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August 2023

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JEL Classifications: G34, M12, M14

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1. Introduction

The finance and economics literature usually defines CEO power within a context of agency theory, but largely ignores managers' cultural idiosyncrasies and the social context in which they are embedded. According to Finkelstein (1992), a CEO's governance-related power dimensions consist of structural power (e.g. unitary leadership, the attenuating impact of board monitoring), ownership power (e.g. the voting rights of equity ownership), expertise power (e.g. human capital accumulated over the tenure with the same employer or elsewhere), and prestige power (e.g. cross-directorships in other firms or an (elite) education). There is a consensus in the corporate finance literature that such CEO traits affect his/her decision-making capacity (Adams, Almeida, and Ferreira, 2005; Liu and Jiraporn, 2010; Kim and Lu, 2011). In contrast, the social sciences literature approaches the concept of power more cautiously and multiple definitions of power abound across academic disciplines (Lukes, 1986). For the most social scientists, power is inherently a relative and contested concept that must be examined within the social environment where people's interactions occur and develop (this is called 'social power' by e.g. Fiske and Berdahl, 2007).

We argue that a CEO's ability of decision-making and influencing other stakeholders is not independent of his/her social qualities, the degree to which society is receptive to accept power as a value, and the ethnic and cultural context. Therefore, we propose a broader definition of CEO power that goes beyond the standard agency- or governance-related power dimensions and encompasses key social power aspects: ethnicity (also based on language and religion), gender, and political connections. This framework will enable us to answer the research question as to how various power measures affect agency costs and hence corporate performance and financial

stability. We argue that power relations are pervasive, operate at every social interaction and affect how institutions (including boards of directors) function (Foucault, 1991). Social hierarchies affect people's cognition and can therefore shape intergroup behavior in which exploitative power relations can emerge between dominant and subordinate group members (Pratto, Sidanius, and Levin, 2006; Levin, 2004). We focus on Sri Lanka because the country provides us with a corporate 'laboratory' for investigating sophisticated power relations within the context of a developing economy. Like many other developing nations, Sri Lanka suffers from persistent corruption[1], nepotism, and political upheaval. But what makes the country largely unique from a researcher's point of view is the country's clear demarcated cultural boundaries, persistent ethnic tensions, and complex power relations. As one of the results of a three-decade long traumatic civil war (even leading to genocide), the dominant ethnic group (Sinhala-Buddhists) has strengthened its position in the power hierarchy at the individual, institutional and corporate level. The behavioral asymmetries among the dominant and the various subordinate social groups (Hindu Tamils, Muslim Moors, and Sinhalese-Catholics) are highly visible. Although group-based social inequalities and power relations may to some extent be universal, they are more pronounced in non-egalitarian societies. Pratto and Espinoza (2001) confirm that a social dominance orientation (an individual's desire for group-based dominance and inequality) can be observed in each society in numerous ways and varying intensity. Dominant groups may have better access to political power, wealth, public resources and even entertainment, than subordinate groups that may suffer from negative social values such as stigmatization, discrimination, and poor living conditions. Typically, a dominant group aims to maintain its dominant positions because it is better off by sustaining such a status(-quo) that allows them to access economic resources (Levin, 2004).

CEOs do not operate in a vacuum; their decision-making process is not immune to social conflicts and ethical values. CEOs are also perceived as powerful because of their social qualities, such as ethnicity (Johl, Subramaniam, and Zain, 2012), gender (Sun and Zou, 2021), and political capital (Bushman, Piotroski, and Smith, 2004). They may exert power to favor themselves or their social networks and may extract companies' resources by the mere fact that they are member of a dominant ethnic group, hold a superior gender position (are male), or possess political capital (Bushman et al., 2004; Johl et al., 2012). According to the faultline theory, "leaders also are confronted with entrenched boundaries such as residual bitterness between historical enemies, culture clashes, turf battles and generation gaps. Such boundaries invite conflict, impose limitations on performance and stifle innovation" (Ernst and Chrobot-Mason, 2011). Sri Lankan managers can come from very different ethnic and linguistic backgrounds: they are Sinhalese-Buddhists,

[1] According to Transparency International's worldwide corruption perception index (CPI), corruption is problematic in Sri Lanka (the country was ranked 102 in 2021).

Sinhalese-Catholics, Tamils, and Moors, or are foreigners (e.g. Indians, Malaysians). Sinhalese-Buddhist CEOs could potentially play a more dominant role in decision-making, face less scrutiny, and engage in more risky corporate policies, just by the mere fact that they are part of the dominant ethnic group (Sinhalese-Buddhists represent about 70% of the country's population). They may exert their social power to influence other agents (top level executives, board members, creditors, and government bodies) and may eventually extract corporate and public resources. Still, it is not uncommon that a minority-origin CEO is appointed in a majority-dominated firm in Sri Lanka. Despite (past) ethnic conflicts, some corporations are still ethnic melting pots. There are also historical reasons why people from different ethnicities work together in a corporate setting: for instance, Tamils and Moors have a long history of business leadership in trading companies and of entrepreneurship. Although Tamils and Moors come from two different ethnic backgrounds, they both speak Tamil which was (to some degree still is) an important business language. As a CEO's power relates to the firm's ethnic orientation that depends on the ethnicity of the majority of directors, the decision power of a Sinhalese-Buddhist CEO is weakened in a minority-oriented firm (where the majority of board members do not belong to the same ethnicity as the CEO's). More board heterogeneity may enhance board monitoring and therefore limit agency costs (Cook and Glass, 2015; Nazliben, Renneboog, and Uduwalage, 2021).

The extant literature is concentrated on the Global North where more egalitarian societies are governed by more inclusive institutions. For instance, Cook and Glass (2014b) document that in weakly performing firms female and non-Caucasian CEOs in the US have more promotion chances than Caucasian CEOs (which they call the 'savior effect'). Hill, Upadhyay, and Beekun (2015) demonstrate that minority CEOs who enjoy scarce minority positions and can eventually even earn more (in line with the resource-based hypothesis). More recently, Guo et al. (2021) shows that the racial minority pay gap at the CEO level in the US has been bridged. This may not the case for the countries of the Global South that are dominated by intricate power hierarchies and are governed by exclusive institutions (Acemoglu and Robinson, 2012). In Sri Lanka, the lack of inclusiveness may not only be limited to ethnic/religious/linguistic minorities as it is a male-dominant society where men largely control the most prestigious and well-paid positions (they are the judges, medical doctors, and head of corporations) (Seneviratne and Currie, 1994).[2]

Politically connected CEOs could make decisions favoring their own interests (e.g. by empire building), exert power over directors, the management team and other employees, and extract

[2] In his seminal work, O'Connor (2010) discusses the sociological roots of female underrepresentation in societies. The corporate governance literature also showcases evidence of gender inequalities in the boardroom. For instance, female managers are paid less (Geiler and Renneboog, 2015) and appointed to less prestigious positions relative to their male counterparts.

corporate resources for the benefit of related politicians and their electorate (e.g. making corporate social responsibility (CSR) engagements by offering employment opportunities for voters of specific politicians). As in other developing economics, political connections play a major role for corporations (Berkman and Galpoththage, 2016; Perera et al., 2018). For instance, the sudden death of a politician connected to a Sri Lankan firm causes a negative abnormal return for the firm (-0.43%) (Faccio and Parsley, 2009).

To answer the above research question, we focus on the post-civil-war period for two reasons: not only does this period offer more reliable data but the government has also then taken steps towards enhancing corporate governance regulations, and adopting policies fostering reconciliation (see Appendix A), diversity and inclusion. Accordingly, we collect data for 205 firms listed on the Colombo Stock Exchange covering the period April 2011 to March 2020, which results in 1822 firm-year observations. We perform principal component analysis (PCA) to construct two indices capturing a CEO's influence on corporate decision-making: CEO governance power and CEO social-dominance power. The former considers classical CEO power dimensions (structural, ownership, experience, prestige, and expertise power), whereas the latter incorporate a CEO's influence depending on ethnicity and gender. Both power indices and their respective principal components are regressed against an agency cost index, corporate performance (Tobin's Q, ROA, and ROE), and financial distress measures, while controlling for firm size, ownership concentration, and industry- and year fixed-effects.

We find that CEO governance power is positively correlated with agency costs and financial instability, and negatively with corporate performance. A one-standard deviation increase in the overall CEO governance power index relates to 6% increase in agency cost (index), 4% decrease in Tobin's Q, 1.4% decrease in ROA, and 5% decrease in ROE. These results are consistent with the findings of the early US literature on CEO power and agency costs (Bebchuk and Fried, 2004) and performance (Bebchuk, Cremers, and Peyer, 2011; Onali et al., 2016). Furthermore, we demonstrate that CEOs' social-dominance power, characterized by their ethnicity and gender, as well as their political connections, does indeed have a marked impact on firms' economic outcomes: social-dominance power increases positively related to agency costs and corporate financial instability (financial distress), and decreases corporate performance (both measured by market-based and accounting returns). Thus, CEOs' socio-ethnic identities matter in a corporate setting in a country that has invested in reconciling the various ethnicities and communities. We note that CEOs with Sinhalese-Buddhist background do indeed seem exploit the dominance of their ethno-linguistic community to influence board members, shareholders, and stakeholders. The impact of a powerful (male) Sinhalese-Buddhist CEO is significantly attenuated when he can be

opposed by a majority of directors belonging to ethno-linguistic minorities. Similarly, the negative impact of a powerful CEO's decision-making disappears in a Sinhalese-Buddhist firm when the CEO belongs to an ethinic minority. So, boards' ethnic heterogeneity does indeed affect a firm's performance. This study provides evidence of the importance of inclusiveness of minorities defined on ethnolinguistic, religious, and gender grounds.

2. Literature Review and Hypotheses

Standard CEO power measures (based on structural, ownership, expertise, and prestige power) that we could combine into a power measure labelled 'governance power', only partially capture managers' actual influence on corporate decision-making in Sri Lanka. Considering the country's complex cultural context and the various power asymmetries across the different ethnic communities, more comprehensive measures are deemed necessary to analyze how managerial power affects corporate decision-making. Therefore, we focus on a CEO's *social dominance power* which expands governance power by ethnicity, religion, gender, and political connections. In this section, we discuss the theoretical underpinnings of CEO power, both governance-related and social-dominance power.

2.1. CEOs' Governance Power

The degree to which top management can make (unopposed) strategic decisions has important consequences for the firm's performance and financial health (Liu and Jiraporn, 2010). Some dimensions of the CEO's power are directly observable: e.g. these are captured by unitary leadership (structural power), a higher equity stake (ownership power), human capital as proxied by the tenure with the same employer or by education or membership of professional institutions (expert power), and the number of cross-directorships in other firms (prestige power) (Finkelstein, 1992). Bebchuk et al. (2011) and Kim and Lu (2011) find that a CEO's structural power (defined below and in Appendix B) is negatively related to corporate performance, that this relationship becomes stronger (c.q. more negative) in the presence of weaker shareholder monitoring, and this type of power positively correlates to stock return volatility (Adams et al., 2005).

One branch of the literature suggests that firms benefit from powerful CEOs. Adams et al. (2005) reports that a CEO's power concentration can result in fast corporate decision-making about internal and external issues, better chasing potential opportunities in the marketplace, and implementing more easily strategic decisions leading to unique organizational outcomes. Donaldson (1990) finds that a CEO's structural power (unitary leadership) leads to better corporate performance owing to unified command, and minimal role ambiguities and conflicts. Particularly,

powerful CEOs tend to pursue exploratory innovations (Berger, Imbierowicz, and Rauch, 2016; Sariol and Abebe, 2017). Referring to the life-cycle theory, Harjoto and Jo (2009) establish that a CEO's structural power positively affects firm value during the early stages of its life cycle, but this effect reverses in later stages. Overall, the consensus in the literature is that a positive effect of a dominant CEO on corporate performance is conditional on the presence of powerful boards that can counterbalance the CEO's power in order to reduce agency problems (Bebchuk and Fried, 2004; Tang, Crossan, and Rowe, 2011). For instance, strong boards can prevent that CEOs make value-destroying acquisitions (Grinstein and Hribar, 2004), engage in expensive debt financing leading to a lower credit rating and higher yield spreads (Liu and Jiraporn, 2010), and make low-return investments inducing a higher cost of capital (Chen, Huang, and Wei, 2013). The literature provides significant empirical support to a CEO's unopposed power being negatively correlated with corporate performance (Bebchuk et al., 2011; Onali et al., 2016). Also, powerful CEOs could obtain more lucrative compensation contracts (see the managerial power theory of Bebchuk, Fried, and Walker, 2002; Vo and Canil, 2019). We therefore hypothesize that *CEO's governance power positively correlates with agency costs (H1a), negatively with corporate performance (H1b), and positively with default probability (H1c).*

In the remainder of this section, we dwell on the definition of governance power which we dissect into structural, ownership, expert, and prestige power.

