

Corporate Governance Practices and Capital Structure: A Case in Sri Lanka

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Abstract

The purpose of the study is to find out the significant mean difference in the capital structure among the corporate governance practices, and secondary objective of the study is to suggest the listed Manufacturing companies in the Sri Lankan context to adopt corporate governance practices towards the capital structure. In this view, Twenty eight manufacturing companies listed on Colombo Stock Exchange in Sri Lanka were selected as sample size for the periods, 2009, 2010 and 2011. The one-way Anova (f-test) and independent sample t-test were used to find out the out the significant difference in capital structure among corporate governance practices. Findings revealed that, Corporate Governance Practices contributes significantly to Capital Structure. Board Committee in the Corporate Governance Practices contributes significantly to Capital Structure. And also Capital Structure is not contributed significantly by Board composition, Board Size, Board Meeting, and Leadership Structure in Corporate Governance Practices. Meantime, there is no significant difference in the capital structure in terms of leverage among corporate governance practices of the listed manufacturing companies in Sri Lanka. Due to that, further study should focus on the determinants of capital structure in the listed manufacturing companies to take cues in the financial leverage of the particular companies. Further, suggestion was made that corporate governance rules should be strictly mandated by the Securities and Exchange Commission of Sri Lanka. In addition, political, economic, technological and social & cultural aspects of the Sri Lanka should be considered in the policy framework of the corporate governance.

Keywords: capital structure, corporate governance practices, and listed manufacturing companies

1. Background of the Study

Relations among corporate governance, management turnover, corporate performance, corporate capital structure, and corporate ownership structure have been tested by the various techniques in the significant body of theoretical and empirical literature in accounting and finance (Bhagat & Bolton, 2008). In this context, this study focuses on the corporate governance and capital structure in the Sri Lankan perspective. According to the Australian Standard (2003), the corporate governance is considered as the process, by which organizations are directed, controlled, and held to account. This implies that corporate governance encompasses the authority, accountability, stewardship, leadership, direction, and control exercised in the process of managing organizations. Further, Morin and Jarrell (2001) argued that corporate governance mechanism is a framework that controls and safeguards the interest of the relevant players in the market which include managers, employees, customers, shareholders, executive management, suppliers, and the board of directors. Comparing with the approach of Australian Standard, Morin and Jarrell (2001) have jointly approached the corporate governance in the holistic way; it implies that, corporate governance practices are the strategies which should be formulated, in line with the short, medium, and long term objectives of the company with the interest of stakeholders.

Global financial crisis points out the importance of a strong corporate governance and financial management for a company that has to deal with effects of unexpected crises and uncertainties that bear future business events. Effective financial management decisions in the field of horizontal and vertical structure of capital, insurance of short-term and long-term capital, maintaining liquidity and solvency are viewed as a key function in the creation of competitive advantages (Mulili & Wong, 2011; Bebhuk & Weisbach, 2010). In this way, Capital structure decision is also the vital one since the profitability of an enterprise is directly affected by such decision. The

successful selection and use of capital is one of the key elements of the firms' financial strategy. Further, Debt creation enables managers to effectively bond their promise to pay out future cash flows. Thus, debt can be an effective substitute for dividends, this issue generally is not recognized in the finance and accounting literature. When firms take the strategic decision as issuing debt in exchange for stock, firms should have the responsible to pay the interest from the future cash flows. Meantime, increased leverage also has costs. As leverage increases, the usual agency costs of debt rise, including bankruptcy costs. Therefore, the firms should focus on the optimal debt- equity ratio; it is the point at which firm value is maximized, the point where the marginal costs of debt just offset the marginal benefits (Jensen, 1986). Therefore, the study on the corporate governance and capital structure give the tremendous strategic framework to the decision on the optimal debt-equity context. Generally the corporate governance practice is linked with the firm performance. And also, the corporate governance practice recently is linked with the concept as capital structure. Further, in the financial literature, the corporate governance practice and capital structure have not been focused fruitfully yet now (Bhagat & Bolton, 2008).

