Board of Directors' Characteristics Impact on Capital Structure Decisions: Evidence from Top 50 Turnover Non- Financial Companies Listed on the Colombo Stock Exchange

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Abstract: ***The directors of a corporation are decided all corporate decisions at the board and those decisions are implemented after voting by shareholders. Thus board of directors and shareholders are the main decision makers of a corporation to formulating effective decisions.Thus, board of directors and shareholdersarethe two basic components of corporate governance system discussing characteristics of each component.However, this study is undertaken board of directors' characteristics to examining its impact on one of the corporate finance decision is capital structure decisions. Thus, the aim of the study is to investigate the impact of board of directors' characteristics on capital structure decisions of higher turnover non- financial companies in Sri Lanka.For the aim of the study, the study covers top50 turnover non- financial companiesranking on LMD 100 (2014/2015) of Sri Lanka Business Magazineand sample periodcovers from year 2011 to 2015. The study has selected board size, board independence, CEO duality and board meeting to representing board of directors' characteristics and debt to equity ratio is used as proxy of capital structure. The firm size and return on equity are used as controlling variables of the study. The study has applied the fixed effect panel regression model for the hypotheses testing. The findings of the study reveal that at higher turnover non- financial companies which have less total assets and higher profitability, board meeting has only significant and positive impact on capital structure decisions while number of directors, number of independent directors and separation of the role of chairman and CEO have no significant impact on capital structure decisions. It is supported to policy makers and regulators, and management bodyto enhance corporate governancesystem of non- financial companies in Sri Lanka.***

Keywords: Corporate Governance System;Board of Directors; Turnover; Non-Financial Companies; Capital Structure

1. Introduction

The aim of the corporate finance decisions is to be maximizing the shareholders' wealth throughfour majorcorporate finance decisions;capital budgeting decisions, capital structure decisions, working capital management decisions and dividend decisions. Among various corporate finance decisions, capital structure decision is a keydecision to leading to meet other three corporate finance decisions. Itisoccurredthat capital structure decision deals with decidingwhen, where from and how to acquire optimum level of equity and debt funds to investing them in short term assets (working capital management decisions) and longterm assets (capital budgeting decisions). Then the corporation is decided to distribute part of the earningsto shareholders earned from assets utilization (dividend decisions).

The board of the organization is seated with board of directors whohave authorities to decide all corporate decisions at board meetings and implement it after voting by shareholders.The board of directors is an important part of internal corporate governance structures in a company. According to Law on Enterprises (LOE), the board of directors is responsiblefor monitoring of management effectively, exercise board's accountability to the company and its shareholders. Thus, a company should have a qualified board to lead and control the company to be more successful and effective. The board has various characteristics such as leadership style, number of directors at the board, number of independent directors at the board, board meeting, board committeesand those characteristics are influenced on organizationaldecisions making includingchoose of optimal capital structure.

The number of previous studies have been investigated the relationship between board directors' characteristics and capital structure decisions in Sri Lanka. However, many of them were selected any one of the sector except bank, finance and insurance sectors to select the sample companies and generalize their results to particular sector. However, Peiris and Fernando (2013) and Wellalage and Locke(2012) were selected sample companies to representing all sectors except bank, finance and insurance sector to generalizing the results to all non- financial companies in Sri Lanka. However, previous studies have provided mixed results for the relationship board directors' characteristics and capital structure decisions.Furthermore, none of the study has selected recent years for their research. Besides, the turnover is the main source to earn profit for profit organization.Thus, none of the previous studies has examining how far board structure impact on capital structure decisions of higher turnover companies.Thus, based on the research gapsbetweenboard of directors' characteristics and capital structure decisions, this study is to beinvestigate the impact of board director's characteristics on capital structure decisionsof higher turnover non- financial companies since higher turnover companies are more contributed to economic growth and corporate governance mechanisms for non- financial companies are varied from financial companies.