Structural Power

Among the executives, CEOs have the highest structural power following from their formal organizational position in the corporate hierarchy. Structural power could be proxied by the *number of titles held by an executive* (e.g. related to memberships of board committees), *remuneration* (total compensation scaled by the highest executive pay), the *CEO pay slice* (compensation of the CEO compared to that of other key executives; Bebchuk et al., 2011, and Vo and Canil, 2019), *unitary leadership* (the combination of the positions of CEO and chairman; Han, Nanda, and Silveri, 2016; Sheikh, 2019). This type of power also depends on the internal governance setup (e.g. the board's influence (Sheikh, 2018) or the proportion of independent directors (Hwang, Kim, and Kim, 2020; Gunasekarage, Luong, and Truong, 2020).

The most used proxy for structural power is a CEO's unitary leadership. If a person holds the positions of both CEO and chairperson, the monitoring function of the board may be eroded (Jensen and Meckling, 1976; Fama and Jensen, 1983). In the Sri Lankan corporate sector, unitary leadership is very common, and this goes hand in hand with a low percentage of non-executives on the board. Powerful CEOs may be able to design more friendly boards, a situation clearly not optimal from a

shareholder perspective. Especially in Sri Lankan family firms, a founding CEO/chairman often appoints family members to the board. The lack of external supervision through non-executive directors may expropriate the rights of minority shareholders in these firms. Although the Sri Lankan corporate governance provisions require the appointment of at least one senior independent director in the presence of unitary leadership, a single independent non-executive director may not be sufficient to guarantee sufficient monitoring of the executives.

Ownership Power

Managers holding sizable shares in their company may exert voting power, which may lead to their entrenchment and preclude effective monitoring. Ownership power is measured by *executive shares* (percentage of shares held by the executive, spouse, and dependent children) or in case of a family firm by *family shares* (the combined shares of the family members).[3] The seminal agency cost papers by Jensen and Meckling (1976) and Fama and Jensen (1983) argue that managerial equity ownership leads to an alignment of the interests of shareholders and management. CEOs with ownership power may put the firm's free cash flow to better use by selecting projects with positive NPVs and by more effectively utilizing corporate resources. Several papers (e.g. Chaganti and Damanpour,1991; Kim and Lu, 2011; Ting, Chueh, and Chang,2017) confirm that share ownership of top managers is indeed positively related to corporate performance. Still, Onali et al. (2016) refer to the entrenchment effect of CEO ownership (an inverse relation between strong CEO ownership concentration and performance). Extracting higher compensation or other private benefits of control may be another detrimental action by a CEO with higher equity ownership (Dutta, MacAulay, and Saadi, 2011). In Sri Lanka, CEOs and their families own a substantial amount of shares in some firms.[4]

Expert Power

CEOs gradually familiarize themselves with the firm and develop external networks. Their ability to cope with the contingencies in the task environment is denoted as their expert power. Kim and Lu (2011) state that CEOs build up expert power over the functional expertise which is expected to contribute to adopting the appropriate corporate strategies. Thus, expert power hinges on expertise that is built up over time (Liu and Jiraporn, 2010). The following proxies can be used to measure managerial expert power: critical expertise power based on expertise in functional areas. Thus, *Critical expertise power* assesses the functional experience of top managers in areas related to

[3] Defining and measuring familial and inter-personal relationships is a challenge, especially in Sri Lanka. Examining only surnames of managers may be misleading because in there are many identical surnames which do indicate ethnic background for not necessarily define the same family.

[4] The distribution of large state stakes by CEOs and their families is as follows: equity stakes of 10%/25%/50% more are held in 13.5%/6.9%/3.4% of firms.

inputs, outputs, production processes, and regulatory concerns, which encounter uncertainties in the task environment. The variable *Functional areas* counts the number of functional areas that an executive has dealt with in the past (e.g. expertise in general management, finance, marketing, etc.). The variable *Positions in firms* considers the number of positions held by a manager in firms and proxies for the value of firm-specific human capital. In addition, the literature also often uses a *CEO's tenure* within the firm as an alternative measure of expert power (Huson, Malatesta, and Parrino, 2004; Onali et al., 2016; Ting et al., 2017).

The decisions of a CEO with a long tenure and strong human capital may be more difficult to curb by the board, for which it may also be harder to discipline and even dismiss the CEO. CEOs with a longer tenure on the board than the other members may be more inclined and able to influence board decisions and interfere with the appointment and dismissal of new directors. Still, from the board's view, stricter monitoring may be required for new CEOs than old ones following the higher degree of uncertainty about the abilities of new CEOs, especially when they are external recruits (Hermalin and Weisbach, 1998). There is some ambiguity about the relation between CEO tenure and corporate performance: underperforming firms are characterized by longer-tenured CEOs according to Chaganti, Damanpour, and Mankelwicz (2001), whereas Fang et al. (2020) and Ting et al. (2017) document that CEO's expert power improves corporate performance. In Sri Lanka, many CEOs serve over long periods of time, and CEO turnover is relatively low. For instance, the average CEO in our dataset has held the position for seven years (ranging from one to 45 years), and yearly CEO turnover (including voluntary turnover following retirement) is 8%. Human capital (and hence expert power) may also include expertise derived from education or membership of professional organizations or institutes, but this is also related to prestige power that will be discussed in the next subsection.

Prestige Power

The perception of how skills and competencies are employed to perform successfully may also affect CEO power. *CEO prestige power* can capture managers' reputation in the institutional environment and has both an informational and symbolic aspect. The former refers to how the CEO manages (inter-)corporate relationships by holding board seats in other firms. Symbolic power stands for the CEO's reputation based on education or membership of professional institutions (e.g. the Institute of Chartered Accountants), which may also augment his/her influence within the firm. According to Kim and Lu (2011), a CEO generates prestige power through personal prestige, popularity, and others' views on a CEO's influential capacity, owing to contacts and qualifications. As prestige power is intangible in nature, the following proxies can be used: (i) membership of corporate boards (cross-directorships), (ii) memberships on boards of non-for-profit firms or

organizations (cross-directorships in such organizations), (iii) prestige of cross-directorships (average stock performance of firms in which a CEO holds cross-directorships), and (iv) educational background (degrees and reputation of the educational institutes) (Chikh and Filbien, 2011; Ting et al., 2017; Gunasekarage et al., 2020; Fang et al., 2020).

(a) Cross-directorships

CEOs' holding cross-directorships are usually considered as more influential. Chikh and Filbien (2011) underline the positive impact of CEOs' prestige power derived from cross-directorships and education: this type of power augments CEOs' self-confidence in decision-making and adds legitimacy and persuasive capacity in negotiations. Moreover, well-connected CEOs may have access to private information through their networks that can be used to gain competitive advantages (Renneboog and Zhao, 2011, 2014). Furthermore, connected CEOs may suffer less from the threat of dismissal given that their networks may provide them with more job opportunities that facilitate an exit (Renneboog and Zhao, 2020). Ting et al. (2017) mention that prestige power may also have detrimental consequences as CEOs' networks facilitate the appointment of government officials and politically-connected people to the board. This dark side of prestige power relates to nepotism, which may be particularly relevant to Sri Lanka.

(b) Expertise Power through Education

An additional measure of prestige power is based on educational background (Jensen and Zajac, 2004). For the case of France, for instance, Chikh and Filbien (2011) argue that having attended one of the 'écoles supérieures' (that offer an education in business/economics, public administration, or engineering/polytechnics) ensures the benefits of a strong network and a boost to a starting career. In general, a positive correlation is found between education (e.g. holding an MSc or MBA degree) and corporate performance (King, Srivastav, and Williams, 2016; Fang et al., 2020). There is also evidence that managers with a higher academic education are more sensitive to stakeholder requirements leading to a stronger CSR performance as measured by the environmental, social and governance scores (ESG) (Sun et al., 2021) and to more environmental innovations by the firm (Zhou, Chen, and Chen, 2021). In Sri Lanka, the recruitment processes of CEOs are highly competitive and an advanced education is a requirement.

2.2. Agency Cost Measures

Several of the above constituting elements of governance power relate to agency theory, which goes back to Berle and Means (1932) who first noticed the importance of separation of ownership and control. Shleifer and Vishny (1997) further formalized how separation of ownership and control can lead to agency problems between the management (the agent) and shareholders (the principals).

They stress that divergence between the interests of management and shareholders constitutes agency costs for corporations. Agency costs comprise three components: monitoring cost (cost of controlling aberrant activities of the agent), bonding cost (costs incurred in relation to managerial effort to reduce agency conflicts), and residual losses (any additional welfare reduction). Divergence in interests can lead managers to make decisions that do not entail an effective utilization of corporate assets and that result in higher agency costs. Agency conflicts are difficult to quantify but can be proxied by e.g. a firm's free cash flow (Jensen, 1986). Holding excess cash may create the following agency costs: (i) overinvesting (accepting projects that generate negative net present values) and (ii) avoiding dividend distribution and buybacks when investment returns are below the cost of capital (Claessens et al., 2002; Ferrell, Liang, and Renneboog, 2016; Lehn and Poulsen, 1989; Servaes and Tamayo, 2014; Doukas, Kim, and Pantzalis, 2000; Chung, Firth, and Kim, 2005). Capital structure decisions may affect the magnitude of a firm's free cash flow problem: low *leverage* is often also used as a proxy for agency costs (Ferrell et al., 2016; Krüger, 2015), as a significant increase in leverage would increase the amount of cash at the discretion of management (La Porta et al., 2000; Ferrell et al., 2016; Morck and Yeung, 2005). Large *capital expenditure* (over and above the industry average) also often proxies for agency costs (Masulis, Wang, and Xie, 2009; Ferrell et al., 2016), as are the loss in revenues arising from *inefficient asset utilization* (Ang, Cole, and Lin, 2000; Wang et al., 2021) and a higher *ratio of operating expenses* (Ang et al. 2000; Li, Wang, and Deng, 2008).

2.3. CEO's Social Dominance Power

The social psychology literature has established the dynamics of intergroup behavior of people from different social backgrounds and with different traits such as age, ethnicity, religion, and gender. The *social dominance theory* (Sidanius, Devereux, and Pratto, 1992: Sidanius et al., 1991) addresses how group-based hierarchies are shaped and sustained in societies. Social dominance theory goes back to 1900s; Pratto et al. (2006) reviews the seminal literature examining group-based inequalities. Dominant groups enjoy beneficial social value (derived from e.g. political power or wealth), whereas subordinate groups suffer from negative social values (e.g. underemployment or poor working conditions). However, the intensity and magnitude of a status gap emerging from dominant versus subordinate relations may change over time and differ across the societies.

Gender and ethnicity are the most discussed social power dimensions. Levin (2004) discusses why men and people from certain ethnicities seek dominance and inequality (*social dominance orientation*) after investigating several communities (e.g. African-Americans vs European-Americans in the US, Catholic vs Protestant Northern Irish communities). He concludes that

ethnicity and gender hierarchies play a key role in inter-group behavior. In each of the communities he studied, men tend to exert more power than women. Male social dominance orientation can also be seen in relation to occupational segregations as men typically hold high-power positions in military and police departments, in courtrooms, as well as in corporate boards. Consistent with the arguments above, we hypothesize that CEOs' social dominance arises from the dimensions ethnicity and gender, that may jointly (and along with CEO governance-power) enhance CEOs' overall decision-making power.

Ethnicity

Ethnic diversity and inclusiveness at the corporate level are debated in the organizational and corporate governance literature. Ethnicity is a distinctive feature of a specific group's culture, and a synthesis of a range of aptitudes, experiences, and (sub)cultures, that can eventually lead to innovation and creativity (Alesina and La Ferrara, 2005). Cox and Blake (1991) emphasize that firms obtain a competitive advantage if employee-teams are composed of people with different cultural backgrounds. The finance literature has also pointed out the importance of CEO ethnicity and firm outcomes. Cook and Glass (2014a) refer to two opposite phenomena, the *glass cliff* and the *savior effect*, to explain promotion or demotion of occupational minority CEOs (white women, and non-white men and women). While the former phenomenon explains that occupational minorities are more likely to be promoted as CEOs in poorly performing firms (relative to white men who want to avoid career hazard), the latter effect relates to the fact that underperforming occupational minority CEOs are more likely to be replaced by white men. The authors also argue that managers from racial/ethnic minorities in well-performing firms are more likely to be promoted as CEO, compared to Caucasian managers (the *bold move effect*). In the same lie and in support of the resource-based theory, minority CEOs benefit from higher compensation compared to white male CEOs (Hill et al., 2015; Guo et al., 2021).

