Journal of Advances and Scholarly Researches in Allied Education
Vol. XIV, Issue No. 1, October-2017, ISSN 2230-7540

CEO Duality is related to the Firm Performance

Amit Baruah*

Research Scholar

Abstract – Does CEO duality – the act of one individual serving both as an association's CEOand board seat – add to or hinder firm execution? Organization hypothesis proposes that CEO duality is awful for execution since it bargains the checking and control of the CEO. we break down the connection between Chief duality and execution (ROA or ROE). Experimental discoveries show that CEO duality is emphatically/contrarily related with execution. This paper contributes to the existing literature on corporate governance and firm performance by introducing a framework in identifying and analyzing variables that affect the relationship between CEO duality and firm performance. As India is the biggest hubs for the Information technology (IT) companies and they have impacted the industry in a big way due to several reasons in which their effective governance is also an important means that shape positively the performance of the companies. So, the study mainly focused to ascertain the effect of corporate governance aspects on the performance of selected IT companies in India along with their year wise performance.

Keywords: CEO Duality, IT Industry, Board, India

- X -

INTRODUCTION

Regardless of whether to part the titles of the Chief Executive Officer (CEO) and the Chairman of the Board (COB) is a standout amongst the most disagreeable corporate administration issues as of late. American organizations have a long convention of joining the titles (from this point forward duality or double administration for curtness). Until mid 1990s, over 70% of U.S. firms have double administration. Nonetheless, firms are under developing strain to part, particularly after the U.S. Securities and Trade Commission (SEC) and the Dodd-Frank Act require recorded firms compelling 2010 to unveil the thinking behind their board initiative structure.1 Utilizing RiskMetrics' board information, we ascertain that lone 54% of S&P1500 firms have double administration in 2010. The solid push towards annulling duality conspicuous difference a glaring difference with the blended proof on the effect of board authority structure on firm execution. Essentially, while we have an expansive group of writing breaking down the expenses and advantages related with every administration display, we need exact confirm specifically connecting the expenses and advantages to firm execution. An absence of learning on this subject influences the present, uniform to push towards autonomous COB conceivably perilous.

Conforming to a vast literature and the common wisdom that competition promotes efficiency, we find that those firms, which are under tariff protection before 1989, significantly reduce slack and improve productivity after the trade liberalization. However, the positive effect of dual leadership on firm performance far exceeds the performance contribution from reduction of slack. Our results are robust to additional consideration of an array of operating and governance variables and the possibility of survival bias.

Our paper makes several contributions. First, although the literature on the efficacy of dual leadership is large, the evidence is mixed. We use an exogenous shock, thereby mitigating the endogeneity concern that plagues the governance research, to show that, when competition intensifies, duality firms experience a larger increase (about 3%) in Tobin' Q than non-duality firms. Second, although arguments both in favor of and in opposition to dual leadership are well developed, we lack empirical evidence explicitly linking the costs or the benefits of dual leadership to firm performance (Pozen (2006)). We identify two sources of cost savings associated with dual leadership and provide direct evidence linking them to firm performance. Third, we complement a growing body of literature that assesses the performance impact of board attributes. For example, Yermack (1996) finds that expanding an eight-member board by one director is associated with a 4% reduction in Tobin's Q. Faleye (1997) finds that having a classified board reduces Q by 13%.

CEO duality refers to the situation where the CEO also holds the position of the chairman of the particular company. The board of directors is set up to monitor managers such as the CEO on behalf of the shareholders. They design compensation contracts hire and fire CEOs. A dual CEO benefits the firms if he or she works closely with the board to create value.

CEO duality is an important issue in corporate governance because the status of CEO and chairman may have an influence on firm performance. There are arguments in favour of CEO duality, meaning CEO duality has a positive impact on the firm performance of an organization. Likewise, there are arguments against CEO duality asserting that it has negative impact on firm performance. Finally, there are also arguments that assert CEO duality has no influence on the performance of firm.

H1: CEO duality is negatively associated with firm performance.

