The Effects of Corporate Governance Attributes on Capital Structure and Firm Value of Listed Companies in Colombo Stock Exchange

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Abstract: This study examines the effects of corporate governance attributes on capital structure and firm value among non-financial companies listed on the Colombo Stock Exchange. Specifically, it investigates how board size, board composition, managerial ownership, board meetings, CEO tenure, and CEO duality influence debt levels and firm value. Most prior research in the Sri Lankan context typically evaluates the effects of corporate governance on either capital structure or firm value in isolation but this study integrates both dimensions, offering a more comprehensive perspective. Using a sample of 90 firms over a period of eight years from 2013 to 2020, the study employs regression analysis to identify significant relationships. The findings reveal that larger board sizes and frequent board meetings are associated with higher debt levels, while diverse board composition correlates with lower long-term debt. Regarding firm value, larger boards and fewer board meetings are associated with higher firm value. These results highlight the critical role of corporate governance in determining capital structure and optimizing firm value, offering practical insights for policymakers and business leaders on enhancing governance frameworks to achieve better financial outcomes.

Keywords: *Corporate governance attributes, Capital structure, Firm value, Listed companies in Colombo Stock Exchange*

01. Introduction

The primary goal of capital structure management is to reduce the cost of capital and optimize shareholder wealth. This concept can be traced back to Modigliani and Miller's (1958) seminal work, which argued that a firm's capital structure is irrelevant to its value and future performance. Since then, various theories, particularly agency theory, have emerged to explain firm financing decisions based on the conflicts of interest that create agency costs. The importance of a firm's capital structure remains a critical topic in finance literature, given its role in meeting stakeholder needs.

Corporate governance is a framework of principles and processes designed to enhance shareholder value and protect the interests of all stakeholders. It involves relationships between a company's management, its board, its shareholders, and other stakeholders. According to the OECD (2004), corporate governance structures set company objectives and monitor performance. In Sri Lanka, corporate governance guidelines were first introduced in 1997 by the Institute of Chartered Accountants of Sri Lanka, with updates in 2003 and a revised code in 2008 issued jointly with the Securities and Exchange Commission of Sri Lanka. The latest revision was made in 2013. These codes highlight agency theory, which explains the conflicts of interest between shareholders (principals) and management (agents).

The aim of the study is to investigate the effects of corporate governance attributes on capital structure and identify the relevant variables that impact the firm value of Sri Lankan listed firms. This study holds considerable significance as it addresses a critical gap in the existing literature on corporate governance within the Sri Lankan context. While prior research has predominantly focused on evaluating the effects of corporate governance attributes either on capital structure or on firm value independently, this study takes a more integrated approach by examining both outcomes simultaneously. This dual focus provides a more comprehensive understanding of the role governance mechanisms play in influencing a firm's financial decisions and overall market performance, offering new insights that are currently limited in local academic and policy discussions.

Moreover, by concentrating on non-financial firms listed on the Colombo Stock Exchange, the research adds valuable contextual relevance for emerging markets like Sri Lanka. Corporate governance dynamics in developing economies often differ significantly from those in more developed markets due to institutional factors, ownership structures, and regulatory environments. As such, the findings of this study contribute to the limited body of empirical evidence available in the Sri Lankan context and can serve as a reference point for other emerging economies facing similar challenges in corporate oversight and financial management.

The study also provides evidence-based insights that can inform policymakers and regulatory bodies. By identifying specific governance attributes such as board size, composition, and meeting frequency that influence capital structure and firm value, the research offers practical guidance for improving governance frameworks. These findings can support the refinement of corporate governance codes and standards in Sri Lanka, thereby promoting greater transparency, accountability, and financial stability in the corporate sector.

For corporate practitioners, the study offers strategic implications that can enhance decision-making at the board and executive levels. Understanding how governance characteristics affect debt usage and firm valuation can help firms design more effective governance structures to align managerial behavior with shareholder interests. Additionally, the study sheds light on the influence of CEO tenure and CEO duality, providing valuable insights for

leadership planning and succession strategies. Finally, investors and financial analysts can benefit from the research by incorporating governance-related indicators into their investment assessments. Knowledge of how certain governance practices relate to firm value and debt levels can aid in more accurate risk evaluation and portfolio management.