Cook and Glass (2015) discuss the relation between board diversity and CEO ethnicity: they report that the effectiveness of corporate governance mechanisms and product innovation are stronger in firms led by a white CEO in combination with a diverse board. In contrast, other researchers emphasize the limited contribution of diverse boards to corporate performance. For instance, Borghesi, Chang, and Mehran (2016) report that when the CEO is female or belongs to an ethnic minority, firms underperform. Recent work by Nazliben et al. (2021) focuses on board social diversity based on ethnicity, language, religion, and gender for Sri Lanka's companies: they find no evidence that board heterogeneity brings about inter-personal conflicts or communication problems and hence engenders negative firm outcomes; instead, board diversity seems positively associated with firm performance.

Diversity and inclusion are expected to be more important in countries that experienced ethnic conflicts or civil war. In Sri Lanka, the nearly three-decade ethnic conflict has resulted in more clearly demarcated social boundaries within society based on religion, ethnicity, and language, and four main communities can be distinguished: Sinhalese-Buddhists, Sinhalese-Catholics, Tamils, and Moors. The power of CEOs in Sri Lanka can hardly be independent from their families' ethnic background and the cultural environment. As Sinhalese-Buddhists are the majority and ruling-class of the country accounting for about 70% of the population, we argue that Sinhalese-Buddhist CEOs (which comprise 48% of all CEOs of sample firms) could benefit from their cultural power relative to the other ethnicities (Sinhalese-Catholic, Tamils, and Moors). It could also be that a Sinhalese-Buddhist CEO's directions and decisions are less likely to be challenged by ethnic minorities. Also, these CEOs could interfere with the nomination of board members at the AGM in that they may strive to enroll directors with the same ethnicity, which might weaken the board's monitoring power, ultimately resulting in poor corporate performance. We therefore conjecture that there is a lower likelihood of financial distress in firms led by ethnic minority CEOs relative to Sinhalese-Buddhist CEOs.

Gender

The corporate governance literature discusses the gender imbalance for senior management positions, particularly for CEOs. Female CEOs may contribute to the implementation of inclusive corporate governance, in that they may reduce the gender-pay inequality among upper and lower echelons (Flabbi et al., 2019). Although the gender pay gap is almost eliminated at the CEO level in the US (Bugeja, Matolcsy, and Spiropoulos, 2012) and the UK (Geiler and Renneboog, 2015), a gender gap at the level below the top management layer still exists. The gender imbalance issue at the level of the CEO and at lower echelons is still prevalent in Asian economies (e.g., China) (Wang et al., 2019). Some papers (Martin, Nishikawa, and Williams, 2009; Khan and Vieito, 2013; Dah, Jizi, and Kebbe, 2020) argue that after the appointment of female CEOs, who are believed to be more risk averse, business risk is considerably reduced, and that firms exposed to higher risk tend to appoint female CEOs.

Political Connections

A growing body of literature shows that CEOs' political connections can have a significant impact on corporate outcomes, such as corporate performance, competitive advantages (Cao et al., 2019), and corporate innovation (Lin et al., 2011). CEOs' political capital also provides them a steady base to consolidate their power in the firm (Ocasio, 1994). However, it is likely that a politically connected CEO hampers good governance practices and induces agency costs (Bushman et al.,

2004). Thus, political connections may be value destroying; for example, politically connected CEOs may adopt investment projects for the benefit of governmental entities or political parties or engage in corrupt activities by providing paybacks to politicians or in nepotistic relations with some politicians and their families.

The hypothesis that derives from the above subsection is that *CEO's social dominance power positively associates with agency costs (H2a), negatively with corporate performance (H2b), and positively with a firm's default probability (H2c).*

2.4. Other Theories on CEO Power

A simple model that describes CEO power may not be adequate for a developing country such as Sri Lanka where a significant part of the corporate sector is largely characterised by ownership concentration, friendly boards, and ethnic heterogeneity. Thus, in order to enhance our theoretical understanding of power, we touch upon the organizational literature and discuss the life cycle theory, stewardship theory, behavioural agency theory, managerial power theory, and upper echelon theory.

Life Cycle Theory

The early literature on the organizational life-cycle recognizes that every firm follows sequential stages of development over its lifetime (Greiner, 1972; Lewis and Churchill, 1983; Quinn and Cameron, 1983). For instance, Miller and Friesen (1984) develop a five-stage model for a firm's life cycle: birth, growth, maturity, revival, and decline. At the *birth* stage, a firm is dominated by its owners (typically founder-owners), and at the *growth* stage owners start to delegate decision-making power to middle management. *Maturity* brings more bureaucracy to the organization, followed by a *revival* stage when the inertia of bureaucracy is addressed. Finally, the *decline* could be portrayed by a drop in managerial competencies and firm value. The different phases of life cycle may call for different types of top management expertise.

Stewardship Theory

Orthogonal to agency theory, stewardship theory (Donaldson and Davis, 1989), suggests that a firm benefits from a unitary leadership structure which assumes that conflicts of interest between managers and owners are nonexistent. Executive managers are not opportunistic shirkers of effort; they aspire serving as stewards of the firm. Donaldson (1990) stresses that financial performance improves under unitary leadership because of a unified command structure, and minimal role ambiguities and conflicts. According to this theory, unitary leadership reduces the costs of information flows between the management team and the board (Brickley, Coles, and Jarrell, 1997).

It should be noted that this theory hinges on the strong assumption that managers make their personal objectives subordinate to those of the firm's shareholders, which may be a rather strong assumption in the light of the overwhelming empirical evidence on agency conflicts.

Behavioral Agency Theory

Wiseman and Gomez-Mejia (1998) propose a behavioral agency model to explain firm performance by executives' risk-taking behavior, which in itself depends on different types of monitoring. Typically, executives are risk-takers when facing negatively framed organizational problems and are risk-averse when facing positively framed problems. The relation with CEO power is that more powerful CEOs behave more as risk-takers than as risk-averse managers. Sariol and Abebe (2017) demonstrate that firms with powerful CEOs tend to chase more exploratory innovations than operational ones.

Managerial Power Theory

Bebchuk et al. (2002) and Bebchuk and Fried (2004) defined managerial power and argued that powerholder executives influence the board (and shareholders) to increase their remuneration and to extract rents for their own benefit. Choe, Tian, and Yin (2014) confirm that powerful CEOs' interference in the pay-setting process results in too favorable a compensation contract for CEO at significant cost to shareholders. Shahab et al. (2020) demonstrate that strong shareholders are able to curb CEOs' excessive compensation arrangements and rent extraction.

Upper Echelon Theory

Hambrick and Mason (1984) define the upper echelon theory. Upper echelon characteristics include both psychological (cognitive bases, values, and perceptions) and observable traits (age, functional track and career experience, formal education, socioeconomic background, financial position, and group heterogeneity) and determine organizational outcomes (Carpenter, Sanders, and Gregersen (2001).

Faultline Theory

While a team's decision making may improve by diversity in skills and experience of its members, faultline theory states that team diversity in terms of race or ethnicity, gender, language or religion may erode the cohesion and lead to conflicts. Based on the distribution of individuals' attributes, homogeneous subgroups are created minimizing within-subgroup dissimilarities and maximizing between-subgroup differences (Lawrence and Zyphur, 2011). Lau and Murnighan (2005) examine intragroup and cross-subgroup communications based on demographic faultiness and report more effective communication for groups with weak faultlines but not for those with strong faultlines.

Likewise, Van Knippenberg et al. (2010) demonstrate negative effects of top management team diversify based on a multidimension factor of diversity.

3. Data and Methodology

Sri Lankan firms constitute a unique corporate laboratory to test our hypotheses on the relation between power, ethnicity, and corporate performance. We have constructed a rich sample to test the role of ethno-linguistic-religious traits of directors, socio-ethnic firm characteristics, and gender and political connections of managers. One issue is that the matching of CEOs with specific traits and the firm's characteristics may be endogeneous. It may be that specific CEO traits cluster in relation to specific types of firms. To partially address this issue, we employ a principal component analysis (PCA) that enables us to create aggregate power indices by means of various power dimensions.[5] *CEO governance power* and *CEO socio-dominance power* are the core independent variables. By means of a standard panel data analysis, we test how CEO power indices and other socio-cultural idiosyncrasies of Sri Lankan managers relate to firm characteristics and outputs such as agency costs proxies, corporate performance, and financial distress. We do not consider CEO traits in isolation, but also control for their ethno-cultural environment. For instance, we study how their personal power and background function in firms which are owned or controlled by the ethnic majority (the Sinhalese-Buddhist shareholders and directors) or by ethnic minorities (Tamil, Moor, or Catholic control).

3.1. Sample

Of the 283 firms listed on the Colombo Stock Exchange (CSE) over our sample period, we retain 205 non-financial firms from seventeen industries. We exclude 56 banks, insurance companies, and financial firms, as they are subject to different accounting treatments and disclosure requirements. We also ignore recently listed or delisted firms (since 2011) and firms with missing observations. Our data capture a broad range of CEO power measures, proxies for agency cost, corporate governance variables, performance, and other CEO-specific and firm-specific information for a

[5] PCA is indeed most often used as a data reduction methodology with the aim of ending up with a few dimensions. This is accomplished by linearly transforming the data into a new coordinate system where (most of) the variation is described with fewer dimensions than the initial data. In this paper, the correlation among the various power measures is not very high such that each of the seven power dimensions could be included in the model separately (which we also do below). But, not all types of power indices are independent from one another in the sense that they can cluster, which is captured by the principal components (PCs). In this paper, we can straightforwardly label the PCs because related individual power indices load on a specific principal component. For instance, PC1 relates to power based on structural power and ownership, PC2 to ethnic and gender power, and PC3 to prestige and expertise power. These directions constitute an orthonormal basis in which the individual dimensions are linearly uncorrelated. In additional analyses, given the focus on socio-dominance of specific ethnicities/ languages/ religions, we include (in addition to the governance power) a broad set of variables that deal with the position of the CEO (see infra).

period of nine years starting from 2011. From this year onwards, the annual reports are available in the CSE database and it is the year of the initiation of the corporate governance code reform. We disregard the information from the end of March 2020 onwards to avoid contamination by the impact of the Covid-19 pandemic, soaring inflation, and Sri Lanka's political upheaval (toppling of the corrupt government following rioting).

Our main data source is the companies' annual reports which contain the financial and non-financial information disclosure required by the Companies Act No. 07 of 2007. We collect information on the CEOs' profiles, including tenure, cross-directorships, ethnicity, political connections, and gender. The Corporate Governance Compliance Report also provides information on leadership structures and the Shareholder Information section reports CEO's equity ownership. We determine the social, ethno-linguistic and religious background of the CEOs from the Directors' Profiles sections of the annual reports, profile pictures (as dress codes such as headscarves yield ethno-religious information) and surnames (which relate to family ethnic background). This combination of information and clues enables us to identify ethno-linguistic and religious backgrounds with a very high degree of accuracy. We gather other corporate governance and firm-specific data from the Report of the Directors, and Market Statistics.

3.2. Principal Component Analysis and CEO Power

We create two composite CEO power indices: The first index (*CEO governance power index)* is based on the standard power dimensions that are frequently used in the corporate finance literature (Finkelstein (1992)) and captures unitary leadership (structural power), equity ownership (ownership power), experience (experience power), cross-directorships (prestige power), and expertise knowledge (expertise power), the definitions of which are given above. Ownership power refers to equity stakes of 5% or more held by the CEO (and his family). Experience power is accumulated if the tenure in the firm is above the median CEO tenure of the sample. Prestige power depends on whether or not the CEO holds cross-directorships. We also collect whether a CEO has obtained a master's degree or holds professional qualification, which is an input in the expertise power measure.

The second index, the broader *CEO socio-dominance power index,* encompasses not only the above standard governance power dimensions but also aspects of social power, based on ethno-linguistic, religious, gender and political connections, which can potentially affect managers' influence on other board members and shareholders. Following Levin (2004) and Fiske and Berdahl (2007), we argue that social power is context-driven and typically concentrated in the hands of male managers, of managers from dominating ethnic majorities, and of politically connected managers. Considering

the highly visible ethnic and gender dimensions that prevail in Sri Lankan society, we argue that a CEO's ethnicity and gender are likely to be two of the most important factors constituting this index. We include political connections separately in our analysis. Each dimension included in the power indices (constructed by means of PCA) is captured by a dummy variable which equals one if the specific aspect of power present or passes a threshold, and is zero otherwise. These composite indices are key independent variables that enable us to investigate how CEO power affects firms' agency costs and performance as well as their financial stability.

It is not unusual to present CEO power by means of an index in the corporate governance literature (e.g. Sheikh (2018)). Following the extant literature (Veprauskaitė and Adams, 2013; Li, Munir, and Karim, 2017; Chao et al., 2017), we implement PCA to construct power indices and apply a dimensionality-reduction to data comprising interrelated variables. This approach helps us to better interpret the various power dimensions and their interacting effects. The outcome of the PCA is a transformation of interrelated variables into orthogonal combinations of variables (the principal components). The use of PCA-based indices is to be preferred over traditional equally- or arbitrarily-weighted indices because the PCA method aggregates the original CEO power variables into factors by considering retained principal components with appropriate loadings. Thus, our indices avoid the measurement errors of arbitrary-weighted indices and potential multicollinearity issues among the variables. As a robustness test, we will also use the individual components (each representing a distinct power dimension) in our regression analysis. Panel A of Table 1 presents the correlations among the CEO power dimensions. The seven power dimensions - structural, ownership, experience, prestige, expertise, ethnic and gender power – are only weakly correlated. This implies that there is no significant overlap among these key power variables, which henceforth enables us to measure distinct qualities of CEOs.

