The Impact of Corporate Governance Attributes on Cash Holdings of Listed Companies in Sri Lanka

Chamara MMRN., Udaya Kumara KGA

Department of Accountancy and Finance, Faculty of Management Studies, Rajarata University of Sri Lanka Telephone Number

DOI: https://doi.org/10.51244/IJRSI.2026.1311000014

Received: 02 November 2026; Accepted: 07 November 2026; Published: 19 November 2026

ABSTRACT

Corporate cash holdings are essential for maintaining financial stability, supporting daily operations, and enabling firms to respond to investment opportunities and economic uncertainties. Corporate governance can influence these decisions through effective monitoring and financial oversight. This study examines the impact of corporate governance attributes on corporate cash holdings among listed companies in Sri Lanka from 2020 to 2024. A quantitative approach was adopted using secondary data from the published annual reports of 50 non-financial companies listed on the Colombo Stock Exchange. The balanced panel dataset comprised 250 firm-year observations. The independent variables examined were Board Size, Board Independence, CEO Duality, Frequency of Audit Committee Meetings, Frequency of Board Meetings, and Ownership Concentration. Firm Size, Leverage, Return on Assets, and Asset Growth were included as control variables. The Fixed Effects model without control variables was selected for the main interpretation based on its higher explanatory power. The results show that the Frequency of Audit Committee Meetings and the Frequency of Board Meetings have positive and statistically significant effects on corporate cash holdings at the 5% level. These findings suggest that companies with more frequent board meetings and audit committee meetings tend to maintain higher cash balances, highlighting the importance of regular oversight in cash management. Ownership Concentration also has a positive effect, although the evidence is weaker, with significance at the 10% level. Board size and board independence are statistically insignificant. CEO duality could not be estimated in the reported fixed-effects specification. This study highlights the value of regular governance oversight in supporting corporate liquidity management.

Keywords: Corporate Governance, Cash Holdings, Frequency of Board Meetings, Frequency of Audit Committee Meetings

INTRODUCTION

Background of the Study

Corporate cash holdings mean the money a company keeps in hand or in bank accounts for its daily needs. It is very important in financial management. Companies need enough cash to run daily business activities, pay sudden expenses, and take new investment opportunities when they come. But if a company keeps too much cash, it can create problems. Managers may get more freedom to use that money in ways that may not always benefit the owners (shareholders). This situation is called an agency problem. Because of this, corporate governance becomes very important. Good governance helps to control managers and make sure company money is used in a proper and responsible way. It also protects the interests of shareholders. Different studies in the world show mixed results about the link between corporate governance and cash holdings. Some studies say good governance reduces cash, while others say it increases cash safety. The reason is that countries are different in their rules, economy, and management systems. In Sri Lanka, there are not many studies on this topic, especially after COVID-19, when companies faced many financial problems and uncertainty. So, this study focuses on listed non-financial companies in Sri Lanka from 2020 to 2024. It examines how corporate governance factors like board size, board composition, CEO duality, audit committee meetings, board meetings, and ownership concentration affect corporate cash holdings.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

CG and CH are two of the most crucial factors in a company's financial policy. While governance ensures accountability, transparency, and stakeholder safety, CH selections affect a corporation's liquidity, risk management, and funding capability. The interaction between these two dimensions has attracted great scholarly and regulatory interest globally, after companies' scandals and financial crises that exposed how negative governance and inefficient cash control can lead to corporate failure. In the Sri Lankan context, companies' governance has received heightened significance with the Code of Best Practice on CG (CA Sri Lanka, 2023), which emphasizes board shape, independence, Audit committee, and shareholder rights. At the same time, cash management has turned out to be an urgent difficulty because of post COVID 19 liquidity shocks, foreign exchange depreciation, and growing monetary market volatility. Firms have confronted the undertaking of retaining sufficient cash reserves for survival at the same time as warding off the inefficiency of excessive CH.

The studies in Sri Lanka (Ajanthan & Kumara, 2017) have provided useful insight into governance and economic policy, but most were conducted before 2020. These studies do not adequately after the post-pandemic business environment or the latest management reforms. In addition, evidence from international and emerging markets mixed results on how the properties of governance (BS, BI, CEOD, FAC, FBM and OC) affect CH, so it is necessary to perform updated, country specific research. Therefore, it is both timely and important to check the impact of CG features on cash portfolio in Sri Lankan listed companies during the 2020 to 2024. Such a study not only addresses a clear research gap, but also provides practical implications for investors, regulators, and decision makers, and ensures that management structures promote effective liquidity management and long-term economic stability. Although CG and CH have been studied a lot in global contexts, Sri Lanka's evidence is still limited and old. Current local studies (Ajanthan & Kumara, 2017) are most dependent on data from before 2020, which are unable to reflect the COVID 19 pandemic, economic instability, and the impact of newer companies' administration reforms introduced under the best practice of 2023 (CA Sri Lanka, 2023). At the same time, empirical evidence includes inconsistent conclusions on the impact of CG characteristics such as BI, BS, CEOD, FAC, FBM and OC on CH guidelines for companies. For example, while some studies claim that strong governance reduces further liquidity, others suggest that even well decorated companies maintain significant cash reserves to reduce uncertainty. This lack of agreement highlights the need for reference specific research.

In Sri Lanka, listed companies have recently met serious liquidity shocks, exchange rate fluctuations, and management challenges, which make all CH decisions more complicated. Nevertheless, there is insufficient empirical research that checks how the management structures affected the companies' CH during the period 2020 to 2024. CG is critical in shaping the CH policies of firms. Sound governance systems will lead to effective cash management and agency conflict minimization, whereas poor governance systems will lead to inefficient or excessive CH. Sri Lankan listed companies have, in recent years, faced severe financial crises like the post COVID 19 economic crisis, exchange rate uncertainty, and declining investor confidence, all of which have emphasized the significance of effective governance in managing liquidity.