02. Review of literature

2.1 Theoretical Background

Capital structure of a firm refers to the combination of debt and equity used to finance its operations and investments. It represents the sources of funding that support the company's activities and assets. Debt, which includes loans, bonds, and borrowing, requires repayment with interest over a specified period. Equity, on the other hand, represents the ownership stake held by shareholders, obtained through the issuance of shares. Firm value, also referred to as company value or enterprise value, represents the overall worth of a business entity. It is a measure of the economic value of a company, considering both its tangible and intangible assets. Firm value reflects the market's perception of the company's ability to generate future cash flows. The importance of firm value to business firms encompasses several key aspects.

2.1.1 Capital structure theories

Modigliani and Miller's Irrelevance Theory: This seminal theory asserts that, under certain ideal assumptions (perfect capital markets, no taxes, no bankruptcy costs, and information symmetry), capital structure decisions have no impact on firm value.

Trade-Off Theory: This theory posits that firms face a trade-off between the tax benefits of debt and the costs of financial distress. An optimal capital structure is achieved by balancing these opposing forces, leading companies to target a specific debt-to-equity ratio to maximize value.

Pecking Order Theory: formalized by Myers and Majluf (1984), this theory suggests that firms prefer internal financing (retained earnings) over external financing (debt and equity) leading to a hierarchy where retained earnings are used first, followed by debt, and equity issuance is the last resort.

Agency Costs Theory: This theory emphasizes the agency relationship between shareholders and managers. It posits that managers may make suboptimal financing decisions due to differing risk preferences.

Signaling Theory: This theory suggests that firms choose their capital structure to signal their true value to the market. Issuing equity is seen as a negative signal, as it implies the firm's stock is overvalued. In contrast, issuing debt is perceived positively, as it indicates confidence in future cash flows.

Market Timing Theory: This theory posits that firms consider market conditions when making capital structure decisions. Firms tend to issue equity when their stock is overvalued and use debt when their stock is undervalued, aligning with the idea of exploiting market mispricing.

2.2 Empirical Review

Corporate governance, encompassing a system of rules, processes, and structures, aims to promote transparency, accountability, fairness, and responsibility within companies. This summary explores the impact of specific corporate governance attributes on capital structure decisions, focusing on board size, board composition, managerial ownership, board meetings, CEO position, and CEO duality.

Board size has been the subject of extensive research regarding its impact on capital structure, yielding mixed results. Ajanthan (2013) found a negative relationship between board size and the debt ratio, suggesting that larger boards with more independent directors tend to use less debt. In contrast, Sheikh and Wang (2012), along with Abor (2007) and Chen et al. (2014), reported a positive relationship, indicating that firms with larger boards are associated with higher levels of debt. Rehman et al. (2010) did not find a significant link between board size and capital structure but noted that ownership concentration negatively affects debt financing. These varying results suggest that while larger boards may bring diverse skills and perspectives, their impact on capital structure can depend on other contextual factors.

The composition of the board, including the diversity of skills, expertise, and perspectives, also influences capital structure decisions. Ajanthan (2013) found that firms with more diverse board compositions tend to have lower levels of debt. Conversely, Siromi and Chandrapala (2017) emphasized the positive effect of board composition on capital structure, suggesting that diverse boards influence firms to utilize debt financing. Similarly, Abor (2007) and Chen et al. (2014) indicated that a higher proportion of non-executive directors is associated with increased levels of debt. These findings suggest that board composition plays a significant role in shaping a firm's capital structure decisions.

Managerial ownership, which refers to the extent to which managers hold shares in the company, impacts capital structure in various ways. Doorasamy (2021) and Ajanthan (2013) suggested that higher managerial ownership leads to more debt usage to enhance firm value. However, Kulathunga et al. (2017) found that higher managerial ownership results in a preference for equity over debt, aligning with managers' interests to maximize shareholder value. Sheikh and Wang (2012) discovered a negative association between managerial ownership and long-term debt, suggesting that higher managerial ownership reduces reliance on long-term debt. These studies indicate that managerial ownership can significantly influence capital structure, with varying preferences for debt or equity based on ownership levels.

