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Board Structure and Financial Performance: A Special Reference to Listed Companies in Sri Lanka

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Abstract
A sound corporate governance system needs a board structure whichmay result inimproved results. This research aims to look into the influence of structural variablesof a board on financial performance in listed companies in Sri Lanka. The qualities of the board of directors and the audit committee have been characterized as possibly having an impact on the company's financial performance, and based on the extensive research, these traits are designated as independent factors. From the 280listed companies on the CSE in Sri Lanka, a sample of 50 is chosen based on stratified sampling method. The results state that there is optimum board size and number of non-executive independent directors are eight and three respectively. The board size, board independency, and audit committee independency impact on financial performance. Audit committee independency, independence of board, duality of CEO-Chairman, size of board, and audit committee meetings are best determinants which determine the financial performance.

Keywords: *Board structure, financial performance, Colombo Stock Exchange, Board characteristics, Audit committee characteristics, Board structure model*

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I. Introduction

Best board structure standards have been a high priority in both developed and emerging countries. It establishes the organization's financial success and safeguards the rights of shareholders. Furthermore, the best practice in board governance has important consequences for an economy's growth potential.According to the World Bank (2006), a well-structured board of directors improves a company's success. It also lowers capital costs, increases firm valuation, and enhances risk management, all of which contribute to long-term growth for businesses and stable economic development for the region. Furthermore, the board of directors serves as a structured bond between the firm's owners and the management tasked with overseeing it (Monks &Minow, 1995). However, since any strategic level decision is made by the board of a corporation, changes in board composition will affect the company's overall behaviour. It may have a widespread impact on a company's overall operations (Arosa et al., 2010). As a result, being the controlling agents of large companies, boards of directors perform an important role in the overall governance structure (Fama& Jensen, 1983).

The board composition, according to Tricker (1994), "distinguishes those directors who occupy managerial positions in the company from those who do not." That may be a business executive or non-executive. It also discusses duality of directors, director composition, appointment to the board, re-election, board performance evaluation, CEO evaluation, directors' remuneration, audit committee, etc. However, there is no general consensus on the ideal board arrangement, thus different companies may choose different layouts (Dalton et al., 1998). As the owners of the business are on the board of directors, they have ultimate accountability for the administration of the organization. Furthermore, the board advises management and has decision-making authority. Shareholders who place their confidence in the board have an obligation to closely monitor board composition, and they should choose qualified directors who are knowledgeable and competent (Akpan&Amran, 2014).

The board structure is a prime feature of a management since it serves as the company's focal point of internal governance. Corporate governance is a significant aspect that influences board composition features, and it was a major factor in the creation of corporate board. The director board have been assigned a leading position in the code of best practices. Since the board members controlling the administration and supervision of the business, they still operate in the owners' mutual benefits, necessitating the creation of a better governing structure for the conduct of directorships. Corporate governance is thought to have important consequences for an economy's growth opportunities because good corporate governance decreases risks for investors, draws venture capital, and increases company efficiency (Spanos, 2005). Corporate governance improves a company's sustainability and long-term value (Khumani et al., 1998). Furthermore, according to Pass (2004), the managers of a business concentrate on the association of their job with the owners and other stakeholders while adhering to the demands of the board of directors.

In Sri Lanka, listed businesses confront many difficulties and issues because of the huge number of rivals. In this way, the board of directors' composition and their operations are extremely beneficial in guiding any company in a successful manner against its competitors. The worldwide financial crisis that occurred in 2008 gave rise to crash of companies, the general public has nearly lost trust in other Sri Lankan businesses. This subject has sparked many controversies, with some seeing the problem as a governance issue. Following these events, various research investigations have been conducted to determine the association between corporate composition of board and financial efficiency. However, based on various characteristics, board composition has a contradictory relationship and effect on financial performance. Thus, a research with the aim of determining the optimum board structure model and influence of board structure determinants on financial performance of Sri Lankan listed companies. As a consequence, this research is essential and significant in order to address the information gap on how board structure impacts financial performance and if there is a link between board structure and financial performance of Sri Lankan listed firms.

