MENTOR| The Journal of Business Studies
Faculty of Commerce and Management, Eastern University, Sri Lanka
JBS

IMPACT OF OWNER-BASED AND LENDER-BASED GOVERNANCE MECHANISMS ON FIRM FINANCIAL PERFORMANCE OF LISTED FOOD, BEVERAGE AND TOBACCO COMPANIES ON COLOMBO STOCK EXCHANGE

GBPSK Rathnayaka[a], JMN Wijekumara[b], AH Kelumdeniya[c]

[a,b,c] Department of Accountancy and Finance, Rajarata University of Sri Lanka

ABSTRACT

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 on Colombo Stock Exchange in Sri Lanka. The research model was conceptualized by using independent variables, corporate governance mechanisms along with the two dimensions Owner-based Governance mechanisms: ownership concentration, board size, board composition & Lender-based Governance mechanisms: loan amount, loan magnitude and the dependent variable, firm financial performance along with the three dimensions firm profitability, firm value, firm distress level. This quantitative study sampled for twenty companies from 2020-2024. Descriptive statistics, correlation analysis, and regression analysis were used as the analytical tools. The results revealed that ownership concentration has a positive correlation and a significant positive impact with Firm profitability. Board composition positively effect Firm Value while Board size negatively affects the Firm distress level. Loan amount negatively impacts Firm profitability and Firm distress level whereas Loan magnitude positively impacts Firm value. Therefore, both structures of governance must be regarded as relevant factors in assessing various types of financial success of companies. 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, Owner-based Governance mechanism, Lender-based Governance mechanism

JEL Classification: G3

*Corresponding nishantha@mgt.rjt.ac.lk[2]

1. Introduction

The concept of corporate governance mechanism is one of the issues that have attracted the attention of researchers and organizations all around the world. This research examines the Impact of owner-based and lender-based governance mechanisms on the firm financial performance of listed food, beverage, and tobacco companies in Sri Lanka.

Background of the Study

The term "Corporate Governance" emerged as a widely recognized concept in the 1980s to define precisely the general principles that governed and regulated the business management of companies. Corporate governance is of utmost importance to investors, insurers, regulators, creditors, clients, employees, and otherbusiness stakeholders (Haat, Rahman & Mahenthiran, 2008). Issues related to corporate governance receive considerable attention from the public, as well as academics, from policymakers and regulators recently, as it is a key factor that contributes to the success of companies and the economic health of society (Azim, 2012). Consequently, revisiting the existing governance system has become essential to examining its impact on firm performanceand suggesting ways to bring about changes where necessary (Azeez, 2015).

Globally, corporate governance has been identified as a key determinant and a popular topic of discussion with both developed and developing countries. The widely held view that corporate governance determines the firm's performance and protects shareholders' interests has resulted in increased global attention. Sri Lanka too is not immune to these trends and corporate governance questions. In particular, in developing countries, the owner management system plays an important role in corporate governance (Ekanayake, Senaratne & Azeez, 2019). It is a crucial instrument for the internal governance of companies. It is characterized by the distribution of equity in terms of votes and capital, and the identity of the equity owners. Accordingly, in these leveraged companies, lenders would be the second-largest stakeholder whose governance mechanisms would have to be viewed as part of corporate governance. That is, it is noteworthy that modern corporates across the globe are largely financed by debt capital and equity capital (Bakar et al., 2018; Bhojraj & Sengupta, 2003). Hence, lender governance is a significant piece of the corporate governance puzzle.

There are two key types of conflicts of interest within a leveraged business, between owners and managers and between the lenders and the owner/managers. A profit-oriented business can achieve three key results, maximizing profitability and firm value for the company and ensuring sustainability for the company. Various stakeholders use many tools of corporate governance to optimize their wealth through profitability, firm value, and firm distress level. The main objective of this analysis is therefore to 'examine the impact of owner-based governance and lender-based governance structures on Sri Lankan listed food, beverage, and tobacco companies' financial performance.

The impact of the lender governance system on firm financial performance has been focused on a minimum number of researches Bhojraj & Sengupta (2003) Hence, there are few types ofresearch about owner-based governance mechanisms and lender-based governance mechanisms on the firm financial performance (Azeez et al., 2015). For instances, Ekanayake, Senaratne, and Azeez (2019) analyzed the Listed Companies in Sri Lanka and found that owner management and lender management in three aspects of profitability, firm value and the survival. There's a significant dearth of literature on the possible effects of lender-based governance mechanisms on firm financial performance. Also, the listed food, beverage, and tobacco sector in Sri Lanka have not been covered through previous research. Hence, there is an empirical gap between research on the "Impact of lender-based governance mechanism and owner-based governance mechanism on the firm financial performanceof listed food, beverage, and tobacco sector in Sri Lanka".

