
CORPORATE GOVERNANCE ATTRIBUTES AND FIRMS' CAPITAL STRUCTURE: EVIDENCE FROM LISTED COMPANIES IN SRI LANKA

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Abstract

Determining an optimal mix of capital structure is crucial and difficult. Corporate governance will assist in reducing the agency problem and ensure firm success through strict monitoring and proper utilization of firm resources. Thus, firms will eventually have better access to debt and equity at lower cost. This study examines the impact of corporate governance attributes on capital structure of listed non-finance companies in Sri Lanka. The sample of the study consisted of a panel of 50 main board listed companies; which covers all the non-financial sectors of Colombo Stock Exchange for three-year period from 2016 to 2018. Since there is no specific research carried out on examining corporate governance attributes and capital structure on main board listed non finance firms of Sri Lanka; hence this research has made a substantial contribution to the local literature. Multiple regression analysis was employed to analyze the variables. Further this study finds a significant and negative relationship between CEO duality and capital structure. This suggests splitting the key organization roles of CEO and chairmanship will leads to employing less debt in capital structure. This research study finds except for CEO duality, other corporate governance attributes has lesser implications on the capital structure due to companies are currently following the corporate governance code and it will not create a direct background as an impact factor on financing decisions. Further the findings are assisting firms to strengthen their internal corporate governance mechanism.

Keywords: corporate governance, capital structure, debt capital, non-finance, Sri Lanka

1.Introduction

1.1 Background of the Study

Corporate governance is all about within the firm there are appropriate measures to protect the interest of all stakeholders. Since managers are an internal party has more information available than the outside shareholders which lead to information asymmetry problem thus it creates managers to participate in wealth expropriation. Similarly, the agency problem arises when the managers are functioning as agents on behalf of shareholders of the firm. In finance literature different mechanisms and strategies are proposed to minimize the agency problem as well as information asymmetry problem. One of the important mechanisms suggested was corporate governance. Corporate governance practices minimize agency problems by limiting opportunistic behavior of the managers and facilitate for more information flow towards other stakeholders (Bushman & Smith, 2001).

1.2 Research Problem

The managers key objective of wealth maximization of the firm needs to achieve by taking appropriate decisions at right time. As suggested, the managers need to consider about the optimal mix of capital in order to maximize the wealth. The firms required capital to venture into new businesses and to carry out daily operations. Any organization will be sourcing required funding through different debt or equity sources while capital structure consists from these two sources for any given entity. Capital structure of a company also refers to a mixture of borrowings, equity shares and reserves. As organizations focused on achieving wealth maximization; its vital to take effective decisions in terms of capital structure. In an increasing dynamic environment; entities in the modern days specifically impacted by factors such as competition, regulations, technology and economic conditions. Hence it's vital to make appropriate and effective mix of finances after considering all the aspects to have survival and going concern of the entity. According to Graham & Harvey (2001) and Bancel & Mitto (2004) the optimum mix of equity and debt components is vital for company future success. Past literature has elaborated the association between corporate governance practices and capital structure (Friend & Lang, 1988; Berger et al., 1997). Further Claessens et al. (2002) explains that firms are benefited on accessing to different external financing sources at lower cost of capital; if better corporate governance mechanism are in place within the firm. Similarly, Anderson et al. (2003) describes corporate governance practices will assist in strict monitoring, effective control systems and proper utilization of firm resources. Thus, organizations will ultimately have well access to debt and equity at lower cost. Hence as explained, corporate governance practices of a firm are an integral factor impacting on capital structure.

There is no universally accepted set of corporate governance mechanisms that can be applied to boards, as they depend on business practices and economic conditions of the countries. Similarly developed countries are different from developing countries in terms of political, economical and cultural conditions; so, it's vital to develop unique corporate governance models for each country (Mulili & Wong, 2011). Even though there are variety of literature on capital structure and corporate governance in terms of developed and developing countries; there is a diversity on the results and findings due to applied different conceptual and research methodologies (Shafana, 2016). As well as majority of studies done in developed countries to investigate on relationship between the corporate governance and capital structure while few studies focused on developing countries (Ahmadpour et al., 2012).

