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## **Impact of Board Structure Characteristics on Financial Performance: Evidence from Selected Listed Companies in Colombo Stock Exchange**

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### **ABSTRACT**

This study examines the impact of board structure characteristics on financial performance and the contribution of the code of best practices on corporate governance in determining board effectiveness. This study investigates whether board structure characteristics impact financial performance, as measured by Earning Per Share (EPS) and Return on Assets (ROA). Independent variables are board size, Board Meetings, Board Composition, Independent Board Committees, and Board Shareholding. Fifty companies listed in Colombo Stock Exchange (CSE) from 16 sectors were selected as sample size based on the turnover of the year 2019 for the period of 2017 to 2019. The data were analyzed using descriptive statistics, correlation analysis, and multiple regression analysis. According to the data analysis findings, this study found that the board structure characteristics significantly affect EPS and do not affect ROA. Findings also revealed that board size, board composition, board shareholdings indicators significantly impact EPS and board composition, and board shareholdings negatively affect the EPS. This study has provided useful information mainly to the PLCs in Sri Lanka in terms of the importance of compliance with the code of best practice on corporate governance toward enhancing board structure characteristics.

**Keywords:** Board structure characteristics, Corporate governance, Earning per share Financial performance, Return on assets.

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### **INTRODUCTION**

Every organization is trying to accomplish its goals and objectives within a more challenging environment. If an organization needs to be successful by facing environmental challenges, that organization should be appropriately managed and monitored. In this case, modern large firms have been affected mostly. Such a company requires a remarkable direction towards attaining its organizational objectives and goals. As they mainly seek to maximize profit and shareholders' wealth, they need a proper direction and a large capital. For this purpose, companies get things square to register in the share market as a listed company and thereby issue shares to the public to increase the capital. The Board of Directors (BOD) of such a company are critical factors for the progress and survival of the company.

According to this study, the effectiveness of the board structure identifies as Director Board's effectiveness. The Board of Directors handles the organization's main responsibility, and it can be assumed that the company's success or failure depends on the Director Board's effectiveness.

The term of board effectiveness can be defined as boards' ability to perform their direction and control roles effectively. At the same time, ensure the company's success, genuinely add value to the organization, move the company closer to its goals, being about corporate performance that satisfies the interest of shareholder/stakeholder (Denis & McConnell, 2003). The Board of Directors has a fiduciary duty to ensure good corporate governance

within the firm, monitor the activities of the managers, and design a succession plan on behalf of the company (Cadbury Committee, 1992). It is also essential to know about the corporate governance practice of the country. Corporate governance identifies the relationship between a company's directors, its shareholders, and other stakeholders. Also, it provides a structure through which the company's objectives are set, and the means of achieving those objectives and monitoring performance are determined (Ekanayake, Perera, & Perera, 2009). According to the Code of Best Practice on Corporate Governance published by The Institute of Chartered Accountants of Sri Lanka & Security and Exchange Commission of Sri Lanka (2017) Board of Directors have the responsibility to ensure the effectiveness of the internal control process, provide the entrepreneurial leadership to control and manage the risk, implement a sound business strategy, and ensure the compliance with laws, regulations and ethical standards. To fulfill these responsibilities, the board should meet regularly to discuss matters that important to the company. Board structure characteristics are impacted by different factors such as board composition, quality, size, diversity of the board, CEO duality, ownership, information asymmetries, and culture of the board (Brennan, 2006).

