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Effect of Attributes of Audit Committee on Financial Performance: The Case of Sri Lanka

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This study investigates the effects of the audit committee (AC) attributes such as AC size, AC independence, AC finance expertise and AC meeting frequency on firm performance of listed Sri Lankan companies during 2014 – 2018. Secondary data available on the Colombo Stock Exchange website and audited financial statements of a sample of 196 companies were analyzed using random effects model. Findings of the study revealed a significantly positive effect from three attributes of the AC (i.e., AC size, AC independence, and AC meeting frequency) on firm performance, while there is no statistically significant relationship between the AC independence and firm performance of the selected companies for the study. This study adds empirical findings on the effect of AC attributes on firm performance in developing nations context. Further, it becomes one of the very few studies on the same effects on firm performance of Sri Lankan firms. Moreover, this is the first study which has attempted to analyze the effects of AC attributes on firm performance by incorporating data of companies in the post period of introducing the new Code of Best Practices on Corporate Governance - 2017 in Sri Lanka.

JEL Codes: C33, G34, M40, M41 and M42

1. Introduction

The audit committee is viewed as the most essential board subcommittee due to its specific role of protecting the interest of shareholders in relation to financial oversight (Mallin, 2007). The dominant role of the audit committee (henceforth, AC) is overseeing the review of financial reports, internal accounting controls, the audit process, and more recently, its risk management practices (Klein, 2002; Salehi, Tahervafaei, & Tarighi, 2018; Institute of Chartered Accountants of Sri Lanka [ICASL], 2017). Several high profile corporate scandals (e.g., Enron, WorldCom, and Tyco International) raised public concerns on the integrity of accounting information disseminated in capital markets and the ethics of accounting practice and financial reporting. The situation is similarly applicable to ACs in Sri Lankan companies for which the duties have escalated to higher levels with several incidents of corporate scandals (such as Golden Key and Pramuka Bank). Currently, in the Sri Lankan context the Code of Best Practices on Corporate Governance-2017 is in practice; it details the role of an AC and sets out recommendations to the ACs in Sri Lanka (ICASL, 2017).

An AC enhances the integrity of financial statements and reduces the audit risk

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thereby, enhancing the quality of financial reporting (Contessotto & Moroney, 2013). Although ACs comply with the regulatory requirements to avoid sanctions, not all such committees are effective in enhancing the companies' performance (Beasley, 1996). In other words, the effectiveness of the ACs depends on the attributes of it; not just the existence of the committee. Prior research has focused on the influence of AC attributes on several performance related variables such as: profitability [e.g., relationship between attributes of the AC and the board and profitability (Salehi et al., 2018)]; real earnings management (Sun, Lan, & Liu, 2014); and audit report submission (Ika & Ghazali, 2012). In most of these studies, a limited number of audit committee attributes [e.g., AC size and financial expertise (Salehi et al., 2018) and AC size and AC independence (Yasser et al., 2011)] are considered in exploring their impact on the other dependent variable.

Authors of this study found motivated themselves to carry out the study with the identification of the lack of research on the relationship between AC attributes and firm performance by many scholars (for example, Yasser et al., 2011; Dar et al., 2011). Studies started to stem from developed as well as developing country contexts (Aldamen et al., 2012; Kallamu & Saat, 2015); however, similar studies in the Sri Lankan context are scarce. Despite being a developing country, many of the findings of research in other developing countries cannot be directly applied to Sri Lanka due to differences in economic, social and cultural, and legal and political factors. Further, even the studies that explore corporate governance together with firm performance in the Sri Lankan context (e.g., Azeez, 2015; Achchuthan & Kajananthan, 2013) are silent on the effect of AC on firm performance. This limits the understanding on how the ACs could influence firm performance and thus, how it can be used positively to influence firm performance. Therefore, it is necessary to study a comprehensive set of AC attributes together in a single study and identify the attributes of AC and their influence on firm performance.

