LEADERSHIP STRUCTURE (CEO DUALITY) PRACTICES IN INDIAN SMALL AND MEDIUM ENTERPRISES

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Introduction

Leadership Structure is the quality of the company management in which Chairman of the company and Chief Executive Officer (CEO) are being appointed separately. In other words the duties and responsibilities of Chairman and Chief Executive Offices are divided clearly and appoint different persons in both the positions. This concept is also termed as CEO Duality. The select SMEs are divided into sectors such as Agriculture, Construction, Entertainment, Financial Services, Fund based Financial Services, Food and Beverages, Software, Wholesale Trading, Manufacturing, Pharmaceutical and Other Services Sectors in the present study.

Review of Literature

Addis Gedefaw Birhanu, Philipp Geiler, Luc Renneboog and Yang Zhao (2021) Abstract They investigate whether acquisition experience of executive and non-executive directors is priced in their remuneration contracts. Acquisition experience generates a contractual premium, and the relative size of this premium is higher for non-executive directors than for executives. Only a director's track record related to past successful acquisitions is priced. Acquisition experience of a director is not remunerated if this type of experience is already abundantly present in the firm through the firm's past acquisition record (substitution effect). They verify the results by examining potential endogeneity concerns, by analyzing a broad set of measures of acquisition experience (such as industry-specific, broad or international experience, experience on a target's board), and by ruling out alternative explanations (such as a director's general skills level or reputation, the CEO's power and delegation attitude, and the firm's Corporate Governance quality).

Meihua Zhou, Jian Cao and Bin Lin (2021) As the decision-makers and implementers of a firm's financial strategy, executives play a critical role in cash holding activities, and their psychological characteristics have a major impact on cash holdings. This paper investigates the association between CEO organizational identification and firm cash holdings. The empirical results show that CEO organizational identification is negatively associated with firm cash holdings, and the negative association is more pronounced when the level of financial development is higher and economic uncertainty is lower. Further analysis reveals that the higher a CEO's organizational identification, the higher the firm's R&D investment and capital expenditure, and high CEO organizational identification can increase the value of firm cash holdings. Overall, their findings supplement the literature on organizational identification and cash holdings, and on the effect of executives' psychological characteristics on corporate financial decision-making.

Noriza Mohd Saad, Mohd Nizal Haniff and Norli Ali (2020) The main objective of this study is twofold. First, is to investigate the significant mean difference between conventional bonds and sukuk' yield spreads. Second, is to investigate the relationship between yield spreads and Corporate Governance mechanisms. The data covers from 2000 to 2014 for 256 and 405 tranches of long-term and medium-term issuances of conventional bonds and sukuk respectively. Unbalanced panel data are applied. The findings show that (1) there are significant mean differences between yield spreads of conventional bonds and sukuk, and (2) the institutional ownerships and BOD characteristics, role duality and size significantly reduce yield spreads in long-term conventional bonds and sukuk. The institutional investors should have more shareholdings in the issuer firms, those who issue long-term conventional bonds and medium-term sukuk since the default risk is low. BOD also needs to be fully compliant to Malaysian Code on Corporate Governance (MCCG) for best Practices in the firm.

John R. Graham, Hyunseob Kim and Mark Leary (2020) They examine CEO-board dynamics using a new panel dataset that spans 1920 to 2011. The long sample allows us to perform within-firm and within-CEO tests over a long horizon, many for the first time in the governance literature. Consistent with theories of bargaining or dynamic contracting, they find Board Independence increases at CEO turnover and falls with CEO tenure, with the decline stronger following superior performance. CEOs are also more likely to be appointed board chair as tenure increases, and they find evidence consistent with a substitution between Board Independence and chair duality. Other results suggest that these classes of models fail to capture important elements of board dynamics. First, the magnitude of the CEO tenure effect is economically small, much smaller, for example, than the strong persistence in board structure that they show. Second, when external CEOs are hired, Board Independence falls and subsequently increases. Third, event studies show a positive market reaction when powerful CEOs die in office, consistent with powerful CEOs becoming entrenched.

