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Impact of CEO Characteristics on Firm's Performance
Evidence from Pakistan Stock Exchange (Non Financial Sector)

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Abstract: *The relationship between CEO characteristics and firm's performance had been debated over decades now and yet there is no conclusive evidence about what characteristics leave more impact. The characteristics studied till now include age, gender, education, tenure, compensation, ownership and duality to be the most. The purpose of this research was to find out the relationship between CEO characteristics and firm's financial performance. The target population was all firms registered on Pakistan Stock Exchange between years 2012-2017. The data for variables was collected and downloaded from the official website of the companies, Pakistan Stock Exchange and State Bank of Pakistan. As being a developing country it was predicted that the results of this research will bring up new evidence supporting the theories brought in to light years ago. The results are quite satisfying as they are mostly following the theories especially most of the results are following agency theory. Following the prediction of agency theory this paper finds that duality, compensation and equity ownership do affect the firm performance positively while Leadership Lifecycle theory has failed to prove the positive relationship between tenure and firm performance as our results are insignificant for tenure.*

Keywords-(CEO Characteristics; Firm performance; CEO duality; Agency Theory)

1 Introduction

Chief Executive Officer (CEO) is the key part in firm's performance and has been highly debated in recent years. The role of CEO also differs in developing economies such as South Asian countries especially Pakistan, India, Sri Lanka, Bangladesh etc as compared to developed countries such as China, USA, UK and other European countries due to the economic differences. Adams and Ferreira concluded that CEOs can only impact firm's performance if they have influence over crucial decisions.

Chief executive officer is responsible for making all the business decisions hence rewarded when his firm outperforms and is also held accountable in case of disastrous performance. CEO also exerts huge influence over firms due to the fact that they are legally entitled authoritarians of the organizations hence directing corporate behaviors according to their will and understanding and this power to direct the firm according to CEO's own will and understanding results from various traits and resulting in making them powerful. Powerful CEO has the ability to decide composition of the firm's top management (Zahra & Pearce 1998).

The rest of the team including top management and their subordinates can be at their best towards the achievement of organizational objectives but still the CEO is the one who is responsible to give a green signal for every decision hence is able to set the strategic direction of the organization (Alice et al 2000). The competitiveness of innovation, strategic direction and cost reduction of a business depend on the values and cognitive behavior of a CEO because it influences filtering mechanism of decision making as it depends on how the CEO perceives or interpret the data (Daellenbach et al 2009).

The previous research has already debated a lot on the fact that certain characteristics of the CEO can determine the path of the firm's financial performance. Although CEOs are highly compensated among the top management but still they can make good or bad decisions at times due to human imperfection (Bhidè 2001). Goel and Thakor suggest that this might be because CEO is overconfident. Hart and Holmstrom argued that it can be because of the fact that CEO has a different vision. Some of the main characteristics of CEO that are used in previous researches are age, education, gender, tenure, duality, ownership and compensation etc.

The purpose of this study is to find out do the CEO characteristics really have any impact on the organizational performance of the firms registered on Pakistan stock exchange. To investigate the impact of CEO characteristics on firm's performance we have to begin with a comprehensive literature review. The discussion carried out in literature review will predict what can be the outcomes of this research and later the data will be collected on the basis of literature review and calculations will be carried out to find out if we can actually get the results according to our expectations.

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1.1 Background

The importance of CEO and financial performance relationship is not old as we have witnessed a lot of corporate scandals in the history due to fraudulent activities of the executive management. In 1998 a Houston based public organization for waste management was found guilty of falsely reporting a huge earning of $1.7 billion. The scandal was uncovered when the new CEO came in and his executive team went through the books. This is one of the best examples showing both the positive and negative sides of the top executive position.

Later in year 2001, Houston based Energy Company Enron was found guilty of keeping their huge debts off the books and it cost shareholders a huge amount of $74 billion. The scandal was uncovered by an insider. In year 2002, right after one year of Enron's scandal, WorldCom, a telecommunication company cost investors $180 billion and 30,000 jobs were lost. In 2005 AIG cost shareholders and general public a huge amount of around $62 billion but the most disturbing thing is executives of AIG were awarded $167 million in bonuses the same year.

The above examples were meant to have a look at what a CEO is capable of. What can go wrong if the interests of CEO are not aligned with as that of shareholders? It is important to understand what characteristics a CEO possesses because it will determine the fate of the business. In this paper we will discuss some important theories and past researches to understand what impact do some of the characteristics of a CEO can have over firm's performance.

1.2 Significance

In the past, CEO characteristics have been under debate for long time. Earlier these characteristics were individually discussed such as impact of CEO duality on firm performance or impact of CEO compensation or education or tenure on the firm's performance and lately these characteristics are combined in a group to determine whether they have any positive or negative impact on the organization collectively. The results of previous studies are showing somewhat positive and somewhat negative results hence making it harder to understand the key concept and letting the debate continue.

Most of the studies carried out in this area were in organizations either highly profitable or the business environment was if not highly, was at least stable in the host country. The combination of characteristics that I have selected I believe truly impact the organizational performance so I believe that this study will show considerable and somewhat different and unique results as in the past few years the legal, political and business environment has been highly unstable in the country. This research will contribute to filling the literature gap in this area of research from developing economies.

