BOARD LEADERSHIP STRUCTURE AND FIRM PERFORMANCE: AN EXAMINATION OF RESOURCE DEPENDENCE ROLE

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Abstract

This study examines if the CEO duality influence the firm economic performance in Bangladesh and the moderating effects of board composition in the form of outside independent directors. While doing so, it examines the relationship between CEO duality and firm performance during the pre appointment of outside independent directors and post appointment of outside independent directors (the role of other corporate governance mechanism as moderating variable). The finding is that there is there is a negative (non-significant) relationship between CEO duality and firm performance before appointment of outside independent directors in the board. However, independent leadership structure and firm performance is found to be positively related following the acquisition of resource (outside independent directors in the board) supporting the 'resource dependence theory'. The findings of this study partially support the 'agency theory' and 'resource dependence theory' but do not support the stewardship theory. This study contributes to the literature on CEO duality in the context of less a developed country.

Keywords: Agency Theory, Bangladesh, Independent Directors, CEO, Power, Resource Dependence, Stewardship Theory

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1. Introduction

Due to separation of ownership and control the fortune of modern corporations are entrusted to the professional managers. A corporate board is a primary and dominant internal corporate governance mechanism which plays a key role in monitoring management and aligning the interest of shareholders with management (Rose, 2005; Brennan, 2006). A board may give strategic guidelines to the management and even may act to review and ratify management proposal (Jonsson, 2005). Board also spot the problems early and blows the whistle (Salmon, 1993). However, there is a considerable debate in the literature to what extent a corporate board is able to monitor management (see Mizruchi, 2004, p 614; Brick *et al*, 2006, p 421; Braun and Sharma, 2007). It came to light in the wave of corporate scandals that broke out in early 2000s, such as Enron, WorldCom and HIH insurance. It is alleged that a cause of these scandals are due to insufficient monitoring as the management holds board members in a strong grip (Rose, 2005). It commonly happens when the board Chair and the CEO is the same person (CEO duality). In such a situation board is usually dominated by the management, which reduces the board's ability to exercise the governance function and creates a conflict between management and board (Morck *et al*, 1988; Zahra, 1990; Rechner and Dalton, 1991; Tricker, 1994; Yermack, 1996; Solomon, 2007). It also gives enormous power and authority to the CEO, reduces the check and balances and weakens the board, as the CEO tends to be motivated by self-interest (Tricker, 1994). It reduces the board independence and its ability to exercise the governance role (Fizel and Louie, 1990; Pearce II and Zahra, 1991; Baliga *et al,* 1996; Dalton *et al,* 1998). Such board may be less involved in understanding their responsibilities than their powerful counterparts (Pearce II and Zahra, 1991).

The management of a corporation mostly oversees the operational issues and headed by Chief Executive Officer (CEO) who has overall responsibility for the conduct and performance of an entire organization' (Finkelstein and Hambrick, 1996, p 7). It is argued that the board will neither be involved in the day-to-day operational activities of the management nor be the part of management, as it may lead to a conflict of interest between the management and board (Morck *et al*, 1988; Rechner and Dalton, 1991; Tricker, 1994; Yermack, 1996; Abdullah, 2004). Due to legalistic perspective board is responsible for corporate leadership without actual interference in day to day operations, which are duties of CEO and senior executives (Zahra and Pearce II, 1989, p 292). The CEO will bridge between the corporate board and management (Rechner and Dalton, 1989). Leadership skill of the board Chair is an important factor in determining board process, optimal decision making and overall effectiveness of a board of directors (Leblanc, 2004; Leblanc, 2005).

In response to the large number of corporate collapses and scandals around the world, corporate governance reforms have been instigated to prevent such events happening again to protect the interest of investors. The U. K. 'Cadbury Report 1992', the first corporate governance code of best practices, was developed and published in response to the collapses of Maxwell Publishing Group, BCCI and Poly Peck (OECD, 2004b; Jonsson, 2005). The Cadbury Code made a number of recommendations for boardroom reforms including the structural independence of the board. It recommends that, "there should be clearly accepted division of responsibilities at the head of the company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decisions." Many countries also published the mandatory or voluntary corporate governance codes, for example, Higgs Report 2003 in the United Kingdom; Bouton Report 2002 in France and Cromme Commission Code 2002 in Germany (see Chahine and Tohme, 2009), Toronto Stock Exchange Listing Requirements in Canada (see Kang and Zardkoohi, 2005) suggesting the boardroom reform, in particular the structural independence of the board or splitting the role of CEO and board Chair (i. e. CEO non-duality). Sarbanes-Oxley Act in 2002 following the corporate scandals in the United States (such as Enron, WorldCom) led to a number of additional checks and balance in place to monitor the actions of the CEOs (Dey *et al,* 2009). In the words of Aguilera (2005, p 39):

> *In the post-Enron era, corporate governance reforms around the world are fully underway to bring greater power balance within the firm – particularly reining in over-mighty chief executives – and to resolve power struggles among the different stakeholders*

As part of this reform movement, in 2006 Bangladesh announced the 'Corporate Governance Notification' suggesting a major reform within the corporate boards in Bangladesh. Although it is a voluntary regulation (as non-compliance requires an explanation) it can be considered as the code of corporate governance best practices in the context of Bangladesh. It requires the listed firms in Bangladesh to have Anglo-American type outside independent directors (at least one-tenth of the total directors subject to a minimum one). However, that code compulsorily requires the structural independence (CEO non-duality) within the corporate boards in Bangladesh.

