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BOARD CHARACTERISTICS AND FIRM PERFORMANCE OF MATERIAL FIRMS IN SRI LANKA: THE MODERATING EFFECT OF MANAGERIAL OWNERSHIP STRUCTURE

Tharsika K^{1*} and Varanitha S²

¹ Department of Accounting, Faculty of Management Studies & Commerce, University of Jaffna, Sri Lanka
tharsik@univ.jfn.ac.lk

Abstract

Due to Sri Lanka's severe economic crisis, the majority of its businesses have recently struggled to achieve remarkable performance. Therefore, it is essential to comprehend the characteristics that support the performance of the corporate sector in the difficult business climate. Several research have examined the association between board characteristics and the performance of the firm, nevertheless, none of them have particularly explored the moderating impact of the managerial ownership structure of the material companies in this nexus. In light of this, this study examines how managerial ownership structure impacts the association between board characteristics and the performance of Sri Lankan listed material companies. Return on assets is utilised to evaluate the firm performance, while board characteristics include board size, independence, gender diversity, and CEO duality. This study selects eighteen listed material companies in Sri Lanka as the sample for the research, covering the period from 2018 to 2022, depending on the availability of data. Panel data regression was employed to assess the key findings. As per the result of Hausman test panel least squares method with the random effect model is favoured over the fixed effect model. The notable findings demonstrate that material companies' firm performance is significantly and negatively correlated with board size and independence. The gender diversity on boards significantly improves the firm performance. CEO duality, nevertheless, does not have an influence on the company's performance. The managerial ownership structure moderates the association between the size of the board and the financial success of material corporations. By moderating the impact of managerial ownership structure, other variables, however, are discovered to have insignificant effects on the firm performance. This research adds to the existing literature and theories such as agency theory, and stakeholder theory by providing new insights and shows the moderating role of ownership structure on the impact of board characteristics on the firm performance of Material companies. Further, this study's results are to support managers of the firm, legislators, and regulators in determining the characteristics of the board and the ownership structure of the business.

Keywords: Board characteristics, firm performance, material firms, moderating effect, ownership structure