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

Qaiser Rafique Yasser and Abdullah Al Mamun

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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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Elsayed, 2007; Ballinger and Marcel, 2010; Boivie *et al.*, 2011; Bliss, 2011; Yasser *et al.*, 2014) on the existence of any relationship between board independence and separation of the chairman and the chief executive with firm value in different markets and in different time periods. The results of these studies tend to be mixed and, in some cases, inconclusive.

It is argued that the same person should not hold the positions of chief executive and chairman simultaneously, as this may reduce the effectiveness of the board's monitoring ability (Dechow *et al.*, 1996; Peasnell *et al.*, 2000; Chen and Kao, 2004; Henry *et al.*, 2005; Boyd *et al.*, 2005; Cheng and Courtenay, 2006; Chtourou *et al.*, 2008; Chang and Sun, 2009). Agency theory signifies that board leadership structure has a negative implication for firm financial performance and long-term sustainability (Mallette and Fowler, 1992). Besides, stewardship theorists argue that one person in dual positions may improve firm performance, as such a structure removes any internal and external ambiguity concerning responsibility for stable processes and upshots (Dulewicz and Herbert, 2004). There are indications in support of stewardship theory (Donaldson and Davis, 1991; Davis *et al.*, 1997) and agency theory (Worrell *et al.*, 1997; Claessens *et al.*, 2000; Sarkar *et al.*, 2008), along with a body of research that found no impact on board leadership structure on firm performance and financial reporting quality (Ho and Wong, 2001; Gul and Leung, 2004; Abdelsalam and Street, 2007; Cerbioni and Parbonetti, 2007; Bhagat and Bolton, 2008; Huafang and Jianguo, 2007; Ramdani and Witteloostuijn, 2010).

Our evidence indicates that the board leadership structure is not associated with firm performance and financial reporting quality in Australia, Malaysia and Pakistan. Our findings echo the results obtained by Bradbury *et al.* (2006) and Ahmed and Duellman (2006). Female CEO is negatively associated with firm performance in Malaysia and Pakistan in line with Khan and Vieito (2013). Further analyses reveal that the firm size is negatively correlated, while the grown firms in Australia having strong financial reporting quality. However, agency theory and stewardship theory offer seemingly contradictory perspectives on leadership preferences, a study that could help integrate these theories seems warranted.

This paper makes several contributions to the existing literature. First, the literature lacks comprehensible evidence on the impact of board leadership structure on financial reporting and firm performance due to the endogenous and heterogeneity issues (Hermalin and Weisbach, 2003; Adams *et al.*, 2010). Most of the studies on board leadership structure and financial reporting quality are from developed and European economies. However, this study compares the results of board leadership structure on the financial performance and reporting from developed and developing countries. Second, although arguments in favor of dual leadership are properly endorsed, the literature lacks empirical evidence directly linking the benefits of dual leadership to firm performance and financial reporting quality. We also explore the influence of female CEOs on the financial performance and reporting quality, acknowledging the fact that either females are more risk-averse than males (Jianakoplos and Bernasek, 2007).

## 2. Literature review

Corporate governance is a phenomenon that has been widely looked into through different dimension in testing the validity of agency theory. The incidence of corporate failure is a familiar occurrence with devastating consequences for all the stakeholders of an organization, particularly the shareholders, hence the need to regulate and harmonize the activities of organizations to ensure proper conduct of the people who are at the helms of the affairs of public and private organizations (Jesover and Krikpatrick, 2005).

The proposition of dual leadership structure is also founded on a long tradition in administrative studies which postulates that clear lines of authority and unity of command will reduce conflict, improve coordination and decision-making (Galbraith, 1977; Resick

*et al.*, 2009). Yasser *et al.* (2011) affirm that the monitoring costs may arise when the offices of CEO and board chairman are separated, while the benefits of monitoring can be more than the costs in many cases. Chang and Sun (2009) found that the cost of splitting the CEO and the chairman outweighs the benefit. Besides lower costs, dual leadership structure can also benefit firm financial performance and financial reporting quality, as a single head can give a clear direction and can be more responsive to changes with powers. Besides, one person assuming the role of CEO and chairman will have more extensive knowledge of the organization and will also be more devoted (Lam and Lee, 2008).

