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CEO DUALITY AND COMPANY PERFORMANCE: AN EMPIRICAL STUDY OF SELECT COMPANIES

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ABSTRACT

The paper determines the impact of CEO Duality (board leadership) on the financial performance of the organisation. This study has used panel data of 99 companies for a period of five years and has used panel data regression model in order to study the relation among different variables. The present study finds a significant and positive relationship between CEO Duality and company performance as measured by Tobin Q. Also, this study concludes an insignificant relationship between CEO Duality and accounting measures of performance (ROA, ROE) may be due to the fact that the shareholders do not put much weightage to board leadership structure of the company as long their investment in the form of shares are earning good returns for them.

Keywords: *CEO Duality, Company Performance, Board Leadership, Strategy Formulation.*

Introduction

CEO (Chief Executive officer) assumes a significant job in the corporate administration framework. For progressively viable corporate administration, all organizations should cautiously choose the structure of their top managerial staff. The vast majority of academicians and experts contend that an autonomous top managerial staff is the fundamental state of compelling corporate administration. CEO duality, which permits the Chief to fill in as board administrator, has become a significant issue in the consideration of board freedom. Disconnection of ownership and control in the cutting edge enterprise may cause self-intrigued administrators to act with regards to ways not useful to investors (Jensen and Meckling, 1976; Jensen, 1993). The effect of partition of possession and control on execution of firms has been the subject of discussion in various studies. On account of board authority structure, top administrative official of the enterprise all the while fills in as executive of the board which has the sanction of observing and supervising top administration. At the end of the day, the articulation “dual” alludes to a board initiative structure where the CEO of the firm wears two caps one as Chief of the firm, and another one as chairperson of the board of the organization (Dalton and Rechner, 1991). Non-duality infers to the situation where two different people fill in as the Chief and the executive. Firm execution is a significant idea that identifies with the way and way wherein money related assets accessible to an association are wisely used to accomplish the general corporate goal of an association, it keeps the association in business and makes a more noteworthy possibility for future chances. Firm execution may likewise allude to the advancement of the share value, productivity or the present valuation of an organization (Melvin and Hirt, 2005).

This examination is led on board initiative structure and firm execution in India in 99 listed companies during the period of 5 years. Subsequently, this investigation makes a critical commitment to the assortment of information that shows how board administration structure correspond with firm execution. Many researchers have worked focusing on board administration structure identified with firm execution (Dalton and Rechner, 1991; Boyd, 1995; Baliga, Moye and Rao, 1996; Abdullah, 2004;

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Ramdani and Van, 2009). The vast majority of the work was basedon the Western nations. However, in light of the researcher's information not many studies are in context with India. Along these lines, this work is an undertaking to research the connection between board authority structure and firm execution of panel data of 99 companies of India.

Statement of the Problem

The contemporary business condition is described by vulnerability and hazard, making it progressively hard to estimate and control the substantial and impalpable variables which impact firm execution (Kuratko and Michael, 2003). Clients are getting additionally requesting, requiring expanded spotlight on administrative demonstrable skill and nature of administration conveyance (Lai and Cheng, 2003). Because of the outer weights, firms resort to various vital reactions, for example, rebuilding, cutting back, business process reengineering, benchmarking, absolute quality administration and so forth., to improve and support their serious positions (Mangenelli and Klein, 1994; Jacka and Keller, 2002). In a unique domain, CEO's jobs become significant for smooth working of associations. Chief of the company additionally has a duty to start authoritative change and encourage measures that help the organization in achieving its overall objective.

Crucial mechanism for monitoring the organization based on the perspective of agency, is what differentiates the role of Chairman from that of CEO (William, Judge, Naoumova and Koutzevol, 2003). CEO duality, which is known as one individual holds both the Chairman and CEO positions, has become a rising issue in the present period. When there is no partition, the Chief additionally fills in as Chairman. This circumstance, known as "CEO duality", is dangerous from an organization viewpoint where the Chief seats the gathering of individuals accountable for checking and assessing the CEO's execution. In organizations with Chief duality approach, the urgent inquiry is "who screens the board?" or "who will watch the watchers?" (Zubaidah, 2009). This circumstance furnishes Chiefs with the chance to affect the board's choices. In this way, CEO duality will debilitate board's independency and make them incapable to screen the board adequately. There are numerous investigations that have been done giving blended outcomes on the specific connection between board authority structure and firm execution. A portion of the investigated studies uncovered that there is no noteworthy connection between board administration structure and firm execution (Rashid, 2011; Wang and Clift, 2008; Yu and Ashton, 2015) while a couple of different investigations give proof of a critical connection between board authority structure and firm execution (Duru, Iyengar and Zampelli, 2016). There is no agreement about critical connection between board authority structure and firm execution.

