WHAT MATTERS BETWEEN THE BOARDROOM COMMUNICATION AND CORPORATE PERFORMANCE: EXAMINING THE ROLES OF CEO'S POWER AND BOARD MONITORING

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Abstract

This paper examines the moderating effects of Chief Executive Officer (CEO) leadership and board monitoring on the relationship between board activities and firm performance. Results based on a sample collected from publicly-listed companies in the Colombo Stock Exchange in Sri Lanka show that frequency of board meetings exerts a positive effect on firm performance. Consistent with the proposition of agency theory, CEO's excessive leadership power shows a negative moderating effect, however, out of our prediction, CEO duality reveals a positive moderating effect, supporting the stewardship perspective. Moreover, board ownership plays a positive moderating role. The study contributes to corporate governance literature by examining CEO leadership and board monitoring as critical moderating factors and thus explicate the inconclusive relationship between board activities and firm performance. In doing so, our study enhances the understanding of managerial contexts where the power dynamics between the CEO

and board of directors in the Asian countries would be largely different from those in Western countries.

Keywords: *Corporate Governance, Agency Theory, Frequency of Board Meetings, Sri Lanka*

1. INTRODUCTION

Among the corporate governance monitoring instruments, frequency of board meetings, typically known as board activities, has received a significant attention in achieving corporate objectives. The two major players involved in the determination of board activities are Chief Executive Officer (CEO) and board of directors. Since the CEOs and executives have the dominant controlling power over corporate information (Nowark & McCabe, 2003), the CEO's power obviously influences the level of corporate activities (Rutherford & Buchholtz, 2007). By contrast, as a corporate governance controlling mechanism, board of directors suffers from lack of information in order to perform monitoring tasks (Walsh & Seward, 1990). Therefore, it is critical to reveal how agency abuses arise in boardroom activities as a consequence of the CEO's leadership power, and, on the other hand, how effectively governance mechanisms control and monitor the CEO's entrenchment in order to protect shareholders' interests.

Investigating the association between frequency of board meetings and firm performance has been an important theme in board governance research due to the scant attention that has been paid over the former. Particularly, only a limited effort has been made to find which factors would moderate this relationship. For instance, referring to board meeting transcripts, Tuggle, Sirmon, Christopher, and Bierman (2010) investigated board of directors' attention to monitoring, with the moderating effects of prior firm performance and CEO duality. Vafeas (1999) examined the association between frequency of board meetings and firm performance. Brunding and Nordqvist (2008) conducted a qualitative study examining the role of emotions in boardroom communications, while Johnson (2004), and Samra-Fresricks (2000) examined the impact of board meeting observations.

Our examination in this setting is expected to contribute in the following ways. Firstly, even though the directors' board meeting attendance is a well accepted governance best practice, it does not alone achieve the firm performance, but in most situations the CEO's and the directors' surrounding background and involvement determine the degree of effectiveness and efficiency of their contributions. For instance, prior studies have stressed the importance of examining the roles of directors' external board membership (Sonnenfeld, 2002). Secondly, the continuous inconsistent results generated by previous studies on the determination of frequency of board meetings and firm performance provides a rationale for this study. For example, Vafeas (1999) extended a research using 307 firms over a 5-year period and found that firms in which boards meet more frequently have less market value. However, firms' operating performance increased when prior year stock performance was included. Furthermore, examining the availability of board subcommittees, as a measure to analyse interaction of board activities, Rutherford and Buchholtz (2007) found a negative insignificant association between Return on Assets (ROA) and frequency of interaction. Jackling and Johl (2009) also concluded an opposite insignificant association for ROA and Tobin's Q on the relationship between frequency of board meetings and firm performance.

Thirdly, although the issue that information asymmetry between shareholders and management has been a well researched theme, demand for examining contextual relationships between the CEO and the board is still rising. For example, previous studies (e.g., Rutherford & Buchholtz, 2007) suggest that exploring directors' backgrounds and social ties in the context of board characteristics and board information would contribute to the corporate governance literature. Moreover, Rutherford and Buchholtz (2007) have elaborated the necessity of examining information asymmetry between the boards and the CEOs as they highlighted that "… future research could usefully examine the role that information plays in an agency relationship throughout organizations. For example, information asymmetries are likely to influence relations between shareholders and directors, boards and CEOs…" (p.583). Finally, prior researchers also proposed that "the evaluation of the number, length and the content of board meetings should be done to assure that the meeting structure supports board effectiveness and accountability" (Minichilli, Gabrielsson, & Huse, 2007: 617). Hence, the number

of board meeting provides a benchmark for evaluating corporate boards. Consequently, in identifying which characteristics of the CEO's leadership power determines the frequency of board meetings, and, on the other hand, which characteristics of boards' would mitigate the agency costs, we empirically tested the moderating effects of the CEO's leadership power and the board monitoring power on the relationship between frequency of board meetings and firm performance.

We recognized the CEO's dominant leadership power as an essential criterion to minimize board's effect on firm activities. The CEO's power and authority play a significant role in revealing factors that determine the relationship between boards activates and firm performance since the CEO almost constantly lays down the schedule for board meetings (Vafeas, 1999). For example, "…there are problems associated with receiving a subordinate's unbiased assessment of a CEOs' leadership in his or her presence at a board meeting" (Walsh & Seward, 1990: 425). Thus, Hambrick, Werder and Zajac (2008: 382) proposed that "one of the next frontiers for governance researchers is to generate theories and evidence regarding how power differentials within boardrooms affect board processes and outcomes". Brundin and Nordqvist (2008) identified the CEO's emotion as a power which could influence the board decision making through frequency of meetings. Furthermore, this study suggests the necessity of examining other power sources as "Future studies can compare the role of emotions in the process of boards that have different formal power structures" (Brundin and Nordqvist, 2008: 339). Thus, as per the agency theory, the higher the power the CEO possesses, the higher the ability of the CEO to control boardroom activities, in terms of personal achievements, which obviously impact on deciding the frequency of board routine activities.

