IMPACT OF BOARD COMPOSITION ON PROFITABILITY OF COMPANIES

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ABSTRACT

Good corporate governance practices are regarded as important in order to reduce the risk for investors, attracting investment capital and improving the 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. Therefore, this study examines the relationship between board composition and firm profitability for a sample of 50 listed Companies in the Colombo Stock Exchange from 2009 and 2013. All the data were collected from annual reports of each companies and data were analyzed by using Descriptive statistics, Pearson Correlation and Regression Analysis. Mainly three Corporate Governance components were used in this study, such as Non-Executive Directors Proportion (NED), CEO Duality (CED) and Board Size (BZ). Furthermore, the firm profitability is measured by accounting base measurements Return on assets.

According to the descriptive analysis, approximately the average board size is nine members on the board and normally, 70% of non executive directors proportion included in the board. In accordance to the regression analysis, it shows negative and significant relationship between board size and NED proportion on company profitability if the company is CEO Duality. And if the company is Non CEO Duality board size and non executive directors proportion have Positive and insignificant relationship with the profitability.

Key words: Board size, CEO Duality, Non-Executive Directors Proportion

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