

Impact of Board Structure Characteristics on the Earnings Quality: Evidence from Licensed Commercial Banks Listed in Colombo Stock Exchange

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Abstract: The issues with board structure characteristics have probably been identified as the most significant one among all the financial management issues. The Board Structure always aids a business concern in gaining Earnings Quality, Vitality, and Life Strength, which explains why. An effective Board Structure is anticipated to have a positive impact on the development of Earnings Quality. The impact of board structure characteristics on the earnings quality of commercial banks in Sri Lanka is the main topic of this study. Ten licensed commercial banks that are listed on the Colombo Stock Exchange in Sri Lanka were the subject of the study, which used the years 2015 to 2021 as its sample period. The balance sheet method was used to gauge the quality of the earnings. Board Size, Board Composition, and Board Meeting have been chosen by the study as being representative of the board structure characteristics. Firm Size, Profitability, and Liquidity are the study's-controlled variables. The study used descriptive and multiple regression analysis to examine the association between the variables of the two financial aspects of the selected Licensed Commercial Banks Listed in the Colombo Stock Exchange's Annual Reports. The results reveal that Board Meeting has a positive and significant impact on the Earnings Quality of Licensed Commercial Banks While Board Size and Board Composition have no significant impact on the Earnings Quality of Licensed Commercial Banks. Among the selected controlling variables, Profitability has a significant and positive impact on the Earnings Quality of Licensed Commercial Banks while firm size and liquidity have no significant impact on the Earning Quality of Licensed Commercial Banks.

Keywords: *Earning Quality; Board Structure Characteristics; Commercial Bank*

Received: 25/08/2023
Revised: 07/03/2024
Accepted: 18/03/2024
Published: 10/10/2024

1. INTRODUCTION

The significance of soundboard structure procedures and structures has been reaffirmed by the current global financial crisis. The importance of board structure in improving earnings quality and sustainability. As the focal point of the company's internal governance, the board structure is a key factor in the field of corporate governance. Because every strategic level decision made by the board of a company can have an impact on all business operations, the overall behavior of the organization can vary with changes to the board structure (Arosa et al., 2010). According to the handbook of nonprofit governance, an effective structure enables the board and employees to apply their expertise cooperatively to carry out the purpose when it is in line with the strategic priorities of a company. As a result, it is covered in the first section of the Sri Lankan "Code of best practice on corporate governance". It says that every public company should be headed by an effective board, which should direct, lead, and control the company.

Due to poor corporate governance standards and accounting fraud, several global corporations, including Enron, WorldCom, Nortel, Parmalat, and Tyco, experienced corporate failure (Sorensen and Miller, 2017). Large companies like Pramuka Savings, Development Bank, Golden Key Credit Card Company, Vimukthi Corporation, and Lanka Marine Services Ltd. fell due to subpar corporate governance processes (Edirisinghe, 2015; Senarathne and Gunarathne, 2008). Sri Lanka is also prone to such corporate collapses. In both developed and emerging nations, there has been a lot of research on board structure traits and earnings quality in particular. However, there hasn't been any investigation into how Sri Lankan corporate governance factors affect the caliber of earnings. One of the empirical patterns observed in research on non-bank board structure was inversely correlated with the quality of earnings (Hermalin and Weisbach 2003; P.yermack 1996). However, if the estimating technique fails to adequately address the endogeneity problem in the explanatory variables, such as board structure variables, such findings may be called into question (Adams, Hermalin, and Weisbach, 2009). The impact of board structure on earnings quality may therefore be more obvious in the banking industry. The existing research on the relationship between bank board structure and earnings quality is still contradictory, and inconclusive, and needs to be clarified, making the study of board structure of commercial banks in Sri Lanka and their worth even more crucial.

To prevent management opportunism, the board structure's duties for overseeing managers' actions make sure that those actions are in line with shareholders' interests (fame and Jensen, 1983). There has been a lot of research into the value relevance of an effective board structure as a result of the key roles of the board structure as a crucial component of sound corporate governance systems. An important factor in a company's operation is the board structure. It is tasked with monitoring and supervising the company's resources and operations while also overseeing top executives. To protect the bank, its depositors, and shareholders, the board structure ensures and maintains a continuous commitment to the establishment and implementation of sound corporate governance principles, reviewing and updating the structures by the changing internal and external environments and best market practices currently in effect in Sri Lanka. The characteristics of the board structure, including board size, board meetings, board composition, and earnings quality, are the independent variables in this study, while firm size, profitability, and liquidity are the control variables. Therefore, this study completely covered the aforementioned variables in licensed commercial banks listed on the CSE and looked at the impact of board structure characteristics on earnings quality.

1.1 Statement of Research Problem

Every organization in existence today has a board structure. Consequently, the profit quality is undoubtedly impacted. Many organizations heavily rely on board decisions to steer or successfully create organizational activity. However, the board structure ought to have an impact on the caliber of the revenues. Although earlier studies have demonstrated a link between board composition and profit quality, it has been far less clear how this relationship came about and what routes and mechanisms underlie these associations. As a result, we are aware of the correlation between board structure and profit quality, but the causal effect has not yet been proven. However, the board structure plays a crucial role in governance in every organization and aids in making better decisions and efficiently and effectively overseeing all management operations and duties.

