Impact of Board Structure on Financial Performance - Evidence from Commercial Banks in Sri Lanka

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Abstract

Good Corporate Governance Practices are regarded as important to reduce the risk for investors, attracting investment capital and improving the performance of companies. The boards of directors play a critical role in monitoring companies in Sri Lanka. Board structure is important in the commercial banks due to the nature of business and the effect of government regulations, both of which limit to managerial discretion.

Main objective of this study to find out the impact of board structure on financial performance. Further the study expects to identify how Board Size, Gender, CEO duality and number of non-executive directors' components are affecting to the Financial Performance. Financial Performance is measured by accounting base measurements such as Return on Assets (ROA) and Return on Equity (ROE).

The relationship between Board Structure and Firm Performances of Twenty-Four (24) Commercial Banks were considered as the sample of this study. The study conducted during the period of 2010-2020. All the data are collected from annual reports of each bank and data are analyzed by using Descriptive statistics, Pearson Correlation and Regression Analysis.

The results indicate that Boards Size and Number of Non-Executive Directors has a significant positive impact on Financial Performance. Conversely, CEO Duality and Female Directors do not have a significant impact on Financial Performance. Further results of the study add insights on the relation between monitoring mechanisms and financial performance of commercial banks in an emerging market.

Key words: *Board Structure, Financial Performance, Commercial Banks in Sri Lanka*