There is a number of numerous explorations have been studied related to corporate governance, specially associated with the role of the Board of Directors in corporate governance. Still, the findings and conclusions of such studies are questionable due to some factors, such as national diversity, the status of economies, political stability, institutional constraints, and cultural background (Carver, 2010). Due to such characteristics, it is hard to conclude the developing countries based on the studies made on developed countries because developing countries experience issues that are not prevalent in developed countries. Most of the time, the board of directors is criticized for declining shareholders' wealth and corporate frailer. Also, top management will be constantly responsible for the frauds and manipulation of the organization. Therefore, various corporate governance reforms have emphasized appropriate changes to the board

of directors regarding its composition structure and ownership configuration (Abidin, Kamal & Jusoff, 2009). The board of directors is entitled to oversee business decisions, and public shareholders have limited ability to involve business decisions. The board of directors is a crucial part with universal appeal with the growth of the modern business world. Are they effective in manipulating managers, shareholders, and other human resources towards the company's vision? Otherwise, is there any relationship between board effectiveness and firm performance? Previous literature has provided a satisfactory answer to this problem. But most of these studies have focused on board structure or board effectiveness regarding foreign companies and no more about the Sri Lankan context. Although some studies related to the Sri Lankan market, they do not cover all the sectors in Colombo Stock Exchange. This study aims to fill the demographical and geographical gaps and identify whether there is a significant impact of board structure characteristics on firm performance and its impact on firm EPS and ROA. Accordingly, this primary objective research is to identify the impact of board structure characteristics that can influence firm performance.

## **REVIEW OF LITERATURE AND HYPOTHESES DEVELOPMENT**

The most recent investigation has reinforced the importance of board effectiveness otherwise standardized board structure to attain better financial performance. This study discusses the theoretical background under four theories: agency theory, stewardship theory, resources dependency theory, and stakeholder theory. These theories are commonly used to investigate the relationship between board structure and financial performance.

An agency relationship can be identified as a contract under which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf that involves delegating some decision-making authority to the agent (McColgan, 2001). Johnson, Ellstrand, & Daily (1996) argue that owners of the organization appoint managers to play a monitoring role to ensure the organization's goals. To do so, owners

(principals) of the firm should provide additional incentives to the management for enhancing their commitment to achieving the set goals. The existing literature suggests that consistent with agency theory, the Board of Directors play a vital role within the organization by monitoring the action of managers on behalf of the owners. And further, they are motivated to play an active role if they claim their output through their share ownership (Johnson & Greening, 1999). Due to this separation of ownership and management, there is a possibility to breach the trust by management intentionally by omission, neglect, or incompetence. This breach may arise because the directors are pursuing their own interests rather than the shareholders, and it can be caused to create the agency problem (Eisenhardt, 1989). But some studies found that agency problems can be managed by incorporating a large percentage of independent directors for monitoring management effectively (Coleman, 2007).

Stewardship theory adds the sociological and physiological perspective to corporate governance because it suggests collaboration, pro organizational, and trustworthiness. These characteristics ultimately assist in enhancing corporate performance (Muth & Donaldson, 1998). In agency theory, the board of directors is primarily seen as a monitoring body. In stewardship theory, the board of directors identifies who seeks balance between collaboration and monitoring (Anderson, Melanson, & Maly, 2007). In stewardship, theory managers are considering as steward. Because Davis, Schoorman, & Donaldson (1997) argue that managers are responsible for the resources belonging to the organization and ensure their trustworthiness toward the company's owners.

The resource dependency theory illustrates the basic responsibility of the board. The board of directors is classified as a firm's capital because they can bring skills, knowledge, and information to the firm (Hillman, Cannella, & Paetzold, 2000). Therefore, a firm should appoint directors who possess enough skills and different individuals who have knowledge relating to diverse areas. Under resource dependency theory organization is classified as an open system that depends on the external

environment. So, the Board of Directors is regarded as an essential resource that assists in declining environmental dependencies (Pfeffer & Salancik, 1978). An active board makes a significant contribution to the firm through their ability and paying as advisors and counselors to bring value to the firm. Stakeholders mean any entity (person, group, or possibly non-human entity) directly connected with the achievements of the organization's objectives. It is a bi-directional relationship. Each stakeholder group has a different expectation about its wants and different claims upon the organization (Hung, 1998). It is essential to recognize the stakeholders' claims because they can positively and negatively influence the organization. So, it is important to understand the areas of conflict and tension between stakeholders that may arise.