Despite the global attention to the impact of CG attributes on CH, empirical evidence from Sri Lanka is limited and dated, with most available research relying on pre 2020 data. The economic landscape and the principles of governance have evolved significantly since then, especially with the introduction of the 2023 Code of Best Practice on CG by (CA Sri Lanka, 2023). Therefore, it is necessary to examine the influence of CG (BS, FBM, CEOD, FAC, OC, and BI) attributes on CH in listed companies in Sri Lanka.

This study attempts to resolve what is the impact of Corporate Governance attributes on Cash Holding of listed companies in Sri Lanka answering the research questions (i) Is there a significant impact of Board Size on Cash Holding of listed companies in Sri Lanka? (ii) Is there a significant impact of Frequency of Board Meetings on Cash Holding of listed companies in Sri Lanka? (iii) Is there a significant impact of CEO Duality on Cash Holding of listed companies in Sri Lanka? (iv) Is there a significant impact of the frequency of Audit Committee Meetings on the cash holding of listed companies in Sri Lanka? (v) Is there a significant impact of Ownership Concentration on cash holdings of listed companies in Sri Lanka? and (vi) Is there a significant impact of Board Independence on cash holdings of listed companies in Sri Lanka?

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

LITERATURE REVIEW

Corporate governance is an important factor that can influence how firms manage their financial resources, including cash holdings. Previous studies have examined this relationship using different governance characteristics and firm-level factors. This section reviews the empirical evidence related to the relationship between corporate governance and cash holdings, with particular attention to listed companies in Sri Lanka.

Previous empirical evidence provides mixed findings regarding the relationship between corporate governance and cash holdings. In Sri Lanka, Ajanthan and Kumara (2017) found that board size had a significant negative relationship with cash holdings, while board meeting frequency was not significant. Kengatharan (2017) reported that CEO duality and leverage had negative effects on cash holdings, whereas audit committee meetings had a positive effect. These studies provide important evidence, but they were conducted using earlier periods and different samples. International studies also show that governance effects are not uniform. Ferreira and Vicente (2020) found positive relationships between several governance characteristics and cash holdings, while Cambrea et al. (2022) reported that the effects of board characteristics differed across normal and crisis periods. Jiang et al. (2023) found insignificant effects for some board characteristics but significant effects for ownership-related variables.

The differences across previous studies suggest that the relationship between governance and cash holdings may depend on the institutional environment, ownership structure, industry characteristics, and period examined. This provides a basis for testing the following governance attributes in the Sri Lankan context: board size, board meeting frequency, CEO duality, audit committee meeting frequency, ownership concentration, and board independence. In the present study, board size is expected to influence cash holdings because the size of the board may affect monitoring and decision-making processes. Board meeting frequency is examined because more frequent meetings may indicate greater involvement in financial decisions. CEO duality is considered because the concentration of leadership may influence the monitoring of management. Audit committee meeting frequency is included because active audit committees may provide stronger oversight of financial resources. Ownership concentration is examined because major shareholders may have stronger incentives to monitor managerial cash decisions. Finally, board independence is included because independent directors may influence managerial decisions through objective monitoring. The present study extends previous research by examining listed non-financial companies in Sri Lanka over the period 2020 to 2024. This period provides more recent evidence and covers a period of considerable economic and business uncertainty. It also provides an opportunity to examine cash holding behaviour within the contemporary Sri Lankan corporate governance environment.

Corporate governance refers to the system through which companies are directed, controlled, and monitored. It defines the responsibilities of the board, management, shareholders, and other stakeholders and provides mechanisms for accountability and monitoring. Agency Theory suggests that conflicts may arise when ownership and management are separated because managers may make decisions that do not fully reflect shareholders' interests (Jensen & Meckling, 1976). Governance mechanisms can reduce these conflicts by strengthening managerial monitoring.

Cash holdings refer to the cash and cash equivalents retained by a firm to meet operating needs, financial obligations, unexpected cash requirements, and investment opportunities. Although holding cash provides financial flexibility, excessive cash may create an opportunity cost and increase the possibility of inefficient use of resources. Opler et al. (1999) found that growth opportunities and cash-flow uncertainty were important factors affecting firms' cash holdings, while Dittmar et al. (2003) showed that governance and investor protection also influence corporate cash policies. The relationship between corporate governance and cash holdings can be explained through several theories. Agency Theory suggests that managers may retain excess cash for personal objectives, while effective governance can limit such behavior. Trade-off Theory explains that firms balance the benefits of holding cash against the costs of maintaining idle resources. Pecking Order Theory suggests that firms generally prefer internal funds before external financing, making cash an important source of finance (Myers, 1984). Free Cash Flow Theory further suggests that excessive cash may provide managers with opportunities to invest in projects that do not necessarily benefit shareholders. Therefore, governance mechanisms such as independent boards and active audit committees can be important in controlling the use of excess cash.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

The Sri Lankan corporate governance framework also emphasizes board responsibility, independence, accountability, audit committees, and effective monitoring (CA Sri Lanka, 2023). These principles provide a relevant institutional background for examining the relationship between governance practices and cash-holding decisions of listed companies.

