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Effect of Chief Executive Officer Duality on the Profitability of Money Deposit Banks

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Abstract: *The purpose of this study is to determine the effect of chief executive officer duality on the profitability of money deposit banks. The research design adopted by this study is the quantitative approach. The population of interest for this study comprised the twenty-two deposit money banks listed on the Nigerian Stock Exchange (NSE) as at March (2016) for the period of sixteen years from 2000 to 2016. The study utilized only the secondary source of data. There exists a negative relationship between CEO duality and profitability. This further entails that for the sampled banks, CEO duality contributes negatively to the profitability of the selected money deposit banks in Nigeria. The coefficient of determination which measures the control power of the independent variable over the dependent variable was calculated with the instrument of adjusted R-Squared and it yielded 0.296170. This entails that the variations in profitability of the selected deposit money banks is not significantly influenced by CEO duality. Based on the findings, the study concludes that on the average, effect of chief executive officer duality has no significant effect on the profitability of money deposit banks. This finding reveals that dual role has no positive and significant influence and contribution towards profitability in money deposit banks. This should be thoroughly ascertained for it to be either suspended or significantly minimized.*

Key words: *Chief executive officer, duality, money deposit banks, profitability*

1. Introduction

The board is an important device for upholding effective corporate governance. The board acts as the eye of the corporation which oversees the activities of the Chief Executive Officer (Kim & Nofsinger, 2007). Nigeria is a good case for studying the implication of board composition on corporate performance for several reasons. There are several and daunting problems that are very visible in the country's corporate environment, and the weakness of regulatory frameworks to protect the entire spectrum of corporate stakeholders. Besides, the whole gamut of corporate governance, board characteristics and firm performance has suffered neglect both in the academia and public policy in Nigeria.

The main problems in the Nigerian banking sector are the domineering of the Chief Executive Officer, manipulation of employment procedures, a situation whereby appointment goes to the highest bidder, family affairs ownership structure, non-adherence to internal control measures, undeserved welfare packages for chief executive officer and management among others.

The role of the board of directors has evolved over time. However, there seems to be a consensus as to what their generic roles are. Specifically, Daily, Dalton, Cannella, and Johnson, (2003) observe that the most emphasized roles of the board of directors are control, service, and resourcing of the firm. Control imbues on the board the oversight functions of ensuring that company rules and regulations are obeyed and complied with. While the resource role views the board as facilitating the acquisition of resources critical to firm success (Njoka, 2010). Board Composition is of paramount importance in the stability of banks and in the operation of an economy to the financial system, as such, an understanding of the issues that promote their profitability is vital and fundamental to the firmness of deposit money banks in Nigeria.

