Impact of Board Structure on Financial Performance of Listed Companies in Sri Lanka

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Abstract

The issue of the structure of the board of directors as a corporate governance mechanism has received much attention in recent years from different interest parties. Thus, the current study examines the impact of board structure on financial performance in Sri Lanka. Based on the extant literature, three board characteristics; Chief Executive Officer (CEO) duality, board size, and board meeting have been identified as possibly having an impact on corporate financial performance these characteristics are set as the independent variables. Financial performance was measured by Return on Equity (ROE), Return on Capital Employed (ROCE). All the listed companies used as population excluding firms in the financial services industry and which companies used year ended 31st of Decemberas their financial year in Sri Lanka. The sample consists of the 40 listed companies in Sri Lanka covering the period of the year from 2017/2018 to 2019/2020. The Ordinary Least Squares regression was used to estimate the impact of the board structure on financial performance. Results of regression analysis indicated that there was a significant positive impact of CEO duality on financial performance. The board meeting has a significant negative impact on ROE while the board meeting has a significant positive impact on ROCE. But, board size has no significant impact on both ROE and ROCE. These findings consist of the extant literature. Thus, CEO duality would encourage to enhance the financial performance. As well as the board meeting should encourage increasing ROCEand should discourage enhancing ROE.

Keywords: Board meeting, board size, board structure, CEO duality, financialperformance