Study on CEO Duality and Corporate Governance of Companies Listed in Bucharest Stock Exchange

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Abstract
This study examines an important relationship between CEO duality and corporate governance. There are several aspects and dimensions of corporate governance, which may influence a CEO Duality but this study focused on two aspects namely Board’s size (Bsize) and Board’s Independence (Bind). In this paper, log of total assets (Size) and total debt divided by total assets (Leverage) are control variables. Results based on the data collected from the annual reports in 2010, indicate that CEO duality is negatively associated with board’s independence and board’s size. The results show has a positive and significant relationship size of firm and CEO Duality. Also, there is no relationship between Leverage and CEO Duality.

Key words: Corporate Governance, Chief Executive Officer, Board, Size

JEL Classification: C10, G10, G30

Introduction
CEO duality, the practice of one person serving as both the CEO and chairperson of the board of directors, has been at the center of great interest to both academic researchers and practitioners for the last two decades. CEO duality refers to the situation when the CEO also holds the position of the chairman of the board. The board of directors is set up to monitor managers such as the CEO on the behalf of the shareholders. They design compensation contracts and hire and fire CEOs. A dual CEO benefits the firm if he or she works closely with the board to create value.

Corporate governance refers to the set of systems, principles and processes by which a company is governed. They provide the guidelines as to how the company can be directed or controlled such that it can fulfil its goals and objectives in a manner that adds to the value of the company and is also beneficial for all
stakeholders in the long term. Corporate governance is based on principles such as conducting the business with all integrity and fairness, being transparent with regard to all transactions, making all the necessary disclosures and decisions, complying with all the laws of the land, accountability and responsibility towards the stakeholders and commitment to conducting business in an ethical manner.

**Literature Review**

The relationship between CEO duality and corporate governance has been addressed from different perspectives on the global devastation of the CEO duality impact on the performance of both financial / enterprise value or the mechanism of corporate governance and the impact of corporate governance and corporate financial performance on CEO duality.

Based on the data of Iranian Banking Sector and using panel data methodology over a four-year period from years 2008 to 2011, Abbasi et al (2012), has proved the hypothesis that, "relationship between corporate governance mechanisms and CEO Duality". The results reveal a not meaningful relationship between Board's size and CEO duality, and a significant positive relationship between the Board’s Independence and CEO duality.

In the study, Arlman (2004) shows the results empirical research into the practice of CEO duality in S&P 500 and FTSE 100 firms. Arlman show that 76% S&P 500 companies have the same chairman as chief executive, while for FTSE 100 companies, it is only 4%. The author tested succession theory by comparing the average tenure for CEO s in different situations. The average tenure for all companies in the S&P 500 was 6.3 years. In companies with a dual CEO and chairman, the tenure was higher at 7.2 years, while companies with a different person as CEO the average was 3.4 years.

Kholeif (2008) conducted an study on 50 most active Egyptian listed firms, by using the financial statements for the year 2006. It is revealed that the companies with large boards and low top management ownership corporate performance is negatively affected by CEO duality and positively affected by institutional ownership.

Petra and Dorata (2008) investigates the link between the level of performance-based incentives and corporate governance structures. The authors conclude that the presence of CEO duality reduces the risk of giving managers incentives to lower outstanding performance record and the amount of incentives will be influenced by the size of the board.

Based on a sample of 2271 firms in the S&P 1500 from 1992 to 2007, Sampson-Akpuru (2010) investigates the likelihood that a firm with a combined CEO/chair will pursue an international acquisition. He finds evidence that firms with a dual CEO/chair are more likely to announce an international acquisition, are also more likely for larger, high-sales-growth firms with lower leverage and lower cash levels.

Hee Kim and Buchanan (2008) provide empirical evidence regarding how combined leadership structure affects managerial behavior regarding firm risk which is an important element in corporate strategic management and shareholder’s
investment utility maximization. The empirical examination of 290 large U.S. corporations indicate that CEO duality structure intensifies the issue of power concentration on CEO and weakens the board’s effectiveness in monitoring and controlling management.

Bodaghi and Ahmadpour (2010) presents the relationship between corporate governance and capital structure for 50 companies listed at Tehran Stock Exchange. Measures of corporate governance employed are board size, board composition, and CEO/Chair duality. Under this study, the corporate financing is not significantly influenced by CEO/Chair duality and the presence of non-executive directors on the board.


**Research Methodology**

CEO duality correlation study was performed in corporate governance based of pooled regression analysis, on a representative sample Romanian companies listed on the BSE. The study uses the database information provided by the annual reports in 2010. CEO duality is the dependent variable while board size and board independence are selected as independent variables. The variables firm size and leverage will be control variables.

Equation will be estimated in the form

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \mu \]

Where; Y- CEO duality dummy variable, which highlights the duality; X1 - board size; X2 - board independence; X3 – size; X4 – leverage; \( \mu \) - Error term.

In order to evaluate the effects of corporate governance mechanisms on CEO duality, hypotheses are tested:

H1: There is a significant relationship between board’s size and CEO duality in Romanian companies.

H2: There is a significant relationship between board’s independence and CEO duality in Romanian companies.

The variable CEO duality(CEO DUALITY) is included as a dummy variable. It is taken as 1 if CEO is chairman; otherwise it is taken as 0.

Board size(BSIZE). The variable Board size is measured as logarithm of number of board members.