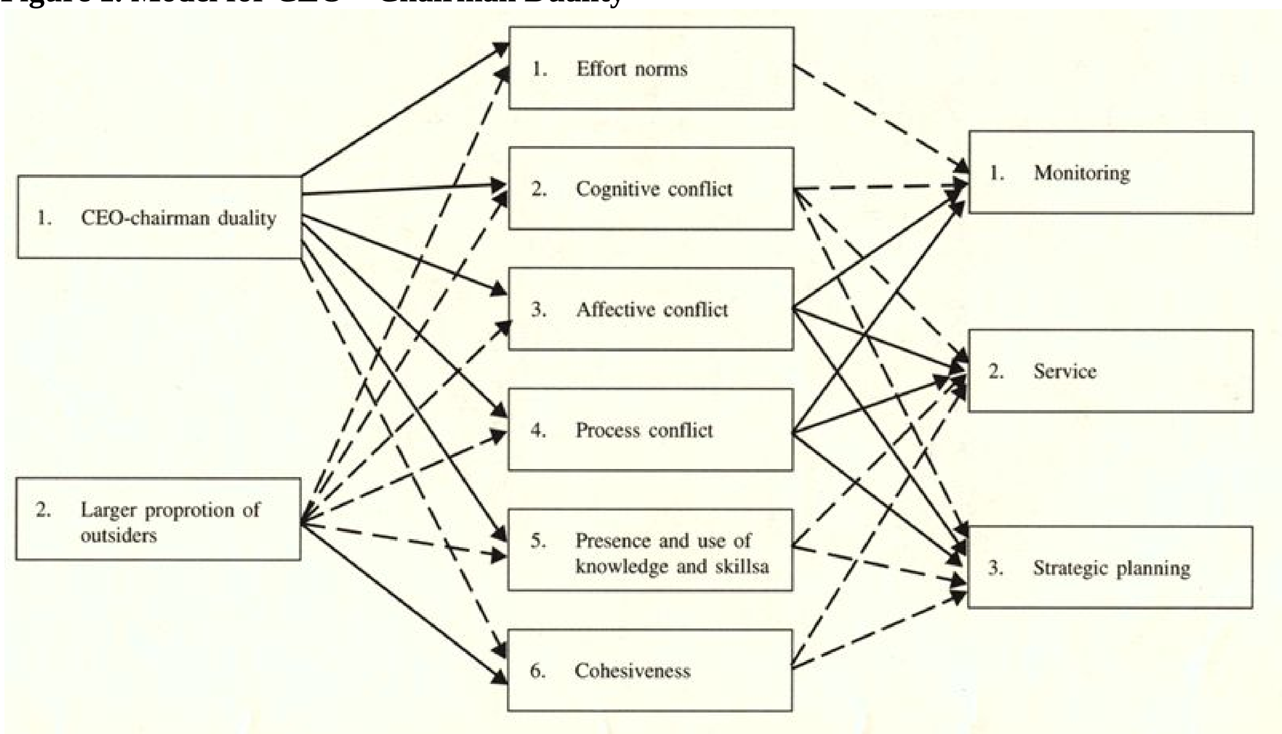
Mallin, Monks & Minow (2004), opine that the board of directors have at least four important functions, controlling, providing information, counsel to managers and monitoring compliance with applicable regulations and laws and connecting the firm to the external environment. A large body of theory on boards addresses these functions in one way or another. One basic proposition is that the composition of the board affects the way the board performs these function and to some extent determine firm's performance. Board composition and its implication on corporate performance have received increased attention during the last thirty years.

The purpose of boards of directors is defined in many different ways. Shleifer & Vishny (1997), feel that the sole responsibility of the board of directors is to ensure a return on investment for investors and shareholders. Gillian & Starks (1998), define corporate governance as a control of company operations through a system of rules, laws and governance, by boards of directors who sit on the border of internal and external operations of a firm. The board is influenced by outside shareholders to increase firm value; which increases return on investment. Shareholders' investment interests depend largely on how the board controls the company internally. Jensen (1993), believes that the most important part of the board of directors' internal responsibilities is to regulate and monitor senior management. The objective of this study is to determine the effect of chief executive officer duality on the profitability of money deposit banks.

1.2. Board Duality

Board Duality is defined as when the chief executive officer of the corporation is as well holding the function of the chairman of the board of directors. As regards with the Executive duality, the central bank of Nigeria evidently outlaws the amalgamation of the responsibility of the head of the board and that of the chief managerial officer to be one person because it will create individuals with loose powers of decision-making not to be responsible for delegation of power. It even goes further to recommend that "no two members of the same extended family should occupy the position of the chairman and that of chief executive officer or managerial role of a bank at the same time. This is usually considered as improper as the board is expected to monitor the operations of the chief executive officer and his management team. It is always argued that this role cannot be effectively performed by the board if the CEO is also the chairman of the board (Sahin, Basfirinci & Ozsalih, 2011). Some studies favor CEO duality, suggesting that it may improve corporate performance. Some were of the opinion that chief executive officer duality has an unhelpful result on managerial performance (Kula (2005); Tian & Lau (2001) with Kaymak, Bektas & Johnson (2010).

