

Do Larger Firms Comply More with Corporate Governance Best Practices Compared to Smaller Firms? Evidence from Firms Listed in Colombo Stock Exchange

L.D. De Silva* and M.K. Wanniarachchige

University of Ruhuna

**Corresponding Author E-mail: dinukee@gmail.com, TP: +94767685202*

Corporate governance as a monitoring mechanism has gained renewed attention following a series of corporate failures across the globe that are directly attributable to agency issues. Firms with higher corporate governance compliance have often recorded higher performance, higher stock liquidity and increased investor protection. Nevertheless, literature shows that smaller firms do not adopt corporate governance practices as often as larger firms do. This study examines whether larger firms comply more with corporate governance best practices than smaller firms using a sample of 100 firms listed in the Colombo Stock Exchange (CSE). The firms were selected based on the systematic sampling technique so that the sample evenly spreads across different firm sizes. The sample was split into two equal subgroups as larger and smaller based on their firm size measured using total assets. Compliance with corporate governance practices was measured using a corporate governance index constructed with equally weighted 18 board related best practices based on the data collected for the period ranging from 2018 to 2020. Three separate independent-samples t-tests were used to assess the difference in corporate governance compliance between larger and smaller firms during each year. The results suggest that corporate governance compliance in larger firms was significantly higher compared to the smaller firms. This situation can be mainly attributed to the higher cost of implementing corporate governance best practices, which is not affordable to smaller firms. Moreover, smaller firms might have considered compliance as less relevant. In contrast, larger firms are motivated to comply with corporate governance best practices even at a higher cost since they can benefit from the reduced agency cost and increased attractiveness for investors. Therefore, it would be more appropriate to identify these differences in compliance and make appropriate policies flexible enough in the application based on the firm's specific characteristics, such as the firm size. This is mainly because the literature has documented that only some corporate governance best practices are effective and relevant in each context.

Keywords: Agency conflict; corporate governance; Colombo stock exchange; Firm size