Banks in Sri Lanka were spared the immediate effects of the global banking crisis, but not the economic fallout. Even if there have been recent examples of sizable institutional losses and non-bank financial institution failures that were made worse by the spread of mainstream banks, the issues are domestic in nature. These have been restrained, maintaining the stability of the financial system. However, continued stability cannot be taken for granted, and given the altered environment our banking system now finds itself in, a new and welcome set of challenges stemming from post-conflict economic potential exists. This topic has been the subject of numerous discussions, and some people see the issue as one of governance. Numerous studies have been done in response to these problems to determine how corporate board structure and profitability quality are related. The board structure, however, has a contradictory relationship with the company's earnings quality, according to the numerous qualities. This has led to the creation of a study project to determine the relationship between board structure and earnings quality of particular licensed commercial banks listed on the Colombo Stock Exchange.

1.2 Research Questions

Based on the research problem and findings of past research and through a literature review, the following research questions are formulated.

- i. What are the board structure characteristics more influential on the earnings quality of licensed commercial banks listed in the Colombo stock exchange?
- ii. To What extent do board structure characteristics impact on earnings quality of licensed commercial banks listed in the Colombo stock exchange?
- iii. What kind of impact of board structure characteristics have on the earnings quality of licensed commercial banks listed in the Colombo stock exchange?

1.3 Objectives of the Study

This study provides an analysis of the impact of board structure characteristics on earnings quality. The objective of the study is three-fold as indicated below

- i. To find out what board structure characteristics more influence on earnings quality of licensed commercial banks listed in the Colombo stock exchange.
- ii. To find out what extent board structure characteristics impact on earnings quality of licensed commercial banks listed in the Colombo stock exchange.

- iii. To investigate what kind of impact of board structure characteristics on the earnings quality of licensed commercial banks listed in the Colombo stock exchange.

2. LITERATURE REVIEW

2.1 Earnings Quality

Earnings quality refers to how well reported earnings reflect a company's economic reality. It is also defined as decision-usefulness and economic basis. Earnings quality is excellent if the reported earnings are useful for making decisions, according to the decision-usefulness perspective (Khairul and Wan 2014). Although real earnings are an impartial and context-free metric, they are unobservable and challenging to assess as income (economic income) (Khairul and Wan 2014). They concluded that the greater the quality of earnings, the more accurately and promptly reported earnings reflect shocks in the current value of anticipated future payouts. Thus, certain earnings quality's predictive ability, smoothness, conservatism, value-relevance, timeliness, earnings management or manipulation, accrual quality, and persistence or sustainability are used by researchers to define earnings quality (Hassan et al., 2020; Uemura, 2020; Lestari and Hanifah, 2020; Worokinasih and Zaini 2020). However, several academics and researchers concur those earnings with a high degree of consistency, predictability, lower volatility, timing, less earnings management, and higher accrual quality are considered to be of highly unusual quality (Khairul and Wan 2014).

2.2 Corporate Governance

The foundation for contemporary organizations was created in the 19th Century, the century of the entrepreneur, according to King Report (2002) Corporate Governance. As the century of management, the 20th century. As attention shifts to the legitimacy and efficiency of the use of power over corporate entities globally, the twenty-first century looks to be a century of governance. Because the subject's bounds are always increasing, corporate governance is difficult to define (Roche 2005). Definitions change depending on the environment, the cultural circumstances, and the viewpoints of other academics (Armstrong and Sweeney 2002). Some research schools contend that a firm must maximize the wealth of its shareholders (Friedman 1970; Sundaram and Inkpen 2004), while other research schools contend that a firm has a duty to all stakeholders, whose contributions are essential to the success of the firm (Donaldson 1983; Freeman 1984). Although the themes are similar, each firm uses corporate governance differently in practice, despite the similarities. Long-term value creation is the primary goal of public firms, and it is accomplished through corporate governance frameworks. Both value generation and value protection apply to this task. While the value protection goal concentrates on accountability for the management and monitoring of a company to protect the interests of both shareholders and stakeholders, the focus of value creation is on shareholders through the development of long-term strategies for sustainable performance (Rezaee 2009). The definitions that follow reflect the aforementioned schools of thinking. Due to fundamental differences in how the values and objectives of the firms are interpreted, a focus on shareholder returns or serving a wider stakeholder interest has emerged, with the ultimate goal of business being more socially and environmentally sustainable (Clarke 2007). Therefore, "balancing complex interests in the pursuit of value creation for the benefit of a wide constituency" is part of Clarke's (2007) definition of corporate governance. Corporate governance is described by Rezaee (2009) as "a process by which shareholders induce management to act in their interest, providing a level of confidence that is necessary for the functioning of capital markets."

2.3 Board Structure

To represent the interests of shareholders, the board of directors acts in the capacity of a trustee of shareholders. It can lessen agency issues by keeping an eye on the management group. The board of directors, according to Molz's definition from 2007, is "a body entrusted with the power to make economic decisions affecting the well-being of investors' capital, employees' security, communities' economic health, and executives' power and perquisites." Corporate charts are used in different locations to control the specific duties of the board of directors. The chief duties of the board of directors, according to Kim and Nofsinger (2007), are to hire, assess, and possibly even fire top management, with the CEO's position being the most crucial to take into account, vote on significant financial and operational proposals, provide management with expert advice, and ensure that the firm's operations and financial condition are accurately reported to its shareholders.

