EXAMINING BOARD COMPOSITION AND FIRM PERFORMANCE

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ABSTRACT

This paper investigates the relationship between key factors of board composition and firm performance. We find that listed companies in Taiwan are suffered from the divergence between stock-control rights and earnings-distribution rights, and the divergence of rights is negatively associated with firm performance, as predicted. Besides, consistent with the viewpoint of Agency Theory that the controlling interests of CEO may induce them to enhance company performance, we find that, CEO internalization is significantly positively associated with firm performance. In addition, the results of the influence of board structure document that, the more outside independent directors of a company, the better performance the company has. Our findings provide strong support for the notion that corporate ownership structure and board compositions are key factors in determining the corporate governance efficiency and play important roles in enhancing firm performance.

JEL: G34, L25

KEYWORDS: Board leadership structure, CEO duality, Independent directors, firm performance

INTRODUCTION

The management level of a company plays a determining role in how well a company performs, but the structure of a firm's leadership and various supervising mechanisms play an even more crucial role. The leadership structure of the board of directors and performance evaluation are among the most important topics in the literature of corporate governance. Although companies around the world have different cultural and legal backgrounds, making it inappropriate for localized studies to be applied to other regions, Taiwan adopted the U.S. regulations regarding external directors such that listed firms in Taiwan must have independent directors in order to facilitate the operation of the board of directors and achieve optimal corporate governance. Therefore, it is therefore safe to say that, with suitable cultural and legal adjustments, well-designed foreign managing structures and models can be adapted by other nations to achieve desirable results.

This paper is a discussion of the relationship between, on one hand, board composition and leadership structures in listed companies in Taiwan and, on the other, company performance. One related issue is whether independent directors and institutional directors can oversee companies properly and create a positive effect on company performance. Another task is to examine the unique characteristics demonstrated by the boards of directors in listed Taiwanese companies and how they are different from their counterparts in other regions. For example, how is a company's performance influenced when it is family-owned or when the shareholders through manipulation, a process also known as the "internalization" of the CEO, elect its chief executive officer (CEO)? How is a company's performance affected when power of attorney is bought as a means of gaining a seat in the board in order to gain control of the company? What separations are created between the stock-control or seat-control rights and cash-flow rights? Can the effects of this action on the company's decision-making process also affect the company's performance?

The findings of this paper serve as a reference for both the Taiwanese authority in its formulation of legal regulations regarding listed companies and the public investors and stakeholders in their decision-making. They also demonstrate how the mechanism of corporate governance in Taiwan's listed companies is different from those in other countries.

The remainder of this study is organized as follows. The next section, a literature review, is followed by an introduction to the study's methodology, along with a description of our sample and variable measures. The empirical results are then presented, and conclusions and implications are provided in the final section.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

CEO Duality

The two prominent theories about the relationship between CEO duality (i.e., when the role of CEO and chairperson are combined) and company performance inside the structure of the board of directors are the agency theory and the stewardship theory. In the agency theory, the company's owner is referred to as the "principal," whereas the manager is the "agent"; agency costs are incurred if the actions of the manager are not in the best interest of maximizing shareholders' profits but are undertaken for self-interest (Jensen and Meckling 1976). The protection of stockholder interests relies on the fact that the chairperson is not controlled by the CEO, or by creating an interest shared by the CEO and shareholders through appropriate incentives (Williamson 1985). The stewardship theory, on the other hand, defines the manager as a steward who gains a sense of achievement by being high-performing and taking actions that are beneficial to the stockholders' profits (Muth and Donaldson 1998).