1.2.1 Theoretical significance

The topic of CEO and firm's performance and their relation has been under debate for a very long period of time and has been tested as well many times. The purpose of this study is to find out in what ways the results can be different in Pakistan and what can be learned. As there are many theories that are relevant to the topic and will be discussed in detail so this research will once again furnish evidence in supporting those theories.

1.2.2 Practical significance

Past studies have been used to develop countermeasures against any performance leakages in the organization and also to put a control to the power of the CEO. The results of this study will help us understand what differences can exist in organizations with unstable political and business environment in the country and also it will contribute and help the government to understand and develop policies for a better business environment.

1.3 Concept definition

If we look back in the history of corporate scandals and economic downfalls we can find the evidence that CEOs have played a very important role in holding up the shareholders interests but on the same time we have also seen CEOs involved in manipulative activities that resulted in bringing those downfalls. Despite showing excellent signs of performance an organization may lead to a disaster depending on the way it is being controlled. The past experience from the developed countries should have been set as an example to develop proxies for CEO's control in the organizations in developing countries.

But the reality is opposite and I think there is a desperate need of research to be carried out in this area in underdeveloped countries. CEO characteristics are many that are discussed in the past by previous researchers but I have selected few characteristics that I believe truly can have impact on the organizational performance. Now, the performance of the organization can be measured in a lot of ways but I am using only one major characteristic, Return on Equity, which has been proved very effective to measure the performance of the organization. I will discuss both, CEO and performance characteristics in detail.

1.3.1 CEO Characteristics

CEO Duality

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For some economists the duality plays vital role in organization's growth and some believe that it is dangerous and can result in bringing huge losses to shareholders. There are two groups of theorists who presented their case against each other and there has been an abundant of research carried out and is still going on till now to defend both the ideas. But, till now the researchers have found somewhat mixed results. This study will focus on bringing fresh evidence in this area of research from the emerging and developing economy.

First of all we have to find CEO duality i.e.; if the CEO and the Chairman of the board is the same or different person. Finkelstein & D'Aveni defined the term Duality as "A corporate leadership structure where CEO holds both the positions of CEO and Board Chairman". CEO is responsible to lead the firm while Chairman of the Board is responsible to lead the board (Morento & Hoje). The difference in role specifies them to be effective in their own domain as both can be monitored by the board. Agency theory suggests that CEO duality can compromise the board's job of monitoring CEO (Jensen & Meckling).

On the other hand stewardship theory argues that managers and executives always work in best interest of the shareholders and suggests that CEO duality can be ideal for firm performance and value creation because leadership and control are united in one hand (Muth & Donaldson 1998) because stewardship theorists believe that the CEO will take responsibility of protecting and maximizing the shareholders wealth and interests seriously as they feel motivated and satisfied when the organizational objectives of profit maximization are achieved.

Both the theories are contradicting but simultaneously present possible outcomes in different situations. Agency theory on one side warns about the possible negative outcomes of joining both positions and on the other side stewardship theory is ethically right because the CEO and COB are both trusted positions in the organization and when combined together, the CEO must work in the best interest of the shareholders.

Ownership

In the past CEOs were paid in cash and they were not depending on the performance of the organization but recently there has been a change in how to compensate CEO as CEO's compensation is not supposed to be in line with as that of shareholders. CEO's are given stock options. But, this is possible up to a certain limit of stock ownership and after that the performance will start to decline (Morck, Schleifer &Vsihny). In this way CEOs have an incentive to increase the share price and hence their interests are well aligned with that of shareholders so they will work hard to maximize the shareholders wealth.

The relationship between ownership and firm performance has been a highly debated topic in the past decade. Though, the literature reveals two way conclusions and hence is not conclusive. Some suggest that firm's performance and managerial ownership have non-monotonic relationship (Morch et al). On the other hand Jensen and Meckling argued that investment decisions in an organization are affected by the ownership of top management resulting in affecting firm value.

According to agency theory (Jensen & Meckling), the managers are responsible for making operating decisions and they tend to maximize their own benefit meanwhile the shareholders do not know exactly if those decisions are in best interest of everyone. Morch et al further suggested further that managers owning huge number of shares in a firm can have significantly aligned interests as that of the owner's or shareholders' resulting in increased firm value.

Tenure

CEOs are mostly faced by some sort of succession plans frequently and that's why they don't hold a top position in a firm for longer period of time. CEO turnover has been observed too, mostly were performance based turnovers. Kyereboah-Coleman concluded that CEO tenure and firm's performance has inverse relationship. In short, shorter CEO tenure means he is lacking performance. The CEO retiring at a specified time period doesn't mean he was able to outperform others but there is another view suggesting that CEO with longer tenure may be exercising power by having control of board of directors (Abdullah & Faudziah).

This is one of the most uncertain characteristic of the CEO. Some researchers found out a positive relationship while many argue that tenure of the CEO is negatively related to firm's performance. Ferreira, Almeida and Adams argue that CEOs with more number of years in an organization gains more power and more power results in preference for higher returns as compared to projects that are more secured but offer lower returns.

