



**Dian Agustia<sup>1</sup>, Iman Harymawan<sup>2</sup> & John Nowland<sup>3</sup>**

### **Abstract**

Are joint meetings between boards of directors and top management teams associated with better decision making or higher agency costs? We examine formally scheduled joint board-management meetings as a channel for closer interaction between boards of directors and top management teams. Using publicly disclosed data from Indonesian firms, we find that about half of our sample firms hold joint board-management meetings and more meetings are associated with higher firm performance. This suggests that the benefits from information sharing at joint meetings are greater than the agency costs. This relationship is most significant when companies hold 10-12 joint board-management meetings per year, in companies with good governance and when companies are experiencing poor performance. For policymakers and practitioners, we highlight a formal channel for closer interaction between directors and management that benefits shareholders.<sup>4</sup>

**Keywords:** Board of directors, Corporate governance, Firm performance, Meetings, Top management team

**JEL Classification:** M40

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<sup>1</sup> Universitas Airlangga, Indonesia.

<sup>2</sup> Universitas Airlangga, Indonesia.

<sup>3</sup> Illinois State University, USA.

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## Introduction

In recent years, the push for improved corporate governance around the world has required firms to increase the independence of their boards of directors. In many jurisdictions, such as Australia, Canada, France, Spain, United Kingdom and the United States, boards of directors are required to be comprised of a majority of independent directors and directors are encouraged to confer as a group without senior executives present (ASX, 2019, Recommendation 2.4).<sup>5</sup> This ensures that boards of directors can perform their functions, of monitoring and advising management, without undue influence or pressure from the top management team.

In support of this push, a large literature based on agency theory shows that increased board independence and fewer connections between board members and management are associated with beneficial outcomes to shareholders. Higher board independence has been linked to less financial statement fraud, increased disclosure and transparency, less consumption of private benefits by management, and higher firm value and performance (Abbott et al., 2004; Bird et al., 2018; Cheng and Courtenay, 2006; Dechow et al., 1996; Weir et al., 2002). Directors with no social or educational ties to management are also associated with less fraud, lower earnings management and a higher sensitivity of CEO turnover to performance (Khanna et al., 2015; Chidambaran et al., 2012; Hwang and Kim, 2012; Nguyen, 2012). Thus, it appears that fewer connections between directors and management are in the best interests of shareholders.

Boards of directors, however, also rely on information provided by management to perform their monitoring and advising functions. By increasing board independence, regulators are reducing the presence of top management team members at board meetings, and potentially restricting the flow of information between management and the board of directors.<sup>6</sup> It is difficult for boards of directors to make value-maximizing decisions if they do not have full and up-to-date information on the issues being discussed. Therefore, an alternative argument can be made suggesting that more interaction is needed between boards of directors and management to facilitate the flow of information needed to make value-maximizing corporate decisions (Adams and Ferreira, 2007).

A smaller number of studies provide evidence to support this argument, with Lawler and Finegold (2006) showing that boards function better in terms of long-term strategy development, performance management and CEO succession when key senior executives are allowed to attend board meetings. Johnston and Nowland (2017) indicate that CEO attendance-by-invitation at audit committee meetings is associated with enhanced information sharing and lower earnings opacity. Hoitash and Mkrtchyan (2019) find that closer connections between directors and non-CEO executives increase board effectiveness by improving director access to firm-specific information.

In this study we investigate a new channel for closer board-management interaction, formally scheduled joint board of director and top management team meetings. Using data disclosed by Indonesian firms, we are able to separately identify board of director meetings, top management team meetings, and joint board-management meetings. These joint board-management meetings are a formal channel established by firms to allow for greater interaction between boards of directors and top management teams.<sup>7</sup>

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<sup>5</sup> See corporate governance codes available at: <https://ecgi.global/content/codes>.

<sup>6</sup> As a result, some studies show that more independent directors on the board are not associated with higher firm performance, e.g. Rashid et al. (2010), Koerniadi and Tourani-Rad (2012) and Chancharat and Chancharat (2019).

<sup>7</sup> We acknowledge that directors and managers can interact in many settings. Some managers may be on the board or invited to attend board meetings. Directors may also have frequent informal contact with the management team. In

In investigating this relationship between the existence and frequency of joint board-management meetings and firm performance, we propose two hypotheses. Based on agency theory, we propose that joint-board management meetings are another avenue for the top management team to exert their power and influence over the board of directors, resulting in decision-making that favors the top management team and may not be in the best interests of shareholders. This results in higher agency costs and lower company performance. Alternatively, we propose that joint board-management meetings may enhance the flow of information between the top management team and the board of directors, resulting in better quality decision making and enhanced company performance.