METHODOLOGY

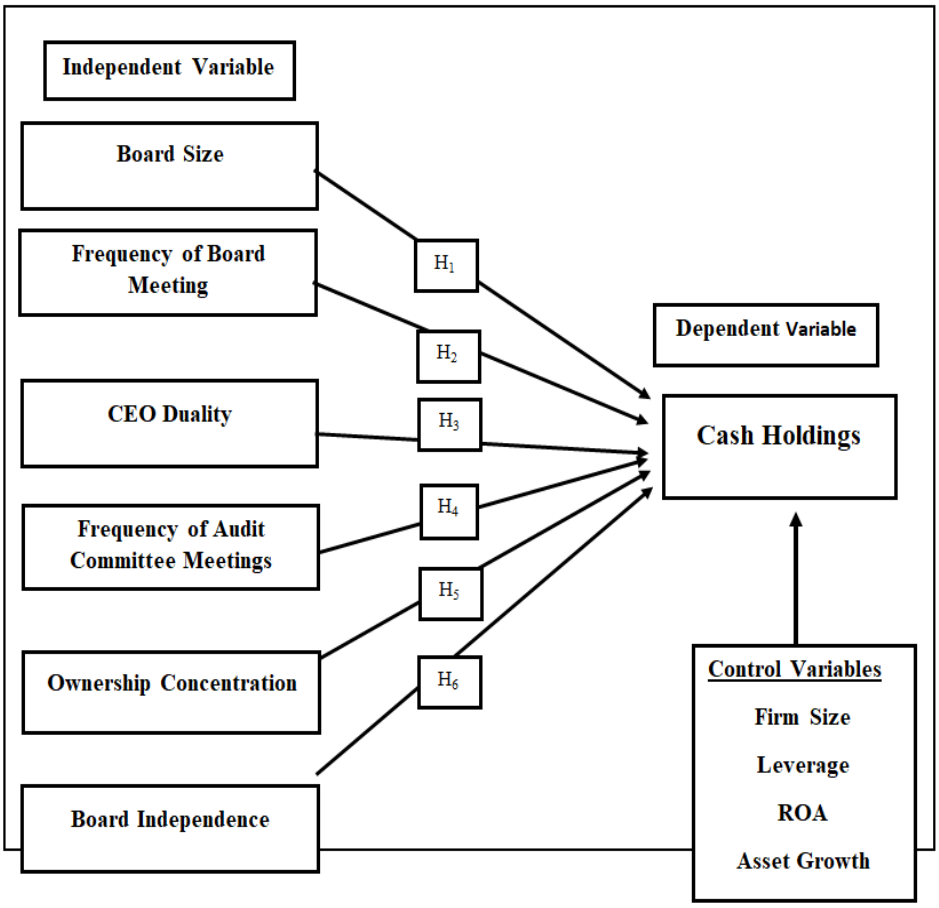
Research Design

This study adopts a quantitative research approach to examine the impact of corporate governance attributes on cash holdings of listed non-financial companies in Sri Lanka. A deductive research approach is used, where relationships between corporate governance attributes and cash holdings are examined based on previous empirical literature and tested using statistical methods. The study employs a panel research design because the analysis covers multiple companies over several years. The study period covers 2020 to 2024, resulting in five years of observations for each selected company. The sample consists of 50 listed non-financial companies selected from the Colombo Stock Exchange (CSE). Therefore, the balanced panel dataset contains 250 firm-year observations (50 companies × 5 years). The dependent variable of the study is cash holdings, while the main independent variables are Board Size, Frequency of Board Meetings, CEO Duality, Frequency of Audit Committee Meetings, Ownership Consideration, and Board Independence. Firm Size, Leverage, Return on Assets, and Asset Growth are included as control variables.

Conceptualization

The conceptual framework provides the relationship between corporate governance attributes and cash holdings of listed companies in Sri Lanka. The Conceptual Framework is as follows:

Figure 3.1- Conceptualization



(Source: Author Compiled - 2026)

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

Operationalization

In this study, definitions and measurements were established to maintain consistency and clarity in the analysis. The detailed operationalization of the variables is presented in the following Table.

Table 3.1-Operationalization

Variable	Description	Measurement	Past Study
CH	Represents the liquidity maintained by the firm to meet operating expenses, obligations, and investment opportunities.	Log Value of Average cash & cash equivalents	(Ajanthan & Kumara, 2017; H. Wirianata, 2024)
BS	Number of directors on the company's board.	Number of board members	(Ajanthan & Kumara, 2017; Balagobei & Keerthane, 2023
CEOD	Indicates whether the CEO also serves as the Board Chairman.	Dummy variable: 1 = CEO is Chairman, 0 = Otherwise	(Guo & Kumara, 2012; Droobetz & Grohings, 2007)
FAC	Presence of an Audit Committee meeting for monitoring financial decisions.	Number of Audit Committee meetings	(Chen & Chuang, 2009; Hassanein & Kokel, 2020)
OC	Ownership concentration is measured by the percentage of shares held by the largest shareholder.	Percentage of 5% or more shareholders of the company's total capitalization (%)	(Guo & Kumara, 2012; Jencen & Meckling, 1976)
BI	Represents board independence.	Percentage of independent directors relative to the total number of directors on the board (%).	(Ajanthan & Kumara, 2017; H. Wirianata, 2024)
FBM	Number of board meetings held annually, reflecting monitoring intensity.	Number of meetings per year	(Ajanthan & Kumara, 2017; Balagobei & Keerthane, 2023)
FS	Size of the companies, influencing cash needs and access to financing.	Log value of total assets	(Ajanthan & Kumara, 2017; Afza & Adnan, 2007)
LEV	The debt level of the companies affects the liquidity policy.	Total Debt ÷ Total Assets	(Ajanthan & Kumara, 2017; Myers, 1984)
ROA	Profit generation capability, influencing internal funding.	Net Income ÷ Total Assets	(Guo & Kumara, 2012; Amy et al., 2003)
AG	Expansion needs affect liquidity management.	Annual growth rate of total assets (%)	(Guo & Kumara, 2012; Opler et al., 1999)

(Source: Author Compiled - 2026)

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

Research Hypotheses:

Based on the empirical review in section 2.3, the following research hypotheses were constructed.

H_1: There is a significant impact of Board Size on Cash Holding of listed companies in Sri Lanka.