Besides, Peng *et al.* (2007) document that strategic decisions of the organization can be implemented more effectively when leaders have greater discretion. This greater discretion can be achieved by a unitary leadership structure because it provides a broader power base and *locus* of control. Meanwhile, the dual leadership structure will also weaken the relative powers of other interest groups. This usually implies the shareholders, who have less control of the chief executive when he or she is also the chairman. Kaplan *et al.* (2010) assert that a single leader will increase responsiveness to change and will also make the leader more liable.

In contrast to the arguments listed above, there are also researchers that claim that the dual leadership structure has a negative impact on firm performance. A typical agency cost associated with CEOs is that their personal attributes and behavioral biases, such as overconfidence, affect both their information provision incentives as well as their investment decisions (Goel and Thakor, 2008). This situation is further exacerbated when the CEO and chairman role vest in the same person, as there is an absence of a force to monitor these behaviors.

Krause and Semadeni (2013) argue that the separation of chief executive and chairman is more efficient for organization. However, Brickley *et al.* (1997) report that the split board leadership structure can reduce costs (instead of duality). Meanwhile, Chen *et al.* (2008) conjecture that splitting titles may create information-sharing costs, which forward an economic argument where combining the titles saves time and company resources. The conflict of interests that are involved with the duality can be a case for the separation of the chief executive and chairman. As the function of the board is to monitor the performance of the top management, the separation of both offices may be desirable to maintain checks and balances.

Hua and Zin (2007) reported that executives can dominate their boards by choosing the directors and filtering the information they analyze. In an organization of dispersed ownership, when the chairmen of the board are chosen by the chief executive, the independence and power that the chairman is supposed to have will be diminished. Charan (2005) document that the board meetings frequency is limited to the statutory requirements in a year, and it is sometimes difficult for the non-executive directors to understand the operations of the organization and endow with contribution. Khaana and Ken (2008) stated that the motivation for serving as a director in a board deems as an opportunity to earn prestige and monetary compensation. Ruigrok *et al.* (2007) document that director's network and contracts are fundamental to their ability to perform the role for their companies. This theory is used to fortify the relationship between the board of directors as a provider of resources and financial reporting quality.

The firms' leadership structure is an important determinant of firm performance, and the topics have been widely studied by previous researchers (Dalton *et al.*, 1998 ; Qi *et al.*, 2000; Dawna *et al.*, 2001; Dahya *et al.*, 2009). Board leadership structure symbolizes greater "insider control" compared to separate leadership structure. There is mixed evidence regarding the implications of board leadership structure for firm performance, thus making the study of duality with firm performance prevail. Meanwhile, CEO duality causes information problems, as he determines the agenda and information to the board



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(Jensen, 1993), whereas duality has also been linked to other signs of ineffective governance, such as in the cases of antagonistic takeovers (Morck *et al*., 1988).

Literature (Barber and Odean, 2001; Bliss and Potter, 2002; Yasser *et al*., 2014) notes that women, in addition to being more risk-averse, worry more about the way the organization's money is spent and normally extract less personal benefits from the company than men. Schubert *et al*. (2000) and Wei (2007) complement this information, stating that women make more ethical decisions in the workplace than men. However, Vandergrift and Brown (2005) argue that women are more risk-averse than men, and this differential risk attitude affects financial decisions. Niessen and Ruenzi (2006) complement this information and describe that women who manage mutual funds seem to take less unsystematic risk and opt for more stable investments than men.

## 3. Research methodology

This research had adopted a quantitative research method, as it is the method to be used for historical data collection and descriptive studies (Yasser, 2012). The longitudinal study approach had been selected under quantitative research methodology to study corporate financial records from 2011 to 2013.

Top indexed companies taken in this study from the Australian Stock Exchange (AXS), Kuala Lumpur Stock Exchange (KLSE) and Karachi Stock Exchange (KSE) with the proportionate of 25, 37.5 and 37.5 per cent, respectively, in the total sample (Table I).

Accounting measures have the limitation that they are somewhat open to manipulation by management, so multiple performance measures were used because of the inherent limitations in any single financial measurement (Muth and Donaldson, 1998). Based on suggestions in previous research, multiple measures produce a more accurate description of performance (Rechner and Dalton, 1991).

