THE EFFECT OF CORPORATE GOVERNANCE ATTRIBUTES ON CAPITAL STRUCTURE: SPECIAL REFERENCE TO MATERIAL SECTOR COMPANIES LISTED ON COLOMBO STOCK EXCHANGE

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INTRODUCTION

Corporate governance is the framework that defines the relationship between shareholders, management teams, the board of directors, and all other key stakeholders, to help influence how a company operates (Danquah et al., 2022). Company governance is primarily concerned with maintaining a balance of interests between corporate investors and stakeholders. This strategy for managing a company aims to decrease agency conflicts, boost investor confidence, increase firm goodwill, and increase shareholder wealth and investment prospects. It also gives the firm the necessary direction regarding how to function and be supervised (Ngatno et al., 2021). The concept of capital structure can be defined as a balanced composition or combination of debt and equity capital (Pham et al., 2022). The capital structure decision is crucial because it directly impacts a company's profitability (Al Omairi & Matriano, 2022). According to Velnampy and Niresh (2012), a successful selection and use of capital are critical elements of the firm's financial strategy. Companies need financial resources to perform their activities and accomplish their objectives. Therefore, factors affecting capital structure should be considered carefully. There are lots of previous studies on this topic. According to the Thakolwiroj and Sithipolvanichgul (2021), CEO duality positively affects the total debt ratio.

Further, according to Sheikh (2012), the results suggest that board size is positively related to the total and long-term debt ratios. Thakolwiroj and Sithipolvanichgul (2021) found that board size negatively relates to capital structure. So, due to these contradictory arguments, it cannot identify a clear relationship between corporate governance attributes with capital structure. So, to mitigate this research gap researcher reconsiders "Does corporate governance attributes affect capital structure: special reference to material sector companies listed in CSE?"

METHODOLOGY

The population of this study is all 21 material sector companies listed on Colombo Stock Exchange. As the sample, considering all 21 material sector listed companies. However, the final sample was 17 material sector companies due to the unavailability of data. The selected period is five periods from 2017 to 2021. This quantitative research is based on secondary data and uses a deductive approach. The researcher used an outlier test before analyzing to remove the outliers. Statistical Package for STATA software will analyze the data using the following techniques. Descriptive, correlation and regression analysis were used to analyze the data. The researcher used analytical data strategies such as company annual reports, company records, newspapers, Colombo Stock Exchange (CSE) websites, Colombo Stock exchange publications, etc.

Figure 1 below indicates the conceptual diagram which was developed based on a comprehensive literature review.

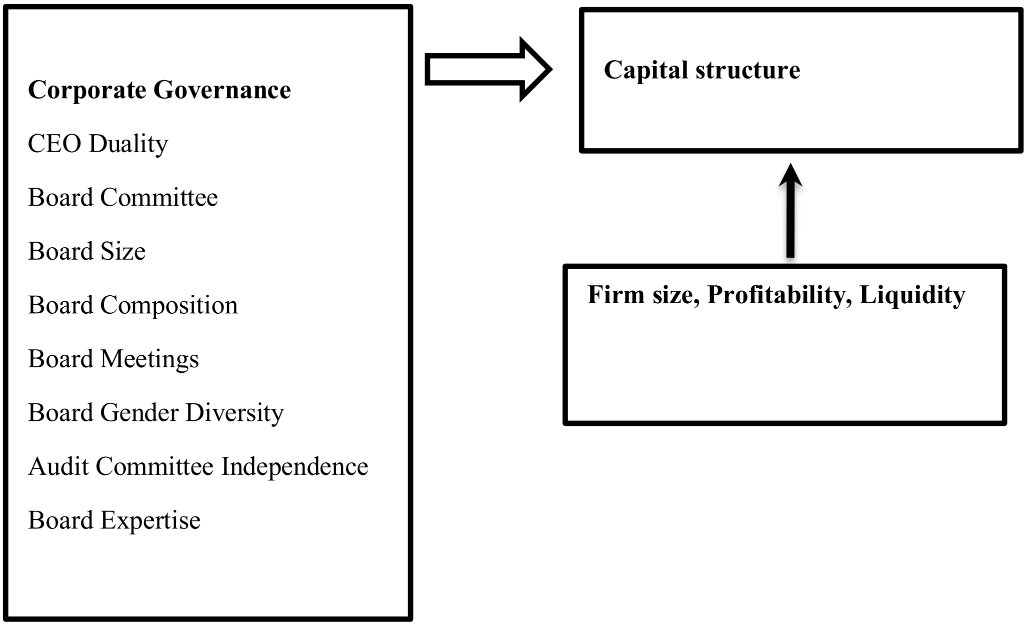

Figure 1 Conceptual Framework

The researcher was developed hypothesis base on past studies.