We present our PCA analysis in Table 1 (Panel B): two retained components explain most of the variation of CEO governance power (50%) and three components explain most of the CEO socio-dominance power (54%). We only retain components with an eigenvalue exceeding one. The Kaiser-Meyer-Olkin (KMO) test uses a sampling adequacy measure to determine the applicability of principal component analysis and this measure for CEO governance power and CEO socio-dominance power amounts to 0.5915 and 0.5417, respectively, each exceeding the cutoff value of 0.5. Horn's Parallel Analysis for principal components yields a similar recommendation on the number of components to be retained. By means of these orthogonal PCA components, we generate CEO power indices that we include in our models as regressors. The first principal component of the CEO governance power index captures mainly structural, ownership, and experience power,

while the second principal component includes mainly prestige and expertise power. The first component explains 28.92% of variation, and first and second components jointly explain 49.54%.

$$CEO\ Governance\ Power\ Index = (0.2892/0.4954) * PC1 + ((0.4954 - 0.2892)/0.4954) * PC2$$

Given that CEO socio-dominance power encompasses (but extends) CEO governance power, we find that the first and third components large coincide with the two components of governance power, and the second principal component of socio-dominance power index mainly captures ethnic and gender power.

$$CEO\ Socio-power\ Index = (0.2110/0.3834) * PC1 + ((0.3834 - 0.2110)/0.3834) * PC2 + ((0.5359 - 0.3834)/0.5359) * PC3$$

[Insert Table 1 about here]

Panel B of Table 1 exhibits the principal component weights (loadings) for the retained components. For *CEO governance power* (Panel B1), we observe that the first component is mainly driven by a CEO's unitary leadership, equity ownership, tenure, and cross-directorships as the respective loadings exceed 0.5. Thus, we expect that CEOs' decision-making power is enhanced by unitary leadership, higher equity ownership, longer tenure, and the number of cross-directorships. The second component is mainly characterized by CEO's cross-directorships and expertise knowledge. One can argue that this second component is associated with CEOs' social networks and subject-specific knowledge gained through academic education or professional bodies. Panel B2 focuses on *CEO socio-dominance power* and shows the decomposition of the power dimensions for the broader set of variables that now expand the governance power variables with those capturing social power, namely ethnicity and gender. This PCA analysis yields three significant principal components; in addition to the ones in the CEO governance power index (component 1), the second component now captures social dominance power (based on the dominant ethnicity in Sri Lanka and masculinity, with respective loadings of 0.454 and 0.799). On the third component, prestige and expertise power load most significantly. An interesting point in this construction of power indices is that adding ethnicity and gender to the standard power dimensions does indeed capture CEO power better. Panel C presents descriptive statistics for the principal components, which by construction are normally distributed with zero mean.

3.3. Dependent Variables

We focus on three output variables: (a) *agency costs*, (b) *corporate performance*, and (c) *financial distress*. As there is no single variable that can capture agency costs, we use a combination of proxies used in the extant literature (e.g. Ferrell et al., 2016; Wang et al., 2021; Ang et al., 2000; Li et al., 2008): high capital expenditure (possible overinvestment), low dividend payout ratio (too much cash at the discretion of the management), low leverage (idem), low ownership concentration (lack of monitoring), high free cash flow (idle cash), inefficient asset utilization, and higher operating expenses (for definitions, see Appendix B). By means of PCA applied to these proxies of agency costs, we create a composite agency cost index.[6] The correlation matrix (Panel A of Appendix C) shows that agency costs proxies are not strongly correlated, which implies that these variables could capture different aspects of agency costs. Panel B exhibits the principal component weights (loadings). The first component is mainly characterized by capital expenditure, leverage, asset utilization, and operating expenses as their loadings exceed 0.5. These results are consistent with academic notions on agency and are well-supported by the corporate governance literature.[7] The second component is mainly driven by dividend payments, leverage, ownership concentration, and free cash flow. Panel C reports the descriptive statistics for the principal components of agency costs.

Corporate performance is measured by shareholder value-based performance indicators (Tobin's Q) and two accounting-based indicators (*ROA* and *ROE*) (definitions are in Appendix B). We use interest coverage ratio (earnings before interest and taxes, divided by interest paid on debt) as a proxy for financial distress. A lower interest coverage hampers creditworthiness of firms, as it captures potential difficulties in meeting short-term financial obligations.

3.4. Descriptive Statistics

In Table 2, we report the descriptive statistics of agency cost and performance measures, CEO power indicators, and other firm-specific variables. Panel A shows that the demeaned agency cost index varies between -1.69 and +1.74. Tobins' Q averages at 1.51, and the ROA and ROE amount to 5% and 7%, respectively. 36% of the listed Sri Lankan firms earn an EBIT of less than twice interest expenses, which is pointing to a precarious financial situation. Panels B-D exhibit the

[6] Principal components of agency costs explain 48% of total variance. Kaiser-Meyer-Olkin (KMO) test indicates that the sampling adequacy of agency costs is 0.6340. Agency Cost Index = (0.3027/0.4780)*PC1+((0.4780-0.3027)/0.4780)*PC2

[7] Ferrell et al. (2016) also establish that low leverage can increase agency costs as less external borrowing can encourage unnecessary use of free cash flow at managerial discretion. Besides, we provide consistent results with Ang et al. (2000) and Wang et al. (2021) who discuss low asset utilization as another source of agency costs. Our next finding is the same as of Ang et al. (2000) and Li et al. (2008) who report increased agency costs as a result of higher operating expenses.

distributional characteristics of the main independent variables, the *CEO governance power* and *CEO socio-dominance power* indices, and the variables constituting these power measures. In 25% of the firms, a single person combines the chairmanship of the board with the executive leadership. The average CEO (and his family) holds 5% of the equity, has a tenure of more than seven years in the firm, and holds four non-executive directorships in other firms. The majority of the CEOs have obtained a master degree or professional qualification. Although the Sri Lankan society has highly demarcated social, ethno-linguistic-religious boundaries between communities, such boundaries seem less pronounced in corporations, as in a significant number of firms managers and directors serve on the same boards. We observe a marked number of ethnic minority CEOs (i.e. Tamils, Moors (Muslims), and Sinhalese Catholics). Panel D shows that only 48% of CEOs belong to dominant ethnic-religious group of Sinhalese-Buddhists and 9% of Sinhalese-Buddhist CEOs work in minority-oriented firms (of which the board is dominated by directors belonging to one of the country's minorities). Eighteen percent of the ethnic minority CEOs run Sinhalese-Buddhist firms (which boards comprise a majority of Sinhalese-Buddhist directors). In the average firm, 56% of the directors belong to the same ethnicity as that of the CEO. Not surprisingly for a male-oriented society as Sri Lanka, 93% of the CEOs are male. 7% of CEOs are politically connected, but this may be an underestimation as (indirect) political connections are hard to detect.

Table 3 reports the correlation matrix for the dependent variables, the power indicators and their main dimensions, and some other key variables. We observe that the individual power dimensions - a CEO's unitary leadership, ownership, and cross-directorships - are negatively and significantly correlated with corporate performance measures. In relation to a CEO's socio-dominance power, we note that the presence of a *Sinhalese-Buddhist CEO* negatively, significantly relates to corporate performance. Male CEO leadership has a significant negative correlation with agency costs. The proportion of directors belonging to the CEO's ethnicity and the presence of politically connected CEOs are inversely related to corporate performance and positively to default probability. As expected, low agency costs occur in the presence of blockholders. A univariate analysis on how governance power relates to corporate performance, and CEO traits and ownership is presented in Table 4. We compare firms belonging to 1st and 4th quartiles of the CEO governance power (which proxies for agency costs), and observe that firms with CEOs who have strong governance power perform worse as these firms have a lower Q, ROA, and ROE.

[Insert Tables 2-4 about here]

Lower CEO power is reported for Sinhalese-Buddhist CEOs who operate in minority-dominated firms and, vice versa, for CEOs with a minority background in Sinhalese-Buddhist dominated firms. Powerful CEOs lead firms with more homogenous boards (in terms of ethnicity). The

proportion of directors with the same ethnicity as their CEO is much larger in firms with high CEO governance power (and agency costs). This suggests that autocratic corporate leadership is associated with lack of boardroom diversity. Unsurprisingly, powerful CEOs are more politically connected, and they work in firms where large shareholder monitoring and ownership concentration are significantly lower.

4. Empirical Results

4.1. Decomposition of CEO Power

First, we regress the firm's agency costs, corporate performance (Tobin's Q, ROA, ROE), and the financial distress measure on CEO power indices and their principal components. We control for a large set of variables comprising ownership structure, firm characteristics, and time and industry fixed effects. This regression model looks as follows:

$$Firm\ Output_{it} = \beta_0 + \beta_1 CEO\ Power_{it} + \beta_2 Bloc.\ Owners_{it} + \beta_3 Largest\ Own._{it} + \beta_4 Fam.\ Ind.\ Own._{it} + \beta_5 \ln(Total\ Assets)_{it} + Years + Industries + \varepsilon_{it}$$

Where *CEO power* stands for either CEO governance power or for CEO socio-dominance power (which embeds the former and extends it). *Bloc. Owners* stands for the number of corporate blockholders owning at least 10% of the equity; *Largest Own.* represents the equity stake held by the largest shareholder, and *Fam. Ind. Own.* indicates that the firm is a family firm (the largest equity stake is held by a family or an individual).

Panel A of Table 5 shows that *CEO governance power* is indeed positively and significantly related to agency costs. A one-standard deviation increase (of 0.82) in overall CEO governance power index correlates with a 6% increase in the agency cost index. This finding is consistent with our hypothesis that CEO governance power induces agency costs and thus with the arguments of managerial power theory (Bebchuk and Fried, 2004; Bebchuk et al., 2002) which highlights that the CEO can exert excessive power over the board, resulting in decisions at the detriment of shareholder value. As CEO governance power increases agency costs, a negative relation with performance is expected (as in Bebchuk et al., 2011; Onali et al., 2016). This relation is indeed confirmed for Tobin's Q, ROA, and ROE in Panel A. A one-standard deviation increase in CEO governance power (0.82) goes hand in hand with a decrease of 4% in Tobin's Q, of 1.4% in ROA, and of 5% in ROE. Also, CEO governance power significantly enhances default probability of firms.

Panel A of Table 5 further reports how the principal components of the CEO governance power relate to our set of dependent variables. The first principal component (Princ. Comp. 1), which is mainly driven by CEO's unitary leadership, equity ownership, tenure, and cross-directorships, and thus based on structural-, ownership-, experience-, and prestige-power induces higher agency costs, and lower corporate performance (Tobin's Q and ROA). A one-standard deviation increase in this component (1.165) relates to a 4% increase in the agency costs index, a 5% decrease in Tobin's Q, and a 2% decrease in ROA. Our findings align with the arguments of agency theory, in that a poor utilization of corporate resources is apparent under the leadership of a CEO with strong

(unchallenged) decision-making autonomy. The second principal component reflects a CEO's ownership, prestige and expertise power, mainly captured by equity stakes, cross-directorships and academic or professional education. We observe that this type of power behaves inversely to the first principal component as it captures that the CEO is a shareholder in the firm (which may reduce agency costs as the CEO is a co-owner) and is may be based on past achievements (which translate in offers to serve on boards of other firms) and on expertise. Panel A exhibits that this second component reduces agency costs and the firm's default probability, and enhances ROA (e.g. a one-standard deviation (1.058) increase in this component correlates with a 1.5% increase in ROA).

We turn to the effect of *CEO socio-dominance power* on corporate outcomes in Panel B of Table 5 and document that this type of power also positively correlates to the agency costs index and financial distress and negatively to the corporate performance measures. This finding is not surprising as this power index comprises the CEO governance power index. Additional insight can be gained from the dissection of the index into three principal components. Principal component 1 captures structural, ownership and prestige power, and correlates with higher agency costs and financial distress, and with lower corporate performance. Principal component 3, which is mainly determined by CEO expertise (education and professional qualifications) and prestige (cross-directorships), inversely affects the outcome variables: expertise leads to lower agency costs and financial distress and better corporate performance. The second principal component of Panel B is distinct, in that it relates to the CEO's ethnicity (member of the dominant Sinhalese-Buddhist class) and gender (male). We observe that this social dominance power component significantly relates to higher agency costs, higher probability of financial distress, and lower performance (ROA). A one-standard deviation increase in this component (1.113) correlates with a 4% increase in agency cost index, and a 20% increase in probability of default. The results from this second principal component satisfy the hypotheses that a lack of inclusiveness (in term of memgership of minority classes or being female) decreases corporate performance and is related to higher agency costs and financial instability.