2.Literature Review

After 1997 Asian crisis, the corporate governance principles draw more attention in the Asian countries includingSri Lanka. In this regard, theInstitute of Charted Accountants of Sri Lanka was introduced“Code of Best Practice on matters related to financial aspects of Corporate Governance” in 1997 for Sri Lankan companies. Thereafter this code was updated to be in line with corporate governance code of UK and issued in 2003 as “Code of Best Practice on Corporate Governance”. Then Securities and Exchange Commission of Sri Lanka and Institute of Chartered Accountants of Sri Lanka jointly revised and published again the “Code of Best Practices on Corporate Governance” in the year 2008 and 2013 in order to establish good corporate governance practices in Sri Lankan Capital Market. According to the development of Best Practices on Corporate Governance inAsiancountries, it was concentrated in listed companies for best corporate performance. Therefore the researchershave been recently more focused on corporate governancesystem for their research in Asian countries. Board structure is one of the dimensions of corporate governance system and has power to decide good corporate decisions. As earlier mentioned, capital structure decisions is a most important corporate financial decisions to decide all other corporate finance decision. Board of directors should be effectively decided the correct mixed of equity and debt capital for the effective decisions on all other type of financial decision makings. Thus, the relationship between board structure and capital structure decision have been widely investigated in developed and developing countries and found mixed results according to different sample size, board of directors’ characteristics varies in each countries and sectors and different regression model employed.

In according to Sri Lankan context,there are few research investigated the impact of boardstructure on capital structure decision and also found mixed results. Kajananthan (2012) investigated the effect of corporate governance on capital structureof Sri Lankan listed manufacturing companies for the period of 2009-2011 from employing multiple regression analysis. The research hasbeen used board size, board structure, board meeting and proportion of independent non-executive directors as independent variablesto representing corporate governance characteristics and debt ratio as dependent variable to measure the capital structure. This research found that corporate governance practices had 34% impact on capital structure and among the corporate governance variables, board committee has significant and positive effect on firms’ capital structure.This result was supported by Achchuthan et al. (2013) who investigated significant mean difference in the capital structure among the corporate governance practices and suggested to adopt corporate governance practices towards the capital structure of listed manufacturing companies in the Sri Lankan context. This study was covered period from 2009 to 2011 and used one–way Anova (f-test) and independent sample t-test to find out the significant difference in capital structure among corporate governance practices. This study revealed that board committee has positively significant with capital structure while board composition, board size, board meeting, and leadership structure has no significant with capital structure. Meantime,they found that no significant difference in the capital structure among corporate governance practices of the listed manufacturing companies in Sri Lanka.Somathilake and Udaya Kumara (2015) also examined significant relationship between corporate governance and capital structure for the selected 31 manufacturing companies for the sample period 2011 to 2013. The study was used correlation and multiple regression analysis and found that board composition has only significant and positive effect on capital structure while all other selected corporate governance characteristics have no significant effect on capital structure.Velnampy and Nimalthasan(2013)also selected manufacturing companies listed on CSE for the periods of 2008 – 2012 to examine the relationship between corporate governance practices, capital structure and firm performance. However the study found from correlation and regression analyses,that selected all corporate governance characteristics; leadership structure, board committee, board meeting, board size and board composition have no significant impact or relationship with capital structure and firm performance.

Ajanthan (2013) investigated whether there is any relationship among some specific characteristics of corporate governance, capital structure and profitability of selected Hotels and Restaurant companies listed on the Colombo Stock Exchangefor the duration from 2007-2012. This research was considered board composition (BC), board size (BS) and CEOduality (CEOD) as independent variables and debt ratio(DR), debt-to-equity ratio(DER), Returns on Equity(ROE) and Return on Assets(ROA) as dependent variable to measure the capital structure from first two ratios and other two ratios for probability measurement. The results revealed all selected corporate governance characteristicshave significant positive relationship with profitability measurements and one of the capital structure measurement“debt-to-equity ratio” whereas boardcompositionand board size have significant negativerelationship with debt ratio and CEOD havesignificant positive relationship with debt ratio. The findings showed that selected corporate governance characteristics have significant relationship with capital structure and profitability of listed Hotels and Restaurant companies in Sri Lanka.Gowsika(2015) examined the impact of corporate governance on capital structure of beverage food and tobacco companies listed in Sri Lanka for the period of 2009-2013. The study revealed from multiple regression model that among all selected corporate governance characteristics, board composition has only positive and significant impact on capital structure.