Using publicly disclosed data on the frequency of joint board-management meetings in Indonesian firms during 2010 to 2017, we find that roughly 54 percent of our sample firms hold joint board-management meetings. Our analysis shows that more joint board-management meetings are associated with higher firm performance. This relationship is most significant when companies hold 10-12 joint board-management meetings per year, in companies with good governance and when companies are experiencing poor performance. Thus, the results of this study indicate that greater interaction between boards of directors and top management teams in the form of joint board-management meetings is beneficial to shareholders.

This study contributes to the literature by examining a previously unexplored type of formal interaction between boards of directors and management. Prior studies have examined the composition of boards of directors and top management teams, and how these two groups work independently. This study is the first to test for the benefits versus costs of firms holding formally scheduled joint board-management meetings.

Furthermore, the results of this paper add to the policy debate concerning the independence of boards of directors from firm management. We find that a formal channel for regular interaction between boards and management has a net positive relationship with firm performance. Thus, for policymakers and practitioners we highlight that greater board independence should be weighed up alongside the need for frequent interaction and information sharing between boards of directors and top management.

## Literature Review and Hypotheses

### Agency costs

The prior literature on board independence from management has been heavily based on agency theory. Agency theory argues that firm managers may exercise their own self-interest, to the detriment of shareholders (Jensen and Meckling, 1976). One way to reduce agency costs is to strengthen the effectiveness of corporate governance mechanisms, such as the board of directors, in offsetting the influence of management (Fama and Jensen, 1983).

Agency theory suggests that independent directors make efficient and unbiased corporate decisions and enhance monitoring of firm management (Byrd and Hickman, 1992; Anderson and Reeb, 2004). Prior studies show that greater board independence is associated with less financial statement fraud, increased disclosure and transparency, less consumption of private benefits by management, and higher firm performance (Abbott et al., 2004; Bird et al., 2018; Cheng and Courtenay, 2006; Dechow et al., 1996; Weir et al., 2002).<sup>8</sup> Similar results are found for board

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this study we specifically examine formally scheduled joint meetings for boards of directors and the top management teams.

<sup>8</sup> Australian studies have found similar results for board and committee independence (Cotter and Silvester, 2003; Balatbat et al., 2004; Wang and Oliver, 2009; Christensen et al., 2010).

committees, with research showing that firm accounting quality is higher when audit committees are comprised of independent directors, directors without social ties to the CEO and when the CEO is not involved in the selection of audit committee members (Klein, 2002; Bronson et al., 2009; Carcello et al., 2011; Bruynseels and Cardinaels, 2014).

In practice, regulators have also pushed for greater independence of boards of directors. In the United States, Australia, Canada, France, Spain, United Kingdom and a number of other markets, boards of directors are expected to be comprised of a majority of independent directors.<sup>9</sup> ASX (2019) specifically states that “having a majority of independent directors makes it harder for any individual or small group of individuals to dominate the board’s decision-making and maximizes the likelihood that the decisions of the board will reflect the best interests of the entity as a whole and not be biased towards the interests of management or any other person or group”.<sup>10</sup>

In this study we investigate a new channel for closer board-management interaction, joint board of director and top management team meetings. These joint board-management meetings allow for greater interaction between boards of directors and top management teams in a formal setting. Agency theory suggests that these meetings could be a mechanism for management to exert their influence over the board. The more frequently that boards and top management teams meet, the more opportunity that arises for management to exert their influence and promote their own personal interests.

Based on agency theory, we propose that greater interaction between boards of directors and top management teams, in the form of more joint board-management meetings, is associated with higher agency costs and lower firm performance. Agency costs are higher as joint board-management meetings provide management with another channel to exert their power over the board of directors, for example, by controlling the information provided and discussed at meetings. This reduces the effectiveness of the independent oversight of the board of directors in monitoring management behavior, resulting in decision-making that favours the interests of the top management team and may not be in the best interests of shareholders. This sub-optimal decision making is then reflected in lower firm performance. Based on this reasoning, we make the following prediction:

*Hypothesis 1: Joint board-management meetings are negatively related to firm performance.*

### **Information sharing and decision-making benefits**

It is also possible that the benefits from information sharing at joint board-management meetings outweigh any potential agency costs, resulting in a net benefit to shareholders. Corporate governance guidelines recommend that boards of directors establish an appropriate framework for relevant information to be reported by management to the board (ASX, 2019, pg 6). If management are forthcoming with valid and up-to-date information at joint board-management meetings, then this allows the board of directors to more effectively undertake their monitoring and advising roles, resulting in stronger monitoring and more effective strategic decision-making.

