

Duality Role of Chief Executive Officer (CEO) in Corporate Governance and Performance of Quoted Companies in the Nigerian Stock Exchange: An Appraisal of the Perception of Managers and Accountants

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Abstract

The Chief Executive Officer (CEO) of a corporate entity is its Chief Accounting Officer. He is at the head of management which according to Miller (2005) is more of hands on activity; conducting and supervising actions with the judicious use of means to accomplish certain goal/s. The Chairman of the Board of Directors on the other hand is the chief policy or law maker of the enterprise. CEO Duality occurs when the CEO is equally the Chairman of the company or Board of Directors.

Index terms— chief executive officer, chairman of the board, stewardship accounting, corporate performance

1 Introduction

he distinct characteristic of 'divorced management from ownership' of modern corporations, make stewardship accounting inevitable. It is therefore a basic element in company administration and management. Professional managers who (Wikipedia, 2007) are considered more competent than the owners of the corporations and are thus hired to run and manage the affairs of the companies are expected to guarantee transparency accountability and fairness in their duties (Howard, 2000). This is a basic tenet of corporate governance. It is guaranteed by ensuring that various mechanisms are put in place to ensure seamlessness in accommodating corporate goal (ownership goal) and management goal in an enterprise. ??ricker (1984) had distinguished management and control in the bid to explain corporate governance by asserting that if management is about running business, then governance in the corporate world is about seeing that companies are run properly. Hence corporate governance is concerned with ways in which all parties interested in the well-being of the firm, in order words the stakeholders, attempt to ensure that managers and other insiders take measures or adopt mechanisms that safeguard the interests of the stakeholders. Separation of duties usually depicted in an 'organigram', is not only a feature of good internal control but also an essential ingredient of good corporate governance.

The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the firm including spelling out the rules and procedures for making decisions. Hence Wolfenson (1999), ??che (2004) and Akinsulire (2006) all agree that corporate governance provides the structure through which the company's objectives are set and the strategies, the tactics and the means, of attaining those objectives and monitoring performance defined. Manne (1965) however, set the tone which was later made louder by ??lchian and Demetz (1972) and ??onnier and Bruner (1989) to the effect that the Board of Directors (BOD) is the most important and possibly the greatest beneficiary of all good mechanisms of internal control including corporate governance. This is partly because the bulk stops on its table. But most importantly, the BOD is the primary means through which the shareholders exercise control over their investment. In the corporate governance chain, the BOD is answerable to the shareholders and all external markets for corporate governance-regulators, government authorities, labour unions et cetera. Little wonder then that the Federal government of Nigeria in

the bid to strengthen corporate governance and protect the investors from the unscrupulous management and directors of listed firms in Nigeria came up with a "Code of Corporate Governance Best Practices" in 2003. Essentially the code prescribes that the business of a firm should be managed under the direction of a BOD who delegates to the CEO and other management staff, the day to day management of the affairs of the firm. In addition, the Board is expected to appoint a qualified person as the CEO as well as other management staff. In codifying best practices for good corporate governance in Nigeria In spite of all these codes, while many companies have converted to Non-Dual CEO leadership on the heels of the report of several high-profile cases of powerful dual CEOs who were found to have abused their tremendous power at the expenses of the company and shareholders, others still maintain the Dual CEO leadership. The pertinent question that arises therefore becomes, to what extent does CEO duality impede corporate performance in Nigeria through weakening of corporate governance? This paper thus sets out to appraise CEO-Duality, Corporate Governance and Performance and thereby ascertain the significance of CEO Duality on corporate performance of Non-Financial Companies in the Nigerian Stock Exchange by hypothesizing that there is a significant negative impact of CEO Duality on corporate performance through weakening of corporate governance. Part one of the paper introduces the work, part two contains the literature review, part three the methodology, while part four presents and discusses the findings and part five concludes.

II.