Our arguments, as set forth above, leads us to employ CEO duality as a source of leadership power, given its core to assess the board leadership structure with reference to board activities in order to determine whether the chairperson utilizes the directors' assistance in accomplishing board tasks (Minichilli et al., 2007). Further, CEO's tenure was identified as a source of leadership power, due to the fact that the CEOs with longer tenure could influence in arranging the board meeting frequency. For example, Hill and Phan (1991) argued that CEOs with longer tenure

have the potential to get control over internal information system. Finally, we utilized the CEO's busyness as a source of leadership power because majority of previous researches (e.g., Ferris, Jagananathan & Pritchard, 2003; Fich & Shivdasani, 2006) on board busyness have only focused directors' external board membership, ignoring the important aspect of examining the effect of internal multiple board memberships. Moreover, no research has focused to analyse the influence of the CEO's multiple board membership in internal board committees and its consequences on the corporate performance. Moreover, inconsistent findings (Ferris et al., 2003; Fich & Shivdasani, 2006) on this setting led us to re-examine the effect.

As per a corporate governance mechanism, the fiduciary duty of the board is to monitor the management on behalf of the shareholders. Within that one foremost role of the board is to oversight the CEO's behaviour in order to mitigate agency abuses. However, the board's oversight impact on the CEO's entrenchment on the notion of 'board meetings' has not been well researched. For instance, prior research mentioned that "… we have not focused on the board's balance between being involved in the details and the task of a more general oversight of the CEO's work… we encourage future scholars to look more specifically into how boards deal with the issue of micro management versus delegation and board oversight" (Brundin & Nordqvist, 2008: 339). The first indicator we used in this regards was the proportion of outside board members in a board since research has established that the higher proportion of independent directors on a board facilitates to improve the boards' information quality and proactive information-seeking (Rutherford & Buchholtz, 2007). Moreover, independent outside directors have long been playing a prominent role against the dominant management behaviour, particularly in situations where CEO's power influences on corporate decisions (Minichilli et al., 2007). In addition, as a corporate governance mechanism to minimize management entrenchments, board directors who possess high ownership have the ability to reduce the agency cost (Tsai, Hung, Kuo, & Kuo, 2006). It is also obvious that board size has a greater influence to force the determination of the frequency of board activities.

This research extends multiple theoretical and empirical contributions to the corporate governance literature, illustrating the notions of agency theory, namely

agency problem and information asymmetry. First, we determined the relationship between frequency of board meetings and firm performance relationship, answering the inconsistent results produced by previous studies. Second, we addressed the research gaps on the information asymmetry between the CEO and board members, which arises as a result of the CEO's excessive power in determining board activities, and availability and usage of limited information for directors. Third, our particular approach resolved what factors would determine the influence of frequency of board meetings on firm performance. Forth, given the focus for the roles of the CEO's leadership power and boards' monitoring, as the responsible authorities in setting board activities, our study emphasized the importance of the governance applications. Last, we advanced the applicability of governance practices in the Asian context, identifying existing trends and addressing future outlooks. This is partly because, in the Asian driven studies, "While most leadership studies focus on supervisor-subordinate relationships only, the effect of CEO on firm behaviour is not yet well researched. The process by which the CEO affects firm performance has not yet been addressed in the literature" (Bruton& Lau, 2008: 654).

2. THEORETICAL FRAMEWORK AND HYPOTHESES

2.1 Agency Theory and Information Asymmetry

Over the years, agency theory has been the dominant presumption to contribute corporate governance research, which explains the causes and consequences separating the corporate control from the ownership (Fama & Jensen, 1983). Accordingly, agency theory provides the fundamental theoretical principle which emphasizes the board of directors' involvements over corporate control, and more sophisticated, the theory highlights monitoring management interests on corporate functions would ultimately protect shareholders' interests (Dalton, Hitt, Certo, & Dalton, 2007; Fama, 1980; Shleifer & Vishny, 1997). As per the agency theory, the deviation of information distribution between principals and agents is defined as information asymmetry (Rutherford & Buchholtz, 2007). Furthermore, it has been well accepted that the higher level of power concentration with top corporate executives is an avenue for the information asymmetry; specifically with the

CEO's leadership power (Rutherford & Buchholtz, 2007). On the other hand, employing a strong corporate governance structure reduces the possibility for information asymmetry (Kanagaretnam, Lobo, & Whalen, 2007). This is because adopting an effective corporate board ensures the quantity and quality of corporate information by minimizing managerial opportunistic behaviour (Ajinky, Bhojraj, & Sengupta, 2005; Kanagaretnam, Lobo, & Whalen, 2007; Karamanou & Vafeas, 2005). However, achieving this objective is a challenge. For instance, "After reviewing the abilities of its top managers, the board must then assess how the amount and quality of the management's efforts may have led to the present organization situation. This is very difficult for a board to assess. The problem is one of asymmetry of information. The board simply has very little information about how the firms' managers behave" (Walsh & Seward, 1990: 425). This controversy creates a potential to investigate how information asymmetry occurs in boardroom communication and which mechanisms could be implemented in order to minimize such abuses.

2.2 Frequency of Board Meetings and Firm Performance

It has been widely recognized that the higher interaction between boards and top management is an effective way to reduce agency cost. For instance, Lipton and Lorsch (1992) proposed that boards that meet more frequently have the higher potential to act effectively and diligently in order to perform shareholders' interests. Examining the relationship between board activities and firm performance, Vafeas (1999) concluded that one of the ways of board reacting to poor corporate performance is to increase the frequency of board meetings, which in turn enhance corporate performance. Previous research also found that there is a relationship between frequency of board meetings and corporate fraud activities. Uzun, Szewczyk, and Varma (2004) empirically tested the association between board composition and corporate fraud activities, and found that fraud companies have fewer board meetings than non-fraud companies. In a recent study on the corporate governance for emerging economies, Jackling and Johl (2009) hypothesized that boards respond to poor performance by increasing the level of board activities, which in turn positively associates with corporate performance. However, on the other hand, research has also argued that frequency of board meetings is not an effective governance mechanism (Jensen, 2010). Moreover,

Vafeas (1999) found that firms in which boards are met more frequently have a less market value as a result of the increase of board activity that causes share prices to decline. Taken together, this study argues that firms in which boards meet more frequently have a higher potential to respond to corporate implications effectively and to upgrade firm performance. Thus, the following hypothesis is proposed.