Directors are expected to perform a range of complex tasks, e.g. monitoring of firm operations and management, evaluation of capital raising options, analysis of merger and

<sup>9</sup> See corporate governance codes available at: <https://ecgi.global/content/codes>.

<sup>10</sup> In developing markets, such as Indonesia, the requirement is that at least one third of directors (commissioners) are independent.

acquisition opportunities, and the hiring and setting of the remuneration of top executives. Their ability to perform these tasks is restricted if they have limited access to up-to-date information. Adams and Ferreira (2007) state that directors largely rely on firm management for information and indicate that greater information exchange between management and the board of directors leads to more intense monitoring and better quality advice.

A number of recent studies provide evidence to support this argument, with Lawler and Finegold (2006) showing that the presence of key senior executives (e.g. CIOs and heads of HR and marketing) at board meetings allows boards to function better in terms of long-term strategy development, performance management and CEO succession. Johnston and Nowland (2017) indicate that boards that invite their CEOs to attend their audit committee meetings are associated with enhanced information sharing and better accounting outcomes. Hoitash and Mkrtychyan (2019) find that closer connections between directors and non-CEO executives increase the effectiveness of boards by improving director access to firm-specific information.<sup>11</sup>

Thus, this information sharing explanation proposes that joint board-management meetings are beneficial to shareholders and positively related to firm performance, as they enhance information flow between the top management team and the board of directors. This enhanced information flow allows the board of directors to conduct more effective monitoring of the activities of management and to be more involved in the strategic decision-making of the firm. Both of these are associated with better quality decision-making within the firm and are expected to result in better firm performance. Therefore, we make the following alternative prediction:

*Hypothesis 2: Joint board-management meetings are positively related to firm performance.*

## **Data and Variables**

### **Sample**

This study uses data from Indonesia because this is the only market that publicly discloses data on the individual and joint meetings of boards of directors and top management teams. The initial sample used in this study consists of all public companies listed on the Indonesian Stock Exchange during 2010 to 2017. Financial data is obtained from the ORBIS database. Data about meetings and other corporate governance variables are obtained from company annual reports. We exclude companies from the financial, assurance and real estate industry (SIC 6) because of the different nature of their financial reporting and exclude any observations with missing data. Our final sample includes 1,993 firm-year observations.

Table 1 provides an overview of the sample by industry and year. The sample increases from 180 observations in 2010 to 311 observations in 2017. With respect to industry, the highest number of observations come from Construction Industries (546), Manufacturing (378), Mining (297) and Transportation, Communications and Utilities (287). The smallest number of observations are from Health, Legal and Education Services (38) and Agriculture, Forestry and Fisheries (83).

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<sup>11</sup> More generally, prior studies of meeting frequency also indicate that a greater number of meetings held by boards of directors and their committees are associated with improved monitoring and advising functions of the board (Brick and Chidambaran, 2010; Hoque et al., 2013; Masulis et al., 2012; Vafeas, 1999).

**Table 1**  
**Sample Distribution by Industry and Year**

Industry	Year								Total
	2010	2011	2012	2013	2014	2015	2016	2017	
(SIC 0) Agriculture, Forestry and Fisheries	7	9	7	11	10	12	14	13	83
(SIC 1) Mining	23	28	39	43	33	41	45	45	297
(SIC 2) Construction Industries	52	55	74	61	66	75	80	83	546
(SIC 3) Manufacturing	41	47	49	44	40	53	56	48	378
(SIC 4) Transportation, Communications and Utilities	17	22	31	37	42	42	44	52	287
(SIC 5) Wholesale & Retail Trade	19	12	21	23	23	24	33	34	189
(SIC 7) Service Industries	20	18	18	18	22	22	30	27	175
(SIC 8) Health, Legal, and Educational Services & Consulting	1	2	3	3	4	6	10	9	38
<b>Total</b>	180	193	242	240	240	275	312	311	1993

Note: This table shows the sample distribution by industry and year for the sample of 1993 firm-year observations of companies listed on the IDX during 2010-2017.

### Variable definitions

In Indonesia, the structure of the board and management is different to other markets. Companies in Indonesia have a board of commissioners and a board of directors. The board of commissioners supervisors company management and includes some independent members, meaning it functions the same as a board of directors in other markets. The board of directors in Indonesian companies is comprised of company executives and is generally referred to as the top management team in other markets. To ensure consistency with prior studies from around the world, we label our meeting variables as board of director meetings, top management team meetings and joint board-management meetings.<sup>12</sup>

Joint board-management meetings (JOINTMEETINGS) is the number of joint board of director-top management team meetings the company held during the year. Board of director meetings (BODMEETINGS) is the number of board of director meetings the company held during the year. Top management team meetings (TMTMEETINGS) is the number of top management team meetings the company held during the year. Committee meetings (COMMEETINGS) is the total number of committee meetings the company held during the year. Companies can hold separate board of director meetings and top management team meetings with no joint meetings. Or they can they hold any combination of separate and joint meetings (BODMEETINGS and JOINTMEETINGS; JOINTMEETINGS and TMTMEETINGS; BODMEETINGS, TMTMEETINGS and JOINTMEETINGS; or only JOINTMEETINGS).