This paper is centered on "the relationship of CEO duality and company's performance in India.

Objectives of the Study

The main aim of the present study is to measure the effect of one of the aspect of corporate governance practices (i.e. CEO Duality) with the performance of the organization.

- To study the past and present literature examining the effect of the CEO Duality on the Company's performance.
- To study empirically the relationship between CEO Duality and company performance on the companies listed in India.

Literature Review

There are a few studies which have inspected the connection between board authority structure and firm's execution yet the outcomes despite everything comes up short on the consistency.

Rashid (2011) analysed if the CEO duality impact the firm monetary presentation in Bangladesh and the directing impacts of board arrangement as outside autonomous executives. The finding is that there is a negative (non-noteworthy) connection between Chief duality and firm execution before arrangement of outside independent executives in the board. A few studies depicted the impacts of board leadership structure on the exhibition of Chinese firms recorded on the Singapore Stock Trade. Utilizing an example of 105 firms covering 2009 to 2011, the examination finds that CEO duality emphatically influences firm execution that can to a great extent be clarified by stewardship hypothesis.

Wang and Clift (2008) contemplated the impact of leadership structure of board on firm's execution. The outcomes show that, for Australian recorded organizations, there is no solid connection between initiative structure and consequent execution or performance. It is accounted for that organizations with higher block holder ownership or lower administrative shareholdings will in general have an affiliated chairman; firm with higher managerial shareholdings will in general have an executive chairman. Yu and Ashton (2015)examined the connection between board leadership structure and firm performance and the expense proportion, utilizing propensity score matching techniques for Chinese PLCs from 2003-2010. It is accounted for that while CEO duality isn't identified with organizations' productivity proportions, it is connected to a higher cost proportion contrasted with coordinated organizations with a different board leadership structure. Duru, Iyengar and Zampelli (2016) give persuading proof that a joint administration structure, i.e., CEO duality has measurably noteworthy negative effects on performance of the firm. The investigation likewise records that this impact is decidedly directed by board freedom and independence. The outcomes are powerful over various sensitivity tests.

Kiel and Nicholson (2003) found that CEO duality is emphatically connected with Tobin‟s Q, yet inconsequential corresponding to ROA. Belkhir (2009) found the effect of inward corporate administration controls (i.e., Chief Executive Duality, board size, block holder ownership, extent of outside executives) on bank's performance to be irrelevant. Bektas and Kaymak (2009) results demonstrated that board size and duality don't altogether impact the profits on resources of Turkish banks. A meta-examination by Johnson, Daily, and Ellstrand (1996) uncovered no exhibition contrasts between firms with duality and non-duality structures. Brickley, Coles and Jarrell (1997) presumed that CEO duality isn't related with inferior execution. A few researches proposed that business sectors are genuinely emotionless to Chief duality. Abdullah (2004) revealed no huge connection between these factors in their regression analyses.

A few set of studies found that larger boards improve board performance by diminishing CEO control inside board, in this manner making it hard to receive golden parachute contracts that probably won't be in the shareholder's interest. Another set of studies recommend that a significant obstacle to load up adequacy is an absence of time to finish load up obligations on behalf of the board. So board members that meet as often as possible are bound to play out their obligations tenaciously and as per investor's interests.

From the review of the available literature, following hypotheses are developed for the study purpose:

H_0: There is no significant relationship between CEO duality and the firm performance.

H_1: There is significant relationship between CEO duality and the firm performance.

Data and Sample Selection

In this study the data is primarily extracted using the secondary sources. Company's annual report for a period of 5 years are being studied as well, which ranges between financial year 2014-2015 and 2018-2019, apart from annual reports respective companies official website are consulted for further understanding and the Prowess database of C.M.I.E (Centre for Monitoring Indian Economy) is also used. In this study sample of the companies are taken from listed index of company on National Stock Exchange (NSE) and belonging to Central Public Sector Enterprises (CPSE), Public Sector Enterprises (PSE), Infrastructure, Energy and Services sector.

Variable Description

Dependent Variables

The outcome variables of the present study relates to company's performance which is estimated with the help of parameters:-accounting and market. The corporate governance existing literature has used both the type of measures. The measure of performance where value is on the basis of the market is marketing based and they are useful to current and prospective investors as they help these investors to take their investments decisions on the basis of its present and past performance. While accounting-based measures are based on historical data and are reliable as the companies listed on various exchanges have to go along with numerous international and national principles when recording its financial statements. This paper has used both the types of the performance parameters. Tobin's Q is market based measure, while ROE and ROA are the company's accounting measures of (financial) performance.