Hypothesis 1: *Frequency of board meetings has a positive impact on firm performance.*

2.3 Moderating Effect of CEO's Leadership Power

Previous scholars have confirmed the consequences of CEO's leadership power on board meetings as, "…emotions as power and status energizers worked against rather than for the CEO's ability to influence the outcome of later interactions involving the same board members" (Brundin & Nordqvist, 2008: 336). Similarly, with the agency perspective, the proportion between board's power and the CEO's power influences the capacity of boards to monitor the CEO's behaviour (Ocasio, 1994; Parrino, 1997). Thus, the more power the CEO achieves, the more the opportunities created to the CEO to influence board activities, and this lessens the board's ability to monitor over the CEO's function effectively. More precisely, no matter whether the CEOs are surrounded by excessive power, typically, corporate CEOs have incentives to keep directors away from monitoring functions (Tuggle et al., 2010). This is partly because;

> Top managers are well aware of their precarious employment situation. Consistent with the evidence in the turnover literature, they know that they are at risk of being dismissed for suboptimal organizational performance, even if they did not contribute to the problem. Valuing their position, many executives work to ensure their own job security. Towards that end, they have no choice but tamper with the board's ability to monitor and control their performance (Walsh & Seward, 1990: 430-431).

2.3.1 CEO Duality and Frequency of Board Meetings

Holding CEO-Chairman positions by one person is identified as the CEO duality.

With the agency theoretical perspective, the board of directors prefers non-duality due to the fact that the CEO's capacity to govern both agenda and board meetings while positioning as the chair of the same board (Finkelstein & D'Aveni, 1994). Jensen (2010) argued that it is impossible for the CEO to perform chairman's tasks without personal obligation while the duality exits. This is because chairman's responsibilities towards the firm involved with conducting board meetings and supervising the process involves hiring, firing, and determining the CEO's compensation and so on (Beasley, 1996). Accordingly, the CEO's power involved with duality would essentially impact the determination of board activities (Ruigrok, Peak, & Keller, 2006). Previous researchers have also confirmed that the duality diminishes independent directors' willingness or ability to oversee the CEO's functions in board meetings (Vance, 1983; Westphal, 1998). Furthermore, there is also evidence to prove that the CEOs would utilize their leadership power as a director on the board to dominate the board meeting agenda (Lorsch & Maclver, 1989; Westphal, 1998). Tuggle et al., (2010) suggested that the presence of duality limits the board's attention to monitoring. Therefore, agency theoretical advocates propose that the CEO duality negatively moderates the relationship between frequency of board meeting and firm performance.

However, as per the opposite view proposed by the stewardship theory, which determines that the combination of CEO-chair positions would enhance firm performance, CEO duality is a good mechanism to utilize firm information in an efficient way since the CEO is well aware of firm activities. This characteristic is a solution in situations where information asymmetry occurs between the CEO and the chairman. Thus, integration of two positions would improve firm performance with the CEO's stewardship behaviour towards the corporate performance as proposed by stewardship proponents (Davis, Schoorman, & Donaldson, 1997; Donaldson & Davis, 1991). In sum, the following hypotheses are derived.

Hypothesis 2a: *With the agency perspective, CEO duality negatively moderates the relationship between frequency of board meetings and firm performance.*

Hypothesis 2b: *With the stewardship perspective, CEO duality positively moderates the relationship between frequency of board meeting and firm performance.*

2.3.2 CEO Tenure and Frequency of Board Meetings

It is obvious that the CEO's ability to acquire leadership power with a deep understanding and closer networking with the internal and external environments depends on the CEO tenure in a particular organization. Hence, the higher the CEO's power, together with experience, knowledge and networking the higher the possibility that the CEO makes decisions based on judgment rather than having comprehensive board meetings and discussions, which results in the decrease of board activities. Moreover, the length of the CEO's tenure could influence directors' recruitments, and thus it is more likely to build a close interrelationship with board members (Westphal & Zajac, 1995), as a consequence of which directors would over trust the CEO unconditionally (Shen, 2003). As a result, higher CEO's tenures can cause decline in board of directors' independent judgments (Hermalin & Weisback, 1998). Ryan and Wiggins (2004) found that as the CEO's tenure increases, CEO strengthens entrenchment, achieving dominant power over the board members. This power is also used to determine boards' compensation package and it discourages board members from inspecting the management. Therefore, the following hypothesis is predicted.

Hypothesis 3: *CEO tenure will negatively moderate the relationship between frequency of board meetings and firm performance, with the negative relationship being stronger in firms with CEOs appointed with longer tenures.*

2.3.3 CEO Busyness and Frequency of Board Meetings

The practice that holding multiple directorships by individual directors or CEOs, which is defined as the "busyness", has become a controversial issue in current corporate practices. In particular, even among the majority of directors themselves there are opposing views regarding the appointment of positions with a number of board directorships (Ferris et al., 2003). This is partly because the limited time available in extending the directors' professional capability in designing and resolving corporate strategic choices (Lipton & Lorsch, 1992). For instance, Sonnenfeld (2002) says, "Indeed, some WorldCom directors were on more than ten boards, so how well prepared could they be" (Sonnenfeld, 2002: 106). In particular, Beasley (1996) found that executives' multiple board memberships seem to support for corporate frauds.

The CEO, the central decision maker for a firm, holding a higher number of positions in a company could hinder the capacity available to concentrate on corporate central objectives. This could be due to the excessive power of CEOs to dominate board members through board activities and board meeting agenda. Hence, the greater the variety of positions the CEO holds, the greater the opportunity to dominate the board interactions with internal and external environments (Finkelstein, 1992). As the CEO sets the agenda for the frequency board meeting, when the CEO holds more subcommittee positions, it is more likely to delegate functions related to board activities to board subcommittees, which in turn reduces the necessity of having a frequency of board activities. However, Vafeas (1999: 116) states that "The net effect of delegation on board activity is not clear and is an empirical question".