This study examines if the board leadership structure (CEO duality) influences the firm economic performance in Bangladesh during pre and post-appointment of outside independent directors (the role of outside independent directors as a moderating variable on CEO duality). The choice of Bangladesh is notable as over the past decades an overwhelming proportion of corporate governance literature has concentrated on developed economies with sophisticated financial and legal systems (Ararat and Yurtoglu, 2006) and where there are many institutional similarities. There is a dearth of research and less concentration is given on corporate governance practices in less developed and emerging economies (Gibson, 2003; Denis and McConnel, 2003; Ararat and Yurtoglu, 2006; Uddin and Choudhury, 2008). Needless to say there is a dearth of research on corporate governance practices in Bangladesh even though there is an increased interest on corporate governance practices by international donor agencies, such as Asian Development Bank (ADB), International Monetary Fund (IMF), World Bank and other international donor agencies (see Uddin and Choudhury, 2008; Siddiqui, 2010). The 'Global Corporate

Governance Forum', an IFC multi-donor trust fund facility, argues that corporate governance is a powerful tool to battle against poverty (World Bank, 2007). In the context of Bangladesh it is so warrant that the World Bank has imposed conditions requiring the improvement of corporate governance practices in Bangladesh in order to get financial assistance (Solaiman, 2006). Most of the earlier studies on CEO duality and firm performance originate from Anglo-American context. The evidence of CEO duality and performance in the context of an emerging economy may contribute to the new avenue of knowledge on strategic leadership.

The remainder of the paper is organized as follows. Section two presents the institutional background of corporate board practices in Bangladesh. Section three presents the earlier studies on CEO duality and firm performance. Section four presents the theoretical background and develops the hypotheses. Section five presents the methodological issues. Section six presents the results. The final section draws a conclusion.

2. Institutional Background of Corporate Board Practices in Bangladesh

Unlike the corporate boards in continental Europe, such as Germany, Finland and the Netherlands (except United Kingdom), the corporate boards in Bangladesh are one-tier board or management board. This is also due to common law tradition of the country[1] (as opposed to civil law). There is no supervisory board and both the executive and the non-executive directors perform duties together in one organizational layer, which is most common in Anglo-Saxon countries such as, the United States, the United Kingdom and Canada, Australia, and New Zealand. Therefore, there are some incidences of CEO duality in many listed companies, giving enormous powers to the CEOs, which may reduce the check and balances and ultimately the monitoring function of the board. The recent regulation (the 'Corporate Governance Notification') requires the board size to be between 5-20 directors, appointment of an 'Independent' or 'Non-Shareholder Directors' in the Board (at least 1/10th of the total board members or minimum one).

The CEO non-duality, which separates the executive function of the board from its monitoring function, is commonly found in two-tier board, which is most common in continental Europe, (except United Kingdom) such as Germany, Finland and the Netherlands (Tricker, 1994; Maassen, 2002). The CEO duality is very unusual in two-tier boards as the CEO is the part of the executive board and has no seat in the supervisory board; such supervisory function of the board is formally independent from the executive (management) function. The management functions of the board mostly oversee the operational issues and headed by Chief Executive Officer (CEO) and supervisory functions of such board deals with the strategic decision and oversee the management function of the board headed by Chairperson as non-executive director (Solomon, 2007). A notable intuitional difference in Bangladesh corporate sector from that of developed economy is that, due to diffuse share ownership, firms in developed economy appoints professional managers; many of them do not have ownership stakes within the firm and they employ their undiversified human capital (managerial talent) within a single firm. However, executives in Bangladesh are the family owners; many of them have large stake of ownership control or they are the representatives of the family owners. Sobhan and Werner (2003) noted that, in about 73% of the non-bank listed companies, the boards are heavily dominated by the sponsor-shareholders who generally belong to one family-the father as the chairman and the son as the CEO. Therefore, CEOs in the context of Bangladesh do not employ their undiversified human capital within a single firm.

3. Earlier Studies on CEO duality and Firm Performance

There is a host of studies examining the CEO duality and firm performance in the context of developed market (such as, Berg and Smith, 1978; Chaganti *et al*, 1985; Davidson *et al*, 1990; Donaldson and Davis, 1991; Boyd *et al*, 1997; Rechner and Dalton, 1989; Rechner and Dalton, 1991; Pi and Timme, 1993; Daily and Dalton, 1992; Daily and Dalton, 1993; Daily and Dalton, 1994a; Daily and Dalton, 1994b; Daily and Dalton, 1994c; Daily and Dalton, 1995; Baliga *et al*, 1996; Worrell *et al*, 1997; Dalton *et al*, 1998; Fosberg, 1999; Simpson and Gleason, 1999; Coles *et al*, 2001), except some handful studies for example by Mak and Li (2001) and Wan and Ong (2005) in the context of Singapore, Judge *et al* (2003) in the context of transitional economy, such as Russia; Abdullah (2004) in the context of Malaysia; Elsayed (2007; 2009; 2010) and Kholeif (2008) in the context Egypt; Tian and Lau (2001) and Lin (2005) in the context of China, Kula (2005) in the context of Turkey and Lam and Lee (2008) in the context of Hong Kong.

Most of these studies mainly examined the CEO duality and firm performance and arrived at contradictory outcomes. Although there is a counter argument that it is management team structure which affect performance and internal monitoring devices may not be as effective as envisaged in the literature ((see for example, Pi and Timme, 1993). Many prior studies suggest that CEO duality and firm performance is contextual (see Elsayed, 2007; Rashid, 2010). Board leadership structure varies across firms, industries and countries (Elsayed, 2010). CEO duality and firm performance varies across environmental dimension (Boyd, 1995); firm size and nature of financial performance has a moderating influence on CEO duality and firm performance (Dalton *et al*, 1998); board size, the proportion of outsiders on the board, and prior firm performance is required for more understanding of the CEO duality (Worrell *et al*, 1997); CEO duality and firm performance is contingent on family ownership stake (Mak and Li, 2001; Braun and Sharma, 2007; Lam and Lee, 2008); CEO duality varies with board size, top managerial ownership and institutional ownership (Kholeif, 2008); CEO duality varies with firm size, age and ownership structure (Elsayed, 2009).