Corporate governance rules have been mandated by the Securities and Exchange Commission of Sri Lanka. But, researchers have identified the differences between the practices and mandatory issues on the corporate governance in the listed companies except banking institutions in Sri Lanka. In this context, in Sri Lanka, Out of twenty eight listed manufacturing firms, twelve firms have utilized the non executive directors who have the proportion below 70% in board size, and rest of the sixteen firms has utilized the non executive directors who have the proportion beyond 70 % in board size. In the board committees' perspective, Out of twenty eight listed manufacturing firms, four firms have formed the all three committees as Audit, Remuneration, and Nomination, and rest of the twenty four firms has formed the one or two committees in the board structure. Further, in the board meeting context, Out of twenty eight listed manufacturing firms, ten firms have conducted the meetings which have the frequency as one to five meetings per annum, and also another ten firms have conducted the meetings which have the frequency as six to ten meetings per annum , finally rest of firms has conducted the meetings which have the frequency as eleven to fifteen meetings per annum (Velampy, 2013; Achchuthan & Kajanathan, 2013a; Achchuthan & Kajanathan, 2013 b).

Therefore, the study on the corporate governance practices and capital structure will give the benefit to the Sri Lankan society in terms of social, political, economical perspective.

1.1 Research Question

What extent corporate governance practices influence on the capital structure in the Sri Lankan context?

1.2 Objectives of the Study

Based on the Research question, Following objectives of the study have been formulated

- To find out the significant impact of Corporate governance practices on the Capital Structure.
- To find out the significant mean difference in Capital structure among Corporate governance Practices.
- To suggest the listed Manufacturing companies in the Sri Lankan context to adopt corporate governance practices towards the capital structure.

2. Literature Review and Hypothesis Development

2.1 Corporate Governance Practices

2.1.1 Ownership Structure in the Corporate Governance Practices

Corporate governance received much attention during the last two decades owing to certain economic reforms in countries and accidents of economic history such as regional market crisis and large corporate debacles (Bhagat & Bolton, 2008; Dahya , Dimitrov, & McConnell 2008). Scholars normally describe the evolution of the corporate governance in terms of changes in relationship between ownership and control (Chandler, 1977; Fligstein, 1990; Bhagat & Bolton, 2008; Ang, Cole & Wuh lin, 2000). The idea of corporate governance was quickly adopted in different parts of the world but with some major variations because circumstances vary from country to country (Mulili & Wong, 2011). In this context, two main approaches of corporate governance can be identified as Agency theory and Stewardship theory. According to the Kiel and Nicholson (2003), Agency theory is viewed as the separation of control from ownership (Ang et al., 2000). It implies that the professional managers manage a firm on behalf of the firm's owners. Further , the theory suggests that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management (Mulini & Wong, 2011; Mallin, 2004). In agency models, a divergence in the interests of managers and shareholders causes managers to take

actions that are costly to shareholders. Contracts cannot preclude this activity if shareholders are unable to observe managerial behavior directly, but ownership by the manager may be used to induce managers to act in a manner that is consistent with the interest of shareholders (Bhagat & Bolton, 2008). Ang et al. (2000) examined the determinants of agency costs in a multivariate regression framework and found that results support the predictions put forth by the theories of Jensen and Meckling (1976) and Fama and Jensen (1983) about ownership structure, organizational form, and the alignment of managers' and shareholders' interests. Further, the researchers found that agency costs are higher when an outsider manages; costs vary inversely with the manager's ownership share; agency costs increase with the number of non manager shareholders; external monitoring by banks produces a positive externality in the form of lower agency costs. In contrast the Stewardship theory is considered as stake holder's theory. The theory suggests that a firm's board of directors and its CEO, acting as Stewards, are more motivated to act in the best interests of the firm rather than for their own selfish interests (Mulini & Wong, 2011).

H1: There is a significant impact of corporate governance practices on Capital Structure.

H2: There is a significant impact of Board Leadership Structure on the capital Structure.

H3: There is a significant mean difference in the capital structure among the Board Leadership structure.