Jiajun Zhu, Jing Gao and Hongping Tan (2020) This data describes the raw and processed information such as salary, power, and age of the CEO and the chairman between 2009 and 2018 in China's listed firms. The data set contains the data of variables based on the characteristics of the firm, personal, team, and supervision. The dissimilarities and similarities of the characteristics between the chairman and the CEO are the core of this data set. The dissimilarities refer to individual and team differences. Individual differences refer to differences in age, gender, tenure, experience, shareholding, and salary of the chairman and CEO, while team differences refer to differences in team size and the standard deviation of the management board members' age. The similarities refer to joint tenure and family relations between the chairman and CEO. These variables can be used to estimate the impact of chair-CEO age dissimilarity on the relationship between CEO power and chair-CEO pay gap of the Chinese listed firms through binary probit or multinomial regression.

Marwan Mansour, Hafiza Aishah Hashim and Zalailah Salleh (2020) This article covers comprehensive data on firm-level Corporate Governance Practices as imposed by the Jordan Securities Commission (JSC). The study includes panel data for 95 non-financial Jordanian listed firms (industrial and service Sector) in Amman Stock Exchange (ASE). The time frame used for this study is from 2012 to 2017. Data presented were extracted from the annual reports of each firm. The annual reports had been downloaded from the official website of the ASE. The data can be used easily by the researcher to develop and calculate a Corporate Governance index that involves thirty-two internal governance attributes and is composed of three equally weighted sub-indices. The first sub-index which is "Disclosure and Transparency" consists of 15 unique attributes. While the second sub-index, "Board Effectiveness and Composition" consists of 9 unique attributes. The last sub-index which is "Shareholders Rights" consists of 8 unique attributes. Thus, the un-weighted Corporate Governance index has an important feature that is easily replicated and modified, enabling the researcher to rate firms based on an aggregate index score or by using the sub-indices score also.

Hong Zhang, Shuai Gao, Michael J. Seiler and Chen Jiawei (2016) Instead of disparately measuring relations between pairs of two measurements, in this study they use structural equation modeling to simultaneously measure the intricate inter-relationships amongst ownership structure, diversification, and corporate performance. They find that ownership concentration is positively related to corporate performance, the degree of diversification and corporate performance are negatively related, and that when examining the mediator effect of diversification between ownership structure and corporate performance, corporations decrease diversification to maintain corporate value.

Nur Shuhada Ya'acob (2016) Corporate Governance has drawn world as well as public attention and become an important issue after the East Asia financial crisis in the year 1997-1998 that hit several countries in Southeast Asia. There are serious weaknesses in Corporate Governance Practices like weak financial structure, lack of transparency and accountability and over leverage of the companies. Weak governance structure can be implicated as one of the reasons for excessive rewards to CEOs in spite of poor performance. The current research was conducted in order to examine CEO duality and compensation in the market for corporate control. Therefore, the purpose of this study is to examine whether one of the proxy Corporate Governance structures which is CEO duality further exacerbates CEO's motivation of self-interest to engage in mergers and acquisition in order to increase their compensation. This study used various subsamples of the firm, which are those that merge and those that have CEO duality in the regression test. The findings indicated the companies that having CEO duality (independent variable) has positive relationship with compensation scheme (dependent variable). Besides, engagement in merger and acquisition (independent variable) also has a positive relationship with compensation schemes. Therefore, further regression tests are conducted to examine whether the companies that engage in merger and acquisition and at the same time having CEO duality position are positively related with compensation schemes. The findings showed that there is a positive relationship between engagement in merger/acquisition and CEO duality with compensation schemes.

