



**MODERATING EFFECT OF BOARD INDEPENDENCE ON THE
DETERMINANTS OF FINANCIAL PERFORMANCE IN LISTED NON-
FINANCIAL COMPANIES OF COLOMBO STOCK EXCHANGE**

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Abstract

The overarching objective of every business organization is to maximize stakeholder wealth, but various financial constraints can hinder this goal. This study mainly focuses on examining the moderating effect of board independence on the determinants of the financial performance of listed non-financial companies in the Colombo Stock Exchange. There is a lack of research on the factors that determine financial performance at both the national and international levels. Further, there is a dearth of studies related to the moderating effect of board independence on the determinants of financial performance. The present study applied the quantitative approach. This study investigates the relationship between the Quick ratio, Total Assets turnover ratio, Leverage, and Growth in sales as independent variables and their impact on Financial Performance as the dependent variable. Additionally, the study incorporates board independence as the moderating variable. Financial performance is measured using Return on Assets (ROA). The study's population comprises listed non-financial companies on the Colombo Stock Exchange and data was collected from the top 100 companies with the highest market capitalization during the latest period spanning 2020 to 2022, descriptive statistics, correlation analysis, and regression analysis were used to analyze the data. This study has observed that total asset turnover and growth in sales have a positive and significant relationship with ROA. However, leverage has an insignificant relationship with ROA. The relationship between quick ratio and ROA is moderated by board independence. Further, the relationship between growth in sales and ROA is moderated by board independence. On the other hand, the relationship between total asset turnover, leverage, and ROA is not moderated by board independence. The insights gained from this research will contribute to a better understanding of the determinants of financial performance in the context of listed companies on the Colombo Stock Exchange.

Keywords: Board Independence, Determinants of Financial Performance, Growth in Sales, Leverage, Total Assets Turnover, Quick Assets Ratio

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1. INTRODUCTION

The primary objective of profit-oriented organizations is to maximize the wealth of their stakeholders. Financial performance plays a crucial role in achieving this objective, as it directly impacts the interests of stakeholders, management, and the board of directors (Signori et al., 2021). Consequently, organizations must prioritize and closely monitor their financial performance. Financial performance, often measured by profitability, holds significant importance for stakeholders as it reflects the organization's ability to generate profits. The profitability of an organization not only determines its future growth and development but also contributes to the overall economic progress of the country. For managers, maximizing profit is a fundamental goal as it ensures the financial stability and sustainability of the organization.

By understanding the factors that drive financial performance, organizations can optimize their operations, make informed decisions, and enhance their competitive advantage. This analysis aids in identifying key performance indicators, improving resource allocation, and aligning strategies to maximize profitability (Kaplan & Norton, 1996).

Existing literature emphasizes the importance of implementing effective corporate governance practices to enhance and sustain organizational growth and performance. Studies indicate that firms in various sectors, particularly real estate, are prone to agency problems and require robust corporate governance mechanisms to mitigate such issues and enhance firm performance (Oak & Iyengar, 2009). The nature of real estate ownership and management often gives rise to conflicts of interest, necessitating the implementation of corporate governance practices to address these challenges. Additionally, the real estate industry's characteristics, such as high capital investment and low operating inventory management, are associated with liquidity constraints and financial inflexibility, highlighting the importance of effective corporate governance in navigating these challenges (Toms & Filatotchev, 2006).

This study focuses on identifying key factors that influence the financial performance of non-financial companies listed on the Colombo Stock Exchange. Additionally, the study examines the moderating effect of board independence on the relationship between these determinants and financial performance. The quick ratio assesses a company's liquidity position, while total assets turnover evaluates its asset utilization for generating sales. Leverage reflects the level of debt and its impact on the company's capital structure, attracting interest from various stakeholders. Furthermore, growth in sales is considered a predictive tool for evaluating a company's prospects (Thi et al., 2021).

In the Sri Lankan context, the specific research gap regarding the moderating effect of board independence on the determinants of financial performance and its relationship has limited recent articles available. However, there is ample evidence from various studies that highlight the importance of board independence and its impact on financial performance in other countries and industries.

Therefore, given the lack of recent articles focusing on the moderation effect of board independence in Sri Lanka, a contemporary issue in Sri Lanka, this study aims to fill the research gap and shed light on the determinants that affect financial performance and the potential effect of board independence in the local context.