H_2: There is a significant impact of Frequency of Board Meetings on Cash Holding of listed companies in Sri Lanka.

H_3: There is a significant impact of CEO Duality on Cash Holding of listed companies in Sri Lanka.

H_4: There is a significant impact of the frequency of Audit Committee meetings on Cash holding of listed companies in Sri Lanka.

H_5: There is a significant impact of Ownership Concentration on Cash Holding of listed companies in Sri Lanka.

H_6: There is a significant impact of Board Independence on Cash Holding of listed companies in Sri Lanka.

Population and Sampling

Population

As of 30 June 2025, the CSE consisted of 286 listed companies classified into 20 Global Industry Classification Standard (GICS) industry groups, with an aggregate market capitalization of Rs. 6,437.95 billion. All listed companies are required to comply with the Companies Act No. 7 of 2007, the Securities and Exchange Commission Act No. 36 of 1987 (as amended), and the listing rules of the CSE. To enhance comparability and ensure consistency of financial and corporate governance characteristics, companies operating in the Banking, Finance, Insurance, Software, and Services sectors were excluded from the population. These sectors are subject to distinct regulatory frameworks, exhibit unique capital structures and cash management practices, and many firms within these categories were not continuously listed during the period 2020 to 2024. Including such firms could therefore obscure comparability and weaken the robustness of longitudinal analysis. Following these exclusions, the final population comprised 216 companies distributed across the remaining GICS industry groups, which formed the basis for sample selection.

Sample

A sample of 50 companies covering the period from 2020 to 2024 was selected using a proportionate stratified random sampling technique to ensure adequate representation of all GICS industry groups included in the study. The study employed a combination of proportionate stratified sampling, purposive selection, and simple random sampling to select 50 companies from a population of 216 listed companies. A sampling ratio of 50/216 was applied across GICS industry groups, ensuring proportional allocation and at least one company from each sector. Within each industry group, the company with the highest market capitalization was purposively selected, while the remaining companies were randomly selected, giving priority to firms with market capitalization exceeding Rs. 1 billion. This approach aimed at achieving balanced industry representation while considering the economic significance of selected firms. The final sample distribution is presented in the following table.

Table 3.2-The mapping of the 50 sample firms across CSE GICS Industry Groups

GIG Code	Industry Group Name	Companies Traded	Proportional (50/216 ≈ 0.23148)	Selected Companies
SPCSEEIP	Energy	**3**	3 × 0.23148 = **0.6944**	**1**
SPCSEMIP	Materials	**23**	23 × 0.23148 = **5.3241**	**5**

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

SPCSECGP	Capital Goods	**31**	31 × 0.23148 = **7.1759**	**7**
SPCSECPP	Commercial & Professional Services	**7**	7 × 0.23148 = **1.6204**	**1**
SPCSETP	Transportation	**3**	3 × 0.23148 = **0.6944**	**1**
SPCSEAMP	Automobiles & Components	**1**	1 × 0.23148 = **0.2315**	**1**
SPCSECAP	Consumer Durables & Apparel	**12**	12 × 0.23148 = **2.7778**	**2**
SPCSECSP	Consumer Services	**37**	37 × 0.23148 = **8.5648**	**8**
SPCSERP	Retailing	**14**	14 × 0.23148 = **3.2407**	**3**
SPCSEFRP	Food & Staples Retailing	**4**	4 × 0.23148 = **0.9259**	**1**
SPCSEFBP	Food, Beverage & Tobacco	**49**	49 × 0.23148 = **11.3426**	**11**
SPCSEHPP	Household & Personal Products	**2**	2 × 0.23148 = **0.4630**	**1**
SPCSEHSP	Health Care Equipment & Services	**9**	9 × 0.23148 = **2.0833**	**1**
SPCSETIP	Telecommunication Services	**2**	2 × 0.23148 = **0.4630**	**1**
SPCSEUIP	Utilities	**10**	10 × 0.23148 = **2.3148**	**2**
SPCSERMP	Real Estate Management & Development	**19**	19 × 0.23148 = **4.3981**	**4**
Total		**216**		**50**

RESULTS, FINDINGS AND DISCUSSION

This section presents the data analysis and the discussion of findings relating to the impact of corporate governance attributes on cash holdings of listed companies in Sri Lanka. The study used secondary data collected from the annual reports of 50 selected listed companies over the five years from 2020 to 2024, resulting in 250 firm-year observations. The data were analyzed using EViews statistical software. Descriptive statistics were used to summarize the characteristics of the variables, while correlation analysis was conducted to examine the direction and strength of relationships among the variables and identify panel regression. The results are presented and interpreted using statistical tables and outputs, followed by hypothesis testing and discussion of the findings in relation to previous empirical studies.

Descriptive Analysis

The descriptive analysis includes statistical measures such as mean, median, maximum value, minimum value, and standard deviation for each variable in the study. These measures help to identify the central tendency, variability, and dispersion of the data. Furthermore, descriptive statistics assist in determining whether the data is suitable for further statistical analysis.