Figure 1. Model for CEO – Chairman Duality



Abdullah, S. N. (2004). Board Composition, CEO duality, and performance

Beneath the agency theory, it is said that CEO-chairman duality is unfavorable to firms as the same person will be marking his "own examination papers". There should be a separation of duties between the top man of a company and the top man of the board so that each could monitor one another. As argued by Tian & Lau (2001), the lack of board process within boards is because the majority of boards have chairs who also serve as the CEOs. This makes it difficult for boards to perform their functions. Therefore, it is predictable that CEO-chairman duality will lead to the following:

a. the subordinate level of effort norms;
b. lesser level of cognitive conflicts;
c. minor level of effective conflict;
d. the substandard level of process conflict;
e. of inferior quality presence and practice of information and skills and
f. A superior level of cohesiveness inside the board.

Darmadi, (2013), state that strengthening of effort norms will make directors more aware and willing to monitor the performance of the board/company in the same way, a superior level of cognitive conflicts, which are task-oriented, will be expected to make directors to carry out the three factions of monitoring, service, and strategy better. According to Callaghan (2005), Executive duality refers to the organizational structure wherein the chief executive officer (CEO) also serves as the chairman of the same firm's board of directors. However, this position has been contested to be unhealthy as far as governance of corporation is concerned. For example, some studies posit among several other reasons that, it promotes poor communication between the CEO and the board (Yammeesri, & Lodh, 2004). It is important to note that, developments in governance mechanisms saw the need to split the Chief Executive Officer duality as a possible solution to poor corporate governance. Under such circumstances, setting up a lead director role among outside directors can effectively balance the power of a CEO and other insiders (Yammeesri, & Lodh, 2004).

1.3. Separation of Office of Board Chair and Chief Executive Officer

Separation of office of board chair from that of CEO generally seeks to reduce agency costs for a firm. Kajola (2008), established an optimistic and significant connection between performance and separation of the office of board chair and CEO. Yermack (1996), similarly commented that firms are more significant when different personnel takes up the offices of board chair and CEO. Kyereboah-Coleman (2007), confirmed that big and autonomous boards add to firm’s value, and the synthesis of the two offices unenthusiastically affects firm’s performance, as the firm has a lesser amount of access to debt finance. The consequences of the study of Mallin (2001) put forward that boards that are pre arranged to be more independent of the CEO are more effectual in monitoring the corporate financial accounting procedure and as a result more important. Fosberg (2004), found that firms that separated the functions of board chair and CEO had smaller debt ratios (financial debt/equity capital).

2. Methodology

2.1. Research Design

This study adopted *Ex Post Facto* research design. This given that it is targeted at analyzing the impact of some independent variables on a specified dependent variables. It is appropriate because it aims at meassuring the relationship between one variable and another, in which the variables involved are not manipulated by the researcher.

2.2. Population and Sample Size of the Study

Population for the study comprised the twenty-two deposit money banks listed on the Nigerian Stock Exchange (NSE) as at March (2016) for the period of sixteen years from 2000 to 2016. Non-probability method in the form of judgmental sampling technique was employed in selecting nine banks. The nine banks are as follows: First Bank of Nigeria Plc, Diamond Bank Plc, Ecobank, Fidelity Bank, Union Bank, United Bank for Africa, Zenith Bank, Access Bank and Sterling Bank Plc.

2.3. Sources of Data Collection

Secondary source of data was utilized because it involved the use of panel data. This is because the estimation of the models in the study requires data in the form of financial information which are available through the financial statements of the sample banks.

2.4. Method of Data Collection

The data for the study were collected from annual reports and account deposit money banks quoted on the Nigerian Stock Exchange (NSE). Secondary financial data sources were used for the study.

2.5. Method of Data Analysis

Linear regression with the application of Ordinary least squares (OLS) technique was utilized.