Therefore, the research question, '*What is the relationship between AC attributes and firm performance in the Sri Lankan context?*' is addressed through this study. This study attempts to investigate this relationship between AC attributes and firm performance using a quantitative approach. The objective is to provide new knowledge about the impact of attributes of AC on financial performance which is measured by return on assets (ROA) ratio. The study operationalized the AC attributes using four independent variables namely, AC size, AC independence, AC members' financial expertise, and AC meeting frequency. The dependent variable, firm performance, is measured using the return on assets (ROA) ratio. Further, to bring novelty to the study and to explore the data from a theoretical lens, the authors used the Agency Theory in discussing the findings.

The remainder of the paper is organized as follows. The next section (Section 2) reviews relevant literature and develops the hypotheses of the study. Then, the sample and data of the study are presented in Section 3. Results and findings of the study are presented in Section 4. Section 5 contains a discussion of the findings and the conclusion of the paper.

2. Literature Review and Hypothesis Development

2.1 Agency Theory

Agency Theory is regarded as the fundamental reference for many other theories related to corporate governance and many academics and practitioners have given attention to the agency theory in their work. The origins of the agency theory emerged during the eighteenth century with the classical publication by Adam Smith in 1776, and the theory was further developed by Jensen and Meckling (1976), who defined the agency relationship. According to Jensen and Meckling (1976), the Agency Theory is concerned with the owner (principal) – manager (agent) relationship. It explains possible positive relationship between the effective monitoring of management and firm value and the reduced costs of the dysfunctional behavior (Jensen & Meckling, 1976), which may be linked to improved performance. Conflict of interest between owners and managers results in agency problems and agency costs (Eisenhardt, 1989). The principal can control or reduce this by giving incentives to the agents and incurring expenses from activities designed to monitor and limit the self-interest activities of the agent (Jensen & Meckling, 1976; Fama & Jensen, 1983).

As per the Sarbanes Oxley Act of 2002, the audit committees have a role in protecting the investors through corporate governance. AC is identified as one such mechanism that can be used to manage corporate governance with the intention of controlling agency cost (Chung, Ho, & Kim, 2004). AC can be used as a tool for minimizing the costs of an agency and improving the internal controls and it is an effective monitoring tool to cement the agency relationships (Chung, Ho, & Kim, 2004; Salehi, Tahervafaei, & Tarighi, 2018). Further, it enables the reduction of information asymmetry. There is the need for governance mechanisms such as board subcommittees composed of directors with the appropriate attributes such as independence, financial expertise, and experience to prevent or reduce the agent's selfish interests (Kallamu & Saat, 2015).

Agency Theory is a theory that has been used by many researchers in discussing corporate governance issues as well as audit committee related studies (Cai et al. 2015; Chen et al. 2016; Mohammed, 2018; Yasser & Mamun, 2015; Zhou, Owusu-Ansahb, & Maggina, 2018). Audit committees are established with the intention of safeguarding the shareholders' interests and smoothening the principal-agent relationship. An audit committee is one of the most important mechanisms for preventing agency problems and minimizing failures of other corporate governance tools (e.g., Aanu, Odianonsen & Foyeke, 2014; Islam, Islam & Islam, 2010). With this backdrop, the authors considered it is appropriate to be used for the current study in discussing the impact of AC attributes on firm performance.

2.2 Firm Performance

A wide variety of firm performance definitions have been proposed in the literature (Barney, 2002). When considering the existing literature on corporate governance practices, accounting-based performance measures, such as Return on Equity (ROE) and Return on Assets (ROA) Return on Investment (ROI) are being used as proxies for firm performance (Ilona, 2008; Lam & Lee, 2008; Abdullah, 2004; Bhagat & Black, 2002).

