**Impact of Board Structure on Financial Performance**

**with Reference to Listed Manufacturing Companies in Sri Lanka.**

**Piumi Kumari**

University of Ruhuna, [piumi@fot.ruh.ac.lk](mailto:<piumi@fot.ruh.ac.lk)

Abstract

The boardroom plays a crucial role within a company intending to bolster the performance of the company. Given its significance, many researchers have conducted several studies to investigate the impact of board structure on financial performance. Despite the extensive exploration of this relationship, there is no conclusive idea and there are incongruous findings relating to the topic of board structure and financial performance not only in the global context but also in the Sri Lankan context, especially for manufacturing companies. This study mainly focuses on the impact of board structure on financial performance in listed manufacturing companies in Sri Lanka with the intention of filling the research gap with regard to the field of board structure on financial performance. The study relies on secondary data that was gathered from the period from 2016 to 2021. Thirty (30) listed manufacturing companies in the Colombo Stock Exchange were selected as the sample of the study using simple random sampling. In addition, regression analysis was used to analyze the data while employing board size, CEO duality, and independent non-executive directors as independent variables and financial performance as the dependent variable which was measured using Return on assets and return on equity The findings reveal that board size had a significant negative impact on financial performance in connection with the theory of agency. However, CEO duality and the number of independent non-executive directors reacted perfectly with the financial performance as confirmed by the resource dependency theory. Therefore, this study assists companies in customizing their board structure which suits their requirements and offers valuable insight for enhancing corporate governance practices in Sri Lanka.

Keywords: Board structure, Financial performance, Return on assets, Return on equity

# Introduction

The field of Corporate Governance was initially explored by the study of Berle and Means (1933) by highlighting the increasing significance over the world and emphasizing the separation of ownership and control, leading to conflicts of interest. Moreover, the emergence of corporate failures due to unethical business practices and prompt regulatory changes has further highlighted the significance of corporate governance (Sumaira & Mohi-ud-Din, 2016). In Sri Lanka, with the influence of the open economy in 1977, corporate governance has come into practice. Thereafter, the Institution of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission commenced the code of corporate for all listed companies in CSE as a mandatory requirement (Kalainathan & Vijayarani, 2014). Further, effective corporate governance assists in mitigating unethical business practices, enhancing goodwill, attracting stakeholders, and yielding economic benefits by affecting the profitability of the company (Todorovic, 2013).

In particular, board structure can be defined as the most notable aspect within the corporate governance context (Adams et al., 2010). According to Koa et al. (2019) directors are the set of people appointed by the management of the company and play a momentous character in corporate governance related to board measurements like board size, board independence, etc. Further, the board of directors is primarily liable for monitoring the management while acting as agents for company shareholders. Other than that, the board possesses the power to make decisions and guides the management. Hence, shareholders have the responsibility to determine whether the board is well-educated or not ([Akpan & Amran, 2014](#_ENREF_3" \o "Akpan, 2014 #11)). [Sumaira and Mohi-ud-Din (2016)](#_ENREF_32" \o "Sumaira, 2016 #3) stated that the directorate plays a noteworthy character while safeguarding the governance of the firm and providing direction to fulfill the overall objectives of the company. According to the research done by [Vakibashi and Zamil (2015)](#_ENREF_36" \o "Vakibashi, 2015 #40) emphasized that financial performance measures the company’s financial soundness within the period. It’s also known as an attempt to meet organizational objectives with successful productivity.

In the recent past, there were several research studies carried out in the area of corporate governance and financial performance worldwide (Guo & Kumara, 2012; Wellalage & Locke, 2013; Velnampy & Nimalthasan, 2013). Numerous studies have also been done on the essence of the impact of board structure on financial performance as a major aspect of corporate governance in both global and local contexts (Georgantopoulos & Filos, 2017; Khan et al., 2021; Mishara et al., 2022). However, both contemporaneous and subsequent researchers worldwide forwarded some contradictory results with regard to established theories on corporate governance like agency theory, resource dependency theory, and stakeholder theory. Therefore, this study seeks to examine the effect of board structure on financial performance in listed manufacturing companies in Sri Lanka as there is a significant contribution to the country’s economy from the manufacturing sector (Central Bank of Sri Lanka, 2021). Despite numerous studies on corporate governance and board structure, still there is a research gap in the context of Sri Lanka especially for the listed manufacturing companies. Contradictory and inconclusive findings related to this topic make challenges for Sri Lankan manufacturing companies to formulate effective strategies related to board structure. Therefore, this study aims to offer practical guidance for enhancing financial performance by optimizing governance practices while contributing to policy recommendations.