In opposition to office hypothesis, stewardship hypothesis traces that holding the two positions by one individual would improve firm execution with that holding two positions by one individual can screen the firm unambiguously and can have a novel order all through the firm. Double CEO firms additionally have higher institutional possession and budgetary use, demonstrating more outside checking, which likewise may be required to lessen organization issue. Stewardship hypothesis keeps up that CEO duality makes a solidarity at the highest point of the association (Donaldson and Davis, 1991). Interestinglyis the way that double CEO firms likewise have higher CEO possession, which may be required to all the more unequivocally adjust the interests of CEO and investors. President duality, in this manner, evades disarray among supervisors, representatives and different partners concerning who is the manager and encourages all the more opportune and more viable basic leadership. Something else, the firm may encounter clashes at the best, diminished speed and viability hesitation making and, at long last, poor execution (Brickley, J., et al., 1997; Donaldson, L., Davis, J., 1991). Chaganti, R., Mahajan, V., Sharma, S., (1985) contrasted 21 bankrupt firms and 21 surviving firms in the retailing business, discover no distinctions as a component of CEO duality. find that CEO duality is emphatically identified with authoritative intricacy, CEO notoriety and administrative proprietorship.

H2: CEO duality is positively associated with firm performance.

Rechner, P. L., Dalton, D. R., (1999) look at the execution between firms with double and nondual CEOs over the period 1978 to 1983. They utilize return on resources (ROA), return on quity (ROE) as their measures of execution in endeavoring to recognize duality and non-duality firms. They discover comes about that are not by any stretch of the imagination steady, and report that in periods with high money related returns (1978-1980) the non-duality firms out-played out the duality firms. The distinction in execution was less critical in 1981-1983 when returns were more humble. Baliga, B., Moyer, R., Rao, R., (1996), found no confirmation of execution changes encompassing changes in the duality status. Day by day, C., Dalton, D., (1997) find that there is no critical distinction in execution between double CEO and non-double CEO firms.

RESEARCH METHODOLOGY

This examination is predominantly led to explore the connection between the different administration angles and the execution of the IT organizations. For demonstrating this relationship, 10 top organizations have been chosen by their market capitalization This examination depends on the optional information covering the time of 5 year i.e from 2012 to 2016 which have removed from the yearly report independently from the site of the organizations. In the present investigation, benefit exhibitions have been thought about. The distinctive key benefit proportions i.e Return on resources, Return on Equity and Return on capital utilized have been figured keeping in mind the end goal to judge the money related execution for the period under examination. For building up the connection between different part of administration and execution, Return on Capital utilized (ROCE), Return on Assets (ROA) and Return on Equity are taken as the needy variable and the free factors are taken as administration viewpoint for the examination are size of Board of Directors, Number of Female Board, extent of Independent Directors, Number of Board meeting, CEO duality and Board Committee._Multiple Regression has been utilized to demonstrate the impact of parts of the corporate administration on its execution organizations at 5% level of critical. In the event that P-esteem is under 5% level of the centrality in the event of any autonomous variable, we can induce that the connection between that specific variable with subordinate variable is noteworthy. Following are the pointers utilized for the corporate administration perspectives and execution of the organizations:

1. Return on asset

ROA is a better metric of financial performance. It explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust return on sales. Using ROA as a key performance metric quickly focuses management attention on the assets required to run the business.

ROA=Net profit after Tax/ total assets × 100

2. Return on equity

The common shareholder is entitled to the residual profits. A return on shareholders' equity is calculated to see the profitability of owners' investment. The shareholders' equity or net worth will include paid-up share capital, share premium and reserves and surplus less accumulated losses. Net worth can also be found by subtracting total liabilities from total assets.

ROE = Profit after Taxes (PAT)/ Net Worth or shareholder Equity

Where, ROE indicates how well the firm has used the resources of owners. The earning of a satisfactory return is the most desirable objective of a business. The ratio of net profit to owners' equity reflects the extent to which this objective is accomplished. This reveals the relative performance and strength of the company in attracting future investments.

3. Return on capital employed

Net capital employed is the total of fixed assets plus current assets less current liabilities. In other words it is the quantum of permanent capital expressed as non-current liabilities plus shareholders equity. Therefore,

ROCE = Adjusted Net Profit / Capital Employed ×100

Where, Capital Employed=Net Fixed Assets+Net Working Capital

It reflects as to how well a company is employing its capital. The fixed assets forming a part of net capital employed are taken into account only after deducting the amount of depreciation. This ratio is regarded as one of the best method of evaluating managements' efficiency and overall profitability.