Studies see these two theories and their effects on CEO duality and company performance differently. Some see that, from an agency point of view, CEO duality can lower the level of supervision of the general manager by the board, thus creating a less than desirable situation for company performance (Levy, 1981; Dayton, 1984). The manager holds the information advantage regarding the status of the company, and the principal cannot accurately assess or stay on top of the actions or level of dedication demonstrated by the manager, resulting in conditions ripe for opportunism (Williamson, 1985). Lowering opportunism requires a board of directors to represent the stakeholders by monitoring the actions of the manager, which is a relationship that is more sustainable when the chairperson and the manager are two different persons. However, when the chairperson is also the CEO; the balance within the board of directors may be compromised (Donaldson and Davis, 1991).

Other researchers have claimed that, when the chairperson is also the CEO, thereby gaining complete authority, potential conflict between management and the board is reduced, leading to a higher performance level (e.g. Anderson and Anthony, 1986; Donaldson and Davis, 1991; Davis *et al*., 1997). Still other studies on the aspect of cost-effectiveness claim that neither option is the ideal leadership structure because some companies work well one way, and others work well the other (Brickley *et al*., 1997). Using the contingency theory to explain the relationship between performance and CEO duality, either theory can be correct, with different results occurring from different circumstances (Boyd, 1995).

To summarize, there have been mixed findings on the relationship between CEO duality and company performance. Therefore, two hypotheses are established:

H1a: CEO duality is negatively related to firm performance.
H1s: CEO duality is positively related to firm performance.

CEO Internalization

In order for an individual or group to acquire decision-making or controlling rights to a publicly listed company, they must purchase the company's stocks to gain the stock-control, or voting rights. The company's ultimate controller—the one with the final say in the company's management and resource distribution—is usually the largest shareholder, the chairperson of the board, the general manager, the family members of the owner, or the management team. "CEO internalization" means the CEO is also the ultimate controller or a family member of the owner of the company (Lee, 2007).

When the CEO is internalized, he or she is a member of or appointed by the ultimate controlling family, stockholder, or group. Therefore, in the decision-making process, the CEO would consider the controller's interests above those of the managers or other shareholders. Since it is uncertain whether this interest would align with the interests of the majority of the shareholders or whether it leads to increased or decreased performance, a hypothesis is proposed:

H2: Internalization of the CEO is related to firm performance.

Board Structure

The board of directors plays a central role in the managerial policies of a large company (Fama and Jensen, 1983). The number of director seats in the board is an important element in the effectiveness of the management of the company (Dalton et al., 1999); the smaller the board, the more efficient it is because close interactions and debates are possible (Firstenberg and Malkiel, 1994). While smaller boards lead to better company performance, larger boards may have communication and coordination problems, weakening the board's control over the situation (Yermack, 1996; Eisenberg *et al*., 1998; Chiang and Lin, 2007). However, the larger the board, the greater the variety of specialists who can participate will be, making the board more capable of gaining full information about decisions (Goodstein et al. 1994).

In this study, the total number of seats of directors/supervisors in a company and the number of seats controlled by the controlling interest are used as research variables in an effort to demonstrate their influences on company performance, so the following hypothesis proposed:

H3: Board size is related to firm performance.

An independent outside director is someone who is unrelated to the company except as a director. The inside director is someone who is also a manager of the company (Clifford and Evans, 1997). However, according to the stewardship theory, internal directors should be more helpful to the board of directors since their professional knowledge, abilities, and familiarity with the CEO's decision-making quality make them better at evaluating the CEO (Wagner et al. 1998). Some studies have indicated that having a large number of outside independent directors may lower the risk that the managers will manipulate the finances and earnings management (Beasley, 1996; Klein, 2002), so a greater number of outside directors have a positive relationship with company performance (Pearce and Zahra, 1992). The following hypothesis is proposed:

H4: The proportion of outside independent directors is positively related to firm performance.

Generally speaking, institutional investors are considered able to lower agency risks through more effective monitoring of the company–especially with a large institution with outside shareholders that allows a stricter monitoring (Shleifer and Vishny, 1986; Bathala *et al*., 1994). Thus, the following hypothesis is proposed:

H5: The proportion of outside institutional directors is positively related to firm performance.