Return on equity	It measures the return on the capital employed of company.	ROE
Return on asset	It captures the return on the assets of company.	ROA
Tobin's Q	It measures [(market value of equity + book value of the preference shares and the borrowings)/ total assets] of company.	TQ

Independent Variable

In this present study, duality is the outcome variable stating that when the company has same person serving both as the chair of the board and the CEO. The duality has been indicated by using a dummy variable which represents the value of one when one person is holding both roles else zero (Boyd, 1995; and Peng et al., 2007).

CEO Duality	This measures the dummy variable code as one for the duality of the CEO duality otherwise zero.	CEO Duality

Control Variables

Leverage	It measures the company's debt part.	Lev
Log Board Size	It measures natural logarithm of the total number of the company's directors.	BS
Total Assets	It measures the company size as captured by assets of the company.	TA
Total Sales	It is captured through natural logarithm of total sales to know company age.	TS
Company Age	It measures the natural logarithm of difference between company's the financial year and incorporation year.	CA

Research Methodology

The present study employed the panel data of the 99 companies consisting of Public sector enterprises, Central public sector enterprises, Infrastructure, Services and Energy sector covering five years of the time. The descriptive statistics and pearson correlation analysis of all the variables used in this study is being conducted in order for the interpretation of the results of linear dependence among the variables of the study. The panel model provides various benefits and the improvements over separate analysis for the time series and the cross-section data.

Firstly, panel data allows considerable flexibility in modelling of the cross-sections behaviour than conventional time series one (Greene, 2003).

Secondly, the structure in the panel data allows for analytical incorporation for significantly more observations (and the more degrees of freedom) than it would be an analysis of the individual data on the times series basis. The panel data studies the same cross-section unit over the time, so it has the space as well as the time dimensions (Gujrati). This panel data model allows for the establishment and evaluation of the additional complex behavioural part than the pure cross-section or time-series data. This study has employed the panel regression to examine the effect of the duality of the CEO with the different parameters of the financial performance independently. In panel regression, two types of regression models are used to study the relationships among the variables that is, the fixed effect or the random effect which is checked with help of hausman test in order to find which one is preferable.

The following model uses the regression analysis to impact of duality of the CEO with the organisation's performance.

$$CP_{i,t} = \alpha_i + \beta_1 \text{CEO Duality}_{it} + \beta_2 Lev_{it} + \beta_3 BS_{it} + \beta_4 TA_{it} + \beta_5 TS_{it} + \beta_6 CA_{it} + \mu_{it}$$

Where

CP_{it} = company performance examined with using proxy variables namely Tobin's Q, ROA, ROE for company i in the period t

CEO Duality$_{it}$ = A dummy variable coded as one if there is duality of the CEO are same person otherwise zero for company i in the period t

Lev_{it} = Leverage for the company i in the period t

BS_{it} = board size which measures the total number of directors for the company i in the period t

TA_{it} = company size as measured through total assets for the company i in the period t

TS_{it} = company age as measured through total sales for the company i in the period t

CA_{it} = it measures company's age through the difference between the company's incorporation year and the financial year

μ_{it}= Disturbance term

Results and Analysis

Descriptive Statistics

The table A1 below explains the results of the descriptive statistics for all of the variables incorporated in this research paper which has 495 observations (99 companies for the 5 years). CEO Duality has the mean value 0.3863 and minimum value of 0.000 and maximum value of 1.0100. Company performance measured by accounting measures of the performance namely ROE has the mean value of 0.1789 & minimum value 1.5698 and maximum value 1.6588 and ROA has the mean value of 0.1432 & minimum value -0.4105 and maximum value 0.5398. The mean values of LEV, BS, TA, TS AND CA are 8.7798, 2.2581, 2.5478, 0.0588 and 0.5989 respectively.

Table A1: (Descriptive Statistics)

Variable	Obs	Mean	Std. dev.	Min	Max
Dependent Variable					
ROE	495	0.1789	0.1589	1.5698	1.6588
ROA	495	0.1432	0.1200	-0.4105	0.5398
Tobin's Q	495	0.1489	0.1486	0.5489	0.2578
Independent Variable					
CEO Duality	495	0.3863	0.4860	0.0000	1.0100
Control Variable					
Lev	495	8.7798	1.2013	4.8620	11.252
BS	495	2.2581	0.1860	1.6585	2.6085
TA	495	2.5478	1.8222	0.1259	12.757
TS	495	0.0588	0.1589	-0.1789	0.6321
CA	495	0.5989	0.4389	0.0000	3.4069

Source – Research Result

Table B2 shows the correlation result for the variables (dependent, independent and control variables).