### *3.1 Variables and measures*

The variables used in this study are described in Table II.

### *3.2 Independent variable*

The variables are defined as follows: (CEO = CHAIR) = 1 when CEO is the Chairman. (CEO = CHAIR) = 0 when titles are split between positions. This classification differs from those in the literature because the firms without a chairman are grouped with those firms where the CEO is the chairman. The lack of checks and balances in the case where there is no chairman leaves the CEO as the sole authoritative individual. So those firms are grouped appropriately with non-split firms (Byrd and Hickman, 1992; Kim *et al*., 2013). However, female CEO was also coded as binary variables. If CEO gender is female, the code is 1, else 0 (Yasser, 2012).

### *3.3 Control variables*

Coles *et al*. (2008) document that firm age is correlated with corporate governance. Ang *et al*. (1999) argue that owing to the effects of the learning curve and survival bias, older firms are likely to be more efficient than younger ones. Thus, a better performance should be anticipated. The old firms are characterized by both resource advantage and social burden

**Table I** Selection of variables

| *Country* | *Index* | *Companies* | *(%)* |
|---|---|---|---|
| Australia | ASX-20 | 60 | 25.0 |
| Malaysia | KLSE-30 | 90 | 37.5 |
| Pakistan | KSE-30 | 90 | 37.5 |
| Total sample companies (three years – 2011-2013) | | 240 | 100.0 |



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**Table II** Definition of variables

| Sr. No. | Abbreviation | | Description |
|---|---|---|---|
| *Governance variable* | | | |
| *(A)* | *Duality* | CEO/Chairman duality | Dummy variable 0 if CEO is also Chairman, 1 otherwise |
| *(B)* | *FCEO* | Female CEO | Dummy variable 1 if CEO is a female, 0 otherwise |
| *Financial reporting variables* | | | |
| *(C)* | *PAaccr* | Performance-adjusted discretionary accrual | Total accruals, measured as the change in non-cash current assets minus the change in current non-interest bearing liabilities, minus depreciation and amortization expense, scaled by lagged total assets |
| *(D)* | *AR* | Discretionary revenue | The annual change in revenues, and scaled by lagged total assets |
| *(E)* | *TCaccr* | Total current accrual | Total current accruals, measured as the change in non-cash current assets minus the change in current non-interest bearing liabilities, scaled by lagged total assets |
| *(F)* | *AGGRE* | Aggregate accrual | The average of the *PAaccr*, *AR* and *TCaccr* |
| *Performance variables* | | | |
| *(G)* | *ROA* | Return on asset | Net profit divided by total assets |
| *(H)* | *ROE* | Return on equity | Net profit divided by shareholders' equity |
| *Control variables* | | | |
| *(I)* | *FSIZE* | Firm size | The log of total assets |
| *(J)* | *Board* | Board size | Total number of board members |
| *(K)* | *FAGE* | Firm age | Number of years from the incorporation |

(Tian and Lau, 2001). Given the possible influences of firm age on organizational performance, it was considered as a control variable.

Assets are the total assets stated on the company's balance sheet, and the variable is contained to control for firm size (Ferris *et al.*, 2013; Yim, 2013). According to Ferris *et al.* (2013), firm size has a positive and statistically significant effect on the CEO's behavior.

### *3.4 Performance variable*

*3.4.1 Financial performance.* Earnings management is the intentional and profit-oriented decision-making of management with regard to the selective application of accounting instruments to influence the accounting's addressees within a legal framework (Bergstresser and Thomas, 2006; Velte and Stiglbauer, 2011). Cheng and Warfield (2010) opined that earnings management is of two aspects. First, managers see it as opportunistic behavior to maximize utility in dealing with compensation contracts, debt contracts and political cost. Second, earnings management is viewed as the perspective of efficient contracting, in which it provides managers with the flexibility to protect themselves and the company to anticipate the unexpected events to gain the parties involved in the contract.