Regular board meetings are crucial for effective governance, providing a platform for directors to fulfill their responsibilities and contribute to the organization's decision-making processes. While specific studies on the direct impact of board meetings on capital structure decisions are limited in this review, their importance in overall governance practices cannot be overstated.

The tenure and duality of the CEO role are also significant factors affecting capital structure. Sewpersadh (2019) found a positive correlation between CEO duality (where the CEO also serves as the chairperson of the board) and leverage, suggesting that firms with CEO duality tend to have higher levels of debt financing. Ajanthan (2013) also noted a positive relationship between CEO duality and the debt-to-equity ratio. However, Sheikh and Wang (2012) reported an insignificant effect of CEO duality on capital structure. These findings highlight the potential impact of CEO duality on capital structure, though the effects may vary.

In summary, the impact of corporate governance attributes on capital structure is complex and multifaceted. Board size, board composition, managerial ownership, board meetings, and CEO characteristics all play significant roles in shaping a firm's capital structure decisions. The specific governance practices and broader context of each firm are crucial in understanding these relationships fully.

03. Data And Methodology

3.1 Population and Sample

The study focused on non-financial companies listed on the Colombo Stock Exchange, excluding financial firms such as banks, diversified financials, and insurance companies. A sample of 90 listed non-financial companies was selected for the availability of complete secondary data for the period of eight years (2013-2020). Secondary data analysis was conducted to examine the effects of corporate governance practices on capital structure and firm value.

Distribution of sample listed companies by industry sector

S/No	Sector	No. of Companies	No. of Companies (%)
1	Material	09	9.68
2	Capital Goods	17	18.28
3	Commercial and Professional Services	02	2.15
4	Consumer Durables and Apparel	08	8.60
5	Consumer Services	14	15.05
6	Retailing	04	4.30
7	Food, Beverage and Tobacco	25	26.88
8	Health Care Equipment and Services	04	4.30
9	Pharmaceuticals and Biotechnology	01	1.08
10	Telecommunication Service	02	2.15
11	Utilities	02	2.15
12	Real Estate	02	2.15
	Total	**90**	**100%**

3.2 Hypothesis Development

H_1: The variables related to corporate governance attributes have a significant impact on capital structure.

$H1_1$: Board size has a significant positive effect on capital structure

$H1_2$: Board composition has a significant positive effect on capital structure

$H1_3$: Managerial ownership has a significant negative effect on capital structure

$H1_4$: Board meeting has a significant positive effect on capital structure

$H1_5$: CEO position has a significant negative effect on capital structure

$H1_6$: CEO duality *has a significant negative effect on capital structure*

H_2: The variables related to corporate governance attributes identified in the study, affecting the capital structure, have a significant impact on firm value.

3.3 Model Specification

Model-1 and Model-2 incorporate variables of corporate governance practices, such as board size (BS), board composition (BC), managerial ownership(MO), board meetings(BM), CEO position(CP), and CEO duality(CD) to assess their impacts on capital structure.

$DER_{it}=\alpha 1+ß1_1BS_{it}+ß1_2BC_{it}+ß1_3MO_{it}+ß1_4BM_{it}+ß1_5CP_{it}+ß1_6CD_{it}+\mu 1_{it}$….**(Model 1)**

$LDA_{it}=\alpha 2+ß2_1BS_{it}+ß2_2BC_{it}+ß2_3MO_{it}+ß2_4BM_{it}+ß2_5CP_{it}+ß2_6CD_{it}+\mu 2_{it}$.....**(Model 2)**

From the above two models, the study identified the "best" model, likely based on statistical criteria (such as significance of coefficients, goodness-of-fit, etc.), that provided the most robust and explanatory results for the relationship between capital structure and variables of corporate governance practices.