2.4 Board Size

The Board represents the highest level of management inside a company and bears the heavy duty of overseeing its operations. Corporate boards are tasked with overseeing the content and accuracy of financial statements as well as the actions and conduct of senior managers inside their firms (Okougbo and Okike, 2015). Since the number and caliber of directors affect a company's performance on the corporate level, determining the optimal board size for an organization is crucial. The underlying economics of this is that as board size grows, it will eventually reach a point of diminishing returns at which there will be adverse effects on the board's operation, such as when communication and coordination become a laborious and time-consuming process for the numerous directors on a large board (Liu and Fong, 2010). There is currently no acknowledged international benchmark for the maximum number of directors that a company may have. Five to nineteen directors may serve on a board of directors by Chinese corporate law (Liu and Fong, 2010). Lawal (2012), however, advocated for a board with a minimum of seven and a maximum of nine members. Yuanto (2003) also advocated for a five-member board. Yammeesri and Herath (2010) provided more support for this, arguing that a board of directors can function effectively with no more than seven or eight members. Some practitioners and academics have a strong belief that the board size of a company depends on several variables, including the firm's age, size, and industry (Lawal, 2012).

2.5 Board Composition

Board composition is the ratio of non-executive directors to executive directors on the board. Inside directors known as executive directors are actively involved in the day-to-day operations of the company. On the other hand, independent outside directors are those who offer the desired outside perspective in ensuring that the interests of the shareholders are protected (Lawal, 2012). According to Tricker (2009), a director who works for a company full-time is considered to be an inside director, whereas a director whose primary job is elsewhere is considered to be an outside director. Osma and Belen (2007) investigated how board composition and the presence of board monitoring committees affected the ability of Spanish quoted businesses to manage their earnings over the years 1999 to 2001. The findings indicate that the board's composition strongly influences earnings manipulation. Independent directors don't play as big of a part in limiting these behaviors as institutional directors do. According to certain data, the performance of the company and board independence are negatively correlated. According to Linck (2008), companies with strong growth potential, high RandD spending, and significant stock return volatility should have smaller, less independent boards. Larger boards with more independent directors,

however, are more common in large companies. They also point out that when it is simpler for insiders to obtain private perks or when the CEO has more sway over the board, corporations tend to have more independent directors on their boards. For all the companies included in the Canadian TSE 300 composite index, McIntyre (2007) examined the relationship between critical board compositional characteristics and company performance. The average quantity of outside board was shown to be negatively correlated with business success in this study's findings.

2.6 Board Meeting

A good indicator of a board's diligence is how frequently they meet. In general, more frequent board meetings help oversee management and better defend the interests of shareholders. If the situation calls for extensive board input and oversight, boards should be prepared to hold more frequent meetings (Shivdasani and Zenner, 2004). Previous findings (Ho, 2009) suggested that stronger governance was associated with more board meetings. Therefore, more frequent board meetings are regarded in this thesis as a sign of strong governance.