2. LITERATURE REVIEW

The study focuses on investigating the moderating effect of board independence on the determinants of financial performance in listed non-financial companies. Board independence refers to the presence of independent directors on a company's board who are not associated with management or major shareholders. Financial performance is a key measure of a company's success and is influenced by various factors.

2.1 Empirical Evidence

2.1.1. Relationship of Quick Ratio to Financial Performance

Numerous studies have examined the relationship between the quick ratio and financial performance, both internationally and within the Sri Lankan context. In a study by Durrah et al. (2016) on listed food industrial firms in the Amman Bursa, a positive relationship was found between the quick ratio and return on assets (ROA). Similarly, Borhan et al. (2014) and Yameen et al. (2019) discovered a positive connection between the quick ratio and financial performance in their studies on different industries. Contrasting findings were reported by Rehman et al. (2015) in their research on the Saudi Stock Exchange, where they identified a negative relationship between the quick ratio and ROA. Akter and Mahmud (2014) also concluded that there is no significant relationship between the quick ratio and return on assets. In another study by Siregar and Mardiana (2022) on food and beverage firms listed on the Indonesia Stock Exchange, the quick ratio was found to partially and significantly influence ROA. In the Sri Lankan context, several researchers have investigated the direct relationship between the quick ratio and firm performance. Madushanka and Jathurika (2018) found a positive relationship between the quick ratio and ROA based on a sample of 15 manufacturing companies listed on the Colombo Stock Exchange. Similarly, Priya and Nimalathanan (2013) analyzed listed manufacturing companies in Sri Lanka and observed a significant positive relationship between the quick ratio and ROA. However, Nishanthini and Meerajancy (2015) found an insignificant correlation between the Quick Ratio and ROA in their study on licensed commercial banks in Sri Lanka. These studies provide evidence for the varying relationships between the quick ratio and financial performance in different industries and geographical contexts, including Sri Lanka. The findings contribute to the understanding of how the quick ratio can impact a company's financial performance and can inform decision-making for businesses and investors.

According to theoretical and empirical evidence, the following hypothesis was developed;

H₁: The relationship between the Quick ratio and ROA is significant.

2.1.2. Relationship between Total assets turnover and financial performance

Numerous academic studies have explored the relationship between total asset turnover and financial performance, both internationally and within the Sri Lankan context. Utami and Manda (2021) found a significant and positive relationship between the total asset turnover ratio and return on assets (ROA) in the cigarette sub-sector companies listed on the Indonesia Stock Exchange. Similarly, Ningrum and Nurmasari (2021) observed a significant and positive influence of the total asset turnover ratio on ROA. Ramli and Yusnaini (2022) demonstrated that total asset turnover significantly and positively impacts ROA based on their study of 49 real estate firms listed on the Indonesia Stock Exchange. Munawar (2019) also found a positive and significant relationship between total asset turnover and firm profitability. In the Jordanian industrial sector, Warrad and Al Omari (2015) concluded that total asset turnover has a significant influence on ROA, while Warrad and Rania (2015) noted. Alarussi and Alhaderi (2018) identified a significant and positive connection between total asset turnover and profitability in their study of 120 firms listed on Bursa Malaysia. However, this study suggested a partial impact of total asset turnover on ROA in their study of 71 transportation firms. According to theoretical and empirical evidence, the following hypothesis was developed;

H₂: The relationship between Total asset turnover and ROA is significant.

2.1.3. Relationship between Leverage and Financial Performance

Numerous scholars have researched the relationship between leverage and financial performance, yielding a variety of findings. Thi Kim et al. (2021), Senan et al. (2021), Burca and Batrinca (2014), have all identified leverage as a determinant of financial performance.

Murigu (2014) found that leverage significantly and positively influences profitability based on a study of 23 general insurance companies in Kenya. Similarly, Matar and Eneizan (2018) observed a positive and significant relationship between leverage and return on assets (ROA) in their study of 23 industrial manufacturing firms in Jordan. Obradovich and Gill (2013) demonstrated a positive relationship between leverage and firm profitability. Ali (2014) also concluded that leverage has a positive relationship with financial performance based on chemical companies listed on the Pakistan Stock Exchange.