Hambrick and Fukutomi presented leader life cycle theory in which they stated that there is an inverted curvilinear relationship between CEO tenure and firm's performance and developed five phases that a CEO might experience during his duration in the organization. Using this theory Oesterle concluded that the optimal tenure of a CEO is between 9-14 years. Recent studies found that there is a decline in CEO tenure in European firms that is 5 years (Booz, Karlsson, Neilson & Webster 2008).

Researchers argue that most of the board of directors are becoming more and more critical as they are concerned about positive performance right away after selecting or hiring a CEO and this ultimately makes BODs to be ready to replace the CEO quickly (Lucier, Wheeler & Habbel) and that is what concerns most and is totally against the leader life cycle theory as according to this theory CEO needs time to settle down and can't be expected to give positive performance right after joining the office.

Compensation

Executive compensation is another factor empowering CEO. The compensation of a CEO can be a package of several components including basic salary, bonuses, medical, house rent and utilities and travelling expenses etc. Recently CEOs are also offered incentive programs in which they are or provided with or can purchase company stock or shares. This eventually leads to aligning the interests of CEO and shareholders and the CEO is then paid on the basis of stock options or share based. However, recent evidence arise doubts about its effectiveness.

Agency conflict between top management has been heavily debated topic in finance literature. The rise in equity based compensation has been on rise since 1990s and researchers have found a mixed result about whether cash based compensation is more effective or equity based. There are several other findings that claim compensation has no effect at all on firm's performance. Some researchers argued in favor of a positive relation between CEO compensation and firm's performance while others find themselves in opposite direction.

Finkelstein and Boyd concluded that the organizational performance is much better when CEO compensation is aligned with manager discretion. The research carried out by other researchers in different situations and different countries bring different results. Talking about equity based compensation, Morck, Schleifer & Vishny concluded that there is a limit after which an increase in equity compensation will result in poor performance. Shaw and Zhang found a positive relation between CEO compensation and firm's performance.

There is no doubt that CEOs are highly paid and the only purpose is to maximize firm's performance. But it is really odd to find that there is negative relation between CEO compensation and firm's performance. Basu et al, Palmon & Wald found negative relation between CEO compensation and firm's performance. They further explain that the main reason behind this negative relation can be overcompensation. Other literature on the topic also show that there negative relation can be due to overcompensation or change in pay structure.

Gender

In the past decade gender became a new area of research in management sciences. Men have been dominantly occupying the top management positions in business organizations. Gender equality being a hot debate topic, also focuses on expressing that men and women should be equal throughout the organization, from lower to upper level. Therefore, many human rights organizations and women pro are always advocating bringing women to top management.

While gender equality campaigns are across the world, organizations are still seeking evidence for if women on board can enhance the performance of the organization. Recent research shows that women on board can lead to a better perception about the organization's corporate social responsibility and it ultimately influences the reputation of the organization that further leads to have a positive impact on corporate performance. There is a lot of proof that firm's reputation can have a huge impact on financial performance of the firm.

Women as CEOs can have significantly positive impact on firm's performance (Smith & Villa). Other findings on the topic can be concluded as gender equality can influence the organization's turnover (Faccio et al).

In addition to previous researches, this paper tends to find out how characteristics of CEOs can impact the organizational performance using 6 years data from 2012-2017 of 168 non financial firms listed on Pakistan Stock Exchange (PSE) from almost every sector. We expect to find new evidence supporting the fact that CEO characteristics do affect organizational performance.

1.3.2 Firm's Performance

Performance measurement is collecting, analyzing and reporting of information about the prospect. Measuring organizational performance is important because it reveals information that all stakeholders are interested in.

The performance of the organization can be measured using different market based or accounting tools as there is no universal measure known to mankind to know actually if a business is profitable or not. Although firm's performance needs to be assessed through several number of methods, measures and components of mathematics and accounting techniques but still we cannot decide which one is better or more suitable because all the tools used to measure organizational performance can lead to finding different but useful results.

The two methods widely used for the measurement are objective and subjective. The objective measures used to analyze the financial performance of the organization require financial data of the organization while subjective measures require managerial assessment. Brews and Tucci concluded that sales growth is the best predictor of financial performance while Pearce et al argue that ROA, ROS and change in stock price can better reveal the actual performance of the firm. On the other side strategic alignment is another predictor of financial performance (Chan et al)

Miller concluded that it is difficult to find the actual performance of the organization while relying on financial data because the owners or managers can manipulate the accounting information and may not let us see the reality. Researchers believe that it is not enough to merely rely on financial data provided by the firm but also to look for external resources and a combination of both internal and external data can lead to a better understanding about the firm's position but still researchers have been using the internal data mostly.

Since 1990s, the accounting standards have been introduced and business organizations by law are demanded to provide reliable information about its past and present performance in the form of financial statements. The information should meet the needs of all the users such as, employees, government agencies, stock markets, suppliers, creditors and the general public. It is emphasized that financial statements should be error free and contains information that can help the readers to easily understand and asses the financial position of the organization.

In this paper we also used the financial statements of the firms to analyze financial performance of the organizations. We emphasize on the idea of using one variable to define the organizational performance that is ROE (Return on Equity). ROE is usually used to figure out how much return an organization made on shareholders wealth while utilizing shareholders money. In other words, it shows how much an organization has been successful in maximizing its shareholder's wealth. That's why we are focusing only on ROE.