4. Board Effectiveness

Under the umbrella of board adequacy, lie a few factors yet observational investigations have made utilization of board structure and creation with size, autonomy and execution as the key parameters. A leading body of restricted size is relied upon to be more performing than greater ones because of better correspondence and basic leadership accordingly enhancing execution. Board measure assumes a crucial part in alleviating office costs and in influencing the firm execution.

5. Duality

Duality exists when the same person occupies the title of CEO and Chairman of Board of Directors. The CEO is accountable for administering the company's operations, providing leadership, performance, preparing strategies, plans, objectives, and communicating to the investors. The chairman on the contrary runs and reviews the board, scrutinizes activities and uplifts the image and goodwill of the company.

6. Female Board

It represents gender diversity in boardroom. The new company law, 2013 mandated to specific companies to have at least one woman on the board.

In recent years, it has been increasingly pressured by shareholder activists, large institutional investors and politicians to appoint women as directors or officers. The assumption is that "greater diversity of the boards of directors should lead to less insular decision making processes and greater openness to change". It's found that good corporate governance was positively associated with board diversity.

7. Board Meeting

As per Section 285 of the Companies Act, in every company, a meeting of its Board of directors shall be held at least once in every three months and at least four such meetings shall be held in every year. Notice of every meeting of the Board of directors of a company shall be given in writing to every director for the time being in India, and at his usual address in India to every other director. The quorum for a meeting of the Board of directors of a company shall be one third of its total strength (any fraction contained in that one-third being rounded off as one), or two directors, whichever is higher.

8. Board Committee

A key element in the corporate governance process of any organization is its audit committee. While a board may have several committees - Grievance committee and Audit committee - are critical and must be made up of at least three independent directors and no inside directors. Other common committees in boards are nominating and governance. A board committee under the chairmanship of a non-executive director shall be formed to specifically look into the redressal of shareholders and investors complaints like transfer of shares, non-receipt of balance sheet, non-receipt of declared dividends etc. This Committee shall be designated as 'Shareholders/Investors Grievance Committee'. The number of meetings of the Shareholders/Investors Grievance Committee should be in accordance with the exigencies of business requirements.

Analysis of the data

I. Performance of the IT companies

Table 1 and chart 1 depicts overall profitability position of selected IT companies for the period from2012 to2016 in terms of Return on Assets. Return on Equity, and Return on Capital Employed. The Performance of the selected IT companies for the period of 5 years from the year 2012 to2016 has been depicted in the following table:

Table 1: Overall profitability position

Company	ROA		ROE		ROCE	
	A.M	S.D	A.M	S.D	A.M	S.D
Infosys	20 .52	1.8 8	25.76	1.36	34.9	1.70
TCS	26 .94	1.3 7	37.14	1.48	46.82	2.67
KPIT	12 .36	2.3 5	19.38	2.35	24.14	3.24
HCLTech	15 .79	4.3 8	27.06	7.59	30.72	9.04
Wipro	14 .82	1.3 5	23.26	2.28	27.06	3.81
TechMah	15 .96	2.67	25.44	7.32	30.04	7.32
Mindtree	18.48	5.25	24.24	7.06	29.96	8.38
Persistent	14.88	0.98	18.48	1.27	23.3	3.72
Mphasis	13 .7	7.3 5	18.64	9.87	22.44	10.34
OFSS	1 4.78	2.40	16.6	2.66	22.18	0.91

Table 1

- The profitability position of all the selected companies shows a little fluctuation but with have positive overall performance.

- Return on assets ranges from 13.7 to 26.94 shows that executive teams to focus their own operations more tightly on the activities and assets they are best qualified to manage and to spin out other activities and assets to more specialized companies.

- Return on equity ranges from16.6 to 37.14 which are also reveals that the firm has used the resources of owners effectively.

- Return on capital employed ranges from 22.18 to 46.82 which can be considered as reasonable for the selected company which reflects as to how well all selected company is employing its capital.

- All the companies effectively performing in which on the basis of ROA, Tata consultancy services stood on the top among all followed by Infosys ltd, Tech Mahindra, MindTree, Tech Mahindra, HCL Technology , Wipro ltd , oracle financial services, Mphasis and KPIT while TCS again stands on the top followed by HCL Technology, Infosys ltd, Tech Mahindra, Mindtree and so on. But Persistent has lowest standard deviation which reveals that they earn returns on assets and equity consistently.