However, there are also studies indicating a negative relationship between leverage and profitability. Akinlo and Asaolu (2012) observed that leverage negatively influences profitability (ROA) in their study of 66 non-financial firms listed on the Nigerian Stock Exchange. Bintara (2020) found a negative impact of leverage on profitability in their study of 100 listed firms on the Indonesia Stock Exchange. Ahmad et al. (2015) also reported a negative and significant influence of leverage on profitability based on data from 18 cement manufacturing firms in the Pakistan Stock Exchange. Similarly, Enekwe et al. (2014) found a negative effect of leverage on ROA in their study of three Nigerian pharmaceutical companies. Teshome et al. (2018) observed a negative relationship between leverage and firm performance based on private commercial banks in Ethiopia.

In the Sri Lankan context, Perinpanathan (2014) found a negative relationship between financial leverage and financial performance based on data from the period 2006-2012. Kaluarachchi (2021) found that total asset turnover positively and significantly influences ROA in their study of listed real estate firms on the Colombo Stock Exchange.

These studies provide a diverse perspective on the relationship between leverage and financial performance, highlighting both positive and negative associations. According to theoretical and empirical evidence, the following hypothesis was developed;

H₃: The relationship between Leverage and ROA is significant.

2.1.4. Relationship between Growth in Sales and Financial Performance

Numerous studies have examined the relationship between sales growth and financial performance, resulting in a variety of findings. Thi Kim et al. (2021) found that growth in sales significantly and positively influences financial performance based on listed food processing companies in Vietnam. Pouraghajan et al. (2012) observed a statistically significant positive correlation between growth rate and return on assets (ROA) in their study on the Tehran Stock Exchange.

Papadogonas (2007) indicated that growth in sales significantly impacts firm profitability based on a sample of 3035 firms. Eka (2018) examined the relationship between growth in sales and firm performance and found that growth in sales significantly influences firm performance. Lestari et al. (2022) stated that growth in sales positively impacts firm performance based on their study of real estate sector firms listed on the Indonesia Stock Exchange. House and Benefield (1995) also emphasized the importance of sales growth as a key factor for financial success in the real industry study. Mursalini et al. (2017) identified a significant influence of growth in sales on profitability in the consumer goods industry.

However, some scholars have found no significant relationship between growth in sales and firm performance. Nur and Mahiri (2022) observed no relationship between growth in sales and financial performance in their study of 18 food industry firms listed on the Indonesia Stock Exchange. MengYun et al. (2021) also found that growth in sales does not significantly influence ROA which contrasts with the findings of Mursalini et al. (2017). In the Sri Lankan context, Sanjaya and Jayasiri (2018) identified no significant relationship between sales growth and profitability, measured by ROA, in their study of listed manufacturing firms on the Colombo Stock Exchange.

These studies provide diverse perspectives on the relationship between sales growth and financial performance, indicating both positive and non-significant associations. The findings contribute to the understanding of how sales growth can impact firm performance and can guide decision-making in strategic planning and resource allocation. According to theoretical and empirical evidence, the following hypothesis was developed;

H₄: The relationship between Growth in sales and ROA is significant.

2.1.5. Moderating Effect of Board Independence on the Determinants of Financial Performance

As a result of inconsistent results of the relationship between determinants and firm performance, several studies suggest that board independence should be considered in this regard (Yasser et al., 2020).

Boubaker and Nguyen (2014) investigated the moderating effect of board independence on the relationship between CEO power and leverage decisions. While their study did not directly focus on the determinants mentioned (quick ratio, total assets turnover ratio, leverage, and growth), it provided valuable insights into the broader context of board independence and its impact on financial decisions. The findings indicated that independent commissioners play a crucial role in reducing the influence of CEO age and gender on leverage decisions. This suggests that a more independent board composition can potentially mitigate the impact of CEO power on financial decision-making. Similarly, the study conducted by Yasser et al. (2020) also explored the broader context of board independence and its impact on financial performance. Although not specifically addressing the determinants mentioned, their study provided insights into the potential influence of board independence on firm performance. By examining the moderating effect of board independence on the relationship between capital structure and firm performance, their findings shed light on the role of independent boards in shaping financial outcomes.

Additionally, Cheng and Indjejikian (2011) examined the impact of board composition, including board independence, on firm performance. While their study did not directly focus on the mentioned determinants, it provided insights into the broader relationship between board composition and financial performance. By investigating the potential substitution or complementarity effects of board independence, their findings highlighted the importance of board composition in influencing firm performance.