2.1.2 Board Composition in the Corporate Governance Practices

Literature in the corporate governance considers the corporate board characteristics as important determinants of corporate governance: board independence, stock ownership of board members, and whether the Chairman and CEO positions are occupied by the same or two different individuals (Bhagat & Bolton, 2008). Dahya et al. (2008) conducted the study on Dominant shareholders, corporate boards, and corporate value in 799 firms with dominant shareholders from 22 countries. They found that a positive and statistically significant relation between firm value and the percentage of the board made up of directors not affiliated with the dominant shareholder. This relation is especially pronounced in countries with weak legal protection for shareholders. In addition, they argued that independent directors who can be dismissed by the dominant shareholder have an incentive to monitor the dominant shareholder because failure to monitor could mean a loss in their human capital in terms of the lost opportunities for other board positions. Further, given the risk to their human capital, they argue that independent directors negotiate upfront assurances that they will have the power to monitor well. Thus, the power to monitor arises from the legal environment and by virtue of the pressures imposed by the market for independent directors. Further, they have pointed that number of studies have been conducted on the relation between board composition and firm value in the US context (Agrawal & Knoeber, 1996; Agrawal & Knoeber, 1998; Bhagat & Black, 2001).

H4: There is a significant impact of Board composition on Capital Structure.

H5: There is a significant mean difference in the capital structure among the Board composition.

2.1.3 Board Committees, Board Size, and Board Meeting in the Corporate Governance Practices and Capital Structure

New York Stock Exchange (NYSE) requires the three principal board committees (audit, compensation, and nominating) of listed companies to be composed solely of independent directors to focus on the monitoring activities with commitment (Faleye, Hoitash, & Udi Hoitash, 2012).

Faleye et al. (2012) have suggested two recent developments. The first is the requirement that the principal monitoring committees be entirely staffed with independent directors, while the second is the trend toward smaller board sizes. Further, researches pointed that results will promote public policy that encourages firms to allocate board responsibilities in such a manner as to not over focus independent directors on only one dimension of their duties.

Ryan and Wiggins (2004) examined the relation between director compensation and four proposed characteristics of board independence: board size, board composition, CEO entrenchment, and CEO/chair duality. Findings support the premise that shareholders' economic interests are best served when the board remains independent. To the degree that the board remains independent, director compensation provides incentives more closely aligned with those of the shareholders. To the extent that the CEO has power over the board, the compensation structure provides weaker incentives to monitor. Further, Results imply that director compensation is a reinforcing mechanism. Independent boards, which are generally associated with good corporate governance, receive compensation packages that are more closely aligned with shareholder wealth maximization. When the CEO has greater bargaining power, the board loses independence and director compensation exacerbates agency problems in these firms.

Managers have incentives to cause their firms to grow beyond the optimal size. Growth increases managers' power by increasing the resources under their control. It is also associated with increases in managers' compensation, because changes in compensation are positively related to the growth in sales. Further, the payout of cash to shareholders creates major conflicts with shareholders and managers, because Payouts to shareholders reduce the resources under managers' control (Jensen, 1986). Further, Ravina and Sapienza (2010) investigated the information available to the independent directors sitting on the board of U.S. corporations in order to shed light on their monitoring ability. The findings reveal that independent directors earn positive substantial abnormal returns when they purchase their company stock, and that the difference from the same firm's executives is relatively small at most horizons. Researchers also find that executives and independent directors make higher returns in firms with the weakest governance, the gap between these two widens in such firms, and that independent directors sitting on the audit committee earn higher returns than other independent directors at the same firm. Independent directors also earn significantly abnormal returns when they sell the company stock in a window before bad news and around earnings restatements.

There are some thoughts in the capital structure in the theoretical context. In this way, in the traditional way, Barges (1963) stated that, debt capital is cheaper than equity. The implication of this assertion is that the cost of debt plus the increased cost of equity together on a weighted basis will be less than the cost of equity that existed on equity before debt financing (Olayinka, 2011). Secondly, we have viewed the Modigliani and Miller (1958) theory; they noted that, instruments issued by the firm do not affect a firm's productivity and value. In contrast, trade off theory stated that, since interest payments are tax deductible, raising more debt increases the tax benefits. However, an increase in debt equally increases the probability of default and hence the expected cost of bankruptcy (Olayinka, 2011). Further, Pecking order theory noted the facts interestingly, that corporate managers know more about their company's prospects, risk, and value than do outside investors. According to the theory, companies prefer to finance their projects from internally generated cash flows (Myers & Majluf, 1984; Olayinka, 2011). Signaling effect theory, this has been proposed by Ross (1977). He stated that investors believe higher levels of debt will imply higher quality and higher future cash flows. This means that lower quality firms with higher expected costs of bankruptcy at any level of debt cannot follow the steps of higher quality firms by incurring more debt. Furthermore, there are no universal theory of debt-equity choice and no reason to expect one. All the same, there are several useful conditional theories, each of which helps to understand the financial structure that firm's choose (Olayinka, 2011; Velnampy, 2005; Velnampy, 2010; Nireesh & Velnampy, 2012).