Return on assets (ROA) is included as the firm-specific performance variable. ROA is defined as the profit generated by the firm in relation to its asset base. It is included as a measure to control for the acquiring firm's operating performance (Serfling, 2014; Yim, 2013). Return on equity (ROE) was achieved by using net income divided by the average of owners' equity during a given year. This approach is used by Mishra and Nielsen (2000), Qi *et al.* (2000) and Peng *et al.* (2007).

*3.4.2 Proxies for financial reporting quality.* There is not any solitary universally recognized measure of financial reporting quality (Dechow *et al.*, 2009). This study exploits three measures that have been used in prior presumed research as well as an aggregate measure for the following reasons. First, the construct we are interested in its financial reporting quality, which clearly is multi-dimensional. Thus, a single proxy is dubious to cover all facets of financial reporting quality. Second, the use of multiple proxies increases



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the adequacy of our results. Third, using alternative measures mitigates the possibility that results using one particular proxy capture some factor other than financial reporting quality.

The first measure is performance-adjusted discretionary accruals, as developed by Ashbaugh *et al.* (2003), Kothari *et al.* (2005) and Chen *et al.* (2010):

$$PAaccr_{i,t} = \alpha_0 + \alpha_1\left(\frac{1}{Assets_{i,t-1}}\right) + \alpha_2\Delta Rev_{i,t} + \alpha_3 PPE_{i,t} + \alpha_4 ROA_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where $PAaccr_{i,t}$ is total accruals, measured as the change in non-cash current assets minus the change in current non-interest bearing liabilities, minus depreciation and amortization expense for firm *i* at year *t*, scaled by lagged total assets ($Assets_{i,t}$); $\Delta Rev_{i,t}$ is the annual change in revenues scaled by lagged total assets; $PPE_{i,t}$ is property, plant and equipment for firm *i* at year *t*, scaled by lagged total assets; and $ROA_{i,t}$ is ROA for firm *i* at year *t*. The residuals from the regression model are discretionary accruals. In our tests, we use the absolute values of discretionary accruals as a proxy for financial reporting quality. We multiply the absolute values of discretionary accruals by −1. Thus, higher values of *PAaccr* represent higher financial reporting quality.

To calculate the second proxy, we follow McNichols and Stubben (2008), Chen *et al.* (2010) and Stubben (2010) and estimate discretionary revenues. Specifically, we use the following regression:

$$\Delta AR_{i,t} = \alpha_0 + \alpha_1\Delta Rev_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where $\Delta AR_{i,t}$ represents the annual change in accounts receivable and $\Delta Rev_{i,t}$ is the annual change in revenues, each scaled by lagged total assets. Discretionary revenues are the residuals from equation (2), which is estimated separately for each industry-country group. We multiply the absolute values of discretionary revenues by −1. Thus, a higher value of $\Delta AR_{i,t}$ represents a higher financial reporting quality.

Our third proxy is based on the cross-sectional Dechow and Dichew (2002) and Tucker and Zarowin (2006) model, as modified by McNichols (2002), Francis *et al.* (2005) and Chen *et al.* (2010):

$$TCaccr_{i,t} = \alpha_0 + \alpha_1 OCF_{i,t-1} + \alpha_2 OCF_{i,t} + \alpha_3 OCF_{i,t+1} + \alpha_4\Delta Rev_{i,t} + \alpha_5 PPE_{i,t} + \varepsilon_{i,t} \quad (3)$$

Where *TCaccr* is total current accruals, measured as the change in non-cash current assets minus the change in current non-interest bearing liabilities, scaled by lagged total assets; *OCF* is cash flow from operations, measured as the sum of net income, depreciation and amortization and changes in current liabilities, minus changes in current assets, scaled by lagged total assets; $\Delta Rev_{i,t}$ is the annual change in revenues scaled by lagged total assets; and $PPE_{i,t}$ is property, plant and equipment, scaled by lagged total assets.

The residuals from equation (3) represent the estimation errors in the current accruals that are not associated with operating cash flows and that cannot be explained by the change in revenue and the level of property, plant and equipment. Given the short longitudinal time frame in our study, we follow Srinidhi and Gul (2007) and Chen *et al.* (2010) and use the absolute value of this residual as a proxy for financial reporting quality. Besides, to tone down measurement error in the financial reporting quality mechanism, and to present evidence based on general financial reporting metric, we aggregate these proxies into one aggregate score. Particularly, following Biddle *et al.* (2009) and Chen *et al.* (2010), we first normalize all proxies and then take the average of the three measures as our summary financial reporting quality statistic (*AGGRE*).