Board independence(BIND). Board’s Independence: consists of the percentage of independent directors on board, i.e. the ratio of independent directors to total number of directors on board.

Size of firm(SIZE). Large firms generally have close links with their lenders and find it easy to arrange debt on favorable terms. The variable Size of Firm is measured as logarithm of total assets.

Leverage(LEVERAGE). Leverage is the control variable and represents the value of debt divided by book value of total asset.
Descriptive Analysis are presented in Table 1.

### Table 1: Descriptive statistics of the variables in the study

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO DUALITY</td>
<td>0.4000</td>
<td>0.0000</td>
<td>1.0000</td>
<td>0.0000</td>
<td>0.4949</td>
</tr>
<tr>
<td>BIND</td>
<td>78.5159</td>
<td>92.5000</td>
<td>100.0000</td>
<td>0.0000</td>
<td>30.3532</td>
</tr>
<tr>
<td>BSIZE</td>
<td>1.4687</td>
<td>1.6094</td>
<td>2.1972</td>
<td>0.0000</td>
<td>0.4364</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.3030</td>
<td>0.2504</td>
<td>0.7988</td>
<td>0.0086</td>
<td>0.2181</td>
</tr>
<tr>
<td>SIZE</td>
<td>18.5820</td>
<td>18.6945</td>
<td>24.1899</td>
<td>15.2168</td>
<td>1.6252</td>
</tr>
</tbody>
</table>

The Table 1 displays the descriptive statistics of the variables of the study showing the mean, standard deviation, minimum and maximum. Of the firms studied, 60% of them adopt the 2-tier board structure implying that about 40% of the firms have their CEOs and Board chairman positions combined in one personality. This suggests that avenue for agency problems emanating from conflict of interest are minimized. It can be noticed that the mean of the percentage of independent directors on the board is 78.51.

The correlation coefficients between the variables the study presents in Table 2.

The two variables independents, namely board size and board independence are not significantly correlated hence, multicollinearity is not a threat. CEO duality is negatively correlated with board independence(-0.29) and board size(-0.05), while ceo duality is positive correlations with leverage(0.08) and size(0.19). Board independence has correlations with size of firms (0.13). Board size is positively correlated with size of firms (0.53) and leverage (0.14).

### Table 2: Correlation coefficients between the variables in the study

<table>
<thead>
<tr>
<th></th>
<th>CEO DUALITY</th>
<th>BIND</th>
<th>BSIZE</th>
<th>LEVERAGE</th>
<th>SIZE</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO DUALITY</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BIND</td>
<td>-0.29</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSIZE</td>
<td>-0.05</td>
<td>-0.09</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.08</td>
<td>0.01</td>
<td>0.14</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>0.19</td>
<td>0.13</td>
<td>0.53</td>
<td>0.13</td>
<td>1</td>
</tr>
</tbody>
</table>

The results of the regression analysis the OLS is presents in Table 3.

The model explains almost 20.52 % of variation in CEO Duality, with significant F-statistic.
Table 3. Results of regression analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIND</td>
<td>-0.0061</td>
<td>0.0022</td>
<td>-2.737</td>
<td>0.0088</td>
</tr>
<tr>
<td>BSIZE</td>
<td>-0.347</td>
<td>0.1822</td>
<td>-1.9049</td>
<td>0.0632</td>
</tr>
<tr>
<td>LEVERAGE</td>
<td>0.1655</td>
<td>0.3051</td>
<td>0.5423</td>
<td>0.5903</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.1195</td>
<td>0.0491</td>
<td>2.434</td>
<td>0.019</td>
</tr>
<tr>
<td>C</td>
<td>-0.882</td>
<td>0.7846</td>
<td>-1.1242</td>
<td>0.2669</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.2052</td>
<td></td>
<td></td>
<td>2.9053</td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>2.0566</td>
<td>Prob(F-statistic)</td>
<td>0.0320</td>
<td></td>
</tr>
</tbody>
</table>

As shown in Table (3), the Board’s size (Bsize) on CEO duality is not statistically meaningful, the level of significance is 0.0632 (sig.>5%). The result not supports the predicted hypothesis H1. Result from effect of Board’s Independence (Bind) coefficient on CEO duality is negative and statistically significant at 5 per cent level, the level of significance is 0.0088 (p<0.05), and thus, the result supports the hypothesis H2. The coefficient of leverage is not statistically meaningful(p = 0.5903), and on the other hand, the coefficient for size of firm, is statistically significant and positively(p = 0.019) related to CEO duality.

Conclusion

This paper, based on the data of Romanian companies and using regression analysis has investigated relationship between corporate governance mechanisms and CEO Duality. The results from the first hypothesis test reveal a not meaningful relationship between Board’s size and CEO duality, at 5 per cent level (p<0.05), but significant at the 10 per cent level (p<0.10). The results from the second hypothesis test show a significant positive relationship between the Board’s Independence and CEO duality. This result is in line with the findings of Abbasi et al (2012) study. The coefficient for leverage is not statistically meaningful, and the coefficient for firm's size is statistically significant and positively related to CEO duality.

Research can be developed by including more factors in corporate governance mechanisms and extending the sample of companies and research period and for a better understanding and generalization of findings, the analysis can be developed from the perspective of many emerging countries with systems similar corporate governance.
References