THE EFFECT OF DUALITY/NON-DUALITY OF CEO, BOARD SIZE, MEETING, COMMITTEE ON DOMESTIC SHAREHOLDINGS: EMPIRICAL EVIDENCE FROM SRI LANKA

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Abstract

This paper seeks to investigate the effect of duality/non-duality of CEO, board size, meeting, committee on domestic shareholdings of manufacturing companies listed on Colombo Stock Exchange over a three-year period from 2011 to 2013. The study employs the independent samples t-test, correlation and regression analyses to assess the relationships as well as the impact on domestic shareholdings using a sample of 32 quoted companies (n =32). It is found that duality & non-duality of CEO structure do not differ in relation to domestic shareholdings that are inconsistent with the hypothesis formulated. Board size (+) and board meeting (+) have shown positive relationship and board committee (-) is negatively associated with domestic shareholdings. As per the empirical results, board committee and board size have significant ($p < 0.05$) impact on domestic share holdings and insignificant impact is observed by board meeting. The present study concentrates only on the manufacturing sector quoted on Colombo Stock Exchange. This paper has taken an effort to this area of research on emerging share holdings held by local individuals and institutions in Sri Lanka and the findings could be generalized to the companies similar to this category.

Keywords: Duality/Non-Duality of CEO, Board Size, Board Meeting, Board Committee, Domestic Shareholdings

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1. Introduction

There has been lack of studies examining corporate governance experiences in emerging countries (Shleifer & Vishny, 1997). A country needs to have good corporate governance that takes leadership role to ensure economy's sustainable development with growth and to overcome financial system problems that are encountered by the economy (Velnampy *et al.*, 2014). According to Ajay (2007), the corporate governance issues flow from the concept of accountability for the safety and performance of assets and resources entrusted to the operating team. These issues assume greater significance and magnitude in the case of corporate form of organization where ownership and management of the organizations are distanced. The development of corporate governance has been driven by the need to restore investor confidence in capital markets. Generally, corporate governance is a system by which companies are directed and controlled. More specifically, corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment (Shleifer & Vishny, 1997, p. 737). The various techniques in the significant body of theoretical and empirical literature in accounting and finance have tested the relations among corporate governance, management turnover, corporate performance, corporate capital structure, and corporate ownership structure (Bhagat & Bolton, 2008). In general, the agency conflicts exist between managers and shareholders. From agency theory perspective, the implication for corporate governance is a need to be used for protection as well as reduction of conflicts of interest between shareholders and management, among shareholders, and between debt-holders and firms (Fama & Jensen, 1983). A multitude of governance mechanisms have been suggested to overcome the agency problem that arises from the separation of ownership and control. In this way, duality/non- duality of CEO, board size, board committee and the frequency of board meeting are used to capture the monitoring ability of the board.

Governance structure and the practices of Sri Lankan companies are highly influenced by neo-liberal reinforcement of good governance practices (De Silva Lokuwaduge, 2012; Alawattage & Wickramasinghe, 2004). The ownership structure of Sri Lankan companies is characterized by the