Further in Sri Lankan literature there is lack of research that have been focused on covering main board listed all the non-financial sectors of Colombo Stock Exchange. Hence, this research study aims to analyze the impact of corporate governance attributes on the capital structure of Sri Lankan listed non-financial companies.

1.3 Research Objectives

Similarly, the main objective of this research is to analyze the impact of corporate governance attributes on capital structure of listed firms in Colombo Stock Exchange. In addition to the main objective, this research study also focuses on assessing the level/nature of relationship between capital structure and corporate governance attributes. Further this research has articulated the

research questions including why there is an impact of corporate governance attributes on capital structure and what is the level/nature of relationship and association between corporate governance attributes and capital structure.

1.4 Significance of the Study

The outcome of this research is likely to be vital for Sri Lankan listed firms to reinforce their internal corporate governance mechanism as well as in turn it has an impact of accessing to different financing sources at favorable conditions. Importantly this research study attempts to fulfill the empirical gap that can be visible in the Sri Lankan context; while examining all the main board listed non-finance sectors of Colombo Stock Exchange with ability to produce proven significant results based on local empirical evidence. Similarly, this research study support in building policies to govern institutions. Where policy makers/regulators can gain a deeper understanding on the effects of corporate governance attributes to build up policy initiatives.

2.0 Literature Review

2.1 Corporate Governance

According to Cadbury (1992), corporate governance is the mechanism of how companies are monitored. It relates with board of directors' duties and responsibilities towards the organization success and accountable for shareholders at large (Pass, 2004). Strong corporate governance practices are important for improving company performance and reducing risk towards the investors (Velnampy & Pratheepkanth, 2012). Also, presence of good corporate governance practices leads easier access to capital sources at lower cost (Thomson & Bereau, 2009). Further as Keong (2002) suggested, better utilization of resources to enhance performance and better management of the companies can achieved by corporate governance which eventually contribute to enhance share price of the company and overall shareholder wealth. According to Spanos (2005), growth prospects of an economy can achieve by strong corporate governance practices. When strong corporate governance practices are evident in the companies, they can attract more investments. Further the corporate governance practices encourage accountability and transparency on corporate actions towards all the stakeholders which leads to resolving conflicts of interest.

2.2 Corporate Governance in Sri Lanka

In late 1990s corporate governance reforms introduced to Sri Lanka as a best practices code to follow. By 2003 the best practices on corporate governance voluntary code was published. After all, in 2008 Sri Lanka code of best practice on corporate governance was issued and made mandatory all listed companies to follow the requirements for the financial year commencing on or after 1st April 2008 (ICASL & SEC, 2008). Currently every listed firm required to follow 2017 version of Code of best practices on Corporate Governance. This code covers board effectiveness, separation of the CEO and the chairman positions, chairman appointment, non-executive directors, director's training, director's responsibility for the presentation of financial statements, reviewing internal controls and establishing audit committee, nomination committee and remuneration committee within the board. These reforms in corporate governance practices

play a vital role to enhance reliability of public financial information, achieve efficiency in capital markets and improve investor confidence.

2.3 Corporate Governance Theories

The theoretical viewpoints that are applicable to this research study is based on the governance structures and reporting mechanisms.

2.3.1 Agency Theory

Majority of research in corporate governance originates from agency theory. According to Berle & Means (1932) separation of ownership which results in principal agent problem is the underlying base for the corporate governance. In this context principles are the shareholders of the company and managers act as agents (Mallin, 2004). As per the agency theory shareholder wealth maximization is the primary responsibility of the board. Information asymmetries has created uncertainty in principal and agent relationships (Deegan, 2004). The managers can take actions that would not in line with shareholder interest due to their firm specific knowledge and expertise. Hence monitoring mechanisms are required to protect shareholder interest and to make managers accountable (Jensen & Meckling, 1976).