Stock-Control Rights

The stock-control right is the right to vote and the power to control the company's decision-making. The voting right comes from share ownership, whether they are direct shares or indirect shares. Indirectly held stocks are usually acquired through the pyramidal control structure or through cross-shareholding. One can control a company either through investment or through the purchase of power-of-attorney from shareholders to acquire voting rights at shareholders' meetings and, in turn, acquire a seat on the board of directors. Controlling seats (seat-control rights) by controlling stock is the ultimate controller's dominance over the company's resources. However, the earnings-distribution right is the shareholders right to demand earnings distribution and thereby to dominate the company's resources. If the interests of

the stock-control rights and the earning-distribution rights are aligned, the decision-makers interests and the results for shareholders are related, and the decisions are in sync with the shareholder's profit targets, making agency costs more unlikely. However, when the interests of the stock-control rights and earnings-distribution rights (stocks/earnings) and the interests of the seat-control right and the stock-control right (seats/stocks) deviate, agency costs increase. The following hypotheses are established:

H6: Non-alignment of stock-control rights and earnings-distribution rights is negatively related to firm performance.

H7: Non-alignment of seats-control rights and stock-control rights is negatively related to firm performance.

DATA AND METHODOLOGY

This research uses samples from the *Taiwan Economics Journal* database. The sample consists of 1194 observations over a one-year period for 2008 publicly traded Taiwanese firms. Our samples are composed of 676 companies listed and in the market for trading on the Taiwan Stock Exchange (TSE) and 518 companies in the over-the-counter market for trading on the Gre Tai Securities Market in 2008 were used, with the exception of companies in the financial industry. The original sample size was 1225 companies. After 31 companies excluded because of incomplete data, 1194 companies remained to be used as a sample.

This study uses a multivariate regression analysis to examine the relationship of independent variables and firm performance. The full regression model is as follows:

$$Yj = \beta_0 + \beta_1(DUALITY) + \beta_2(INCEO) + \beta_3(BS) + \beta_4(CS) + \beta_5(IDS) + \beta_6(OCD) + \beta_7(OFD) + \beta_8(DSE) + \beta_9(DSS) + \beta_{10}(SIZE) + \beta_{11}(SAG) + B_{12}(LEV) + \varepsilon \quad (1)$$

The sample firms are divided into those that have CEO duality and those that do not. The regression model is as follows:

$$Yj = \beta_0 + \beta_1(INCEO) + \beta_2(BS) + B_3(CS) + B_4(IDS) + B_5(OCD) + B_6(OFD) + B_7(DSE) + \beta_8(DSS) + \beta_9(SIZE) + \beta_{10}(SAG) + \beta_{11}(LEV) + \varepsilon \quad (2)$$

The sample firms are divided into those that have CEO internalization and those that do not. The regression model is as follows:

$$Yj = \beta_0 + \beta_1(DUALITY) + \beta_2(BS) + \beta_3(CS) + \beta_4(IDS) + \beta_5(OCD) + \beta_6(OFD) + \beta_7(DSE) + \beta_8(DSS) + \beta_9(SIZE) + \beta_{10}(SAG) + \beta_{11}(LEV) + \varepsilon \quad (3)$$

where Y is firm performance, and j = ROE, ROA.

Table 1 shows a definition of variables in this study. Return on assets (ROA), and return on equity (ROE) are the variables for evaluating company performance for this research.