2 Literature Review a) Corporate Governance

Corporate governance is synonymous with the responsibility associated with large scale artificial persons that lack the capacity to manage themselves (Salomon v Salomon and CO Ltd, 1897). By vesting the day to day running of the entity to a team of directors and senior managers who are distinct from their owners, ownership becomes divorced from management necessitating the guarantee for transparency, accountability and fairness in the management of the enterprise. Mayer, (2000) opines that corporate governance is about control and running of companies where concerns are raised as to who is in control, for how long and over what activities? Deakin and Hughes (1997) posit that corporate governance entails the connection between the internal control machinery of corporations and the general public's notion of the scope of corporate accountability. Hence, it is a set of rules applicable to the direction and control of companies where however, management is seen to connote running a business and governance becomes ensuring that it is run properly (Tricker, 1984). Specifically, corporate governance creates a framework of goals and policies to guide an organization's progress and forms a foundation for assessing Board and management performance (Adedotun, 2003). In a more elaborate tone, Oyediran (2003) stresses that corporate governance looks at the institutional and policy framework for management of corporation from the very beginnings, in entrepreneurship, through the government structures, company law, privatization, insolvency and to market exit. It not only depends on the

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 legal, regulatory, institutional, environmental and societal interests of the communities in which it operates, but also has impact on the reputation and long-term success of a company. This long-term success can hardly be engendered by CEO-Duality given that the BOD could be plagued by the domineering influence of the Chairman who doubles as CEO in the affairs of the company especially in cases where the majority shareholder occupies these positions. The practice not only weakens oversight ability but may also impair the independence judgment of the BOD on company strategies and decisions

b) Corporate Performance

The capacity and ability of a firm to use its assets to generate revenue from its primary mode of business depict its overall financial health. When this is measured periodically, it forms the basis for both horizontal and vertical analysis and comparison. According to Demsetz and Lehn (2004), financial performance involves measuring a firm's policies and operations in monetary terms which are depicted in the firm's return on investment, return on assets, value added, et cetera. That is, accounting profit ratios proxy corporate performance. Corporate governance has been found to correlate positively with corporate performance, (Attiye and Robina, 2007) both seen from these accounting ratios of the firm and the movement of its price in the stock market. While the accounting profit ratios are measured by the Accountant constrained only by the standards set by his profession, the performance as reflected by the movement of its price in the stock market is measured by the investors constrained by their acumen, information, optimism or pessimism and general psychology. In either case however, Young (2000) suggests that best governance practices exert a positive influence on firm performance since it prevents management and controlling investors from taking initiatives to expropriate minority investors. This, it is argued impacts positively on the firm's goodwill and ability to attract equity capital from prospective marginal investors. Hence in considering approaches to measurement of firm level financial performance, Sanda et al (2003), insist that this is found in social science research based on market prices, accounting ratios and total factor profitability where market prices are readily obtained from national stock exchanges for all listed firms. While profit is a flow concept, profit margin measures the flow of profits over some period compared with revenue and costs and thus there could be gross profit margin, operating profit margin, return on equity et cetera.

