Reducing Agency Costs through Balanced Decision-Making Power in Sri Lanka

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Abstract

The aim of this study is to examine how corporate decision-making dominance leads to agency conflict between managers and shareholders of Sri Lankan firms where board members and managers are presumed to be dominant in decision-making upon legitimate power and some socio-cultural individualities. Panel data window covers 200 firms listed in the Colombo Stock Exchange for a period of thirteen years starting from 2011. Different proxies were separately used to measure board decision-making dominance, managerial decision-making dominance, and agency cost. The findings reveal that board decision-making dominance does not increase agency costs, suggesting that existing good practices of corporate governance may have encouraged dual leadership structure and board balance. In contrast, managerial decision-making dominance leads to severe agency conflicts, suggesting when managers hold excessive decision-making power, agency conflicts are intensified. In terms of large shareholders, their presence does not play any moderating role on the relation between corporate decision-making dominance and agency dynamics. It seems that their influence might not be strong enough to make such interaction effect given that the lack of shareholders' activism in Sri Lanka. Conclusively, the study suggests the implementation of checks and balances to prevent excessive concentration of decision-making power within the board room and management team. Thus, regular reviews and assessments on the distribution of power among upper echelons are required to maintain a balanced and effective governance structure.

Keywords: Agency costs, corporate governance, board dominance, large shareholders, managerial dominance

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