Despite a host of studies on CEO duality and firm performance, such studies in the presence of other corporate governance (moderating) variable are very sparse. In the words of Kang and Zardkoohi (2005, p 793), "the lack of clear cut relationship between CEO duality and firm performance may be attributed to the failure of existing paradigms to shed light on the moderating effects of a firm's internal and external conditions". Ramdani and van Witteloostuijn (2010) examined the CEO duality and firm performance from a sample firms from Indonesia, Malaysia, South Korea and Thailand. They found that board independence and CEO duality on firm performance is different across the conditional quantiles of the distribution of firm performance. They also found a negative moderating effect of board size on the positive relationship between CEO duality and firm performance. Elsayed (2010) adds a new dimension of research on CEO duality examining what constitutes CEO duality arguing that appropriate leadership structure varies with some contextual variables. Rashid (2010) examined if CEO duality influences firm performance in Bangladesh and noted that CEO duality and performance varies across industries. The study of CEO duality and firm performance mainly originates from Anglo-American context. The current study aims at investigating the moderating effect board composition (in the form of representation of outside independent directors) on the relationship between CEO duality and firm performance. It draws on existing theory of corporate governance by testing those in a new context. Providing data from a less familiar (less developed economy) context this study aims to contribute to the literature by recognizing the interest of academics and practitioners.

4. Theoretical Background and Hypotheses Development

In understanding the principal-agent relationship (corporate governance and its problems), a theoretical lens is required. There are two extreme theoretical underpinnings in explaining such problem and subsequent impact on firm performance. These are agency theory (such as, Alchian and Demsetz, 1972; Ross, 1973; Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983, Eisenhardt, 1989); stewardship theory (such as, Donaldson, 1990a, 1990b; Davis *et al*, 1997; Donaldson and Davis, 1991).

4.1. Agency Theory

Due to effective separation of ownership and control, the power of modern corporations is delegated to the professional managers (agents) who oversee the interests of dispersed shareholders (Mintzberg, 1984). However, as the professional managers may not have significant interest in the firm in the form of stock ownership, there may be a problem of aligning the interest of the dispersed shareholders leading to an agency problem (such as Jensen and Meckling, 1976). Due to this the agent (the management) may be driven by self-interest, and unless restricted from doing otherwise, will undertake self-serving activities that could be detrimental to the economic welfare of the principal (shareholders) (Deegan, 2006, p 225). Different mechanisms, incentives, checks and balances are proposed to motivate and/or to monitor the management to align the interest of management with that of shareholders. The agency theorist suggests that agency problem will be higher when there is a CEO duality or CEO is also the board Chair (see Yermack, 1996). Separating the position of CEO and board Chair (CEO non-duality) will reduce the CEOs dominance over the board (Daily and Dalton, 1994b; Maassen, 2002) leading to a powerful board (Pearce II and Zahra, 1991). It allows the board to better exercise its control and reduces the self-opportunism' of CEO and other inside directors (Daily and Dalton, 1994a). It also facilitates the objective assessment of CEO and top management performance (Weidenbaum, 1986).

4.2. Stewardship Theory

In sharp contrast, stewardship theory holds an optimistic view of human (managerial behavior) suggesting that managers are inherently trustworthy and not prone to misappropriate corporate resource, rather they are motivated to work in the interest of their principal (Barney, 1990; Donaldson, 1990a, 1990b; Donaldson and Davis, 1991; Davis *et al*, 1997; Dalton *et al*, 1998). Therefore, this theory argues for CEO duality. This theorist suggests that the power of the executives and best stewardship role can only be exercised when the role of the CEO and board Chair is combined, (Donaldson and Davis, 1991; Ong and Lee, 2000). When CEO is rewarded with a chair position for his/her performance, the board is expressing its confidence in the CEOs ability to lead the firm (Kang and Zardkoohi, 2005).