Problem Statement

Firm financial performance is a gauge of how effectively a company can use assets from its main line of business to generate revenues and expand its operations. Investors may identify company's general well-being from its financial performance. It gives an overview of the company's financial situation and management's performance while also providing a glimpse into the future by indicating if operations and earnings areon track to increase as well as the prognosis for its shares (Yegon et al., 2014).

This is true that as businesses operate in a highly competitive world, the company's performance depends not just on the company's productivity but also on the market it operates. It'salso necessary to consider the priorities and expectations of each stakeholder. Throughout the past decades, corporate governance (CG) research has concentrated on the governance executed by the shareholders, among several other stakeholders of a firm (Day, Mather & Taylor, 2014). However, it is noteworthy that modern corporates across the globe are largely financed by debt capital and equity capital. Another key stakeholder in these leveraged companies would be the lenders, whose governance mechanisms need to be regarded as part of corporate governance.

Numerous empirical studies have been performed to investigate the relationship between corporate governance and financial performance in companies around the world (Azeez et al., 2015). Khalfan Al Kaabi & Rahman Ahmad (n.d.) analyzed the relationship between corporate governance and financial performance in UAE exchange market. Further, a study of relationship between corporate governance and financial performance was carried out by Amaar Ali Ausat (2018) by considering Islamic banks. Thus, these studies prove that various studies have been conducted in worldwide considering various sectors to examine the relationship between corporate governance and financial performance. Nevertheless, the effect of the lender governance system on firm financial results has been focused on at a minimum through those researches, as well as the influence of corporate governance practices on firm survival or the extent of firm distress has not been studied, leaving a huge gap in the associated information (Ang et al., 2000). However, only one study has examined whether this “governance executed by lenders” is a key CG mechanism in the Sri Lankan context and its possible effects on the firm financial performance. The findings of that study indicate that OG will increase the firm profitability while having no significant impact on avoiding firm distress opposing, LG will deduct the firm profitability while increasing the firm distress level. Also, these findings suggest that the two financiers have got divergent expectations which they have assured through their own governance mechanisms over the entity (investee). Given that the OG and LG mechanisms are driven by the divergent interests of two financiers, those have failed to achieve on their own, an optimal firm financial performance which maximizes all three aspects of firm financial performance (Ekanayake et al., 2019).

Controlling structures from borrowers intend to reduce the risk of investment activities in the company. That is, to minimize the risk resulting in a company's return reduction. The study done by (Ekanayake et al., 2019) based on Listed companies in Sri Lanka, indicated that lender-governance structures improve company output by halting administrative corruption, enhancing operating efficiency, and raising debt costs In addressing the above research gaps, this research is examining the impact on the firm financial performance of two types of corporate governance mechanisms (owner governance mechanism and lender governancemechanism). Most businesses adhere to the corporate governance frameworks legislation, as it has become a compulsory code, rather than understanding its real relevance to their business sense. This research, therefore, recognizes that it is important to investigate if there is a real relationship between owner-based and lender-based governance structures and firm performance and the essence of that relationship. Accordingly, the problem statement of the study is as follows.

“What is the impact of owner-based governance mechanism and lender-based governance mechanism on the firm financial performance of listed food, beverage, and tobacco companies in Sri Lanka?”

Research Objectives

The main objective is to examine the impact of the owner-based and lender-based governance mechanisms on firm financial performance of listed food, beverage, and tobacco companies on Colombo Stock Exchange in Sri Lanka.

Sub Objectives

- To identify the impact of owner–based governance mechanism on firm profitability.
- To examine the impact of owner–based governance mechanism on firm value.
- To identify the impact of owner–based governance mechanism on firm distress level.
- To examine the impact of lender–based governance mechanism on firm profitability.
- To assess the impact of lender–based governance mechanism on firm value.
- To assess the impact of lender–based governance mechanism on firm distress level.

2. Literature review

Owner–based governance mechanism on firm profitability

In recent years research has given increasing attention to the issue of corporate ownership structure and its impact on the financial performance of firms. In Sri Lanka, as in many other emerging markets in Asia, ownership of companies is highly concentrated, with a presence of controlling shareholders in most enterprises. According to that, a significant positive relationship exists between individual ownership and ROA (Manawaduge, 2012: Pathirawasam, 2013) examined the impact of ownership concentration on companyfinancial performance. Financial performance was measured through ROA and the conclusion of the study was that there was no significant relationship between concentrated ownership and financial performance. In addition, Ekanayake et al., (2019) stated that owner governance mechanisms assist in increasing firm profitability.

Owner–based governance mechanism on firm value

Gompers et al., (2001) found that better corporate governance is associated with higher firm value as measured by Tobin's Q which suggests that stronger governance structure increases the firm value. In contrast, Ekanayake et al., (2019) stated that owner-based governance mechanisms not having any significant effect on firm value.

Owner–based governance mechanism on firm distress level

Ekanayake et al., (2019) stated that owner-based governance mechanisms assist thepropensity to financial distress level. The study further reveals that a high-level compliance with owner governance, increases the operating efficiency through which operating performance is improved.

