# Impact of Board Characteristics on Agency Cost and Financial Performance of Non-financial Listed Companies in Sri Lanka

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## Abstract

Sound corporate governance practices are important in order to reduce the risk of investors, attracting investments, lowering agency cost and improving the financial performance of companies. However, the way in which corporate governance is organized vary from country to country, depending on their economic, political and social context. This study examines the impact of board characteristics on agency costs and financial performance of non-financial companies listed in Sri Lanka for the period of 2016 to 2021. For this purpose, three board characteristics are chosen as independent variables; Board Size, Proportion of non-executive directors, CEO duality. An inverse proxy of agency costs is used; asset utilization ratio, which reflects the managerial efficiency and interaction of free cash flows with growth. As the dependent variables, the firm performance is measured by accounting base measurements; Return on Assets (ROA) and Return on Equity (ROE) and market base measurement, Tobin Q. The collected data are analyzed through descriptive statistics, correlation analysis and multiple linear regression. The findings of this study will provide useful insights to the interested parties on significant variables of corporate governance mechanisms which enables to reduce agency conflicts, the agency costs and to enhance firm's financial performance.

**Key words**: *Corporate Governance; Board Characteristics; Agency Cost; Financial Performance*