2.3.2 Stewardship Theory

Compared to agency theory, stewardship theory has different viewpoint in terms of management where its emphasis that managers as stewards act in the best interest of shareholders (Donaldson & Davis, 1991). According to Smallman (2004) stewards has a clear mission on organizational success as they are focused on maximizing shareholder wealth which in turn maximizes stewards' utilities as well. Further he emphasized that stewards try to balance out requirements of different stakeholders and the theory elaborates stewards try to minimize the tensions of each interested parties.

2.3.3 Stakeholder Theory

This theory elaborates that the board of directors not only has responsibility towards shareholders but all the stakeholders at large (Smallman, 2004). The spectrum has been increased from narrow to broader set of stakeholder parties which linked to social, environmental and ethical considerations (Donaldson & Preston, 1995; Freeman, 1984; Freeman, Wicks, & Parmar, 2004). This theory endorse that all the managers need to focus on different stakeholder and interested parties' requirements and fulfill those as required.

2.4 Capital Structure Theories

Capital Structure of an organization is a mixture of diverse funding sources and the capital structure theories give proper guidance to decide on appropriate mix of debt and equity capital components.

2.4.1 Modigliani and Miller Theory

One of the most discussed theory under capital structure domain. According to Modigliani & Miller (1958), value of a firm is not affected by how the firm is financed from different financing sources. This is based on several assumption such as market is efficient, have no taxes and transaction costs. Further as explained by the theory; the dividend policy has no impact on the

capital structure. Hence this theory based on capital structure irrelevance principle. The theory was criticized for the assumptions used to build the outcomes. Subsequently Modigliani & Miller (1963) updated the theory with integrating tax affect. While keeping the rest of the original assumptions, the theory considered tax advantage on interest payments. Hence when higher the gearing of firm it will lead to higher value than an unlevered firm.

2.4.2 Trade off Theory

This theory explains any company required to employ debt in the capital structure; need to calculate the cost of adding debt and benefits of adding debt to achieve optimal capital structure. Tax savings in debt payments are the benefits adding debt (Modigliani & Miller, 1963) while increase in financial distress considered as debt costs (Kraus & Litzenberger, 1973). If marginal costs of additional debt exactly offset with marginal benefits of additional debt leads to the optimal mix of firm capital structure (Fama & French, 2006).

2.4.3 Pecking Order Theory

Pecking order theory describes all the companies are following sequence order of financing sources. According to Myers (1984) companies follow order of financing due to market signaling problems related sources of finance. Since managers has insider information than any other party, they cautious about signaling to the market about their growth strategies. To mitigate this, they start with financing through internal retained earnings. Then moving onto external debt financing and finally through share issue.

2.4.4 Market Timing Theory

This theory elaborates based on market sentiments the firm will take necessary decisions of capital structure. According to Baker & Wurgler (2002) company shares are repurchased from the market when it's undervalued and on the other hand if it's overvalued; issue shares to the market. The cumulative effect of these decisions will reflect on the capital structure.

2.5 Empirical Studies

Mudalige & Ekanyake (2015) analyzed the impact of corporate governance on the capital structure decisions by examining the number of board meetings, number of non-executive directors, managerial ownership and institutional ownership through multiple regression. The analysis was carried out for 30 manufacturing firms which were listed on the Colombo Stock Exchange from 2008 to 2012. Further it reveals that number of board meetings and number of non-executive directors' variables are significant and positively related to capital structure. However, managerial ownership and institutional ownership variables are significant but negatively related to capital structure. Whereas Wellalage & Locke (2012) investigated on corporate governance and capital structure decision of Sri Lankan listed firms using a sample of 113 firms listed in Colombo stock exchange from 2006 to 2010. It reveals managerial ownership and CEO duality is significant and positively related with capital structure. Also, non-executive directors identified as a significant variable with having negative relationship with capital structure. Somathilake & Udayakumar (2015) analyzed the effect of corporate governance attributes on capital structure by examining the CEO duality, board size, board committee and board composition of non-executive directors through multiple regression taking firm size, profitability, liquidity as controlled variables. They further reveal that board composition of non-