First, this study provides a comprehensive literature review emphasizing contradictory findings and theories, then the methods used to conduct this, presentation, and discussion of findings, and finally, conclusion and recommendations with potential avenues for future research.

# Literature Review

There are multiple studies connected with the international context regarding the board structure and financial performance. Additionally, there is a dearth of studies that address the backdrop of Sri Lanka on the specific dynamics of manufacturing companies. Moreover, the findings of past studies are difficult to apply to get a clear idea connecting the impact of board structure on financial performance in manufacturing companies because those studies forwarded inconclusive, contradictory, and mixed results (Khan et al., 2021). Therefore, this study is useful for getting a clear idea about the impact of board structure on financial performance related to the Sri Lankan context and the giant necessity of reviewing that in relation to manufacturing companies.

## **Theoretical Review**

In this study, three key theories have been described relating to the concept of corporate governance. Therefore, agency theory assists in examining the relationship between board structure and financial performance from the perspective of the principal-agent considering the conflicts of interest. Resource dependency theory guides to identification of how board structure affects a firm’s access to resources and expertise while changing financial outcomes. Finally, stakeholder theory informs how board decisions influence stakeholder interests providing enough knowledge of its impact on financial performance.

### *Evolution of Corporate Governance*

Corporate governance emerged due to some issues and failures that occurred in the early 1990s, but the term ‘corporate governance’ was used after the 1980s (Tricker, 2000). However, Berle and Means (1933) emphasized the conflict of interest as the reason for the emergence of corporate governance and the book published by Berle and Means (1933) can be pointed out as a foundational text in corporate governance. Anyhow, the OECD Committee (1999) specified corporate governance as a series of associations between the company, stakeholders, and the board of directors while emphasizing the importance of corporate governance as a structure in order to achieve company objectives. However, there is no mostly agreed upon explanation of corporate governance.

### *Agency Theory*

Agency theory explores the affiliation between the principal and the agent and emphasizes that conflicts can arise because of the differing self-interests between both parties. At the same time, the agency theory addresses divergent levels of risk between the principal and the agent. Agent employs the resources of the principal while making decisions on behalf of the principal. So, the agent bears no or little risk as all risks drop into the principal account. This may affect adversely when the agent acts only for self-interest. Additionally, the agent is better able to tolerate risk than the principal. All problems result from the separation between the principal and the agent (Fama & Jensen, 1983). Therefore, corporate governance is considered a better mechanism used to resolve disputes between the principal and the agent.

### *Resource Dependency Theory*

Resource dependency theory explains the alliance of the board with the outer environment to gain vital assets for the firm. The board of directors serves as a link between the company and its assets to uplift the performance of the organization (Pfeffer, 1973). This theory also focuses on the uncertainty developed by the external environment and how can minimize the dependence of external organizations. As per the empirical view of resource dependency theory, the boardroom is emphasized as a body that creates and improves the relationships between organizations to gain mutual benefits (Zahra & Pearce, 1989). Accordingly, Meyer and Wet (2013) stated that a large and diversified board can add value to the external resources based on the theory of resource dependency and the combination of non-executive directors also leads to enhance firm performance.

### *Stakeholder Theory*

In line with the board’s responsibility, the board should manage the interests of other groups who influence the success of the company can be referred to as the stakeholder theory (Donaldson & Pereston, 1995). Therefore, the board should pay consideration to these parties because stakeholders can affect the performance of the company either directly or indirectly. As per the study of Freeman (1984), directors need to balance the various interests of stakeholders while giving greater priority to the interests of shareholders.

## **Empirical Review**

Different scholars emphasized board structure in different ways in connection with board size, board composition and board leadership (Jackling & Johl, 2009). Other than this categorization, Meyer and Wet (2013) represented the board structure by using board size, board ownership, and board composition. In contrast to that, the majority of prior studies immersed CEO duality like Abdullah (2004) and directors’ remuneration like [Othman et al. (2009](#_ENREF_23" \o "Othman, 2009 #29)).

### *Board size*

More scholars have paid attention to board size when evaluating the board structure (Jackling & Johl, 2009; Meyer & Wet, 2013; Sharma, 2013) etc. Board size denotes the total number of directors represented in the boardroom. However, there is no standard size for the board of directors over the world. James (2020) emphasized the difference between the small board size and large board size as the small board of directors consists of no more than eight directors and large board size increases the power of the Chief Executive Officer (CEO) and makes it easier to control and influence to the directors of the company. Khan et al. (2021) stated that board size affects company performance indirectly and revealed that board size is negatively affiliated with financial performance. Moreover, by taking into account 40 French firms, Jackling and Johl (2009) stressed that the size of the board demonstrates a strong and favorable affiliation between financial performance. Accordingly, the size of the board shows a negative relationship towards financial performance with special reference to developing countries. Accordingly, the size of the board shows a negative relationship towards financial performance with special reference to developing countries (Wijethilake et al., 2015). Therefore, the hypothesis can be formulated as follows:

H1 = Board Size has a significant negative impact on financial performance.