Table 4.1-Descriptive statistics

Statistic	AG	BI	BS	CEOD	CH	FAC	FBM	FS	LEV	OC	ROA
Mean	0.09	0.43	8.56	0.18	8.26	4.71	6.64	9.77	0.41	0.69	0.06
Median	0.06	0.42	8.00	0.00	8.26	4.00	6.00	9.83	0.39	0.72	0.05

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

Maximum	1.13	0.75	15.00	1.00	10.46	9.00	11.00	11.43	0.99	0.91	0.81
Minimum	-0.99	0.33	4.00	0.00	5.06	2.00	4.00	7.00	0.00	0.05	-0.89
Std. Dev.	0.23	0.08	2.07	0.38	1.01	1.04	1.38	0.82	0.24	0.16	0.13
Skewness	-0.35	1.27	0.69	1.67	-0.18	1.53	0.62	-0.93	0.24	-1.62	-0.49
Kurtosis	10.39	4.74	3.24	3.78	3.06	4.91	3.29	4.20	2.17	7.03	18.40
Jarque-Bera	573.71	99.07	20.18	121.89	1.43	135.57	16.88	50.88	9.47	279.09	2481.44
Probability	0.0000	0.0000	0.0000	0.0000	0.4886	0.0000	0.0002	0.0000	0.0088	0.0000	0.0000
Sum	22.56	108.10	2140.00	45.00	2065.46	1178.00	1661.00	2442.92	101.30	173.60	14.86
Sum Sq. Dev.	15.73	48.46	19386.00	45.00	1730.25	5822.82	11511.00	24039.13	54.91	126.91	5.07
S.D.	13.69	1.71	1067.60	36.90	255.88	271.26	475.32	167.76	13.86	6.36	4.18
Observations	250	250	250	250	250	250	250	250	250	250	250

(Source: Survey Data - 2026)

The results of the descriptive statistics are presented in Table 4.1, followed by detailed interpretations of each variable. The interpretation explains the behavior of the variables and their relevance to the study of companies' cash holdings behavior. The descriptive analysis indicates that most variables are non-normally distributed, as confirmed by significant Jarque-Bera statistics and probability values below 0.05. Several variables such as CEOD, LEV, FAC, and CH exhibit high skewness and kurtosis, indicating the existence of extreme values and outliers. These findings suggest substantial differences in CG practices, financial structures, and liquidity management among listed firms in Sri Lanka. Therefore, further inferential statistical analysis such as correlation analysis and panel regression models, will be employed to examine the impact of CG variables on CH.

Correlation Analysis

Correlation analysis was conducted to examine the relationship between the variables included in the study and to identify the presence of multicollinearity among the dependent variables. Correlation analysis is an important statistical technique used in quantitative research to measure the direction and strength of the relationship between two variables. In this study, Pearson correlation coefficients were calculated using EViews software.

Table 4.2-Correlation

	CH	AG	BI	BS	CEOD	FAC	FS	FBM	LEV	OC	ROA
CH	1										
AG	0.126554	1									
BI	-0.07775	0.080276	1								

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

BS	0.129034	-0.06217	-0.45276	1							
CEOD	-0.04769	0.078518	0.125548	-0.19246	1						
FAC	0.23231	0.081558	0.238316	0.034043	-0.17032	1					
FS	0.401643	0.31594	-0.01154	0.075849	-0.04559	0.211869	1				
FBM	0.355031	0.065822	-0.13833	0.375993	0.060558	0.104067	0.200067	1			
LEV	0.123524	-0.0156	-0.03668	0.062976	0.091863	-0.09517	0.038327	0.08754	1		
OC	0.021251	0.057387	0.114982	-0.14711	0.008904	0.077887	0.123777	-0.10441	-0.0227	1	
ROA	0.284175	0.150824	-0.01758	0.046901	-0.07687	0.099424	0.117263	0.148395	-0.30859	-0.01127	1

(Source: Survey Data – 2026)

The findings of the correlation analysis are presented in Table 4.2, followed by a detailed interpretation of the relationships among the variables used in the study. The correlation analysis provides preliminary evidence of the relationships among corporate governance characteristics, firm-specific factors, and cash holdings in listed companies in Sri Lanka.

Regression Analysis

Hausman Test

The Hausman specification test was conducted to determine the most appropriate panel regression model for the study. In panel data analysis, researchers commonly choose between the FE model and the RE model. Selecting the correct model is important because it affects the accuracy and reliability of the regression results. The FE model assumes that individual firm characteristics are correlated with the explanatory variables. In contrast, the RE model assumes that individual firm-specific effects are not correlated with the explanatory variables. Therefore, the Hausman test was used to identify whether the unique firm-specific effects are correlated with the independent variables included in the model. The hypotheses of the Hausman test are presented below:

H_0: RE model is appropriate

H_1: FE model is appropriate

The decision rule of the Hausman test is: If the probability value is less than 0.05, the null hypothesis is rejected, and the FE model should be selected. If the probability value is greater than 0.05, the null hypothesis cannot be rejected, and the RE model is considered more appropriate. The Hausman test results obtained from the analysis are table 4.3 shown below:

Table 4.3: Hausman Test Results

Correlated Random Effects - Hausman Test			
Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section Random	29.619602	9	0.0005

The probability value of the Hausman test is 0.0005, which is lower than the standard significance level of 0.05. Therefore, the null hypothesis can be rejected. This indicates that the individual firm specific effects are not

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

significantly correlated with the explanatory variables such as FAC, BI, BS, FBM, OC, FS, LEV, ROA, and AG. As a result, the FE model is considered more appropriate and efficient for this study.

Regression Analysis with Control Variables

This section presents the FE regression results with the inclusion of firm specific control variables. The purpose of this model is to examine the relationship between CG attributes and CH while controlling other firm-specific financial characteristics. The dependent variable is CH, while the independent variables are FAC, FBM, OC, BS, BI. The control variables are FS, LEV, ROA, and AG. CEOD was excluded from the estimated FE model due to insufficient within-firm variation.

The estimated FE regression equation is as follows:

$$CH = 8.499678 - 0.005787AG - 0.009202BC - 0.01088BS + 0.065182FAC + 0.068906FBM + 0.3010237OC - 0.11585FS - 0.037983LEV + 0.24372ROA$$

The following Table 4.4 presents the results of the FE regression model estimated after incorporating both the corporate governance variables and the firm-specific control variables using EViews .