executive directors was significant and positively related with capital structures. The analysis was carried out for 31 manufacturing firms which are listed on the Colombo Stock Exchange from 2011 to 2013. Further, Bulathsinalage & Pathirawasam (2017) investigated on the effect of corporate governance on firms' capital structure of listed companies in Sri Lanka using a sample of 138 firms which are listed on the Colombo stock exchange from 2009 to 2013. The study reveals that proportion of non-executive directors and board committees has a significant and positive relationship with leverage.

On the view of overall literature review, it's evident that the corporate governance attributes have significant impact on capital structure based on the empirical studies carried out in Sri Lankan market. Further, the literature review demonstrates that most of the previous studies has not covered all the main board listed non-financial sectors of Colombo Stock Exchange. Therefore, as highlighted previously, the purpose of this research is to bridge the gap identified in the literature and investigate the impact of corporate governance attributes on the capital structure of Sri Lankan listed non finance companies. Hence the applicable hypotheses developed based on prior evidences.

2.6 Development of Hypotheses

H1: CEO Duality has a negative relationship with the company capital structure

The evidence related to relationship between the CEO duality variable and firm capital structure is have mixed results and inconclusive. Further this variable was measured by dummy variable "0" for combined & "1" for separate leadership (Vakilifard et al., 2011). According to Marand et al. (2014), CEO duality within the organization will leads to lower debt employed in the capital structure. This argument was further empirically supported by Nazir et al. (2012) through a study conducted using 269 non-financial firms for the period of 2004 to 2009.

H2: Board Size has a positive relationship with the company capital structure

The board of directors of a company is responsible for managing overall business functions and makes appropriate strategic decisions at right time. However, the empirical evidence of relationship of the association between board size and capital structure is mixed as well as measured by number of directors on the board (Vakilifard et al., 2011). According to Abor (2007); Ahmadpour et al. (2012); Saad (2010); Gill et al. (2012); Ganiyui & Abiodun (2012) and Sheikh & Wang (2012) higher number of board positions will leads to more debt employed in the capital structure. Similar findings were revealed by Kajanathan (2012) and Wellalage & Locke (2012) in the Sri Lankan context. In addition to the above findings Coles et al. (2008) found a positive relationship between board size and debt ratio in the US context. According to Anderson et al. (2003), firms with large board members will lead to lower costs of debt and this was further supported by Jensen (1986) and Wen et al. (2002).

H3: Number of non-executive directors has a positive relationship with the company capital structure

The evidence related to relationship between number of non-executive directors in the board (Sheikh and Wang, 2012) and company capital structure is conclusive. Non-executive directors play a vital supervisory role in the board while questioning the strategic decisions of executive directors (Waduge, 2010). As per the current corporate governance code of Sri Lanka at least

two non-executive directors or one third of the board should be consist with non-executive directors. Abor (2007), Sheikh & Wang (2012) and Kajanathan (2012) reveals that board which consist with higher number of non-executive directors will employ more debt in the capital structure. Further Kajanathan (2012) explains that non-executive directors will make top management accountable for the shareholders as well as try to minimize the agency problem. Thus, in turn leads to higher debt policy in the firm. Since non-executive directors are independent from the management, they will deliver unbiased decision making for the betterment of overall shareholder interest (Dalton et al., 1998). Hence it's vital to have more independent non-executive directors on the board (Liu and Fong, 2010).

H4: Board committees has a positive relationship with the company capital structure

Analyzing the impact of board committees measured by the number of board committees (Bukahri & Zakariya, 2012 and Kajanathan, 2012) on the capital structure is important. The appointment of remuneration, audit and nomination committees were recommended by Sri Lanka's code of best practice on corporate governance (2008). Also, Kajanathan (2012) found when there are more board committee's exits it will lead to a higher debt ratio in Sri Lankan manufacturing firms.