2.7 Empirical Evidence

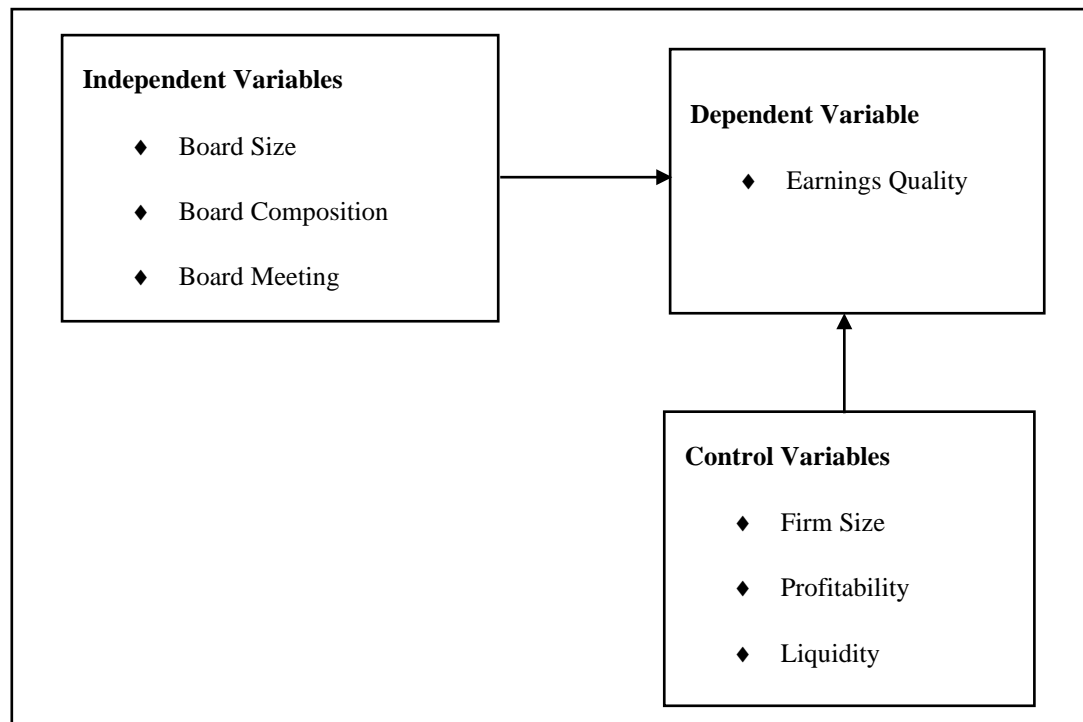
Between 1984 and 1991, Yermack (1996) examined a sample of 452 significant U.S. industrial businesses and discovered a constant inverse association between board size and company value. This relationship persisted even after regression analyses were conducted using a variety of models, including fixed effects, random effects, and OLS estimates. The negative link held even when Tobin's Q, which represents firm value, was replaced with alternative proxies including return on assets, return on sales, and sales/assets. Gao and Ma (2002) obtained a result of an insignificant correlation between board composition and firm performance by examining their correlation with a sample composed of 1018 listed companies in the Shanghai Stock Exchange and Shenzhen Stock Exchange in the year 2001. Increased representation of independent outside directors on the board is advised by the Blue Ribbon Panel, an independent private sector organization that oversees the SEC Practice Section of the American Institute of Certified Public Accountants' self-regulatory programs. Outside directors typically have experience working for another corporation or investment bank, which increases their financial know-how and aids in effective monitoring. El-Sayed Ebaid (2013) evaluated the corporate governance practices supported by an Egyptian code of corporate governance and discovered that they were successful in raising investors' perceptions of the quality of earnings in connection to corporate governance and earnings quality. The audit committee and the board of directors were the corporate governance structures taken into consideration in this study. The study found that when the board of directors and/or audit committee were strong, investors' decisions depended excessively on the earning quality. Because corporate governance in Egypt improves the caliber of the financial reporting process, this has an impact on investors' decisions. This study recognized the value of corporate governance practices in raising the standard of financial reporting. Li and Zhao (2000) took 91 listed businesses from the Shanghai Stock Exchange and the Shenzhen Stock Exchange and randomly selected them as samples for the years 1998 and 1999. They made the premise that when the percentage of inside directors is either too high or too low, it may have a negative impact on the firm's performance; only when the percentage of inside directors is appropriate would it have a positive impact. When choosing ROA and ROE as the indicators of firm performance, based on the findings of a regression analysis, the results did not confirm their hypothesis because they did not discover any correlation. Osma and Belen (2007) investigated how board structure and the presence of board monitoring committees affected the quality of earnings for a sample of listed companies in Spain from 1999 to 2001. Results

indicate that board composition has a considerable impact on earnings manipulation. However, institutional directors—rather than independent directors—play a larger part in controlling these activities. Park and Shin (2004) studied the impact of board composition on the caliber of Canadian earnings. Results showed that, in contrast to outside directors, directors from financial intermediaries first diminish profits quality practice before further reducing it with board involvement from active institutional shareholders. Peasnell (2005) looked at the connection between the frequency of high-quality earnings reported by UK companies and board oversight. The function of outside board members and the audit committee are two components of board monitoring that he takes into account. The likelihood of managers reporting income growing irregular accruals is discovered to be inversely correlated with the number of outsiders on the board. Furthermore, when pre-managed earnings are substantial, the impact of outside directors on income is minimal, limiting anomalous accruals. Additionally, they discovered that the existence of an audit committee had no real impact on how much revenue manipulation is done. Furthermore, the degree of earnings manipulation to the downside is not directly impacted by audit committees. Qu (2007) selected 126 listed companies from the Shanghai Stock Exchange and examined the correlation between board size and firm performance in the year 2003. This study found an “inverse U” shape relation between the number of directors on the board and firm performance. The range of board size in this sample is within 5-20 directors on board, and the result proved that the firms that have 9-11 directors on board are performing better than others. Reyad (2013) investigated the relationship between the level of earnings quality in Egypt and the effectiveness of external auditing as a tool of corporate governance. Additionally, he looked at the characteristics of auditing quality as an independent variable and discovered a negative relationship between the client's retention time and earnings quality as well as a statistically significant relationship between the client's industry specialty, foreign audit companies, and the auditors' credentials. Zhang (2005) examined, using a sample of 5284 locally owned Chinese businesses that had been privatized between the years of 1991 and 2001, the relationship between ownership structure and company value. According to this study, foreign ownership is significantly favorably correlated with Tobin's Q whereas state ownership is significantly correlated adversely with it. Additionally, it discovered the outcomes of convex relationships between institutional shares and Tobin's Q and state ownership. Ke and Isaac (2007) used information from all the listed real estate companies on the Chinese stock market between the years 2000 and 2002 to analyze the relationship between ownership structure and firm performance. They discovered a strong correlation between business performance and ownership concentration. A positive link between Tobin's Q and ownership concentration was also discovered by Sun and Huang in 1999.

3. METHODOLOGY

3.1 Conceptual Framework

The goal of this study is to look into how board structure traits affect the profitability of commercial banks with licenses that are listed on the Colombo Stock Exchange. The researcher created a conceptual framework.

Figure 1:*Conceptual Framework*

Source – Compiled by Author

3.1.1 Independent variable

An experiment's independent variable has been purposefully altered so that its impact on the dependent variable may be studied. Board Size, Board Composition, and Board Meeting are used in this study as independent variables.