In contrast, regarding committee participation of outside directors, research has postulated that multiple directors serve higher frequency of committee meeting participation and monitoring roles than that of a director who only holds one or two directorships (Ferris et al., 2003). Moreover, this study concludes that firms have higher interest and trust for directors with multiple appointments in managing and monitoring corporate governance committees. As a whole, we argue that the CEOs holding more board subcommittees would negatively moderate the relationship between frequency of board meetings and firm performance. For this ground, the following hypothesis is projected.

Hypothesis 4: *CEO busyness will negatively moderate the relationship between frequency of board meetings and firm performance, with the negative relationship being stronger in firms where the CEO is represented in a higher number of board committees.*

2.4 Moderating Effect of Board Composition

Following the agency theory, research has concluded that the "vigilant boards are likely to take actions aimed at reducing the level of information asymmetry between them and their CEOs." (Rutherford & Buchholtz, 2007: 576). Prior studies have also proved that the presence of a vigilant board in a firm has the ability to control the CEO's dominant power in order to advance the shareholders' interest (Walters, Kroll, & Wright, 2007). Accordingly, it is obvious that board

extends their watchfulness in all circumstances over the CEO's dominant power in order to ensure that shareholder interests are secured. When the board is represented by outsider directors with significant shareholdings of paid representatives, the board would exert a tighter control over the CEO's behaviour (Finkelstein & Hambrick, 1989). Additionally, as per the attention based view, a previous study has proved that directors do not constantly focus the attention to the monitoring; rather selectively keep focusing on managerial monitoring (Tuggle et al., 2010). As a whole, in moderating frequency of board activities, it is believed that "powerful boards are more likely to change CEO characteristics in the direction of their own demographic profile" (Zajac & Westphal, 1996: 64).

2.4.1 Board Independence and Frequency of Board Meetings

Theoretical assumptions of the agency theory expect that the independent directors should have the free access to necessary corporate information in order to fulfill their responsibility (Nowak & McCabe, 2003). Conversely, "Board of directors typically posses far less information than CEOs, due to the limited amount of time board spend with their firms and it is largely this asymmetrical distribution of information that allows CEOs to act opportunistically" (Rutherford & Buchholtz, 2007: 577). According to their study, one option available for the board of directors to avoid information disadvantage is to increase the frequency of interactions, which is referred to as board activities. Similarly, Vafeas (1999) suggested that there should be a positive relationship between the proportion of outside independent directors and board activities. The first reason he proposed was that if a higher level of board activities helps to better board monitoring, independent director's request more board meetings in order to perform the tasks. The second reason is that when there is a higher proportion of independent directors in the board, it requires more time to be spent on briefing than when the higher proportion is inside directors. Similarly, Jesen (1993) concluded that independent outside directors have less opportunity to provide managerial comments and views in board meetings since much of the time is allocated to routine tasks. Therefore, we argue that the proportion of independent directors on the board will positively moderate the relationship between frequency of board meetings and firm performance. As a whole, the following hypothesis is derived.

Hypothesis 5: *Board independence will positively moderate the relationship between frequency of board meetings and firm performance, with the positive relationship being stronger in firms with a higher proportion of independent directors on the board.*

2.4.2 Board Ownership and Frequency of Board Meetings

As per the agency assumptions, ownership mechanism assumes board of directors to have a higher involvement when they have invested on the firm. So, board members are likely to take all necessary actions in order to assure that top management performs tasks for the betterment of shareholders. However, Vafeas (1999) argued that the boards' insider shareholding as a governance mechanism could be substituted for the board activities, and he suggested that it is not wise to have costly monitoring systems such as board activities simultaneously since insider ownership has the incentive to keep vigilant on managing. Indeed, this argument applies under some circumstances where individual board of directors actively participates in monitoring, and board activities are well established and trustable. In this sense, research has found that "… board members do not consistently monitor management in order to protect shareholder value, a proposition often assumed within governance research; rather… monitoring behaviours are contextually dependent. The contextual dependency of board attention to monitoring suggests that additional efforts may be needed to ensure the protection of shareholders' interests" (Tuggle et al., 2010: 946). Further, it is believed that, board directors who have equity ownership of the firm have a higher interest in firm decisions and greater awareness of management contradictions (Finkelstein, 1992). Thus, it is fair to argue that directors who have a higher personal interest require more board activities. Based on this argument, the following hypothesis is proposed.

Hypothesis 6: *Board equity ownership will positively moderate the relationship between frequency of board meetings and firm performance, with the positive relationship being stronger in firms with a higher percentage of board shareholding.*

2.4.3 Board Size and Frequency of Board Meetings

As per the resource dependence theory, it is suggested that the increased number of directors who have an external link to the firm would improve corporate performance due to the ability of accessing a variety of external resources (Jackling & Johl, 2009). Contrary to the inverse relation of the board size and firm performance, researches (e.g., Dalton, Daily, Ellstrand, & Johnson, 1998; Pearce & Zahra, 1992) have supported that board size is positively related to corporate performance. The argument proposed by these studies is that the increased number of directors could bring a depth of intellectual knowledge and external relations to the firm, which essentially improves corporate performance (Jackling & Johl, 2009). Hence, Vafeas (1999) suggested that when the board size increases, it is also expected to increase the frequency of board meetings, respectively, in order to allocate enough opportunities to respond corporate decisions. As a whole, following this perception, we propose that the board size has the influence to moderate the relationship between the frequency of board meetings and firm performance. Therefore, the following hypothesis is derived.