Table 1 Variable Definitions

Variable Name	Variable Definitions
ROA	Return on assets: (net income/ average total asset * 100%)
ROE	Return on equity: (net income/average net worth * 100%)
DUALITY	CEO duality: The positions of chairperson and CEO of a company are held by the same individual. This is a dummy variable that is set to 1 when there is CEO duality and 0 otherwise.
INCEO	CEO Internalization: The case in which the ultimate controller or immediate family members serve as CEO. This dummy variable is set to 1 when there is CEO internalization and 0 otherwise.
BS	Board size: The number of directors in the company.
CS	Controlling size: The number of directors controlled by the ultimate controller.
IDS	Outside independent directors' size: The number of outside independent directors on the board of directors.
OCD	Outside corporate directors: The number of non-ultimate-controller directors who control other listed companies.
OFD	Outside Foundations directors: The number of non-ultimate–controller directors who represent foundations (trust funds, hospitals, schools, etc.) under their control.
DSE	Stocks/earnings deviation: The stock-control right less the earnings-distribution right. The stock-control right, also known as voting right, is the percentage of stocks controlled by the ultimate controller. The earnings-distribution right, also called the cash-flow right, is the earnings-distribution right by the ultimate controllers.
DSS	Seats/stocks deviation: The seat-control right less the stock-control right. The seat control right is the number of directors the ultimate controller controls divided by the total number of board members, which represents the level of internalization of the board of directors.
SIZE	The natural log value of the total assets of the company.
SAG	Sales growth ratio: (current year's net sales- last year's net sales) / (last year's net sales)*100%.
LEV	Debt ratio: (total liability/total assets)*100%

EMPIRICAL RESULTS

Descriptive Statistics and Correlation Analysis

Table 2 presents the descriptive analysis of the sample companies: 30% of listed Taiwanese company chairpersons also assume the CEO position, as compared to 40-55% of Hong Kong company chairpersons (Chen et al., 2005; Lam and Lee, 2008) and 70%-80% of American chairpersons (Rechner and Dalton, 1991; Rhoades et al., 2001). In Europe, most company chairpersons do not also serve as CEOs; for example, in Britain, only 10% of companies have such a leadership configuration (Coles et al., 2001; Higgs, 2003; Kang and Zardkoohi, 2005). Thus, Taiwanese and Hong Kong's companies in Asia lie between the US and Europe in terms of the percentage of chairpersons who are also CEOs. Table 1 shows that 44% of the companies have a higher rate of CEO internalization than the rate of CEO duality, indicating that, although some companies still have a separate chairperson and CEO, the position of CEO is still controlled by the ultimate controlling interest.

The average size of boards of directors is 9.41 seats, with 5.1 (54%) seats owned by the controlling interest. Companies have an average of 1.24 (13%) outside independent directors. (Although Taiwan's law requires newly listed companies to have at least two outside independent directors, the law does not apply to companies listed before 2002.) . Companies average less than one institutional directors and foundations directors. The stocks/earnings deviation average is at 5.6%, which means that the stock-control right and the cash flow right in listed Taiwanese companies is not aligned. The range of deviation is from 0 to 74%, so non-alignment is the norm, and significant non-alignment is present in a small percentage of companies. The seats/stock deviation averages of 25% with a maximum of 87%, indicating that, among listed Taiwanese companies, the purchasing of powers of attorney from shareholders to acquire company control does happen. Internalization of the board of directors is also a common occurrence.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	S.D.
ROA	1194	0-.91	0.45	0.0517	0.11791
ROE	1194	-3.13	0.75	0.0056	0.25349
DUALITY	1194	0.00	1.00	0.2923	0.45501
INCEO	1194	0.00	1.00	0.4447	0.49714
BS	1194	5.00	32.00	9.4137	2.32080
CS	1194	1.00	24.00	5.0913	2.52349
IDS	1194	0.00	5.00	1.2379	1.37284
OCD	1194	0.00	8.00	0.7437	1.17375
OFD	1194	0.00	4.00	0.0293	0.22421
DSE	1194	0.00	0.74	0.0556	0.10068
DSS	1194	-0.65	0.87	0.2499	0.22856
SIZE	1194	11.14	20.29	15.1026	1.35791
SAG	1194	-1.00	20.55	0.0380	1.04310
LEV	1194	0.01	1.12	0.3672	0.18155

