MODERATING EFFECT OF CAPITAL STRUCTURE ON THE RELATIONSHIP BETWEEN BOARD CHARACTERISTICS AND FINANCIAL PERFORMANCE: EVIDENCE FROM SRI LANKA

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ABSTRACT

Extensive research has focused on the association between board characteristics and financial performance of listed companies. However, this method has produced inconclusive outcomes. This study analyzes the moderating impact of capital structure on the link between board characteristics and financial performance. The sample for this study comprises of 50 non-financial listed firms in Sri Lanka from 2020 to 2024. Return on Assets (ROA) measures financial performance, board size, independence, diversity, board characteristics, and capital structure measures the total debt-to-total assets ratio. The random-effects regression results indicate that board gender diversity negatively impacts financial performance, while board size and independence do not significantly affect financial performance. The presence of capital structure has little effect on the relationship between board size, board independence, and ROA. However, capital structure is found to substantially and positively moderate the relationship between board gender diversity and the financial performance of Sri Lankan companies. The findings facilitate the expansion of the existing literature and a broader theoretical framework by demonstrating the moderating effect of capital structure on the impact of board characteristics on the performance of Sri Lankan non-financial companies. In addition, the findings of this investigation are intended to assist the firm's managers, legislators, and regulators in understanding capital structure and board characteristics.

***Keywords*:** Board characteristics, capital structure, financial performance