4.3. Resource Dependence Theory

The main premise of the agency and stewardship theory is that, ‘one size fits all’ (Elsayed, 2010) or ‘one therapy for all diseases’. Contrary to agency and stewardship view, 'resource dependence theory' suggests that the long-term survival and success of a firm is critical to its abilities to link the firm with its external resources (Pfeffer and Salancik, 1978). A corporate board is also a means for facilitating the acquisition of external resources such as, legitimacy, advice and counsel and links to other organizations, which is critical to the firm's success (Pfeffer and Salancik, 1978; Zahra and Pearce II, 1989; Gopinath *et al*, 1994; Johnson *et al*, 1996; Maassen, 2002; Hillman and Dalziel, 2003; Kula, 2005). This is because "when an organization appoints an individual to a board, it expects the individual will come to support the organization, will concern himself with its problems, will variably present it to others, and will try to aid it" (Pfeffer and Salancik, 1978, p 163). Consistent with this view academic literature (such as, Pfeffer and Salancik, 1978; Zahra and Pearce II, 1989; Gopinath *et al*, 1994; Johnson *et al*, 1996; Maassen, 2002; Peng, 2004; Gabrielsson, and Huse, 2005; Luan and Tang, 2007) suggest that the outside board members (independent directors) in the board is an indication of board's resource dependence role which may link the firm with its environment in achieving its various organizational goals. Outside directors have advance pragmatic qualifications, expertise and experience and thereby can effectively influence the board’s decision and ultimately can add value to the firm (Fields and Keys, 2003). They also provide important monitoring functions in an attempt to resolve the agency conflict between management and shareholders (Bathala and Rao, 1995). Independent directors can play a useful role in relation to strategic planning risk management (Farrar, 2005). “…….outside directors may contribute both expertise and objectivity in evaluating the manager’s decisions” (Byrd and Hickman, 1992, p 126). They are good monitors as they are not the part of the management (Jensen and Meckling, 1976; Fama, 1980; Beasley, 1996). They are more vigilant as they mainly focus on the firm’s financial performance, may dismiss the CEO following poor performance to maintain their personal reputation as directors (Finkelstein and Hambrick, 1996, p 225); can freely evaluate management’s performance and act to remedy inappropriate and unacceptable situations (Kesner *et al*, 1986). In the absence of the outside directors the insider dominated board in one hand will get enormous powers and the board may abuse such powers; on the other hand without the expertise of the outside directors, the board may not be effective (Dalton and Daily, 1999). In this study it is argued that, the presence of outsiders (outside independent directors) in the board will ensure the board independence and such board may enhance organization legitimacy and performance by providing information and resources (Zahra and Pearce II, 1989; Gopinath *et al*, 1994; Maassen, 2002). Although some of the CEOs are found to be in involved in corporate malpractice that led to the corporate scandals in USA and elsewhere, it does not necessarily mean that CEO duality is a bad governance structure (Kang and Zardkoohi, 2005). It can be argued that the CEO duality and firm performance is contingent. The presence of outside independent directors may be valuable resources to the firm and it may greatly influence the firm economic performance within the dual leadership structure. Consistent with this theoretical perspective (resource dependence theory), this study argues that dual leadership structure will have no beneficial impact on firm performance without the resource dependence role of the board (having outside independent directors). Consequently this study proposes the following hypothesis:

> ***Hypothesis 1:*** *CEO duality is positively related to corporate performance in the presence of resource dependence role (having outside independent directors) in the board.*

5. Methodological Issues

5.1. Sample Selection

Based on the availability of company annual reports, this study considers 93 non-financial firms listed in Dhaka Stock Exchange for the period of 2000-2009, representing the 39.57% of the total listed companies as on 31st December 2009. It is also the 63.70% of the total non-financial companies representing almost 55% of the market capitalization of total non-financial companies. The sample also consists of variety of industries as per 'Standard Industrial Classification' (SIC) codes. The data of these selected companies is manually collected for the period of 2000-2005 (for pre-corporate governance notification) and 2006-2009 (for post-corporate governance notification). Dependant upon the availability of company annual reports, a total of 825 observations was made (table 1). Of the total observations, 557 observations are made for pre-corporate governance notification and 268 observations are made for post-corporate governance notification.

Table 1. CEO duality incidences in the sample

Year	Number of firms in the sample	Incidence of CEO-Duality	Incidence of CEO Non-Duality	Observed firm years
2000	93	50%	50%	92
2001	93	50.54%	49.46	93
2002	93	51.60%	48.40%	93
2003	93	50.54%	49.46%	93
2004	93	50.54%	49.46%	93
2005	93	49.46%	50.54%	93
2006	93	44.08%	55.92%	93
2007	93	41.76%	58.24%	91
2008	93	38.46%	61.54%	78
2009	93	33.33%	66.67%	6
Total				825

The audited financial report was the basis for obtaining the company's accounting information, such as EBIT, total assets, total liabilities and equities, preferred stock. The CEO duality, board composition and board size data were obtained from the respective company's directors' report. Market value of the closing share price was collected from Dhaka Stock Exchange web page (www.dsebd.org) and from the 'Monthly Review' of Dhaka Stock Exchange. The ownership data were obtained from notes to the financial statement, 'Corporate Governance Compliance Report' of the respective company and from the 'Monthly Review' of Dhaka Stock Exchange.

5.2. Variable Definitions

5.2.1. Dependent Variable: Firm Performance

Dependent variables in this study are the firm performance under different performance measures such as, the Return on Assets (ROA) and Tobin's Q. Consistent with Yammeesri and Lodh (2004) and Yammeesri *et al* (2006), Rashid and Lodh (2008), Rashid (2010), Rashid *et al* (2010), Return on Assets (ROA) is calculated as the Earnings before Interest and Taxes (EBIT) scaled by the book value of average net total assets. Tobin's Q, is the ratio of the market value of the firm to the replacement cost of their assets.

5.2.2. Independent Variable: CEO duality

The CEO duality is the situation when the board chair and the CEO or Managing Director holds the same position. CEO duality variable is a binary and defined as a variable of CEOD, which is equal to be one (1) if the post is hold by same person as the CEO and board Chair, otherwise zero (0).

5.2.3. Control Variables

A number of control variables, such as, board size, ownership structure, debt ratio, firm size, firm age and firm growth are considered. Board size has number of implications for board functioning and thereby firm performance (such as, Raheja, 2005; Coles *et al*, 2008). A board size may affect the monitoring ability of boards (Kula, 2005). A smaller board is manageable and plays a controlling function, whereas a larger board is non-manageable, may have greater agency problems and may not be able to act effectively leaving management relatively free (Chaganti *et al*, 1985; Jensen, 1993; Hermalin and Weisbach, 2003). "as board size increased, CEO domination of the board become more difficult and directors were in improved position to exercise their power in governing the corporation" (Zahra and Pearce II, 1989, p 311). A variable BDSIZE is considered as the natural logarithms of total board members.