### *CEO duality*

CEO duality highlights the segregation between the position of chairmen and the Chief Executive Officer (CEO) to ensure the boards’ power against the CEO dominance (Sharma, 2013). According to Abdullah (2004) highlighted the segregation between the post of chairman and CEO to direct the corporation to good corporate governance and enhance capacity to increase the firm value. Some scholars attested that CEO duality is an unfavorable situation because it can be seen as the evaluation of own work. However, some argued that CEO duality avoids the conflict between the board of directors (Uadiale, 2010). According to Vintila and Gherghina (2013) declared that CEO duality is favorably associated with financial performance based on Tobin’s Q ratio. However, according to Jackling and Johl (2009) and Ammari, Kadria, and Ellouze (2014) there is a cross-grained affiliation between CEO duality and financial performance. Accordingly, duality in board structure raises the agency problem and the conflict of interest while making a challenge for all directors of the board. Therefore, when the CEO plays a dual role as chairman, there is a possibility to decrease Earnings per Share (EPS). Based on this, the hypothesis can be formulated as follows:

H2 = CEO duality has a significant positive impact on financial performance.

### *Independent non-executive directors*

Within the boardroom, independent non-executive directors play a major role and according to Rashid et al. (2010) directors who appoint from the outside and avoid material interests with the firm can be identified as independent non-executive directors. The independence of the directors helps to mitigate the ethical risks between the managers of the organization (Chiu & Wang, 2017). Meanwhile, some scholars argue that the board must contain more independent directors, or all directors should be independent. However, some scholars argued that there ought to be an equal combination between independent and executive directors within the firm (Ammari et al., 2014). In consonance with past studies, there are mixed results related to independent non-executive directors and financial performance. Some scholars argued that independent non-executive directors react constructively to financial performance Guo & Kumara, 2012; Jackling & Johl, 2009). However, in contrast to those findings, Meyer and Wet (2013) emphasized that there is a converse affiliation between the number of non-executive directors and financial performance. Simultaneously, some scholars stated that there is a mixed result related to board independence and financial performance (Fuzi et al., 2016). However, according to Abdullah (2004) and Rashid et al. (2010) independence of the board cannot influence the financial performance because outside directors do not add any economic value to firms though they are acting as good monitors.

H2 = Board Independence has a significant positive impact on financial performance.

### *Financial Performance*

According to [Ammari et al. (2014)](#_ENREF_4" \o "Ammari, 2014 #30) financial performance is referred to as a kind of measurement used to assess the financial health of the company over a period of time. In general, using the total assets of the company can identify the overall financial health and the ability of the company to make a profit ([Vakibashi & Zamil, 2015](#_ENREF_36" \o "Vakibashi, 2015 #40)). Financial performance can be measured using various methods. Some measurements are market-based ones that reflect the long-term financial performance of the companies such as Tobin’s Q and some are related to the accounting such as Return on Assets (ROA), Return on Equity (ROE), and Return on Investment (ROI). Most scholars widely used accounting based measurements to quantify financial performance in connection with corporate governance research that reflects the short-term performance of the firms ([Jackling & Johl, 2009](#_ENREF_15" \o "Jackling, 2009 #17); [Sharma, 2013](#_ENREF_31" \o "Sharma, 2013 #21); [Uadiale, 2010](#_ENREF_35" \o "Uadiale, 2010 #38)). However, some scholars used not only market -based but also accounting-based measurements to appraise financial performance ([Abdullah, 2004](#_ENREF_1" \o "Abdullah, 2004 #5); [Meyer & Wet, 2013](#_ENREF_24" \o "Meyer, 2013 #6)).

Furthermore, investigation of board structure is very crucial because differences in board structure can affect the performance of the company and long-term survival (Khan et al., 2021). Anyhow, the fruitfulness of the boardroom and performance are affected by diverse factors that are used to measure the board structure (Othman et al., 2009). According to Sharma (2013) board structure may have a favorable or negative impact on the performance of the companies. In connection with the characteristics of the board structure, some scholars base the findings on financial performance of companies is significantly influenced by board structure (Ammari et al., 2014; Meyer & Wet, 2013; Othman, Ponirin, & Erlane, 2009). However, according to Senthuran and Velnampy (2015) the influence of board structure on financial performance related to commercial banks is not significant.

Therefore, as far as these findings are concerned board structure has an influence on financial performance differently based on characteristics and industry.