These studies collectively contribute to our understanding of the broader impact of board independence on financial decisions and performance. While they may not specifically address the relationships between the determinants (quick ratio, total assets turnover ratio, leverage, growth) and financial performance, they underscore the significance of board independence as a key factor in shaping financial outcomes in organizations. According to theoretical and empirical evidence, the following hypotheses were developed;

H₅: The relationship between Quick ratio and ROA is moderated by Board Independence

H₆: The relationship between Total asset turnover and ROA is moderated by Board Independence

H₇: The relationship between Leverage and ROA is moderated by Board Independence

H₈: The relationship between Growth in sales and ROA is moderated by Board Independence

2.2 Research Gap

The research gap in the literature can be identified based on the mixed and contrasting findings in the relationships between the quick ratio, total assets turnover, leverage, and growth in sales with financial performance. Additionally, there is a research gap in the specific context of the Sri Lankan market. While some studies have examined these relationships in Sri Lanka, the number of studies is relatively limited, and there is a need for more comprehensive and updated research that specifically focuses on the Sri Lankan non-financial companies listed on the Colombo Stock Exchange. Moreover, the literature review did not mention any studies that specifically investigated the moderating effect of board independence on the relationships between these determinants and financial performance in the Sri Lankan context. This presents a research gap and highlights the importance of exploring the role of board independence as a moderator in shaping the relationships between these determinants and financial performance.

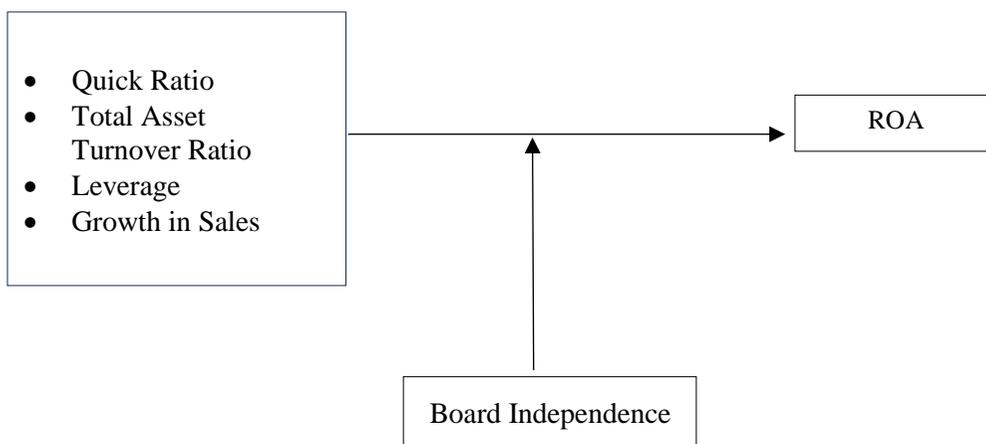
To address these research gaps, future studies can conduct empirical research using larger and more diverse samples of Sri Lankan non-financial companies to gain a better understanding of the relationships between these determinants and financial performance. Furthermore, investigations into the moderating effect of board independence can provide valuable insights into the dynamics of corporate governance and its influence on financial performance outcomes.

3. METHODOLOGY

Present study to examine the Moderating effect of board independence for the determinants of Financial Performance. Therefore, performing this allows identifying what kind of relationship among these variables through the quantitative approach and deductive approach has been used. The population is 294 companies in the Colombo Stock Exchange, for this study, 100 non-financial companies from Colombo Stock Exchange have been selected and data from 2020-2022 have been collected. The independent variables of this study are the quick ratio, total asset turnover ratio, leverage, and growth in sales. Return on Asset (ROA) has been used as a measurement of the profitability of a firm because the ROA is considered as the most popular and most useful financial ratio among other profitability ratios (Jewell & Mankin, 2011). The moderating variable of this study is board independence. Board independence is considered one of the main variables in corporate governance practices.

3.1 Conceptual Framework

Figure 1 shows the conceptual framework of this study.



Source: Constructed by author

Figure 1: Conceptual Framework

3.2 Operationalization of the variables

Table 1 shows the operationalization of the variables.