Corporate ownership structure is one of the most important factors in shaping the corporate governance system of any country. It is argued that ownership structure plays a key role in determining firm's objectives, shareholders wealth and how managers of a firm are disciplined (Jensen, 2000; Yammeesri and Lodh, 2004; Yammeesri *et al*, 2006). CEO duality with the presence of managerial ownership may align the interest of CEO with that of shareholders (Barnhart and Rosenstein, 1998; Kholeif, 2008). Further, institutional investors can control the decisions and actions taken by CEO and limit the power of CEO when CEO and board Chair positions are combined (Kholeif, 2008). Following this and consistent with Pi and Timme (1993), Kula (2005), Elsayed (2007) and Kholeif (2008), this study considers directors (DIROWN) and institutional (INSTOWN) ownership as the control variables to identify the impact of ownership on board leadership structure and firm performance. Debt may act as disciplinary device, may reduce the shareholder-debtholder agency problem and may influence the performance (e. g. Jensen and Meckling, 1976). Therefore, consistent with this and following Elsayed (2007), this study considers the control variable debt ratio as disciplining effect on firm performance. Debt ratio is calculated as total debt scaled by total assets. Firm size is an important variable in influencing firm performance. Large firms have more capacity to generate internal funds (Short and Keasey, 1999); large firms have a greater variety of capabilities (Majumdar and Chhibber, 1999); large firms may also have problems of coordination, which may negatively influence its performance (Williamson, 1967). This study considers the natural logarithm of total assets as firm size (SIZE). Firm performance may also be influenced by firm age; the older firms are likely to be more efficient than younger firms (Ang *et al*, 2000). A variable of AGE is defined as the natural logarithm of the number of years firm have been listed on the stock exchange.

5.3. Regression Model Specification

The following model is developed in this study

$$Y_{i,t}=\alpha+\beta_1 CEOD_{i,t}+\beta_2 BDCOMP_{i,t}+\beta_3 BDSIZE_{i,t}+\beta_4 DIROWN_{i,t}+\beta_5 INSTOWN_{i,t}+\beta_6 DR_{i,t}$$
$$+\beta_7 AGE_{i,t}+\beta_8 SIZE_{i,t}+\beta_9 GROWTH_{i,t}+\varepsilon_{i,t}$$

Where, $Y_{i,t}$ is alternatively $ROA_{i,t}$, and Tobin's $Q_{i,t}$ for *i*th firm at time *t*. $CEOD_{i,t}$ is the CEO duality for *i*th firm at time *t*, $BDCOMP_{i,t}$ is the board composition (proportion of outside to directors) for *i*th firm at time *t*, $BDSIZE_{i,t}$ is the natural logarithm of board size (representing the total number of directors) for *i*th firm at time *t*, $DIROWN_{i,t}$ and $INSTOWN_{i,t}$ is the percentage of shares owned by directors/sponsors and institutions respectively for *i*th firm at time *t*, $DR_{i,t}$ is the debt ratio measured as total debt to total assets for *i*th firm at time *t* and, $AGE_{i,t}$ is the firm's age for *i*th firm at time *t*, $SIZE_{i,t}$ is the firm's size for *i*th firm at time *t*. α is the intercept, β is the regression coefficient and ε is the error term.

5.4. Descriptive Statistics

Table 2 and 3 presents the descriptive statistics of the variables for pre-appointment of independent directors (2000 and 2005), post- appointment of independent directors (2006 and 2009) respectively.

Table 2. Descriptive statistics of the variables for pre-appointment of independent directors (N=557)

Variables	Mean	Minimum	Maximum	Std. Deviation	Skewness	Kurtosis
Return on Assets (ROA)	0.06	-0.18	0.34	0.07	0.16	1.68
Tobin's Q	1.11	0.17	4.30	0.58	2.23	7.03
CEO Duality	0.51	0.00	1.00	0.50	-0.02	-2.00
Board Size (BS)	5.97	3.00	11.00	1.83	0.59	-0.19
Director Share Ownership (DIROWN)	0.44	0.00	0.98	0.17	-0.17	0.91
Institutional Share Ownership (INSTOWN)	0.17	0.00	0.57	0.15	0.47	-0.88
Debt Ratio (DEBT)	0.71	0.02	3.62	0.47	2.71	11.33
Firm Age (AGE)	2.54	0.69	3.37	0.45	-0.50	-0.07
Firm Size (LogTA)	5.89	2.50	9.30	1.42	-0.10	-0.32
GROWTH	0.09	-1.00	12.06	0.66	11.93	204.31

Table 3. Descriptive statistics of the variables for post-appointment of independent directors (N=268)

Variables	Mean	Minimum	Maximum	Std. Deviation	Skewness	Kurtosis
Return on Assets (ROA)	0.05	-1.49	0.29	0.13	-6.28	69.21
Tobin's Q	1.28	0.34	6.23	0.78	2.57	9.75
CEO Duality	0.42	0.00	1.00	0.49	0.34	-1.90
Board Composition	0.10	0.00	0.33	0.08	-0.01	-0.78
Board Size (BS)	6.65	3.00	12.00	2.00	0.43	-0.38
Director Share Ownership (DIROWN)	0.42	0.00	0.96	0.19	0.05	0.53
Institutional Share Ownership (INSTOWN)	0.20	0.00	0.58	0.17	0.46	-0.88
Debt Ratio (DEBT)	0.78	0.07	5.62	0.63	4.04	22.15
Firm Age (AGE)	2.86	2.08	3.47	0.31	-0.10	-0.82
Firm Size (LogTA)	6.19	2.44	9.86	1.60	-0.07	-0.21
GROWTH	0.54	-1.00	104.33	6.40	16.08	261.47

The descriptive statistics include mean, minimum, maximum, standard deviation, skewness and kurtosis for normality test. The descriptive statistics of pre and post corporate governance reform (table 2 and 3) reveals that firm performance in terms of ROA has decreased from 6 percent to 5 percent; whereas firm performance in terms of Tobin's Q has increased from 111 percent to 128 percent. The average CEO duality has decreased from 51 percent to 42 percent. Average board size has increased from 5.97 to 6.65. Directors' stock ownership has decreased from 44 percent to 42 percent; whereas the institutional stock ownership has increased from 17 percent to 20 percent. Debt ratio has increased from 71 percent to 78 percent. Firms' growth in sales has increased from 9 percent to 54 percent.