Table 4.4: Regression Results with Control Variables

Variable	Coefficient	Std. Error	t-Statistic	p-value	Decision
C	8.499678	1.024665	8.295078	0	
AG	-0.005787	0.12979	-0.04459	0.9645	Not Significant
BI	-0.009202	0.459803	-0.02001	0.9841	Not Significant
BS	-0.01088	0.024984	-0.43549	0.6637	Not Significant
FAC	0.065182	0.028659	2.27438	0.0241	Significant (+)
FBM	0.068906	0.02757	2.499263	0.0133	Significant (+)
OC	0.310237	0.176578	1.756941	0.0805	Significant at 10%
FS	-0.11585	0.098553	-1.17552	0.2413	Not Significant
LEV	-0.037983	0.262918	-0.14447	0.8853	Not Significant
ROA	0.324372	0.285474	1.136258	0.2573	Not Significant

Statistic	Value
R-squared	0.884734
Adjusted R-squared	0.852768
F-statistic	27.99043
Prob(F-statistic)	0
Durbin-Watson	1.519472

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

The regression model demonstrates strong explanatory power. The R-squared value of 0.884734 indicates that approximately 88.47 percent of the variation in corporate cash holdings is explained by the independent variables included in the model. Although this value is slightly lower than the model estimated without control variables, it still indicates that the selected governance and firm-specific variables collectively explain a substantial proportion of the variation in cash holdings among the selected listed companies. Similarly, the Adjusted R-squared value of 0.852768 indicates that after adjusting for the number of explanatory variables included in the model, approximately 85.28 percent of the variation in corporate cash holdings remains explained. The relatively high Adjusted R-squared confirms that the model possesses considerable explanatory ability while avoiding substantial overfitting. The slight reduction in Adjusted R-squared compared with the previous model suggests that the addition of the control variables contributes little additional explanatory power beyond that already provided by the corporate governance variables.

The overall significance of the model is confirmed by the F-statistics of 27.99043, with a corresponding Prob(F-statistic) of 0.0000. This result indicates that the regression model is statistically significant at the one percent significance level. Consequently, the null hypothesis that all estimated coefficients are jointly equal to zero is rejected. Therefore, the selected independent variables collectively explain variations in corporate cash holdings during the study period. The Durbin-Watson statistic of 1.519472 is reasonably close to the benchmark value of two, suggesting that there is no serious evidence of first-order autocorrelation among the residuals. Although the value is slightly below two, it remains within an acceptable range for panel data analysis, indicating that serial correlation is unlikely to affect the reliability of the estimated regression coefficients.

The regression analysis is based on a balanced panel comprising 250 observations, representing 50 listed companies observed over five consecutive years from 2020 to 2024. The use of the Fixed Effects model enables the analysis to control firm-specific characteristics that remain constant over time, thereby providing more reliable estimates of the relationships between corporate governance attributes and corporate cash holdings. These findings indicate that monitoring-related governance mechanisms, particularly active audit committees and frequent board meetings, are more influential determinants of corporate cash holdings than either board structural characteristics or the firm-specific financial characteristics considered in this study. The results also demonstrate that the positive effects of these governance mechanisms remain robust even after introducing control variables, providing stronger evidence that effective corporate governance contributes to prudent corporate liquidity management among listed companies in Sri Lanka.

Regression Analysis without Control Variables

This section presents the FE regression results without including control variables. The purpose of this model is to examine the direct relationship between CG variables and CH. The dependent variable of the model is CH, while the independent variables are FAC, BI, BS, CEOD, FBM, and OC.

The estimated FE regression equation is as follows:

$$CH = 7.38704 + 0.0676FAC - 0.00592BC - 0.01396BS + 0.0676FBM + 0.301942OC$$

Table 4.5: Regression Result

Variable	Coefficient	Std. Error	t Statistic	p-value	Decision
C	7.38704	0.396128	18.64811	0	
BI	-0.005952	0.455122	-0.01308	0.9896	Not Significant
BS	-0.01396	0.02476	-0.56381	0.5735	Not Significant
FAC	0.069989	0.028197	2.482105	0.0139	Significant (+)
FBM	0.067619	0.027294	2.477479	0.0141	Significant (+)

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

OC	0.301942	0.175124	1.724164	0.0863	Significant at 10%

Statistic	**Value**
R-squared	0.893212
Adjusted R-squared	0.863639
F-statistic	30.20447
Prob(F-statistic)	0
Durbin-Watson	1.528429
Observations	250
Cross-sections	50
Periods	5

Table 4.5 presents the results of the FE regression model estimated without including control variables. The model examines the impact of corporate governance attributes on corporate cash holdings among selected listed companies in Sri Lanka during the period 2020-2024. The dependent variable, CH, is measured as the log value of average cash and cash equivalents, while the independent variables include BI, BS, FAC, FBM, OC, and CEOD. However, the CEOD variable was automatically omitted from the Fixed Effects estimation because it exhibited almost no variation within firms throughout the study period. Since the Fixed Effects estimator relies on changes within each company over time, variables that remain constant cannot be estimated and are therefore excluded from the regression model. The overall regression model demonstrates strong explanatory power.

The R-squared value of 0.893212 indicates that approximately 89.32 percent of the variation in corporate cash holdings is explained by the corporate governance variables included in the model. This suggests that the selected governance characteristics jointly explain a substantial proportion of changes in cash holdings across the sampled firms. Furthermore, the Adjusted R-squared value of 0.863639 indicates that even after adjusting for the number of explanatory variables, the model continues to explain approximately 86.36 percent of the variation in cash holdings. The relatively small difference between the R squared and Adjusted R squared values suggests that the model does not suffer from unnecessary complexity and that the selected explanatory variables contribute meaningfully to the model. The overall significance of the regression model is confirmed by the F statistic of 30.20447, with a corresponding Prob (F statistic) of 0.0000. This indicates that the model is statistically significant at the one percent significance level. Therefore, the null hypothesis that all regression coefficients are jointly equal to zero is rejected, implying that the selected corporate governance variables collectively influence corporate cash holdings.