3.1.2 Dependent variable

A dependent variable is one whose value is based on the values that the independent variable is assuming. Earnings Quality is the dependent variable in this study.

3.1.3 Control variable

The experimental component that remains constant and unaltered during the duration of the study is known as the control variable (or scientific constant) in scientific experimentation. Firm size, profitability, and liquidity are used in this study as control variables.

3.2 Definition of key concepts

3.2.1 Board Size

Board size is the total number of directors, including the CEO and chairman, that sit on the board of each sample company for a given accounting year. Outside directors, executive directors, and non-executive directors will all be included. The number of board members is used to measure it.

$$\text{Board Size} = \text{Total Number of Members on the Board}$$

3.2.2 Board Composition

Board composition is the ratio of non-executive directors to executive directors on the board. Inside directors known as executive directors are actively involved in the day-to-day operations of the company. On the other hand, independent outside directors are those who offer the desired outside perspective in guaranteeing that the interests of the shareholders are protected. By dividing the number of independent directors by the total number of directors, it can be calculated.

$$\text{Board Composition} = \frac{\text{Number of Independent Directors}}{\text{Number of Total Directors}}$$

3.2.3 Board Meeting

A formal gathering of an organization's board of directors. It is determined by the total number of annual formal board meetings.

$$\text{Board Meeting} = \text{Total Number of Formal Board Meetings}$$

3.2.4 Earnings Quality

The difference between the company's average net operating assets over the previous two years and the change in net operating assets over the prior year is what we refer to as balance sheet accruals. The formula for calculating net operating assets is (total assets - cash) - (total liabilities - total debt).

$$\text{Earnings Quality} = \frac{NOA_t - NOA_{t-1}}{\frac{(NOA_t + NOA_{t-1})}{2}}$$

3.2.5 Firm Size

Firm Size refers to the size of the business and is calculated using the nature log (ln) of all assets.

$$\text{Firm Size} = \text{Natural Logarithm of Total Assets}$$

3.2.6 Profitability

The chosen sample listed banks' profitability is measured by return on equity, and this study focuses particularly on the connection between institutional investors' ownership and firm profitability for those banks. It is the percentage of Total Equity that Net Income is returned as.

$$\text{Return on Equity} = \frac{\text{Profit after tax}}{\text{Total Equity}}$$

3.2.7 Liquidity

The term "liquidity" describes how quickly and easily a security or asset can be turned into cash without depreciating. The current ratio is used to gauge the liquidity of the selected bank. It is the ratio of a company's current assets to its current liabilities over a specific period.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

3.3 Hypothesis

To determine the effects of board structure traits on the profit quality of licensed commercial banks listed on the Colombo Stock Exchange, this study is based on the following hypothesis. There could be several hypotheses. The following claim will be examined.

H₁: There is an impact of board size on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.

H₂: There is an impact of board composition on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.

H₃: There is an impact of the board meetings on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.

3.4 Sample Selection and Data Collection

3.4.1 Population and Sample Size

The population of this study is based on the banking industry's population of Licensed Commercial Banks Listed in the Colombo Stock Exchange in Sri Lanka. In Sri Lanka, there are 25 commercial banks with licenses, including 12 foreign banks and 13 local ones. Except for the People's Bank and the Bank of Ceylon, 13 domestic regulated banks are listed. There are no Cargills Bank data accessible among the domestic listed banks. As a result, the sample size for the years 2015–2021 is 10.

3.4.2 Data Collection

The study solely relies on secondary information. The secondary data are gathered from the commercial banks' annual reports for the years 2015 through 2021.

3.4.3 Model Specification

This study has used the SPSS Statistics Software Package to investigate the objective of this study. The following multiple regression model is used in this study.

$$EQ_{i,t} = \beta_0 + \beta_1 (BS_{i,t}) + \beta_2 (BCOM_{i,t}) + \beta_3 (BM_{i,t}) + \beta_4 (FS_{i,t}) + \beta_5 (ROE_{i,t}) + \beta_6 (CR_{i,t}) + \varepsilon$$

Where,

$EQ_{i,t}$ = Earnings Quality of company i for the period t

$BS_{i,t}$ = Board Size of the company i for the period t.

$BCOM_{i,t}$ = Board Composition of the company i for the period t.

$BM_{i,t}$ = Board Meeting of the company i for the period t.

$FS_{i,t}$ = Firm Size of company i for the period t.

$ROE_{i,t}$ = Return On Equity of company i for the period t.

$CR_{i,t}$ = Current Ratio of the company i for the period t.

β_0 = the constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ = the coefficients for independent variables

ε = the error term

4. DATA PRESENTATION AND ANALYSIS

4.1 Descriptive Statistical Analysis

The fundamental characteristics of the data in a study are described using descriptive statistics. Through specific figures like mean, median, etc., they offer straightforward explanations about the sample and the measures. To

have a good understanding of all the variables, a descriptive statistics table created using SPSS 20.0 is shown. The data's descriptive statistics are shown in Table 1 and include minimum, maximum, mean, and standard deviation values.