Conflicts of interests between equity- and debt holders are focused in the finance literature. This focus without doubting or questioning assumes that managers pursue stockholders' interests in maximizing shareholder value. But because of the separation of ownership and control by self-interested managers, shareholder-manager conflicts are a dominant characteristic of the corporate world (Berle & Means, 1932). In this context, Chava, Praveen Kumar & Warga (2010) jointly examine the implications of managerial agency risk for the use of bond covenants. Analysis carefully develops the risk to bondholders from managerial entrenchment and fraud and takes into account the three way interaction among bondholders, shareholders, and managers. Further, they pointed that important prediction of framework is that entrenchment can exacerbate and ameliorate bondholder agency risk, because entrenched managers sometimes oppose shareholder Interests to the benefit of bondholders. Moreover, in relation to the risk of managerial fraud, the quality of information regarding the firm's net assets position versus investment opportunities will have a differential impact on the use of investment and subsequent financing restrictions. Further, Bondholders generally use covenants that restrict investment policy, subsequent financing policy, payout policy, and the firm's behavior during takeover bids and financial distress. However, including an ever greater variety of restrictions is not always in the bondholder's interest (Smith & Warner 1979). This is because covenants constrain management's ability to implement policies that improve the firm's operational position and reduce default risk (Chava et al., 2010).

H6: There is a significant impact of Board Committees on Capital Structure.

H7: There is a significant mean difference in the Capital Structure among Board Committees.

H8: There is a significant impact of Board Size on Capital Structure.

H9: There is a significant mean difference in the Capital Structure among Board Size.

H10: There is a significant impact of Board Meeting on the capital Structure.

H11: There is a significant mean difference in the capital structure among Board Meeting.

3. Data and Methodology

3.1 Variables in the Study

In the corporate governance practices, Board Leadership structure, Board composition (Proportionate of non executive directors in the board), Board Size, Board committees, and Board meeting are considered as the key dimensions (Bhagat & Bolton, 2008; Dahya et al., 2008; Faleye et al., 2010; Ryan & Wiggins 2004).

In the capital structure, Debt Ratio is viewed as the key ratio to determine the capital structure in the organizational perspective (Jensen, 1986; Bhagat & Bolton, 2008). The following table gives a clear picture regarding the variables and measurements used in this study.

Table 1. Design of the variables

Variables	Measures	Symbols
Corporate Governance Practices		
Board Leadership structure	Dummy variables 1 for combined leadership and 0 separate leadership	BLS
Board composition	Proportionate of non executive directors in the board ; 1 for below the measure 0.70 and 2 for beyond the measure 0.70	BCP
Board committees	less than two committees has been represented as 1; available of all the three committees has been represented as	BC
Board Size	Based on the Number of Directors, range between 1- 5 has represented as 1; range between 6 and above 6 represented as 2	BS
Board meeting	Based on the No of meeting; 1- 5 has been represented as 1; 6- 10 has been represented as 2; 11-15 has been represented as 3.	BM
Capital structure		
Debt Ratio	Total debt/(Total debt + Equity)	DR

3.2 Research Model

In this study, Capital Structure is a function of the Board Leadership structure, Board composition, Board Size, Board committees and Board meeting in the corporate governance practices.

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \beta_4 X_{4i} + \beta_5 X_{5i} + \varepsilon_i$$

According to the above model and hypotheses development, we can construct the new research models for the study.

$$DR = \beta_0 + \beta_1 BLS + \beta_2 BCP + \beta_3 BC + \beta_4 BS + \beta_5 BM + \varepsilon_i$$

Where:

β_0 = Intercept;

β_1 = Population slope;

DR = Debt Ratio;

BLS = Board Leadership structure;

BCP = Board composition;

BC = Board committees;

BS = Board Size;

BM = Board meeting;

ε_i = Random Error.