Wellalage and Locke (2012) investigated the linkage between corporate governance variables and capital structure. The study was covered 113 non- financial companies listed on the CSE for the period 2006 to 2010. The study was employed panel OLS and Dynamic- Panel GMM methods and found that among selected corporate governance variables, insider ownership and CEO duality have significant and positive impact on capital structure while non- executive directors has significant and negative impact on capital structure. Further, board size and ownership type have no significant impact on capital structure. However, Peiris and Fernando (2013) stated that corporate governance characteristics have no significantly affect the capital structure decisions for financial year 2011/2012 of listed non- financial companies in Sri Lanka.

Ravivathani and Danoshana (2014) found corporate governance characteristics have no significant impact on capital structurefrom the sample of 20 selected companies in the bank, finance and insurance sector listed on the CSE and for the sample period from 2008 to 2014.

In addition to above studies from Sri Lankan context, there arenumber of previous studiesin foreign context. Among the recent studies, Sheikh and Wang (2012) investigated effect of corporate governance on capital structure: evidence from Pakistan and results show that board size, outside directors, and ownership concentration have positively related to capital structure, whereas director remuneration has negatively related. Managerial ownership has negatively related to the long-term debt ratio. However, CEO duality has highly insignificant in all regressions. Uwuigbe(2014) describesthat 65% change in capital structure decision of firms can be explained by corporate governance variables. Alsofound that there is a positive relationship existed between CEO duality and the capital structure of listed firms in Nigeria. Agyei and Owusu (2014) revealed that board size, board composition, institutional and managerial shareholding are significant and positively correlated with leverage ratio, whereas it is negatively related with CEO/Chair duality. In addition to that firm size has a positive significant relationship with capital structure while return on assets has a negative significant relationship with capital structure. According to results, corporate governance and ownership structure play important role in firm's capital mix determination.Appuhami and Bhuyan(2015) examined the influence of corporate governance on intellectual capital (IC) efficiency: Evidence from top service firms in Australia. They found that CEO duality, board composition and remuneration committee composition have significantly associated with IC. In contrast board size and audit committee composition have no effect on IC. Dimitropoulos(2014) examined the relationship between capital structure and corporate governance of soccer clubs in European. The study indicated that efficient corporate governance mechanisms such as the increased board size and independence and the existence of more dispersed ownership (managerial and institutional) result in a reduction in the level of leverage and debt, thus reducing the risk of financial instability.

3.Methodology

The aim of this study is to investigate the impact of board of directors' characteristicson capital structure decisions of higher turnover non- financial companies in Sri Lanka. Thus,the study has been selectedboard size, board independence,CEO duality and board meeting to representingboard of directors' characteristics and debt to equity ratio is used as proxy of capital structure. In addition to independent and dependent variables, firm size and profitability (Return on Equity)are used as controlling variables of this study. The conceptual framework of this study is as follows.

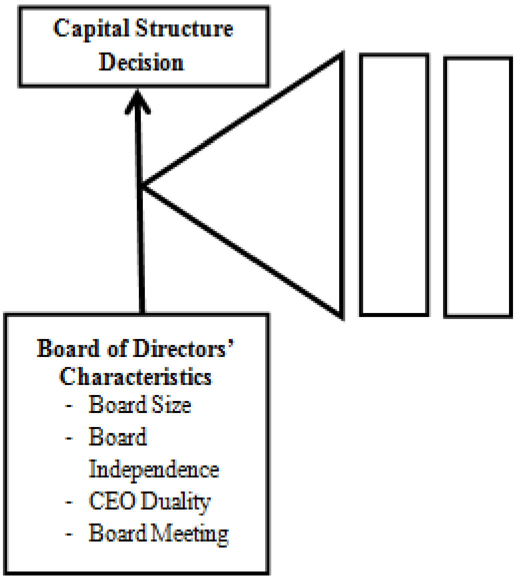

Figure 1: Conceptual Framework

The following hypotheses have been generated in this study.