## 4. Findings

### *4.1 Statistic analysis and correlation coefficient*

Table III presents summary statistics on board leadership structure, female CEO, firm performance and reporting quality. We see from the table that the firms in Australia are older than Pakistan and Malaysia. The mean value of the duality is 81 per cent in Pakistan, 92 per cent in Malaysia but all the Australian firms holding separate positions. The average number of board is 9, 9 and 10 in Pakistan, Malaysia and Australia, respectively.

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**Table III** Descriptive and correlation coefficient analysis

| | *Mean* | *SD* | *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* | *10* |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Australia* | | | | | | | | | | | | |
| FAGE | 93.70 | 53.11 | 1 | | | | | | | | | |
| FSIZE | 4.81 | 0.59 | 0.35** | 1 | | | | | | | | |
| Board | 10.27 | 1.67 | 0.16 | 0.11 | 1 | | | | | | | |
| FCEO | 1.00 | 0.00 | 0.43** | 0.38** | 0.04 | 1 | 1 | | | | | |
| ROA | 0.07 | 0.25 | 0.09 | −0.53** | 0.22 | 1 | −0.11 | 1 | | | | |
| ROE | 0.05 | 0.05 | 0.29** | −0.21 | 0.18 | 1 | 0.06 | 0.83** | 1 | | | |
| AR | 0.13 | 0.09 | 0.06 | −0.57** | 0.09 | 1 | −0.16 | 0.54** | 0.35** | 1 | | |
| PAaccr | 0.87 | 0.11 | 0.21 | −0.48** | 0.19 | 1 | −0.04 | 0.67** | 0.52** | 0.86** | 1 | |
| TCaccr | 1.79 | 0.31 | 0.25 | −0.25 | 0.26** | 1 | 0.01 | 0.51** | 0.42** | 0.74** | 0.90** | 1 |
| AGGRE | 2.19 | 0.37 | 0.22 | −0.40** | 0.22 | 1 | −0.03 | 0.60** | 0.47** | 0.86** | 0.98** | 0.97** |
| *Malaysia* | | | | | | | | | | | | |
| FAGE | 34.13 | 14.88 | 1 | | | | | | | | | |
| FSIZE | 4.55 | 0.63 | 0.23** | 1 | | | | | | | | |
| Board | 9.36 | 2.10 | −0.11 | 0.39** | 1 | | | | | | | |
| Duality | 0.92 | 0.27 | −0.18 | 0.01 | 0.21** | 1 | | | | | | |
| FCEO | 0.03 | 0.18 | −0.23** | −0.22** | −0.21** | 0.05 | 1 | | | | | |
| ROA | 0.09 | 0.11 | −0.012 | −0.67** | −0.24** | 0.04 | −0.04 | 1 | | | | |
| ROE | 0.27 | 0.60 | −0.070 | −0.39** | −0.18 | 0.08 | −0.06 | 0.67** | 1 | | | |
| AR | 1.14 | 0.15 | 0.39** | 0.69** | 0.01 | 0.07 | −0.11 | −0.64** | −0.34** | 1 | | |
| PAaccr | 1.94 | 0.32 | −0.31** | −0.72** | −0.08 | −0.08 | 0.05 | 0.77** | 0.44** | −0.94** | 1 | |
| TCaccr | 2.35 | 0.28 | −0.39** | −0.51** | 0.01 | −0.07 | 0.12 | 0.45** | 0.28** | −0.79** | 0.84** | 1 |
| AGGRE | 5.43 | 0.44 | −0.34** | −0.61** | −0.05 | −0.08 | 0.07 | 0.63** | 0.38** | −0.84** | 0.93** | 0.97** |
| *Pakistan* | | | | | | | | | | | | |
| FAGE | 40.0 | 25.81 | 1 | | | | | | | | | |
| FSIZE | 5.03 | 0.58 | 0.22** | 1 | | | | | | | | |
| Board | 9.48 | 2.38 | 0.07 | −0.13 | 1 | | | | | | | |
| Duality | 0.81 | 0.39 | −0.23** | 0.08 | 0.22** | 1 | | | | | | |
| FCEO | 0.02 | 0.15 | −0.03 | −0.07 | −0.16 | −0.12 | 1 | | | | | |
| ROA | 0.08 | 0.09 | −0.15 | −0.25** | 0.05 | −0.01 | −0.05 | 1 | | | | |
| ROE | 0.18 | 0.25 | −0.08 | −0.05 | 0.11 | 0.14 | −0.07 | 0.67** | 1 | | | |
| AR | 1.07 | 0.12 | 0.12 | 0.59** | −0.11 | 0.17 | 0.03 | −0.34** | −0.26* | 1 | | |
| PAaccr | 2.02 | 0.24 | −0.21** | −0.68** | 0.14 | −0.06 | 0.01 | 0.64** | 0.39** | −0.77** | 1 | |
| TCaccr | 2.54 | 0.29 | −0.26** | −0.61** | 0.12 | −0.07 | −0.01 | 0.33** | 0.18 | −0.75** | 0.88** | 1 |
| AGGRE | 5.63 | 0.42 | −0.26** | −0.63** | 0.13 | −0.03 | 0.01 | 0.49** | 0.27** | −0.65** | 0.94** | 0.96** |