3.3 Data Sources and Sampling Frame Work

The secondary data were collected from Annual reports of the companies, books, Journals, Magazines etc. The data representing the period of 2009 to 2011 have been extracted from the company's Annual reports for the analysis. 28 manufacturing companies listed on the Colombo Stock Exchange have been selected as the sample size in this study.

3.4 Mode of Analysis

Quantitative analysis has been utilized to the purpose of empirical analysis. The study mainly focused on the

descriptive analysis, Multiple Regression Analysis, Independent sample t- test and Independent sample one-way Anova (f-test) as underling the statistical test.

The Multiple Regression Analysis was used to find out the significant impact of corporate governance practices on the capital structure. The one-way Anova (f-test) and independent sample t-test were used to find out the out the significant difference in capital structure among corporate governance practices.

4. Results and Analysis

4.1 Descriptive Statistics

Descriptive statistics provide information on corporate governance variables as Board Leadership structure, Board composition, Board committees, Board Size, and Board meeting have been categorized for the study purpose as well as debt ratio.

Table 2. Descriptive Statistics of the study

Dimension	Mean	Range	Standard Deviation
Board Leadership structure	0.43	1	0.504
Board composition	1.53	1	0.507
Board committees	1.42	1	0.356
Board Size	1.70	1	0.417
Board meeting	2.10	2	0.875
Debt Ratio	0.24	0.66	0.217

As shown in table 2, 25 percent of the capital employed is maintained or represented as the debt in the listed manufacturing companies in Sri Lanka.

4.2 Regression Analysis

The purpose of regression analysis is to find out the significant impact or influence of independent variable on dependent variable (Ndubisi, 2006). In this study, Corporate Governance Practices is considered as independent variable or predictor variable, and the Capital Structure is considered as dependent variable. Table No 3 presents the results of the regression analysis.

Table 3. Results of the regression analysis

Value	Beta	t- value	P- Value	Co linearity Statistics		Model Summary		
				Tolerance	VIF	Adj. R Squar	F-Value	Sig
Constant		-3.257	0.004					
Board Leadership Structure	0.069	0.400	0.693	0.839	1.192			
Board Composition	0.187	1.051	0.305	0.780	1.282	0.336	3.737	0.013
Board Committees	0.515	2.807	0.010	0.730	1.370			
Board Size	0.235	1.347	0.192	0.805	1.242			
Board Meeting	0.083	0.445	0.660	0.716	1.397			

The results of the regression analysis is summarized in table no 03. It shows that Corporate Governance Practices contributes significantly to Capital Structure ($F=3.737$; $P<0.05$) and predicts 34 percent of the variation found. Board Committee in the Corporate Governance Practices contributes significantly to Capital Structure. And also Capital Structure is not contributed significantly by Board composition, Board Size, Board Meeting, and Leadership Structure in Corporate Governance Practices. Meantime, None of the tolerance level is $\leq$ or equal to 1; and also VIF values are perfectly below 10. Thus the measures selected for assessing independent variable in this study do not reach levels indicating of multi-collinearity.

4.3 Independent Sample T-Test

In this study, Independent Sample t-test is utilized to find out the significant mean different in capital structure among corporate governance practices as Board Leadership Structure, Board composition, Board Committees, and Board size.

Table 4. Group statistics board leadership structure and capital structure

Board Leadership structure		No	Mean	Std. Deviation	Std. Error Mean
Debt Ratio	Separate	16	.2471	.21271	.05318
	combined	12	.2478	.23294	.06724

Table 5. Results of t-test for board leadership structure

t- test Variable	t-test for Equality of Means		
	t- Value	P-Value	Mean Difference
Capital Structure (Debt Ratio)	-.008	.994	-.00066

In this particular study, capital structure is not influenced by the leadership structure among listed manufacturing companies in Sri Lanka. In the Hypothetical testing view, we are able to come to the note; there is no significant mean difference in the capital structure among leadership structure in the corporate governance practices ($t = -.008$ & $P > 0.05$). It means that, both, separate leadership style (Top positions as Chairman and Chief Executive Officer are separated in the organizational hierarchy) and combined leadership style (Chairman and Chief Executive Officer are combined in the organizational hierarchy) in the corporate governance practices among listed manufacturing companies have the identical debt ratio approximately.