More specifically, within studies focusing on AC attributes, the ROA (e.g., Reddy, Locke, & Scrimgeour, 2010; Rezaei & Abbasi, 2015), ROE (Yasser et al., 2011), Tobin's Q (Oradi, Dashtbayaz, & Forg, 2017; Khanchel, 2007), and combinations such as ROA and Tobin's Q (Al-Matari et al., 2012; Chan & Li, 2008; Oradi et al., 2017) are also used as proxies for corporate performance.

ROE and ROA are good measures of firm performance. However, ROE can obscure a lot of potential problems as companies can use financial strategies to artificially maintain healthy ROE and thus hide deteriorating performance in business fundamentals. ROA avoids the potential distortions created by misleading financial strategies. Therefore, this research uses ROA as the proxy measure of firm performance as it is an accounting measure that is easily identifiable and less influenced by external factors, and it can avoid the potential distortions created by misleading financial strategies. ROA is defined as the ratio of net income to total assets.

2.3 Attributes of Audit Committee

2.3.1 Audit Committee Size

The number of AC members is used to measure the AC size, which is broadly viewed as a critical AC attribute (Hsu & Petchsakulwong, 2010; Nuryana & Islam, 2011; Obiyo & Lenee, 2011). Several authors examined this AC size and its impact on firm performance. Many studies (e.g., Bauer, Eichholtz, & Kok, 2009; Coleman et al., 2007; Menon & Williams, 1994; Qin, 2007; Reddy, Locke, & Scrimgeour, 2010; Rezaei & Abbasi, 2015; Yasser et al., 2011) noted a positive relationship between AC size and firm performance and further some stated that AC size plays a significant role in enhancing the quality of financial reports. However, there are contradictory arguments on AC size and firm performance. By using Resource Dependency Theory, Vafeas (1999) concluded that the larger ACs have a negative effect on the company's performance. Similarly, proponents of Agency Theory (Hillman & Dalziel, 2003) also argued that the larger AC would reduce firm performance. Others such as Lin and Wang (2010) reported a negative relationship. Apart from the above two relationships, some studies did not find any evidence of a significant association between the AC size and firm performance (e.g. Abbott; 2004; Be´dard et al., 2004; Wei, 2007; Al-Matari, Al-Swidi, & Fadzil; 2014; Oradi, Dashtbayaz, & Forg, 2017).

In addition, the relationship between AC size and firm performance has been investigated in developed countries as well as developing countries (Hsu & Petchsakulwong, 2010; Al-Matari et al., 2012). Some studies found a positive relationship in developed countries (e.g., Bauer et al., 2009; Reddy et al., 2010), and in developing countries (e.g., Yasser et al., 2011), while others reported a negative relationship between the two variables (e.g., Klein, 2002; Mohd et al., 2009).

In conclusion, it can be stated that although the literature has extensively discussed the relationship between the AC size and firm performance, the reported results are mixed.

Subsequently, this study proposes the following hypothesis:

H_1: There is a positive relationship between AC size and firm performance of listed Sri Lankan firms

2.3.2 Audit Committee Independence

In almost all the research reviewed by the authors, it was evident that researchers measured AC independence using the proportion of independent non-executive directors (INED) over the total number of directors sitting in an AC. The existence of a fair independent AC would reduce the frauds occurring in firms and improve the quality of audit reports and enhance firm performance (Arslan et al., 2014; Bouaziz & Triki, 2012; Yunos et al., 2014). Many other research (i.e., Baxter & Cotter, 2009; Chan & Li, 2008; Hamdan, Sarea, & Reyad, 2013; Nuryanah & Islam, 2011; Ilon, 2008) also confirmed the positive relationship between independence of AC and firm performance. Further, Erickson, Park, Reising, and Shin (2005) asserted that independent directors could reduce agency problems. Based on the argument provided by Erickson et al. (2005) that directors' independence can reduce agency problems, it can be similarly argued that independent AC can also reduce agency problems. In other words, a positive relationship between AC independence and firm performance is expected and justified. The agency theory suggests that self-governance benefits in taking the right decision without barriers and easily identifying errors because of the independence of reviewers. Accordingly, a positive relationship is expected between the AC independence and firm performance.