H_1: There is a Significant Relationship between CEO Duality and Firm's Capital Structure.
H_2: There is a Significant Relationship between Board Committee and Firm's Capital Structure.
H_3: There is a Significant Relationship between Board Size and Firm's Capital Structure.
H_4: There is a Significant Relationship between Board Composition and Firm's Capital Structure.
H_5: There is a significant relationship between board meetings and capital structure
H_6: There is a significant relationship between board gender diversity and capital structure
H_7: There is a significant relationship between audit committee independence and capital structure.
H_8: There is a significant relationship between board expertise and capital structure.

Table 1 Operationalization of Variables

Variables	Measurement	Source
CEO Duality	If the positions of chairman and the CEO were held by single person or two separate persons. (Dummy Variable "0" for combined & "1" for separate leadership)	Khatib et al., (2020)
Board Committee	Number of board appointed committees	Siromi and Chandrapala (2017)
Board Size	Number of directors in the board	Habashy (2018)
Board Composition	Number of independent non-executive directors	Habashy (2018)
Board Meetings	Total number of board of director's meeting	Habashy (2018)
Board Gender Diversify	Percentage of women in the board	Turley and Zaman, (2004)
Audit Committee Independence	Percentage of independent non-executive directors in the audit committee	Dezoort and Salterio (2001)
Board Expertise	Number of board member with experience greater than 5 years	Charitou et al. (2016)
Capital structure	Total debt to total equity	Velnampy and Niresh (2012)
Firm size	Natural logarithm of total assets	Khatib et al. (2020)
Profitability	Profit after tax to total assets	Habashy (2018)
Liquidity	Current ratio	Buyuksalvarci and Abdioglu (2010)

RESULTS AND DISCUSSION

This section covers the results and discussion of the study.

Table 2 Results of Descriptive Analysis

	Min.	Max.	Mean	SD
DR	0.038	1.674	0.739	0.418
CEO	0.000	1.000	0.129	0.338
BCO	3.000	4.000	3.011	0.108
BSZ	4.000	9.000	7.000	1.611
BCM	0.222	0.750	0.435	0.130
BMT	3.000	7.000	4.671	0.746
BGD	0.000	0.333	0.070	0.103
ACI	0.333	1.000	0.767	0.188
BEX	3.000	9.000	7.094	1.764
FSZ	18.819	24.216	21.965	1.124
PRF	-0.090	0.281	0.083	0.079
LIQ	0.424	2.570	1.415	0.529

According to table 2, the results of descriptive analysis, the mean value of DR for the sample is 73.91%, ranging from 3.77% to 167.40%. The mean value of DR implies that nearly 73.91% of total assets are financed by debt capital.

Table 3 Results of Correlation Analysis

	DR	CEO	BCO	BSZ	BCM	BMT	BGD	ACI	BEX	FSZ	PRF	LIQ
DR	1											
CEO	.313**	1										
BCO	.135	-.042	1									
BSZ	.265*	-.044	.068	1								
BCM	.126	-.201	.159	-.466**	1							
BMT	.187	.171	.195	-.168	.127	1						
BGD	-.342**	.113	-.075	.004	-.258*	-.107	1					
ACI	.070	.246*	-.100	.233*	-.154	-.070	-.006	1				
BEX	.233*	.019	.056	.981**	-.524**	-.202	.064	.280**	1			
FSZ	.202	-.185	.117	.433**	-.088	-.009	.184	.038	.476**	1		
PRF	-.432**	-.350**	.101	-.064	-.055	.065	.054	-.064	-.059	.078	1	
LIQ	-.345**	-.224*	-.073	.128	-.212	-.192	.267*	-.064	.148	.026	.529**	1

*Correlation is significant at the 0.05 level, **Correlation is significant at the 0.01 level.