ROE is one of the most important metrics to measure profitability. As per agency theory the purpose of a manger is to maximize shareholder wealth as well as shares value. ROE is the best metric to measure if shareholders wealth really had any increase.

1.4 Research ideas and main contents

We are mainly focusing on finding out specifically the impact of few characteristics of the CEO on firm's performance. The characteristics of the CEO include CEO duality, gender, tenure, compensation and ownership in the company. While on the other hand we chose return on equity (ROE) as a measure of performance. There is a lot of literature that discussed the possible relationship between CEO characteristics and firm's performance. We expect to find out new evidence adding to the literature about relationship between CEO characteristics and firm's performance and for this purpose we have selected the firms registered on Pakistan stock exchange between years 2012-2017. This study is related to finding the evidence from firms operating in developing economy of Pakistan.

2 Literatures review

Agency theory explains why differences in behavior and decisions exist among group members. The board of directors, referred as principal, chose a CEO to work on their behalf and in their best interest, known as the agent, but when there is a rise in conflict between the principal and agent can result in consequences that can lead to an economic disaster. CEO nomination and monitoring the performance of nominated CEO are the core responsibilities of a board but CEO with more power can influence the decisions of the members of a board. An agent can be more powerful when he is the CEO and Chairman of the board at the same time. Agency theorists argue that it is inevitable not to have conflicts between principals and agents.

On the other hand stewardship theory claims that managers or agents are not motivated by individual goals rather they work in the best interest of principal if they hold both the positions of CEO and the Chairman of the board simultaneously. The previous researchers have found mixed and non-conclusive results. Some studies found combined leadership structure more favorable to achieve high performance in organization; hence, bending towards stewardship theory. (Donaldson & Davis, Finkelstein & D'Aveni, Sridharan & Marisk, Lin) Meanwhile some studies found opposite results claiming that combined leadership structure is not beneficial to achieve performance objectives supporting agency theory (Berg & smith, Simpson & Gleason, Daily & Dalton, Kula).

There are several previous researches that point towards the tenure of CEO and its impact on financial implications of a firm. The tenure of a CEO can have a huge impact on organizational performance and project preferences. A CEO serving for longer period of time must feel comfortable in traditional business practices and might not be able to bring or welcome innovative ideas. These executives spend more time in making decisions because they take more time to evaluate and decide best alternative on the basis of their knowledge and experience. When exposed to uncertainty, the chances of lowering the uncertainty increase with executive's tenure because they will be less optimistic and would prefer to earn less as compared to projects with high profits prone to high risk.

The results for CEO's tenure are also inconclusive, some researchers are in favor of higher tenure of the CEO because it gives more power to CEO and more power leads to higher stock performance (Adams, Almeida and Ferreira). CEO's with higher tenure prefer more risky projects to earn more rather than secure projects with lower returns. Furthermore, CEOs with higher tenure are more result oriented and higher commitment leads to increased incentives for increased performance. On the other hand, CEOs with longer tenure are less likely to change their strategy (Miller) because they prefer efficiency and stability over inconsistency throughout. Now, this can be the result of the fact that CEO is more optimistic about his strategies and has been successful in the past. But, this leads to the loss of interest in innovation.

Furthermore, the incentives for CEOs are not always the same as for the shareholders. In the past CEOs were compensated on the basis of performance. This works in a way that if the value of firm is increased it will ultimately increase CEO's compensation, therefore CEOs worked hard to increase firm's performance. Earlier the CEOs were compensated with cash only but now with the introduction of equity incentives, it has changed the compensation policies for the CEO. Now, CEO's are offered with stock options and they have the incentive to increase the stock price by making sure firm's performance is increased because their interest is aligned with the interest of shareholders that is wealth maximization (Conyon et al) as they also now own the shares of the organization they are working for. The reason is that the increased number of owners will eventually have more problems in decision making due to increased discussion during board meetings resulting in managerial problems because of diverse preferences.

2.1Domestic Literature Review

There is no direct literature available domestically according to the variables I have selected but some researchers previously have used few of these variables in their research. First of all Usman et al found that CEO compensation is negatively linked with form's performance that is in position of agency theory but still most of the business are family owned so the CEOs can enjoy a salary package that they would like. Qaiser et al found inconclusive result for the effect of CEO duality on firm's performance. In another study carried out by Ejaz et al concluded that firm performance can be achieved through alignment of CEO remuneration under a better governance structure. Rehan et al suggested in their study that the duality should be eliminated for the purpose of increasing performance. Another study concluded by Sheikh et al stated that due to highly volatile market, the BODs concentrate mostly on performance to compensate CEOs and the CEO compensation is persistent and it takes a lot of time to get to an equilibrium point and many other alarming concerns about CEO compensation.