We measure firm performance using return on assets and return on equity.<sup>13</sup> Return on assets (ROA) is net income divided by total assets. Return on Equity (ROE) is net income divided by total equity. Referring to previous research (Bhatt & Bhattacharya, 2017; Gray & Nowland,

<sup>12</sup> The Indonesian equivalent is board of commissioner meetings, board of director meetings and joint commissioner-director meetings.

<sup>13</sup> We also try a number of market-based measures of performance, such as Tobin's Q and stock returns, but do not find significant results.

2018; Brick & Chidambaran, 2010), the control variables used in this study include: the number of directors/commissioners on the board (BOARDSIZE), percentage of independent commissioners (INDEPENDENT), the size of the audit committee (AUDCOM), the natural logarithm of total assets (FIRMSIZE), total debt divided by total assets (LEVERAGE), and the market-to-book ratio (MTB). All financial and meeting variables have been winsorized at the 1% and 99% levels.

### Methodology

This study uses OLS regression models with robust standard errors and fixed year and industry effects. We relate our two measures of firm performance (ROA and ROE) to the number of joint board-management meetings and control variables. Hypothesis 1 predicts the coefficient on JOINTMEETINGS to be negative. Hypothesis 2 predicts the coefficient on JOINTMEETINGS to be positive.

$$\begin{aligned}
 &ROA_{i,t} \\
 &= \beta_0 + \beta_1 JOINTMEETINGS_{i,t} + \beta_2 BODMEETINGS_{i,t} + \beta_3 TMTMEETINGS_{i,t} \\
 &+ \beta_4 COMMEETINGS_{i,t} + \beta_5 BOARDSIZE_{i,t} + \beta_6 INDEPENDENT_{i,t} + \beta_7 AUDCOM_{i,t} \\
 &+ \beta_8 FIRMSIZE_{i,t} + \beta_9 LEVERAGE_{i,t} + \beta_{10} MTB_{i,t} + YEAR_t \\
 &+ INDUSTRY_j + \varepsilon_{i,t}
 \end{aligned} \tag{1}$$

$$\begin{aligned}
 &ROE_{i,t} \\
 &= \beta_0 + \beta_1 JOINTMEETINGS_{i,t} + \beta_2 BODMEETINGS_{i,t} + \beta_3 TMTMEETINGS_{i,t} \\
 &+ \beta_4 COMMEETINGS_{i,t} + \beta_5 BOARDSIZE_{i,t} + \beta_6 INDEPENDENT_{i,t} + \beta_7 AUDCOM_{i,t} \\
 &+ \beta_8 FIRMSIZE_{i,t} + \beta_9 LEVERAGE_{i,t} + \beta_{10} MTB_{i,t} + YEAR_t \\
 &+ INDUSTRY_j + \varepsilon_{i,t}
 \end{aligned} \tag{2}$$

In our analysis it is important to control for the number of board of director, top management team and committee meetings. Prior literature has related each of these types of meetings to firm performance (Andreou et al., 2014; Brick and Chidambaran, 2010; Chauhan et al., 2016; Chen et al., 2006; Harymawan et al., 2020; Hoque et al., 2013; Masulis et al., 2012; Min and Verhoeven, 2013; Vafeas, 1999). So, it is important for us to control for these types of meetings to cleanly measure the incremental impact of joint board-management meetings on firm performance.

## Empirical Analysis

### Descriptive statistics

Table 2 provides descriptive statistics of the variables in this study. The mean (median) company has 3.53 (2.00) joint board-management meetings, 5.48 (4.00) board of director meetings, 14.93 (12.00) top management team meetings and 7.75 (4.00) committee meetings.<sup>14</sup> Figure 1 provides more detail of the distribution of joint board-management meetings. There are 295 observations

<sup>14</sup> The minimums for joint board-management meetings, board of director meetings and top management meetings are all zero. This is because firms can have different combinations of these types of meetings. For example, a firm can have board of director and top management meetings and no joint meetings. Another firm could have only joint meetings and no individual board and top management meetings.

with 1-3 meetings, 448 observations with 4-6 meetings, 68 observations with 7-9 meetings, 144 observations with 10-12 meetings, 113 observations with 13+ meetings and 925 observations with no joint board-management meetings. This shows that about 54 percent of sample firms hold joint board-management meetings.