Lender–based governance mechanism on firm profitability

Khamis et al., (2015) reveals that institutional ownership has a negative relationship with the success of the organization when assessed by ROA. Ekanayake et al., (2019) stated that, lender governance mechanisms will restrict managerial flexibility in undertaking profitable (risky) projects, thus reducing the firm profitability.

Lender–based governance mechanism on firm value

As examined by Ekanayake et al., (2019), Lender monitoring is an accepted method to reduce agency cost. As a result of that monitoring over borrowings firms lead to improve their operating efficiency which ultimately effects the operating efficiency. The researcher found that lender governance levels make an insignificant impact on firm value.

Lender–based governance mechanism on firm distress level

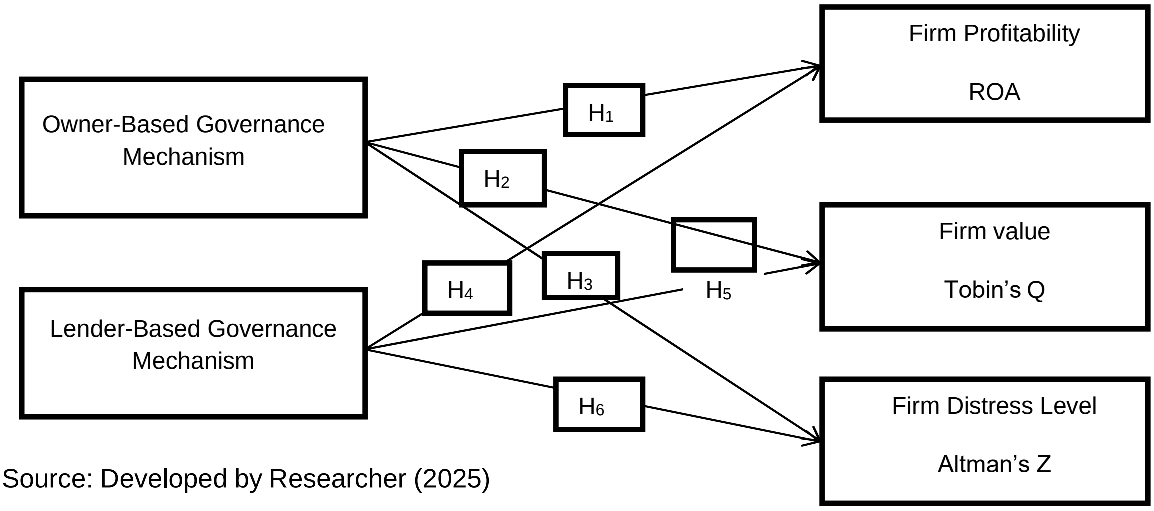
According to Ekanayake et al., (2019), found that the higher lender governance mechanisms increase the firm endurance by mitigating the probability to reach a distress level. The researcher suggested that higher lender governance levels make a positive impact on firm distress level, by significantly reducing the probability of firm distress.

3. Methodology

This chapter discusses the methodology for the study which includes the research approach, conceptualization, operationalization, population and sample, hypothesis development and data analysis techniques to facilitate the study to achieve the establish objectives.

Conceptualization of Variables

Corporate Governance mechanism Financial Performance



Source: Developed by Researcher (2025)

Figure 1: Conceptualization

Research Hypotheses

Based on previous literature, following null hypothesis and alternative research hypotheses were developed.

Impact of the owner–based governance mechanism on firmprofitability.

H_0: There is no significant impact of the owner–based governance mechanism on firm profitability.

H_1: There is a significant impact of the owner–based governance mechanism on firm profitability.

Impact of the owner–based governance mechanism on firm value.

H_0: There is no significant impact of the owner–based governance mechanism on firm value.

H_1: There is a significant impact of the owner–based governance mechanism on firm value.

Impact of the owner–based governance mechanism on firm distress level.

H_0: There is no significant impact of the owner–based governance mechanism on firm distress level.

H_1: There is a significant impact of the owner–based governance mechanism on firm distress level.

Impact of the lender–based governance mechanism on firm profitability.

H_0: There is no significant impact of the lender–based governance mechanism on firm profitability.

H_1: There is a significant impact of the lender–based governance mechanism on firm profitability.

Impact of the lender–based governance mechanism on firm value.

H_0: There is no significant impact of the lender–based governance mechanism on firm value.

H_1: There is a significant impact of the lender–based governance mechanism on firm value.

Impact of the lender–based governance mechanism on firm distress level.

H_0: There is no significant impact of the lender–based governance mechanism on firm distress level.

H_1: There is a significant impact of the lender–based governance mechanism on firm distress level.