Problem Statement

An institution's operations are entirely the responsibility of its board of directors.The board of directors is in charge of the institution's strategy which comes under the overall policy. As a result, the board decides how the institution can operate in the long run. In general, the board creates or recommends management practices and monitors their implementation. The size and quality of an institution's board, its autonomy from management, and its level of participation in the institution's affairs all play a role in its financial stability and longevity. The board contributes by setting the tone and direction in both good and bad times; it monitors and encourages management's activities by evaluating and probing their proposals before accepting them. Ensuring the availability of proper system and control capabilities to identify and address problems prior to their becoming a danger is a primary concern for the board. In difficult times, an active and engaged board can assist an organization in surviving by taking the requisite disciplinary steps and, if necessary, keeping the institution on track before successful management can be restored.

The loss in shareholder equity and business weakness have been blamed primarily on boards of directors. They have been in the spotlight because of high-profile fraud cases involving large companies including Enron, WorldCom, and Global Crossing. When it comes to accounting disqualifications in Sri Lanka, the same reasons have been established. For example, Golden Key, Okanda Finance, and CBSL bond scams, all occurred in 2019. Many corporations in Sri Lanka are family-owned and controlled, so this model doesn't quite work in practice (Senaratne 2009). Further, Senaratne and Gunaratne (2008) argued that the model's basic provisions were difficult to enforce, in Sri Lanka, because of the capital market ownership structure and a number of existing corporate governance deficiencies, the present structure of governance is not ideal. The loss of diligent monitoring roles by the directors, the board's omission of authority of company management who serve their own benefits, the board's negligence in its responsibility to creditors, politicians' interventions, and so on are some of the causes given for these corporate deficiencies. In a direct consequence, numerous corporate governance initiatives have placed a strong emphasis on making necessary improvements to the directors' membership, structure, and structure of the business ownership (Abidin et al., 2009). However, several studies have been undertaken in the aftermath of these issues to determine the relationship/influence of corporate board structure on financial performance. There are guideline and code of best practices for corporate governance but there is lack of researches to find the best model for board structure that companies should follow and to identify which determinants impacts highly or fractionally towards the financial performance in Sri Lankan listed companies.

II. Literature Review

Board Structure

The composition and size of corporate boards attracted a lot more attention during the 1990s. Since the late-1990s were fueled by the financial crisis and large-scale market failures. As a consequence, board composition is an effective corporate governance tool that can lead to better results. Boards of directors play an important part in providing advice to senior executives (Coles, 2008). Adams & Ferreira (2008) and Adams &Meharn (2005), who describe the advisory position in which board structures, non-executive director representation, and board committees were all discussed. These issues were also discussed in Sri Lanka's corporate governance code of best practice (Cadbury, 1992). According to Bain & Band (1996), Governance, on the other hand, entails partnerships with managers, councils, owners, and in addition to the target stakeholders, including staff and other members of the society.

According to Hermalin&Weisbach (2003), boards are a business approach to an organizational design related problems that helps major companies eliminate agency issues. Boards are the most critical and useful tool in corporate governance because directors can increase shareholder value by efficient management control (Zahra and Stanton, 1988).The governing body is made up of boards of directors that perform several responsibilities. A key responsibility of board members is to promote teamwork and enhance individual achievement (Nikomborirak, 2001). Internal directors can make decisions without stressing about information asymmetry by using current financial and accounting records. The board of directors maintains the good quality information. The board of directors' second main role is to create a distinction between management decision-making and decision control. An emerging line of study also confirms that boards that provide a board variety of traits, qualities, and expertise are more imaginative, creative, and have high-quality decision-making processes.

Board Size

The cumulative number of individuals having right to vote on a company's board of directors is referred to as board size (Pugliese&Wenstop, 2007). There are no uniform requirements that specify the board's optimal size. Suganya&Kengatharan (2017) state that “according to a survey conducted by the Corporate Library, the total board size is 9.2 members, with the majority of boards ranging from 3 to 31 members”. Delima (2017) indicate that Sri Lankan studies favor an optimal number of Board members of 7 to 9. According to Thomsen &Conyon (2012), a medium to large organization should have ten members. However, according to Vafeas (2000), the optimal number of board sizes for the board is five. The directors became well briefed about the internal matter as a result of this situation, which resulted in improved performance.