Table 1: Operationalization of the variables

Variable	Measurement	Past studies
Quick Ratio (QR)	<u>Current assets- Inventory</u> Current liabilities	Siregar and Mardiana (2022); Madushanka and Jathurika (2018)
Total Assets Turnover (TAT)	Percentage of net sales to Average total assets	Ramli and Yusnaini (2022); Kaluarachchi (2021)
Leverage (LEV)	Earnings before interest and taxes (EBIT), then divided by the interest expense of long-term debts	Senan et al. (2021); Teshome et al. (2018)
Growth in sales (GIS)	Percentage change in sales compared to the last year	Lestari et al. (2022); MengYun et al. (2021)
ROA	Return on Assets (% of net income to the total assets)	Lestari et al. (2022); MengYun et al. (2021)
Board Independence (BI)	The number of Independent non-executive directors on the board. *100 <hr/> Total number of board members	Rosenstein and Wyatt, (1990)

Source: Constructed by author

The analysis involved descriptive analysis, where a given data set was summarized to represent samples and data measures. This descriptive analysis table contained information on minimum and maximum values, as well as mean and standard deviation values, for both individual companies and average values within the industry. This allowed for understanding the distribution of data among non-financial companies listed in the Colombo Stock Exchange (CSE). Moving on to the second step, correlation analysis was conducted to examine the statistical relationships between independent, dependent, and moderate variables. Finally, the third step utilized regression analysis, a statistical process aimed at estimating the relationships between variables. The primary objective of regression analysis was to determine the strength of the relationship between the dependent and independent variables during the observation period.

4. FINDINGS AND DISCUSSION

Before conducting the analysis, four diagnostic tests were performed to consider winsorizing the data set. To assess the stationarity of the variables, the Unit Root Test was conducted. In all independent and dependent variables, the null hypothesis, the data series is not stationary is rejected. Hence, all data series in independent and dependent variables are assumed to be stationary. The Variance Inflation Factor (VIF) was used to assess multicollinearity across all explanatory factors. All explanatory variables are not severely affected by multicollinearity because all VIF factors are less than 5, it can be said.

4.1 Correlation Analysis

Based on the correlation analysis (Table 2), the relationship between TAT (Total Asset Turnover) and ROA (Return on Assets) is weak and positively significant. The correlation value between TAT and ROA is 0.281. Similarly, the correlation between GIS (Global Industry Sales) and ROA is positive, but the relationship is very weak. The correlation value between GIS and ROA is 0.134, and it is statistically significant at the 0.05 level. Conversely, there is no significant relationship between ROA and QR (Quick Ratio).

Table 2: Correlation Analysis

	ROA	TAT	QR	LEV	GIS	BI
ROA	1					
TAT	0.281**	1				
QR	-0.018	-0.155**	1			
LEV	-0.118	-0.021	0.340**	1		
GIS	0.134*	-0.064	0.063	-0.068	1	
BI	-0.067	-0.125	-0.122	-0.042	0.044	1

** . Correlation is significant at the 0.01 level, * . Correlation is significant at the 0.05 level

The correlation value between these two variables is not statistically significant, indicating that the relationship is not strong enough to be considered meaningful. Moreover, the correlation between ROA and LEV (Leverage) is also not significant. The correlation value between ROA and BI does not meet the significance threshold, as the P value is not less than 0.05. Therefore, the evidence suggests that there is no significant relationship between ROA and BI.

4.2 Panel Regression Analysis

According to this Hausman test, the p-value is 0.0698 which is not significant at a 5% significance level ($0.0698 > 0.05$). Therefore, the null hypothesis can be accepted and the alternative hypothesis should be rejected. Hence, the random effects model can be utilized for this regression model.

4.2.1. Panel regression (ROA) without moderation effect

Table 3: Panel Regression (ROA) without Moderation Effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.02272	0.01186	1.91517	0.05680
TAT	0.05616	0.01216	4.61936	0.00000
QR	0.00157	0.00177	0.88423	0.37750
LEV	-0.01693	0.00937	-1.80806	0.07200
GIS	0.02422	0.01093	2.21547	0.02780
R-squared	0.11589			
F-statistic	7.20948			
Prob(F-statistic)	0.00002			

Source: Constructed by author

Based on the above analysis, there is a positive relationship between TAT and ROA, as indicated by the positive coefficient of TAT. This relationship is statistically significant at the 5% level of significance. Conversely, the relationship between QR and ROA is not statistically significant since the p-value exceeds 5%. Furthermore, the analysis reveals a positive and significant relationship between GIS and ROA at the 10% level of significance. On the other hand, the pooled regression model shows that the relationship between LEV and ROA is not significant at the 5% level of significance.

The combined influence of TAT, QR, LEV, and GIS on ROA explains 11.5890% of the variation in ROA. The regression model's p-value is 0.00002, which is less than 5%, indicating that the model is statistically significant. Thus, it can be concluded that both TAT and GIS jointly influence ROA.