# Methods

This seeks to analyze the impact of board structure and financial performance in the Sri Lankan context related to listed manufacturing companies. The manufacturing sector is considered as the highest contributor to the GDP (Central Bank of Sri Lanka, 2021). Moreover, stakeholder relations, adherence to rules and regulations, and innovation and technology adoption can be influenced by the structure of the board, especially for manufacturing companies. Relationships with laborers, suppliers, and community engagement influence on survival of the manufacturing companies as they strictly deal with the supply chain (Velnampy & Nimalthasan, 2013). Hence, out of 55 listed manufacturing companies listed in the Colombo Stock Exchange as of 30th June 2021, 30 companies have been picked out as the sample of the study. As per the new classification, there is no special industrial category named manufacturing in the CSE. Therefore, based on the nature of manufacturing, sample companies have been selected including food manufacturing companies.

Data was collected from annual reports for the period of 2016 to 2021. Especially, the data regarding board size, number of independent non-executive directors, and CEO duality were gathered from the section on corporate governance in audited annual reports. Additionally, the data were gathered from discourses, notes, and management reviews of each listed manufacturing company. According to Sharma (2013) has been used audited annual reports to gather secondary data on board structure. Moreover, this study used a composite index to quantify some qualitative data related to independent variables such as CEO duality. In addition to that, gathered data from audited financial statements regarding the financial performance concerning Return on Assets (ROA) and Return on Equity (ROE). This measurement indicator is basically based on the accounting-based measurements that are used to quantify the financial performance of the companies. Some researchers used market-based measurements to measure financial performance as believed a long-term measurement of financial performance (Azeez, 2015). However, some researchers believed that accounting-based measurements are better than market-based measurements as those measurements are based on historical data (Velnampy & Nimalthasan, 2013). As a result of that argument, this study employs accounting-based measurements to measure financial performance.

Apart from that, descriptive statistics are used to narrate the data in a summarized and meaningful manner. Mentioned by [Meyer and Wet (2013)](#_ENREF_24" \o "Meyer, 2013 #6) descriptive statistics made a qualitative entry to the collected data and was used to analyze the data. Further, within the scope of descriptive statistics, some scholars used minimum, maximum, and standard deviation as measurements of dispersion and mean, median, and mode as measurements of central tendency ([Ammari et al., 2014](#_ENREF_4" \o "Ammari, 2014 #30); [Meyer & Wet, 2013](#_ENREF_24" \o "Meyer, 2013 #6); [Uadiale, 2010](#_ENREF_35" \o "Uadiale, 2010 #38)). Therefore, the present study used minimum, maximum, standard deviation, and means to analyze data. Other than that, some scholars such as [Abdullah (2004)](#_ENREF_1" \o "Abdullah, 2004 #5) and [Sharma (2013)](#_ENREF_31" \o "Sharma, 2013 #21) have employed correlation analysis to check the degree of affiliation between board measurement variables and financial performance. However, with the evidence supported by the prior studies, this study applied multiple regression analysis to test the impact of board structure on financial performance ([Uadiale, 2010](#_ENREF_31" \o "Uadiale, 2010 #38); [Guo and Kumara (2012)](#_ENREF_13" \o "Guo, 2012 #9).

With the purpose of better assaying the impact of board structure on financial performance, this study reflects on control variables such as firm size which is measured using the logarithm of total assets (Ammari et al., 2014). Additionally, firm age is determined by the number of years the business exists (Wijethilake et al., 2015). Moreover, the conceptual framework and measurement of variables can be depicted as follows.

**Independent Variables**

**(Board Structure)**

**Dependent Variables**

**(Financial Performance)**

* Board Size
* CEO Duality
* Independent Non-executive directors
* Return on Assets
* Return on Equity

**Control Variables**

* Firm Size
* Firm Age

Figure 1: Conceptual Framework

**Table 1: Summary of Measurement of Variables**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Definition** | **Measurement** | **References** |
| Board Size | Size of the director board | Total number of directors in the board | (Ammari et al., 2014; Jackling & Johl, 2009; Sharma, 2013) |
| CEO Duality | CEO of a company undertakes a dual role as Chairman of the board | Use binary value. When there is CEO Duality it indicates as “1” otherwise “0” | (Sharma, 2013; Uadiale, 2010) |
| Independent non-executive directors | The proportion of independent non-executive directors exists in the board | Number of independent non-executive directors/ Total number of directors | (Abdullah, 2004; Ammari et al., 2014; Uadiale, 2010) |
| Return on Assets (ROA) | Profitability of the company relative to firm’s total assets | Earnings Before Interest and Tax (EIBT)/ Total Assets | (Rashid et al., 2010; Wellalage & Locke, 2013) |
| Return on Equity (ROE) | Profit to shareholders’ equity | Profit After Tax/Share Capital + Reserves | (Ammari et al., 2014; Velnampy & Nimalthasan, 2013) |
| Firm Size (FZ) | Based on total assets that the firm has. | Logarithm of total assets | (Ammari et al., 2014) |
| Firm Age (FA) | Numbers of years of existence of the company. | Number of years. | (Jackling & Johl, 2009; Sharma, 2013) |

