The impact of CEO duality attributes on earnings management in the East

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Abstract

Purpose – *This study aims to examine an important, yet understudied, relationship between board leadership structure and earning management. With conflicting theoretical and empirical evidence underpinning the debate the practice has fluctuated, investor perception of board leadership structure has altered, international regulation has reacted, scholarly conceptualizations of duality have become overly complex and the need to understand duality and conclude the debate has increased.*

Design/methodology/approach – *This study examines the relationship between board leadership structure, firm financial performance and financial reporting quality of Australian, Malaysian and Pakistani publicly listed companies by using a sample of three years from 2011 to 2013.*

Findings – *Results based on data collected from Australia, Malaysia and Pakistan indicate that the board leadership structure is not associated with firm performance and financial reporting quality. However, the female chief executive impacts negatively on firm performance in Malaysia and Pakistan. Further analyses reveal that the firm size is negatively related, while the grown firms in Australia having strong financial reporting quality.*

Research limitations/implications – *The study is based on Australian Stock Exchange-20, Kuala Lumpur Stock Exchange-30 and Karachi Stock Exchange-30 companies from 2011 to 2013; however, a large sample from other emerging economies is required.*

Practical implications – *The paper provides empirical evidence that unitary or dual leadership structure has no impact on public listed companies and would be of interest to regulatory bodies, business practitioners and academic researchers.*

Originality/value – *This paper contributes to the literature on corporate governance and firm performance by introducing a framework for identifying and analyzing moderating variables that affect the relationship between board leadership structure and firm financial reporting quality.*

Keywords *Company performance, Corporate governance, Chief executives, Financial reporting*

Paper type *Research paper*

1. Introduction

The separation of ownership and control that characterizes the modern corporation creates conflicts of interest between principal and agent (Goyal and Park, 2002; Judge *et al.*, 2003; Krause and Semadeni, 2013). The corporate board headed by a chairman is responsible for resolving such conflicts and making certain that management decisions ensure the maximization of shareholders' wealth. With a diffused base, shareholders cannot possibly keep an eye on the day-to-day operations of the company themselves. Boards of directors are chosen to represent principal, and as the representatives of shareholders, the board has a strict and absolute fiduciary duty to ensure that the organization is managed in the best interests of the shareholders as per defined objectives. The board, therefore, is a crucial fraction of the corporate governance for corporate endurance (Adedokun, 2003; Peng *et al.*, 2007).

Cadbury Code of 1992 is the first deed suggested visibly that there should be a separation of the role of the chairman and chief executive officer (CEO) for acceleration. Over the years, researchers have conducted empirical tests (Bergstresser and Thomas, 2006;

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