The average company has board size of 9.10, independence of 36.44 percent, audit committee size of 2.72, firm size of IDR 3.11 trillion (natural logarithm = 22.02), leverage of 48 percent, market-to-book ratio of 1.97, return on assets of 5.05 percent and return on equity of 5.90 percent.

**Table 2**  
**Descriptive Statistics**

	Mean	Median	Min	Max	Stdev
<i>JOINTMEETINGS</i>	3.53	2.00	0.00	24.00	4.82
<i>BODMEETINGS</i>	5.48	4.00	0.00	30.00	5.17
<i>TMTMEETINGS</i>	14.93	12.00	0.00	53.00	13.52
<i>COMMEETINGS</i>	7.75	4.00	0.00	80.00	11.81
<i>BOARDSIZE</i>	9.10	8.00	3.00	28.00	3.29
<i>INDEPENDENT</i>	36.44	33.33	0.00	100.00	14.46
<i>AUDCOM</i>	2.72	3.00	0.00	7.00	1.11
<i>FIRMSIZE</i>	22.02	20.02	14.96	31.59	4.74
<i>LEVERAGE</i>	0.48	0.49	0.04	0.93	0.21
<i>MTB</i>	1.97	0.82	0.01	28.01	3.85
<i>ROA</i>	5.05	3.79	-30.05	42.14	10.74
<i>ROE</i>	5.90	6.31	-118.17	71.60	20.64

Note: The sample includes 1993 firm-year observations of companies listed on the IDX during 2010-2017. JOINTMEETINGS is the number of joint board of director-top management team meetings the company held during the year. BODMEETINGS is the number of board of director meetings the company held during the year. TMTMEETINGS is the number of top management team meetings the company held during the year. COMMEETINGS is the total number of committee meetings the company held during the year. ROA is net income divided by total assets. ROE is net income divided by total equity. BOARDSIZE is the number of directors and top managers, INDEPENDENT is the percentage of independent directors, AUDCOM is the size of the audit committee, FIRMSIZE is the natural logarithm of total assets, LEVERAGE is total debt divided by total assets, and MTB is the market-to-book ratio. All financial and meeting variables have been winsorized at the 1% and 99% levels.

**Figure 1**  
**Joint Board-Management Meetings**

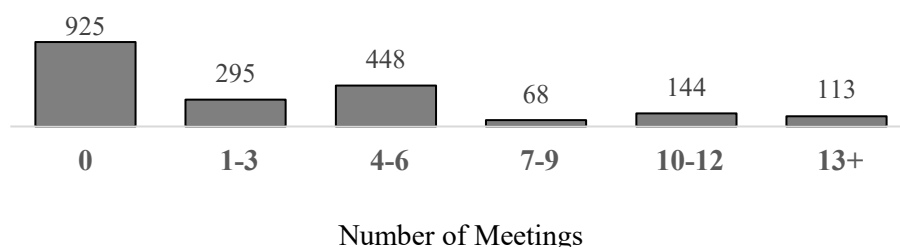


Table 3 shows the correlations between the variables. Joint board-management meetings is positively correlated with return on assets ( $p < 0.10$ ) but not significantly correlated with return on equity. The meeting variables are all positively correlated with each other. Return on assets and



return on equity have a correlation of 0.744. However, correlations between the control variables used in our models are generally low and do not raise any multicollinearity concerns.

**Table 3**  
**Pearson Correlations**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) <i>JOINTMEETINGS</i>	1.000										
(2) <i>BODMEETINGS</i>	0.261** *	1.000									
(3) <i>TMTMEETINGS</i>	0.266** *	0.412** *	1.000								
(4) <i>COMMEETINGS</i>	0.339** *	0.298** *	0.319 ***	1.000							
(5) <i>BOARDSIZE</i>	0.015	0.033	0.147 ***	0.243 ***	1.000						
(6) <i>INDEPENDENT</i>	0.021	- 0.053**	- 0.030	- 0.009	0.042 *	1.0000					
(7) <i>AUDCOM</i>	0.139** *	0.141** *	0.147 ***	0.243 ***	0.165 ***	0.147** *	1.000				
(8) <i>FIRMSIZE</i>	0.143** *	0.131** *	0.093 ***	0.144 ***	0.191 ***	0.107** *	0.224* **	1.000			
(9) <i>LEVERAGE</i>	0.027	0.035	0.098 ***	0.026	0.034	-0.015	0.002	0.013	1.000		
(10) <i>MTB</i>	- 0.076** *	- 0.076** *	- 0.023	0.036	0.087 ***	- 0.081** *	- 0.057* **	- 0.311** *	0.094** *	1.000	
(11) <i>ROA</i>	0.041* *	0.020	0.066 ***	0.137 ***	0.223 ***	-0.037* *	0.034	0.106** *	- 0.224** *	0.195 ***	1.00 0
(12) <i>ROE</i>	0.023	0.024	0.091 ***	0.115 ***	0.176 ***	- 0.051** **	0.007	-0.034	- 0.195** *	0.245 ***	0.74 4***