For performing statistical analysis, there is a necessity to meet the assumptions of statistical analysis, such as normality, heteroscedasticity and multicolinearity. The assumption of normality is confirmed through a Normal Q-Q Plot, the Residual Test/Histogram-Normality Test as well both the 'Kolmogorov-Smirnov' and 'Shapiro-Wilk'. No multicolinearity problem is seen in this study as the correlation matrix of the explanatory variables (not shown here) shows that there is no strong correlation among the variables as correlation coefficients are very small (less than 0.75 or negative) and Variance Inflation Factor (VIF) is less than 2. The Breusch–Pagan-Godfrey test suggests that there is a presence of heteroscedasticity in the model, which is corrected by using correction technique for unknown heteroskedasticity of White (1980).

6. Results

6.1. Explanatory Analysis

The explanatory analysis of CEO duality and firm performance under ROA and Tobin's Q performance measures are shown in figure 1 and 2 respectively. These figures reveal that in general the firms are over performing under the independent leadership structure under the ROA performance measure. The firms with CEO duality were over performing under Tobin's Q performance measure before announcing the 'Corporate Governance Notification'. However, there is a reversing trend of CEO duality immediately before the announcement of 'Corporate Governance Notification' (which is also evident from table 1 and figure 3). In other words, the CEO duality incidence is decreasing and many leaders changed their hats following the announcement of 'Corporate Governance Notification' (voluntary regulation of CEO non-duality). Although it is hard to say if the performance of dual leadership firms has improved following the adoption of resource dependence role of the board (appointment of outside directors), it can be argued that many firms which are in high performance group under market based performance measure may have complied the voluntary regulation of CEO non-duality (independent leadership structure). This is consistent with the argument that the vigilant boards may restrict the duality when firm performance is good and vice versa (see for example, Finkelstein and D'Aveni, 1994; Elsayed, 2007) and apparently resource dependence role of board (outside independent directors) may have prompted this.

Figure 1. Board leadership structure and firm performance under ROA performance measure

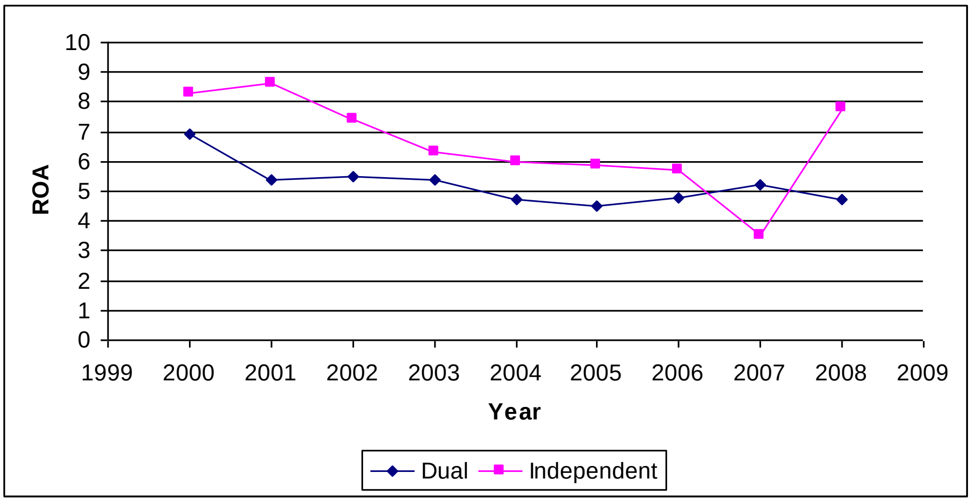


Figure 2. Board leadership structure and firm performance under Tobin's Q performance measure

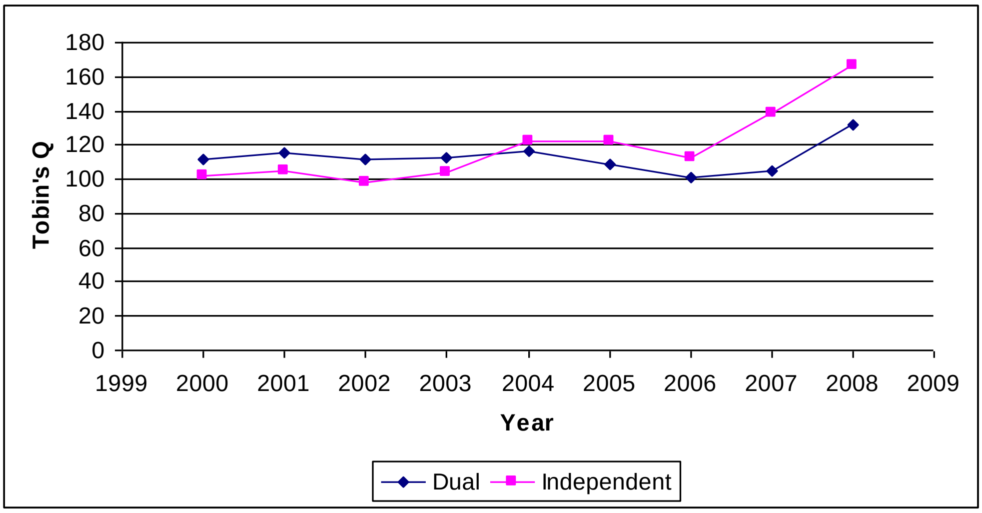
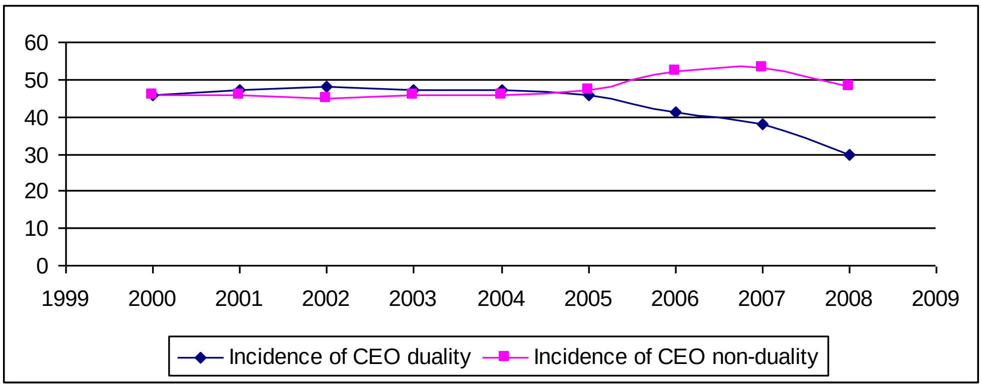