3.3.1 Adaptive Regression Model

In the next step, the independent variables (variables of corporate governance practices) identified in the "best" model are taken and used as predictors in a new model with the dependent variable being firm value measured by price earnings ratio (PER). This new model aims to explore how these variables of corporate governance practices influence firm value, while considering their impact on capital structure. It is essential to emphasize that the new model cannot be expressed through a fixed equation. Unlike traditional regression analyses, where predictor variables and coefficients are predetermined. In this case, the study is not pre-determining the predictor variables but rather selecting them based on the results from the previous models.

04. Data Analysis

4.1 Multicollinearity test

This study conducted a multicollinearity test to assess the validity and reliability of data used in the analysis and helps to ensure that the data meets certain assumptions and conditions required for accurate statistical analysis. The table below displays the outcome of multicollinearity test conducted for the variables relevant to corporate governance practices as determinants of capital structure.

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.0824	4328.7723	
BS	0.0000	12.1225	1.0609
BC	0.0004	8.7319	1.0892
MO	0.0000	1.1169	1.0789
BM	0.0000	2.8913	1.1280
CP	0.0001	4.7349	1.1051
CD	0.0001	2.7766	1.1029

Based on the VIF values observed, it can be concluded that all the independent variables indicated above are free from multicollinearity issues and are suitable for inclusion in the regression analysis.

4.2 Descriptive Analysis on corporate governance practice

Descriptive analysis involves calculating statistical measures (mean, median, maximum, minimum, standard deviation) for the determinants of capital structure, capital structure and firm value to understand their central tendencies, variations, and distribution across the observed entities.

	BS	BC	MO	BM	CP	CD
Mean	7.8000	0.5780	1.1260	5.7083	0.7432	0.6028
Median	8.0000	0.6000	0.0241	4.0000	0.6990	1.0000
Maximum	14.0000	1.0000	74.1229	36.0000	1.6232	1.0000
Minimum	2.0000	0.0000	0.0000	0.0000	-0.6021	0.0000
Std. Dev.	2.4173	0.2183	5.9992	4.5689	0.4103	0.4897
Observations	720	720	720	720	720	720

The statistics provided offer valuable insights into the corporate governance practices of the observed entities, focusing on various aspects of their board structure and composition. Considering Board Size, the average number of members on the boards is approximately 7.8, with the median being 8. This indicates that, on average, companies maintain a reasonably sized board of directors, typically consisting of around 8 individuals. The range of board sizes varies from 2 to 14, highlighting the diversity in board structures among the entities. However, the relatively low standard deviation of 2.4173 suggests that most entities tend to have board sizes relatively close to the mean.

Analyzing Board Composition," the average value of 0.5780 suggests that, on average, a significant portion of the board members in these entities are independent directors. Independent directors are crucial as they bring objectivity and unbiased judgment to board decision-making processes. The median value of 0.6000 further reinforces this trend, indicating that most entities have a considerable proportion of independent directors on their boards.

Moving on to Managerial Ownership, the mean value of 1.1260 implies that, on average, managers or executives hold ownership stakes in the entities they lead. This aligns the interests of management with those of shareholders, fostering better decision-making and corporate performance. However, it's essential to note that the presence of extreme values, as indicated by the maximum value of 74.1229, could indicate cases where managerial ownership is significantly higher, potentially impacting governance dynamics.

Regarding Board Meetings, the average of 5.7083 signifies that entities typically conduct around 5 to 6 board meetings during the observation period. Regular board meetings are essential for strategic planning, oversight, and accountability. However, the maximum value of 36.0000 suggests that some entities may hold a substantially higher number of board meetings, which could indicate more active monitoring or unique circumstances.

Analyzing CEO Position and CEO Duality, the mean values of 0.7432 and 0.6028, respectively, indicate that, on average, entities separate the roles of Chairman of the Board and Chief Executive Officer (CEO). This separation can help maintain checks and balances, enhancing corporate governance. Similarly, the relatively high median

value of 1.0000 for CEO Duality signifies that a significant number of entities adhere to the practice of separating these roles.