Table B2: (Correlation Matrix)

	ROE	**ROA**	**Tobin'sQ**	**CEODuality**	**Lev**	**BS**	**TA**	**TS**	**CA**
ROE	1								
ROA	0.1458	1							
Tobin'sQ	0.0100	0.1025	1						
CEODuality	0.0391	0.1762	0.0921	1					
Lev	0.3245	0.5236	0.2031	0.0771	1				
BS	0.0214	0.0485	0.0256	0.0001	-0.0511	1			
TA	0.3333	0.1842	-0.1245	0.0054	0.2567	0.5236	1		
TS	-0.2567	0.3598	-0.0021	0.3569	-0.5869	0.3214	0.0001	1	
CA	0.3698	-0.2365	0.8963	-0.3659	0.0020	0.3596	-0.3568	0.2136	1

Source – Research Result

The test statistic as being developed by the Hausman holds an asymptotic $\chi2$ distribution. In case the null hypothesis is being rejected, then the random effect is not apt and then it is better to apply fixed effect model (FEM) (Gujrati, pg. 651). Since the present study has panel data so hausman test has been employed to examine the relationship between duality of the CEO and company financial performance and then regression is used to find the relationship between dependent variables and independent variable and the results of which is given in Table C3.

Table C3 shows the regression results depicting the relation between duality of the CEO and financial performance wherein the value of R squared is 0.486, 0.615 and 0.796 explaining 48.6%, 61.5% & 79.6% variance in the dependent variable (ROE, ROA & Tobin's Q respectively) is being explained by independent variable (CEO Duality). Further the results depicts a positive relation in the Tobin's Q measuring company performance (p value 0.031) and duality of the CEO and also insignificant relationship in the ROE, ROA which is measuring company performance and the CEO Duality (p value

0.208, 0.751 respectively). And there is a relationship between total assets & total sales and ROE, also board size& total sales depicts a relationship with return on assets. Leverage, total assets & company age shows a relation between the Tobin's Q measuring company financial performance.

Table C3: (Test Results)

	(1)	(2)	(3)
Variables	ROE	ROA	Tobin's Q
CEO Duality	0.208	0.751	0.031
Lev	0.158	0.391	0.011
BS	0.614	0.041	0.113
TA	0.009	0.863	0.025
TS	0.000	0.001	0.613
CA	0.784	0.957	0.019
Observations	495	495	495
R-squared	0.486	0.615	0.796

Source – Research Result

Discussion

- The present study founds the positive relation between the duality of the CEO & Chairman and Tobin Q on similar lines as supported by Yu and Ashton (2015), Belkhir (2009). Duality helps to mitigate the costs related to information acquisition and coordination. Also ensures the efficient adaptability and decision making that is pivotal for the organisations working in the dynamic and competitive environment and helps CEO to function keeping in shareholders' interest as well due to presence of stronger and unified unambiguous leadership which the duality ensures and all this will aid to boast company's performance. And also the organisation is not required to incur cost of hiring CEO the outside which will provide certainly to save the further expenditure and the person has good understanding of the company operations as he/she is already working for it (organisation).
- CEO duality helps to ensures consistent and clear leadership thereby having clarity in the directions to be given and helps to lever the extensive understanding about the organisation and its process by the CEO. It (duality) facilitates the CEO to bridge the gap among the directors of the company and management which help to enable smooth flow of the information between them (directors and the management) and thereby enables efficient strategy formulation and implementation. It helps to prevent the potential conflict between the chairman and CEO improves leadership role especially during any crises (Mangenelli and Klein, 1994, Jacka and Keller, 2002).
- CEO Duality improves the competencies of the organisation in the industry by encouraging innovation and efficient entrepreneurship. Duality can be a means to face the challenges given by the external environment to the organisation. Duality helps to create a transparent line of command all through the company which converge as a single authority. And also unified leadership (duality) help to provide greater insight about the organisations day-to-day working and other operations to the board of directors.
- In our this study ROA, ROE as supported by Kiel and Nicholson (2003), Wang and Clift (2008), Abdullah (2004) does not show any impact because of the probable reason that the directors on the board of the company should pay attention on their pivotal role for the task assigned to them in addition advising the organisations to increase the number of the independent board of directors in the company.
- Also other reason behind insignificant effect between CEO duality and the selected financial parameters (ROA,ROE) may be that the shareholders have not rated company as in it does not matter to them whether there is unified or split leadership in the company as supported by Johnson, Daily, and Ellstrand (1996).

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