This was supported by Achchuthan (2013) where he reveals there is a significant and positive relationship between board committees and capital structure. Further Bukahri & Zakariya (2012) identified there is significant and positive relationship between the audit committee and capital structure.

3.0 Research Method

3.1 Data and Sampling Procedure

Secondary data are gathered by referring to annual reports of 50 main board listed non-financial sector companies in Colombo Stock Exchange for the years from 2016 to 2018. Only focused on main board listed companies since those firms are well complied with listing rules. This research has followed probability sampling where the stratified sampling technique has been used. From each sector randomly selected the sample of 50 firms. The selected sample covering all non-financial sectors of Colombo Stock Exchange.

3.2 Econometric Model

This research is based on the following econometric model.

$$\text{DEBT RATIO}_{it} = \beta_0 + \beta_1 \text{CEODUAL}_{it} + \beta_2 \text{BOARDSIZE}_{it} + \beta_3 \text{BOARDCOMP}_{it} + \beta_4 \text{BOARDCOMMI}_{it} + \beta_5 \text{FIRMSIZE}_{it} + \beta_6 \text{PROFIT}_{it} + \epsilon_{it}$$

3.3 Operationalization of the Variables used in the Model and Hypotheses

Based on literature review referring to the most accepted models; independent and dependent variables are identified as in the model. Therefore, CEO duality (CEO DUAL), Board size (Board Size), Board composition (Board Comp) and Board committees (Board Comm) has been identified as the key independent variables on capital structure and controlled by firm size

(FirmSize) and profitability (Profit). These variables have been considered as significant variables in prior similar researches.

3.4 Operationalization of Other Variables

Table 1 – Operationalization of Variables

Variables	Measurement	Prior Literature	Symbols
Debt ratio	Total debt / (Total debt + Equity)	Berger et al. (1997) and Wang et al. (2014)	DEBTRATIO
Firm size	Natural logarithm of total assets	Chen et al. (2014) and Boateng et al. (2017)	FIRMSIZE
Profitability	Profit before interest & tax / Total assets	Boateng et al. (2017)	PROFIT

4.0 Statistics and Data Analysis

4.1 Descriptive Statistics

The descriptive statistics define the basic features of the subject variables of the sample. The below table 2 descriptive statistics of corporate governance attributes provide evidence on the extent of compliance by the Sri Lankan firms with Corporate Governance code in Sri Lanka.

Table 2 – Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Debt Ratio	150	0.1852	0.1875	0.0001	0.9345
CEO Duality	150	0.8600	0.3481	0	1
Board Size	150	9.1866	2.5472	5	16
Board Composition	150	0.7431	0.1604	0.3636	1
Board Committee	150	4.4200	1.6879	2	12
Firm Size	150	24.045	1.6319	19.3121	27.8960
Profitability	150	0.6907	0.2827	-3.0642	0.6028

The sample consists with 150 firm year observations. According to the table 2 mean value of debt ratio for the sample study is 18.5% and which has a range of 0.00% to 93.4%. The mean debt ratio of 18.5% implies on average the companies have 18.5% debt capital in their capital structure. As per the above table approximately 86% of the sample study firms; split the CEO role with chairmanship and on average 4 board committees were present in sample study firms. The average board size of the sample firms was 9 and it's in line with minimum requirement of code of best practice on corporate governance in Sri Lanka. The mean percentage of Non-executive independent directors of the sample firms were reported as 74 percent and it also complied with the minimum requirements recommended by the code of best practice on corporate governance in Sri Lanka. 6.90% reported as mean firm profitability of the sample firms.

4.2 Testing Outcomes

For the evaluation of results pooled regression was not considered since pooled regression was not the most suitable regression model to evaluate panel data sets and pooled regression is consist with joint effect of variables. Hence random effect model and fixed effect model considered. Hausman test was used to selects the most suitable model from fixed and random effect. As per the Table 3, data set has a coefficient variance of 0.9448 which is higher than 0.05 (P>0.05); which prove that the coefficients have no systematic difference and accept the null hypotheses accordingly. Accepting null hypotheses implies that the accurate model to use is random effect model. Hence, the random effect model outcomes were considered for the analysis.