On the other hand, some studies (e.g., Bhagat and Black, 2002; Dar et al., 2011; Lin and Wang, 2010) stated that increasing the independence of the board can lead to low profitability. It was further explained that independent directors (INEDs) usually suffer from having insufficient knowledge of the business that can lead to wrong advice to the board of directors and consequently to poorer financial performance.
Subsequently, this research proposes the following hypothesis:

H_2: There is a positive relationship between AC independence and firm performance of listed Sri Lankan firms

2.3.3 Audit Committee Financial Expertise

In 2002, SOX Act emphasized the importance of AC financial expertise for improving the quality of financial reports. AC requires sufficient expertise in accounting and auditing discipline to independently evaluate the different issues (Beasley & Salterio, 2001; Davidson, Xie, & Xu, 2004) because individuals with a high financial literacy within the AC can provide good solutions and facilitate to improve the financial condition of the company.

Blue Ribbon Committee (1999) believed that financial expertise of the AC will increase its effectiveness. A positive and significant association between AC financial expertise and firm's financial position/performance was evident in many studies (e.g., Davidson et al., 2004; Mohammed, 2018; Oradi et al., 2017; Rezaei & Abbasi, 2015). In addition, financial expertise of the AC is positively connected with financial reporting quality (McDaniel, Martin, & Maines, 2002; Schmidt & Wilkins, 2012), and the financial expertise of the AC improves the timeliness of financial reporting (Abernathy, Beyer, Masli, & Stefaniak, 2014).

In some cases, audit committees with financial expertise are associated with lower levels of earnings management (Badolato, Dain, Donelson, & Matthew, 2014), and there is a significant positive relationship between the non-existence of expert members of the AC and the increase in financial statements' fraud (Abbott, Parker, & Peters, 2002).

It is recommended by the Sri Lankan Code of Best Practices on Corporate Governance 2017 that at least one of the AC members should have financial and accounting expertise (ICASL, 2017). However, in the Sri Lankan context, high financial literacy/ adequate financial expertise is not defined for research purposes. The Blue-Ribbon Committee (1999) defined financial expertise as the ability to read and understand fundamental financial statements. In this regard, the employment experience in finance or accounting, a CPA certification or comparable experience, or a position as a CEO or other senior officer with financial oversight responsibilities can be considered as financial expertise. Following this definition, for this research, it is considered that high financial literacy/ adequate financial expertise exists when the person is a member of a recognized accounting professional body (such as: Institute of Chartered Accountant of Sri Lanka (CASL) or Chartered Institute of Management Accountants (CIMA) or Association of Chartered Certified Accountants (ACCA)) or a degree holder specialized in Accounting/Finance.

Subsequently, this research proposes the following hypothesis:

H_3: There is a positive relationship between AC financial expertise and firm performance of listed Sri Lankan firms

2.3.4 The Frequency of Audit Committee Meetings

The Blue-Ribbon Committee (1999) and the Treadway Commission (1987) recommend having at least four audit committee meetings per year. The relationship between AC meetings and firm performance is broadly discussed, but the reported results are still mixed. A positive relationship between AC meetings frequency and firm performance is evident in many studies (e.g., Khanchel, 2007; Mohammed, 2018). Visvanathan (2008) found that more active AC that meets often will be more effective, and an AC that rarely meets may be less likely to monitor management effectively. However, Hsu and Petchsakulwong (2010); Lin et al., (2006); and Xie et al., (2003) found a negative relationship between AC meetings frequency and firm performance.

Considering the developing and developed country contexts, many researchers acknowledged a positive relationship between the two variables in both contexts (Khanchel, 2007; Kang & Kim, 2011) and as having a negative relationship in both contexts (e.g., Petchsakulwong, 2010; Darko et al., 2016). Moreover, some authors did not recognize any relationship between the two variables (e.g., Al-Matari et al., 2012; Bansal and Sharma 2016; Davidson et al., 2004).