4.2.2. Regression model (ROA) considering the moderation effect

Based on the results (Table 4), the constant value (C) is 0.098542, indicating that when considering the independent variables TAT, QR, LEV, GIS, and the moderating variable BI, along with their respective interactions (TATBI, QRBI, LEVBI, and GISBI) as constant, the predicted value for ROA is 0.098.

Table 4: Regression model (ROA) considering moderation effect

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.098542	0.149681	0.658347	0.5114
TAT	0.193637	0.151700	1.276442	0.2039
QR	-0.155198	0.028810	-5.386931	0.0000
LEV	-0.057575	0.119331	-0.482477	0.6302
GIS	0.007748	0.038258	0.202522	0.8398
BI	-0.258699	0.382216	-0.676841	0.4996
TAT*BI	-0.460697	0.385333	-1.195580	0.2339
QR*BI	0.483575	0.085033	5.686918	0.0000
LEV*BI	0.123384	0.352828	0.349701	0.7271
GIS*BI	0.056938	0.088827	0.641001	0.0026
R-squared	0.677494			
F-statistic	3.568690			
Prob(F-statistic)	0.000000			

Source: Constructed by author

Analysing the individual coefficients, it appears that TAT has no significant influence on ROA since its coefficient is not statistically significant. On the other hand, QR has a negative and significant effect on ROA, with a coefficient of -0.155 and a p-value less than 5%. However, LEV's coefficient indicates that it does not have a significant effect on ROA. Additionally, the relationship between GIS and ROA is found to be insignificant. Considering the moderating effect of BI on the relationships between the independent variables and ROA, the interaction of TAT and BI is not significant. Therefore, H6, which suggests that the relationship between Total Asset Turnover and ROA is moderated by board independence, cannot be supported. When considering the moderating effect of BI on the relationship between LEV and ROA, the interaction of LEV and BI is not significant leading to the not support of H7, which claims that the relationship between Leverage and ROA is not moderated by board independence. However, the interaction of GIS and BI is significant, resulting in the support of H8, which suggests that the relationship between Growth in Sales and ROA is moderated by board independence.

The R-squared of this model is 0.677494 and it indicates that a 67.74% variation of ROA is explained by independent variables QR, GIS, and the moderating variable BI. It indicates a relatively strong fit for the model with the moderating effect of board

independence, suggesting that this model is effective in explaining a substantial portion of the variability in the dependent variable within the context of the study. According to the results of this regression model, the quick ratio and ROA have a significant relationship. The relationship between total asset turnover, leverage, growth in sales, and ROA have insignificant.

5. DISCUSSION

5.1 Relationship between Quick Ratio and ROA

Durrah et al. (2016) found a positive relationship between the quick ratio and ROA in the food industrial firms listed on the Amman Bursa. Similarly, Yameen et al. (2019) observed a positive connection between the quick ratio and ROA in 82 pharmaceutical companies listed on the Bombay Stock Exchange. On the contrary, Rehman et al. (2015) reported a negative relationship between the quick ratio and ROA based on 99 listed firms on the Saudi Stock Exchange. However, Akter & Mahmud (2014) concluded that there was no significant relationship between the quick ratio and ROE in their study. In the context of Sri Lanka, Madushanka and Jathurika (2018) found a positive relationship between the quick ratio and ROA in 15 manufacturing companies listed on the Colombo Stock Exchange. Similarly, Priya and Nimalathasan (2013) observed a significant positive relationship between the quick ratio and ROA in their study. The results of the current study also show a positive relationship between QR and ROA, which aligns with the findings of Durrah et al. (2016), Yameen et al. (2019), Madushanka and Jathurika (2018), and Priya and Nimalathasan (2013). However, the relationship varied when considering the moderating effect of board size. Unlike the previously mentioned studies, this study accounted for the moderating effect of board size, which influenced the relationship between QR and ROA.