2.2 Foreign Literature Review

Kokeno and Muturi investigated firms on Nairobi stock exchange and found that CEO characteristics do have an effect on organizational performance. Neslihan Ozkan found that the CEO compensation is and organizational performance has a positive but insignificant relation. Another study suggested that there is no relationship between CEO gender and firm performance (Siphiwa) and similar results were concluded in another study by Walayat & Vieito. Miller, Hermalin and Weisbach, Rahman & Zhao concluded that CEO tenure has a negative association with firm's performance. Worrel, Meijer, Davidson and Glascock concluded in their study that female CEOs outperform male CEOs in long run. Kazan while studying using data from firms in Scandinavia argues that the CEO compensation and firm's performance has a non significant and negative relation. Anna et al concluded that there is a positive and equal relation between CEO tenure and firm performance.

2.3 Summary

The literature available on the topic we examined till now almost showing inconclusive results regardless of the fact that either characteristic included in this research studied and tested separately or together. But on the same time some cases prefer one theory and the others are prone towards another theory which means that either getting positive or negative results, in both cases we will be able to justify according to the theories presented below. There are some studies from Pakistan that only focused on CEO duality and neglected other characteristics of the CEO and also the data used was for a short period of time. This study will definitely bring up new evidence to add up to the existing literature.

3 The relevant theories

3.1 Agency theory

Agency theory states that when a company is established, the owners are its first managers and later when it grows bigger the owners appoint other people as managers to work on their behalf. The owners expect that the managers would run the business in the superlative interests of the owners. In this way here is a relation developed between managers and owners. Jensen & Meckling developed agency theory to draw attention to the conflict of interest that exists between

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managers, owners and stockholders and may result in consequences not expected.

First of all the shareholders are mainly concerned about increase in their wealth and income. They look forward to what the business will provide them in return of their investments that is dividends and also want their share value to be increased. As the value of the shares depends a lot on long term financial performance of the business so the shareholders first priority is dividends but that doesn't mean that they are not least concerned about long term financial performance because it will ultimately determine share value in future.

The second most important part of agency theory is the managers. As they are appointed to work on behalf of the owners and in the best interest of the owners, they may not have any undeviating interest in the business unless they own shares or through some other way. The managers sign contracts and work against a certain decided amount of salary and for a certain period of time, so if they do not have their interest aligned with that of the shareholders, they will mainly focus on raising the size of their salary package.

The owners of the business, who are known as "principal" must delegate the power of decision making to the managers, who are referred as "the agent" in this theory. According to the contract between both the parties, the owners expect the managers to work in the best interest of shareholders. However, the decision made by the managers does not only affect the interest of the shareholders but also their own welfare. It is difficult to say that how and why a manager would go against his interests. Agency theory states that a manager can have many benefits while having no share or a few shares in the company.

It also says that managers would work differently if they are the owners and the effort made at different levels of the management is different and this might be because of the level of difference in pays or incentives. The remuneration package for managers depends upon the size of firm rather than profits so this gives managers an incentive to increase the size of the firm. The managers make their living expenses from the organization they are working for and they would prefer to have a stable business environment in the organization in long run perspective that's why they would prefer investing in projects they are risk free or have lower risks.

The projects with lower risk are often the ones will lower returns but shareholders are more interested in higher returns. Shareholders are mostly having their investments in different companies and hence are more inclined towards choosing risky projects. Jensen & Meckling concluded that managers bear the cost of losing goals that were in their best interest while they pursue the goals that are in best interest of the shareholders. Therefore, it is of utmost importance to provide incentives to managers so that they choose value maximization goals and make decisions that are in best interest of the shareholders.

For the purpose of reducing agency problem there are many ways that have been suggested. First of all, the incentives and remuneration packages for both top and middle level management should be divided into short and long term performance incentives because the organizational objectives are mostly divided into short and long term objectives but on achieving short term goals, if managers on both the top and middle level management are not incentivized will can lose interest.

The main purpose of board of directors is to monitor the performance of its executive management but the board may not be able to monitor the decisions of the management effectively if it is dominantly controlled by the CEO and that is only possible when the CEO is the chairman of the board as well, resulting in CEO duality structure on board. Another possible reason behind ineffectiveness of the board can be large size. The large size of the board may not be able to make timely decisions because a larger board may not be much critical as compared to a smaller one.

3.2 Stewardship Theory

Stewardship theory is presented in opposition of agency theory. Unlike agency theory that focuses on conflict, control and risk of self interest, stewardship theory focuses on collaboration and cooperation between the shareholders and executive managers. The main theme of this theory is that the managers will not hold their self interest over the interest of those for whom they are working and the reason is that their personal needs are being taken care of properly. Thus, executives who are working as agents are supposed to work honorably and do the right thing.

According to this theory executives consider themselves as professionals and being professionals they are motivated by fairness and justice that makes them to believe in being concerned for other's interests while working for them. As professionals they will sacrifice their self interest and work honestly with diligence. These executives according to stewardship theory are not much concerned about the extrinsic rewards, mainly of economic nature, rather they feel satisfied seeing organizational success.

Stewardship theory also emphasizes on alignment of interests of executives and shareholders but unlike agency theory it states that managers themselves realize the fact and their behavior is automatically aligned with the concerns of owners. However, both the theories tend to highlight the same agenda that is firm's performance.

3.3 Echelon theory

Hambrick and Mason introduced this theory with the idea that managerial characteristics can be used to find out the organizational outcomes. Similarly, the organizational outcomes can be analyzed with the managerial characteristics to find out what characteristics are having the most impact on performance of the organization. It also emphasizes on developing a monitoring system for the executive team to make sure their interest is aligned with the interest of the shareholders, just like agency and stewardship theory.