Table 6. Group statistics for board composition and capital structure

Board composition			N	Mean	Std. Deviation	Std. Error Mean
Debt Ratio	below the measure	0.70	13	.2918	.21805	.06048
	beyond the measure	0.70	15	.2090	.21667	.05594

Table 7. Results of t-test for board composition

t- test Variable	t-test for Equality of Means		
	t- Value	P- Value	Mean Difference
Capital Structure (Debt Ratio)	1.006	.324	.08286

t- test Variable	t-test for Equality of Means		
	t- Value	P- Value	Mean Difference
Capital Structure (Debt Ratio)	-.008	.994	-.00066

According to the table No's 6 & 7, we are able to come to the point that, there is no significant mean difference in capital structure among board composition ($t = 1.006$ & $P > 0.05$). It reveals that, both the board which has more than 70 percent of non executive directors and less than 70 percent of the non executive directors possess the same level of debt ratio in their leverage decision in the corporate level.

Table 8. Group statistics board committees and capital structure

Board Committees		N	Mean	Std. Deviation	Std. Error Mean
Debt Ratio	Less than two committees	24	.2492	.22260	.04544
	All the three committees	4	.2367	.21243	.10622

Table 9. Results of t-test for Board committees

t- test Variable	t-test for Equality of Means		
	t- Value	P- Value	Mean Difference
Capital Structure (Debt Ratio)	.104	.918	.01249

According to the table No's 8 & 9, statistical findings revealed that, there is no significant mean difference in capital structure among board committees ($t = .104$ & $P > 0.05$).

It reveals that, both the board which has three committees as remuneration, audit & nomination and two committees (any of the two in the three committees) hold the same level of debt ratio in their leverage decision in the corporate level.

Table 10. Group statistics board size and capital structure

Board Size	No	Mean	Std. Deviation	Std. Error Mean
Debt Ratio	1	.3396	.29191	.11917
	2	.2223	.19330	.04121

Table 11. Results of t-test for board sizes

t- test Variable	t-test for Equality of Means		
	t- Value	P- Value	Mean Difference
Capital Structure (Debt Ratio)	1.180	.249	.11730

Based on the above statistical findings, we can conclude that, the capital structure is not influenced by the board size in the corporate governance practices. It expressed that, there is no significant mean difference in capital structure among board size ($t = 1.180$ & $P > 0.05$).

4.3 The One-Way Anova (F-Test)

In this study, the one – way Anova (f-test) is utilized to find out the significant mean difference in capital structure among Board meeting.

Table 12. Results of f-test for board meeting

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.030	2	.015	.297	.746
Within Groups	1.246	25	.050		
Total	1.276	27			

According to the one – way Anova (expressed in table no 12). There is no significant mean difference in capital structure among board meeting in the corporate governance practices ($F = .297$ & $P > 0.05$).

It revealed that, the decision on the capital structure is not influenced by the board meeting in listed manufacturing companies in the Sri Lanka. It can be also explained by the mean plot in the f-test.

4.2 Mean Plot

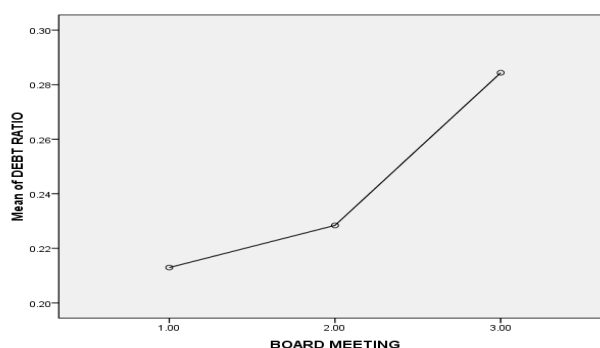


Figure 1. Mean plot for board meeting

In the statistical view, Based on the No of meeting; 1-5 has been represented as 1; 6- 10 has been represented as 2; 11-15 has been represented as 3 in the figure 1. Further, there is no significant difference in the mean value of the debt ratio among the board meeting. It revealed that, capital structure in terms of debt ratio is not influenced by the number of board meeting in the corporate governance practices.