Board size is a prominent board characteristic of a firm. Literature also says there is a relationship between board size and financial performance. While others say otherwise, Jensen (1986) suggests that smaller boards enhance communications, choiceness, and coordination, make effective monitoring and have a maximum of seven or eight members to function effectively. Lipton & Lorsch (1992) suggested that large boards are less effective than small boards because, when boards became too big, there was a high possibility to increase the agency problem. One director became a smaller part of the management process. Eisenberg, Theodore, Sundgren, & Martin (1998) found evidence for the negative relationship between board size and profitability of small firms with the small board in Finland. It expanded the previous findings saying that communication and coordination can simplify if they have a small board. The above data reveals a fairly clear picture, such as board size and firm value negatively correlated. However, this interpretation is not universally accepted because some researchers provide evidence to the opposite side. Dalton, Daily, Jonsen, & Ellastrand, (1999) found that a large board can possess large number of information so that a large board can represent higher performance. Kiel & Nicholson (2003) argues that large board size increases the diversity within the board in terms of experience, skill, gender,

style of management, and nationality. More ever Mark & Li (2001) showed evidence to support a positive association between board size and firm performance. Connelly & Limpaphayom (2004) found that board size does not have any relationship with firm performance.

Companies generally report the number of board meetings in the proxy statements, and this study takes it as the measure of board effectiveness. Following Vafeas (1999), the analysis excludes action resulting from the board's written consent since these involve less director action, and input is less likely to result in effective monitoring. Therefore, only include face-to-face board meetings. Vafeas (1999) found that increase in the number of board meetings caused to improve the performance of the commercial unit. Johl, Kaur, & Cooper (2015) found a negative relationship between the frequency of board meetings and entrepreneurial activities in a firm.

Board composition identifies as the number of non-executive directors on the board relative to the total number of directors. Independent non-executive directors should not have any affiliation with the firm except for their directorship. Fama & Jensen (1983) suggested that non-executive directors can play an important role in resolving the agency problem and making more effective decisions. A number of previous researches focused on board composition, effectiveness, and financial performance. At least one outside director on the board is effective in monitoring and advising managers. These findings have been supported by Fama *et al.* (1983), who found that the presence of outside directors affects the board effectiveness and firm performance through studying the Board of Directors in Japan, where many firms have recently introduced outside directors into all insider boards. Bhagat & Black (1999) provided empirical support by highlighting how and when director experience and resulting expertise may influence the performance of corporate acquisition. Instead of that, Arosa, Iturralde, & Maseda (2013) found evidence for low profitability firms increase the independence of their Boards of Directors. According to their further state, a

firm with more independent boards does not perform better than other firms. He also represents the conventional wisdom that the board's major task is to monitor management, and only independent directors can be effective monitors. Previous studies have emphasized that an independent Board of Directors with formal power and financial incentives should be an effective monitoring mechanism. Bhagat *et al.* (1999) argue that the board of directors is likely to make better CEO selection decisions when independent directors have worked as CEOs themselves and have experience working together on the firm board.

Ownership structure can be considered one of the main factors of corporate governance and determined by other country-level characteristics such as the development of the stock market and government intervention and regulation (Porta, Lopez, Shleifer, & Vishny (1998). Porta *et al.* (1998) point out that ownership of large firms in rich economies concentrates that control is often exercised through the pyramidal group with a holding company at the top controlling one or more subsidiaries. The controlling shareholders are often actively involved in company management and represent the director board. The dominant shareholders have both incentive/ motivation and power to control the management. On the other hand, board shareholding creates a problem in that their interests conflict with the minority shareholders (Desender, 2009). O'Sullivan (1997) argued that equity ownership among directors creates a powerful incentive to monitor management. Shavidasani (1993) provides empirical support for the notion that financially invested board members make more effective board members. Desender (2009) suggests that the structure of ownership can influence the priorities set by the board, and again these priorities determine the optimal composition of the board of directors. Francis, Hasan, & Wu (2012) said that consistent with this type of research; they expect a positive correlation between board shareholding and financial performance. However, these researchers' results show no significant relationship between directors' shareholding and firm performance during the crisis.