**Model 1**

ROA= ɑ + ß1BSIZE + ß2BIND + ß3CD + ß4FS + ß5FA + ɛ

**Model 2**

ROE= ɑ + ß1BSIZE + ß2BIND + ß3CD + ß4FS+ ß5FA + ɛ

However, with the evidence supported by the prior studies, this study applied regression analysis to examine the impact of board structure on financial performance employing two equations ([Uadiale, 2010](#_ENREF_31" \o "Uadiale, 2010 #38); Guo and Kumara (2012). The term ROA stands for return on assets and ROE stands for return on equity. Board size, board independence, and CEO duality are denoted by BSIZE, BIND, and CD respectively. Firm size is indicated by FS and firm age is indicated by FA. Additionally, ɑ, ß, and ɛ stand for intercept, coefficient, and random error.

# Findings of the Study

Table 2: Results of Descriptive Statistics

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Variables | Minimum | Maximum | Mean | Std. Deviation |
| BZ | 5 | 14 | 7.82 | 1.62 |
| IND | 1 | 6 | 2.87 | 1.04 |
| CD | 0 | 1 | 0.96 | 0.19 |
| ROA | -0.28 | 0.64 | 0.11 | 0.13 |
| ROE | -0.41 | 0.90 | 0.12 | 0.17 |
| FA | 9.00 | 79.00 | 36.00 | 15.29 |
| FS | 8.32 | 10.51 | 9.41 | 0.47 |

As illustrated in Table 1, board size ranged between 5 to 14 directors while presenting the average as 8 directors (M= 8) which indicates that manufacturing companies have 8 directors on boardroom in general. The number of independent non-executive directors ranges between 1 to 6 directors and the average number of directors is denoted as 3. It demonstrates that one-third of the board size was independent non-executive directors while adhering to the regulatory requirement. Therefore, it can be considered as a good condition in connection with the code of best practices of corporate governance (2017). The minimum value of CEO duality suggests that there was no segregation between the role of chairman and the CEO. As well as the maximum value represented as 1 and denoted as there was a separation between the post of chairman and the chief executive officer. 96% represented the existence of CEO duality in manufacturing companies (M=.96).

As the financial performance measurement Return on Assets stood with the mean value of 11% (M= 0.11) whereas the maximum and minimum values fluctuated from -0.28 to 0.64. ROE also scattered between -0.41 and 0.90. Nevertheless, the average ROE (M=0.12) was also low similar to ROA. The average age of companies has been shown as 36 years (M=36) which shows manufacturing companies comparatively as maturated firms. An average firm size represented as 9.41 calculated with respect to the logarithm of total assets.

**Table 3: Results of Regression Analysis**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **DV** | **IV** | ***β*** | **t-Value** | ***p*-Value** | **VIF** |  |
| ROA | BZ | -0.013\*\* | -3.326 | 0.001 | 1.699 |  |
|  | IND | 0.018\*\* | 2.839 | 0.005 | 1.859 |  |
|  | CD | 0.327\*\*\* | 10.942 | 0.000 | 1.225 |  |
|  | FA | -0.001\*\*\* | -3.924 | 0.000 | 1.126 |  |
|  | FS | -0.021 | -1.671 | 0.097 | 1.567 |  |
|  | Constant | 0.073 | 0.678 | 0.499 |  |  |
|  | F=28.396 |  |  |  |  |  |
|  | *P* =.000 |  |  |  |  |  |
|  |  |  |  |  |  |  |
| ROE | BZ | -0.012\* | -2.296 | 0.023 | 1.699 |  |
|  | IND | 0.018\* | 2.027 | 0.044 | 1.859 |  |
|  | CD | 0.354\*\*\* | 8.479 | 0.000 | 1.225 |  |
|  | FA | -0.002\*\*\* | -4.537 | 0.000 | 1.126 |  |
|  | FS | -0.003 | -0.185 | 0.854 | 1.567 |  |
|  | Constant | -0.087 | -0.573 | 0.568 |  |  |
|  | F=19.932 |  |  |  |  |  |
|  | *P* =.000 |  |  |  |  |  |

|  |  |
| --- | --- |
| DV-Dependent Variable, IV- Independent Variable, *β*- Coefficient Value |  |
| Notes:  *p\** <0.05,  *p\**\*<0.01 and  *p\**\*\*<0.001 |  |