Note: The sample includes 1993 firm-year observations of companies listed on the IDX during 2010-2017. Significance indicated at \* 10%, \*\* 5% and \*\*\* 1% levels.

### Joint board-management meetings and firm performance

Table 4 shows the results of our analysis relating the number of joint board-management meetings to firm performance. In the first three specifications, using different levels of control variables, we find that the number of joint board-management meetings is positively related to return on assets. In specifications three and four, we show the full models for ROA and ROE. The coefficients on JOINTMEETINGS are 0.092 ( $p < 0.05$ ) and 0.138 ( $p < 0.1$ ). These results show that firm performance is higher when firms hold more joint board-management meetings. This finding is consistent with Hypothesis 2 and indicates that, with respect to joint board-management meetings, the benefits from information sharing are greater than the agency costs.

The results for the control variables indicate that firm performance is positively related to board size, firm size, market-to-book ratio and the number of top management team meetings. This is consistent with prior studies and shows that bigger firms, firms with higher growth opportunities, firms with bigger boards and firms that hold more management meetings perform better. Firm performance is negatively related to the independence of the board and firm leverage. This indicates that higher levels of debt are associated with lower firm performance and that more independent boards are associated with lower firm performance. A possible explanation for this

board independence finding is that, in recent years, more independent directors have been appointed to firms with poorer performance.

**Table 4**  
**Joint Board-Management Meetings and Firm Performance**

	<i>ROA</i>	<i>ROA</i>	<i>ROA</i>	<i>ROE</i>	$\Delta$ <i>ROA</i>	$\Delta$ <i>ROE</i>
	(1)	(2)	(3)	(4)	(5)	(6)
<i>JOINTMEETINGS</i>	0.132*** (2.86)	0.135*** (3.25)	0.092** (2.06)	0.138* (1.66)	0.124 (1.48)	0.215** (2.05)
<i>BODMEETINGS</i>			-0.010 (-0.31)	0.034 (0.46)	-0.093 (-0.84)	0.014 (0.11)
<i>TMTMEETINGS</i>			0.025* (1.71)	0.106*** (3.33)	0.031 (0.84)	0.016 (0.36)
<i>COMMEETINGS</i>			0.030* (1.76)	0.021 (0.85)	0.031 (1.12)	0.024 (0.52)
<i>BOARDSIZE</i>		0.382*** (4.47)	0.374*** (4.40)	0.458*** (2.67)	0.179 (0.40)	-0.679 (-0.89)
<i>INDEPENDENT</i>		-0.038** (-2.34)	-0.034** (-2.15)	-0.071** (-2.00)	0.068* (1.67)	0.070 (1.39)
<i>AUDCOM</i>		0.165 (0.80)	0.072 (0.35)	0.322 (0.70)	0.204 (0.38)	0.525 (0.87)
<i>FIRMSIZE</i>		0.815*** (4.46)	0.725*** (3.79)	1.274*** (3.08)	5.428** (2.01)	10.690** (2.53)
<i>LEVERAGE</i>		-13.757*** (-11.09)	-13.752*** (-10.92)	-23.635*** (-7.41)	-24.422*** (-2.70)	-57.768*** (-5.58)
<i>MTB</i>		0.146*** (9.54)	0.145*** (9.50)	0.244*** (5.87)	0.112** (1.99)	0.012 (0.14)
<i>CONSTANT</i>	8.318*** (6.97)	-11.765** (-2.41)	-9.241* (-1.81)	-27.086** (-2.47)	3.594 (1.46)	-1.849 (-1.50)
Year Dummies	Included	Included	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included	Included	Included
R-squared	0.058	0.228	0.231	0.194	0.100	0.107
<i>N</i>	1993	1993	1993	1993	1400	1400

Note: The sample includes 1993 firm-year observations of companies listed on the IDX during 2010-2017. Change analysis includes 1400 observations with data in the current and prior years. Significance indicated at \* 10%, \*\* 5% and \*\*\* 1% levels.