According to the code of best practice on corporate governance, the board should consist of four independent board committees. Those are the remuneration committee, audit committee, remuneration committee, and nomination committee. Independent board committees provide benefits to the Board of Directors such as advice and counsel, create a channel between the external environment and board, improve public confidence and legitimacy (Pfeffer & Salancik, 1978). The firm can gain such benefits through having an active and involved board. Famous International scandals like Enron and WorldCom caused the first step to implementing such committees to recommend international law and corporate governance guidelines. It recommends appointing independent directors to the committee (Chiang & He, 2010). Empirical evidence suggests the benefit of establishing independent committees to enhance the corporate performance and governance of the firm. Hillman *et al.* (2000) suggest the Board members' contribution on a committee would improve their identification with a firm, ultimately leading to enhanced corporate performance. Adjaoud, Zeghal, & Andaleeb (2007) argues that firms having independent audit, nomination and compensation committees have positive economics values rather than accounting values. Further, Wijethilake *et al.* (2015) investigated the association between the availability of independent board committees and corporate performance and revealed a significant positive correlation.

Early literature related to the Sri Lankan context reported various findings. Guo and Udayakumara (2021) found that board size and the proportion of non-executive directors show a marginal negative relationship with firm value. The firm size and director shareholdings significantly impact the firm performance of listed firms in Sri Lanka. Sameera (2020) found that board independence was a significant and negative impact on corporate risk; board structure and board procedures have no significant impact on corporate risk. Suganya and Kengatharan (2017) found that board size and non-executive directors had a significant relationship with ROA. Achchuthan and Kajanathan (2013)

found no significant difference between the firm performance and board leadership structure, board committees, board meetings, and proportion of non-executive directors. Balagobei and Udaykumara (2017) found that board leadership structure positively correlated with firm performance. Senthuran and Velnampy (2015) found that board size, board independence, gender, and educational qualification of directors are not significantly related to the performance of commercial banks. In this study below hypotheses were developed based on the previous related literature.

*H<sub>1</sub>: There is a significant impact of Board Size on Financial Performance.*

*H<sub>2</sub>: There is a significant impact of the number of Board Meetings on Financial Performance.*

*H<sub>3</sub>: There is a significant impact of Board Composition on Financial Performance.*

*H<sub>4</sub>: There is a significant impact of Number of Independent Board Committees on Financial Performance.*

*H<sub>5</sub>: There is a significant impact of Share Ownership of Board of Directors on Financial Performance.*

## RESEARCH METHODOLOGY

The dependent variable of the research is Financial Performance, and two indicators, EPS (Earning Per Share) and ROA (Return on Asset), were used to measure the financial performance. EPS is widely used to assess financial performance because it can largely explain the functions performed by the executive board, financial discreet, and corporate governance (Adjaoud *et al.*, 2007). Earning per share is also identified as one of the dominant indicators to evaluate corporate performance (Stickel, 1990). ROA as an accounting-based performance measure (Demsetz, 1983, Fich and Shivdasani, 2006) and ROA shows the ability of the management to earn a return on resources, and the firms using their assets efficiently show higher ROA.

The independent variables describe the effective board structure characteristics. This study identifies factors that impact the effective board structure based on the Code of Best Practices on Corporate Governance

issued jointly by the Security Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. Therefore, this study selected the Board Size, Board Meeting, Board Composition, Board Shareholding, and Independent Board Committee variables as the independent variables. Figure 1 presents the Conceptual Framework.