Overall regression model was statistically significant, as shown in Table 2 (F= 28.396, *p*=.000) pertinent to the dependent variable of ROA. When considering the board size, it has a significant (*p*=.001) adverse effect (*β*= -.013) on financial performance measured in regard to ROA. This result complements the findings of Georgantopoulos and Filos (2017) and Rashid et al. (2010) while providing contrary opinions on the resource dependency theory. Therefore, as supported by the findings of this study, can arrive at a fair opinion that the board size can influence financial performance that is measured in terms of ROA. Therefore, smaller board size leads to guidance on better resource allocation and operational efficiency of the company while larger boards may be less efficient in utilizing company assets for generating profits as it involves more complexity in resource allocation (Martin & Herrero, 2018). While previous studies yielded mixed results related to board structure (Sharma, 2013), this provides direct findings specific to Sri Lankan manufacturing companies. In order to obtain the highest ROA, Sri Lankan manufacturing companies need to maintain smaller boards instead of maintaining larger boards.

In addition, as per this study, board size shows a significant (*p*<.05) negative (*β*=-.012) association with ROE. This can be supported by the studies of Georgantopoulos and Filos (2017) and Ammari et al. (2014). Larger board size increases organizing and communication problems and creates detrimental effects on the financial performance of the companies (Jensen, 1993). As well as the larger boards may hinder the company’s ability to generate profits related to the equity of the company. Therefore, possible to review that the financial performance is negatively impacted by board size, and findings are supported by the H1.

CEO duality affects significantly (*p*=.000) and positively (*β*=.327) to the ROA. This result has been directed to counter the argument of resource dependency theory and suggest that the listed manufacturing companies have economic gains from having CEO duality as it minimizes the family ties by paying attention to the level of experience and qualifications when selecting the CEO for the company. Moreover, CEO duality leads to quicker and more focused decisions while improving asset efficiency. The results of this study are compatible with the findings of Wejethilake et al. (2015), especially in the Sri Lankan context, Vintila and Gherghina (2013) in the Indian context, and Ammari et al. (2014) in relation to French listed firms.

Similarly, CEO duality was significant (*p*=.000) and positively (*β*=.354) associated with ROE, confirming the practice of agency theory and confirming an opposing argument on resource dependency theory. Having CEO duality tends to make positive investment decisions and improve the financial position of the company. Many scholars provided supportive findings that are consistent with the findings of the present study with reference to the various industries and countries (Khan et al., 2021; Mansoor et al., 2019). Therefore, H2 is supported by the findings of the study.

As per this analysis of this study, independent non-executive directors show a significant (*p*=.005) positive impact on ROA (*β*=.018). These findings are compatible with the results of Jackling and Johl (2009) and Georgantopoulos and Filos (2017) as verified as the theory of agency. Appointing directors with suitable skills and experiences tends to improve the asset efficiency of the companies confirming the highest ROA for the company. Furthermore, the affiliation between independent non-executive directors and ROE shows entirely similar results when compared to the result between independent non-executive directors and ROA. This study shows there is a significant (*p*<.05) positive (*β*=.018) connection between IND and financial performance measured in terms of ROE compatible with the findings of Ammari et al. (2014) and Wejethilake et al. (2015). Therefore, H3 is supported by the findings of the study.

Nevertheless, firm size shows quite different results than the control variable of firm age as firm size does not affect financial performance at the .05 significant level quantified in terms of ROA, and along with the ROE, there is no significant impact of firm size inconsistent with the results of Ammari et al. (2014).

# Conclusion and Recommendations

Key findings of the study depict that when companies comply with the code of best practices related to the board, it tend to exhibit better performance of the firms as it helps to diminish the agency cost and helps to enhance the value for stakeholders.

According to some prior studies on board structure measured with respect to board size found that board size favorably responds to financial performance because the larger board supports making better decisions with diversified knowledge and skills. Some studies have argued that there has been a moderate impact of board size on financial performance as the actions of the boards lead to a variation in financial performance. Notwithstanding, the results of this study indicate an adverse affiliation between board size and financial performance. This may happen due to conflicts between board members and competition among them to outdo each other. Therefore, the objective of assessing the relationship between board size and financial performance is achieved. The independent non-executive directors’ act as monitors of the boardroom helps to increase the financial performance in compliance with the agency theory that rejects the opposite views of this as they lead the way to reduce agency costs. Therefore, the second objective of the study is achieved. Moreover, CEO duality reacted positively to financial performance as per this study. That explains the existence of CEO duality supports enhance the financial performance subjected to some conditions like family interventions for CEO duality and unqualified submissions for relevant positions. Such conditions may have an inverse and fruitless impact on financial performance by confirming the third objective of the study to assess the affiliation between CEO duality and financial performance.