Figure 3. Incidence of CEO duality at different years.



6.2. Empirical Results

Table 4 presents the regression coefficients of the relationship between the CEO duality and corporate performance before appointing the outside independent directors. The results indicate that there is a negative (non-significant) relationship between CEO duality and firm performance under all the performance measures (although it is very weak, the coefficient is only 0.005 and 0.055 respectively). The results also indicate that 'board size' and director ownership have significant positive explanatory powers in influencing firm performance under both the performance measures.

Institutional ownership and firm size have significant positive explanatory power in influencing firm performance only under ROA performance measure. Debt has significant negative explanatory power in influencing firm performance under ROA performance measure and significant positive explanatory power in influencing firm performance under Tobin's Q performance measure. Firm age has significant positive explanatory power in influencing firm performance only under Tobin's Q performance measure. Based on both the explanatory and empirical analyses suggest that CEO duality have a negative impact on firm performance.

Table 4. Influence of CEO duality and firm performance under different performance measures for pre-appointment of independent directors

	Dependent Variables (Pre-Appointment of Independent Directors)				Dependent Variables (Post-Appointment of Independent Directors)			
	ROA		**Tobin's Q**		**ROA**		**Tobin's Q**	
Intercept	-0.064 (-2.132)	**	-0.828 (-4.273)	***	-0.095 (-0.761)		-1.703 (-5.119)	***
CEOD	-0.005 (-0.882)		-0.055 (-1.553)		0.007 (0.578)		-0.145 (-2.594)	**
BDCOMP	0.069 (0.510)		0.067 (0.115)		0.250 (3.243)	***	0.734 (2.301)	**
BDSIZE	0.041 (4.847)	***	0.315 (6.318)	***	-0.012 (-0.372)		0.396 (4.051)	***
DIROWN	0.072 (2.767)	**	0.393 (2.098)	**	0.032 (0.789)		-0.152 (-0.875)	
INSTOWN	0.040 (2.039)	**	-0.079 (-0.666)		-0.026 (-0.602)		-0.465 (-2.643)	**
Debt	-0.055 (-7.937)	***	0.725 (21.096)	***	-0.079 (-1.475)		0.915 (26.799)	***
AGE	0.010 (1.432)		0.271 (7.293)	***	0.049 (2.415)	**	0.469 (4.212)	***
SIZE	0.006 (2.262)	**	0.009 (0.673)		0.009 (1.640)		0.055 (2.816)	**
GROWTH	0.006 (0.688)		0.032 (0.932)		0.000 (-0.829)		-0.003 (-2.573)	**
Adjusted R^2	0.225		0.468		0.201		0.647	
F-Statistic	18.995	***	55.329	***	8.488	***	55.321	***
Observations	557		557		268		268	

The *t*-tests are presented in the parentheses. * $p < 0.10$; ** $p < 0.010$; *** $p < 0.001$.

However, this finding may challenged following the argument that, board structure is an endogenously institution and its organization depends on a number of firm characteristics (such as, Barnhart *et al*, 1994; Hermalin and Weisbach, 2003; Linck *et al*, 2008; Bennedsen *et al*, 2008). Prior literature (such as, Boyd, 1995; Dalton *et al*, 1998; Worrell *et al*, 1997; Mak and Li, 2001; Braun and Sharma, 2007; Lam and Lee, 2008; Kholeif, 2008; Elsayed, 2009) argue that CEO duality and firm performance is contingent and it vary depending on the board size, ownership structure, firm size, firm age and proportion of outside independent directors as moderating variable or the choice of performance measures Consistent with the 'resource dependence' view (such as, Zahra and Pearce II, 1989; Gopinath *et al*, 1994; Maassen, 2002) this study argues that the presence of outside independent directors will enhance board power and independence and will ensure that the corporate decisions are made in the best interest of shareholders which in turn is associated superior corporate performance. Table 5 presents the regression coefficients of the relationship between the CEO duality and corporate performance following the appointment of outside independent directors in the boards.

It is noticed that following the adoption of resource dependence role there is a positive relationship (although non-significant) between CEO duality and firm performance under ROA performance measure; there is a significant negative relationship between CEO duality and firm performance under Tobin's' Q. It is also noticed that role of ownership has slashed following the adoption of resource dependence role by the board (appointment of outside directors) as the coefficients of both the DIROWN and INSTOWN is negative under all the performance measures. The finding implies that dual leadership structure has positive impact on firm performance under accounting performance measure; whereas independent leadership structure has significant positive impact on firm performance under market performance measure. More specifically the resource dependence role is apparent under dual leadership structure in accounting based performance measure.