**Notes:** $^{*}p < 0.05$; $^{**}p < 0.01$

### *4.2 Regression analysis*

Table IV indicates the results of board leadership structure, female CEO and firm financial performance. Board leadership structure report no effect on the performance of firms in Australia, Malaysia and Pakistan, whereas the variable female CEO is negative and statistically significant, indicating that the firms headed by male CEOs are less risky than

**Table IV** Regression analysis of performance measures

| | *Australia* | | *Malaysia* | | *Pakistan* | |
|---|---|---|---|---|---|---|
| | *ROE* | *ROA* | *ROE* | *ROA* | *ROE* | *ROA* |
| Duality | 1 | 1 | 1.07 | 0.89 | 0.96 | −0.23 |
| Female CEO | 0.20 | 0.13 | −1.69** | −2.08** | −0.44** | −0.70** |
| FAGE | 2.86** | 2.39** | −0.08 | 1.63 | −0.48 | −0.96 |
| FSIZE | −2.84 | −5.82** | −3.47 | −8.38** | −0.32 | −2.06** |
| Board | 1.27 | 2.38** | −0.81 | 0.13 | 0.67 | 0.15 |
| $R^2$ | 22% | 43% | 19% | 50% | 18.4% | 28.0% |
| Adjusted $R^2$ | 17% | 39% | 14% | 47% | 3.4% | 7.9% |
| $F$ | 3.94 | 10.31 | 3.95 | 16.76 | 0.590 | 1.434 |
| Probability | 0.01 | 0.00 | 0.00 | 0.00 | 0.01 | 0.00 |

**Note:** $^{**}p < 0.01$

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firms with female CEOs. The same relationship holds for firms with female CEOs in the new economy firms, but the relationship is not statistically significant. The results are congruent with the findings of Yasser (2012) Khan and Vieito (2013). The contrary results shown above are not surprising while Doidge *et al.* (2007) show that corporate governance varies widely across countries and across firms. In countries with weak development, it is costly to improve investor protection because the institutional infrastructure is lacking and good governance has political costs. Further, in such countries, the benefit of improving governance is smaller because capital markets lack depth. Finally, such countries have weak investor protection, and we find some evidence that there is complementary between country-level investor protection and firm-level governance. However, financial globalization reduces the importance of country characteristics, thereby increasing the incentives for effective governance.

Table V reported that the effect of board leadership structure and a female chief executive having no impact on the financial reporting quality of the firms in Australia, Malaysia and Pakistan. These results are inconsistent with the results of Beasley (1996), Farber (2005) and Ditropoulos and Asteriou (2010) but is according to the results of Hermalin and Weisbach (1998), Klein (1998), Vafeas (2000), Bradbury *et al.* (2006), Ahmed and Duellman (2006) and Petra (2007). Not surprisingly too, the correlation and regression results align to the findings of Cheng (2011) from studies carried out in other environments and using different populations.