In conclusion, the statistics provided shed light on various aspects of corporate governance within the observed entities. The data suggests that entities typically maintain reasonably sized boards with a considerable proportion of independent directors. Furthermore, managerial ownership is prevalent, aligning the interests of management with shareholders. Regular board meetings are common, and entities often separate the roles of Chairman and CEO, indicating a commitment to strong governance practices.

4.3 Analysis on effects of variables related to corporate governance attributes on capital structure.

The table below displays the results of a regression analysis where the debt-to-equity ratio is the dependent variable, and corporate governance attributes such as board size, board composition, managerial ownership, board meeting, CEO tenure and CEO duality are the independent variables. The purpose of this analysis is to examine how independent variables influence the capital structure of the firms and helps identify the relationships between these variables and provides insights into the direction and significance of their effects. Model-1 is used in this regression analysis to test hypothesis H_1.

4.3.1 Regression of debt-to-equity ratio on variables related to corporate governance attributes.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.8645	0.5094	3.6605	0.0003
BS	0.1026	0.0249	4.1208	0.0000
BC	-0.4087	0.2792	-1.4639	0.1437
MO	-0.0095	0.0101	-0.9429	0.3460
BM	-0.0033	0.0136	-0.2403	0.8102
CP	0.3218	0.1492	2.1562	0.0314
CD	0.2654	0.1254	2.1171	0.0346

The study revealed that board size had a statistically significant relationship with the debt-to-equity ratio. Firms with a larger board size tended to have a higher debt-to-equity ratio. This observation suggests that larger boards may provide more diverse perspectives and expertise, leading to more aggressive financing decisions that involve higher levels of debt. The presence of a broader range of knowledge and experience within larger boards might contribute to their willingness to take on more debt in their capital structure.

However, when it came to board composition, the analysis did not find a statistically significant relationship with the debt-to-equity ratio. This indicates that the specific makeup of the board, such as the proportion of independent directors or other characteristics, does not appear to significantly influence the firm's capital structure decisions. Similarly, the research findings suggested that managerial ownership did not have a statistically significant relationship with the debt-to-equity ratio. The extent to which managers hold ownership stakes in the firm did not seem to play a significant role in shaping the firm's capital structure.

Furthermore, the frequency of board meetings was found to have no statistically significant relationship with the debt-to-equity ratio. The number of board meetings held did not appear to be a significant factor in influencing the firm's financing choices. On the other hand, Firms where the CEO also held the position for a long period tended to have a higher debt-to-equity ratio. Additionally, firms with CEO duality, where the CEO also serves as the chairman of the board, were found to have a higher debt-to-equity ratio. In conclusion, the research findings shed light on the importance of board size, CEO position, and CEO duality as potential determinants of a firm's capital structure decisions when practicing corporate governance.

Table below displays the results of a regression analysis where long-term debt to total assets ratio is the dependent variable, and corporate governance attributes such as board size, board composition, managerial ownership, board meeting, CEO tenure and CEO duality are the independent variables. The purpose of this analysis is to examine how these independent variables influence the capital structure of the firms and help identify the relationships between these variables are fulfilled. Model-2 is used in this regression analysis to test hypothesis H_1.

4.3.2 Regression of long-term debt to total assets ratio on variables related corporate governance attributes.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.0153	0.0380	0.4036	0.6866
BS	0.0089	0.0019	4.8137	0.0000
BC	-0.0456	0.0208	-2.1880	0.0290
MO	0.0001	0.0008	0.1716	0.8638
BM	0.0031	0.0010	3.0453	0.0024
CP	0.0222	0.0111	1.9916	0.0468
CD	-0.0049	0.0094	-0.5185	0.6042

The research findings indicate that firms with larger board sizes tend to exhibit a higher long-term debt to total assets ratio. This observation suggests that larger boards may be associated with a greater willingness to take on debt as part of their capital structure. The presence of a larger board may bring in more diverse perspectives and expertise, leading to more aggressive financing decisions that involve higher levels of long-term debt.