Table 3: Hausman Test Data

Variable	Coefficient (b) Fixed	Coefficient (B) Random	(b-B) Differences	Sqrt (diag (V_b-V_B)) S.E.
CEO Duality	-0.1868	-0.1282	-0.0585	0.0631
Board Size	0.0067	0.0014	0.0053	0.0088
Board Composition	-0.1698	-0.1459	-0.0238	0.1705
Board Committee	0.0006	0.0116	-0.0109	0.0363
Firm Size	-0.0093	-0.0146	0.0052	0.0296
Profitability	-0.0636	-0.0654	0.0017	0.0133
Constant	0.6365	0.6958	-0.0592	0.7506
Test Ho: difference in coefficients not systematic				
Chi2 (7) = (b-B) ' [(V_b-V B)^(-1)] (b-B)				
= 2.25				
Prob>chi2 = 0.9448				

4.2.1 Random Effect

This model includes random disturbances effect on variables. The outcome as follows,

Table 4 – Random Effect Data

R-Squared				
Within	0.1073			
Between	0.0699			
Overall	0.0749			
Probability>F				
	0.0226			
Variable	Coefficient	Standard Errors	Z	P>[t]
CEO Duality	-0.1282	0.0568	-2.26	0.024**
Board Size	0.0014	0.0075	0.19	0.850
Board Composition	-0.1459	0.1279	-1.14	0.254
Board Committee	0.0116	0.0171	0.68	0.499
Firm Size	-0.0146	0.0172	-0.85	0.397
Profitability	-0.0654	0.0336	-1.95	0.052
Constant	0.6958	0.3804	1.83	0.067

4.3 Discussion and Results Analysis

As per the above table 4 regression output, the following conclusions can be derived. Considered independent variables together of the model able to describe 7.49 percent variation of the dependent variable of debt ratio. Therefore, the model is fit to the data. Whereas F value is 0.026; implies that the overall model is significant at 5% level ($F < 0.05$) and linear relationship assumptions are not violated. Constructed hypothesis tested through the results of random effect model regression. CEO duality variable is statically significant ($P < 0.05$) and shows a negative relationship with debt ratio at the 5% significance level, indicating split of main roles of the organization will lead to lesser debt in the capital structure due to the decision makers have different perceptions on debt financing. Therefore, constructed null hypothesis (H_0) rejected and accepted alternative hypothesis (H_1). This finding is consistent with Vakilifard et al. (2011) and Marand et al. (2014), where they reveal similar relationship. As a corporate governance attribute; the CEO duality is governed to protect the shareholder interest in terms of one person does not have all superior decision-making power on firm actions. As in line with the principle; a single person cannot decide and borrow excessive debt for firm operation and misuse the funds. Since power delegation between CEO and chairman will lead to lesser agency conflicts (Sheikh & Wang, 2011) and in turn borrow lesser debt by the firms.

Furthermore, this study reveals board size variable is statistically insignificant ($P > 0.05$) and no systematic relationship between board size and debt ratio; thus, indicating board size has no impact on leverage as a corporate governance attribute. Therefore, constructed null hypothesis (H_0) accepted and rejected alternative hypothesis (H_2). This finding is consistent with Somathilake & Udayakumar (2015) where they found similar insignificant relationship between

firm board size and debt ratio. Whereas board composition variable is statistically insignificant ($P > 0.05$) at 5% significance level, indicating presence of non-executive directors has no significant impact on determining the debt levels in capital structure of Sri Lankan firms. Therefore, constructed null hypothesis (H_0) accepted and rejected alternative hypothesis (H_3). The negative relationship between presence of non-executive directors and debt ratio is consistent with Jensen (1986) and Wen et al. (2002) claim due to non-executive directors stringent monitoring will lead low level of debt financing of firm operations. Though the coefficient of board committee variable is positively related with firm debt level, it is statistically insignificant ($P > 0.05$) at 5% significance level, indicating presence of more board committees has no significant impact on determining debt levels in capital structure of Sri Lankan firms. Therefore, constructed null hypothesis (H_0) accepted and rejected alternative hypothesis (H_4).