Population, Sampling and Operationalization of Variables

Operationalization of variables

Namely, there are two main sets of variables; independent and dependent variables. The independent variables represent the two types of mechanisms for corporate governance (owner-based and lender-based governance). The dependent variable is evaluated with respect to three main aspects (firm profitability, firm value and firm distress level).

Concept	Variable	Indicators	Measure	Reference
Independent Variables Corporate Governance Mechanism	Owner Governance Mechanism	Ownership Concentration (OC)	Highest percentage of shareholdings	Ting et al., (2017)
		Board Size (BS)	Number of directors	Miko & Kamardin, (2016)
		Board Composition (BC)	Number of independent directors	Miko & Kamardin, (2016)
	Lender Governance Mechanism	Loan Amount	Natural logarithm of loan amount	Ryan et al., (2011)
		Loan Magnitude	Loan amount/ Total asset	Ryan et al., (2011)
Dependent Variables Financial Performance	Profitability	Return on Asset (ROA)	Ratio of ROA = Net income available for common shareholders/ Total Asset	Ekanayake et al., (2019)
	Firm Value	Tobin‟s Q	Ratio of Tobin‟s Q = Total market value of the firm/ Total assets value	Ekanayake et al., (2019)
	Firm Distress Level	Altman Z Score	Altman Z Score = 6.56 × (Working Capital / Total Assets) + 3.26 × (Retained	Ekanayake et al., (2019)

Population and sample

This study has been selected the listed food, beverage, and tobacco companies of the Colombo Stock Exchange as the population. The listed food, beverage, and tobacco sector in Sri Lanka have not been covered through previous research. According to that, the population of this study consists of 48 food, beverage, and tobacco companies in the Colombo stock exchange from 2020- 2024. The researcher has selected 20 companies as samples based on the convenience sampling method of the food, beverage, and tobacco sector listed in CSE. Accordingly, these 20 companies were selected based on the highest market capitalization. The researcher collected data through annual reports of the firms for five years' time periods from 2020-2024. Accordingly, the sample contains with hundred minimum observations.

4. Results and discussion

Descriptive Statistics

Table 1: Descriptive Statistics

	OC	BS	BC	LAM	MGN	ROA	TBQ	ALT_ZS
Mean	0.048	8.160	2.96	231698	5.17	0.046	0.797	6.025
Median	0.028	8.000	3.00	37715.7	0.000	0.024	0.324	5.490
Maximum	0.242	13.00	8.00	1319912	0.004	0.242	7.224	22.460
Minimum	0.005	5.000	1.00	1235.35	3.03	-0.035	7.78E-	-10.790
Std. Dev.	0.047	1.973	1.34	340437	6.68	0.052	1.396	3.138
Skewness	1.601	0.664	1.97	1.645	3.112	1.359	3.127	0.889
Kurtosis	5.504	2.590	6.82	4.611	15.54	4.708	12.964	20.843
Observations	100	100	100	100	100	100	100	100

Source: E-views output (2025)

The descriptive statistics indicate that all variables (ownership concentration, board size, board composition, loan amount, magnitude of loan, return on assets, Tobin Q, and Altman Z score) have mean values close to their respective averages with low standard deviations, suggesting no significant abnormalities in the dataset from 2020 to 2024 across 20 companies. The empirical findings of previous research papers suggested that the OG mechanisms assist in increasing firm profitability while not having any significant effect on firm value and the propensity to distress level while, higher LG mechanisms will reduce the firm profitability and increase the firm endurance by mitigating the probability to reach a distress level Ekanayake et al., (2019).

Relationship between owner-based and lender-based governance mechanism and firm profitability (ROA*)*

Table 2: Relationships between CG on ROA

	ROA	OC	BS	BC	LAM	MGN
ROA	1					
OC	0.68488	1				
BS	-0.06064	-0.2107	1			
BC	-0.11887	-0.3194	0.65558	1		
LAM	-0.37856	-0.0473	-0.003	-0.0571	1	
MGN	0.04999	-0.061	-0.1652	-0.1113	-0.1685	1

Source: E-views output (2025)

Based on the *Table 4.1.2*, OC and MGN are positively associated with the ROA of listed food beverage, and tobacco companies in the Colombo Stock Exchange. The value of the correlation was 0.68488 and 0.04999. BS, BC, and LAM are negatively associated with the ROA of listed food beverage, and tobacco companies in the Colombo stock exchange. The value of correlation was BS (-0.06064), BC (-0.11887), and LAM (-0.37856). The large shareholder existence increases the firm performance. It shows that at lower levels of ownership structure, ownership concentration aligns the interests between controlling owners and shareholders Özer&Çömlekçi (2014).