[Insert Table 5 about here]

4.2 The Role of Ethnicity, Gender, and Political Connections

We now investigate how a CEO's specific ethno-linguistic-religious traits, the socio-ethnic corporate context, as well as political connections impact firm outcomes, after controlling for a CEO's governance power. Table 6 confirms that CEO governance power positively and significantly relates to agency costs in all models. Turning to the socio-ethnic conditions, we show in column (1) that agency costs are higher in firms with a CEO of the dominant ethnic group (Sinhalese-Buddhists). So, Sinhalese-Buddhist CEOs are likely to be more dominant in decision-

making by using the racial power that they derive from belonging to the major ethnic group. The economic effect measured by a one-standard deviation (0.50) increase in the presence of Sinhalese-Buddhist CEOs relates to a 3% increase in the agency cost index. This extends to the case of a Sinhalese-Buddhist CEO leading a minority-oriented firm but the effect is less strong, implying an attenuating role by the directors whose majority is non-Sinhalese-Buddhist) (Column (2)). In Column (3), we observe that the presence of minority CEOs in Sinhalese-Buddhist-oriented firms is not related to higher agency costs. Irrespective of ethnicity, the lack of inclusiveness (here measured by the dominance of one socio-ethnic-linguistic group whereby the CEO and most directors belong to the same ethnicity) also leads to higher agency costs (Column (4)). Table 6 further shows that the effect of political connection and gender on agency costs is not significant; but it should be noted that it is hard to detect political connections and that there are relatively few women leading listed corporations.

[Insert Table 6 about here]

In Tables 7-9, we perform similar analyses, in that we examine the effect of a CEO's governance power and other CEO socio-dominance power dimensions on the corporate performance measures. In Table 7, we find a negative and mostly significant correlation between CEO governance power index and Tobin's Q, but the statistical power has shifted towards a more negative impact of the CEO- and firm-related socio-ethnic variables. Powerful CEOs who belong to the dominant ethnicity generate lower market-based returns (Column (1)), but this negative impact on returns is attenuated in firms where the majority of directors is of another ethnicity (Column (2)). A one-standard deviation increase in the presence of Sinhalese-Buddhist CEOs (0.50) relates to a 20% decrease in Tobin's Q. It seems that a lack of ethno-linguistic diversity (when the CEO and directors are of the same ethnicity) has a strong negative significant impact on Tobin's Q (Columns (4) and (5)); and that this negative impact is reduced when a CEO in a Sinhalese-Buddhist firm is from another ethnicity (Column (3)). Finally, we confirm that political connections are detrimental to market-based performance (Column (6)).

Table 8 confirms the detrimental effects of granting too strong decision power to a CEO (the parameter coefficients of CEO governance power are negative and statistically significant in all models). We confirm that the presence of dominant Sinhalese-Buddhist CEOs, lack of socio-ethnic diversity, and the presence of political connections are correlated with poor accounting returns (ROA) (Columns (1), (4)-(6)), and that diversity (e.g. CEO is a minority in a Sinhalese-Buddhist firm) correlates with a higher ROA. Table 9 (on ROE) shows similar results, albeit with some lower levels of statistical significance.

[Insert Tables 7-9 about here]

Our final analysis on CEO governance power and specific variables capturing socio-ethnic dominance concentrates on financial distress in Table 10. Again, the table shows that a CEO's strong decision power has detrimental effects in the sense of a higher probability of financial distress. Across all specifications of the model, we find that a lack of socio-ethnic diversity, a lack of gender diversity, and strong political connections relate to a higher level of distress (Columns (1), (4)-(7)), and that ethnic board diversity (minority CEO in a Sinhalese-Buddhist firm) is beneficial (Column (3)). It is worth noting that these statistically significant effects are also economically significant. For instance, a one-standard deviation increase on the presence of Sinhalese-Buddhist CEOs (0.50) relates to an increase in the probability of financial distress by 31%.

[Insert Table 10 about here]

5. Robustness Tests

We verify the robustness of our results by testing the relation between CEO governance power, now proxied not by the combination of principal components but by principal component 1, and alternative CEO-socio power indicators, on the one hand, and agency costs, corporate performance, and default probability, on the other hand. The first principal component (as shown in Panel B1 of Table 1) captures the CEO's unitary leadership, equity ownership, experience, and cross-directorships, and is significantly and positively related to our agency costs proxy (Online Appendix Table OA.1) and the likelihood of default (Online Appendix Table OA.5), and negatively related to Tobin's Q, ROA, and ROE (Online Appendix Tables OA.2-OA.4). Consistent with our main findings, Sinhalese-Buddhist powerful CEOs significantly decrease corporate performance (Tobin's Q, ROA, and ROE) and increase default probability. For Sinhalese-Buddhist CEOs in minority-oriented firms, we find a weaker relation or non-significant relation which suggests that monitoring by directors of another ethnicity limits the decision-power of the CEO. When we turn to minority CEOs employed by Sinhalese-Buddhist firms, we obtain a positive impact on performance and a negative one on financial distress, which confirms the beneficial impact of board diversity and monitoring by a diversified board. The results on political connections and gender of the main analysis are here also sustained.

As an alternative to including the CEO's different types of power by means of a composite index or the main principal component, we now include the different types of power directly on the output measures. For reasons of parsimoniousness, we only show the impact of power on agency costs in Appendix D (the results for the other output variables are in line with those of tables 7-10). We find

that it is mainly the powers derived from experience, prestige and expertise (and in model (4) from structure power) that affect agency costs. We also document that the social dominance variable (the CEO belonging to the Sinhalese-Buddhist dominant ethnicity) statistically significantly increases agency costs (model (1)), as demonstrated above. The results from models (4) and (5) confirm that a lack of diversity (a higher proportion / the majority of directors belonging to the ethnicity of the CEO) also increases agency costs. The results of this robustness tests are even stronger than in the analysis of Table 6. Model (7) demonstrates that the lack of gender equality also increases a firm's agency costs.

6. Conclusions

Sri Lanka comprises a patchwork of peoples and ethnic groups that are distinct by language, religion, and socio-ethnic culture. The Sinhalese are the dominant group standing for about 75% of the population; they speak Sinhala and are predominantly Buddhist, although there is a Catholic minority (10% of the Sinhalese). The Tamils (representing 18% of the population) are predominantly Hindus with a Catholic minority (20% of the Tamils). The Moors (representing 7% of the population) are Muslim and speak Tamil. During the period of civil war that lasted 25 years, the main Sri Lankan ethnicities, the Sinhalese-Buddhists and Tamils were entangled in a bitter conflict. The Sri Lankan (Sinhalese) government was indicted with war crimes and accused of genocide on the Tamil population by the Permanent People's Tribunal. Since the end of the civil war, about twelve years ago, the government has launched several policies and legislation to foster ethnic harmony and ban racism towards and exclusion of specific groups of the population. This policy achieved some success at the institutional level, although social frictions among different ethnicities occasionally re-arise. Diversity and inclusiveness at the managerial and board level is not only a matter of fairness but is also expected to generate beneficial corporate results in terms of better performance. Given past ethnic tensions, the country is an interesting laboratory to study the impact of corporate leadership in a context of ethno-linguistic diversity on corporate performance, whereby CEO power is defined as a combination of governance power and social-dominance power. The former is constituted of various power-related variables such as unitary leadership (structural power), equity ownership (ownership power), experience (experience power), cross-directorships (prestige power), and knowledge (expertise power). Social-dominance power extends the power concept to the ethno-linguistic background and gender of the CEO (e.g. belonging to the dominant Sinhalese part of the population, being male in a male-oriented society). Political connections may also affect social-dominance power.

A CEO who derives power from governance power, which is related to agency costs, may engage in value-destroying behavior. We examine whether poor corporate decision-making may be worsened by social-dominance factors not counterbalanced by board diversity. We find that CEOs' social-dominance power, characterized by their ethnicity and gender, as well as their political connections, does indeed have a marked impact on firms' economic outcomes. Strong governance power and social-dominance power are positively related to agency costs and corporate financial instability (financial distress), and negatively to corporate performance (both measured by market-based and accounting returns).

Our results show that CEOs' socio-ethnic identities matter in a corporate setting of a country that has invested in reconciling the various peoples and communities. We consider that CEOs with Sinhalese-Buddhist background could indeed exploit the dominance of their ethno-linguistic community to influence board members, shareholders, and stakeholders. The impact of powerful (male) Sinhalese-Buddhist CEOs in firms without any ethno-linguistic and religious diversity at the level of the board of directors is negative in terms of higher agency costs, lower corporate performance, and more financial distress. This negative impact is significantly attenuated in firms where this CEO's social-dominance is reduced, in other words, when he/she is facing a majority of directors belonging to ethno-linguistic minorities. Similarly, in the inverse case of a firm led by a Tamil or Moor CEO, the presence of a majority of Sinhalese-Buddhist directors or of a control held a Sinhalese-Buddhist family, leads to better corporate performance and financial stability. When a large proportion of directors has the same ethnicity as the CEO, the firm may be subject to a lack of monitoring and receive less advice from different perspectives, which eventually induces worse economic outcomes than those of firms with ethnically well-diversified boards. This study has thus provided evidence of the importance of inclusiveness of minorities, defined on ethno-linguistic, religious, and gender grounds. Sri Lankan firms also suffer from the negative consequences of political connections, nepotistic relations, and macho behavior towards women.

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Table 1: Principal Components Analysis on CEO Power

This table shows correlation coefficients among CEO power variables which are used as dimensions of CEO power indices (Panel A). Panel B presents principal component loadings for the indices, CEO governance power and CEO socio-dominance power, respectively. The principal component descriptive statistics are reported in Panel C. The variable definitions are presented in Appendix B. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

	1.SP	2.OP	3.EP	4.PP	5.ExP	6.EtP	7.GP
A. Correlation matrix							
1. Structural power (SP)	1						
2. Ownership power (OP)	0.179***	1					
3. Experience power (EP)	0.102***	0.138***	1				
4. Prestige power (PP)	0.187***	0.085***	0.131***	1			
5. Expertise power (ExP)	-0.122***	-0.100***	-0.030	0.008	1		
6. Ethnic power (EtP)	-0.009	-0.116***	-0.004	-0.120***	-0.013	1	
7. Gender power (GP)	0.045*	-0.179***	0.059**	0.067***	-0.036	0.096***	1

	1.SP	2.OP	3.EP	4.PP	5.ExP	6.EtP	7.GP
B. Component weights							
B1. CEO governance power							
Principal comp. 1	**0.659**	**0.591**	**0.527**	**0.520**	-0.341		
Principal comp. 2	-0.077	-0.206	0.308	**0.530**	**0.779**		
B2. CEO socio-dominance power							
Principal comp. 1	**0.613**	**0.619**	0.488	**0.536**	-0.297	-0.316	-0.064
Principal comp. 2	0.251	-0.403	0.243	0.237	-0.148	**0.454**	**0.799**
Principal comp. 3	-0.171	-0.241	0.089	**0.519**	**0.687**	-0.459	0.139

	Obs	Mean	S.D.	Q25	Median	Q75	Skewness
C. Principal component descriptive statistics							
C1. CEO governance power							
Principal comp. 1	1822	0.000	1.165	-0.697	0.193	0.572	-0.120
Principal comp. 2	1822	0.000	1.058	-1.011	-0.282	1.213	-0.165
C2. CEO socio-dominance power							
Principal comp. 1	1822	0.000	1.155	-0.672	0.192	0.894	-0.530
Principal comp. 2	1822	0.000	1.113	-0.203	0.142	0.885	-1.741
Principal comp. 3	1822	0.000	1.085	-0.958	0.058	0.800	0.156

Table 2: Descriptive Statistics

This table presents descriptive statistics for corporate outcome measures, CEO power indicators, ownership structure, and other firm characteristics. The sample consists of 1822 firm-year observations (for the period 2011- 2020) of 205 firms listed on the Colombo stock exchange. Appendix B reports the definitions.