To address endogeneity concerns, we repeat our analysis using change models. Change models determine if changes in the number of joint board-management meetings are associated with changes in firm performance. This helps to overcome selection issues and the influence of time-invariant omitted variables. To conduct this analysis, an observation needs data from two consecutive years to calculate changes in all variables, so our sample size drops to 1400 firm-year observations. The models relate changes in the number of joint meetings and changes in all of the control variables to changes in firm performance. The results of the change models are shown in specifications five and six in Table 4. We find that changes in the number of joint board-management meetings are positively related to changes in return on equity ( $p < 0.05$ ). However, the result for change in return on assets is not significant ( $p = 0.14$ ). Thus, these models provide some additional support for Hypothesis 2.

In Table 5 we also conduct some additional analysis to determine if the relationship between joint board-management meetings and firm performance is non-linear. In the first two specifications, we add a squared joint board-management meeting variable ( $JOINTMEETINGS^2$ ) to our two models. We find that the coefficient on this squared term is insignificant in both models. In specifications three and four, we conduct spline regressions using the same meeting groupings as shown in Figure 1. We find that  $JOINTMEETINGS_{4-6}$  and  $JOINTMEETINGS_{10-12}$  are

positively related to return on assets. Also, JOINTMEETINGS10-12 is positively related to return on equity. Thus, we provide evidence that the most significant relationship between joint meetings and firm performance is when companies hold 10-12 joint board-management meetings per year.

**Table 5**  
**Robustness Tests: Non-Linear Specifications**

	<i>ROA</i>	<i>ROE</i>	<i>ROA</i>	<i>ROE</i>
	(1)	(2)	(3)	(4)
<i>JOINTMEETINGS</i>	<b>0.189*</b> <b>(1.73)</b>	0.290 (1.49)		
<i>JOINTMEETINGS</i> <sup>2</sup>	-0.006 (-0.94)	-0.010 (-0.87)		
<i>JOINTMEETINGS1-3</i>			0.068 (0.26)	0.055 (0.14)
<i>JOINTMEETINGS4-6</i>			<b>0.222*</b> <b>(1.78)</b>	0.193 (0.95)
<i>JOINTMEETINGS7-9</i>			0.144 (1.00)	0.010 (0.04)
<i>JOINTMEETINGS10-12</i>			<b>0.115*</b> <b>(1.68)</b>	<b>0.324***</b> <b>(2.59)</b>
<i>JOINTMEETINGS13+</i>			0.058 (1.06)	0.040 (0.41)
Other Controls	Included	Included	Included	Included
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included
R-squared	0.231	0.194	0.232	0.195
<i>N</i>	1993	1993	1993	1993

Note: The sample includes 1993 firm-year observations of companies listed on the IDX during 2010-2017. Significance indicated at \* 10%, \*\* 5% and \*\*\* 1% levels.

### Sub-sample analysis: Good governance and loss firms

The results presented above are the average results across all sample firms. In this section we explore some specific subsamples of firms where the trade-off between the benefits of information sharing and agency costs of joint board-management meetings are potentially different.

We predict that the agency costs of joint board-management meetings are lower in companies with good governance practices. Therefore, we expect to see a higher net benefit from information sharing in companies with higher board independence.<sup>15</sup> This analysis is displayed in Table 6. Specification one shows the model for sample companies in the top quartile of board independence.<sup>16</sup> We find a positive relationship ( $p < 0.01$ ) between joint board-management meetings and firm performance in these companies with good governance. Specification two shows the results for all other sample firms. We find no significant relationship between joint

<sup>15</sup> An alternative argument is that higher board independence means there are fewer seats for management on the board. This means that joint meetings result in greater information flow from management to the board of directors for firms with more independent board members (less management members on the board). However, this is not the case in our study as all members of the board of directors (called board of commissioners in Indonesia) must be from outside the firm.

<sup>16</sup> This top quartile equates to independence of greater than 40 percent.

board-management meetings and firm performance in these firms with lower or no board independence.

We also expect the information sharing benefits of joint board-management meetings to be most useful in times of crises (e.g. poor firm performance). Thus, we expect the positive relationship between joint board-management meetings and firm performance to be most significant when firms are making a loss. This analysis for loss firms is displayed in specification three of Table 6, where we find a positive relationship ( $p < 0.01$ ) between joint board-management meetings and firm performance in loss firms. In specification four, we find no significant relationship between joint meetings and firm performance in profit firms.<sup>17</sup>

In summary, these results confirm our expectations that the agency costs and information sharing benefits of joint board-management meetings vary across firms. We find that the net benefits of information sharing between top management and the board of directors is greatest in companies with good governance practices and when firms are making a loss. In firms with weaker governance practices and when firms are making a profit, the benefits of information sharing are largely offset by the agency costs of joint board-management meetings.