Table 13. Hypotheses testing

	Hypotheses	Results	Tools
H1	There is a significant impact of corporate governance practices on Capital Structure.	Accepted	Regression
H2	There is a significant impact of Board Leadership Structure on the capital Structure	Rejected	Regression
H3	There is a significant mean difference in the capital structure among the Board Leadership Structure	Rejected	T - test
H4	There is a significant impact of Board composition on Capital Structure	Rejected	Regression
H5	There is a significant mean difference in the capital structure among the Board composition	Rejected	T- test
H6	There is a significant impact of Board Committees on Capital Structure	Accepted	Regression
H7	There is a significant mean difference in the Capital Structure among Board Committees	Rejected	T- test
H8	There is a significant impact of Board Size on Capital Structure	Rejected	Regression
H9	There is a significant mean difference in the Capital Structure among Board Size	Rejected	T- test
H10	There is a significant impact of Board Meeting on the capital Structure	Rejected	Regression
H11	There is a significant mean difference in the capital structure among Board Meeting	Rejected	F- Test

5. Conclusion

Firm financing decisions, one of the most fundamental issues, managers have to face. According to new theories of capital structure, such decisions can be affected by various factors, among which corporate governance is one. Further, Corporate governance can greatly assist Companies by infusing better management practices, effective control and accounting systems, stringent monitoring, effective regulatory mechanism, and efficient utilization of firms' resources resulting in improved performance. In this context, this study focused on the corporate governance practices and capital structure among the listed manufacturing companies in Sri Lanka.

Overall study findings revealed that, Corporate Governance Practices contributes significantly to Capital Structure. Board Committee in the Corporate Governance Practices contributes significantly to Capital Structure. And also Capital Structure is not contributed significantly by Board composition, Board Size, Board Meeting, and Leadership Structure in Corporate Governance Practices. Meantime, there is no significant mean difference in the capital structure among corporate governance practices as Board Leadership structure, Board composition, Board committees, Board Size, and Board meeting in the listed manufacturing companies, Sri Lanka. In supportive way, Kajanathan (2012) noted that, Capital Structure is not contributed significantly by Proportion of Non Executive Directors, Board Meeting, and Leadership Structure in Corporate Governance Practices among listed manufacturing companies in Sri Lanka.

In contrast, Lipton and Lloersch (1992) found that, there is a significant relationship between capital structure and board size. In the supportive way to the findings of Lipton and Lloersch, scholars in the finance noted that, corporate governance practices has the significant relationship with capital structure in terms leverage decision

in the top level management (Pfeffer & Salancick, 1978; Wen, Rwegasir, & Bilderbeek, 2002; Abor, 2007; Rehman, Rehman, & Raoof, 2010). Further, Berger, Ofek, & Yermack (1997) found that firms with larger board membership have low leverage or debt ratio. They assume that larger board size translates into strong pressure from the corporate board to make managers pursue lower leverage or debt ratio rather than have larger boards. We found that, there is no significant difference in the decision on the capital structure in terms of leverage among corporate governance practices of the listed manufacturing companies in Sri Lanka. Due to that, further study should focus on the determinants of capital structure in the listed manufacturing companies to take cues in the financial leverage of the particular companies. Meantime, researchers should test the influential role of corporate governance practices on the determinants of capital structure in the listed manufacturing companies.

Researchers have identified the differences between the practices and mandatory issues on the corporate governance in the listed companies except banking institutions in Sri Lanka. Therefore,

Corporate governance rules should be strictly mandated by the Securities and Exchange Commission of Sri Lanka. In addition, political, economic, technological and social & cultural aspects of the Sri Lanka should be considered in the policy framework of the corporate governance. Meantime, the corporate governance practices used in developed countries are not directly applicable in developing economies, because of political, economic, technological and cultural differences. It denotes that there is a need to develop models of corporate governance that consider the conditions in each developing country and that are not directly borrowed from developed countries.

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