Relationship between owner-based and lender-based governance mechanism and Firm Value (TBQ)

Table 3: Relationships between CG on TBQ

	TBQ	OC	BS	BC	LAM	MGN
TBQ	1					
OC	-0.1823	1				
BS	0.13469	-0.2107	1			
BC	0.04301	-0.3194	0.65558	1		
LAM	0.06641	-0.0473	-0.003	-0.0571	1	
MGN	0.48179	-0.061	-0.1652	-0.1113	-0.1685	1

Source: E-views output (2025)

Based on the table, BS, BC, LAM and MGN are positively associated with the TBQ of listed food beverage, and tobacco companies in the Colombo Stock Exchange. The value of the correlation was BS (0.13469), BC (0.04301), LAM (0.06641) and MGN (0.48179). OC was negatively associated with the TBQ of listed food beverage, and tobacco companies in the Colombo Stock Exchange. The value of correlation was -0.1823. According to the result findings of Almashaqbeh et al., (2023), in the study of Impact of ownership structure on Firm Value, it was found that

Relationship between owner-based and lender-based governance mechanism and Firm Distress Level (ALT_ZS)

Table 4: Relationships between CG on ALT-ZS

	ALT_ZS	OC	BS	BC	LAM	MGN
ALT_ZS	1					
OC	-0.1214	1				
BS	0.14141	-0.2107	1			
BC	0.10937	-0.3194	0.65558	1		
LAM	0.29516	-0.0473	-0.003	-0.0571	1	
MGN	-0.1274	-0.061	-0.1652	-0.1113	-0.1685	1

Source: E-views output (2025)

Based on the table, BS, BC and LAM are positively associated with the ALT_ZS of listed food beverage, and tobacco companies in the Colombo stock exchange. The value of the correlation was BS (0.14141), BC (0.10937) and LAM (0.29516). OC and MGN are negatively associated with the ALT_ZS of listed food beverage, and tobacco companies in the Colombo stock exchange. The value of correlation was OC (-0.1214), and MGN (- 0.1274). In the study of the effect of ownership structure on financial distress, evidence from Indonesian manufacturing companies, proves that there's a negative relationship between ownership structure and the financial distress.

Regression Analysis

To examine the impact of owner-based and lender-based governance mechanisms on firmfinancial performance, the researcher employed panel regression analysis. The random- effects model, fixed-effects model and Hausman test were employed to examine the significant impact of the CG variables on the firm financial performance of the listedfood beverage, and tobacco companies in the Colombo Stock Exchange in Sri Lanka.

Impact of corporate governance mechanism on firm profitability

Model 01: $ROA = a$ + Q1x1 + Q2x2 + s

Based on the results of Hausman test, P-value is greater than 0.05 (Prob > chi2 = 0.2930).Therefore, the researcher used a random-effects model to discuss the results of the study. *Table 4.2.1* presents the results of the random effects model.

Table 5: Impact of Model 01

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.009794	0.02213	-0.442581	0.6591
OC	0.720395	0.076329	9.438025	0.0000
BS	0.003159	0.002967	1.064703	0.2897
BC	0.000363	0.004548	0.079915	0.9365
LAM	-4.60E-08	1.48E-08	-3.115343	0.0024
MGN	9.981591	5.492103	1.817444	0.0723

R-squared	0.530329	Mean dependent var	0.025154
Adjusted R-squared	0.505347	S.D. dependent var	0.040307
S.E. of regression	0.028348	Sum squared resid	0.075542
F-statistic	21.22804	Durbin-Watson stat	1.441321
Prob(F-statistic)	0.000000		

Source: E-views output (2025)

According to the results of the random effects model, 53.03% of variability of ROA is explained by corporate governance variables in the study (R – sq = 0.530329). Accordingto the regression results, there is a positive significant effect OC on ROA (Coefficient 0.720395, p-value 0.0000) and there is a negative significant effect LAM on ROA(Coefficient -4.60E-08, p-value 0.0024). Other CG variables of the study such as BS, BC,and MGN have no impact to the ROA because the p–value of these variables is greater than 0.05. Based on the results of the random effects model, p – value is less than 0.05 (Prob > chi 2 = 0.000000). If the p – value is less than 0.05, the model should be accepted and therefore, the model can be accepted. The same result was observed by the empirical studies (Haniffa & Hudaib, 2006), Ekanayake et al., (2019).

Impact of corporate governance mechanism on firm value

Model 02: Tobin's Q = a + Q1x1 + Q2x2 + s

Based on the results of Hausman test, P-value is lower than 0.05 (Prob > chi2 = 0.0049). Therefore, the researcher used a fixed-effects model to discuss the results of the study. Table 4.6 presents the results of the fixed-effects model.