Variable	Obs.	Mean	S.D.	Q25	Median	Q75
Panel A: Dependent Variables						
Agency Cost (Index)	1822	0.00	1.03	-0.92	0.12	0.95
Tobins' Q	1822	1.51	1.43	0.78	1.08	1.66
Return on Assets (%)	1822	5.00	10.0	0.00	4.00	9.00
Return on Equity (%)	1822	7.00	24.0	1.00	6.00	14.0
Financial Distress dummy (Interest Coverage Ratio < 2)	1822	0.36	0.48	0.00	0.00	1.00
Panel B: CEO Power Measures						
CEO governance power (Index)	1822	0.00	0.82	-0.54	0.07	0.54
CEO socio-dominance power (Index)	1822	0.00	0.88	-0.39	-0.11	0.59
Panel C: CEO Governance Power Dimensions						
Structural power (dummy)	1822	0.25	0.44	0.00	0.00	1.00
Ownership power (%)	1822	5.00	14.0	0.00	0.00	0.00
Experience power (years)	1822	7.15	6.61	3.00	5.00	9.00
Prestige power (number)	1822	4.23	5.91	1.00	3.00	6.00
Expertise power (dummy)	1822	0.57	0.54	0.00	1.00	1.00
Panel D: CEO Socio-Dominance Power						
Sinhalese-Buddhist CEO (dummy)	1822	0.48	0.50	0.00	0.00	1.00
Sinhalese-Buddhist CEO in Minority Firms (dummy)	1822	0.09	0.29	0.00	0.00	0.00
Minority CEO in Sinhalese-Buddhist Firms (dummy)	1822	0.18	0.39	0.00	0.00	0.00
Directors with CEO's Ethnicity (%)	1822	56.0	25.0	40.0	56.0	75.0
Majority Directors with CEO's Ethnicity (dummy)	1822	0.53	0.50	0.00	1.00	1.00
CEO Political Connections (dummy)	1822	0.07	0.26	0.00	0.00	0.00
CEO Gender (dummy)	1822	0.93	0.25	1.00	1.00	1.00
Panel E: Ownership Structure						
Corporate Blockholders (number)	1822	0.58	0.81	0.00	0.00	1.00
Largest Shareholder Ownership (%)	1822	54.0	21.0	38.0	53.0	70.0
Families and Individuals' Ownership (%)	1822	10.0	16.0	0.00	2.00	11.0
Panel F: Firm-specific Variables						
Firm Size (ln total assets)	1822	21.8	1.51	20.9	21.9	22.7

Table 3: Correlation Matrix

This table shows correlation coefficients for the key variables. The correlation coefficients are given between the dependent variables and the main CEO power indicators (Panel A), and CEO socio-ethnic traits, ownership and size (Panel B). The dependent variables include the agency cost index (*Agen. Cost.*), Tobin's Q (*Q*), return on assets (*ROA*), return on equity (ROE), and interest coverage (*Int. Cov*.). CEO governance power is proxied by a composite index (*CEO Gov. Power*) which combines several sources of power, such as CEO structural power (*CEO Struct. Power),* CEO ownership power (*CEO Own. Power),* CEO tenure (*CEO Exp. Power),* CEO cross directorships (*CEO Prest. Power)* and CEO critical knowledge dummy (*CEO Expert. Power).* CEO socio-dominance power is captured by a broader composite index (*CEO Soc. Power*) which extends governance power by ethnicity *(*Sinhalese-Buddhist CEOs; *CEO Eth. Power),* and CEO Gender Power (*CEO Gender, male=1).* Other variables included are Sinhalese-Buddhist CEO in minority firms dummy (*Sin. CEO Min.),* minority CEO in Sinhalese-Buddhist firms dummy (*Min. CEO Sin.),* directors with CEO's ethnicity (*CEO Eth. Direct.),* majority directors with CEO's ethnicity dummy (*CEO Eth. Maj.), and* CEO political connections dummy (*CEO Pol. Conn.).* Ownership and firm characteristics consist of corporate blockholders (*Bloc. Owners),* largest shareholder ownership (*Largest Own.),* families and individuals' ownership (*Fam. Ind. Own.),* and firm size. The definitions of these variables are given in Appendix B. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level, respectively.

Panel A: Correlations among CEO Power, CEO-socio Power, and Firm Outcomes

	CEO Gov. Power	*CEO Soc. Power*	*CEO Struc. Power*	*CEO Own. Power*	*CEO Expi. Power*	*CEO Prest. Power*	*CEO Expert. Power*	*SinCEO Eth. Power*	*CEO Gender Power (Male=1)*
Agen. Cost	0.020	0.015	0.013	0.033	-0.113***	0.010	-0.170***	0.021	-0.086***
Q	-0.003	-0.003	0.006	-0.044*	-0.039*	-0.079***	-0.012	-0.251***	0.012
ROA	-0.078***	-0.062***	-0.085***	-0.002	-0.040*	-0.077***	0.074**	-0.104***	-0.028
ROE	-0.054**	-0.029	-0.073**	0.001	-0.055**	-0.045*	0.045	-0.163**	0.014
Int. Cov.	0.119***	0.045*	0.189***	-0.029	-0.036	0.060**	-0.070*	0.150***	0.090

Panel B: Correlations among CEO, Ownership and Firm Characteristics, and Firm Outcomes

	Sin. CEO Min.	*Min. CEO Sin.*	*CEO Eth. Direct.*	*CEO Eth. Maj.*	*CEO Pol. Conn.*	*Bloc. Owners*	*Largest Own.*	*Fam. Ind. Own.*	*Firm Size*
Agen. Cost	0.058**	-0.003	-0.027	-0.010	-0.023	-0.153***	0.006	0.022	-0.118***
Q	-0.159***	-0.027	-0.115***	-0.190***	-0.197***	-0.060**	0.070***	-0.041*	-0.003
ROA	-0.073***	0.067*	-0.089***	-0.104***	-0.087**	-0.030	0.032	0.009	0.035
ROE	-0.058**	0.047	-0.075***	-0.150**	-0.067***	-0.011	-0.010	0.010	0.015
Int. Cov.	0.094***	-0.128***	0.174***	0.198***	0.095*	0.030	-0.107***	0.008	-0.134***

Table 4: High versus Low CEO Governance power

This table compares mean values of the dependent variables, and CEO and firm characteristics for two samples: firms with a CEOs exerting high versus low power (quartile 1 versus quartile 4 of the CEO governance power index generated through the Principal Component Analysis). *Appendix B* presents definitions. ***, **, and * denote statistical significance statistic (t-test) at the 1%, 5%, and 10% level, respectively.

Means Comparison on CEO Governance Power Index-Quartiles

Variable	Mean on Quartile 1 (low Power) (n=507)	Mean on Quartile 4 (high Power) (n=376)	Difference
Panel A: Dependent Variables			
Agency Cost (Index)	-0.177	0.071	0.248***
Tobins' Q	1.585	1.483	-0.102*
Return on Assets (%)	0.071	0.027	-0.044***
Return on Equity (%)	0.123	-0.019	-0.142*
Financial Distress (dummy, Interest Coverage Ratio<2)	0.334	0.386	0.052
Panel B: CEO Traits			
Sinhalese-Buddhist CEO (dummy)	0.552	0.423	-0.129***
Sinhalese-Buddhist CEO in Minority Firms (dummy)	0.118	0.027	-0.091***
Minority CEO in Sinhalese-Buddhist Firms (dummy)	0.213	0.090	-0.123***
Directors with CEO's Ethnicity (%)	0.535	0.650	0.115***
Majority Directors with CEO's Ethnicity (dummy)	0.509	0.684	0.175***
CEO Political Connections (dummy)	0.037	0.205	0.168***
CEO Gender (dummy)	0.935	0.939	0.004
Panel C: Ownership Structure			
Corporate Blockholders (number)	0.576	0.351	-0.225***
Largest Shareholder Ownership (%)	0.602	0.449	-0.153***
Families and Individuals' Ownership (%)	0.051	0.221	0.170***
Panel D: Firm-specific Variables			
Firm Size (ln total assets)	21.84	21.77	-0.070

Table 5: CEO Governance power, CEO Socio-dominance Power, Agency Costs and Firm Performance

This table relates the key firm output measures - agency costs, corporate performance (Tobin's Q, ROA, and ROE), financial distress (low interest coverage) - to CEO governance power and CEO socio-dominance power. We decompose each power index into its orthogonal components by means of PCA. Panel A shows results for 1) the CEO governance power index constructed by means of standard power dimensions such as CEO's structural power, ownership power, experience power, prestige power, and expertise power, and 2) the first principal component (structural, ownership, experience, and prestige power) and second principal component (prestige and expertise power). Panel B presents the regression results for 1) CEO socio-dominance power index which additionally accounts for ethnic and gender dominating power of the CEOs, and 2) first principal component (structural, ownership, experience, and prestige power), second principal component (social dominance - ethnic and gender power) and third principal component (prestige and expertise power). The control variables comprise various ownership variables (number of corporate blockholders >5% (Bloc. Owners), largest shareholder's ownership (Largest Own.), and cumulative families and individuals' ownership (Fam. Ind. Own.)and firm size (ln of total assets). Appendix B provides definitions. We also include year and industry fixed-effects. Robust standard errors are given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Agency Costs (Index)		Tobin's Q		ROA		ROE		Financial Distress (Interest Coverage)	
Panel A										
CEO	0.079***		-0.047*		-0.017**		-0.065*		0.292***	
Governance power	(0.023)		(0.034)		(0.007)		(0.041)		(0.055)	
Princ. Comp. 1		0.038*		-0.043*		-0.014***		-0.048		0.073
		(0.020)		(0.033)		(0.004)		(0.030)		(0.051)
Princ. Comp. 2		-0.101***		0.033		0.014***		0.043		-0.146***
		(0.022)		(0.038)		(0.005)		(0.026)		(0.056)
Intercept	-1.112***	-1.036**	4.612***	4.534***	-0.404***	-0.429***	-0.917	-1.012	7.577***	7.759***
Controls	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Year fixed	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Industry fixed	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Robust S.E.	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
R^2	0.3341	0.3388	0.1245	0.1248	0.0570	0.0599	0.0154	0.0159		
Pseudo R^2									0.0998	0.0916
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000		
Prob>Chi^2									0.0000	0.0000
Groups	205	205	205	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822	1822	1815	1815
Panel B										
CEO socio-dominance power	0.055**		-0.046*		-0.018***		-0.046		0.190***	
	(0.026)		(0.042)		(0.006)		(0.036)		(0.066)	
Princ. Comp. 1		0.068***		-0.055*		-0.014***		-0.036		0.240***
		(0.020)		(0.034)		(0.005)		(0.024)		(0.054)
Princ. Comp. 2		0.040*		0.008		-0.013***		-0.030		0.182***
		(0.022)		(0.043)		(0.005)		(0.022)		(0.064)
Princ. Comp. 3		-0.112***		0.039		0.015***		0.043*		-0.200***
		(0.022)		(0.038)		(0.004)		(0.025)		(0.056)
Intercept	-0.976**	-1.002**	4.520***	4.510***	-0.438***	-0.434***	-1.023	-1.015	7.954***	8.151***
Controls	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Year fixed	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Industry fixed	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Robust S.E.	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
R^2	0.3308	0.3448	0.1243	0.1254	0.0558	0.0617	0.0128	0.0159		
Pseudo R^2									0.0914	0.1067
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000		
Prob>Chi^2									0.000	0.0000
Groups	205	205	205	205	205	205	205	205	205	205

Observations	1822	1822	1822	1822	1822	1822	1822	1822	1815	1815

Table 6: CEO Governance power, CEO Socio-dominance Power, and Agency Costs

This table shows how CEO traits such as ethnic orientation, positions in minority/majority-owned firms, political connections, and gender relate to the aggregate agency cost index. Agency costs and CEO governance power are defined in Appendix B and the previous tables. All variables are dummy variables except *Directors with the CEO's ethnicity* (which is in %). We use the same control variables as in Table 5 and include year and industry fixed-effects. Robust standard errors are in parentheses. ***, **, and * denote statistical significance based on t-statistics at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: Agency Costs Index						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power	0.078***	0.080***	0.079***	0.088***	0.086***	0.083***	0.081***
	(0.022)	(0.023)	(0.023)	(0.023)	(0.023)	(0.024)	(0.023)
Sinhalese-Buddhist CEO	0.056*						
	(0.032)						
Sinhalese-Buddhist CEO in minority firm		0.045*					
		(0.064)					
Minority CEO in Sinhalese-Buddhist firm			0.005				
			(0.055)				
Directors with CEO's ethnicity				0.115*			
				(0.067)			
Majority directors with CEO's ethnicity					0.040		
					(0.033)		
CEO political connections						-0.060	
						(0.084)	
CEO gender							-0.136
							(0.085)
Intercept	-1.242***	-1.104***	-1.116***	-0.765*	-0.922**	-1.124***	-1.001***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.3468	0.3342	0.3341	0.3366	0.3357	0.3342	0.3350
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table 7: CEO Governance power, CEO Socio-dominance Power, and Tobin's Q