The Durbin Watson statistic of 1.528429 is reasonably close to the benchmark value of two, suggesting that there is no serious evidence of first order autocorrelation in the regression residuals. Although the value is slightly below two, it remains within an acceptable range for panel data analysis, indicating that serial correlation is unlikely to substantially affect the reliability of the estimated coefficients. The panel data set consists of 250 observations, representing 50 listed companies observed over five consecutive years (2020 2024). This balanced panel structure provides sufficient observations for estimating the Fixed Effects model while controlling for unobservable firm specific characteristics that remain constant over time. The FE regression model without control variables provides strong evidence that certain corporate governance mechanisms influence corporate cash holdings among listed companies in Sri Lanka. Among the governance variables examined, FAC and FBM demonstrate statistically significant positive effects on cash holdings at the 5% significance level. These findings

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

indicate that stronger monitoring through active board and audit committee activities encourages firms to maintain higher cash reserves.

In contrast, BI and BS do not exhibit statistically significant relationships with cash holdings, suggesting that structural characteristics of the board alone may not directly determine corporate liquidity policies. OC shows a positive relationship that is significant only at the 10% level, indicating relatively weak empirical support. The model also demonstrates excellent explanatory power, with an R-squared of 89.32 percent, and is statistically significant overall, confirming that the selected corporate governance variables collectively explain a substantial proportion of variations in corporate cash holdings. Therefore, the findings suggest that governance mechanisms related to monitoring intensity, particularly audit committee activity and board meeting frequency, play a more influential role in determining corporate cash holding decisions than governance structures such as board size or board independence.

Comparison of the Fixed Effects Models with and without Control Variables

To evaluate the consistency of the regression findings, the FE model was estimated using two specifications: the model without control variables and the model including firm-specific control variables. The model without control variables examines the direct relationship between corporate governance attributes and corporate cash holdings, while the model with control variables additionally considers firm characteristics such as FS, LEV, ROA, and AG.

The comparison between the two models indicates that both specifications provide similar empirical findings regarding the impact of corporate governance attributes on corporate cash holdings. However, based on the overall model performance and the research objective of examining the direct influence of corporate governance mechanisms, the Fixed Effects model without control variables was selected as the main model for hypothesis testing. The model without control variables demonstrates slightly higher explanatory power compared with the model including control variables. Specifically, the model without control variables reports an R-squared value of 0.893212, while the model with control variables reports an R-squared value of 0.884734. Similarly, the Adjusted R-squared value decreases from 0.863639 in the model without control variables to 0.852768 after including control variables. This indicates that the introduction of firm-specific control variables does not improve the explanatory ability of the model. Instead, the additional variables provide limited additional information in explaining variations in corporate cash holdings within the selected sample. Both models are statistically significant, as demonstrated by the Prob(F-statistic) value of 0.0000. The F-statistic of the model without control variables is 30.20447, while the model with control variables reports an F-statistic of 27.99043. Although the F-statistics decrease slightly after including control variables, both models remain statistically significant, confirming that the independent variables collectively explain variations in corporate cash holdings.

When comparing the main corporate governance variables, the results remain highly consistent across both models. FAC continues to show a positive and statistically significant relationship with corporate cash holdings in both specifications. Similarly, FBM remains positive and statistically significant after introducing control variables. This consistency indicates that these governance mechanisms have a stable relationship with corporate cash holdings regardless of model specification. Furthermore, OC maintains a positive relationship with cash holdings in both models and remains statistically significant at the 10 percent level. Although the significance level is weaker compared with FAC and FBM, the direction of the relationship remains unchanged. This suggests that ownership concentration may influence cash holding decisions to some extent among listed companies in Sri Lanka. In contrast, BI and BS remain statistically insignificant in both models. The inclusion of control variables does not change their significance levels or the overall interpretation of their relationships with corporate cash holdings. Therefore, the findings indicate that these board characteristics do not have a significant influence on cash holdings within the selected sample.

The control variables included in the second model, namely AG, FS, LEV, and ROA, are all statistically insignificant. This indicates that these firm-specific characteristics do not provide additional explanatory power beyond the corporate governance variables included in the model. Since the main purpose of this study is to examine the impact of corporate governance attributes on cash holdings, the insignificant contribution of these control variables supports the selection of the model without control variables as the primary specification. In

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

addition, the Durbin-Watson statistics of both models are very similar, with values of 1.528429 for the model without control variables and 1.519472 for the model with control variables. This indicates that the inclusion of control variables does not create a meaningful improvement in the residual characteristics of the model.

Based on the comparison, the model without control variables provides a slightly better statistical performance, as reflected by its higher R-squared, Adjusted R-squared, and F-statistic values. More importantly, the inclusion of control variables does not alter the significance or direction of the main corporate governance variables. Therefore, the findings related to FAC, FBM, and OC remain consistent across both specifications. Considering the research objective, model explanatory power, and consistency of results, the Fixed Effects model without control variables was selected as the preferred model for hypothesis testing. This model directly evaluates the relationship between corporate governance attributes and corporate cash holdings without introducing additional variables that do not provide significant explanatory contribution. The results suggest that governance mechanisms, particularly active audit committee meetings and frequent board meetings, play a significant role in determining corporate cash holding decisions among listed companies in Sri Lanka.

Hypothesis Testing and Interpretation using without Control Variables

This section presents the hypothesis testing results of the study by examining the impact of corporate governance attributes on corporate cash holdings of listed companies in Sri Lanka. The hypotheses were developed based on theoretical arguments and previous empirical findings, particularly considering the relationship between corporate governance mechanisms and liquidity management decisions. The study employed the Fixed Effects regression model without control variables as the main model for hypothesis testing. The reason for selecting this model is that it provides higher explanatory power compared with the model including control variables, while the inclusion of control variables did not materially change the significance and direction of the main governance variables. Therefore, the model without control variables was considered more appropriate for examining the direct impact of corporate governance attributes on corporate cash holdings.