Hypothesis 7: *Board size will positively moderate the relationship between frequency of board meetings and firm performance, with the positive relationship being stronger in firms with higher number of board members.*

3. METHOD

3.1 Sample and Data

Sample for the study was drawn from Sri Lankan publicly listed companies registered in the Colombo Stock Exchange (CSE) for the year ended March 31, 2009. The sample was randomly selected with 212 firms which account for 92 percent of the population, and fairly distributed among the 20 industries to avoid the common method bias in selecting the sample. Publicly listed firms were utilized in this study due to the data availability. The Securities and Exchange Commission (SEC) and the CSE regulatory requirements require to publish audited financial and other related corporate information. Firms, which had not provided sufficient information for the study purpose, and firms that went bankrupt

or registered during the financial year were excluded from the sample. Data for the study were collected from the corporate annual reports published on the CSE website and from the corporate databases published by the CSE, such as "Fact Book-2008" and "Data library – (2009)". Table 1 provides descriptive information for the sample, including the industry-wise average board meeting frequencies.

3.2 Variable Definitions and Measurements

3.2.1 Independent Variables

Typically, board activities, boardroom communication, and board interactions are measured by availability of board subcommittees or frequency of board meetings. For instance, "Operationally, the richness of board information can be measured in terms of characteristics such as frequency of board meetings, number of subcommittees…" (Eisenhardt, 1989: 65). Following this perception, we applied

Table 1: Descriptive Information for the Study Sample

Industry Segments	Firms		Market	Turnover to	Avg; Board
	Total	Sample	Capitalization	Avg; Market Capitalization	Meetings Frequency
Trading	9	8	1.0	22.27	7.67
Hotels and Travels	32	28	7.4	12.59	5.89
Plantations	18	18	2.3	20.79	5.61
Services	6	5	0.3	3.86	6.40
Banking and Finance	33	31	16.8	9.00	10.84
Diversified holdings	13	12	15.7	10.87	6.67
Beverage Food & Tobacco	18	17	12.4	8.25	5.06
Chemicals & Pharmaceuticals	9	9	1.1	34.41	4.67
Constructions & Engineering	3	3	0.8	15.06	5.0
Footwear and Textiles	3	2	0.5	10.40	6.33
Health care	6	6	2.7	3.23	10.33
Land and Property	20	18	2.1	15.12	6.0
Information Technology	1	[illegible]	0.1	56.94	7.0
Investment Trusts	7	6	0.8	11.46	4.89
Manufacturing	32	28	6.9	17.79	6.73
Motors	6	6	2.7	85.66	7.17
Oil Palms	5	5	2.5	3.40	4.0
Power and Energy	3	3	2.3	15.87	6.0
Stores Suppliers	5	5	0.5	7.75	5.80
Telecommunication	2	2	21.4	28.81	11.50
Total/Average	231	212	5%	19.68%	6.83times

frequency of board meetings, which is also known as board activities, measured as the number of board meetings held during the financial year 2008/2009 (Jackling & Johl, 2009).

3.2.2 Dependent Variables

Two performance variables, namely Return on Equity (ROE) and Earning per Share (EPS), were simultaneously utilized to evaluate the hypotheses derived on the relationship between frequency of board meetings and corporate performance as those performance variables are highly involved with corporate profitability, board's and management's responsibility towards the shareholders' interests. ROE primarily measures the effective utilization of corporate resources while EPS determines the capability of firms to run the business in order to enhance corporate profit and shareholders' earnings (Pearce & Zahra, 1992). Previous studies (Ahmed, Hossain & Adams, 2006; Shen & Lin, 2009) have employed EPS and ROE in the related corporate governance performance measurements.

3.2.3 Moderating Variables

CEO duality was coded as a binary variable, where firms with duality are coded as '1' otherwise as '0' (Boyd, 1995; Finkelstein & D'Aveni, 1994). CEO tenure was recognized as the number of years that the CEO serves in the position (Hill & Phan, 1991; Walters, Kroll & Wright, 2007). CEO busyness was identified as the CEO being a member of board subcommittees; the representation of one or more of an audit, nomination or remuneration committees (Finkelstein & D'Aveni, 1994; Jackling & Johl, 2009). A firm in which the CEO represents the committee is coded as '1' otherwise coded as '0'. Independent directors were determined as the total number of independent outside directors' representative to the board (Finkelstein & D'Aveni, 1994). Board shareholdings were measured as the percentage of the total corporate shareholding (Kim, Al-Shammari, Kim & Lee, 2009). Board size was measured as the number of members on the board of directors as mentioned in the annual financial statements (Jackling & Johl, 2009; Raheja, 2005).

3.2.4 Control Variables

This study controlled several variables, such as firm age, firm size, past firm

performance, current ratio, debt ratio, independent board committees, board's remuneration, management team, and industry segments, which were found to be associated with firm performance. Firm age was calculated as the natural logarithm of the number of years from the establishment of the firm, which helped to control for organization's maturity (Arthurs, Hoskisson, Busenitz & Johnson, 2008; Matta & Beamish, 2008). Firm size was calculated as the natural logarithm of turnover in the financial year 2008/2009 (Ahmed et al., 2006). Prior firm performance for the financial year 2007/2008 was measured as the natural logarithm of ROE and EPS. Prior firm performance was controlled since the direct influence on the CEO's perception of firm performance and board of directors' involvement (Anderson, Mansi & Reeb, 2004; Rutherford & Buchholtz, 2007). The logarithmic form of analysis was applied to reduce the heteroscedasticity (Finkelstein & D'Aveni, 1994). Firm leverage was calculated as total long term debt divided by total assets of the firm (Ahmed et al., 2006; Anderson et al., 2004). Current ratio was measured dividing current assets by current liabilities, which is an indication of the company's efficiency and its short-term financial health, to control the effect on firm performance (Jaggi & Gul, 2001; Uang, Citron, Sudarsanam & Taffler, 2006). Industry segments were controlled since characteristics of different industries have been influenced largely by stock exchange listing rules and regulations, frequency of board meetings, and other environmental influences. Therefore, all industry categories were controlled as a categorical variable determined with two dummies (Finkelstein & D'Aveni, 1994; Rutherford & Buchholtz, 2007).