Table 1:

Results of Descriptive Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
EQ	70	-1.98	2.64	.1477	.48537
BS	70	9.01	15.01	11.8605	1.44297
BCOM	70	.24	.86	.5129	.16116
BM	70	12.02	21.01	14.4008	2.25878
FS	70	19.35	27.96	25.8476	2.30764
ROE	70	.01	.18	.1108	.05256
CR	70	.54	1.45	.8385	.19655
Valid N (listwise)	70				

For the selected 10 licensed commercial banks listed in the Colombo Stock Exchange for a period of 7 years from 2015 to 2021, the summary of descriptive statistics for the dependent, independent, and control variables is shown above in Table 1 along with a total of 70 observations. Earnings Quality, the study's dependent variable, is represented by EQ. EQ has a mean value of 0.1477, a maximum value of 2.64, and a lowest value of -1.98, respectively. It has a 0.48537 standard deviation. Board Size is denoted by BS. BS has an average value of 11.8605. 15.01, 9.01, and 1.44297 are the maximum, lowest, and standard deviation, respectively. The following variable, BCOM, stands for board composition. BCOM has a mean value of 0.5129, a maximum value of 0.86, and a minimum value of 0.24, respectively. It has a 0.16116 standard deviation. BM is the final independent variable. Board Meeting is symbolized by BM. BM has a mean value of 14.4008. It has values of 21, 01, 12, 02, and 2.25878 for its maximum, minimum, and standard deviation, respectively. Three factors are in control in this investigation. FS, or Firm Size, is the initial controlling variable. The standard deviation of FS is 2.30763 and its mean is 25.8473. Its values range from 19.35 to 27.96, respectively. Return on equity, or ROE, is the second governing factor. The maximum ROE value is 0.18, with a mean of 0.1108. It has a minimum value of 0.01 and a standard deviation of 0.5256. The current ratio (CR) is the final governing factor. CR has an average value of 0.8385. The range's maximum, lowest, and standard deviation are, respectively, 1.45, 0.54, and 0.19655.

4.2 Correlation Analysis

In that it examines relationships between variables, correlation analysis is related. A correlation coefficient (r), which has a possible range of -1 to +1, can be used to calculate the correlation between two variables. Correlation analysis was used to determine the significant link between the variables. The results of the correlation coefficient of the study's variables are displayed in Table 2.

Table 2:*Results of Correlation Analysis*

		EQ	BS	BCOM	BM	FS	ROE	CR
EQ	Pearson Correlation	1	.063	-.014	.268	.062	.227	.011
	Sig. (2-tailed)		.669	.932	.062	.676	.115	.943
	N	70	70	70	70	70	70	70
BS	Pearson Correlation	.063	1	-.099	.175	.230	.070	-.176
	Sig. (2-tailed)	.669		.501	.228	.110	.637	.226
	N	70	70	70	70	70	70	70
BCOM	Pearson Correlation	-.014	-.099	1	.402**	-.326*	.081	.248
	Sig. (2-tailed)	.932	.501		.005	.022	.582	.085
	N	50	50	50	50	50	50	50
BM	Pearson Correlation	.268	.175	.402**	1	.360*	.384**	-.350*
	Sig. (2-tailed)	.062	.228	.005		.011	.007	.014
	N	70	70	70	70	70	70	70
FS	Pearson Correlation	.062	.230	-.326*	.360*	1	.477**	-.726**
	Sig. (2-tailed)	.676	.110	.022	.011		.001	.001
	N	70	70	70	70	70	70	70
ROE	Pearson Correlation	.227	.070	.081	.384**	.477**	1	-.570**
	Sig. (2-tailed)	.115	.637	.582	.007	.001		.001
	N	70	70	70	70	70	70	70
CR	Pearson Correlation	.011	-.176	.248	-.350*	-.726**	-.570**	1
	Sig. (2-tailed)	.943	.226	.085	.014	.001	.001	
	N	70	70	70	70	70	70	70

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 2 displays the correlation analysis findings. Here, I have first tested for multicollinearity between the study's dependent and independent variables. Multicollinearity is considered to be present when there is a strong correlation between two variables. According to a general rule of thumb, multicollinearity may cause major issues if the pair-wise correlation between two regressors is extremely high, over 0.85. There is no multicollinearity issue in the data set, as shown by Table 2 where the correlation coefficient between the dependent and independent variables is less than 0.85. Therefore, it may be deduced statistically that the model is suitable for future investigation. The maximum positive link between board meetings (BM) and earnings quality (EQ) is indicated by the Pearson correlation coefficient of 0.268. It implies that the board meeting will increase by 0.268 whenever the earnings quality increases by 1 degree. The Pearson correlation coefficient of earnings quality (EQ) and board composition (BCOM) is -0.014, indicating the least negative correlation between EQ and BCOM, when looking at the relationship between these two variables. It indicates that the board composition will change by 0.014 when the earnings quality increases by 1 degree. The association between earnings quality and all other factors, including board size (BS), firm size (FS), return on equity (ROE), and current ratio (CR), is favorable. Their respective Pearson correlation coefficients are 0.063, 0.062, 0.227, and 0.011.

4.3 Multiple Regression Analysis

This statistical approach is used to assess the correlation between multiple independent variables and a single dependent variable. Results from the multiple regression analysis used to assess the association between earnings quality and its determinants (BS, BCOM, BM, FS, ROE, and CR) are shown in this section. Table 3 summarizes the regression's findings.