The results indicate that corporate governance mechanisms related to monitoring intensity, particularly FAC and FBM positive influence CH at 5% significant. However, structural governance characteristics such as BS and BI do not demonstrate statistically significant relationships. Furthermore, Ownership Concentration OC shows a weak positive relationship with cash holdings, significantly at the 10% significant level. CEOD could not be tested due to insufficient variation within firms during the study period.

The following sections discuss each hypothesis in detail by comparing the findings of the present study with previous empirical studies and relevant theoretical perspectives.

CONCLUSION

The purpose of this study was to examine the impact of CG attributes on CH of listed companies in Sri Lanka during the period from 2020 to 2024. The study was motivated by the growing importance of CG in improving financial decision-making and ensuring the efficient management of corporate resources. Since cash is one of the most important assets held by any organization, understanding the governance factors that influence CH decisions is valuable for companies, investors, regulators, and policymakers. This study successfully achieved its main research objective by examining the relationship between selected CG attributes and CH of listed companies in Sri Lanka. The empirical evidence demonstrates that not all governance mechanisms influence CH decisions equally. Governance activities that involve continuous monitoring and financial oversight appear to have a stronger effect than structural governance characteristics. These findings contribute to the understanding of CG practices in an emerging market and provide updated evidence using data collected during the post-pandemic period. The study highlights that effective CG is not determined solely by formal governance structures but also by the level of commitment shown by boards and audit committees in performing their oversight responsibilities. Companies that maintain active governance processes appear to be better positioned to manage liquidity in a manner that supports financial stability and long-term organizational objectives. Consequently, strengthening governance practices should remain a priority for listed companies seeking to improve both financial management and overall corporate performance.

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

The findings of this study also contribute to the existing body of literature on CG and CH by providing recent empirical evidence from Sri Lanka. Given the limited number of studies conducted in the local context, particularly using post-COVID panel data, this research offers useful insights for academics, practitioners, regulators, and investors. The following section discusses the practical and theoretical implications of these findings and provides recommendations that may help strengthen CG practices and improve corporate cash management among listed companies in Sri Lanka.

IMPLICATIONS AND RECOMMENDATIONS

The findings provide useful implications for companies, regulators, investors, and future researchers. The significant positive effects of FBM and FAC suggest that active monitoring plays an important role in CH. Therefore, companies should conduct regular and meaningful FBM and FAC, with proper attention to financial performance, risks, internal controls, and liquidity management. From a theoretical perspective, the findings provide recent evidence supporting Agency Theory. Effective monitoring can influence financial decisions and encourage companies to maintain sufficient cash to meet operational needs and manage uncertainty. However, the results also show that stronger governance does not necessarily lead to lower CH. For company management, maintaining an appropriate level of cash is important for daily operations, investment opportunities, and unexpected financial needs. At the same time, excessive cash should be avoided because unused funds may reduce investment efficiency. Companies should therefore establish suitable cash management policies. Although BS and BI were not statistically significant, companies should still consider the knowledge, experience, independence, and active participation of directors. Simply increasing the number of directors or independent directors may not automatically improve financial decision-making.

Regulators such as the SEC of Sri Lanka and the CSE should continue to encourage companies to focus on effective governance rather than only minimum compliance. Director training and continuous professional development can also improve knowledge of financial reporting, risk management, and internal controls. Investors and other stakeholders should assess governance using both structural and activity-based measures. Regular board and audit committee meetings may provide useful information about the level of corporate oversight. Overall, CG should be treated as a continuous process involving active monitoring, accountability, and sound financial decision-making. Strengthening these practices can help listed companies manage cash effectively and support long-term organizational performance.

Limitations And Future Research Directions

Despite providing meaningful empirical evidence on the relationship between CG attributes and CH in Sri Lanka, this study has certain limitations that offer valuable opportunities for future research.

The study examined 50 non-financial companies listed on the CSE over five years (2020-2024), comprising 250 firm-year observations. Although this period captures significant economic challenges, including the COVID-19 pandemic and Sri Lanka's economic crisis, the relatively limited sample and time frame may restrict the generalizability of the findings. Future studies could expand the sample across different industries and extend the observation period to examine whether governance-related cash-holding patterns remain consistent under changing economic conditions. The selection of variables may not fully capture the complexity of corporate cash management. While the study considered key governance attributes and firm-specific control variables, other influential factors, including board diversity, managerial ownership, operating cash flows, investment opportunities, and macroeconomic conditions, were not examined. Additionally, CEOD could not be estimated in the FE model due to insufficient within-firm variation. Future research could incorporate these additional factors to develop a more comprehensive understanding of the determinants of corporate cash holdings.

The study also relied on secondary data obtained from published annual reports, which may not fully reflect internal governance practices and managerial decision-making processes. Moreover, the Fixed Effects approach cannot completely address potential endogeneity and reverse causality. Future studies could employ dynamic panel models, Generalized Method of Moments (GMM), or appropriate instrumental variable techniques to strengthen the robustness of the findings. Integrating qualitative evidence through interviews with corporate

ISSN No. 2321-2705 | DOI: 10.51244/IJRSI |Volume XIII Issue XI November 2026

directors and financial managers, alongside cross-country comparisons, could provide deeper insights into how governance mechanisms influence corporate liquidity decisions.

Overall, addressing these limitations would strengthen the existing empirical evidence and contribute to a more comprehensive understanding of corporate governance and CH practices in Sri Lanka and other emerging economies.

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