Board's remuneration was controlled since multiple directors, including the CEO receive higher compensation both for committee service and overall meetings (Ferris et al., 2003). Independent board subcommittees were controlled due to the frequency of meetings of these committees could influence the frequency of general board meetings and firm performance as well. Availability of independent board subcommittees was measured as the total of audit, remuneration, and nomination committees that are reported in the annual report under the corporate governance statement (Reeb & Upadhyay, 2010). The management team that reports to the CEO was recognized (Lin & Shih, 2008). Top Management Team (TMT) was controlled as the CEO being a part of TMT may lead to have an influence between TMT, CEO, board, and firm performance (Lin & Shih, 2008).

3.3 Analytical Approach

We tested hypotheses and moderating effect on the two dependent variables by using hierarchical multiple regression analysis. For the interaction terms, means were centered in avoiding multicollinearity, which makes it difficult to separate the effect of independent variables in the multiple regression analysis. In order to mitigate the potential threat of multicollinearity, it is important to use the mean-centering approach for independent variables that have interaction terms (Aiken & West, 1991). The first model was tested with only control variables, and the influence of independent variable was analysed in the model 2. As the third step, moderating variables were examined, while the full model including the interaction terms represented in the model 4. Following Aiken and West's (1991) suggestions that plotting interaction terms is the preferred way to depict the results for regression analysis, we demonstrate graphs for all significant interaction terms, as a supplementary analysis.

4. RESULTS

Table 2 presents the results of regression analysis for EPS and ROE, respectively. As shown in the model 1a and 1b, control variables account for 35.4 percent of the total variance in firm performance for EPS, and 45.5 percent for ROE, respectively. Among the controlled variables, past firm performance, current ratio, availability of board committees, and management team show a positive significant association with the firm performance, while debt ratio and board's remunerations are negative and significantly related. Firm age and industry segments are not significant at any stage, while firm size reflects an opposite significant relationship. In testing multcolinearity, we examined the variance inflation factor (VIF). The maximum VIF recorded was 3.35, which is well below the commonly accepted standard of 10 which asserts that multicolinearity is not present among the considered variables.

Hypothesis 1 predicted that the frequency of board meetings would be positively related to firm performance. As expected, model two of both performance variables reflects a positive significant association, for EPS, $\beta = .193$, $t = 2.81$, $p \leqslant .01$, and for ROE, $\beta = .163$, $t = 2.65$, $p \leqslant .01$, respectively. Furthermore, the

addition of frequency of board meetings to the model two increases the variance of firm performance significantly in both cases. For instance, the variance for EPS is increased by 2.6 percent and for ROE by 2.0 percent, respectively. Consistent with the assumption of the hypothesis 2b which predicted that the CEO duality positively moderates the relationship between frequency of board meetings and firm performance; results for the both performance indicators represent a positive relationship. Moreover, the relationship for the EPS is significant at $p \leqslant .05$ (β= .189, t = 2.59), which confirms that the explanations given in the stewardship theory to combine the CEO-Chairman positions in order to enhance corporate performance. Figure 1 graphically portrays the interaction predicted by the hypothesis 2b.

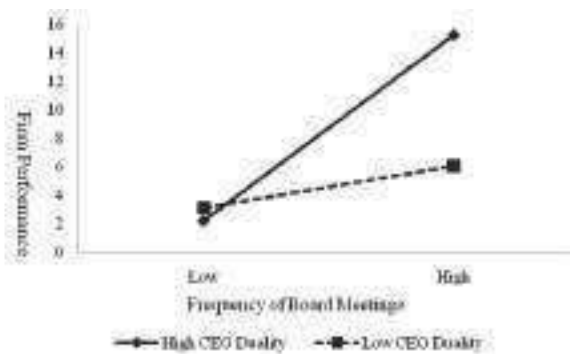

Figure 1 : Two-way Interaction between Frequency of Board Meetings and CEO Duality (EPS)

Hypothesis 3 predicts that the relationship between frequency of board meetings and firm performance would be negatively moderated by the CEO's tenure. As expected, both performance measurements depict a negative interaction (for EPS, β= -.024, t = -.409 and, for ROE, β= -.067, t = -1.22), however the relationship is insignificant. Thus, reported results do not support for the hypothesis 3. Hypothesis 4 predicts that the CEO busyness will negatively associate in the effect of frequency of board meetings on firm performance. As hypothesized, the interactions for both performance dimensions document a negative significant (for EPS, β= -.125, t = 1.84, $p \leqslant .10$ and, for ROE, β= -.141, t = 2.22, $p \leqslant .05$) relationship. This determines that CEO's committee membership negatively moderates the effect of frequency of board meetings on firm performance. As figures 2 and 3 depict, plotting the interaction terms supports this explanation.

Table 2: Results of Regression Analysis[a]

	Variables	Earning Per Share				Return on Equity			
		M- 1a	M-2a	M-3a	M-4a	M-1b	M-2b	M-3b	M-4b
Control	Firm age (log)	.032	.033	.006	.001	-.046	-.047	-.048	-.050
	Firm size (log)	-.010	-.044	.045	.051	.209**	.176**	.121†	.110
	Past firm performance(log)	.495***	.477***	.498***	.460***	.160**	.169**	.178**	.174**
	Current ratio	.038	.056	.019	.029	.087	.101†	.102†	.091†
	Debt ratio	-.308***	-.349***	-.320***	-.308***	-.662***	-.698***	-.692***	-.698***
	Board subcommittees	.075	.067	.091	.108	.241***	.230***	.205**	.212***
	Board Remuneration(log)	-.073	-.072	-.057	-.065	-.108†	-.106†	-.129*	-.133*
Independent	Management Team	.165*	.134*	.159*	.213***	.237***	.210***	.205***	.247***
	CEO Promoter	.010	.016	-.082	-.085	-.059	-.052	.076	.077
	Industry Service	-.059	-.003	-.009	.023	-.048	-.003	.028	.043
	Industry Manufacturing	.026	.053	.031	.015	-.111†	-.087	-.052	-.066
	Freq: of Board Meetings (H1)		.193**	.198**	.276***		.163**	.138*	.124†
Moderating	CEO Duality			.189*	.211*			-.168†	-.176*
	CEO Tenure			-.047	-.045			-.004	-.014
	CEO Busyness			-.037	-.051			.101†	.078
	Board Independence			.134†	.145†			.083	.082
	Board Ownership			.178**	.181**			-.048	-.039
	Board Size			-.324***	-.336***			.044	.040
Interactions	Freq: of BM x Duality (H2a & H2b)				.189**				.029
	Freq: of BM x CEO Tenure (H3)				-.024				-.067
	Freq: of BM x CEO Busyness (H4)				-.125†				-.141*
	Freq: of BM x Independence (H5)				.058				.046
	Freq: of BM x Ownership(H6)				.128†				.131*
	Freq: of BM x Board Size(H7)				.018				.053
R^2		34.2	36.8	44.0	47.9	46.9	48.8	51.3	54.0
Model F		9.15***	9.35***	8.17***	6.95***	15.57***	15.30***	10.95***	8.85***