H_1: Board size has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.

H_2: Board independence has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.

H_3: Separation of the role of Chairman and CEO has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.

H_4: Board meeting has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.

The study covers top 50 turnover non-financial companies ranking on LMD (Lanka Monthly Digit) 100 of Sri Lanka business magazine for the financial year 2014/2015 and the selected companies have received turnover above Rs.8200 million for that financial year and are listed on the CSE.The study covers recent five years data set from year 2011 to 2015. The following multiple panel regression model is used in this study for investigating objectives of the study.

$$DE_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 DUAL_{it} + \beta_4 BM_{it} + \beta_5 FS_{it} + \beta_6 ROE_{it} + \varepsilon_t$$

Where: DEit, debt to equity ratio of company "i" for the period "t"; BSit , number of directors sit in the board of company "i" for the period "t"; BIit , whether or not independent directors are at least two or one third of total directors of company "i" for the period of "t"; DUALit, whether or not a CEO is also the chair of the board of directors of company "i" for the period of "t"; BMit , whether or not board meetings held at least once in every quarter of a financial year of company "i" for the period of "t"; FSit is the firm size of company "i" for the period "t"; ROEit is the return on equity of company "i" for the period "t"; β is the coefficient of regression and ε is the error term of regression.

The data for all selected variables of this study were collected from annual reports which are published on CSE website. The study is applied panel regression analysis for hypotheses testing.

The operationalization of each selected variables of the study is shown in table 01.

Table 1: Operationalization

Concept	*Variables*		*Code*	*Measurement*	*Sources*
Corporate Governance Practices	Board of Directors' Characteristics –Independent Variables	Board size	BS	Counting total number of directors of a corporation and participate in board meeting a year.	Ajanthan (2013), VelnampyandNimalthasan (2013), Gowsika (2015), Somathilake and Udaya Kumara (2015)
		Board Independence	BI	Dummy variable equals "1" If a corporation has at least two independent directors or one-third of directors are independent and "0" otherwise.	Code of best practices on corporate governance for 2013 of Sri Lanka
		CEO Duality	DUAL	Dummy variable equals "1" if CEO and chairman are same person and "0" otherwise.	Somathilake and Udaya Kumara (2015), Ajanthan (2013), VelnampyandNimalthasan (2013), Code of best practices on corporate governance for 2013 of Sri Lanka
		Board Meetings	BM	Dummy variable equals "1" if board meetingheld at least once in every quarter of a financial year and "0" otherwise.	Code of best practices on corporate governance for 2013 of Sri Lanka
Capital Structure	Debt to equity ratio – Dependent Variable		DE	Total debt / total equity	Ajanthan (2013),VelnampyandNimalthasan (2013), AgyeiandOwusu (2014) Quangand Xin (2015)
Controlling variables		Firm size	FS	Logarithm of total assets	AgyeiandOwusu (2014) , Quangand Xin (2015), Somathilake and Udaya Kumara (2015)
		Profitability (Return on Equity)	ROE	Profit after interest and tax / Total equity fund	Waworuntu, Tjahjanaand Rusmanto (2014), Almazari (2012), VintilaandGherghina (2012)

4.Discussions of Findings

This section contains results of descriptive statistics and panel regression analysis. Descriptivestatistics is used for describe the characteristics of selected all variables and panel regression is used for hypotheses testing.

4.1. Descriptive Statistics

In order to describe the basic characteristics of all selected variables of the study, Table 02 presents the descriptive statistics of the data, containing mean, median, maximum and minimum values, standard deviation, skewness and kurtosis.