In the past, researchers have identified many ways in which the size of the board and the financial results are linked. However, several observational findings suggest, it is a well-known fact that the larger the board of directors, the worse the company's financial performance. Similarly, some studies have found a connection between success of the firmand board size (Mak&Kusnadi, 2016). Jensen (1986) has proposed that smaller boards improve collaboration, cohesiveness, and coordination, resulting in more efficient oversight, and that in order to run efficiently, a board should include no more than seven or eight members. A large boards are less successful than small boards (Lipton and Lorsch, 1992). However, Coles (2008) discovered that the board size has a beneficial influence on firm value for big companies, suggesting that having a large board size could be the best way to maximize firm value. Furthermore, Dalton (1999) discovered that the benefit of a wider board is the increased mutual knowledge that the board subsequently possesses, resulting in better efficiency. The theory is that as boards grow in size, agency issues within the board become more common, and the board begins to be viewed as symbolic rather than involved in the management process. Kiel & Nicholson (2003), on the other hand, contend that a broad board raises diversity in terms of expertise, qualifications, ethnicity, management style, and nationality. Mak and Li (2001) found evidence that a large board size correlates with better results.

Number of Independent Non-Executive Directors in the Board

The independent non-executive directors on the board will decide the independence of the board. A well-defined code of best practices on corporate governance outlines about independent non-executive directors in 2017(ICASL, 2017).According to Clifford and Evans(1997), the non-executive directors who are not corporate officers but are completely independent of the company are called independent non-executive directors. There are mixed findings obtained from various studies either positive (Leung, Richardson and Jaggi, 2013; Abdullah, 2004), or negative (FitriyaFauziand Locke, 2012;Sheikh, Wang and Khan, 2013).

CEO Chairman Duality

According to Boyd (1995), in business, the concept of CEO duality is concerned with the situation of which a single person holds both the CEO and chairman positions in a corporation.Their jobs are usually part-time, and they frequently serve on many boards and they are also paid less than executive directors (Davies, 2002). In accordance with Agency theory and stewardship theory, CEO Chairman duality may be regarded in two ways. According to agency theory, the roles of CEO and chairman must be distinct, reducing possible risk, but stewardship theory says that one individual should hold both the CEO and chairman positions, giving them greater ability to manage the company (Muth and Donaldson, 1998). Nevertheless, results on the relationship between duality of CEO chairmanand organizational success were inconclusive (Boyd, 1995).

Number of Female Members in the Board

The lack of women in senior management and corporate boards of directors is becoming more widely recognized. As a result, industry organizations all over the world have changed their corporate governance guidelines to include women in their corporations' governance structures. People generally believe that if there are more female officials, results would suffer (Adams & Ferreira, 2009). However, as stated in Carter et al. (2003), in comparison to the male directors, there are more female directors on the board of directors is associated with improved results. Similarly, Erhard,Werbel, &Shrader(2003) discovered a connection within the percentage of women on boards of directors and financial success. Female executives have a favorable impact on a company's outcomes, according to Adams & Ferreira (2009). Other scholars, on the other hand, have discovered that female directors have a detrimental influence on the percentage of women on the board (Adams & Ferreira, 2009; Ahern &Dittmar, 2012).

Gender equity, according to previous studies, leads to a greater view of the market place. This is how the board's gender balance reflects the market's diversity of clients and staff. As a result, the firms' strategic advantage is enhanced (Robinson &Dechant, 1997). Furthermore, board diversity fosters imagination and ingenuity in decision-making and improves the firm's long-term financial results. Similarly, women are considered to ask difficult questions in the boardroom that their male peers may be hesitant to ask. As a result, the engagement by women in the board improves the board's capacity to critically track management (Carter et al., 2003).However, several other scholars have discovered that a greater proposition of female board members has a negative impact (Adams & Ferreira, 2009; Ahern &Dittmar, 2012).

Board Meeting

Board meeting is a structured set up in an organization through which directors are gathering to solve issues related to previous, current, and future concerns. According to Vafeas (1999), board meeting has a detrimental influence on the success of the company although operating performance increases in future years. Eluyela et al. (2018) state thatthe frequency of board meetings correlates with business performanceof deposit money banks in Nigeria.The investigation done by Johl et al. (2015), exhibits that board diligence is associated with reduced business performance. On other hand, a favourable correlation between board meeting attendance and performance has been establishedin Ntim and Osei (2011), Irshad and Ali (2015), and Akpan (2015). These studies show that regular meetings with board of directors increase supervision and management interventions on firm activities which directs to enhance the performance of companies.