a n= 212. Standardized coefficients are reported.

† $p \leq .10$, * $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$ (Freq: of BM= Frequency of Board Meetings)

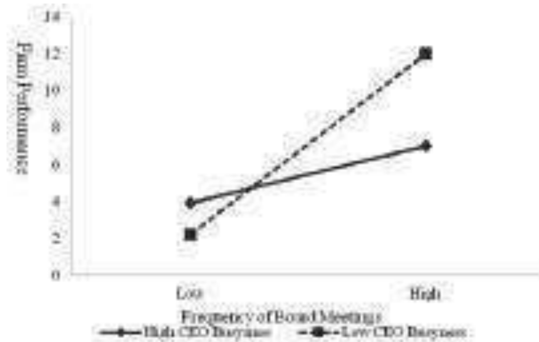

Figure 2 : Two-Way Interaction between Frequency of Board Meetings and CEO Busyness(EPS)

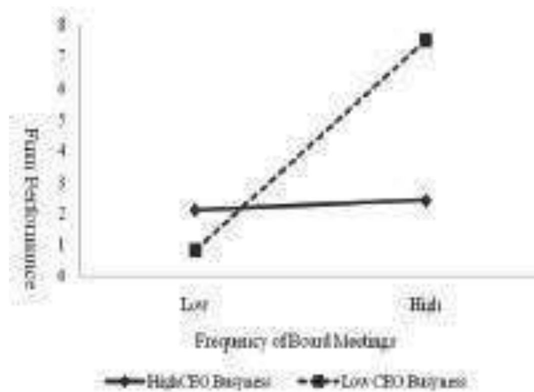

Figure 3 : Two-Way Interaction between Freq: of Board Meetingsand CEO Busyness(ROE)

In the boards' monitoring perspective, hypothesis 5 predicts that the availability of a higher proportion of outside board members on the board would positively moderate the relationship between frequency of board meetings and firm performance. As assumed, outcomes of the regression association portray a positive moderating effect for both performance measurements (for EPS, $\beta= .058$, $t = .586$ and, for ROE, $\beta= .046$, $t = .493$); however, the effect is not significant. Thus, hypothesis 5 is not supported. Hypothesis 6 predicts that boards' personal shareholding would positively moderate the relationship. Supporting to the expectations, results indicate a positive significant relationship for both performance variables, with the significant level of $\beta= .128$, $t = 1.96$, $p \leqslant .10$ for EPS, and $\beta= .131$, $t=2.20$, $p \leqslant .05$ for ROE, respectively. Figures 4 and 5 represent the two-way interaction for EPS and ROE, respectively. Hypothesis 7 tests a positive interaction effect of board size on the association. Model 4 of both

performance variables indicates a positive interaction (for EPS, β= .018, t = .200 and, for ROE, β= .053, t = .642); however, the effect is not significant. In consequence, hypothesis 7 is not supported.

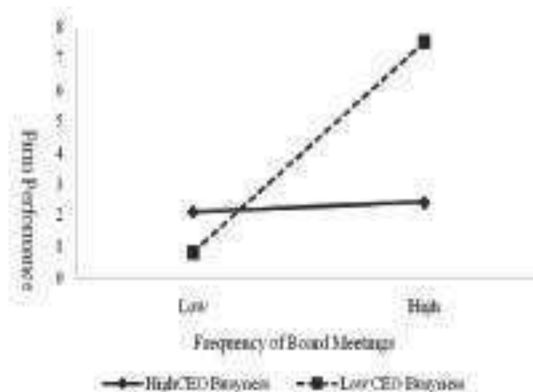

Figure 4 : Two-Way Interaction between FreqofBoard Meetings and Share Ownership (EPS)

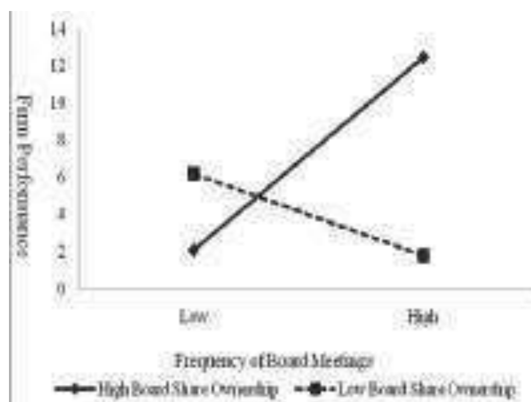

Figure 5 : Two-Way Interaction between Freq: of Board Meetings and Board Share Ownership (ROE)

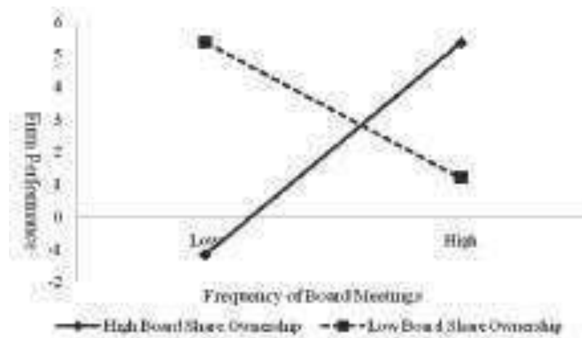

Figure 6 : Two-Way Interaction between Freq: of Board Meetings and Board Share Ownership (ROE)