Secondly, the study reveals that board composition plays a significant role in shaping a firm's long-term debt levels. A more diverse board composition, which includes independent directors, is associated with a lower long-term debt to total assets ratio. This suggests that boards with a mix of independent directors may be more conservative in their financing choices, potentially leading to lower levels of long-term debt for the company.

Additionally, the frequency of board meetings was found to have a positive and significant impact on the long-term debt to total assets ratio. This intriguing finding implies that more frequent board meetings may be associated with higher long-term debt levels. Moreover, the study highlights the impact of the CEO's position on the long-term debt to total assets ratio. Firms where the CEO also held the position for a long period tended to have a higher long-term debt to total assets ratio. This indicates that the tenure of the CEO may influence the firm's financing decisions, possibly leading to a preference for more long-term debt in the company's capital structure.

On the other hand, the research findings show that variables such as managerial ownership and CEO duality did not demonstrate statistically significant coefficients in relation to the long-term debt ratio. As a result, their impact on the debt ratio in this analysis is inconclusive. In conclusion, the regression analysis provides valuable insights

into the factors influencing the long-term debt to total assets ratio in firms. Board size, board composition, board meeting frequency, and CEO position are identified as potential determinants of a firm's long-term debt decisions.

Analysis on corporate governance attributes contributed to the determination of capital structure.

The below table presents the determination coefficients (R-squared values) for two models, DER and LDA, in relation to various factors, corporate governance attributes contribute about 4.08% to the DER model and 5.56% to the LDA model's variability.

Determination of models	
Model 1	**Model 2**
0.0408	0.0556

Based on the findings of the study, Model 2 is identified as the most appropriate and comprehensive in determining the capital structure of listed firms in Sri Lanka. The study emphasizes the relevance of corporate governance practices in influencing the capital structure of listed firms in Sri Lanka. The study found that corporate governance practices such as board size, board composition and board meetings are identified as significant determinants in determining capital structure of Sri Lanka listed firms. This underscores the importance of effective corporate governance in managing capital structure decisions.

Analysis on effects of corporate governance attributes as determinants of capital structure on firm value

In this study, the second objective is to investigate the impacts of corporate governance attributes as determinants of capital structure on firm value, measured by the price-earnings ratio (PER). The independent variables identified in the analysis included board size, board composition, and board meeting. The regression analysis, as presented in table below provides the results.

4.3.3 Regression of the price-earnings ratio on variables, related to corporate governance attributes identified.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.7411	2.2993	2.9318	0.0035
BS	0.4411	0.1826	2.4154	0.0160
BC	-1.9025	2.0253	-0.9394	0.3479
BM	-0.3447	0.0978	-3.5235	0.0005

The results indicate that Board size and board meetings show significant relationships with the dependent variables, while board composition may not have statistically significant impacts on firm value. In practical terms, when listed firms in Sri Lanka experience changes in board size and board meetings, which could indicate changes in corporate governance attributes and decision-making processes, also influence how firms structure their capital.

A disparity in findings exists within the literature concerning the relationship between board size and debt financing. While Ajanthan (2013) discovered a negative correlation between board size and debt financing, indicating that larger boards are linked to reduced debt levels in the capital structure, Sheikh and Wang (2012) suggested the opposite – that firms with larger boards tend to carry higher levels of debt. The regression analysis conducted in

the present study supports the viewpoint put forth by Sheikh and Wang (2012), Abor (2007), and Chen et al. (2014). It reveals that firms with larger board size, in accordance with these studies, exhibit a propensity for a higher long-term debt to total assets ratio. This observation implies that larger boards might influence more assertive financing decisions, involving elevated levels of debt.

Similarly, the literature and the findings offer contrasting perspectives on the relationship between board composition and capital structure decisions. Siromi and Chandrapala (2017), Abor (2007), and suggested that diverse board compositions positively influence financing choices, whereas the regression analysis in the current study found a statistically significant negative relationship between board composition and the long-term debt to total assets ratio.