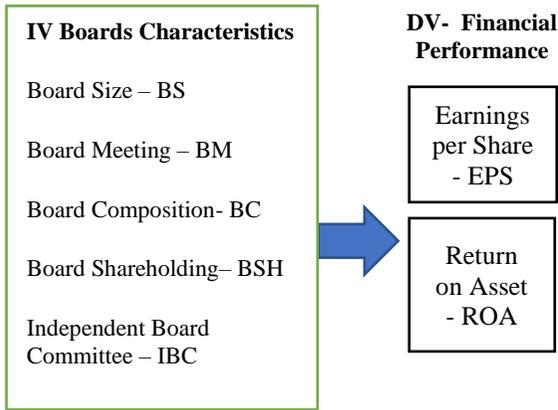


Figure 01: Conceptual Framework  
 Source: Developed by Researchers based on Literature Review

The population is all the listed companies on Colombo Stock Exchange. According to previous studies, most of the researchers had selected their sample based on market capitalization. Instead, this study decided to take firm turnover because turnover is best suited for measuring the firm performance than market capitalization. The sample was derived from 50 listed companies in CSE for the three years (2016/2017, 2017/2018, and 2018/2019) with covering 16 sectors. Since most established firms represent the mainboard, this study selected 40 companies from the mainboard and 10 remaining companies from the DiriSavi board. Companies cater under watch list were ignored from the sample because section 7 of the listing rules watch list consists of all the companies that are non-compliant with CSE listing rules. Secondary data was collected from the audited financial report.

The statistical analysis was performed using the E-Views. Multiple regression analysis was done to determine the extent of the change of

dependent variable due to the change of independent variables.

The linear relationship is defined mathematically as follows.

$$Y = \beta_0 + \beta_1x$$

For this purpose, this study develops the following model.

$$EPS = a + \beta_1(BS) + \beta_2(BM) + \beta_3(BC) + \beta_5(IBC) + \beta_4(BSH) + \epsilon$$

$$ROA = a + \beta_1(BS) + \beta_2(BM) + \beta_3(BC) + \beta_5(IBC) + \beta_4(BSH) + \epsilon$$

### Data Analysis and Findings

A total of 150 observations were used for the data analysis. Table 1 presents the descriptive statistics for the companies selected for three years ranging from 2017 to 2019.

The mean value of the number of independent directors (Board Composition) is 6.52, and the minimum and maximum are 2 and 14. According to the corporate governance practices board of directors should consist of three or 1/3 independent directors, whichever is high. So, the result table shows that most of the companies are adopted this rule in their organization. The mean value of frequency of board meetings for the annum is 6.360 and ranged from 01 to 25. According to the regulatory requirement, banks must hold a minimum of 12 meetings for the annum, while others are required to hold 04 meetings for the annum. But the result appears that some companies may not meet the minimum requirement published by the code of conduct. According to the above table, the mean value of board size (number of directors on the board) is 8.787, and minimum and maximum board sizes are 4 and 16, respectively. Normally, corporate governance standards were prescribed that board size should be 5 to 13, but it is 4 to 16.

The mean value of a number of independent board committees is 3.81, and it ranged between 02 to 07. The corporate governance practices recommend maintaining a minimum of 04 board committees (Audit committee, Remuneration committee, nomination committee, and Related party transaction review committee). But it has appeared that some companies are not maintaining the minimum requirement by adhering to the code

of conduct. Further, as per the result, the average shareholding of the board members in public listed companies is 5.91031 ranges

between a maximum of 80.35926 and a minimum of 0.

**Table 1: Descriptive Statistics**

	N	Min.	Max.	Mean	Std. Deviation
Board Composition	150	2.00000	14.00000	6.52000	2.59253
Board Meetings	150	1.00000	21.00000	6.36000	4.26988
Board Shareholding	150	0.00000	80.35926	5.91031	16.47443
Board Size	150	4.00000	16.00000	8.787	2.8012
Independent of Board Committee	150	2.00000	7.00000	3.81	1.213
Earnings Per Share (EPS)	150	-6.75000	92.13000	11.67067	18.31796
Return on Asset (ROA)	150	-0.503554	0.99060	.07384	.15876

Source: Research Data analysis

Table 2 represents the correlation between Earning Per Share / ROA and factors used to

determine the board structure characteristics in this study.