Fabio Zona (2016) This study examines the impact of board decision processes on board task performance in family firms, contingent upon the presence of a family or a non-family CEO. Bridging insights from behavioral research on boards and the upper echelons perspective, it is suggested that influence of board decision processes on performance benefits from different aspects of CEO attributes. To the extent that family and non-family CEOs exhibit different cognitive frames, it is hypothesized that board processes contribute differently to board task performance, depending on whether a family or a non-family CEO is at the helm. An empirical analysis of a sample of Italian family firms provides support for two hypothesized effects: Use of knowledge and skills is more beneficial for board task performance under a non-family CEO; cognitive conflict is more beneficial under a family CEO. Contrary to expectations, the effects of effort norms do not differ between the two settings. This study contributes to research on both boards and family firms; new opportunities for advancements are discussed.

Katiuska Cabrera-Suárez and Josefa D. Martín-Santana (2015) This study analyzes the effect that certain characteristics of board of directors in Spanish non-listed family firms have on performance. The results of a hierarchical regression analysis on a database of 544 firms show a negative effect of a higher proportion of executive directors and a positive effect of CEO duality. No effects were found in relation to the diversity of family directors (executive or non-executive). In relation to the effect of outside boards, the influence on performance is negative except when this variable was considered in interaction with CEO duality. In this case, the effect on performance was positive.

Chin Fei Goh, Amran Rasli and Saif-Ur-Rehman Khan (2014) Corporate Governance is often regarded as a main driver of firm performance. However, previous studies often discover contradicting findings about the causal effect of Corporate Governance mechanisms on firm performance. In this paper, Corporate Governance literature will be reviewed with a focus on the technology industry. Their paper shows that contemporary literature may overlook the industry and institutional context of technology firms. They propose that a fine-grained empirical setting is important in future research. In particular, the countervailing effect of high information asymmetries in high ownership concentration context may require more attention. Lastly, future studies of technology industries in emerging economies can be focused on the potential interaction effect between Corporate Governance mechanisms and firm investment.

Hasnan Ahmed and András Gábor (2012) Corporate Governance has become increasingly important in developed and developing countries just after a series of corporate scandals and failures in a number of countries. Corporate Governance structure is often viewed as a means of corporate success despite prior studies revealing mixed, conflicting and ambiguous, and somewhere no relationship between governance structure and performance. This study empirically investigates the relationship between Corporate Governance mechanisms and financial performance of listed banking companies in Bangladesh by using two Multiple Regression models. The study reveals that a good number of companies do not comply with the regulatory requirements indicating a remarkable shortfall in Corporate Governance Practices. The companies are run by the professional managers having no duality and no ownership interest for which they are compensated by high remuneration to curb agency conflict. Apart from some inconsistent relationship between some corporate variables, the Corporate Governance mechanisms do not appear to have significant relationship with financial performances. The findings reveal an insignificant negative impact or somewhere no impact of independent directors and non-independent non-executive directors on the level of performance that strongly support the concept that the managers are essentially worthy of trust and earn returns for the owners as claimed by stewardship theory. The study provides support for the view that while much emphasis on Corporate Governance mechanisms is necessary to safeguard the interest of stakeholders; Corporate Governance on its own, as a set of codes or standards for corporate conformance, cannot make a company successful. Companies need to balance Corporate Governance mechanisms with performance by adopting strategic decision and risk management with the efficient utilization of the organization's resources.

Marc van Essen, J. Hans van Oosterhout and Michael Carney (2012) The prevalence of ownership concentration in Asian firms presents a challenge to the influential agency theory-based understanding of the role of corporate boards. In this paper they develop and test hypotheses about board attributes and firm performance that reflect Asian institutional conditions. They present the first metaanalysis of the relationship between board attributes and performance of Asian firms using a varied set of meta-analytical techniques on a database of 86 studies covering nine Asian countries. First, they find that board structure and composition preferences are influenced by the identity of the concentrated owner. Second, consistent with US data, they find very limited evidence of a direct relationship between board attributes and firm financial performance in the Asian context. Third, they find that the relationship between board structure and composition and firm performance is mediated by the revealed strategic preferences of Asian firms, specifically by the level of R&D investment.

