

Board Composition and Its Effects on the Financial Performance of Listed Companies in Sri Lanka

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Abstract

Corporate governance mechanism gained considerable attention during past two decades as corporate scandals have taken place in the world. Some corporate failures in Sri Lanka made introduction to corporate governance mechanism and new Companies Act No. 7 of 2007 which replaced the old Companies Act No. 17 of 1982. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) Securities and Exchange Commission (SEC) issued corporate governance regulations and corporate governance regulations made mandatory for all listed companies in Sri Lanka for the financial year commencing on or after 01st April 2008.

This study focuses on four basic aspects of board composition that have been incorporated in recent reform of Codes of Best Practices: board size, CEO duality, gender diversity and independent directors in the board. The main objective of this study is to seek out the impact of board composition on the financial performance in listed companies. To get the efficient outcome, 50 companies were selected under ten GICS sectors in Colombo Stock Exchange (CSE) over 5 years from 2016 to 2021. Correlation and regression analysis utilized to find out the impacts of board structure on the financial performance. Moreover, this study is helpful for shareholders and policy makers to maximize the profit.

Key words: *Corporate Governance Mechanism, Board Composition, Return on Asset (ROA), Return On Equity (ROE)*