The relationship between corporate governance and firm's financial performance stems from the understanding that economic value is driven by governance mechanisms such as the legal protection of capital, the firm's competitive environment, its ownership structure, board composition and size, CEO-Duality (the focus of this paper), existence of Audit Committee and financial policy (Uadiele, 2010). In this light, Gompers et al (2003) find that stock returns are higher for firms with strong shareholder rights as compared to firms with weak shareholder rights. This suggests that firms with stronger or better corporate governance provisions outperform those with poor governance provisions in terms of profits, capital acquisition and sales growth. They also add that there is substantial evidence showing that weakly governed firms experience lower performance based on operating performance measures, lower sales growth and net profit margins. This has been corroborated by Hatab et al (2003) insist that corporate governance is a crucial ingredient in the process of encouraging domestic investment as well as inflow of foreign direct investment in Nigeria. They further lament that corporate governance practices in Nigeria reflect systemic governance problems including the inability to ensure effective capacity constraints by administrators and ineffective implementation of laws. This leads to limited economic growth (Suberu and Aremu, 2010). And in realization of the need to align with international best practices, the Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAC), inaugurated a seventeen (17) member committee in June 2000 in Nigeria headed by Atedo Peterside, to review and identify weaknesses in the current corporate governance practices in Nigeria and make recommendations for improvement. According to Inyang (2009), the members of the committee were selected to cut across relevant sectors of the economy including members of professional organization, the private sector and regulatory agencies. The committee submitted a draft code, which was widely publicized throughout the country and reviewed in major financial centers of Lagos, Abuja and Port Harcourt to elicit stakeholders' input prior to finalization. (2009) seem to provide a theoretical basis for corporate governance on the theories of agency, stakeholders, stewardship, resource-dependency, transaction cost and even complexity. Agency relationship creates a contract of a principal engaging an agent to perform some service on his behalf which involves delegating some decision making authority to the agent. In the corporate world, this brings about separation of ownership (shareholders) from control (board) with the introduction of external investors. Agency theory thus argues that in order to protect the interests of shareholders, the board of directors must assume an effective oversight function. This includes evaluating CEO performance based on mutually agreed objectives and company performance criteria. It also connotes the BOD having to not only approve the overall approach towards development and succession but also ultimately rewarding all stakeholders including the CEO accordingly (Burton, 2000). To effectively do this, and ensure good corporate governance, management which includes the CEO must be independent of the BOD.

As for the stewardship theory, Donaldson and Davis (1991) posit that managers act as stewards to the business and should be expected to have no self-interest other than the firm interest which would be the optimization of firm core objectives. This apparent lack of any other interest reduces the need for checking the excesses of neither the Board nor the CEO. Hence based on the stewardship theory, there could be Duality. The Chairman is the CEO. This is supported by the work of Coleman (2007) who argues that there should be no different roles for the Chairman and the CEO and Elsayed (2007) who equally argues that duality does not have a substantial impact on the performance of a company.

But this school of thought stands opposed by those who strongly argue in support of agency theory and maintain that a single officer holding both positions is bound to create a conflict of interest that could adversely affect the interests of the shareholders. To the later school of thought, the core argument is that CEO duality creates a CEO/Chairman who both directs BOD meetings (thus formulates policies and rules) and executes the same policies which may have him unrestrained from acting in his own self-interest in the absence of separation of powers. This automatically undermines the oversight power and functions of the BOD and endangers checks and balances which are essential ingredients of internal control and good corporate governance. In this regard, Rechner and Dalton (1991) and Timme (1993) maintain that a BOD controlled by the CEO is likely to lack independence, resulting to intensified agency friction and leading ultimately, to poor firm performance. To buttress this point, Donaldson and Davis (1991), argue that CEO duality establishes strong unambiguous leadership embodied in a unity of command and that firms with CEO duality may make better and faster decisions and consequently, may outperform those that split the two positions. Therefore, CEO Duality is anti corporate governance and non beneficial to the overall performance of the firm. This is the position of the agency theory.

But the stewardship theory, as pointed out earlier, supports CEO Duality as a core condition to establish a necessary and strong command chain at the top management of the firm. It maintains that whenever one person holds both positions, he is better able to act with precision, become more efficient and effective. Finkelstein and D'Aveni (2003) posit that CEO Duality improves the speed and effectiveness of decision making, reduces conflicts at the BOD level which may have positive impact on firm performance. According to Hundley (2011), the combination of the positions of Chairman and CEO provides a single focal point for company leadership while a powerful and effective CEO/Chairman creates an image of stability and instills a sense of well-being to its employees as well as its shareholders.