Table 2: Descriptive Statistics of Study Variables

Variables Statistics	*DE*	*BS*	*BI*	*DUAL*	*BM*	*FS*	*ROE*
Mean	1.098	8.332	0.960	0.164	0.912	22.849	0.191
Median	0.640	8.000	1.000	0.000	1.000	22.850	0.118
Maximum	57.538	13.000	1.000	1.000	1.000	25.466	3.685
Minimum	0.001	4.000	0.000	0.000	0.000	17.401	-0.887
Std. Dev.	3.682	1.864	0.196	0.371	0.284	1.218	0.388
Skewness	14.506	0.371	-4.695	1.815	-2.909	-1.413	5.067
Kurtosis	222.647	2.352	23.042	4.294	9.460	8.763	38.142
Observations	250	250	250	250	250	250	250

Source: Results of E-view Software

Table 02 shows that basic characteristics of all selected variables of top 50 turnover non- financial companies in Sri Lanka for the sample period from year 2011 to 2015. The mean value of debt to equity ratio is about Rs.1, indicating that higher turnover non- financial companies have capital sources (equityand debt) in one to one ratio. It means that companies have Rs.1 equity for the obligation of Rs.1 debt. However, the companies should have equity fund more than total debt or at least Rs.2 equity for the obligation of Rs.1 debt. The maximum and minimum values of debt to equity are Rs.57.5 and Rs.0.001 with the standard deviation Rs.3.682. The average number of directors of higher turnover non- financial companies is about 8 members. It is supported by Wellalage and Locke (2012), Guo and Udaya Kumara (2012), Azeez (2015) and Nazar and Rahim (2015) who found average number of directors is 8 members in non- financial companies in Sri Lanka. The maximum and minimum number of directors are 13 and 4 with standard deviation about 2 members and positively skewed.

The board independence show that 96% of top 50 turnover non- financial companies have at least two independent directors or one third of total directors are independent directors for the sample period from year 2011 to 2015. The mean value of CEO Duality is 0.164 which is indicated that 16.4% of top 50 turnover non- financial companies have a person holding roles of CEO and Chairman for the selected sample period. The remaining 83.6% of top 50 turnover non-financial companies have separate leadership style (separation of the roles of CEO and Chairman). The mean value of board meeting is 0.912 which is indicated that 91.2% of top 50 turnover non-financial companies held board meeting at least once per quarter in a financial year.

The mean value of selected board structure characteristics except board size show that majority top turnover non-financial companies in Sri Lanka are consist with code of best practices on corporate governance for 2013 of Sri Lanka. It means that majority top turnover non- financial companies have at least two independent directors or one thirdof total directors are independent directors and also majority top turnover non- financial companies have separateleadership style and board meeting held at least once per quarter in a financial year. Thus majority top turnover non- financial companies have been satisfied therecommendations of code of best practices on corporate governance for 2013 of Sri Lanka. However, the code does not give recommendation on minimum number of directors should be seated at the board since size of companies is varied.

4.2. Panel Regression Analysis

The study covers cross and time series data with 50 sample companiesand sample period 5 years to investigate the impact of board of directors' characteristicson capital structure decision. Thus the study is used panel regression analysis for examine the objectives of the study. This section has subsections to check first whether two independent variables are highly correlated, before running the regression analysis.One of the basic assumptions of the regression model is that there is no exact linear relationship between any of the independent variables to avoid producing of spurious empirical results. A strong linear correlation between independent variables would suggest that two independent variables could be substituted for one another, and the variable with a low influence on the dependent variable could be eliminated.The next subsection isto choose suitable panel regression model and applying selected model for the hypothesis testing.

4.2.1. Multicollinearity Testing

The study has been applied the variance inflation factor (VIF), tolerance and Durbin- Watson to check multicollinearity among independent variables. For this purpose, the study has used the SPSS statistical software. Table 03 shows the values of variance inflation factor (VIF), tolerance and Durbin- Watson of selected board of directors' characteristics with controlling variables of the study.