However, Table V demonstrates that the relationship between financial reporting quality and firm size is negative, meaning that the higher the size of the firm, the smaller the reporting standard. The results are congruent with Sharpe (1990) and Khan and Vieito (2013). Meanwhile, the regression analysis reports that the old firm with extensive firm age is superior in financial reporting quality in Australia.

## 5. Conclusion

The analyses carried out in the scope of this article allowed us to advance in the understanding of the characteristics of CEO and their impact on the financial performance and reporting of firms. Findings of this literature are often inconclusive. We hope to provide food for thought useful for evaluating performance or against-firm performance attributable to a CEO, through the study of the impact of its characteristics. The bias in estimates with "dynamic endogeneity" could be less severe in estimating the relationship between CEO characteristics and firm performance.

On the basis of the empirical result, the paper concludes that the application of appropriate corporate governance factors will go a long way to improve the timeliness of financial reports and quality of financial statements. Therefore, on the basis of the findings and conclusions of the study, we recommend that quoted companies should ensure that corporate governance codes are used in the day-to-day operations of corporation to achieve short-, medium- and long-term goals; government should ensure that regulatory

**Table V** Regression analysis of financial reporting quality

| | *Australia* | | | | *Malaysia* | | | | *Pakistan* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *PA* | *PAaccr* | *TCaccr* | *AGGRE* | *PA* | *PAaccr* | *TCaccr* | *AGGRE* | *PA* | *PAaccr* | *TCaccr* | *AGGRE* |
| Duality | 1 | 1 | 1 | 1 | −2.43 | −2.01 | −1.89 | −1.83 | 1.66 | −0.51 | −0.89 | −0.39 |
| Female CEO | −0.30 | 0.25 | 0.08 | 0.10 | 0.48 | −1.34 | −0.07 | −0.73 | 0.94 | −0.48 | −0.60 | −0.39 |
| FAGE | 2.56 | 3.41** | 2.57 | 3.02 | 3.01** | −1.90 | −3.02 | −2.36** | 0.37 | −0.91 | −1.85 | −1.58 |
| FSIZE | −5.91** | −5.76** | −3.12** | −4.65** | −10.14* | −10.25* | −5.44** | −7.11** | −6.21** | −7.87** | −6.21** | −6.68** |
| Board | 1.09 | 1.91 | 2.08** | 1.98 | −3.87** | 2.58 | 2.25 | 2.18** | −0.66 | 0.78 | 0.75 | 0.75 |
| $R^2$ | 42% | 43% | 25% | 36% | 63% | 61% | 39% | 46% | 37% | 48% | 39% | 42% |
| Adjusted $R^2$ | 38% | 39% | 20% | 31% | 61% | 58% | 36% | 43% | 34% | 45% | 36% | 38% |
| *F* | 9.95 | 10.47 | 4.61 | 7.60 | 28.62 | 26.33 | 10.93 | 14.47 | 10.05 | 15.35 | 10.93 | 12.03 |
| Probability | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

**Notes:** $*p < 0.05$; $**p < 0.01$

agencies monitor the activities of corporations to ensure compliance with best practice. Also, above all, integrity, objectivity and fairness must be applied in the conduct of corporate business for financial statement needs to be achieved for users.

The results indicate that CEO duality tends to engender greater transparency through appropriate corporate disclosure and attendant enhanced monitoring and efficient control. Overall, the results indicate that a policy of split positions is not appropriate for all firms. For firms with fewer monitoring mechanisms and higher levels of agency problems, the benefits of split positions exceed the costs. The policy implication is that each firm has its unique conditions that influence the determination of the optimal policy. Shareholders should not adopt finance research results on the benefits of split positions as a common cure, and policymakers should not urge all firms to split titles.

An implication for further research in emerging economies relates to several areas of "boundary conditions" of the agency, stewardship and organizational theories in corporate governance (Finkelstein and D'Aveni, 1994). Multidisciplinary studies of this nature may contribute to a better understanding of what drives the effectiveness of corporate boards. For example, future work can investigate the specific situations and circumstances in which CEO duality may be beneficial for public listed companies. Investigating the factors of board effectiveness with multiple theoretical lenses may help develop more effective corporate governance models.

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