Board Expertise

Board expertise in financial and management with financial performance is limited and as stated in the resource dependency theory, highly educated directors are strategic resources to a firm (Ujunwa, 2012). Mixed relationship findings were identified in previous researches. Positive association was found in Carpenter and Westphal (2001), Ujunwa (2012), and Francis et al. (2015). As reported byVan-Ness et al. (2010), board expertise and firm performance are negatively related whereas board expertise does not have any linkages with firm performance (Kim and Rasheed, 2014).

Audit Committee Characteristics

Audit Committee Size

An audit committee is a standing group of directors of a firm whichconnects management and the external auditor and serves as a mechanism for both parties. It is a critical component in improving company performance by decreasing agency issues (Klein, 1998). The audit committee's duty is essential in assisting investors in increasing their confidence. A larger audit committee has more experience and expertise, which helps the company perform well as mentioned in the resource dependency theory. Previous research has found a connection between the size of an audit committee and the financial success (Al-Matari, Al-Swidi,&Fadzil 2014; Bauer, Eichholtz, &Kok, 2009; Obiyo and Lenee, 2011). However, according to Bozec (2005), Hsu and Petchsakulwong (2010), and MoIlah and Talukdar (2010), large audit committees might reduce corporate performance (2007). There have been studies that show the number of audit committee members has no relation to success of a company (Wei, 2007; Mohd, 2011; Nuryanah and Islam, 2011).

Audit Committee Independence

A company audit committee with diverse, independent members has a higher level of audit committee independence. "Code of best practice on corporate governance" in 2017 state that in order to have an audit committee, which consists of minimum of three non-executive directors and at least two of them must be independent(ICASL, 2017). There are mixed relationships between autonomy of audit committee and company's performance. Positive relationship is found by Dey (2008),Saibab& Ansari(2011), and Nuryanah& Islam(2011). Al-Matari et al. (2012), Khan and Javid (2011), and Mohd et al. (2009) identify negative relationship between audit committee independence and performance of the company.

Audit Committee Meeting

Audit committee meeting is number of audit committee meetings is conducted in financial year. According to resource dependence theory, regular meetingscould direct to increase in organizational efficiency by solving the problems faced by the companies (Pfeffer, 1987). On the other hand, the quantity of meetings does not matter when there is quality that leads to firm performance. Petchsakulwong (2010) found a negative connection between audit committee meetings and company performance, whereas Kyereboah-Coleman (2007) found a favorable relationship. On the other hand, other studies discover no connection between the number of audit committee meetings and the financial success of the company (Al-Matari et al., 2012 and Mohd, 2011).

Audit Committee's Expertise

Audit committee's effectiveness is determined based on audit committee member's experiences and competencies. To guarantee the validity and integrity of financial reports, audit committee members should have financial and managerial knowledge and competencies. Accounting skills on audit committee leads better reaction of market (DeFond et al., 2005). An audit committee's level of competence is positively correlated with company performance (Rashidah and Fairuzana, 2006; Zabojnikova, 2006). Still, a few researches point to a negative correlation in between these variables (Glover-Akpey and Azembila, 2016).Hamdan,Sarea, &Reyad (2013) and Gunes&Atilgan(2016)find non-significant relationship between audit committee's competencies andperformance of the companies.

Financial Performance

Financial performance is described by Farlex Financial Dictionary (2011) as "any of several different mathematical metrics used to determine how well a business uses its resources to make a profit." Different researchers have analyzed and calculated firm financial efficiency using various metrics(Matolcsy& Wright, 2011; Shah et al., 2011; Yasser et al., 2011). Operating, sales, earnings before interest and taxation, and net asset value are also examples of financial performance. It's important to remember that no single metric of financial results can be used alone. Rather, a comprehensive evaluation of a company's results should include a variety of factors. Accounting-based accountability metrics, such as Return on Equity (ROE) and Return on Assets (ROA), have been employed as indices for firm success in the contemporary literature on corporate governance procedures (Daily & Dalton, 1993; Hermalin&Weisbach, 1991). The income statement can be used to determine financial results of a business for a specified period of time by calculating and interpreting the ROA and ROE (Ross, Westerfield& Jordan, 2013).