**Table 2: Correlation Analysis**

Variables	Earnings Per Share	ROA
Board Size	.245*	-.085
Sig (2 – tailed)	.002	.302
Board Shareholding	-.165*	-.87
Sig (2 – tailed)	.044	.288
Board Meetings	.172*	-.098
Sig (2 – tailed)	.036	.231
Board Composition	.120	-.081
Sig (2 – tailed)	.144	.326
Independent Board Committees	.175*	.060
Sig (2 – tailed)	.032	.466

\* Correlation is significant at the 0.05 level (2-tailed)

Source: Research data analysis

The Pearson correlation value for the board size is 0.245, which shows a positive correlation with EPS. It means an increase in the number of directors on the board leads to increased EPS while decreasing the number of directors decreases the EPS significantly. The correlation value of board shareholding value is -0.165; it shows a significant negative relationship with EPS. It means EPS increase, while the share ownership of directors' decrease. The Pearson correlation value for the board meeting is 0.172 and significant at 0.05 level. Board composition's correlation value is 0.120, and insignificant positive correlation with EPS. Considering the number of independent board committees, it has a

significant positive correlation (0.175) with EPS. According to the results of the correlation analysis, only board composition has an insignificant relationship between EPS while board size, board shareholding, board meetings, and a number of independent board committees' effect significantly. However, ROA is revealed to have not statistically significant correlations with any of the board indicators included in the study.

Further, we assessed multicollinearity among independent variables using the Variance Inflation Factor (VIF). VIF is less than 4, assuming no multicollinearity among independent variables (Wijethilake et al.,

2015). Table 3 represents results, and multicollinearity does not exist among the

predictors because the VIF value of all the independent variables is less than 4.

**Table 3 Multicollinearity Analysis**

	Collinearity Statistics	
	Tolerance	VIF.
Board size	.349	2.869
Board Meetings	.508	1.967
Board Composition	.291	3.441
Independent Board Committees	.498	2.008
Board Composition	.863	1.158

Source: Research Data

Table 4 shows the regression results of the relationship between board effectiveness and EPS/ROA.

**Table 4 Impact of board effectiveness on EPS/ROA**

Model 1-Impact of board effectiveness on EPS					
R value (Adjusted R square)			0.381 (0.116)		
ANOVA Test			.001		
Model	Unstandardized Coefficients		Standardized Coefficient Beta	T	Sig
	B	Std. Error			
(Constant)	-10.649	5.996		-1.776	.078
Board Size	3.008	.853	.472	3.619	.001
Board Meetings	.36	.464	.008	.079	.973
Board Composition	-2.516	1.010	-.356	-2.491	.014
Independent Board Committees	3.322	1.648	.220	2.016	.046
Board Shareholding	-.218	.092	-1.96	-2.366	.019
Model 2- Impact of board effectiveness on ROA					
R value (Adjusted R square)			0.261(0.036)		
ANOVA Test			.068		

Source: Research Data Analysis

According to regression analysis, the adjusted R square is 0.116, and the ANOVA test is .001. It means 11.6% of the variance in EPS explains by Board Effectiveness, and there is a significant impact on Earning Per Share (EPS). However, the regression result of the ROA model reflects the adjusted R square as 3% and respective model significant value as 0.068. Therefore, the model is not significant.

The regression results show that board size, board composition, and board shareholdings significantly impact EPS. When considering the board composition and board shareholdings, both independent variables have a significant negative relationship with

earnings per share of the company. Those findings are similar to the literature, which found a significant relationship between board size and EPS (Wijethilake, et al., 2015, Meyer & Wet, 2013). Findings also revealed that board size, board composition, and board shareholding are not significant in the ROA model. So, those determinants do not affect the ROA. But board meetings and independent board committees have a significant relationship with the ROA of the company because their P values are less than 0.05. Table 5 presents the summary of hypotheses testing with both financial performances.