4.3.1 Model Summary of Multiple Regression Analysis

Table 3:

Results of Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.444 ^a	.198	.085	.46437
Predictors: (Constant), BS, BCOM, BM, FS, ROE, CR				

The overall model overview of this investigation is shown in Table 3. That suggests that R is a composite correlation coefficient that illustrates the link between the variables under examination. R is regarded as one metric for the accuracy of the dependent variable's prediction. R is 0.444, according to this study. Thus, it is possible to conclude that Earnings quality and its determinants (BS, BCOM, BM, FS, ROE, and CR) have a positive linear link. The coefficient of determination, or R square (R²), indicates how much the independent variables' changes have affected the dependent variable's variance. R² is the percentage of the dependent variable's variance that the independent variables can account for. The R square value of 0.198 indicated that variation in all chosen independent variables accounted for 19.8% of the variance in earnings quality. Other variables are responsible for the remaining 80.2% of the earnings quality variance. The adjusted R square value is 0.085, which indicates that variance in all selected independent variables, corrected for the number of independent variables utilized and sample size, accounts for 8.5% of the variation in earnings quality. These coefficients' statistical analysis revealed that the three independent variables (BS, BCOM, and BM) that were chosen had a smaller impact on the quality of earnings than other independent variables.

4.3.2 Results of Coefficients of Multiple Regression Analysis

The following table presents the regression analysis between the Board Structure Characteristics and Earnings Quality.

Table 4:

Results of Multiple Regression Analysis

Coefficients ^a					
Model	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
	B		Beta		
(Constant)	-1.279	1.540		-.832	.412
BS	.007	.050	.020	.133	.896
BCOM	-1.017	.559	-.338	-1.822	.077
1 BM	.094	.041	.434	2.328	.026
FS	-.023	.047	-.108	-.487	.631
ROE	3.193	1.631	.348	1.981	.042
CR	.908	.539	.368	1.686	.100

a. Dependent Variable: EQ

Based on Table 4, the Multiple regression equation models:

$$EQ = -1.279 + 0.007(BS) - 1.017(BCOM) + 0.094(BM) - 0.023(FS) + 3.192(ROE) + 0.908(CR) + e$$

H₁: There is a significant impact of board size on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange. The multiple regression analysis determined that Board Size (BS) has a beta coefficient of 0.020. This coefficient demonstrated a favorable association between board size (BS) and earnings quality (EQ). Board size (BS) has an insignificant effect on earnings quality (EQ), according to the T statistic of 0.133 and a significant value of 0.896. This finding explains the weakly positive link between Board Size (BS) and Earnings Quality (EQ).

H₂: There is a significant impact of board composition on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange. Board Composition's (BCOM) beta coefficient is -0.338. This coefficient demonstrated a negative association between board composition and earnings quality (EQ). The T statistic is -1.822, and the significant value is 0.077, indicating that the effect of board composition (BCOM) on earnings quality (EQ) is negligible. This finding explains the somewhat negative association between Board Composition (BCOM) and Earnings Quality (EQ).

H₃: There is a significant impact of the board meeting on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange. Board Meeting's (BM) beta coefficient is 0.434. This coefficient demonstrated the positive link between board meetings (BM) and earnings quality (EQ). The board meeting (BM) has a significant effect on earnings quality (EQ) at 5%, according to the T statistic and significant value, which are 2.328 and 0.026, respectively. This finding explains the considerable positive link between Board Meeting (BM) and Earnings Quality (EQ).

Firm size (FS), profitability (ROE), and liquidity (CR) are the other chosen regulating variables in addition to the characteristics of the board structure. Profitability (ROE), one of these regulating variables, has a considerable and favorable impact on earnings quality with a significant 5%.

Multiple regression analysis has shown that high profitability (ROE) and board meetings (BM) in any size organization have a considerable, favorable impact on the earnings quality of licensed commercial banks listed on the Colombo Stock Exchange.

4.4 Hypothesis Testing

It is possible to test the hypothesis using this statistical model. In this part, regression coefficient models will essentially be used to test hypotheses. Since there were multiple independent variables in this study, the coefficient of regression analysis was employed to conclude.

Table 5:

Results of Hypothesis Testing

	Hypothesis	Calculated Significant Value	Accept/Reject	Tool
H ₁	There is an impact of board size on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.	.896	Reject	Multiple Regression Analysis
H ₂	There is an impact of board composition on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.	.077	Reject	Multiple Regression Analysis
H ₃	There is an impact of the board meetings on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.	.026	Accept	Multiple Regression Analysis

5. FINDINGS AND RECOMMENDATIONS

5.1 Key Findings

This study looks at how board structure traits affect the quality of earnings using data from registered commercial banks listed on the Colombo Stock Exchange. These aspects of the board structure must be considered and examined independently. This study used a sample of licensed commercial banks listed on the Colombo Stock Exchange to experimentally investigate the association between the characteristics of the board structure and profits quality. To examine the relationship between the characteristics of the board structure and the profit quality, the Pearson correlation coefficient and multiple regression parameters were generated. The results of this investigation agree with those of earlier ones. Earnings Quality (EQ) has a favorable link with Board Size (BS), Board Meetings (BM), Firm Size (FS), Profitability (ROE), and Liquidity (CR) according to the correlation technique. Earnings quality (EQ) and board composition (BCOM) have a bad relationship. The highest positive association between Earnings Quality (EQ) and Board Meeting (BM) is shown by the Pearson of Earnings Quality (EQ) and Board Meeting (BM) association Coefficient. The smallest negative correlation between Earnings Quality (EQ) and Board Composition (BCOM) is indicated by the Pearson Correlation Coefficient of EQ and BCOM.

