

Presented by Thanu Prasertsoontorn

WHEN DOES CEO DUALITY MATTER?

The Moderating Effect of Ownership on the
Relationship between CEO Duality and Firm
Performance

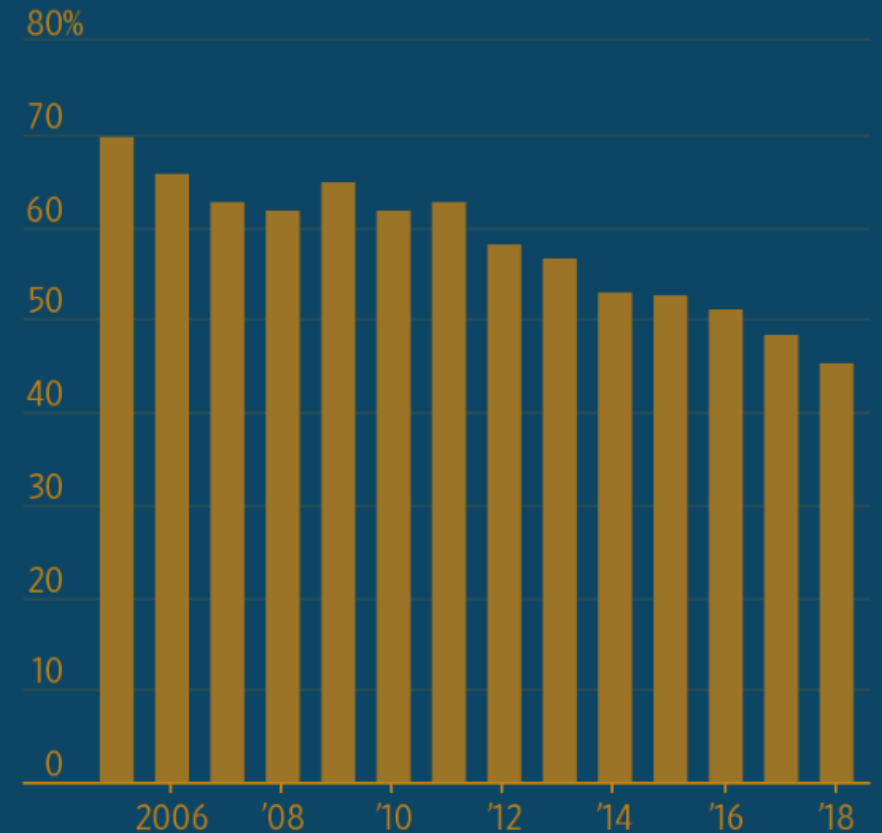


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RESEARCH BACKGROUND

- **CEO Duality**
- **CEO Duality + Corporate Governance**
CHEN ET AL., 2008; KRAUSE ET AL., 2014
- **CEO Duality + Firm Performance**
 - Agency theory *JENSEN AND MECKLING, 1976*
 - Stewardship theory *ANDERSON & ANTHONY, 1986*
STOEBERL & SHERONY, 1985
SUNDARAMURTHY & LEWIS, 2003
CHRISMAN ET AL., 2007
- **Thai Family Firm**
CONNELLY ET AL., 2012
WIWATTANAKANTANG, 1999

Percentage of S&P 500 companies with combined CEO-chairman roles



Source: ISS Analytics

THE WALLSTREET JOURNAL (SUN, 2019)

OBJECTIVES

Finding the relationships between CEO duality, family firm, earnings management, and firm performance

➤ CEO Duality

CEO duality is redefined by including firms where the CEO is related to the chair of the board of directors