*Notes: ROA: net income/ average total asset * 100%. ROE: net income/average net worth * 100%. DUALITY: is a dummy variable that is set to 1 when there is CEO duality and 0 otherwise. INCEO: is a dummy variable that is set to 1 when there is CEO internalization and 0 otherwise. BS: the number of directors in the company. CS: The number of directors controlled by the ultimate controller. IDS: the number of outside independent directors on the board of directors. OCD: the number of non-ultimate-controller directors who control other listed companies. OFD: the number of non-ultimate–controller directors who represent foundations under their control. DSE: the stock-control right- the earnings-distribution right. DSS: the seat-control right - the stock-control right. SIZE: the natural log value of the total assets of the company. SAG: (current year's net sales- last year's net sales) / (last year's net sales)*100%. LEV: (total liability/total assets)*100%.*

As shown in Table 3, the ROA regression model uses ROA as a proxy to assess company performance. The analysis of the full regression model in model (1) reveals that the DUALITY status and company performance are negatively correlated, meaning that when the role of the chairperson and the CEO are assumed by the same person, it worsens company performance and results in agency costs. Therefore, this research finds that the situation of listed Taiwanese companies with CEO duality position supports the agency theory as well as H1a, which states that CEO duality is negatively related to firm performance. The findings here do not support the stewardship theory or H1b, which states that CEO duality is positively related to firm performance. INCEO and company performance showed no significant relationship. Therefore, H2, which states that CEO internalization is related to firm performance, is not supported by the results.

Within the structure of the board of directors, BS and CS do not show a significant correlation with company performance, so H3—that board size and company performance are related—is not supported. However, IDS and company performance have a positive relationship, which means that, the more numerous the supervising directors, the better the effect of monitoring the company's management level is. This finding supports H4, which states that the scale of outside independent directors is positively related to firm performance. Concerning the supervising effects of outside institutional directors, we analyzed OCD and OFD against company performance and found no significant correlations. This result does not support H5, which states that the proportion of outside institutional directors is positively related to firm performance.

The stock-control right and seats-control right represent the ultimate controlling interest's dominance over the company's resources, while earnings-distribution right is the level of the shareholders' dominance of the company's resources. Our evidence show that, within Taiwanese listed companies, DSE and DSS is common. DSE and company performance have a significantly negative relationship. This finding helps to explain that, when the decision-makers and the shareholders have different goals, agency costs are generated. This result supports H6, which states that non-alignment of stock rights and earning-distribution rights is negatively related to firm performance, as well as H7, which states that non-alignment between seats rights and stock rights is negatively related to firm performance.

Table 3: ROA Regression Model Analysis

		Model (1)	Model (2)		Model (3)	
	Expected sign	ROA	Duality	Non-duality	Internalized	Non-internalized
Intercept		-0.254 ***	-0.391 ***	-0.217 ***	-0.262 ***	-0.240 ***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DUALITY	-/+	-0.030 ***			-0.030 ***	-0.029 *
		(0.000)			(0.001)	(0.069)
INCEO	+/-	0.010	0.019	0.011		
		(0.182)	(0.301)	(0.182)		
BS	+/-	-0.002	-0.004	-0.001	-0.001	-0.002
		(0.408)	(0.391)	(0.597)	(0.883)	(0.398)
CS	+/-	0.001	0.006	0.000	-0.001	0.002
		(0.625)	(0.254)	(0.939)	(0.863)	(0.584)
IDS	+	0.009 ***	0.005	0.013 ***	0.006	0.013 ***
		(0.001)	(0.331)	(0.000)	(0.181)	(0.001)
OCD	+	-0.001	-0.005	0.002	-0.004	0.001
		(0.726)	(0.373)	(0.532)	(0.400)	(0.810)
OFD	+	0.011	0.028	0.010	-0.001	0.012
		(0.443)	(0.463)	(0.518)	(0.975)	(0.468)
DSE	-	-0.065 *	0.076	-0.075 **	0.006	-0.025
		(0.059)	(0.456)	(0.040)	(0.942)	(0.517)
DSS	-	-0.068 ***	-0.116 ***	-0.041 *	-0.087 ***	-0.046
		(0.001)	(0.002)	(0.081)	(0.002)	(0.110)
SIZE	+	0.027 ***	0.034 ***	0.023 ***	0.028 ***	0.026 ***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
SAG	+	0.011 ***	0.007 *	0.022 ***	0.011 **	0.011 ***
		(0.000)	(0.092)	(0.000)	(0.029)	(0.004)
LEV	-	-0.204 ***	-0.199 ***	-0.198 ***	-0.167 ***	-0.227 ***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Adjusted R^2		0.182	0.180	0.177	0.141	0.206
F-value		23.187 ***	7.963 ***	17.507 ***	8.936 ***	16.595 ***
N		1194	349	845	531	663