Saibal Ghosh (2007) This paper examines how banking relationships and managerial ownership relate to firm valuation. It is argued that both the number of banking relationships (which serves as an external monitoring function) and managerial ownership (which serves as an internal monitoring function) affect firm value, while internal monitoring by managers and external monitoring by banks were viewed as substitutes or complements. After controlling for the effect of exogenous variables, the results reveal the existence of a complementary monitoring effect between banks and the managerial group. On the other hand, the results indicate that increased external monitoring by banks will simultaneously raise the incentive on the part of managers to engage in internal monitoring. Also, firm valuation is found to be a significant determinant of managerial ownership. A disaggregated analysis of firms according to size and leverage suggests the existence of a complementary monitoring effect between banks and managers, except for small-sized firms.

Valentin Zelenyuk and Vitaliy Zheka (2006) In this study, they look for empirical support for the hypothesis that there is a *positive* relationship between the levels of Corporate Governance quality across firms and the relative efficiency levels of these firms. This hypothesis is related to Leibenstein's idea of X-efficiency. They use the data envelopment analysis (DEA) estimator to obtain proxies for inefficiency of firms in their sample and then analyze them with respect to different ownership structures by comparing distributions and aggregate efficiencies across different groups. They also use truncated regression with bootstrap, following Similar and Wilson Estimation and influence in two stage, semi-parametric models of production process, Similar and Zelenyuk (2003) to infer on relationship of inefficiency to various indicators of quality of Corporate Governance, ownership variables, as well as industry and year specific dummies. The data is coming from seven industries in Ukraine.

Research Gap

From the existing literature review it is observed that there are no studies found that are focused on Leadership Structure or CEO Duality Practices in Indian SMEs.

Objective of the Study

The Research gap is addressed with the help of following objective.

The objective of the study is to evaluate the Leadership Structure or CEO Duality Practices in Indian Small and Medium Enterprises.

Research Methodology

Secondary source of data is used for the study. Total Listed SMEs on BSE SME Platform are 229 however only 70 Listed SMEs are selected for the study based on the availability of data for the entire period of study. Period of study is 10 years form 2010-11 to 2019-20. Data extracted from CMIE Prowess IQ. Explorative Research study is carried out to evaluate Leadership Structure or CEO Duality Practices in Indian SMEs.

Results and Findings of the study

The Sectors under the study are short formed in the table. The abbreviations are as below

Short form	Abbreviation
STD	Standard measure
AS	Agriculture & allied products
CS	Construction and Allied Sector
PF	Pharmaceutical Sector
ES	Entertainment Sector
FS	Financial Services
FB	Food and Beverages Sector
FF	Fund based Financial Services
MS	Manufacturing Sector
OS	Other services
SW	Software activities
WT	Wholesale Trading

The results of the Leadership Structure Practices are presented in the following Table

Leadership Structure Practices

YEAR	STD	AS	CS	PS	ES	FS	FB	FF	MS	OS	SW	WT
2010-11	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2011-12	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2012-13	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2013-14	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2014-15	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2015-16	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
2016-17	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.07
2017-18	2	1.00	1.00	1.00	1.00	1.00	1.00	1.10	1.00	1.00	1.00	1.07
2018-19	2	1.00	1.00	1.00	1.00	1.00	1.00	1.10	1.00	1.00	1.33	1.07
2019-20	2	1.00	1.00	1.00	1.00	1.00	1.00	1.10	1.00	1.00	1.33	1.07

Source: Compiled from CMIE Prowess IQ

The above Table describes the status of the Leadership Structure Practices on the corporate boards among the selected Sectors of companies. This table describes that the Leadership Structure is the least bothered component of Corporate Governance in Small and Medium

Enterprises in India. No Sector of companies is following Leadership Structure norms from the study. Wholesale Trading Sector, Fund based Financial Services Sector and Software Sectors are making an attempt to follow CEO duality a bit. But this attempt is not significant even in the concerned Sectors. Hence it can be concluded that the Leadership Structure is mostly avoided by Small and Medium Enterprises in India.

Conclusion

From the present study it can be concluded that most of the Small and Medium Enterprises are ignored CEO Duality practices on their corporate boards. Only few sectors are attempted to some extent at least in few company years.

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