Furthermore, the findings of this study are useful for many stakeholders such as managers, investors, shareholders, and further researchers. This gives direction for shareholders to elect the board of directors to the boardroom, For instance, board size and selection of independent non-executive directors to the board. Additionally, can reduce agency costs while mitigating the conflicts of interest between principal and agent. As well as board structure measured in terms of board size, the number of independent non-executive directors and CEO duality guides investors to seek long-term returns rather than short-term returns. Organizations that have larger boards tend to decrease in financial performance and containing a large number of independent non-executive directors pushes companies to better financial performance. Therefore, investors can make better decisions regarding their investments and returns for their investments. Moreover, this study provides guidance for government regulators to motivate all companies to adhere to the code of best practices on corporate governance in order to maintain better financial performance.

Finally, can draw a conclusion as there is the impact of board structure on the financial performance of manufacturing companies in Sri Lanka. Moreover, the findings offer practical insights into corporate governance practices, suggesting that optimizing board structures may lead to improved financial performance. As well as this study contributes to filling the knowledge gap while offering actionable insights for manufacturing companies in Sri Lanka, policymakers, and corporate governance practitioners. Further, this highlights the imperative phenomena of board structure in shaping the financial performance of the companies by considering the nature of the companies.

This study primarily considered only limited board structure measuring variables like the size of the board, the number of independent non-executive directors, and CEO duality. Therefore, the model of the study can be further developed using more variables and from that can get a better conclusion regarding this topic. Additionally, this study was based on the observations of listed manufacturing companies in Sri Lanka that have been selected using the simple random sampling technique. This can be further improved by using other listed companies in Sri Lanka that belong to diverse business categories.

# References

Abdullah, S. N. (2004). Board composition, CEO duality and performance among Malaysian listed companies, Corporate Governance. *The international journal of business in society, 4*(4), 47-61.

Akpan, E. O., & Amran, N. A. (2014). Board Characteristics and Company Performance. *Journal of Finance and Accounting, 2*(3), 81-89.

Ammari, A., Kadria, M., & Ellouze, A. (2014). Board Structure and Firm Performance: Evidence from French Firms Listed in SBF 120. *International Journal of Economics and Financial Issues, 4*(3), 580-590.

Berle, A. A., & Means, C. G. (1933). *The modern corporation and private property*: New York: Macmillan.

Central Bank of Sri Lanka. (2021). Annual Report 2021. National Output, Expenditure, Income and Employment. https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-reports/annual-report-2021

Chiu, C. M., & Wang, E. T. (2017). The impact of board independence on firm performance: Evidence from Taiwan. Corporate Governance: *An International Review*, 25(6), 439-453.

Donaldson, T., & Pereston, E. L. (1995). The Stakeholder Theory of the Corporation:Concepts,Evidence and Implications. *Academy of Management Review, 20*(1), 65-91.

Fama, E., & Jensen, M. (1983). Separation of Ownership and Control. *Journal of Law and Economics*(26), 301-325

Freeman, R. E. (1984). *A Stakeholder Approach*. Boston: Pitman Publishing Inc.

Fuzi, S.F.S., Halim, S.A.A., & Julizaerma, M.K. (2016). Board Independence and Firm Performance.*[Procedia Economics and Finance](https://www.sciencedirect.com/journal/procedia-economics-and-finance" \o "Go to Procedia Economics and Finance on ScienceDirect),* (37),460-465

Georgantopoulos, A. G., & Filos, I. (2017). Board Structure and Bank Performance: Evidence for the Greek Banking Industry during Crisis Period. International Journal of Economics and Financial Issues, 7(1), 56-67.

Guo, Z., & Kumara, U. K. (2012). *Corporate Governance and Firm Performance of Listed Firms in Sri Lanka.* Paper presented at the Procedia-Social and Behavioral Sciences

Helmich, L. D. (1980). Board Size Variation and Rates of Succession in the Corporate Presidency. *Journal of Business Research, 8*, 51-63.

Jackling, B., & Johl, S. (2009). Board Structure and Firm Performance: Evidence from India's Top Companies. *Corporate Governance: An International Review, 17*(4), 492-509.

James, P.C. (2020). Understanding the Impact of Board Structure on Firm Performance: A Comprehensive Literature Review. *International Journal of Business and Social Research,10(1).*

Jensen, C. M. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *The Journal of Finance, 48*(3), 831-880.