This table shows how CEO traits such as ethnic orientation, positions in minority/majority-owned firms, political connections, and gender relate to Tobin's Q. CEO governance power and other variables are defined in *Appendix B* and previous tables. All variables are dummy variables except *Directors with the CEO's ethnicity* (which is %). We use the same control variables as in Table 5 and include year and industry fixed-effects. Robust standard errors are in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: Tobin's Q						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power	-0.047*	-0.051*	-0.058*	-0.009	-0.006	-0.025	-0.047*
	(0.034)	(0.034)	(0.035)	(0.033)	(0.033)	(0.036)	(0.034)
Sinhalese-Buddhist CEO	-0.392***						
	(0.072)						
Sinhalese-Buddhist CEO in minority firm		-0.175*					
		(0.096)					
Minority CEO in Sinhalese-Buddhist firm			-0.186**				
			(0.082)				
Directors with CEO's ethnicity				-0.872***			
				(0.163)			
Majority directors with CEO's ethnicity					-0.471***		
					(0.070)		
CEO political connections						-0.281***	
						(0.098)	
CEO gender							-0.037
							(0.131)
Intercept	4.413***	4.580***	4.738***	5.972***	5.654***	4.558***	4.642***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.1366	0.1253	0.1262	0.1385	0.1421	0.1260	0.1014
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table 8: CEO Governance power, CEO Socio-dominance Power, and ROA

This table shows how CEO traits such as ethnic orientation, positions in minority/majority-owned firms, political connections, and gender relate to ROA. CEO governance power and other variables are defined in *Appendix B* and previous tables. All variables are dummy variables except *Directors with the CEO's ethnicity* (which is %). We use the same control variables as in Table 5 and include year and industry fixed-effects. Robust standard errors are in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: ROA						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power	-0.017**	-0.017**	-0.016**	-0.015**	-0.015**	-0.013*	-0.017**
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)
Sinhalese-Buddhist CEO	-0.038***						
	(0.009)						
Sinhalese-Buddhist CEO in minority firm		-0.008					
		(0.009)					
Minority CEO in Sinhalese-Buddhist firm			0.019**				
			(0.008)				
Directors with CEO's ethnicity				-0.056**			
				(0.024)			
Majority directors with CEO's ethnicity					-0.022*		
					(0.012)		
CEO political connections						-0.054**	
						(0.028)	
CEO gender							-0.022
							(0.018)
Intercept	-0.423***	-0.406***	-0.417***	-0.317**	-0.354***	-0.414***	-0.386***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.0655	0.0572	0.0584	0.0614	0.0601	0.0612	0.0577
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table 9: CEO Governance power, CEO Socio-dominance Power, and ROE

This table shows how CEO traits such as ethnic orientation, positions in minority/majority-owned firms, political connections, and gender relate to ROE. CEO governance power and other variables are defined in *Appendix B* and previous tables. All variables are dummy variables except *Directors with the CEO's ethnicity* (which is %). We use the same control variables as in Table 5 and include year and industry fixed-effects. Robust standard errors are in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: ROE						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power	-0.065*	-0.066*	-0.062*	-0.052	-0.058	-0.042*	-0.065*
	(0.041)	(0.041)	(0.041)	(0.035)	(0.038)	(0.024)	(0.041)
Sinhalese-Buddhist CEO	-0.138***						
	(0.049)						
Sinhalese-Buddhist CEO in minority firm		-0.044					
		(0.035)					
Minority CEO in Sinhalese-Buddhist firm			0.035				
			(0.024)				
Directors with CEO's ethnicity				-0.277*			
				(0.149)			
Majority directors with CEO's ethnicity					-0.079		
					(0.049)		
CEO political connections						-0.279	
						(0.252)	
CEO gender							0.025
							(0.134)
Intercept	-0.987	-0.925	-0.941	-0.485	-0.742	-0.971	-0.937
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.0203	0.0156	0.0156	0.0200	0.0171	0.0202	0.0155
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table 10: CEO Governance power, CEO Socio-dominance power Indicators, and Financial Distress

This table shows how CEO traits such as ethnic orientation, positions in minority/majority-owned firms, political connections, and gender relate to financial distress (interest coverage<2). CEO governance power and other variables are defined in *Appendix B* and previous tables. All variables are dummy variables except *Directors with the CEO's ethnicity* (which is %). We use the same control variables as in Table 5 and include year and industry fixed-effects. Robust standard errors are in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: Interest Coverage Ratio < 2						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power	0.298***	0.295***	0.271***	0.260***	0.263***	0.248***	0.286***
	(0.056)	(0.055)	(0.056)	(0.056)	(0.056)	(0.057)	(0.055)
Sinhalese-Buddhist CEO	0.619***						
	(0.116)						
Sinhalese-Buddhist CEO in minority firm		0.160					
		(0.189)					
Minority CEO in Sinhalese-Buddhist firm			-0.354**				
			(0.149)				
Directors with CEO's ethnicity				0.769***			
				(0.244)			
Majority directors with CEO's ethnicity					0.341***		
					(0.114)		
CEO political connections						0.555**	
						(0.232)	
CEO gender							0.757***
							(0.253)
Intercept	8.053***	7.606***	7.819***	6.443***	6.859***	7.677***	7.019***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
Pseudo R^2	0.1125	0.1001	0.1023	0.1044	0.1038	0.1024	0.1041
Prob>Chi^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1815	1815	1815	1815	1815	1815	1815

Appendices

Appendix A. Government Initiatives for Reconciliation

This table summarizes government initiatives for reconciliation under three consecutive regimes following the ethnic war in Sri Lanka.

Regime	Objective	Initiative for Reconciliation
Mahinda Rajapaksha Regime (2009-2014)	Investments in infrastructure to improve connectivity and mobility	The government invested Rs. 75,071 million in order to repair and improve all major highways as well as provincial and rural roads. Three major bridges (Mannar, Sangupitty, and Aruvi Aru) destroyed by the LTTE (Liberation Tigers of Tamil Eelam) during the war were reconstructed. With the financial support of the Indian government, reconstruction of the Northern railway track was completed by investing $650 million.
	Rehabilitation of LTTEs	As a result of the war, many LTTE members were killed, arrested, and imprisoned. The government reintegrated 12,000 former LTTE members in society by providing them with new job opportunities.
	Resettlement of Internally Displaced Persons	The government reconstructed infrastructure and facilities in order to resettle nearly 300,000 Internally Displaced Persons (IDPs).
	Guaranteeing Democracy	The government approved the Northern Provincial Council election in 2013. Tamil National Alliance (TNA - a political party) won the election, and a former Justice (a Tamilian) took the oath as the Chief Minister of the Northern Provincial Council.
	Respecting for human rights	International human rights organizations have demanded an impartial Truth and Reconciliation Commission to investigate human rights violations that took place during the war (particularly for 2002-2009). As a result, Lessons Learnt Reconciliation Commission (LLRC) was established in order to further implement the reconciliation in Sri Lanka.
	Establishing ethnic harmony	Children in the north and east entered into the island-wide schools and universities after the war. Children in the south got admitted into northern universities. Alliances between schools and universities in the north and south were created (for e.g. common games, collaborative programs, CSR projects, etc.). The commodity market in the south expanded to the north and east. Harvest in the north were also traded in the south.
	Facilitating for equal opportunities	After the war, new businesses and branches were located in the north and east, this was particularly the case for financial firms (banks, leasing, insurance firms, etc.). The Colombo Stock Exchange opened its northern branch immediately after the war (in 2010). An office of the board of investments was established in the north following the war (in 2010). The Atchchuvely Industrial park in the north reopened in 2014.
Maithiripala Sirisena Regime (2015-2019)	Constitutional reforms	The president took initiatives to introduce the 19th amendment of constitution in order to reduce the executive power of the president and to create a constitutional council. This was a milestone as the ethnic war was considered as an outcome of centralization and executive presidential system.
	Political rapport with Tamil National Alliance (TNA)	During the presidential election, TNA supported the newly elected president. The TNA leader was appointed as the opposition leader of Parliament.
	Rehabilitation, resettlement, and land rights	The president replaced an ex-military officer by a civilian as the governor in the Northern and Eastern provinces as a sign to further improve the ties with the ethnic minority. The President took initiatives to distribute land deeds among 234 war displaced families. 701 acres of lands that were previously being used by security forces were released to original land owners.

	Respecting for human rights	The parliament passed the Office on Missing Persons (OMP) Act No. 14 of 2016. The OMP commission was responsible to establish the fate of persons disappeared due to various reasons including the civil war.
	Establishing ethnic harmony	The national anthem was sung in Sinhala and Tamil languages at the 68th Independence Day in 2016.
	Facilitating for equal opportunities	Constructions of the Northern Province railway line were completed in 2015. The Central Bank opened a regional branch in the north in 2015. A military airbase in the north was converted into an international airport in 2019.
Gotabaya Rajapaksha Regime (2019-to date)	Facilitating for equal opportunities	Airline services again started their operations in the north (Jaffna to Colombo) during 2020. One campus in the north was upgraded as the 17th national university of Sri Lanka in 2021.

Appendix B: Variable Description and Measurements

Variable	Acronym	Definition and Measure
Panel A: Firm Outputs		
Agency Cost Index	Agen. Cost	The index combines several agency costs proxies such as higher capital expenditure (*Cap. Exp.*), lower dividend payout ratio (*Div. Pay.*), lower leverage (Leverage), lower ownership concentration (*Own. Concen.*), higher free cash flow (*Free Cash Flow*), inefficient asset utilization (*Asset. Utili.*), and higher operating expenses (*Operate. Exp.*). The combined variables generate the index value by means of Principal Component Analysis (PCA). *Cap. Exp.* (capital expenditure by total assets) equals one if the capital expenditure is higher than the median of the sample and zero otherwise, *Div. Pay.* (common dividends by net income) is one if dividend payout ratio is below the median of the sample; *Leverage* (total debt by total equity) is one if leverage is lower than the median sample leverage; *Own. Concen.* takes a value of one if there is no single share block (10% or more) is shareholder (who is not a director); *Free Cash Flow* (free cash flow by total assets) is equals one if the free cash flow is higher than the sample median. Free cash flow is : [earnings before interest and taxes (1-tax rate) + depreciation and amortization – investments (including M&A expenditure) +/- changes in net working capital]; *Asset. Utili.* (sales by total assets) equals one if asset utilization ratio is lower than the median; *Operate. Exp.* (operating expenses by sales) equals one if the ratio is higher than the sample median.
Tobins' Q	Q	Market capitalization plus book value of liabilities divided by book value of total assets
Return On Assets	ROA	Earnings before interest, and taxes divided by total assets
Return On Equity	ROE	Net income (earnings after tax) divided by total equity
Low Interest Coverage	Int. Cov.	Equals one if a firm is in financial distress, which is proxied by the interest coverage ratio (ICR) being less than two. The ICR is earnings before interest, and taxes divided by interest expenses
Panel B: CEO Power Indices		
CEO governance power Index	CEO Gov. Pow.	CEO governance power is represented by a composite index that includes the CEO's structural power (*Struc. Pow.)*, ownership power (*Own. Pow.*), experience power (*Experi. Pow.)*, prestige power (*Presti. Pow.*), and expertise power (*Experti. Pow.*). Each component is a dummy variable equal to one if a specific aspect (see below) is present and zero otherwise. The index is generated by means of PCA. *Structural Power* is a dummy variable equal to one if the CEO is also the board's chair; *Ownership Power* is a dummy variable equal to one if the CEO and his family own 5% or more of the equity; *Experience Power* is a dummy variable equal to one if the CEO's tenure is higher than the sample median tenure; *Prestige Power*=. is a dummy variable equal to one if CEO is holds cross-directorships; *Expertise Power* is a dummy variable equal to one if the CEO has obtained a master's degree or professional qualification.
CEO socio-dominance power Index	CEO Soc. Pow.	CEO Socio-dominance power Index accounts for ethnic (*Ethnicity Power*) and gender dominance powers *(Gender Power)* of the CEO in addition to the CEO power dimensions considered in the CEO governance power index. PCA is applied to create the CEO socio-dominance power index. *Ethnic Power* is a dummy variable equal to one if the CEO is a Sinhalese-Buddhist. *Gender Power* is a dummy variable equal to one if the CEO is a male.
Panel C: CEO Power Dimensions		
Structural power	CEO Struc. Power	A dummy variable equal to one if one person exerts both the functions of the Chairman and CEO, and zero otherwise.
Ownership power	CEO Own. Power	Percentage of shares held by the CEO and his family
Experience power	CEO Expi. Power	Number of years in the firm as the CEO