➤ Earnings Management

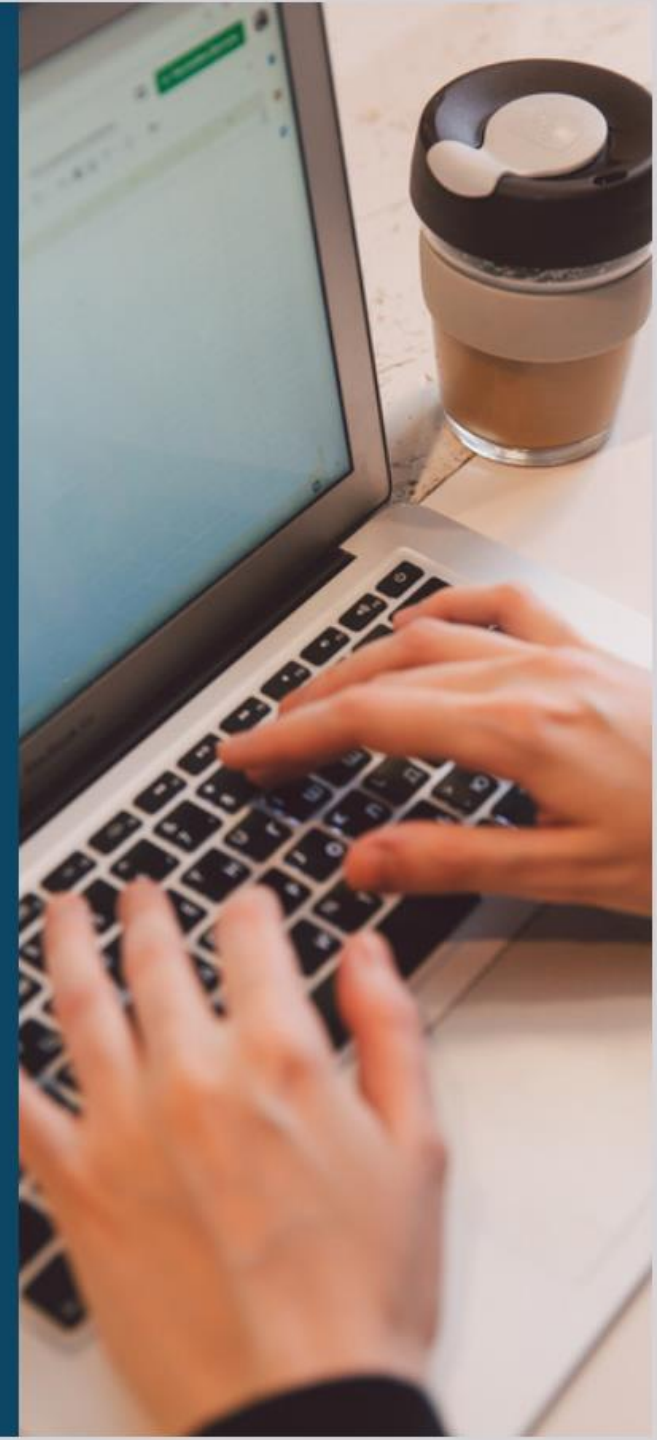
- AEM: Accrual-based Earnings Management *(DECHOW ET AL., 1995)*
- REM: Real activities Earnings Management *(ROYCHOWDHURY, 2006)*

➤ Family Firm

Total family ownership greater than the median (18.19%) of family ownership of all firms

➤ Firm Performance

- Accounting-based Performance
- Market-based performance



DATA

Database

- DATASTREAM
- SETSMART
- 56-1
 - www.sec.or.th

Deduction:

- Companies Under Rehabilitation
- Companies in Financials Sectors
- Property Fund & REITs
- Companies with insufficient data



The final sample of this study consisted of **1,360 firm-year observations** from 420 listed companies from 2017 to 2020

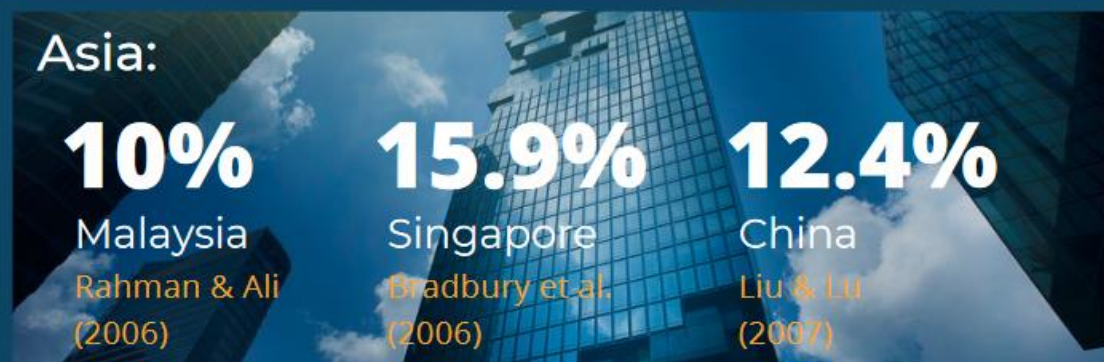
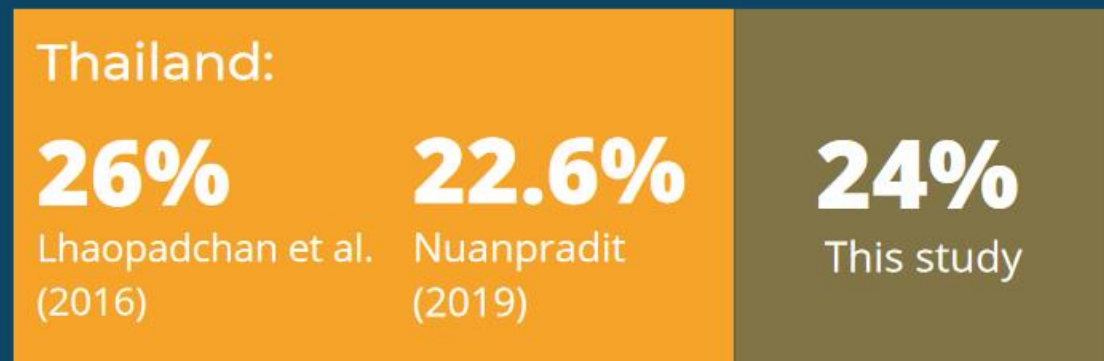
Data cover from 2017 to 2020
420 listed companies
7 Industries

