**DO BOARD OF DIRECTORS’ CHARACTERISTICS AFFECT FIRM PERFORMANCE? EVIDENCE FROM LISTED BEVERAGE, FOOD AND TOBACCO COMPANIES IN SRI LANKA**

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1. **Introduction**

Good corporate governance is an integral part of a company’s management and business philosophy. . In recent years considerable attention has been given in the economic and finance literature on the impact of corporate governance on firm performance. This study is an endeavour to investigate the relationship between board of director’s characteristics and firm performance of listed beverage food and tobacco companies in Sri Lanka during the period 2014-2018. This study has the primary objective of finding out the relationship between board director’s characteristics and firm performance of listed beverage food and tobacco companies in Sri Lanka.

The secondary objectives are as follows:

* To investigate the impact of board of director’s characteristics on firm performance.
* To identify the factors which significantly contributed to the board of director’s characteristics.

Research Hypotheses Are, H1: There is a significant relationship between Board of Directors’ Characteristics and Firm Performance.

H2: There is a significant impact of Board of Directors’ Characteristics on Firm Performance.

**Conceptualization**

Figure 1: conceptual framework

Board of Directors’ Characteristics Variables

Board size

Board independent

Director Ownership

Board meeting

Gender Diversity

Firm Performance

Variables

Tobin’s Q

Control Variables

Firm size

Source: Developed by Researcher

**Research Methodology**

In order to meet the objectives of the study, data was collected from secondary sources, mainly from annual report of listed companies, which were published by Colombo Stock Exchange (CSE) in Sri Lanka. Further Scholarly articles from academic journals, relevant text book and the internet search engines were also used. Specifically the financial statements of listed beverage food and tobacco companies were collected for the period of 2014-2018.The sample of this study was drawn from firms listed in the CSE during the year 2014-2018. Out of twenty one Beverage food and tobacco companies 15 companies are included in the sample which represents 71% Beverage food and tobacco companies listed in CSE. This sample selection was based on convenient random sampling method to carry out the research.

**Data Analysis and Discussion**

Data Analysis Used the tool from “Statistical Package Of Social Science (SPSS)” Regression and Correlation analysis were performed in this study with the help of SPSS latest version

**Descriptive Analysis**

Table 2: Descriptive statistics

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **N** | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** |
| Board Size | 75 | 7.00 | 18.00 | 8.533 | 2.747 |
| Board Independence | 75 | 12.50 | 57.142 | 3.729 | 15.198 |
| Director Ownership | 75 | .002 | .986 | .00 | .3568 |
| Board Meeting | 75 | 3.00 | 13.00 | 6.386 | 3.487 |
| Gender Diversity | 75 | .00 | .28571 | .00 | .087 |
| Tobin’s Q | 75 | .089 | 1.099 | 6.328 | 1.768 |
| Firm size | 75 | 6.00 | 9.512 | 8.00 | 1.152 |

Source: Calculation based on annual reports of the firms from 2014-2018

Table 2 shows the descriptive statistics of the variables used in the study. The mean board size is about eight (8.533) suggesting that the firms have relatively moderate board size. With a maximum board size eighteen (18) and deviation of 2.747, the implication is clear that firms have relatively similar board size. The mean of board independent is 3.729. The average board meeting of the firms used in this study is 6.386. The Tobin’s Q value of greater than 1 represents a positive investment opportunity. The mean value for Tobin’s Q is 6.328, with a minimum value of 0.089 and maximum value of 1.099.

Correlation Analysis result shows The Pearson correlation coefficient between board of director’s characteristics and firm performance. The correlation coefficient between board size and Tobin’s Q is 0.357 which is significant at 0.01 levels, representing there is a significant positive correlation between board size and Tobin’s Q. Then correlation coefficient between Board independent and Tobin’s Q is -.278 which is significant at 0.05 levels, representing there is a significant negative correlation between board independence and Tobin’s Q. At the same time director ownership positively correlated with Tobin’s Q is .264 at 0.05 level of significant. The value of correlation between Gender diversity and Tobin’s Q is -.081 which is not significant at 0.05 levels. Further there was no significant relationship between Board meeting and Tobin’s Q.

There was a positive correlation between Board size and Firm. Also there is a significant Negative relationship between Board Independent and Firm performance. Further director ownership and firm performance were significantly correlated. At the same time there is no significant association between board meeting and firm performance. Also there is a significant Positive relationship between Gender diversity and Firm Performance.

Table 4: coefficient for predictors of performance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Unstandardized Coefficients  B Std.Error | | Standardized Coefficient  ( Beta) | t | Sig. |
| Constant | -286.58 1997.79 | |  | -.143 | .886 |
| Board Size | 235.65 | 80.85 | .366 | .366 | .005 |
| Board Independence | 2.17 | 25.56 | .019 | .019 | .933 |
| Director Ownership | 927.55 | 689.24 | .187 | .187 | .183 |
| Board Meeting | 220.08 | 69.17 | .434 | .434 | .002 |
| Gender Diversity | 3402.60 | 3061.07 | .167 | .167 | .270 |
| Firm size | -427.05 | 253.15 | -.278 | -.278 | .096 |
| R Square= 0.288 | | | | | |

*Dependent Variable: Tobin’s Q.*

Regression Analysis results, In this model the specification of six variables revealed the ability to predict Tobin’s Q (R2=0.288). It denotes that 28.8% of the observed variability in Tobin’s Q can be explained by the difference in both independent variables. The remaining 71.2% is not explained which means that the remaining 71.2% of the variance in Tobin’s Q is related to other variables not depicted in this model. The Board size and Board Meeting have significantly impact on Firm performance. The coefficient for Board independent, Director Ownership and Gender diversity are not significant. Also reveal that there is a significant impact of Board size on Firm Performance. At the same time Board meeting has significant impact on firm performance. Also regression results show there is no significant impact of Board ownership on firm performance. At the same time the results revealed that there was a no significant impact of Gender diversity on Firm Performance

**Hypothesis Testing**

*Table 6: Hypothesis Testing Results*

|  |  |  |  |
| --- | --- | --- | --- |
| No | Hypothesis | Tools | Accepted / Rejected |
| **H1** | There is a significant relationship between Board of Directors’ Characteristics and Firm Performance. | Correlation | Supported |
| **H2** | There is a significant impact of Board of Directors’ Characteristics on Firm Performance. | Regression | Supported |

**Conclusion**

To conclude the Board size and Board ownership have significant positive relationship and Board independent has significant negative relationship with Tobin’s Q. Further board meeting and gender diversity have no significant relationship with firm performance (Tobin’s Q). It can be suggested that the directors of the board should concentrate on playing their vital role properly in the activities of the companies and also advice companies to have more independent directors within bench mark for the number of directors. Further decision made at the meetings are also important for the success of the company. An effective board is one that facilitates the effective discharge of the duties imposed by law on the directors and increases the performance in a way that is appropriate to the particular company’s circumstances.

At its most basic level ,the Q Ratio expresses, the relationship between Market Valuation and intrinsic Value. In other words ,it is a means estimating whether a given business or market is overvalued or undervalued. This study provides the business owners as well as investors some insights in to how the performance can be affected by board leadership structure in developing countries with unique business environments.

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