Subsequently, this research proposes the following hypothesis:

H_4: There is a positive relationship between AC meeting frequency and firm performance of listed Sri Lankan firms

3. Sample and Data

The study considered the companies listed on the Colombo Stock Exchange (CSE) representing 20 business sectors as of 30th June 2019 (www.cse.lk) as the population. The study is restricted to listed companies because the published financial statements are necessary for the study, and a majority of the AC related rules apply only to listed companies. Researchers decided to cover the last five-year data (i.e., 2014 to 2018) for this study. From the total of 291 companies listed by the 30th June 2019, 8 companies were excluded as they were not listed by the 01st January 2014. Further, 72 companies were excluded as data were unavailable on the CSE website.

The data collected were purely secondary. Through the link available on the CSE website and annual reports of selected companies for the reporting years ended in 2014, 2015, 2016, 2017, and 2018 were collected, covering 196 companies.

Table 1: Summary statistics

	ROA	Size of AC	INED	Financial expertise	Meeting frequency
Mean	0.04	3.19	2.56	1.43	5.08
Median	0.03	3.00	2.00	1.00	4.00
Std. Deviation	0.06	0.77	0.74	0.75	2.64
Skewness	0.42	0.90	0.71	1.22	2.56
Kurtosis	1.87	1.50	0.29	1.72	7.40
Minimum	-0.20	2.00	1.00	0.00	1.00
Maximum	0.29	7.00	5.00	5.00	19.00

Note: Number of observations is 980

Summary statistics of dependent and independent variables are presented in Table 1. According to the table, the mean value of ROA of selected companies for this study shows as 0.04. Since there are 196 companies representing different industries with different firm specific characteristics in the sample, it causes a higher standard deviation of 0.06. Further, the minimum ROA of the sample is -0.20, and the maximum is 0.29. A positive skewness of ROA indicates that the majority of companies in the sample reports a ROA of less than the mean value, whereas only a few companies report extremely high ROA values. A platykurtic distribution shows that ROA values of the distribution has spread across the range between the minimum and maximum values rather than gathering around the mean value of the size of AC of the sample companies. This distribution evident that the level of compliance by the companies with the Code of Best Practices on Corporate Governance in Sri Lanka which came into effect in 2017. On average, there are three members in the audit committees in Sri Lankan companies that is in line with minimum three-member requirement in Code of Best Practices on Corporate Governance in Sri Lanka 2017. In contrast, it was observed that a few companies have two members in the audit committee, whereas the observed maximum number of members in the audit committee is seven.

An average number of independent non-executive directors in AC of the sample companies is about three, while the maximum and minimum are five and one, respectively. Similarly, the mean value of the number of financial experts in AC is

one while the maximum and minimum are five and zero, respectively. According to the statistics in Table 1, the AC members meet five times a year on average. However, it is interesting to note the difference between AC meetings frequency as some ACs meet only once a year, whereas some ACs meet every month.

4. Results and Findings

The authors have checked and rectified the existence of some extreme values in the data set before conducting the data analysis. Further, it was ensured the absence of multicollinearity issue among independent variables of the study. The lowest correlation between finance expertise in the AC and AC meetings frequency (r = 0.098), and the highest correlation between AC independence and AC size (r = 0.64) among independent variables indicate the absence of multicollinearity issue. Table 2 summarizes correlations between the independent variables and the dependent variable, which could be used to test the hypotheses of the study initially.

Table 2: Correlation results

Correlation	Coefficient
AC Size and ROA	0.225^{α}
AC Independence and ROA	0.027
AC Finance expertise and ROA	0.324^{α}
AC Meeting frequency and ROA	0.090^{β}

Notes: Number of observations is 980; significance levels are $^{\alpha}$ = 0.01 and $^{\beta}$ = 0.05.