Table 6: Impact of Model 02

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.176093	0.452822	-0.388879	0.6985
OC	-0.684447	1.012408	-0.676059	0.5011
BS	0.035291	0.056114	0.628919	0.5313
BC	0.227718	0.091964	2.476159	0.0155
LAM	-2.42E-07	4.99E-07	-0.484335	0.6296
MGN	194.1823	75.12409	2.58482	0.0117

R-squared	0.956455	Mean dependent var	0.797457
Adjusted R-squared	0.942521	S.D. dependent var	1.395859
S.E. of regression	0.334655	Akaike info criterion	0.860884
Sum squared resid	8.399545	Schwarz criterion	1.512177
Log likelihood	-18.04422	Hannan-Quinn criter.	1.124474
F-statistic	68.63999	Durbin-Watson stat	1.881754
Prob(F-statistic)	0.000000		

Source: E-views output (2025)

According to the results of the fixed-effects model, 95.65% of variability of TBQ is explained by corporate governance variables in the study (R – sq = 0.956455). Accordingto the regression results, there is a positive significant effect BC (Coefficient 0.227718, p-value 0.0155) and MGN (Coefficient 194.1823, p-value 0.0117) on TBQ. Other CG variables of the study such as OC, BS, and LAM have no impact to the TBQ because the p–value of these variables is greater than 0.05.

Based on the results of the fixed-effects model, p – value is less than 0.05 (Prob > chi2 = 0.000000). If the p – value is less than 0.05, the model should be accepted and therefore, the model can be accepted. The same result was found by Miko & Kamardin, (2016).

Impact of corporate governance mechanism on firm distress level

Model 03: Altman Z score = α + Q1x1 + Q2x2 + s

Based on the results of Hausman test, P-value is lower than 0.05 (Prob > chi2 = 0.0011). Therefore, the researcher used a fixed-effects model to discuss the results of the study. Table 4.2.3 presents the results of the fixed-effects model.

Table 7: Impact of Model 03

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	16.17002	3.41634	4.733141	0
OC	1.395346	7.63816	0.182681	0.8555
BS	-1.13948	0.423354	-2.691557	0.0088
BC	0.493076	0.693828	0.710661	0.4795
LAM	-9.36E-06	3.77E-06	-2.484224	0.0152
MGN	-396.1042	566.7773	-0.698871	0.4868

R-squared	0.509596	Mean dependent var	6.0248
Adjusted R-squared	0.352666	S.D. dependent var	3.138097
S.E. of regression	2.52482	Akaike info criterion	4.902535
Sum squared resid	478.1037	Schwarz criterion	5.553827
Log likelihood	-220.1267	Hannan-Quinn criter.	5.166124

F-statistic	3.247294	Durbin-Watson stat	2.467052
Prob(F-statistic)	0.000052		

Source: E-views output (2025)

According to the results of the fixed-effects model, 50.96% of variability of ALT_ZS is explained by corporate governance variables in the study (R – sq = 0.509596). Accordingto the regression results, there is a negative significant effect BS (Coefficient -1.13948, p-value 0.0088) and LAM (Coefficient -9.36E-06, p-value 0.0152) on ALT_ZS. Other CG variables of the study such as OC, BC, and MGN have no impact to the ALT_ZS becausethe p–value of these variables is greater than 0.05. Based on the results of the fixed-effects model, p – value is less than 0.05 (Prob > chi2 = 0.000052). If the p – value is less than 0.05, the model should be accepted and therefore, the model can be accepted. The same result was observed by the empirical study of Ekanayake et al., (2019).

Hypotheses Summary

Table 8: Hypothesis Results

Hypotheses	Regression Results (P Value)	Accepted/Rejected
H_1: There is a significant impact of the owner–based governance mechanism on firm profitability.	0.0000	accepted
H_2: There is a significant impact of the owner–based governancemechanism on firm value	0.0155	accepted
H_3: There is a significant impact of the owner–based governance mechanism on firm distress level.	0.0088	accepted
H_4: There is a significant impact ofthe lender–based governance Mechanism on firm profitability.	0.0024	accepted
H_5: There is a significant impact of the lender–based governance mechanism on firm value	0.0117	accepted
H_6: There is a significant impact of the lender-based governancemechanism on firm distress level.	0.0152	accepted
Source: Developed by Researcher (2025)		

5. Conclusions and Recommendations

The study examined the impact of owner-based (ownership concentration, board size, board composition) and lender-based (loan amount, loan magnitude) governance mechanisms on the financial performance of Sri Lankan listed food, beverage, and tobacco companies. Firm profitability (ROA), firm value (Tobin's Q), and firm distress level (Altman Z score) were used as performance indicators. Descriptive and correlation analyses showed significant relationships between governance mechanisms and financial performance. Panel regression results revealed that owner-based governance positively impacts ROA and Tobin's Q but negatively affects the Altman Z score, while lender-based governance positively impacts Tobin's Q and negatively affects ROA and the Altman Z score. The findings suggest that high ownership governance improves operational efficiency but may not prevent distress, while strong lender governance can reduce profitability. The study recommends future research to include all listed companies, examine longer time frames, and explore combined governance effects to better understand conflicts of interest and optimize financial performance.

Competing Interests: The authors declare that they have no competing interests.

Acknowledgement: Authors are grateful to thank the referees for the useful comments also expressed sincere thanks to the editorial board for effort to publish this article.