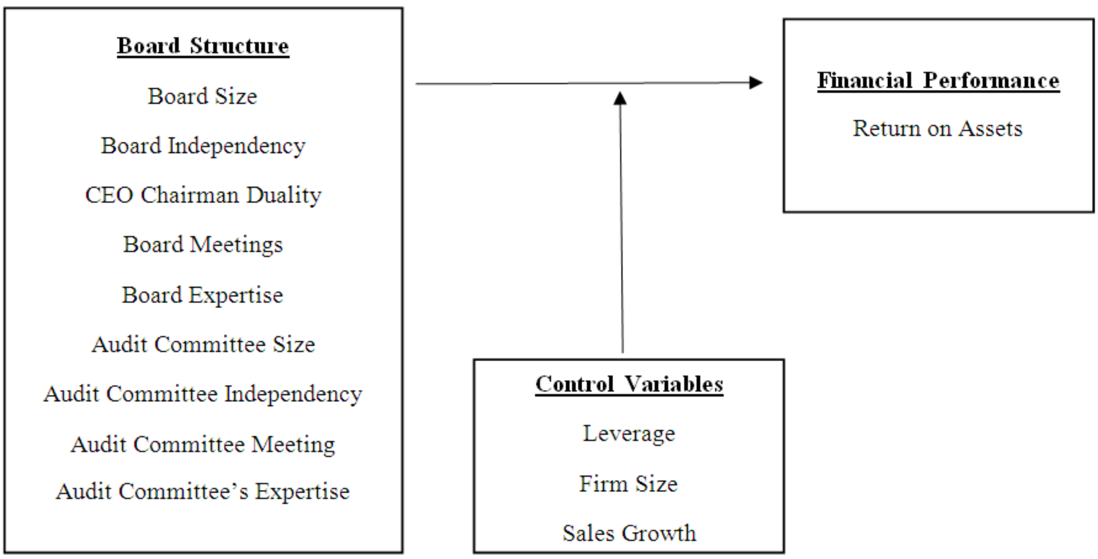
Financial performance was described as the act of conducting financial action. Financial efficiency, in a general context, when referring to financial objectives, it represents the degree to which such goals have been reached or have not been met.That is the method of calculating the numerical value of result of a company's policies and activities to assess a company's overall financial stability, as well as to compare competing companies in the same market or to compare businesses or sectors in aggregate.

ROA is chosen as the dependent variable in this research to evaluate firm financial performance. In regards to return on equity, the proportion of net income given to shareholders is referred to as return on equity. The return on asset (ROA) is a calculation used to determine a company's profitability. It is expressed as a percentage and calculated as:

$$Return\ on\ Asset = \frac{Net\ Income}{Total\ Assets} * 100$$

(Source: Amidu, 2007; Hasan et al., 2015; Obembeet al., 2014)

Conceptual Framework



(Source: Developed for study purpose)

Figure 1: Conceptual Framework

III. Methodology

Population and Sample of the Study

According to "CSE"(n.d), 280 firms have been listed in the CSE in Sri Lanka under the 20 business sectors as of 30th of April, 2021. Secondary data have been collected for the period of 2015/2016 to 2019/2020 from the yearly company statements which are published by the CSE in Sri Lanka. The sample is selected based on stratified sampling method which represents 50 listed companies of 20 business sectors which is equal to 250 observations in total.

No	Sectors	Total population	Sample
01	Consumer Durable and Apparel	12	02
02	Retailing	13	02
03	Consumer Services	36	06
04	Automobiles and Components	01	01
05	Food, Beverage and Tabcoo	47	08
06	Food and Staples Retailing	04	01
07	Household & Personal Products	02	00
08	Energy	03	01
09	Diversified Financials	46	08
10	Banks	12	02
11	Insurance	10	02
12	Health Care Equipment and Services	08	01
13	Capital goods	29	05
14	Commercial and professional services	05	01
15	Transportation	03	01
16	Technology Hardware & Equipment	00	00
17	Materials	20	04
18	Real Estate	19	03
19	Telecommunication Service	02	01
20	Utilities	08	01
	Total	**280**	**50**

Table 1: Sampling Distribution

Source: Colombo Stock Exchange Website (2021)