Prestige power	CEO Prest. Power	Number of cross-directorships (board seats in other firms) held by the CEO
Expertise power	CEO Expert Power	A dummy variable equal to one if the CEO has obtained a master's degree or professional qualification, and zero otherwise.
Ethnic Power	CEO Eth. Power	A dummy variable equal to one if the CEO is a Sinhalese-Buddhist
Gender Power	CEO Gender Power	A dummy variable equal to one if the CEO is a male
Panel D: CEO Social Characteristics		
Sinhalese-Buddhist CEO	Sin. CEO	A dummy variable equal to one if the CEO is a Sinhalese-Buddhist, and zero otherwise.
Sinhalese-Buddhist CEO in Minority-Oriented Firms	Sin. CEO Min.	A dummy variable equal to one if the CEO is a Sinhalese-Buddhist working in a minority-oriented firm, and zero otherwise. A firm is treated as minority-oriented if the majority of directors belongs to ethnic minorities (i.e. Moors, Tamils, and Catholics).
Minority CEO in Sinhalese-Buddhist-Oriented Firms	Min. CEO Sin.	A dummy variable equal to one if the CEO is from a minority and is working in a Sinhalese-Buddhist-oriented firm, and zero otherwise. A firm is treated as Sinhalese-Buddhist-oriented if the majority of directors belongs to Sinhalese-Buddhists.
Directors with CEO's Ethnicity	CEO Eth. Direct.	The proportion of directors (including the CEO) with the same ethnicity as the CEO.
Majority of Directors with CEO's Ethnicity	CEO Eth. Majo.	A dummy variable equal to one if the majority of directors belongs to the CEO's ethnicity, and zero otherwise.
CEO's Political Connections	CEO Pol. Conn.	A dummy variable equal to one if the CEO has political connections, and zero otherwise. The CEO is treated as politically connected if he is a member of the parliament, or chief minister of a province or a provincial minister, or closely related (family or relative) to a top politician or party or is working (or worked) in a government-affiliated institution.
CEO's Gender	CEO Gender	A dummy variable equal to one if the CEO is a male, and zero otherwise.
Panel E: Ownership Structure		
Corporate Blockholders	Bloc. Owners	Number of blockholdings of 10% or more of the equity
Largest Shareholder's Ownership	Largest Own.	The proportion of equity held by the largest shareholder
Families and Individuals' Ownership	Fam. Ind. Own.	The proportion of equity held by the largest family or individual
Panel F: Firm-specific Variables		
Firm size	Firm Size	Natural logarithm of total assets

Appendix C: Principal Components Analysis on Agency Costs

This table presents correlation coefficients among the agency cost variables that are used as dimensions within the agency cost index (Panel A). Panel B shows principal components loadings for agency cost sources. The principal component descriptive statistics are reported in Panel C. ***, **, and * denote statistical significance of correlation coefficients at the 1%, 5%, and 10% level, respectively.

	1.Cap Ex	**2. Divs**	**3.Leverage**	**4.Own.**	**5. FCF**	**6.As Ut.**	**7.Op Exp.**
A. Correlation matrix							
1. Capital expenditure	1						
2. Dividend payment	-0.132***	1					
3. Leverage	-0.254***	-0.081***	1				
4. Ownership concentration	-0.025	-0.050**	0.099***	1			
5. Free cash flow	0.106***	-0.153***	0.001	0.034	1		
6. Asset utilization	-0.480***	0.090***	0.406***	-0.013	-0.192***	1	
7. Operating expenses	-0.182***	0.093***	0.200***	-0.070***	-0.181***	0.495***	1
B. Index weights							
Principal comp. 1	**-0.666**	0.210	**0.568**	-0.006	-0.349	**0.863**	**0.665**

Principal comp. 2	-0.073	**0.634**	**0.529**	**0.493**	**0.521**	0.073	-0.142

C. Principal component descriptive statistics

	Obs	**Mean**	**S.D.**	**Q25**	**Median**	**Q75**	**Skewness**
Principal comp. 1	1822	0.000	1.441	-1.216	0.068	1.179	-0.028
Principal comp. 2	1822	0.000	1.127	-0.824	-0.012	0.814	-0.030

Appendix D: Different Types of Power and Agency Costs

Table D: CEO Governance power, CEO Socio-dominance Power, and Agency Costs

This table shows how individual power dimensions of the CEO and CEO traits such as ethnic orientation, positions in minority/majority-owned firms, political connections, and gender relate to aggregate agency cost index. Agency costs and power dimensions are defined in *Appendix B* and previous tables. All variables are dummy variables except *Directors with the CEO's ethnicity* (which is in %). We use firm size as a control variable and include year and industry fixed-effects. Robust standard errors are given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: Agency Costs Index						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Structural power	0.086	0.084	0.086	0.114**	0.106**	0.092	0.087
	(0.052)	(0.053)	(0.054)	(0.053)	(0.054)	(0.057)	(0.054)
Ownership power	0.021	0.053	0.056	0.068	0.059	0.045	0.020
	(0.058)	(0.059)	(0.060)	(0.058)	(0.058)	(0.059)	(0.059)
Experience power	-0.129***	-0.127***	-0.134***	-0.111**	-0.124***	-0.129***	-0.130***
	(0.046)	(0.047)	(0.047)	(0.047)	(0.047)	(0.047)	(0.046)
Prestige power	0.118**	0.153**	0.147***	0.148***	0.145***	0.150***	0.159***
	(0.052)	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)	(0.053)
Expertise power	-0.278***	-0.266***	-0.270***	-0.284***	-0.276***	-0.266***	-0.278***
	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)	(0.045)
Sinhalese-Buddhist CEO	0.247***						
	(0.046)						
Sinhalese-Buddhist CEO in minority firm		0.094					
		(0.068)					
Minority CEO in Sinhalese-Buddhist firm			0.042				
			(0.056)				
Directors with CEO's ethnicity				0.053***			
				(0.016)			
Majority directors with CEO's ethnicity					0.132***		
					(0.045)		
CEO political connections						-0.063	
						(0.089)	
CEO gender							0.223**
							(0.093)
Intercept	-0.073	0.023	-0.017	0.538	0.280	-0.001	-0.767*
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.3048	0.2931	0.2927	0.2987	0.2961	0.2926	0.2948
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Online Appendix: CEO Governance power (PC-1) and CEO Socio-dominance power

Table OA.1: CEO Governance power (PC-1), CEO Socio-Power, and Agency Costs

This table exhibits whether the aggregate agency costs variable is affected by CEO power (Principal Component-1) and alternative CEO socio-dominance power indicators. All variables are dummy variables except *Directors with CEO's ethnicity* (in %). We use the same control variables as in Table 5 (for definitions, see *Appendix B*) and include year and industry fixed-effects. Standard errors are clustered at the industry level and given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: Agency Costs Index						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power (PC-1)	0.026	0.039*	0.037*	0.044**	0.040*	0.037*	0.038*
	(0.020)	(0.021)	(0.020)	(0.021)	(0.021)	(0.021)	(0.020)
Sinhalese-Buddhist CEO	0.041						
	(0.032)						
Sinhalese-Buddhist CEO in minority firm		0.044					
		(0.065)					
Minority CEO in Sinhalese-Buddhist firm			-0.020				
			(0.054)				
Directors with CEO's ethnicity				0.095*			
				(0.067)			
Majority directors with CEO's ethnicity					0.025		
					(0.032)		
CEO political connections						0.009	
						(0.083)	
CEO gender							-0.123
							(0.079)
Intercept	-1.128***	-0.978**	-0.975**	-0.676*	-0.830**	-0.988**	-0.885**
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.3424	0.3305	0.3304	0.3322	0.3314	0.3303	0.3311
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table OA.2: CEO Governance power (PC-1), CEO Socio-dominance Power, and Tobin's Q

This table exhibits whether Tobin's Q is affected by CEO power (Principal Component-1) and alternative CEO socio-dominance power indicators. All variables are dummy variables except *Directors with CEO's ethnicity* (in %). We use the same control variables as in Table 5 (for definitions, see *Appendix B*) and include year and industry fixed-effects. Standard errors are clustered at the industry level and given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

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	Dependent Variable: Tobin's Q						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power (PC-1)	-0.061*	-0.049	-0.045	-0.013	-0.020	-0.029	-0.042
	(0.034)	(0.034)	(0.034)	(0.034)	(0.033)	(0.034)	(0.034)
Sinhalese-Buddhist CEO	-0.405***						
	(0.074)						
Sinhalese-Buddhist CEO in minority firm		-0.186*					
		(0.099)					
Minority CEO in Sinhalese-Buddhist firm			-0.169**				
			(0.079)				
Directors with CEO's ethnicity				-0.869***			
				(0.167)			
Majority directors with CEO's ethnicity					-0.469***		
					(0.071)		
CEO political connections						-0.286***	
						(0.091)	
CEO gender							-0.042
							(0.131)
Intercept	4.291***	4.474***	4.620***	5.944***	5.620***	4.500***	4.554***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.1373	0.1254	0.1259	0.1386	0.1422	0.1261	0.1245
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table OA.3: CEO Governance power (PC-1), CEO Socio-dominance Power, and ROA

This table exhibits whether ROA is affected by CEO power (Principal Component-1) and alternative CEO socio-dominance power indicators. All variables are dummy variables except *Directors with CEO's ethnicity* (in %). We use the same control variables as in Table 5 (for definitions, see *Appendix B*) and include year and industry fixed-effects. Standard errors are clustered at the industry level and given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: ROA						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power (PC-1)	-0.015***	-0.014***	-0.013***	-0.012***	-0.012***	-0.011***	-0.013***
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Sinhalese-Buddhist CEO	-0.041***						
	(0.009)						
Sinhalese-Buddhist CEO in minority firm		-0.011					
		(0.009)					
Minority CEO in Sinhalese-Buddhist firm			0.024***				
			(0.008)				
Directors with CEO's ethnicity				-0.058**			
				(0.020)			
Majority directors with CEO's ethnicity					-0.025**		
					(0.011)		
CEO political connections						-0.060**	
						(0.028)	
CEO gender							-0.024
							(0.017)
Intercept	-0.459***	-0.438***	-0.450***	-0.340**	-0.378***	-0.440***	-0.416***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.0652	0.0556	0.0575	0.0602	0.0591	0.0609	0.0562
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table OA.4: CEO Governance power (PC-1), CEO Socio-dominance Power, and ROE

This table exhibits whether ROE is affected by CEO power (Principal Component-1) and alternative CEO socio-dominance power indicators. All variables are dummy variables except *Directors with CEO's ethnicity* (in %). We use the same control variables as in Table 5 (for definitions, see *Appendix B*) and include year and industry fixed-effects. Standard errors are clustered at the industry level and given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: ROE						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power (PC-1)	-0.054*	-0.049*	-0.047	-0.038	-0.043	-0.033*	-0.048
	(0.031)	(0.029)	(0.029)	(0.025)	(0.027)	(0.018)	(0.030)
Sinhalese-Buddhist CEO	-0.149***						
	(0.055)						
Sinhalese-Buddhist CEO in minority firm		-0.052					
		(0.032)					
Minority CEO in Sinhalese-Buddhist firm			0.054*				
			(0.030)				
Directors with CEO's ethnicity				-0.289*			
				(0.156)			
Majority directors with CEO's ethnicity					-0.089		
					(0.054)		
CEO political connections						-0.301	
						(0.261)	
CEO gender							0.017
							(0.135)
Intercept	-1.116	-1.044	-1.064	-0.557	-0.823	-1.051	-1.046
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
R^2	0.0196	0.0142	0.0145	0.0190	0.0160	0.0136	0.0093
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1822	1822	1822	1822	1822	1822	1822

Table OA.5: CEO Governance power (PC-1), CEO Socio-dominance Power, and Financial Distress

This table exhibits whether financial distress (interest coverage ratio < 2) is affected by CEO power (Principal Component-1) and alternative CEO socio-dominance power indicators. All variables are dummy variables except *Directors with CEO's ethnicity* (in %). We use the same control variables as in Table 5 (for definitions, see *Appendix B*) and include year and industry fixed-effects. Standard errors are clustered at the industry level and given in parentheses. ***, **, and * denote statistical significance based on a t-statistic at the 1%, 5%, and 10% level, respectively.

	Dependent Variable: Financial Distress (Interest Coverage Ratio < 2)						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CEO governance power (PC-1)	0.102*	0.076	0.066	0.043	0.053	0.032	0.072
	(0.047)	(0.052)	(0.052)	(0.052)	(0.052)	(0.053)	(0.052)
Sinhalese-Buddhist CEO	0.636***						
	(0.116)						
Sinhalese-Buddhist CEO in minority firm		0.130					
		(0.188)					
Minority CEO in Sinhalese-Buddhist firm			-0.459***				
			(0.147)				
Directors with CEO's ethnicity				0.927***			
				(0.240)			
Majority directors with CEO's ethnicity					0.418***		
					(0.113)		
CEO political connections						0.839***	
						(0.223)	
CEO gender							0.787***
							(0.242)
Intercept	8.335***	7.836***	8.111***	6.368***	6.889***	7.875***	7.190***
Controls	yes	yes	yes	yes	yes	yes	yes
Year fixed-effects	yes	yes	yes	yes	yes	yes	yes
Industry fixed-effects	yes	yes	yes	yes	yes	yes	yes
Robust standard errors	yes	yes	yes	yes	yes	yes	yes
Pseudo R^2	0.1020	0.0888	0.0930	0.0955	0.0948	0.0948	0.0934
Prob>Chi^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Groups	205	205	205	205	205	205	205
Observations	1815	1815	1815	1815	1815	1815	1815

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