**Table 5 Summary of Hypothesis Testing**

Category	Hypothesis	EPS	ROA
Hypothesis 1:	There is a significant impact of Board Size on financial performance.	Accept	Reject
Hypothesis 2:	There is a significant impact of the number of Board Meetings on financial performance.	Reject	Accept
Hypothesis 3:	There is a significant impact of Board Composition on financial performance.	Accept	Reject
Hypothesis 4:	There is a significant impact of the Number of Independent Board Committees on financial performance.	Accept	Accept
Hypothesis 5:	There is a significant impact of Share Ownership of the Board of Directors on financial performance.	Accept	Reject

## DISCUSSION AND CONCLUSION

This study's main objective was to examine the impact of board structure characteristics on the Financial Performance of listed companies in CSE. Past measures on Corporate Governance have been indicated the relationship of board structure characteristics and financial performance by using various measures and various techniques Chen, Li, & Shapiro, (2011). According to the data analysis findings by using statistic application, the researchers found that the board structure characteristics significantly affect EPS, and board structure characteristics do not impact ROA. Among the determinants used to measure the board structure characteristics such as board size, board composition, independent board committees, and board shareholding indicate the significance relationship with EPS. In contrast, board meetings represent an insignificant relationship.

Board size is one determinant of board effectiveness. Many researchers provide evidence on the negative relationship between board size and firm performance (Eg: Wijethilake, et al., (2015), Yermack (1996), and Bhagat & Black (1999)). Yermack (1996) has empirically tested the relationship between board size and firm performance. He found out that smaller boards have higher performance. According to the analysis's results, another two variables have a significant negative relationship with earnings per share. They are board composition and board shareholding. These results are consistent with previous

researchers' results (Agrawal, 2018; Yermack et al.,1996).

An effective BOD is a keystone in financial performance. The responsibilities of this party are particularly complex and material in achieving the expected performance of a company. The point of this paper is the conviction that there is a significant impact of board structure characteristics on EPS. Based on this consideration, this paper provides a review of the most important available literature concerning this regard. Then the study develops an evaluation model for the board structure characteristics depending on the determinants of the Code of Best Practices on Corporate Governance issued jointly by ICASL and SEC.

According to the EPS regression model results, there were positive relationships between board size, board meetings, independent board committees, and a negative relationship between board composition and board shareholding on the firm's financial performance. But, all were not significant at the 0.05 level. Therefore, that is accepted the hypothesis 1, 3, 4, and 5 because these are significant at 0.05 level. And the results showed an insignificant relationship between the remaining variable and financial performance; therefore, hypothesis 2 is rejected. In addition, according to the results of the ROA regression model, it is accepted hypotheses 02 and 04 while rejecting all other hypotheses.

Results emphasized the importance of compliance with the deterrents of corporate governance to enhance the board structure characteristics. The findings from this study revealed that board structure characteristics bring improvements to the performance of a firm. Besides that, this research reviewed the impact of financial performance separately on EPS and ROA. Board effectiveness plays a significant role in improving the performance of a company. That's why the director board is the powerful party even to manipulate other human resources towards achieving objectives and goals of the company. Then the researchers highlighted that prescriptions on corporate governance are important to encourage board members, increase the effectiveness of director boards, and increase the financial performance of publicly listed companies in Sri Lanka. If Board Effectiveness influences EPS, it influences Financial Performance. The researchers concluded that there is a significant impact of board structure characteristics on the Financial Performance of publicly listed companies in Sri Lanka. Finally, researchers suggested that the board directors should concentrate their activities of the companies properly and advise the companies to have more independent directors within the relevant percentage of directors. Some companies have not met the minimum requirement for a number of meetings for the year. However, meetings are so important to companies to decide for their success, and it is a regulatory need to company.

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