5. DISCUSSION AND CONCLUSION

This study contributes to corporate governance best practices in theoretical and practical standpoints by examining the moderating effects of the CEOs leadership power and board monitoring power on the relationship between frequency of board activities and firm performance. As the literature review illustrated, there is a growing sentiment to explore the phenomena that affect to determine the boardroom information communication and firm performance. This necessity has emerged partly because of the inconsistent results generated by previous empirical research on this setting. In resolving this concern, we argued that frequency of board meetings is positively related to firm performance. Hypothesis 1 confirmed our prediction, with reference to agency and resource dependence theories for both performance measurements complying with previous findings (e.g., Vafeas, 1999). In contrast, Jackling and Johl (2009), Buchholtz (2007), and Rutherford and Buchholtz (2007) revealed opposite outcomes. Thus, our conclusion supports the current corporate governance acceptance that frequency of board meetings enhances corporate performance.

Our next question was to determine what factors would intensify or weaken the relationship between the frequency of board meetings and corporate performance. To address this question, we employed two moderating approaches with different perspectives. Firstly, showing a positive significant interaction effect of CEO duality on the relationship between frequency of board meetings and firm performance, the findings support the hypothesis 2b, with reference to the

explanations proposed by stewardship theory. These findings provide a deep insight into the Asian business context which depicts a stewardship association on the CEO duality relationship. Our conclusion is supported by the prior finding (e.g., Tuggle et al., 2010), which suggests that the presence of the duality reduces the board's attention to monitoring. Previous research has also found that the CEO duality is positively related, but insignificant to frequency of interactions, in terms of availability of board subcommittees (Rutherford & Buchholtz, 2007). Although the findings of the moderating effects of the CEO tenure are consistent and negative for both measurements, as expected, the relationship is insignificant, which indicates that the CEO's tenure itself does not have a significant influence to affect the frequency of board meetings. Thirdly, supporting the agency theory, findings for the CEO's power with busyness provides a significant explanation on the impact of the CEO's leadership power in determining the level of board activities. Our findings conclude that busy CEOs tend to decide corporate decision based on judgment and individual consent, regardless of accepted governance mechanism, which in turn brings unfavourable outcomes.

On the other hand, we examined the effectiveness of the internal corporate governance mechanism to intensify the frequency of board activities, in terms of board of directors' monitoring power. Firstly, it was predicted that proportion of independent outside directors has a greater involvement in deciding firm activities and that it strengthens the relationship. Although similar positive findings were generated for both measurements, the insignificant nature of results outlines the practical evidence on the employed proportion of outside directors and level of independence of the boards. On the one aspect, these findings could be rationalized to some extent considering the availability of expert outside directors in developing economies, such as in Sri Lanka. On the other aspect, these findings somewhat support the existing criticisms on the high family ownership in the Asian contexts which influence listed companies to minimize the employment of outside directors. Our results also comply with previous research (e.g., Ruigrok et al., 2006; Walsh & Seward, 1990), determining that board involvement characteristics such as board size and percentage of outside directors have no considerable relationship with strategic decision making and corporate performance. Secondly, board's personal equity holding portrays a significant contribution in order to monitor corporate information mechanism. Hypothesis 6 asserts this conclusion.

As a corporate governance mechanism, as per the agency theory, board ownership structure demonstrates a strong controlling influence over board activities, i.e., the higher the proportion of ownership, directors promote higher regularity of board activities in order to ensure the transparency and accountability of managerial performance, and in taking necessary actions on time. Finally, although the board size does not reflect a significant moderating effect, steady positive findings indicate insights of theoretical applications.

One reason for the insignificant findings may be the lack of adequate board members in the listed companies in developing economies which diminish the boards' ability to monitor managerial corporate behaviour. In fact, the mixed findings of this study reveal the inconsistent nature of corporate governance applications in the developing economies as some governance mechanism is well established and matured with the inherited nature of the Asian business context, while application of the rest of the practices are at the primary stage. The findings of this study also contribute to the criticisms on the universal applicability of corporate governance principles. For instance, "This focus on the Anglo-Saxon model of governance leads to suggestions for more outsiders on the board of directors, CEO compensation connections to the firm performance, and the CEO has a level of ownership in the firm. However, it has been found that this is not necessarily true in the Asian context" (Bruton & Lau, 2008, p 653). Wijethilake et al. (2015) and Ekanayake and Perera (2014) also found the ineffectiveness of such corporate governance mechanisms in the Sri Lankan context before. Interestingly, the three highly supported governance factors prove the situation very clearly, in terms of charisma of the CEO duality, CEO busyness, and directors' ownership, which are some of the prominent characteristics in the Asian business practices. These outcomes may benefit policy makers, regulatory bodies, and corporate practitioners in recognizing practical implications of corporate governance performance in Asian and emerging economies.

5.1 Limitations and Future Research

Although this study addressed the empirical research gaps on determination of frequency of board meetings and firm performance, there are some limitations involved with interpreting the findings. One limitation is that the consideration of

the sample data is only for one financial year, excluding prior firm performance indicators. Examining the aggregated impact on this setting would intensify the results further. Future research may also benefit supplementing other indicators of board activities in this context, such a quality of board meetings as measured by board meeting minutes and the influence of board subcommittees, which would reveal further corporate governance insights in different aspects. Future research may also benefit by investigating other CEO's power sources and board monitoring assessments, as such factors in this study only explain a limited portion. Also, in the theoretical viewpoint, our study is limited to agency and stewardship perspectives. One other research avenue is to investigate the impact of interrelated and opposite theoretical implications on the determination of board meeting frequency settings, as supplementary theories for the agency theory.

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