paid to this important dimension in the Sri Lankan context. Accordingly, this study examines the relationship between the level of compliance with the stakeholder principles and corporate performance (i.e., captured using Return on Assets, Return on Equity, and Tobin's Q) of listed companies in Sri Lanka. Using archival data from a panel of 133 listed companies, which were selected based on the highest market capitalization covering the period 2009 to 2016, the results of the panel regression analysis performed indicate that there is a positive relationship between the compliance with stakeholder principles (measured using Stakeholder Compliance Index - SCI) and corporate *financial* performance (i.e., Return on Assets and Return on Equity) indicating that higher degree of compliance on stakeholder principles leads to higher level of corporate financial performance. This finding is consistent with the findings of the extant studies. However, based on the mean value of the SCI, the compliance rate in Sri Lanka is found to be only 50% (approximately). Overall, this study provides empirical support for the stakeholder perspective, where it is observed that companies in Sri Lanka benefit from higher financial performance when they adopt governance principles related to the stakeholders. Accordingly, this study is expected to have significant policy implications where policies and mechanisms should be promoted to encourage higher degree of compliance with stakeholder principles that will enhance corporate financial performance in Sri Lanka.

**Keywords:** corporate governance; stakeholders; stakeholder perspective