IMPACT OF BOARD STRUCTURE ON PROFITABILITY

DISSANAYAKE MUDIYANSELAGE SACHI PRABHA MADUSHANI

2016

Abstract

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance is considered to have significant implications for the growth prospects of an economy. Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies. However, the way in which corporate governance is organized differs between countries, depending on their economic, political and social context.

Objective of this study was to identify the impact of board structure on profitability in Sri Lankan manufacturing companies. It investigates the composition of board of directors in Sri Lankan manufacturing companies and analyses whether board structure has an impact on profitability, as measured by return on assets (ROA) and return on equity (ROE). Literature in relation to board structure and profitability reported mixed results. In the conceptual framework corporate governance variables were Board Size, Board Independency, Director's Gender and CEO Duality taken as the independent variables and for the measurement of profitability Return on Assets and Return on Equity were taken as dependent variables. All the data were collected from annual reports of each companies for the period of 2011 to 2015. A sample of 33 manufacturing companies was selected for the study and data gathered from secondary sources. The data were analyzed with SPSS to obtain quantitative measures of descriptive statistics, Pearson's correlation and regression analysis.

The results indicate no relationship between board size, board independence with return on assets and return on equity. Director's gender shows significant weak negative relationship between return on assets. But it shows weak negative insignificant relationship between return on equity. In accordance to the regression analysis, there is no significant impact of independent variables, other than Director's Gender and CEO duality on return on assets. Also there is no significant impact of independent variables, other than CEO duality on return on equity.

TABLE OF CONTENTS

Chapter – 05 Data Presentation and Analysis

Chapter – 06 Discussions

Chapter- 07 Conclusion and Recommendations