5.2 Relationship between the Total Asset Turnover Ratio and ROA

Utami & Manda (2021) found a significant and positive relationship between the total asset turnover ratio (TAT) and ROA in cigarette sub-sector companies listed on the Indonesia Stock Exchange. Similarly, Ningrum and Nurmasari (2021) illustrated that TAT significantly and positively influences ROA in their study. Furthermore, Ramli and Yusnaini (2022) indicated that TAT has a positive and significant influence on ROA based on their research involving 49 real estate firms listed on the Indonesia Stock Exchange. In the context of Jordanian industrial sector firms, Warrad & Al Omari (2015) observed a significant influence of TAT on ROA. Similarly, in the Sri Lankan context, most scholars have observed a positive relationship between total asset turnover and ROA, as noted by Kaluarachchi (2021). In this current study, the researchers also observed a positive and significant relationship between TAT and ROA in an unmoderated model, aligning with the findings of previous studies mentioned, including Utami and Manda (2021); Ningrum and Nurmasari (2021); Ramli and Yusnaini (2022); Warrad and Al Omari (2015), and Kaluarachchi (2021). In summary, the findings of this study are consistent with previous research conducted by Utami and Manda (2021); Ningrum and Nurmasari (2021); Ramli and

Yusnaini (2022); Warrad and Al Omari (2015), and Kaluarachchi (2021), all of which support a significant and positive relationship between total asset turnover and ROA.

5.3 Relationship between Leverage and ROA

Thi Kim et al. (2021); Burca and Batrinca, (2014); Senan et al. (2021); Murigu, (2014); Enekwe et al. (2014); Teshome et al. (2018), and Matar and Eneizan, (2018) indicates that leverage influences profitability significantly and positively based on 23 general insurance companies in Kenya. In addition to that, Matar and Eneizan, 2018 also state that the connection between leverage and ROA is positive and significant concerning 23 industrial manufacturing firms in Jordan. Furthermore, Obradovich and Gill, (2013) illustrate a positive relationship exists between leverage and the profitability of a firm based on a sample of 333 firms listed on the New York Stock Exchange. However, Akinlo and Asaolu (2012) have observed that leverage influences profitability (ROA) negatively. Furthermore, Bintara (2020) expresses that profitability is negatively affected by the leverage of employing 100 listed firms in the Indonesia Stock Exchange. As well as, Enekwe et al. (2014) perceived that the ROA is negatively affected by the leverage. These findings were observed by employing 3 Nigerian pharmaceutical companies. In the Sri Lankan context, Perinpanathan (2014) perceived that a negative relationship exists between financial leverage and financial performance by utilizing data from the 2006-2012 period of John Keells Holdings plc in Sri Lanka. This study identified that no relationship exists between leverage and ROA. Economic conditions can influence companies' borrowing decisions and may be the practical reason why no significant relationship exists between leverage. During periods of economic downturns or instability, companies may reduce their debt levels to mitigate financial risks, leading to a weaker relationship between leverage and ROA.

5.4 Relationship between sales growth and ROA

Numerous studies have explored the link between sales growth and financial performance. Thi Kim et al. (2021) found that growth in sales has a positive and significant impact on financial performance, based on listed food processing companies in Vietnam. Similarly, Pouraghajan et al. (2012) reported a statistically and positively correlated relationship between growth rate and ROA. In the real estate sector, Lestari et al. (2022) demonstrated that growth in sales positively influences firm performance for companies listed on the Indonesia Stock Exchange. Mursalini et al. (2017) also identified a significant influence of growth in sales on profitability in the consumer goods industry. On the other hand, Nur & Mahiri (2022); MengYun et al. (2021), and Sanjaya and Jayasiri (2018) observed a negative effect of sales growth on ROA in their respective studies. However, the results of this current study indicate a positive and significant relationship between growth in sales and ROA. Therefore, the findings of this study align with the conclusions of Le Thi Kim et al. (2021); Pouraghajan et al. (2012); Lestari et al. (2022), and Mursalini et al. (2017). In summary, various research studies have examined the connection between sales growth and financial performance, with differing results. Nevertheless, the findings of this particular study suggest a positive and significant relationship, consistent with the conclusions of selected previous studies mentioned.

5.5 Moderating Effect of Board Independence for the Determinants of Financial Performance

Findings of the study state that the relationship between the Quick Ratio and ROA is moderated by board independence, and should be accepted. Further, the relationship between the GIS and ROA is moderated by Yasser, Kalli, and Syed (2020) also explored the broader context of board independence and its impact on financial performance. When considering the moderating effect of BI on the relationship between LEV and ROA, the interaction of LEV and BI is not significant, which claims that the relationship between Leverage and ROA is not moderated by board independence. Similarly, the interaction of TAT and BI is not significant.