**Table 6**  
**Sub-Sample Analysis: Good Governance and Loss Firms**

	<i>ROA</i>		<i>ROA</i>	
	Good Governance	Weaker Governance	Loss Firms	Profit Firms
	(1)	(2)	(3)	(4)
<i>JOINTMEETINGS</i>	<b>0.281<sup>***</sup></b> (2.68)	0.047 (0.95)	<b>0.222<sup>***</sup></b> (3.20)	0.035 (0.85)
<i>BODMEETINGS</i>	0.030 (0.34)	-0.067 (-1.62)	-0.134 (-1.34)	-0.018 (-0.64)
<i>TMTMEETINGS</i>	0.052 (1.48)	0.030 <sup>*</sup> (1.77)	0.022 (0.76)	-0.010 (-0.73)
<i>COMMEETINGS</i>	0.029 (0.76)	0.044 (1.57)	0.022 (0.72)	0.035 <sup>**</sup> (2.19)
<i>BOARDSIZE</i>	0.549 <sup>***</sup> (3.07)	0.328 <sup>***</sup> (3.31)	0.333 <sup>**</sup> (2.04)	0.233 <sup>***</sup> (3.09)
<i>INDEPENDENT</i>	-0.021 (-0.48)	-0.055 <sup>**</sup> (-2.17)	-0.169 (-0.65)	-0.021 (-1.49)
<i>AUDCOM</i>	0.530 (1.34)	0.192 (0.81)	0.856 <sup>*</sup> (1.85)	-0.380 <sup>**</sup> (-2.09)
<i>FIRMSIZE</i>	0.660 (1.55)	0.847 <sup>***</sup> (3.94)	0.397 (1.14)	0.173 (1.12)
<i>LEVERAGE</i>	-11.793 <sup>***</sup> (-4.64)	-15.830 <sup>***</sup> (-10.59)	-3.577 <sup>**</sup> (-2.11)	-10.234 <sup>***</sup> (-8.95)
<i>MTB</i>	0.820 <sup>***</sup> (4.67)	0.641 <sup>***</sup> (5.51)	-0.029 (-1.39)	0.177 <sup>***</sup> (12.66)
<i>CONSTANT</i>	-10.827 (-0.93)	12.593 <sup>**</sup> (2.16)	-27.319 <sup>***</sup> (-2.93)	13.511 <sup>***</sup> (3.32)
Year Dummies	Included	Included	Included	Included
Industry Dummies	Included	Included	Included	Included

<sup>17</sup> In untabulated work, we also repeat this analysis using prior year loss and a large decrease in profit (greater than 50% drop), instead of current year loss. We also use ROE instead of ROA. We find consistent results.

R-squared	0.302	0.226	0.250	0.344
N	510	1483	408	1585

Note: The sample includes 1993 firm-year observations of companies listed on the IDX during 2010-2017, split into the quartile of firms with good governance (INDEPENDENT>40%) and firms with weaker governance, and split into loss firms and profit firms. Significance indicated at \* 10%, \*\* 5% and \*\*\* 1% levels.

## Conclusions

Boards of directors are required to monitor management activities and provide strategic advice. Therefore, some interaction between boards of directors and top management teams is vital for information exchange and strategic decision-making. But, corporate governance regulations and practice call for a clear separation between boards and management, so that boards of directors can maintain their independence and make the best decisions for shareholders.

This paper examines a new source of data on one form of formal interaction between boards of directors and top management teams – joint board-management meetings. We explore whether these joint meetings provide information sharing benefits or increased agency costs. Using publicly disclosed data on the frequency of joint board-management meetings in Indonesian firms, we find that more joint board-management meetings are associated with higher firm performance. This suggests that the information sharing benefits of these meetings outweigh the agency costs.

The results of this study inform practitioners and regulators on the benefits versus costs of companies holding regularly scheduled joint board-management meetings. We find no evidence of negative effects and find some strong evidence of positive effects of joint board-management meetings, particularly when companies have good governance practices and when companies are facing challenging circumstances. Therefore, this study contributes to the ongoing debate about how independent boards of directors need to be from top management, by highlighting the benefits of regularly scheduled, formal meetings between boards of directors and top management teams.

This study is conducted on Indonesian companies as this is the only market that discloses data on formal meetings between directors and management. We would expect that similar methods of information sharing also exist in other markets, via formal or informal channels. Therefore, we encourage future research on this area in other markets, where companies may have different board structures and different channels of interaction between directors and management.

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