Data Analysis and Results

Summary of Descriptive Statistics

Table 2: Summary of Descriptive Statistics

Variables	N	Mean	Standard Deviation	Minimum	Maximum
Board Size	250	7.88	2.184	05	14
Board Independency	250	3.28	1.321	01	09
CEO Chairman Duality	250	0.70	0.461	00	01
Female in Board	250	0.64	0.682	00	04
Board Meetings	250	7.17	4.407	00	5
Board Expertise	250	7.72	2.472	03	14
Audit Committee Size	250	3.19	0.866	02	08
Audit Committee Independency	250	2.72	0.880	00	05
Audit Committee Meeting	250	5.58	2.700	01	17
Audit Committee’s Expertise	250	3.16	0.816	02	08
Return on Assets	250	0.55	1.901	-1.00	16.68
Leverage	250	6.76	21.854	0.00	181
Firm Size	250	22.17	2.118	17.97	6.11
Sales Growth	250	0.10	0.344	-0.96	3.35

Source: Survey Data (2020)

Descriptive statistics findings state that the mean value of board size is 7.88 with astandard deviation of 2.184 which states it satisfies the optimal level of board size with past researches. Out of board size, three Non-Executive Directors are independent and these directors are independent of management and business may interfere with their judgment and also it accompanies with CSE's listing rules. Duality of CEO-Chairman was observed in 70% of the sample which ensures the high level of clarity with responsibility distinctions clearly outlined.The average number of board meetings is seven, which is following with the code of best practices' required baseline criterion.Average audit committee size, there are three audit committee members with expertized in auditing and out of that, more than three members are Independent Non-Executive Directors. Further, it says that 6 audit committee meetings have been conducted in this listed companies during this period. Average ROAis 55% respectively.

Relationship between board structural variables and financial performance

Table 3: Correlation Analysis

Variables	Financial performance
	ROA
Board Size	-0.219**
Board Independency	-0.153*
CEO Chairman Duality	0.180**
Female in Board	0.151*
Board Meetings	0.189**
Board Expertise	-0.105
Audit Committee Size	0.135*
Audit Committee Independency	0.307**
Audit Committee Meeting	0.178**
Audit Committee's Expertise	0.145*
Leverage	-0.051
Firm Size	0.129*
Sales Growth	-0.009

Note: Significance levels *p<0.1; ** p<0.05; ***p<0.01

Source: Survey Data (2020)

The findings state that board size and independency of boardshow a significant negative associationwith financial performance at a significant level of 0.05. It demonstrates that as number of directors and independent non-executive directors increase, ROA is reducing to some extent. CEO Chairman Duality, female in board, and board meeting show significant positive relationships with financial performance at significant levels of 0.05 and 0.1 which denotes that these factors are important determinants to increase the ROA. There is no substantial connection between the directors board and expertise in finance and management and financial performance at a significant level of 0.1.It is observed that many directors run the companies successfully with many years of experience without having educational qualifications in finance and management. Audit committee size, audit committee independency, audit committee meeting, and audit committee expertise have positive associations with financial performance at a significant levels of 0.1 and 0.05.The audit enhances the accuracy of the financial statement's contents and increase its performance (Beisland, Mersland, Strom, 2015). As a result, it is fitting that audit-related determinants substantially boost company performance.

Impact of Board Structure on financial performance

Panel Data Regression Analysis

Table 4:Panel Data Regression Analysis

Variables	Coefficient	Collinearity Statistics (VIF)
Board Size	-0.121*	0.814
Board Independency	-0.294***	0.537
CEO Chairman Duality	0.093	0.786
Female in Board	0.085	0.874
Board Meetings	0.048	0.714
Board Expertise	0.009	0.642
Audit Committee Size	-0.118	0.081

Audit Committee Independency	0.353***	0.774
Audit Committee Meeting	0.124*	0.639
Audit Committee's Expertise	0.181	0.082
Leverage	-0.039	0.869
Firm Size	0.012	0.781
Sales Growth	-0.014	0.965
R^2	0.504	
F-Statistics	6.167	
N	250	

Note: Significance levels *p<0.1; ** p<0.05; ***p<0.01

Source: Survey Data (2020)

According to the table 4, Collinearity Statisticsindicate that the VIF value obtained in between 1 to 10, it can be concluded that there is no multicollinearity issues. It concludes that there are no inter-correlated predictors in the model. The R^2 of 0.504 stating that 50.40% of variation in ROA is explained by board structure variables. F-statistics is recorded as 6.167 and p-value is 0.000 which revealing that the overall model is statistically significant. 12.1%, 29.4%, 35.3%, and 12.4% of variations in Return on Assets is explained by the board size, board independency, audit committee independency, and audit committee meetingat the significance levels of 0.1 and 0.001 respectively. CEO Chairman duality, female in the board, board meeting, board expertise, audit committee size, and audit committee' expertise show insignificant impact on Return on Assets (p-value >0.01).