Table 5. Influence of CEO duality and firm performance under different performance measures for high performance group

	Dependent Variables (High Performing Groups)				Dependent Variables (Low Performing Groups)			
	ROA		**Tobin's Q**		**ROA**		**Tobin's Q**	
Intercept	0.119	***	-0.283		0.007		0.161	**
	(4.193)		(-0.701)		(0.119)		(2.560)	
CEOD	-0.022	***	-0.193	**	-0.002		-0.003	
	(-4.528)		(-2.494)		(-0.240)		(-0.265)	
BDCOMP	0.055		0.287		-0.061		0.032	
	(1.378)		(0.694)		(-0.973)		(0.317)	
BDSIZE	0.011		0.085		-0.025	*	0.154	***
	(1.342)		(0.874)		(-1.811)		(7.186)	
DIROWN	-0.006		0.060		0.081	***	0.065	
	(-0.272)		(0.340)		(3.364)		(1.242)	
INSTOWN	-0.055	***	-0.619	***	-0.017		0.152	***
	(-3.218)		(-2.677)		(-0.574)		(3.433)	
Debt	-0.035	***	0.699	***	-0.050		0.579	***
	(-3.374)		(10.515)		(-1.527)		(19.366)	
AGE	0.012	*	0.309	**	0.005		0.010	
	(1.886)		(3.204)		(0.620)		(0.666)	
SIZE	-0.003		0.082	***	0.006		-0.003	
	(-1.206)		(3.223)		(1.427)		(-0.631)	
GROWTH	0.026	***	0.012		0.000		-0.001	
	(3.989)		(0.520)		(0.133)		(-1.316)	
Adjusted R^2	0.167		0.431		0.169	***	0.517	
F-Statistic	11.067	***	24.795	***	9.987	***	65.187	***
Observations	425		284		400	***	541	***

The *t*-tests are presented in the parentheses. * $p < 0.10$; ** $p < 0.010$; *** $p < 0.001$.

In the explanatory findings above (figure 1 and 2) it is noticed that many high performing firms leaders change their hats from dual leadership structure to independent leadership following the appointment of outside directors. From this, it is primarily evident that board of directors is less likely to approve the CEO duality when the corporate performance is high and vice versa (Such as, Finkelstein and D'Aveni, 1994; Dalton *et al*, 1998; Elsayed, 2007). It can be argued that the resource dependence role of the board may have prompted this. To explore this issue the firms are classified in two sub groups based on their mean performance. One group is titled as high performing group which performance is equal to or above the mean performance under ROA and Tobin's Q; another group is titled as low performing group which performance is below the mean performance under ROA and Tobin's Q.

It is noticed that there is a significant negative relationship between CEO duality and firm performance for high performing group and there is a negative (non-significant) relationship between CEO duality and firm performance for low performing group. It implies that there is a significant positive relationship between CEO non-duality and firm performance for high performing firms which are already in the independent leadership structure (see figure 2 and 3). There is a negative relationship (non-significant) between CEO duality and firm performance for low performing group.

7. Discussion and Conclusion

This study examines if the CEO duality influence the firm economic performance in Bangladesh and the moderating effects of board composition in the form of outside independent directors. It also examines the relationship between CEO duality and firm performance for high and low performing group. The finding is that there is there is a negative (non-significant) relationship between CEO duality and firm performance before appointment of outside directors in the board. However, following the adoption of resource dependence role (appointment of outside directors) relationship is found to vary under accounting and market based performance measures. There is a positive (non-significant) relationship between CEO duality and firm performance under accounting based performance measure and significant negative relationship under market based performance measure. It implies that independent leadership structure has significant positive impact (resource dependence role) on firm performance under market performance measure. The board may have linked the firm with its external resources when there is an independent leadership structure. Further, when the CEO duality and firm performance is explored for high and low performing group, it is noticed that there is a significant positive relationship between CEO non-duality and firm performance for high performing firms which are already in the independent leadership structure (CEO non-duality). There is a negative relationship (non-significant) between CEO duality and firm performance for low performing group.

The theoretical implication of this study is that, this study supports the agency theory and resource dependence theory. However, there is a little evidence to support the stewardship theory. Practitioner implication of this study is that the leader of low performing group may consider changing their hat, or adopt independent leadership structure

This study may have some limitations. Such as, the data were data mainly collected from the company annual report. As the accounting standards are very poor in developing countries, the annual report may not truly represent the company's state of the affairs and performance. Further, the data are collected from the large number of observation of different corporate entities ignoring the underlying differences in organizations as in no way two organizations (even in the same industry) are same (Deegan, 2006). The extreme value of some observed variables such as, EBIT, accumulated profits of a few firms for certain years may severely impact the outcome of this study.

This study is conducted within the resource dependence perspective and it is argued that the firm performance may vary following the adoption of outside independent directors. It is also argued that board structure is an endogenously institution and its organization depends on a number of firm characteristics (such as, Barnhart *et al*, 1994; Hermalin and Weisbach, 2003; Linck *et al*, 2008; Bennedsen *et al*, 2008). This study ignored a possible link that the CEO duality and firm performance may vary across industries as this study has a combination of different industries in the sample and the industry effect of duality and performance is unknown (Donaldson and Davies, 1991; Dahya and Travlos, 2000; Mak and Li, 2001; Elsayed, 2007). Therefore, it is too early to make a conclusion and further study may be conducted examining the industry specific impact of board leadership structure and firm performance.

Notes:

[1] Bangladesh was a former British colony and it inherited the common legal systems based on English common law (as opposed to civil law). The two-tier board is common in civil law countries (Rose, 2005).
[2] This view suggests that regulation is required and the market might not always work in the best interest of society.

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