



IMPACT OF BOARD STRUCTURE ON PROFITABILITY

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DISSANAYAKE MUDIYANSELAGE SACHI PRABHA MADUSHANI

1732



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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



Acknowledgement	I
Abstract	II
Table of Contents	III
List of Tables	VII
List of Figures	IX
Abbreviations	X

Chapter- 01 Introduction

1.1. Introduction	01
1.2. Background of the study	01
1.3. Problem Statement	04
1.4. Research Questions	04
1.5. Objectives of the study	05
1.6. Scope of the study	05
1.7. Significance of the study	06
1.8. Summary	07

Chapter -02 Literature Review

2.1. Introduction	08
2.2. Definition and Concept of Corporate Governance	08
2.3. Benefits of Corporate Governance	09
2.4. Theoretical Perspective	10
2.4.1. Agency Theory	11
2.4.2. Stewardship Theory	13
2.4.3. Stakeholder Theory	14

2.4.4. Integration of different theories	16
2.5. Corporate Governance Practices	17
2.6. Corporate Governance in Sri Lanka	17
2.7 Existing Corporate Governance Model of Sri Lanka	20
2.8 A comparison of impact of board structure on profitability in some illustrative studies	21
2.9 Board of Directors	24
2.9.1 Overview of Board of Directors	24
2.9.2 Role of the Board	25
2.9.3 Board Structure	26
2.10 Accounting Profitability Measurements	28
2.11 Summary	29

Chapter -03 Conceptualization and Operationalization

3.1 Introduction	30
3.2 Conceptualization	30
3.2.1 Independent Variables	31
3.2.2 Dependent Variables	33
3.3 Operationalization	34
3.4 Summary	36

Chapter - 04 Methodology

4.1. Introduction	37
4.2. Study Setting, Design and method of survey	37
4.3. Study population and Study sample	38
4.4. Method of Data collection	38
4.5. Hypothesis of the Study	39
4.6. Method of Data Presentation	39
4.7. Method of Measurements	40
4.8. Methods of Data Analysis and Evaluation	40
4.8.1 Univariate Analysis	40
4.8.1.1 Descriptive Statistics	40

4.8.2 Bivariate Analysis.....	41
4.8.2.1 Correlation Analysis.....	42
4.8.2.2 Simple regression Analysis.....	42
4.8.3 Multivariate Analysis.....	42
4.8.3.1 Multiple Regression Analysis.....	43
4.9 Summary.....	44

Chapter – 05 Data Presentation and Analysis

5.1 Introduction.....	45
5.2 Data Presentation.....	45
5.3 Descriptive Statistics.....	45
5.3.1 Descriptive analysis of board structure variables.....	45
5.3.2 Descriptive analysis of Return on Assets Ratio.....	47
5.3.3 Descriptive analysis of Return on Equity Ratio.....	48
5.4 Bivariate Analysis.....	49
5.4.1 Correlation Analysis.....	50
5.4.2 Simple Regression Analysis.....	52
5.5 Summary of Hypothesis Testing.....	65
5.6 Multiple Regression Analysis.....	65
5.6.1 Multiple Regression Analysis for Impact of Board Structure on ROA.....	66
5.6.2 Multiple Regression Analysis for Impact of Board Structure on ROE.....	68
5.7 Summary.....	68

Chapter – 06 Discussions

6.1. Introduction.....	69
6.2. Discussion on company profile.....	69
6.3 Discussion on Relationship between Board Structure and Profitability.....	69
6.3.1 Discussion on Relationship between Board Size and ROA.....	69
6.3.2 Discussion on Relationship between Board Size and ROE.....	70
6.3.3 Discussion on Relationship between Board Independ & ROA.....	71
6.3.4 Discussion on Relationship between Board Independ & ROE.....	71
6.3.5 Discussion on Relationship between Director's Gender and ROA.....	72

6.3.6 Discussion on Relationship between Director's Gender and ROE.....	72
6.4 Discussion on Impact of board structure on profitability.....	73
6.4.1 Discussion on Impact of board structure on return on assets.....	73
6.4.2 Discussion on Impact of board structure on return on equity.....	73
6.5 Summary.....	75

Chapter- 07 Conclusion and Recommendations

7.1. Introduction.....	76
7.2. Conclusion	76
7.3. Recommendations.....	77
7.4. Suggestions for Further Research.....	77
7.5. Summary.....	78
References.....	79
Appendix	87