Echelon theory argues that a CEO’s compensation does not have anything to do with the performance of the organization. It doesn’t matter if a CEO is being overpaid or underpaid by the management but the most important thing is that his interest must be aligned with that of the stockholders. Echelon theory also states that if there is a gap between the interests of the CEO and the shareholders, it can end up resulting in huge losses for the organization so it’s better to develop a governance structure that makes sure the CEO is working in best interest of the shareholders.

3.4 Managerial power theory

Managerial power theory argues that managerial compensation is a lot high as compared to an economically efficient compensation and that doesn’t make a high paid executive a best performer. CEO is the final decision maker and is the only person who can set the strategic direction of the firm. They may not have any shares in the organization and this poses a risk for shareholders because they are not aware of what direction the CEO wants to take them and this can lead to a disastrous situation as we have seen in crises of 2008 leading to recession.

Managerial power theory says that CEOs can influential power over the board to be reelected as CEOs. This can happen in many ways, first of all the CEO is on a higher position and he can negotiate for the salaries and incentives for the executives. Secondly, it is found that small groups always develop psychological connections in terms of friendship and loyalty. Similarly if the CEO has more power over board he will definitely have more power to negotiate his terms of contract such as incentives.

3.5 Leader Life Cycle Theory

Eitzen & Yetman did research on basketball coaches and found a relationship between the performance of the team and tenure of the coach. However they failed to fully analyze the results but later Hambrick & Fukutomi developed the leader life cycle theory on the basis of the findings of Eitzen & Yetman. They suggest that a CEO goes through a life cycle of five seasons showing different behavior in each.

1. Response to Mendate:
   When taking charge of a new position a CEO will generally dedicate himself to try harder to meet the expectations of the stockholders and the board. To build legitimacy about him, the CEO will strive to demonstrate efficiency to verify that his recommendation was the right option for the board.
2. Experimentation:
   In this period the CEO tries to establish his way of leading the firm and goes through intensive learning. The CEO will try new approaches to establish a tone.
3. Selection of an Enduring Theme:
   In this season the season the CEO finally decides how he is going to run the company for the rest of his tenure.
4. Congruence:
   In this phase the CEO starts choosing more incremental techniques to strengthen the theme or way he pursued to take the organization on.
5. Dysfunction:
   In the last phase of the season a CEO is on a very strong spot but at the same time starts to lack the enthusiasm. The CEO in this phase tends to focus more on ceremonial aspects of the job.

4 Research design

4.1 Sample selection and data sources

For the purpose of finding the impact of CEO characteristics on firm’s performance we have selected all the firms registered on Pakistan stock exchange. There were a total of around 385 non financial firms registered on Pakistan stock exchange from 2012-2017 the period of six years. The data has been collected from the stock exchange’s website or the website of the companies and some of the data was also collected from the website of State bank of Pakistan. Out of these 385 companies, the data for some of the companies was not available either due to defaulter in later years due to some technical issues. Some companies were new as per our sample period and some of the companies didn’t have enough data available so we had to withdraw them from our sample and finally we got the sample of about 168 companies.

4.2 Theoretical analysis and research hypothesis

According to agency theory the role of CEO and chairman should be separated otherwise it will lead to making CEO more powerful and powerful CEO can have influential power over board. It further concludes that CEO’s dominance over the board can result in lack of efficient monitoring and hence can result in poor financial performance.

H1: CEO duality is positively related to firm’s performance.

While on the other hand stewardship theory argues in opposition and states that it is the moral duty of CEO to work in best interest of the shareholders. The joining of both positions together at the hand of CEO is considered more useful as it gives more power of decision making according to stewardship theory.

H2: CEO duality is negatively related to firm's performance.

Agency theory also states that better CEO remuneration package can lead to increased firm performance.

H3: CEO compensation is positively related to firm performance.

On the other hand Echelon theory states that there is no effect of CEO remuneration on performance. It doesn't matter if a CEO is being underpaid or overpaid, it will have no effect.

H4: CEO compensation has no relation with firm performance.

Managerial power theory argues that CEOs are more concerned about their compensation and incentives and as CEOs can develop personal relationships with the management so they are not really worried about careful about the shareholders interests.

H5: CEO compensation is negatively related to firm performance.

The leader life cycle theory claims that the CEO needs time to develop in an organization so that to understand how to work in a new position and later he is able to perform well.

H6: CEO tenure is positively related to firm performance.

An overall analysis of all the literature and theories, we finally concluded that CEO characteristics do have an impact on firm's performance.

H7: CEO characteristics are positively related to firm performance.

4.3 Variable design

The variables in my research consist of dependant and independent variables and are explained below:

4.3.1 Dependent variable

The firm's performance is taken as dependant variable and is measured by single metric from profitability ratio that is return on equity denoted as ROE. The data collected from the firms registered on Pakistan stock exchange between years 2012-2017 and is analyzed as panel data.

4.3.2 Independent variable

CEO characteristics are taken as independent variable and these characteristics include CEO duality, tenure, compensation, ownership and gender and are denoted as same. We used panel data for both the variables.