Stepwise Regression Analysis

Table 5: Stepwise Regression Analysis

Model		Standardized Coefficients	Sig.	Collinearity Statistics (VIF)
1	(Constant)		0.001	
	Audit Committee Independency	0.307	0.000	1.000
	Adjusted R^2	0.091		
2	(Constant)		0.230	
	Audit Committee Independency	0.421	0.000	1.159
	Board Independency	-0.309	0.000	1.159
	Adjusted R^2	0.170		
3	(Constant)		0.086	
	Audit Committee Independency	0.396	0.000	1.184
	Board Independency	-0.335	0.000	1.185
	CEO Chairman Duality	0.168	0.005	1.071
	Adjusted R^2	0.193		
4	(Constant)		0.679	
	Audit Committee Independency	0.388	0.000	1.187
	Board Independency	-0.296	0.000	1.268
	CEO Chairman Duality	0.144	0.016	1.102
	Board Size	-0.141	0.017	1.087
	Adjusted R^2	0.209		
5	(Constant)		0.930	
	Audit Committee Independency	0.377	0.000	1.195
	Board Independency	-0.302	0.000	1.270
	CEO Chairman Duality	0.106	0.085	1.196
	Board Size	-0.148	0.012	1.090
	Audit Committee Meetings	0.133	0.026	1.126
	Adjusted R^2	0.221		

Source: Survey Data (2020)

To indicate the optimum model for board structure, a stepwise regression analysis is conducted.based on data collected from listed companies in Sri Lanka. This analysis ensures that whether all the board structural determinants really contribute to predict the financial performance. Highest adjusted $R^2$is obtained from 5^{th} model and 22.1% of variation in the ROA can be explained using the independent variables listed under model

5. Multicollinearitydoes not exist since inter-correlated predictors are not included into the regression models. The prediction model 5 includes five predictors in which female in board, board expertise, board meeting, audit committee size, and audit committee expertise are removed. The model is statistically significant(p-value <0.001). The financial performance (ROA) is predicted by audit committee independency, board independency, CEO Chairman duality, board size, and audit committee meetings. In this model 5, audit committee independency receives the strongest weightage followed by other four determinants of board structure.

IV. Conclusion

The study has examined the board structure and financial performance of listed companies in Sri Lanka. The findings concluded that the optimum level of board structural determinants vary among different business sectors during the period of 2015/2016 to 2019/2020 in Sri Lanka. The descriptive statistics implies that average of number of directors in a board and independent non-executive directors are eight and three respectively. Other characteristics of board structure complied with the code of best practices' required baseline criteria.

A board's size is negatively correlated with board independence and ROA, which is mostly confirmed by the research studies (Lipton and Lorsch, 1992; Jensen, 1993; Yermack, 1996).Board members are plagued by issues of social loafing and free riding, which has a deleterious effect on their productivity. As the board becomes larger, free riding becomes more prevalent, and this lowers the overall efficiency of the board. The board of directors may see improved financial performance if CEO and chairman roles are split in a business. There is a strong positive correlation between the number of female directors and financial success. Gender diversity brings more understanding about market conditions in making decisions (Adams & Ferreira, 2009).

The results of the study support up the agency theory, which holds that having more board meetings positively impacts financial performance, demonstrating that board meetings have a positive connection with financial success (Francis et al., 2012; Ntim and Osei, 2011). Financial performance is positively linked to the size, audit committee independence, and audit committee meeting of the audit committee. Companies must build audit committee code of best practices 2017 into their organization rules.

Board independence and audit committee independence have a significant impact on a company's financial performance, according to the panel data regression analysis, and this means that greater numbers of independent non-executive directors should be on the board and audit committee. The lower level of financial performance variance that is explained by board size and the meeting of an audit committee.

To determine the most important determinants of the financial performance of Sri Lanka, the stepwise regression analysis is conducted. Listed businesses in Sri Lanka show that audit committee independence, board independence, CEO Chairman duality, board size, and audit committee meetings are top indicators or drivers of financial performance.

Declaration

Competing Interests

The author declares that there is no competing interest.

Data Availability

Data available on request due to privacy/ethical restrictions.

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