According to Table 3, results of correlation analysis, CEO duality, board committee, board size, board composition, board meetings, board expertise, audit committee independence, and firm size have a positive relationship with capital structure. Board gender diversity, profitability, and liquidity negatively affect capital structures. The board size and board expertise are significantly correlated with a DR 0.01 level of significance. The CEO duality, board gender diversity, profitability, and liquidity are significantly correlated with a DR 0.05 level of significance.

Table 4 Results of Regression Analysis

	Coef	Std.Err.	Z	P>(Z)	95 interval	Conf.
CEO	0.5665	0.1949	2.91	0.004	0.1845	0.9485
BCO	-0.1922	0.2671	-0.72	0.472	-0.7157	0.3312
BSZ	0.1118	0.1678	0.67	0.505	-0.2171	0.4408
BCM	0.8517	0.4079	2.09	0.037	0.0522	1.6512
BMT	0.1219	0.0527	2.31	0.021	0.0184	0.2254
BGD	-0.7872	0.5280	-1.49	0.136	-1.8222	0.2478
ACI	-0.0424	0.3105	-0.14	0.891	-0.6510	0.5662
BEX	-0.0740	0.1606	-0.46	0.645	-0.3890	0.2408
FSZ	0.0230	0.0454	0.51	0.612	-0.0660	0.1121
PRF	-2.0301	0.5971	-3.40	0.001	-3.2005	-0.8596
LIQ	0.0402	0.0838	0.48	0.631	-0.1240	0.2045
Cons	-0.2593	1.1306	-0.23	0.819	-2.4754	1.95670.

The regression analysis results show in Table 4. According to the Hausman test result, the p-value of the test is 0.1278. If the p-value of the Hausman test exceeds 0.05 random effect model can be applied. If the p-value of the test is less than 0.05, fixed effect models can be applied. According to that condition, the researcher has selected a random effect model to interpret regression analysis. According to the regression results, the R^2 value is 40.83 percent. It implies that selected corporate governance variables explain this study's 40.83 percent variation in capital structure. According to regression coefficient values, there is a significant positive effect of CEO duality on the capital structure at a 0.05 level of significance. The result is compatible with the findings of Siromi and Chandrapala (2017) scholars and Thakolwiroj and Sithipolvanichgul (2021). So, the first hypothesis is accepted with this result. According to regression results, board composition has a significant positive effect on the capital structure at a 0.05 level of significance. This finding is similar to Somathilake and Udayakumara's (2015) findings. Based on the regression result, the fourth hypothesis is accepted. There is a significant positive effect of board meetings on capital structure. According to Thakolwiroj and Sithipolvanichgul (2021), findings supported these findings. This finding is supported by Saad (2010). Saad (2010) demonstrated a positive and significant relationship between board meetings and capital structure. However, other corporate governance variables such as board Committee, board size, Board Gender Diversify, Audit Committee Independence, and Board Expertise have no significant effect on capital structure. These findings are opposite to the findings of Campbell and Mínguez-Vera (2008), Sheikh (2012), Siromi and Chandrapala (2017), Habashy (2018), and Thakolwiroj and Sithipolvanichgul (2021). According to regression results, all other hypotheses were rejected except hypotheses one, four, and five.

CONCLUSIONS AND IMPLICATIONS

This study's main objective is to examine corporate governance attributes' effect on capital structure. This result indicates that material sector companies CSE pursue a high debt ratio with a separation position in CEO and Chairperson. The results of this study also show a significantly positive impact of the debt ratio on the board committee. Moreover, this result shows that having more independent non-executive directors on the board significantly positively affects the capital structure. Corporate governance can greatly assist the material sector by infusing better management, practices, effective control and regulatory mechanism, and efficient utilization of the firm's resources through independent non-executive directors and good corporate governance resulting in improved performance. The findings of this study provided practical contributions benefiting managers, investors, and other decision-makers as it empirically revealed how corporate governance variables influence capital structure in material sector companies in Sri Lanka.

Keywords: Capital structure, Colombo Stock Exchange, corporate governance

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