*Notes: ROA: net income/ average total asset * 100%. ROE: net income/average net worth * 100%. DUALITY: is a dummy variable that is set to 1 when there is CEO duality and 0 otherwise. INCEO: is a dummy variable that is set to 1 when there is CEO internalization and 0 otherwise. BS: the number of directors in the company. CS: The number of directors controlled by the ultimate controller. IDS: the number of outside independent directors on the board of directors. OCD: the number of non-ultimate-controller directors who control other listed companies. OFD: the number of non-ultimate–controller directors who represent foundations under their control. DSE: the stock-control right- the earnings-distribution right. DSS: the seat-control right - the stock-control right. SIZE: the natural log value of the total assets of the company. SAG: (current year's net sales- last year's net sales) / (last year's net sales)*100%. LEV: (total liability/total assets)*100%.*
****, **, and * indicate significance at the 1, 5 and 10 percent levels respectively.*

Model (2) separates the sample companies into those with CEO duality and those without in order to perform a regression analysis. Results show that, in companies with CEO duality, the DSS and company performance have a significantly negative relationship. Since the difference between seat-control rights and stock-control rights widens, agency problems occur more easily, resulting in poor performance. Under this circumstance, the supervisory effort of the independent directors is not apparent and has no significant relationship to company performance.

In companies in which the chairperson is not also the CEO, the number of independent directors has a significantly positive relationship with company performance; thus, when the chairperson and CEO roles are played by different people, the independent directors are better able to do perform their role. The DSS and company performance also has a significantly negative relationship, which shows that, when the chairperson is not also the CEO, DSE exerts a greater negative effect on company performance.

By separating sample companies into those with CEO duality and those without, we show through analysis that the independent directors are less able to exert their supervisory capacity under CEO duality. In the opposite scenario, the independent directors' number is significantly and positively related to

company performance, and when DSE occurs, the companies without CEO duality feel a greater negative effect than do those with CEO duality.

Model (3) separates companies into those with internalized CEO and those without in order to conduct a regression analysis. The analysis shows that, under CEO duality, the company performance is worse regardless of whether there is CEO internalization. Under the scenario of INCEO and DSS, company performance is more significantly and negatively affected than when the CEO is not internalized. When management is not internalized, IDS is more positively related to company performance. Thus, when there is no internalization, the outside independent directors are better able to performance their supervisory functions.

Table 4 is the ROE regression model analytical table, which uses ROE as a company performance proxy. The analysis of model (1) shows that DUALITY and company performance are negatively correlated, so, when the same person assumes the positions of chairperson and the CEO, company performance suffers and agency costs rise. Therefore, when there is CEO duality in listed Taiwanese companies, the perspective of the agency theory is supported, as is H1a, which states that CEO duality and company performance are negatively related. However, this part of the analysis does not support the perspective of the stewardship theory or H1b, which states that CEO duality and company performance are positively related. The significantly positive relationship between INCEO and company performance supports H2—that CDCEO and company performance are positively related—and explains that, when the CEO is a member of the controlling interest group, he or she will put the best interest of the group first, which raises the performance of the company, particularly the stockholders' return rate. Thus, INCEO is beneficial to aligning the interests of the company and the stockholders.