Table 3: Results of Multicollinearity Testing

Variables	*Collinearity Statistics*		*Durbin Watson*
	Tolerance	*VIF*	
BS	0.893	1.120	1.978
BI	0.927	1.079	
DUAL	0.870	1.149	
BM	0.948	1.055	
FS	0.918	1.089	
ROE	0.939	1.065	

Source: Results of SPSS Software

Three statistics have been used in this study to check the multicollinearity among independent variables. These statisticssay that the multicollinearity problem exits while any of the independent variable has tolerance value above or equal to 1 or VIF value greater than 5/10 orDurbin Watson value of selected independent variables is excess of 2.5. Thus, table 03 shows that absence of multicollinearity among selected independent variables including selected controlling variables since all statistics are not exceeds minimum values. Thus, the studycan be run the regression model with all selected independent variables including selected controlling variables to investigate the impact of board of directors' characteristics on capital structure decision of higher turnover non- financial companies in Sri Lanka.

4.2.2. Selecting Appropriate Regression Modelfor the Panel Data Set

The study is mainly used E-view software for panel regression analysis for hypotheses testing. Thus panel regression has three model namely fixed effect model, random effect model and pooled effect model. Thus the study should be selected appropriate model among three model for the panel data set of this study to examine the objectives of the study. For appropriate model selection,the first stage is to comparing fixed effect model and random effect model and selects any one of the model from result of Hausmantesting. If the fixed effect model is selected, then comparing fixed effect model with pooled effect model and selects any one of the model from result of Wald testing.

The table 04 shows the results of Hausman test and Wald test.

Table 4: Results of Hausman Test and Wald Test

Test Type	*Test Statistic*	*Degree of Freedom*	*P-value*	*Test Result*
Hausman test	23.14	6	0.0007	Fixed effect model
Wald test (F- statistics)	5.54	6, 194	0.0000	Fixed effect model

Source: Results of E-view Software
Model is accepted at 5% significant level.

The table 04 shows that probability value of Hausman test is less than 0.05 significant value. Therefore, the null hypothesis is rejected and alternative hypothesis is accepted. It means that fixed effect model is appropriate regression model from comparing it with random effect model. Furthermore, the probability value of F-statistics is also less than 0.05 significant value. Thus, at the second stage also, null hypothesis is rejected and alternative hypothesis is accepted. It means that fixed effect model is most appropriate regression model from comparing it with pooled effect model. Thus, Hausman test and Wald test reveal that fixed effect model is most appropriate regression model than other two models namely random effect model and pooled effect model, to investigate objectives of the study.

4.2.2.1.Panel Regression Analysis of Fixed Effect Model

Table 5: Results of Panel Regression Analysis of Fixed Effect Model

Variables	*Coefficients*	*t-statistics*	*P-value*
Intercept	35.959	1.686	0.093
BS	0.502	1.472	0.142
BI	0.081	0.055	0.957
DUAL	-2.144	-0.564	0.574
BM	4.450	3.380	0.001
FS	-1.917	-2.021	0.045
ROE	5.127	3.502	0.001
R-squared	0.355		
Adjusted R-squared	0.172		
F-statistic	1.940		
P-value (F-statistic)	0.001		
Durbin-Watson stat	2.359		

Source: Results of E-view Software
Significant level is tested at 1%,5% and 10%

As Table 05 reports that the value of R Square is 0.355. It is statistically concluded that 35.5 of variation in capital structure decision is explained by the variation in board of directors' characteristics with considering controlling variables namely firm size and return on equity. The remaining 64.5% of the variation in capital structure decision is attributed to other variables which are not considered in this study. The F-value is 1.940 which is significant at 1%. Thus, it is statistically concluded that the model is fits to investigate the impact of board of directors' characteristics on capital structure decision of higher turnover non- financial companies in Sri Lanka. The Durbin-Watson show that absence of multicollinearity between independent variables including selected controlling variables since its value is less than to 2.5.