Correlation results in Table 2 provide evidence for statistically significant weak positive relationships between AC size and AC meetings frequency with profitability of the company. Further, it evident a statistically significant moderate relationship between AC finance expertise and profitability of the sample companies. Accordingly, H_1, H_3 and H_4 of the study are supported by the correlation results of the study.

Hypotheses were tested again using the estimates of the below regression model (Model 1) developed for panel data.

$$ROA_{it} = \beta_0 + \beta_1 ACSIZE_{it} + \beta_2 ACINDEP_{it} + \beta_3 ACFINEXP_{it} + \beta_4 ACMEET_{it} + \varepsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where;
ROA is return on assets (proxy measure for firm performance)
ACSIZE is AC size
ACINDEP is AC independence
ACFINEXP is AC financial expertise
ACMEET is AC meeting frequency
ε is the error term of the model

Regression estimates of Model 1 are summarized in Table 3. The estimates have been obtained through random effects model. This selection was made using the results of Hausman Specification Test carried out in the analysis.

Table 3: Regression Estimates

Model: $ROA_{it} = \beta_0 + \beta_1\ ACSIZE_{it} + \beta_2\ ACINDEP_{it} + \beta_3\ ACFINEXP_{it} + \beta_4\ ACMEET_{it} + \varepsilon_{it}$			
Variable	**Coefficient**	***t*-statistic**	***p*-value**
β_0	0.058	1.355	0.175
β_1 *ACSIZE*	0.099	15.104	0.000 $^{\alpha}$
β_2 *ACINDEP*	0.019	1.177	0.239
β_3 *ACFINEXP*	0.0003	4.142	0.000 $^{\alpha}$
β_4 *ACMEET*	0.016	4.503	0.000 $^{\alpha}$
Adjusted R^2 = 0.23; F-statistic = 6.881 (0.000 $^{\alpha}$)			

Notes: Number of observations is 980; Estimates are based on random effects model; α = significance level is 0.01.

Regression estimates presented in Table 3 indicate three statistically significant relationships out of four conceptualized relationships in the conceptual framework. Accordingly, AC size (β_1); AC finance expertise (β_3); and AC meeting frequency (β_4) are reporting a statistically significant positive relationship with firm performance of selected companies for the study. In contrast, AC independence (β_2) and firm performance does not evident a statistically significant relationship. These results corroborate the relationships found in the correlation analysis. Therefore, H_1, H_3, and H_4 of the study are supported by the statistical evidence of the data analysis whereas, H_2 of the study has not been supported. A summary of the hypotheses testing outcome is given in Table 4. Despite the existence of statistically significant impacts from three independent variables such as AC size, AC finance expertise and AC meeting frequency, their degree of impact is very small (approximately less than 10%) as shown in coefficient values of Table 3. Nevertheless, adjusted R-squared value of 0.23 indicates that four independent variables in the study together explain about 23% of the variation in firm performance of selected firms for the study, which is a fairly acceptable level of goodness of fit of the model. A statistically significant *F*-statistic of the regression results (see Table 3) indicates that the model used in the study is overall robust and efficient to be used in similar predictions.

Table 4: Summary of the hypothesis test

Hypothesis	Relationship	Results	Decision
H_1	AC Size and firm performance	Positive and significant	Supported
H_2	AC independence and firm performance	Positive and insignificant	Not supported
H_3	AC' Finance expertise and firm performance	Positive and significant	Supported
H_4	AC meeting frequency and firm performance	Positive and significant	Supported

5. Discussion and Conclusion

Extant literature reports mixed results on the relationship between AC size and performance. However, the present study found that the AC size and firm performance has a positive and significant relationship. Thus, the finding is in line with the past studies on AC size and firm performance such as Bauer, Eichholtz, and Kok (2009); Coleman et al. (2007); Menon and Williams (1994); Qin (2007); Reddy, Locke, and Scrimgeour (2010); Rezaei and Abbasi (2015) and Yasser et al. (2011)

who also documented a positive relationship between the two variables. In addition, the Agency Theory proposes that better-governed firms have better performance (Yasser & Mamun, 2015 and Zhou, Owusu-Ansahb, & Maggina, 2018); thus, the availability of considerably large ACs imply better governance that leads to better performance as found in the present study.