References

Ahn, S., & Choi, W. (2009). The role of bank monitoring in corporate governance: Evidence from borrowers‟ earnings management behavior. *Journal of Banking and Finance*, *33*(2), 425–434. https://doi.org/10.1016/j.jbankfin.2008.08.013

Anderson, R. C., Mansi, S. A., & Reeb, D. M. (2004). Board characteristics, accounting report integrity, and the cost of debt. *Journal of Accounting and Economics*, *37*(3), 315–342. https://doi.org/10.1016/j.jacceco.2004.01.004

Ang, J. S., Cole, R. A., & Lin, J. W. (2000). Agency costs and ownership structure.

Journal of Finance, *55*(1), 81–106. https://doi.org/10.1111/0022-1082.00201

Azeez, A. A. (2015). Corporate Governance and Firm Performance : Evidence from Sri Lanka. *Journal of Finance and Bank Management*, *January*, 180–189. https://doi.org/10.15640/jfbm.v3n1a16

Azim, M. I. (2012). Corporate governance mechanisms and their impact on company performance: A structural equation model analysis. *Australian Journal of Management*, *37*(3), 481–505. https://doi.org/10.1177/0312896212451032

Bakar, I. S. A., Khan, A., Mather, P., & Tanewski, G. (2018). Corporate boards and performance pricing in private debt contracts. *Pacific Basin Finance Journal*, *50*, 144–162. https://doi.org/10.1016/j.pacfin.2017.02.007

Bebchuk, L., Cohen, A., & Ferrell, A. (2009). What matters in corporate governance.*Review of Financial Studies*, *22*(2), 783–827. https://doi.org/10.1093/rfs/hhn099 Bhojraj, S., & Sengupta, P. (2003). Effect of Corporate Governance on Bond Ratings andYields : The Role of Institutional Investors and Outside Directors. *The Journal of Business, 76*(3), 455–475.

Bhojraj, Sanjeev & Sengupta, Partha. (2003). Effect of Corporate Governance on Bond Ratings and Yields: The Role of Institutional Investors and Outside Directors. The Journal of Business. 76. 455-476. 10.2139/ssrn.291056.

Bowman, E. H. (1980). A risk/return paradox for strategic management. *Sloan School of Management Review*, *53*(9), 1689–1699.

Brennan, N. M., & Atkins, J. F. (2008). Corporate governance, accountability and mechanisms of accountability: An overview. *Accounting, Auditing & AccountabilityJournal*, *21*(7), 885–906. https://doi.org/10.1108/095135708109074014

Chandrasena, S. M., & Kulathunga. (2015). *An Empirical Study on Corporate OwnershipStructure and Firm Performance: Evidence from Listed Companies in Sri Lanka*. 60–77.

Clifford W. SMITH, J. and J. B. W. (1979). on financial contracting An Analysis of BondCovenants. *The Journal of Risk and Insurance*, *53*(4), 693. https://doi.org/10.2307/252971

Colombage, S. R. (2005). *scholarSectoral analysis of corporate capital structure choice–Emerging market evidence from Sri Lanka.* (pp. 5–35).

Daily, C. M., & Dalton, D. R. (1993). Board of Directors Leadership and Structure: Control and Performance Implications. *Entrepreneurship Theory and Practice*, *17*(3), 65–81.

Day, J., Mather, P., & Taylor, P. (2014). *The effect of corporate board characteristics on loan monitoring decisions*. *11*(2), 46–59.

Delbufalo, E. (2018). *Agency Theory and Sustainability in Global Supply Chain* (pp. 33– 54). https://doi.org/10.1007/978-3-319-72793-6_3

Ekanayake, G. Y., Senaratne, S., & Azeez, A. A. (2019). The Effect of Owner-Based and Lender-Based Governance Mechanisms on the Financial Performance of ListedCompanies in Sri Lanka. In *Colombo Business Journal* (Vol. 10, Issue 2). https://doi.org/10.4038/cbj.v10i2.52

Fama, E. (1980). Agency problems and the theory of the firm. *The Journal OfPolitical Economy*, *88*(2), 288–307. https://doi.org/10.1017/CBO9780511817410.022

Fatihudin, D., Jusni, & Mochklas, M. (2018). How measuring financial performance. *International Journal of Civil Engineering and Technology*, *9*(6), 553–557.

Fayezi, Sajad, Andrew O‟Loughlin, and A. Z. (2012). *Agency theory and supply chain management:a structured literature review* (pp. 556-570.). 2012.