II. Effect of Corporate governance aspects on the performance of the IT companies.

An evaluation of the ordinariness of information is an essential for some factual tests since typical information is a basic suspicion in parametric testing. For testing ordinariness, the test insights are appeared in the third table. Here two tests for typicality are run. For dataset little than 2000 components, we utilize the Shapiro-Wilk test; generally, the Kolmogorov-Smirnov test is utilized. For our situation, since we have just 50 components, the Shapiro-Wilk test is utilized. The p-esteem is progressively that 5% level of importance. We can dismiss the option speculation and infer that the information originates from an ordinary conveyance. The pooled relapse display has been utilized to demonstrate the effect of administration on the execution for the examination time frame in this investigation which condition of model are exhibited as takes after:

ROA = P0 + B1BOD_SIZE + B2FE_BOD + B3BOD_IND + B4BOD_MEETING + B5BOD_COMMITTEE + B6FIRMSIZE+B7AGE + £

ROE = B0 + B1BOD_SIZE + B2FE_BOD + B3BOD_IND + B4BOD_MEETING + B5BOD_COMMITTEE + B6FIRMSIZE+B7AGE + £

ROCE = B0 + B 1BOD_SIZE + B2FE_BOD + B 3 B OD _IND + B 4 B OD _MEETING + B5BOD_COMMITTEE + B6FIRMSIZE + B7AGE + £,

Where, B0, B1, B2, B3 B8 are the parameters of ROA, ROE and ROCE line to be estimated and £ are error in the model.

Table 2

Result of Pooled Multiple regression - ROA, ROE and ROCE as Dependent variable Model summary

Independent variables	Dep endent Variables					
	ROA		ROE		ROCE	
	Coefficient	P-value	Coefficient	P-value	Coefficient	P-value
Intercept	-16 .518	.0891	-30.999	.017	-46.607	.002*
BOD SIZE	0.9889	0.051	1.24252	0.003*	1.9967	.008*
FE BOD	-1.329	0.207	-1.498	0.277	-2.512	0.106
BOD IND	1.0134	0.046*	1.003	0.041*	0.252	.008*
BOD MEETING	0. 300	0.609	.071	0.927	0.130	0.880
BOD COMMITTEE	1. 364	.009*	2.027	0.003*	3.029	.000*
FIRMSIZE	1. 728	0.017*	2.576	0.007*	3.563	.001*
AGE	-0.074	0.270	-0.131	0.87	-.204	0.043*
R- squared	0.430		0.525		0.630	
Durbin Waston	1.89		1.98		1.96	

Table 2

Table 2 illustrates the empirical results regarding the correlation between corporate governance mechanism and firm performance. In the first column, ROA is a dependent variable, ROE in the second column and ROCE in third column to measure financial performance, the explanative ability and strength of relationship of three empirical models is 0.430, 0.525 and 0.630 respectively. Durbin-Waston are showing the result around 2 (i.e. 1.96, 1.98 and 1.89) which reveals that model have not any auto-correlation problem.

- CEO duality has been excluded from the analysis while running regression due to constant result i.e. all the companies have not any duality of the chairperson and Chief executive officer by a same person. Both positions have performed by different person complying as per clause 49, SEBI guidelines for the corporate governance.

- Proportion of Independent Directors and Board Committee have positive and significant relationship with ROA, ROE and ROCE at 1% and 5% level of significant which reveal that this aspect of governance affect significantly the profitability as well as performance of IT industries and Board of Director has significant at 1 % level of significance only with ROE and ROCE, reveals that size of the board of director also leads to the good performance of selected IT companies up to certain extent.

- Number of Female Board and Board Meeting has not any impact on the performance of the selected IT companies. In addition, gender diversity was not correlated with performance and this is a kind of early signal that gender diversity might not create any impact on firm financial performance

- To sum up, board independence and Board committee are most important factors for IT sector shows the positive relation to corporate performance. Board committee consists with mainly Audit committee, compensation committee, nominations committee, investor grievance committee and risk management committee. All committees consist entirely of independent director, expertise, strong commitment and actively participation contributes effectively overall performance of the IT industries.