First of all for CEO duality we will use dummy variable indicating using 1 to indicating the presence of duality and 0 otherwise. The absence of the chairperson is also considered as duality because if there is no chairman of the board then obviously the most powerful person will be the CEO.

CEO tenure will be measured for the number of years he has served during the sample period and depending on this information we will develop a scale to measure the highest and lowest number for the CEO tenure and the reason is the data collected reveals that most of the CEOs are serving throughout the time period selected as sample period. The major reason behind this can be due to family owned businesses and if we took data for CEO tenure from the date of the joining of the CEO, this might predict some biased results because some firms are very old and some are just a decade old.

Compensation is measured as the total of all components included in CEO remuneration i.e basic salary, bonuses, medical, house rent and utilities etc. The ownership is collected in percentage of the shares CEO is holding. And lastly for the CEO gender we will again have to use dummy variable 1 indicating female and 0 indicating male.

5 Statistical Treatment and Interpretations:

Quantitative research method was adopted to enumerate the relation of chief executive officer's characteristics with the organizational performance for the purpose return on equity is considered as the measurement of firm's performance impacted by independent characteristics of CEO such as: Duality, Ownership, Compensation, Tenure and Gender. Null hypothesis for investigating the problems, were generated to undergo T-test statistics & Kurtosis to nullification and approval of research hypotheses.

5.1 Hypotheses Testing:

Table 1 One Sample Test (T-Test), 2 tailed at .05 Sig. Levels (DF = 1002)

S/No.	Factors	numbers	t-test statistic	P Value	t-table value
Characteristics of CEO					
1	Duality	1002	-2.00	.046	> T table value

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2	Ownership	1002	2.51	.012	> T table value
3	Tenure	1002	-0.45	.656	> T table value
4	Compensation	1002	2.58	.010	> T table value
5	Gender	1002	3.15	.002	> T table value

Table 1 exhibits T-test results for testing the hypotheses which implies all the null hypotheses of the study are rejected accept for $H6_0$ which regards tenure with organizational performance in positive relationship. All other research hypotheses are accepted as T-values of all of them are greater than t-table value at mentioned Degree of Freedom. P-values for the model are significantly fit as 4 out of 5 are less than .05 and one is little above at .656. It can, hence be concluded on the basis table 1 that model is fit for prediction and significant and research hypotheses of the study are accepted.

Table 2 Kurtosis Test for Hypotheses

S/No.	Factors	Z-value	Error	Z-value Error	t-table value
Characteristics of CEO					
1	Duality	2.567	.387	6.6330	Greater than +1.96
2	Ownership	1.897	.387	4.9018	Greater than +1.96
3	Tenure	12.786	.387	33.038	Greater than +1.96
4	Compensation	2.431	.387	6.2816	Greater than +1.96
5	Gender	6.781	.387	17.521	Greater than +1.96

Kurtosis test for the hypotheses in table 2 exhibited, implies the same results as of T-test values, here all the null hypotheses are nullified and research hypotheses are accepted. Range of all null hypotheses test results are greater +1.96. Further it has been stamped and concluded that Duality, Compensation, Gender, ownership and tenure has strong relationship with the Return on equity which is directly proportional to the Organizational Performance. Further Correlation of dependent and independent variables are presented in table 3.

5.2 Correlation analysis:

Study uses the Pearson's correlation method to understand the relationship of dependent and independent variables such as correlation of return on equity with Duality, Compensation, Gender, ownership and tenure to further established the degree of change in return on equity with respect to other variables.

Table 3 Correlation Matrix

Items	Des:	ROE	CEOC	CEOO	CEOD	CEOG	CEOT
ROE	Coefficient	1					

	Sig. (2-tailed)						
CEOC	Coefficient	.0926*	1				
	Sig. (2-tailed)	.0032					
CEOO	Coefficient	.0687	-.0365	1			
	Sig. (2-tailed)	.0292	.2467				
CEOD	Coefficient	-.0809	-.1809	-.0458	1		
	Sig. (2-tailed)	.0102	.0000	.1463			
CEOG	Coefficient	.0930	.0325	-.0953	.0094	1	
	Sig. (2-tailed)	.0031	.3019	.0024	0.7658		
CEOT	Coefficient	.0046	.1524	.0579	-.0138	.0055	1
	Sig. (2-tailed)	.8853	.0000	.0664	.6611	.8627	

Table 3 exhibits the correlation of the factors and significant values for 2 tailed statistics. It implies that all the significant values are positive and have strong relationship with the return of equity. CEO's Compensation is correlated with Return on Equity with coefficient of .0926; CEO's ownership is correlated with Return on Equity with coefficient of .0687, CEO's Duality is correlated with Return on Equity with coefficient of -.0809, CEO's Gender is correlated with Return on Equity with coefficient of .0930 and CEO's Tenure is correlated with Return on Equity with coefficient of .0046. Only duality has a negative relationship with the organizational performance rest all the variable if are increased return on equity will also increase with given values in positive manner. Correlation exists between characteristics of chief executive officer and the organizational performance. Further regression analysis explains the level of impacts these characteristics may have on return on equity.