In view of the control variables, firm size variable is statistically insignificant ($P > 0.05$) at 5% significance level, hence there is no systematic relationship on debt ratio and demonstrating firm size has no effect on determining debt component in capital structure of Sri Lankan firms. Similarly, the coefficient of profitability variable is negative and statistically insignificant ($P > 0.05$) at 5% significance level. Hence there is no systematic relationship on debt ratio and indicating profitability has no impact on determining debt levels in capital structure of Sri Lankan firms. The negative relationship between profitability and debt ratio is in line with pecking order theory, where rich retained earnings firms tend to borrow less debt and firstly finance through internal funds (Sheikh & Wang, 2011).

4.4 Hypothesis Testing

Based on above results, the hypothesis testing outcome can be summarized as follows.

Table 5 – Hypotheses Testing Conclusion

Hypothesis		Result	Conclusion	Tool
H1	CEO Duality has a negative relationship with the company capital structure	0.024	Significant Supported	- Random Effect
H2	Board size has a positive relationship with the company capital structure	0.850	Not Significant Not Supported	- Random Effect
H3	Number of non-executive directors in the board has a positive relationship with the company capital structure	0.254	Not Significant Not Supported	- Random Effect
H4	Board committees has a positive relationship with the company capital structure	0.499	Not Significant Not Supported	- Random Effect

5.0 Conclusion

As per the research outcome, only CEO duality variable is statistically significant and have negative relationship with the capital structure. Hence results of the test confirmed the hypothesis for CEO duality variable and rejected all other hypothesizes. When CEO duality exists, the firms will borrow less debt, and this considered as a great indication that the firms are not borrowing excessive debt and misuse. As the corporate governance code suggested the firms need to split the roles of CEO and chairmanship in order to have better transparent decision making and to take decisions in the best interest of shareholders. This was further supported by Wellalage & Locke (2012); Nazir et al. (2012) and Marand et al. (2014) and in line with agency theory as well. While firms can borrow optimal required debt level after considering all the relevant factors.

Furthermore, results indicate split leadership is preferred more than joint leadership. The findings of the research are in line with corporate governance recommendations in other developed and emerging markets. While separation of CEO and chairman roles will lead to greater potential to resolve agency conflicts evident in the firms. Therefore, based on overall outcome can conclude that except for CEO duality variable other corporate governance attributes have lesser implications on financing decisions in Sri Lankan firms. This is due to every company currently following the corporate governance code and it will not create a direct background as an impact factor on financing decisions.

Based on the empirical evidences; it can conclude that corporate governance attributes up to a certain extent have an impact on firm's capital structure. As a reinforce of internal corporate governance mechanism has an impact of accessing to different financing sources at favorable conditions. Compared to developed countries, complying with corporate governance code is less in Sri Lanka. Hence its recommended all listed firms to adopt entire corporate governance attributes of the best practices code in order to enhance the integrity on capital markets at large.

Nevertheless, current study does have limitations that point to possibly fruitful future research studies. The study has been considered only sample companies of non-financial sectors in the Colombo Stock Exchange (CSE). Therefore, the research findings cannot generalizable for the research subject. Also, this study limited to four corporate governance variables which considered under the conceptual framework. But there are many other corporate governance attributes that can have potential impact and implications on firm capital structure. Limiting the generalization of results and findings due to economic, cultural and regulation differences evident in other emerging markets and developed markets. Thus, the following suggestion can be elaborated to overcome the research limitations. Expand the sample size to cover all the non-financial firms in the Colombo Stock Exchange (CSE). Further consider other relevant corporate governance attributes in research models on both emerging and developed markets to achieve global comparability.

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