Regarding managerial ownership, the literature supports the notion that higher managerial ownership aligns the interests of managers with shareholders and promotes responsible decision-making. Kulathunga et al. (2017) indicated that firms with higher managerial ownership tend to prefer equity financing over debt financing. However, the regression analysis in the current study did not find a statistically significant relationship between managerial ownership and the debt-to-equity ratio. This discrepancy calls for further examination of other factors that might influence the relationship between managerial ownership and capital structure choices.

CEO duality is another aspect of corporate governance that has been explored in literature. Sewpersadh (2019) found a positive correlation between CEO duality and leverage, indicating a preference for debt financing in firms with CEO duality. The regression analysis in the current study aligns with this perspective, finding that firms with CEO duality tend to have a higher debt-to-equity ratio. However, as suggested by Ajanthan (2013), the relationship between CEO duality and the debt-to-equity ratio may be more nuanced and influenced by various contextual factors.

The literature, as presented by various authors and the findings from the regression analysis highlight the importance of corporate governance attributes in shaping capital structure decisions. However, there are contrasting perspectives on the relationships between board size, and board composition with debt financing.

05. Conclusion

This study highlights the significant effect of corporate governance attributes on capital structure and firm value among non-financial companies listed on the Colombo Stock Exchange. The analysis reveals that board size, board composition and board meetings play crucial roles in determining a firm's debt levels. Specifically, larger board sizes and frequent board meetings are associated with increased debt, whereas diverse board composition is linked to lower long-term debt.

The study reveals several important relationships between corporate governance attributes and firms' long-term capital structure, particularly the long-term debt to total assets ratio. Firstly, larger board sizes are found to be associated with a higher long-term debt to total assets ratio. This suggests that firms with more board members may be more inclined to use debt financing. One possible explanation is that larger boards can bring a broader range of expertise and experience, which might make them more confident in leveraging the firm’s financial resources. Additionally, larger boards may be more willing to approve debt-based growth strategies due to a diversity of opinions and less dominance by a single individual or small group.

Secondly, the study finds that a more diverse board composition, particularly one that includes a higher proportion of independent directors, is linked to a lower long-term debt to total assets ratio. Independent directors typically act as monitors of management and are more focused on protecting shareholder interests. Their presence may lead to more conservative financial decisions, including limiting excessive reliance on long-term debt to reduce financial risk and ensure long-term stability.

Lastly, the frequency of board meetings shows a positive and significant relationship with the long-term debt to total assets ratio. This implies that firms whose boards meet more often tend to take on more long-term debt. Frequent meetings may indicate a more active board that is closely involved in strategic and financial planning, including decisions related to capital structure. More frequent discussions might also facilitate timely decision-making in favor of long-term investments that require debt financing. In relation to firm value, the study finds that larger boards and fewer board meetings are associated with higher firm value, suggesting that certain board characteristics can enhance investor confidence and improve market performance.

The positive association between larger board size and firm value may be attributed to the broader range of skills, expertise, and perspectives that a larger board brings. This diversity in knowledge and experience can contribute to better strategic decision-making, improved oversight of management, and stronger corporate governance overall all of which are valued by investors and positively reflected in firm valuation. Conversely, the finding that fewer board meetings correlate with higher firm value might indicate that board efficiency rather than frequency of meetings is more critical to firm value. In this context, fewer meetings could reflect well-structured governance where decisions are made effectively without the need for constant deliberation. It may also suggest that firms with strong leadership and stable performance require less frequent board intervention, which in turn can signal to the market that the company is well-managed and operating smoothly.

Implication

The findings of this study have several important implications for corporate governance practices and policymaking in Sri Lanka and similar emerging markets. First, companies should carefully consider the composition and size of their boards. A well-structured board with a balanced mix of skills and diversity can lead to more prudent financial decisions, thereby optimizing capital structure and enhancing firm value. Policymakers should encourage regulations that promote board diversity and limit excessive board sizes to prevent inefficiencies. Second, the frequency of board meetings should be optimized to ensure effective oversight without causing unnecessary disruptions. Regular but not overly frequent meetings can help maintain a strategic focus and improve decision-making processes.

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