Table 05 summaries regarding to probability value of each selected board of directors' characteristics that board meeting has significant and positive impact on capital structure decision while other selected board of directors' characteristics namely board size, board independence and separation of the role of chairman and CEO have insignificant impact on capital structure decision. In selected controlling variables, firm size has significant and negative impact on capital structure decision while profitability has significant and positive impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.

4.3. Summary of Hypotheses Testing

Table 6: Hypotheses Testing

	Hypotheses	*Accepted*	*Rejected*
H_1	Board size has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.		✓
H_2	Board independence has a significant impact on capital structure decision of higher turnover non-financial companies in Sri Lanka.		✓
H_3	Separation of the role of chairman and CEO has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.		✓
H_4	Board meeting has a significant impact on capital structure decision of higher turnover non- financial companies in Sri Lanka.	✓	

5.Conclusions

The finding of the study reveals that at higher turnover non-financial companies which have less total assets and higher profitability, board meeting has only significant and positive impact on capital structure decision and other selected board of directors' characteristics namely board size, board independence and separation of the role of chairman and CEO have no significant impact on capital structure decision for the period from year 2011 to 2015. It is consist with Priya and Nimalathasan (2013), Kajanthiran (2012), Peiris and Fernando(2013), Ajanthan (2013), Achchuthan et al (2013) and Velnamphy and Nimalthasan (2013) who also found that board size, board independence and separation of the role of chairman and CEO have insignificant impact on capital structure decision of non- financial companies. Further, insignificant impact of board size is consisting with all previous findings of Sri Lanka. Thus, the number of director is not an important for capital structure decisions since it is varied for company to company and none of evidences stated the optimum number of directors wants to seat at the board for the effective decision making of non-financial companies in Sri Lanka.

The mean value of board independence and CEO Duality show that 96% of higher turnover non- financial companies have at least two independent directors or one third of total directors are independent directors and 83.6% of higher turnover non- financial companies have separate persons to functioning roles of CEO and Chairman for the sample period from year 2011 to 2015. It is revealed that majority of higher turnover non- financial companies have been satisfied the recommendations of code of best practices on corporate governance for 2013 of Sri Lanka which is stated that a corporation should have independent directors at least two or one third of total directors and should have separate persons to functioning role of CEO and Chairman. However, the regression coefficients of board independence and separation of the role of chairman and CEO show that insignificant impact of those characteristics on capital structure decisions. It is not supported with code of best practices on corporate governance of 2013 of Sri Lanka which is also stated thatrecommendations of those characteristics should significantly support for the effective corporate decisions. Thus, the finding of the study show that number of independent directors and separation of the role of chairman and CEO have no important for capital structure decisions of higher turnover non- financial companies in Sri Lanka.

However, 91.2% of higher turnover non-financial companies held board meeting at least once per quarter in a financial year and it has significant and positive impact on capital structure decisions. It reveals that board meeting held at least once per quarter in a financial year is important for effective capital structure decisions of higher turnover non- financial companies in Sri Lanka. It is consist with code of best practices on corporate governance of 2013 of Sri Lanka which is recommended that corporation should held the board meeting at least once per quarter in a year for effective corporate decisions.

The findings of the study provides guidelines for policy makers and regulators to set better rules or revises their existing regulations or hold at same stage to be followed and adopted by non- financial companies in Sri Lanka. It is also supported to management body of non-financial companies to get clear understanding about their corporate governance quality status then allowing them to enhance their corporate governance system.

This study was only selected board of directors' characteristics to examine its impact on capital structure decisions of higher turnover non- financial companies. However, there is another pieces of corporate governance system is ownership structure (Shareholding). Thus future investigation can be comprised characteristics of ownership structure and board structure to examine those characteristics impact on capital structure decisions of higher turnover non-financial companies and find out which component of corporate governance system has more impact on capital structure decisions. Furthermore, the future study can be extended it into comparative study between financial and non-financial companies.

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