5.4 Regression Analysis:

The linear regression widely used by a majority of researchers is based on OLS estimation. This technique was developed to investigate how one or more independent variables influence a dependent variable (Hutchinson, 2011). More specifically, in a linear regression analysis, the result produces one intercept and one slope, based on the mean, which represents the best fit for variable X to predict variable Y. The regression line can be calculated by using the equation (Cade & Noon, 2003). Study tends to find out the degree impact of the CEO's Characteristics on the organizational performance.

Table 4 Regression Model Summary (ANOVA)

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MODEL	F(5, 1002)	R Square	Adjusted R Square	Root MSE
1	5.63	0.0273	0.0225	85.462
sig	0.0000			

MODEL		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	205717.144	5	41143.4288	5.63	.000[b]
	Residual	7318327.93	1002	.001		
	Total	7524045.08	1007			

Table 4 exhibits the model summary of R-Square and Adjusted R-Square, implies that Adjusted R square of the model is .0225 that means .0225 * 100 = 22.5 %, suggests one unit of change in CEO's characteristics will bring 22.5 % change in Organizational Performance. It also implies that model is highly predictable. Predictor is constant with R-square 22.5 %. Table also exhibits the change statistics for F (5, 1002) as 5.63 and P-value = 0.0000 which is less than .05 (P<.05). Model is significant and predictable. Table concludes a sure change in return on equity with the change in characteristics of the chief executive officer.

Table 5 Regression Analysis Summary

MODEL		Unstandardized Coefficient		t	p>t
		B	Std. Error		
1	(Constant)	-2.048808	7.318212	-0.28	.780
	Duality	-15.98148	7.999539	-2.00	0.046
	Ownership	.6349837	.252546	2.51	0.012

	Tenure	-2.170018	4.868905	-0.45	0.656
	Compensation	.3861797	.1494189	2.58	0.010
	Gender	28.99002	9.216584	-0.28	0.002

With @ p = .780, .046, .012, .656, .010 and .002 of Return on Equity, Duality, Ownership, Tenure, Compensation and Gender model is fit and significant to predict the effect of independent variable on dependent variable accept for the value of the Tenure as it has exceeded the P value for less .05, which implies that tenure is unpredictable factor when measuring the performance of organization but not completely irrelevant. It has impact on return on equity as the tenure increases the person gets more esteemed nature and reluctant to specific job which may be the case in CEO's performance measurement indicators. With the constant of -2.048808 ROE is impacted by all the characteristics of the CEO with respective coefficients.

6. Conclusion

In the light of theories discussed above we can conclude as per our findings and understanding that agency theory is a step ahead of the rest of theories.

First, we found difference of opinion over CEO duality between agency theory and stewardship theory. In this case we found that CEO duality can result in better firm performance. Second, agency theory contradicts with echelons theory over CEO compensation and states that higher compensation can lead to better firm performance while echelons theory states that there is no relationship between firm performance and CEO compensation. On the other hand managerial power theory states that there is a negative elation between firm performance and CEO compensation.

Finally, results for the CEO ownership in shareholding of the firm also follow the agency theory. Agency theory states that mismanagement of misuse of managerial power may arise when the interests of shareholders and CEO are not aligned. This can be done well by increased compensation and equity ownership for the CEO.

Results for tenure are not significant as compared to what we proposed that there is a positive relationship between tenure and firm performance. This can be due to the corporate culture differentiating from the proposed leadership lifecycle theory. Most of the businesses in Pakistan are family owned and are transferred to the family members mostly. The business practices are followed as they were so that can be a possible reason behind insignificant results.

Thorough study of the literature available on this topic revealed that there is a need for much deeper study to be carried out on a broader scale to find some conclusive evidence regarding how CEOs and their personal traits can matter to improve the quality of business because it not only benefits the organization solely but it is also beneficial for the economy and general public as well. According to previous studies conducted regarding impact of CEO characteristics and firm's performance can be concluded as:

Kokeno and Muturi found that CEO characteristics do have an effect on organizational performance. Neslihan Ozkan found that the CEO compensation and organizational performance has a positive but insignificant relation. Another study suggested that there is no relationship between CEO gender and firm performance (Siphiwa) and similar results were concluded in another study by Walayat & Vieito. Miller, Hermalin and Weisbach, Rahman & Zhao concluded that CEO tenure has a negative association with firm's performance.

Worrel, Meijer, Davidson and Glascock concluded in their study that female CEOs outperform male CEOs in long run. Kazan while studying argues that the CEO compensation and firm's performance has a non significant and negative relation. Anna et al concluded that there is a positive and equal relation between CEO tenure and firm performance. Usman et al found that CEO compensation is negatively linked with form's performance. Qaiser et al found inconclusive result for the effect of CEO duality on firm's performance. In another study carried out by Ejaz et al concluded that firm performance can be achieved through alignment of CEO remuneration under a better governance structure. Rehan et al suggested in their study that the duality should be eliminated for the purpose of increasing performance.

This area of research needs further evidence to be conclusive. For researchers who would like to investigate this topic in future should consider all the factors that differentiate between economies because they can be the reason behind difference in results from different researchers. At the end we would like to suggest considering factors such as political and economic stability and their impact on businesses throughout the sample period.

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