But even market practitioners and shareholder right activists have posited that the separation of CEO and Chairman can be a critical mechanism to eliminating managerial and shareholder conflicts of interest as well as to improving the governance of the BOD, Baysinger and Butler, (1985); Monks and Minow 2001 and OECD

2004). It could therefore be seen that the argument goes on and on in circles. There is no unanimous agreement yet as to the superiority of any of the two schools of thought. Empirical evidence based not only on the nature of industry but also on local peculiarities is needed to lay the argument to rest.

4 III.

5 Methodology

In studying the perception of company administrators, managers and Accountants on the impact of CEO-Duality on corporate performance, the survey approach involving population, sample and sampling was adopted. The population of the study is made up of all the non-financial companies quoted in the Nigerian stock exchange within the period covered by the study. Using the Taro Yameni formula at 95 percent confidence level and error margin of 0.05, a sample size of 72 is selected. Through cluster random sampling, sample elements representing all the sections of the non-financial companies were picked from the sample frame. Three copies of the questionnaire were administered to each company selected. The Microsoft Special Package for Social Sciences (SPSS) was used to test the hypothesis that there is a no significant negative impact of CEO Duality on corporate performance. To enhance the robustness of the findings, an oral interview was conducted on the sampled firms. The questionnaire established the effect of CEO-Duality on the following: increased board monitoring, effectiveness of control, reduced financial scandal, investors' confidence, effective communication, information diffusion, fastness of decision making, and financial performance/profitability. Responses were reduced into a 5-point Linkert scale and analyzed.

IV. The regression sum of squares (88.350) is less than the residual sum of squares (1743.648), which indicates that more of the variation in the dependent variable is explained by the model. The significance value of the F statistics (0.000) is less than 0.05, which means that the variation explained by the model is not due to chance. R, the correlation coefficient which has a value of 0.220, indicates that there is negative relationship between the CEO-Duality and performance of quoted companies. R square, the coefficient of determination, shows that 04.8% of the variation in the performance of quoted companies is explained by the model.

With the linear regression model, the error of estimate is high, with a value of about 1.64291 The Durbin Watson statistics of .021, which is not up to 2 indicates that there is no autocorrelation.

The CEO-Duality and performance of quoted companies of 0.22 indicates a negative significance between CEO-Duality and performance of quoted companies , which is statistically negative significant (with $t = -5.721$). Therefore, the null hypothesis should be accepted and the alternative hypothesis accordingly rejected.

V.

6 Conclusion

The positive relationship between Non CEO duality and corporate performance as found in this ??2006). Not surprisingly too, the correlation and chisquare tests results align themselves to the findings of Cheng (2011) from studies carried out in other environments and using different populations. Essentially, CEO duality is positively associated with the market value of the firm which is also influenced by positive movement in its profit margin and return on equity. Non CEO Duality tends to engender greater Uma and Allen (1997), Amarjit and Neil (2011) and transparency through appropriate corporate disclosure and attendant enhanced monitoring and efficient control. Independence of the BOD is a sin qua non for proper checks and balances and improved corporate governance. It is therefore strongly recommended here that the positions of the chairman and the CEO should be occupied by different persons only limited may be by the size or ownership structure of the company. ¹

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Figure 1:

Directors is the Top Management unarguably headed by a Chairman who may double as a Chief Executive Officer (CEO) of the company. Within the jurisdictions of the Board, the Chairman, the CEO, other management staff vocabularies/functions execution, planning, managing, directing, supervising and even controlling Cadbury Plc, Nigerian Railway Corporation (NRC), National Electric Power Authority (NEPA), Kaduna Textile Industry, Asaba Textile Industry, Nigerian Telecommunications Limited (NITEL) Benue Cement Company Gboko, Niger Cement Company Nkalagu, Nigerian Coal Corporation (NCC), Leventis Plc, et cetera and several banks are some of the corporate failures in recent time in Nigeria for which strong questions have been raised on the failure of corporate governance.

Figure 2:

Figure 3:

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2

For instance

Figure 4: Table 2 :

.1 Appendix

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