Kao, M. F., Hodgkinson, L., & Jaafar, A. (2019). Ownership structure, board of directors and firm performance: evidence from Taiwan. Corporate Governance: *The international journal of business in society*, 19(1), 189-216.

Kalainathan, K., & Vijayarani. (2014). *Corporate Governance Practices, Issues and Challenges in Sri Lanka.* Paper presented at the Proceedings of the Second International Conference on Global Business, Economics, Finance and Social Sciences, Chennai.

Khan, M. T., Al-Jabari, M. Q., & Saif, N. (2021). Dynamic Relationship Between Corporate Board Structure and Firm Performance: Evidence from Malaysia. *International Journal of Finance and Economics, 26*, 644-661.

Mansoor, M., Ellahi, N., Khan, Z., & Rahnman, M. CEO Power, Board Size and Firm Performance: Evidence from Pak, China, USA and India Banking Sector. *Journal of Managerial Sciences, 11*(3), 372-384.

Martin,C.J.G., & Herrero, B. (2018). Board of Directors: Composition and Effects on the Performance of the Firm. *Economic Research-Ekonomska Istrazivanja,* 31(1),1015-1041.

Meyer, E., & Wet, J. d. (2013). The Impact of Board Structure on the Financial Performance of Listed South African Companies. *Corporate Board: Role, Duties & Composition, 9*(3).

Mishra, A. K., Manogna, R. L., & Jain, S. (2022). Impact of board characteristics and ownership structure on firm performance: empirical evidence from India. *International Journal of Business Innovation and Research*, 28(2), 227-245.

Morin, A. R., & Jarrell, L. S. (2001). *Driving Shareholder Value: Value Building Techniques for Creating Shareholder Wealth*. McGraw-Hill.

OECD Committee. (1999). *OCED Principles of Corporate Governance*. Retrieved from Meeting of the OECD Council.

Othman, R., Ponirin, H., & Erlane, K. G. (2009). The Effect of Board Structure on Shareholders’ Wealth in Small Listed Companies in Malaysia *Management Science and Engineering, 3*(4), 1-15.

Pfeffer, J. (1973). Size, Composition, and Function of Hospital Board of Directors: A Study of Organization-Environment Linkage. *In: Administrative Science Quarterly, 18*, 349-364.

Rashid et al. (2010). Board Composition and Firm Performance: Evidence from Bangladesh. *Australian Accounting Business and Finance Journal, 4*(1), 34-49.

Senthuran, S., & Velnampy, T. (2015). Board structure and firm performance: A study of listed Commercial banks in Sri Lanka. *International Journal of Accounting & Business Finance*(1).

Sharma, S. (2013). Impact of Board Structure and Board Activity on Corporate Performance -A study of Indian companies. *Apeejay's International Journal of Commerce and Management*, 80-86.

Sumaira, J., & Mohi-ud-Din, S. (2016). The Role of Board of Directors in Corporate Governance. *Imperial Journal of Interdisciplinary Research (UIR), 2*(5).

Todorovic, I. (2013). Impact of Corporate Governance of Performance of Companies. *Montengrin Journal of Economics, 9*(2- Special Issue), 47-53.

Tricker, B. (2000). Editorial Corporate Governance- the subject whose time has come. *Corporate Governance: An International Review, 8*(4).

Uadiale, O. (2010). The Impact of Board Structure on Corporate Financial Performance in Nigeria. *International Journal of Business and Management, 5*(10).

Vakibashi, A., & Zamil, N. A. M. (2015). The Relationship between Corporate Social Responsibility and Financial Performance: A Literature Review. J*ournal of Advanced Review on Scientific Research*, 10(1), 34-43.

Velnampy, T., & Nimalthasan, P. (2013). Corporate Governance Practices, Capital Structure and their Impact on Firm Performance: A Study on Sri Lankan Listed Manufacturing Companies. *Research Journal of Finance and Accounting, 4*(18), 69-79.

Vintila, G., & Gherghina, C. S. (2013). Board of Directors Independence and Firm Value: Empirical Evidence Based on the Bucharest Stock Exchange Listed Companies. *International Journal of Economics and Financial Issues, 3*(4), 885-900.

Wellalage, N. H., & Locke, S. (2013). Corporate governance, board diversity and firm financial performance: new evidence from Sri Lanka. *International Journal of Business Governance and Ethics, 8*(2), 116-136.

Wijethilake et al. (2015). Board involvement in corporate performance: evidence from a developing country. *Journal of Accounting in Emerging Economies, 5*(3), 250-268.

Zahra, A. S., & Pearce, J. A. (1989). Boards of Directors and Corporate Financial Performance. *Journal of Management, 15*(2), 291-334.