2.6. Model Specification

$$PRO = \beta_0 + \beta_1 CEOD + u \text{..}(3.2)$$

By Definition:

CEOD = CEO Duality, PRO = Profitability, B's = parameters to be estimated and Us = the stochastic error term.

3. Findings and Results

3.1. CEO Duality vs Profitability

Dependent Variable: LOG(PROFITABILITY)
Method: Least Squares
Date: 01/17/18 Time: 21:52
Sample: 2000 2016
Included observations: 17

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	13.63098	2.399915	5.679774	0.0000
CEOD	-2.606301	2.744408	-0.949677	0.3573

R-squared	0.356716	Mean dependent var	11.63792
Adjusted R-squared	0.296170	S.D. dependent var	4.785092
S.E. of regression	4.799831	Akaike info criterion	6.085169
Sum squared resid	345.5756	Schwarz criterion	6.183194
Log likelihood	-49.72394	Hannan-Quinn criter.	6.094913
F-statistic	0.901886	Durbin-Watson stat	1.223286
Prob(F-statistic)	0.357328		

Source: E-views OutPut

Model Line: PROFITABILITY = bo + b_1CEOD

Regression Line: PROFITABILITY = 13.63098 -2.606301**CEOD**

It can be clearly seen from table 4.3.2 of the regression line above that the numerical coefficient of CEO Duality (CEOD) yielded a negative value at the magnitude of -2.606301. This entails that there exists a negative relationship between CEO duality and profitability. This further entails that for the sampled banks, CEO duality contributes negatively to the profitability of the selected money deposit banks in Nigeria. The coefficient of determination which measures the control power of the independent variable over the dependent variable was calculated with the instrument of adjusted R-Squared and it yielded 0.296170. This entails that the variations in profitability of the selected deposit money banks is not significantly influenced by CEO duality. It thus entails that just 29.6% of the variations in profitability is explained by CEO duality. This is indeed insignificant.

3.2. Test of Hypotheses

Ho: CEO duality has no significant positive effect on the profitability of selected money deposit banks in Nigeria.

Hi: CEO duality has significant positive effect on the profitability of selected money deposit banks in Nigeria.

The decision rule is to accept the alternate hypothesis (Hi) if the computed t-statistics (t*) is greater than the tabulated t-statistics ($t_{0.025}$) otherwise accept the null hypothesis. From the above analysis, it is clearly seen that the computed t-statistics value = -0.949677 is less than its tabulated value of 2.131. This compels the acceptance of the null hypothesis (Ho) and the rejection of the alternative (H_1). Hence; CEO duality has no significant positive effect on the profitability of selected money deposit banks in Nigeria.

CEO duality has no significant positive effect on the profitability of selected money deposit banks in Nigeria ($t^*_{calculated} = -0.949677 < t^*_{critical} = 2.131$).

It was also discovered in the study that CEO duality has no significant positive effect on the profitability of selected money deposit banks in Nigeria. The implication of this finding is that even though CEO duality is not out of place in corporate management, its managerial existence does not have a direct, positive and significant effect on the profitability of selected money deposit banks in Nigeria for the years under study. This is in line with the findings of Jude (2005), Hussein (2011) and Johnson (2001) that carried out a study on the effect of CEO duality on firm performance in Nigeria and discovered that CEO duality has no significant impact on the financial performance of firms in Nigeria. However, Adamu (2016) carried out an empirical analysis of the effect of CEO duality on the financial performance of listed companies in Nigeria and applying the regression technique discovered that CEO duality has a positive and significant effect on financial performance of listed companies in Nigeria.

4. Conclusion of the Study

Based on the findings, the study concludes that on the average, effect of chief executive officer duality has no significant effect on the profitability of money deposit banks.

5. Recommendation

The study also found out that CEO duality has no significant positive effect on the profitability of selected money deposit banks in Nigeria. This finding reveals that dual role has no positive and significant influence and contribution towards profitability in money deposit banks. This should be thoroughly ascertained for it to be either suspended or significantly minimized.

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