The study also revealed a positive and significant relationship between the AC finance expertise and firm performance. This finding is similar to the conclusions of prior studies such as Davidson et al. (2004), Mohammed (2018), Oradi et al. (2017), Rashidah and Fairuzana (2006) and Rezaei and Abbasi (2015), who identified a positive relationship between the two variables. This relationship can be indirectly elaborated through the impact of financial expertise in AC on internal controls. When the AC members have financial expertise, the internal control weaknesses can be minimized and firm performance can be improved (Krishnan, 2005; and Zhang, Zhou and Zhou, 2007). The agency costs can be minimized when better governance is facilitated through sound internal controls.

The frequency of AC meetings and firm performance of Sri Lankan listed companies revealed a positive and significant relationship. Accordingly, the finding is complying with prior research such as Khanchel (2007); Mohammed (2018); Visvanathan (2008); and Kang and Kim (2011), which also confirmed a positive relationship between the two variables. When the AC meets frequently and propose changes and discusses the prevailing issues, the agency costs will be minimized. Hence, AC is expected to contribute to better governance through frequent meetings, and that will lead to reducing agency costs (Al-Matari et al., 2012; Kanagaretnam et al., 2007; Siddiqui et al., 2013).

The present study was failed to establish a statistically significant relationship between the presence of independent non-executive directors in AC and firm performance. Considering prior studies on the relationship between the two variables, some showed a negative relationship (e.g., Bhagat and Black, 2002; Dar et al., 2011; and Lin and Wang, 2010) and argued that independent directors have insufficient knowledge of the business and that could result in providing wrong advice to the firms that would lead to weak financial performance. This is convincing in most cases, as the independent directors are non-executive, i.e., they do not perform any management duties in the firm, and they do not have a comprehensive understanding of the activities of the firm and thereby, may provide advice that would not be completely suitable for a firm. Though from an Agency Theory perspective, the independence of directors seems to positively influence firm performance, when considering other theories such as Resource Dependency Theory, there could be a negative relationship between independent directors in AC and firm performance. This is mainly because the lack of expertise of independent directors may result in inabilities to provide sufficient support to firms, as discussed in studies such as Adams and Ferreira (2007); Harris and Raviv (2008); Khosa (2017).

Through a quantitative approach, this study attempted to examine the relationship between four AC attributes (i.e., AC size, AC independence, AC members financial expertise, and the AC meeting frequency) and firm performance of listed Sri Lankan companies. As per the analysis, a positive and insignificant relationship existed between AC independence and firm performance, while the other three factors had a significantly positive relationship with firm performance.

The literature reveals mixed results on the relationship between these variables. Further, a lack of studies on the same in developing countries is evident through the review of literature. This study can be considered one of the handful of studies conducted to examine the effect of AC attributes on firm performance in the Sri Lankan listed companies, especially after the introduction of the new Code of Best Practices on Corporate Governance in 2017. Thereby, this study makes a significant empirical contribution to the body of knowledge concerning the impact of AC attributes on firm performance in a developing country context. Further, it emphasizes the importance of certain attributes of ACs that need to be focused by organizations in order to influence the performance positively.

The study only considered four of the AC attributes; therefore, future research can consider incorporating additional independent variables (such as percentage of common stocks owned by AC) to identify the relationship. In addition, the firm performance was operationalized only through ROA while other proxies such as ROE, market value addition, Tobin's Q can be incorporated in future studies. Further, the performance can be divided into financial, non-financial, operational, and stock market, etc., to gain more comprehensive evidence on the relationship between AC attributes and firm performance. In addition, the study used only the Agency Theory, while other theories such as Resource Dependency Theory can be used in the future to strengthen the findings.

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