CONCLUSION

At last we have inferred that after Satyam tricks of summed 71.36 INR billions in January 2011, IT and programming organizations was endured a defeat and their worldwide picture was additionally discolored. This trick demonstrates a total disappointment of corporate administration rehearses in IT parts. Along these lines, after that these IT organizations has been begun work for recapturing the lost picture by receiving best practices of corporate administration and today IT segments again have increased full certainty of financial specialist and partner by consenting the condition 49 of, Listing Rule SEBI. Factually we found that in regard of board structure, board measure is fundamentally and decidedly identified with firm execution(with ROE and ROCE), inferring that, in a substantial size board, the decent variety of insiders' assessment has an emphatically affect on deciding, which is inconvenient to firm execution. In any case, board freedom is emphatically and essentially identified with firm execution, recommending that the more autonomous the board is, the better firm execution would be.

Then again, Board advisory group has been likewise affected the exhibitions which assume extremely fundamental part in inspecting, selection, chance administration, basic leadership and so on. It is very shocking when sex have impact among the board individuals did not end up being critical as to monetary execution. In this manner, Demographic assorted variety on account of top managerial staff (BODs), in part has not been affected association's monetary execution. Nonetheless, to a specific degree, ethnicity in sheets of chiefs made a noteworthy effect on firm budgetary execution. These discoveries are very reliable with prior investigation (Maran and Indraah, 2009). This examination additionally does not applicable for alternate areas, for example, fabricating, overwhelming machine, media transmission and so on due to having distinctive center work. Additionally, a few part of corporate administration of IT businesses, for example, possession, divulgence and so forth stays unexplored for the further investigation. Viability of corporate administration framework can't only be enacted by law. As rivalry builds, innovation articulates the passing of separation and accelerates correspondence. It additionally advances the straightforwardness which prompts powerful administration. To maintain a strategic distance from the tricks, an organization needs to entirely take after legitimate arrangement of corporate administration and turning the reviewers for improving each couple of years.

REFERENCES

Agrawal, A., &Knoeber, C. R. (1996). Firm performance and mechanisms to control agency problems between managers and shareholders. Journal of Financial and Quantitative Analysis, 31(3), pp. 377-397.

Awan, S. H. (2012). Effect on board composition on firm performance: A case of Pakistan listed companies. Interdisciplinary Journal of Contemporary Research in Business, 3(10).

Baliga, B., Moyer, R., Rao, R. (1996). CEO duality and firm performance: What's the fuss?, Strategic Management Journal, 17, pp. 41-53.

Bhagat, S., & Black, B. (2002). "The NonCorrelation between Board Independenceband Long-Term Firm Performance." Journal of Corporation Law, 27, pp. 231-273.

Bhagat, Sanjai, Dennis Carey and Charles Elson (1999). Director Ownership, corporate performance, and management turnover," The Business Lawyer 54.

Carlos J. et. al. (2013). Implementing Good Governance Principles for the Public Sector in Information Technology Governance Frameworks. Open Journal of Accounting, 2014, 3, pp. 9-27

Claessens, S., Djankov, S. & Fan, J. P. H. (2002). Disentangling the incentive and entrenchment effects of large shareholders. The Journal of Finance, 57(6), pp. 2741-71

Daily, C. Dalton, D. (1997). CEO and board chair roles held jointly or separately: Much ado about nothing?. The Academy of Management.

Davis JH, Schoorman D, Donaldson L. (1997). Toward a stewardship theory of management. Acad Manage Rev 1997; 22(1): pp. 20–47.

Denis, K. D. & McConnell, J. (2003). International corporate governance. Working Paper, 05/2003.

Donaldson, L., Davis, J. (1991). Stewardship theory or Agency theory: CEO governance and shareholder returns, Australian Journal of Management, 16 (l), pp. 49-64

Donaldson, W. (2003). Congressional testimony concerning the implementation of the Sarbanes- Oxly Act of 2002. www.sec.gov/news/testimony/ 090903/tswhd.

Gomez, L.R. (2005). A Theory of Global Strategy and Firm Efficiencies: Considering the effects of Cultural Diversity. Journal of Management, 25 (4), pp. 587-606.

Ho C-K. (2005). Corporate Governance and Corporate Competitiveness: an international analysis, Corporate Governance: An International Review, Vol. 13, No. 2, pp. 211-253.

Jensen, M. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. Journal of Finance 48, pp. 831-880.

Pi, L., Timme, A. Corporate Control and Bank Efficiency, Journal of Banking Finance, 17, pp. 515-530.

Corresponding Author

Amit Baruah*

Research Scholar

E-Mail – amit.baruah@gmail.com