This research hypothesis can be summarized with their respective beta coefficient and significant level as follows; According to hypothesis one, this search shows that the beta coefficient of Board Size (BS) is 0.020. P value $0.896 > 0.05$, as a result, can be rejected. Therefore it can be statistically concluded that at a 5% significant level, there is no significant relationship between Earnings Quality (EQ) and Board Size (BS). According to hypothesis 2, this search shows that the beta coefficient of Board Composition (BCOM) is -0.338. P value $0.077 > 0.05$, as a result, can be rejected H2. Therefore it can be statistically concluded that at a 5% significant level, there is no significant relationship exists between Earnings Quality (EQ) and Board Composition (BCOM). According to hypothesis three, this search shows that the beta coefficient of Board Meeting (BM) is 0.434. P value $0.026 < 0.05$, as a result, can accept H3. Therefore it can be statistically concluded that at a 5% significant level is significant relationship exists between Earnings Quality (EQ) and Board Meeting (BM). In addition to selected board structure characteristics, the selected controlling variables are firm size (FS), profitability (ROE), and liquidity (CR). Among these controlling variables, profitability (ROE) has a significant and positive impact on Earnings Quality with a significant 5%. The result of this study from multiple regression analysis is that any size companies with high profitability (ROE) and Board Meeting (BM) have a significant and positive impact on the earnings quality of Licensed Commercial Banks Listed in the Colombo Stock Exchange.

5.2 Conclusion

The main goal of this study is to inspect and investigate how board structure traits like [board size (BS), board composition (BCOM), and board meeting (BM)] affect earning quality. More specifically, the author attempts to provide an answer to the following question. First, the study showed that board size (BS) has no bearing on earnings quality (EQ), as the bigger the board, the less effectively the board is monitored. It is challenging for the board members to oversee management when there are more board members. On the other side, the board's monitoring role is significantly influenced by the size of the board of directors (BS). The effectiveness of the board oversight obligation is impacted by several factors, including board size (BS), hence this hypothesis cannot be justified. A smaller board is said to be simpler to organize, quicker to make decisions, less likely to have free rider issues, and less likely to reject innovation. Second, Board Composition (BCOM) does not affect Earnings Quality (EQ). Board Composition (BCOM) aims to protect shareholders' interests while promoting financial reporting transparency. Therefore, Board Composition (BCOM) is crucial in overseeing and reinforcing management, ensuring that managers' pursuit of goals is consistent with those of shareholders. Finally, the Board Meeting (BM) has a considerable impact on Earnings Quality (EQ). This study makes the case that regular board meetings are crucial to the effectiveness and efficiency of the company as a whole because the corporate board of directors is a vital participant in establishing the Earning Quality (EQ) through decisions they make based on the outcomes of their meetings. The results of Francis et al. (2012b) and Ntim and Osei (2011) lend credence to this assertion. The results offer empirical support for the agency theory, which contends that more frequent board meetings will improve the board's capacity to supervise, counsel, examine, and enforce discipline. This will raise the quality of their earnings, helping shareholders reach their goal of maximizing wealth. Additionally, the frequency of Board Meetings (BM) can be used to gauge how active a board is. Board meetings allow board members to get ongoing reports and make timely organizational decisions.

5.3 Recommendations

The results of this study may be very helpful to bank managers in the banking sector as they formulate policies for controlling the effects of the board structure of the company on the quality of its earnings. Furthermore, the current study has a huge need for additional research. Consequently, the researcher advises the following for additional study: A company's Earnings Quality (EQ) is influenced by several variables. However, only three factors—Earnings Quality (EQ) licensed commercial banks—were examined in this study. As a result, to comprehend the Earnings Quality (EQ) of Sri Lankan commercial banks with licenses more clearly, it is required to study additional variables like the Board Committee and other pertinent traits. A different sampling method might have produced noticeably different results for the study. It is therefore advised to do additional research using various sample techniques. The 10 licensed commercial banks listed on the Colombo Stock Exchange were the focus of this investigation. Future researchers should concentrate on all non-financial enterprises or compare all financial firms with non-financial firms for the results to be more advanced. To conduct this research, only secondary data are collected and analyzed. However, there is no proof that this represents the company's true financial situation, thus other researchers may use both primary and secondary data by visiting each company. Examining the impact of Board Structure on Earnings Quality for non-listed manufacturing enterprises is another area of research that might be expanded. In comparison to other samples in the literature, the sample scope for this investigation is small. The sample size can be expanded in subsequent studies. Researchers should concentrate on a longer time frame, i.e., more than 10 years, as this would produce the best benefits for their efforts and more realistic outcomes. More than ever, it is valuable to take into account each company separately for the study.

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