The substantial increase in R-squared from 0.11589 to 0.677494 when board independence (BI) is included suggests that board independence plays a significant role in enhancing the model's explanatory power. The moderating effect of board independence seems to contribute substantially to the model's ability to account for the observed variations in the dependent variable, emphasizing the importance of this moderating factor in influencing the relationship between the independent and dependent variables.

6. CONCLUSION AND IMPLICATIONS OF THE STUDY

The objective of this study is to examine the relationship between quick ratio, total asset turnover, leverage, growth in sales, and financial performance. In addition to that, examining the moderating effect of board independence on the relationship between quick ratio, total asset turnover, leverage, growth in sales, and financial performance is also an objective of this study. This study used 100 non-financial companies listed in the Colombo Stock Exchange as the sample size from 2020 to 2022. The total number of observations is 300. In the regression model without considering moderation, the study examined the relationship between the dependent variable, Return on Assets (ROA), and four independent variables: the quick ratio, total asset turnover ratio, leverage, and growth in sales.

The results of the regression model without considering moderation indicate that the quick ratio and ROA do not have a statistically significant relationship, implying that changes in the quick ratio do not have a substantial impact on the variation in ROA. On the other hand, the total asset turnover ratio exhibited a positive and significant relationship with ROA. This indicates that an increase in total asset turnover is associated with higher ROA, suggesting that companies with efficient asset utilization tend to have better financial performance. Similarly, the study found a positive and significant relationship between the growth in sales and ROA. This suggests that higher sales growth is linked to higher ROA, indicating that firms experiencing rapid sales growth may be more profitable. However, the analysis did not find a significant relationship between leverage and ROA, implying that changes in leverage levels do not have a substantial effect on ROA.

Regarding the moderating effect of Board Independence (BI), the study reveals that it is significant for the relationship between Quick Ratio (QR) and ROA. This means that the presence of independent board members has a moderating influence on the

relationship between QR and ROA. However, for the relationships involving Total Asset Turnover (TAT), Leverage (LEV), and Growth in Sales (GIS) with ROA, the moderating effect of BI is not significant.

7. IMPLICATIONS

In the past, numerous scholars have conducted studies focusing on the direct relationships between the quick ratio, total asset turnover, leverage, growth in sales, and ROA. However, this current study takes a unique approach by examining the moderating effect of board independence on these financial determinants and financial performance indicators. In the specific context of Sri Lanka, the researcher was unable to find the study of investigation the moderating effect of board independence on the quick ratio, total asset turnover, leverage, growth in sales, and ROA. As a result, this study has successfully addressed this empirical gap by delving into the interplay between corporate governance factors, financial determinants, and financial performance measures in the Sri Lankan setting. By examining this unexplored dimension, this study contributes valuable insights to the existing body of knowledge in corporate finance and governance, providing a deeper understanding of how board independence can influence the relationships between financial ratios and financial performance indicators. It paves the way for future research in the field and offers a more comprehensive understanding of the factors that shape organizational performance in Sri Lanka's business landscape.

Managers and executives can use the insights from the study to make informed decisions about the importance of sales growth and its impact on financial performance. They can focus on strategies to enhance sales growth and capitalize on its positive effects on profitability. Companies can reconsider their financial strategy, considering that leverage (debt) does not appear to have a significant impact on ROA. Instead of heavily relying on debt financing, companies may explore other avenues for raising capital. In conclusion, this study provides valuable insights into the relationship between financial variables and financial performance. The findings can guide companies in making informed decisions and improving their financial strategies. However, as with any research, it is essential to consider the limitations and external factors that may influence the results.

7.1 Limitations and future research directions

The study's main focus is to investigate the moderating effect of board independence on financial performance determinants, such as the quick ratio, total asset turnover, leverage, and growth in sales. It should be noted that this research does not specifically target firms in the financial sector of Sri Lanka. The study presents ample opportunities for future research. One potential avenue is conducting a sector-specific study on financial firms in Sri Lanka to analyze how board independence influences financial performance within this industry, providing valuable insights into the unique challenges faced by financial institutions.

Furthermore, exploring the impact of board independence on financial performance for non-listed firms in Sri Lanka can offer a comprehensive understanding of corporate governance practices in both listed and non-listed companies. Researchers

could also broaden their scope by studying listed firms in developed countries and investigating how board independence interacts with financial determinants to impact performance. Comparing findings across different economies can provide insights into the universality or context-specific nature of corporate governance practices in influencing financial outcomes.

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