Industry	Year				Total
	2017	2018	2019	2020	
AGRO	35	42	43	39	159
CONSUMP	25	31	31	33	120
INDUS	61	65	66	71	263
PROPCON	48	57	63	64	232
RESOURC	31	34	43	39	147
SERVICE	65	77	78	81	301
TECH	30	34	35	39	138
Total	295	340	359	366	1,360

SAMPLE DISTRIBUTION

CROSS-COUNTRY COMPARISON

Percentage of listed firms with CEO duality setting:



Central and South America:

59.1%
Mexico

59.8%
Brazil

67.9%
Argentina

60.7%
Chile

González & García-Meca
(2014)

Rest of the world:

33%

Australia
Davidson et al.
(2005)

41%

Italy
Prencipe & Bar-Yosef
(2011)

Global Average:

61.3%

González & García-Meca
(2014)

ANALYSIS 1

Comparison of descriptive statistics between
CEO Duality firms and CEO Separation firms

(only dependent, independent, and significant control variables)

1. Higher Duality in Family Firm

**2. Duality Firms has less independent
board members**

3. More Male in CEO Duality Position

Variable	DUAL = 0					DUAL = 1					T-Test	
	Obs	Mean	Std. Dev.	Min	Max	Obs	Mean	Std. Dev.	Min	Max	Diff	P-value
ROA	1040	0.037	0.071	-0.326	0.277	320	0.032	0.076	-0.369	0.235	0.005	0.309
ROE	1040	0.052	0.271	-4.511	5.648	320	0.032	0.187	-1.521	0.455	0.020	0.137
TBQ	1040	2.085	3.960	0.423	73.694	320	2.169	8.034	0.415	131.249	-0.085	0.856
REM	1040	-0.962	0.191	-1.617	-0.342	320	-0.945	0.165	-1.422	-0.383	-0.017	0.130
AEM	1040	-0.011	0.036	-0.141	0.091	320	-0.011	0.034	-0.112	0.073	0.000	0.899
FAMFIRM	1040	0.409	0.492	0.000	1.000	320	0.800	0.401	0.000	1.000	-0.391 ***	<.0001
BSIZE	1040	9.847	2.263	6.000	19.000	320	9.741	2.332	5.000	20.000	0.106	0.465
BOARDGEND	1040	0.207	0.146	0.000	0.625	320	0.205	0.145	0.000	0.714	0.002	0.819
INDB	1040	0.422	0.090	0.222	0.750	320	0.408	0.090	0.250	0.750	0.014 **	0.016
CEOGEN	1040	0.863	0.345	0.000	1.000	320	0.903	0.296	0.000	1.000	-0.041 **	0.040

ANALYSIS 2

Accounting-based Performance

Market-based Performance

Regression Analysis

- REM has no effect on TBQ
- AEM able to drive firm performance
- Family Firms with CEO duality show negative relation to Tobin's Q
- while interaction of REM with DUAL and FAMFIRM depicts negative result to TBQ

	ROA			ROE			TBQ		
<u>Earnings Management</u>									
REM	0.0225	***	0.077	0.0269	0.506	-3.5404		0.700	
AEM	0.4796	***	0.035	3.3631	***	0.000	11.0928	***	0.000
<u>CEO Duality and Family Firm</u>									
DUAL	-0.0059		0.864	0.0109	0.928	-0.3435		0.630	
FAMFIRM	0.0037		0.835	-0.0202	0.744	0.0728		0.882	
DUAL*FAMFIRM	0.0636		0.138	0.0273	0.852	-10.5802	***	0.000	
<u>Interaction Terms</u>									
REM*ACCEM	0.2024		0.383	0.5820	0.437	-15.6552	*	0.083	
AEM*DUAL	0.0026		0.942	-1.9820	*	0.060		0.758	
REM*DUAL	-0.0100		0.967	-0.0078		12.3260	***	0.000	
AEM*FAMFIRM	-0.0109		0.916	-1.8079	***	0.000		0.018	
REM*FAMFIRM	0.0014		0.936	-0.0018		-0.1678		0.812	
AEM*DUAL*FAMFIRM	0.0605		0.172	2.4004	*	0.050		0.801	
REM*DUAL*FAMFIRM	-0.0505		0.854	0.0785		0.571		-11.7564	***

Only dependent and independent variables are shown

POLICY RECOMMENDATION

For family firms with CEO duality settings:

01

Family Firm with CEO duality may create bad image of their CG transparency.

02

Clear separation is required to signal better corporate governance to outsiders.

03

REM does not increase firm performance but decrease it.

04

AEM is generally employed to help the firm perform better in terms of ROA, ROE, and Tobin's q.

GET IN TOUCH

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