Firestone, W. A. (1987). The Rhetoric of Quantitative and Qualitative Research. *Educational Researcher*, *16*(7), 16–21. http://files.eric.ed.gov/fulltext/ED292816.pdf

Florackis, C. (2008). Agency costs and corporate governance mechanisms: Evidence for UK firms. *International Journal of Managerial Finance*, *4*(1), 37–59. https://doi.org/10.1108/17439130810837375

García-meca, E., Lorca, C., Sánchez-, J. P., & García-meca, E. (2014). *Board Effectiveness and Cost of Debt*. *March*. https://doi.org/10.1007/s10551-010-0699-3

Gompers, P., Ishii, J., & Metrick, A. (2001). *Corporate governance and equity prices*. *3*, 1–70. https://doi.org/10.4324/9780203940136

Guo, Z., & Kga, U. K. (2012). Corporate Governance and Firm Performance of Listed Firms in Sri Lanka. *Procedia - Social and Behavioral Sciences*, *40*, 664–667. https://doi.org/10.1016/j.sbspro.2012.03.246

Gwala, R. S., & Mashau, P. (2022). Corporate Governance and Its Impact on Organisational Performance in the Fourth Industrial Revolution: a Systematic Literature Review. *African Journal of Business Management*, 98–114. https://doi.org/10.22495/cgobrv6i1p7

Haat, M. H. C., Rahman, R. A., & Mahenthiran, S. (2008). *Corporate governance,transparency and performance of Malaysian companies*. *23*(8), 744–778. https://doi.org/10.1108/02686900810899518

Haniffa, R., & Hudaib, M. (2006). Corporate governance structure and performance of Malaysian listed companies. *Journal of Business Finance and Accounting*, *33*(7–8), 1034–1062. https://doi.org/10.1111/j.1468-5957.2006.00594.x

HirinduKawshala, K. (2017). The Factors Effecting on Bank Profitability. *International Journal of Scientific and Research Publications, 7*(2), 212. www.ijsrp.org

K Dayanand, A. (2018). Hypothesis Types and Research. *International Journal of Nursing Science Practice and Research*, 78–80.

Kangale Mwanja, B., Marangu, W. N., Wanjere, D. M., & Thuo, K. J. (2014). Effect of Corporate Governance on Performance of Savings and Credit Co-operative Societies in Kakamega County. *European Journal of Business and Management*, *6*(30), 2222–2839.

Khamis, R., Hamdan, A. M., & Elali, W. (2015). The relationship between ownership structure dimensions and corporate performance: Evidence from Bahrain. *Australasian Accounting, Business and Finance Journal*, *9*(4), 38–56. https://doi.org/10.14453/aabfj.v9i4.4

Kowalewski, O. (2012). Does Corporate Governance Determine Corporate Performance and Dividends During Financial Crisis: Evidence from Poland. *SSRN Electronic Journal*, *September*. https://doi.org/10.2139/ssrn.2146168

Kusumawati, S. M., & Hermawan, A. A. (2013). the Influence of Board ofCommissioners and Audit Committee Effectiveness, Ownership Structure, Bank Monitoring, and Firm Life Cycle on Accounting Fraud. *Jurnal Akuntansi Dan Keuangan Indonesia*, *10*(1), 20–39. https://doi.org/10.21002/jaki.2013.02

Miko, N. U., & Kamardin, H. (2016). Corporate governance mechanisms, sensitive factors and earnings management in nigerian oil and gas industry. *Corporate Ownership and Control*, *13*(2), 39–48. https://doi.org/10.22495/cocv13i2p4

Paige Fields, L., Fraser, D. R., & Subrahmanyam, A. (2012). Board quality and the cost of debt capital: The case of bank loans. *Journal of Banking and Finance*, *36*(5), 1536–1547. https://doi.org/10.1016/j.jbankfin.2011.12.016

Pathirawasam, C. (2013). *Internal factors which determine financial performance offirms: With special reference to ownership concentration*. *4*(2), 2036–2046. https://doi.org/10.25142/aak.2013.026

Piot, C., & Missonier-Piera, F. (2009). *Corporate Governance Reform and the Cost of Debt Financing of Listed French Companies*. *33*(0), 0–43.https://doi.org/10.2139/ssrn.960681

Ross, D. G. (2010). The “Dominant Bank Effect:” How high lender reputation affects the information content and terms of bank loans. *Review of Financial Studies*, *23*(7), 2730–2756. https://doi.org/10.1093/rfs/hhp117

Ryan, A., Dina, A., & Hermawan, A. A. (2011). *The effect of bank monitoring as an alternative of corporate governance mechanism s on the borrowers ' firm value : evidence from indonesian listed firms*. *1*(4), 73–83.

Shleifer, A., & W.Vishny, R. (1996). *A Survey of corporate governance*.

Subramaniyam, N. (2009). *Corporate governance, firm characteristics and risk management committee formation in Australian companies.*

Ting, I. W. K., Kweh, Q. L., & Somosundaram, K. (2017). Ownership concentration, dividend payout and firm performance: The case of Malaysia. *Malaysian Journal of Economic Studies*, *54*(2), 269–280. https://doi.org/10.22452/mjes.vol54no2.6