In terms of the structure of the board of directors, the relationship of the BS and CS to company performance is not significant, so it does not support H3, which states that the size of the board of directors and company performance are related. However, IDS and company performance have a significantly positive relationship; thus, the more outside independent directors there are, the better they are able to perform management level functions, increasing company performance. This finding supports H4, which states that the proportion of outside independent directors is positively related to firm performance. As for the supervisory effects of the outside institutional directors, we examined the relationship between the number of OCD and OFD and company performance and found no significant relationship and no support for H5, which states that the proportion of outside institutional directors is positively related to firm performance.

The stock-control rights and seat-control rights represent the ultimate controlling interest's dominance over the company's resources, while the earnings-distribution rights represent the shareholders' dominance of the company's resources. DSE and DSS have a significant negative relationship to company performance, which can explain why, when decision-makers and shareholders have different goals, an agency cost is generated. This result supports H6, which states that non-alignment of stock rights and earnings-distribution rights is negatively related to firm performance, as well as H7, which states that misalignment Between seats rights and stock rights is negatively related to firm performance.

Model (2) separates the sample companies into those that have CEO duality and those that do not in order to perform a regression analysis. Results show that among companies with CEO duality, INCEO and company performance have significantly positive relationships. Thus, when the CEO is a member of the controlling interest and there is CEO duality, there is also a positive effect on company performance. DSE and company performance have a significantly negative relationship, indicating that the difference between the seat-control rights and the stock-control rights widens, and agency problems occur more easily, creating poor performance under CEO duality. Under this circumstance, the supervisory effort of the independent directors is less effective and has no significant relationship to company performance. In companies where there is no CEO duality, the number of independent directors and company performance has significantly positive relationship; thus, when the chairman and CEO are two different individuals, the independent directors are better able to do perform their role. DSS and company performance also have a

significantly negative relationship; thus, when the chairperson is not also the CEO and DSE arises, it exerts a greater negative effect on company performance.

Table 4: ROE Regression Model Analysis

		Model (1)	Model (2)		Model (3)	
	Expected sign	**ROE**	**Duality**	**Non-duality**	**Internalized**	**Non-internalized**
Intercept		-0.584 ***	-0.920 ***	-0.483 ***	-0.636 ***	-0.537 ***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
DUALITYY	-/+	-0.067 ***			-0.050 ***	-0.100 ***
		(0.000)			(0.006)	(0.005)
INCEO	+/-	0.035 **	0.093 **	0.025		
		(0.031)	(0.031)	(0.139)		
BS	+/-	-0.003	-0.009	-0.001	-0.008	-0.002
		(0.456)	(0.387)	(0.850)	(0.279)	(0.788)
CS	+/-	-0.001	0.012	-0.004	0.005	-0.004
		(0.891)	(0.296)	(0.531)	(0.546)	(0.621)
IDS	+	0.010 *	-0.002	0.018 ***	0.013	0.011
		(0.080)	(0.878)	(0.007)	(0.110)	(0.214)
OCD	+	-0.008	-0.009	-0.005	-0.004	-0.009
		(0.245)	(0.517)	(0.513)	(0.661)	(0.347)
OFD	+	-0.002	0.026	0.003	0.034	-0.012
		(0.934)	(0.770)	(0.930)	(0.575)	(0.747)
DSE	-	-0.218 ***	0.095	-0.230 ***	-0.056	-0.174 **
		(0.003)	(0.687)	(0.002)	(0.748)	(0.046)
DSS	-	-0.082 *	-0.148 *	-0.038	-0.120 **	-0.050
		(0.054)	(0.087)	(0.435)	(0.031)	(0.442)
SIZE	+	0.055 ***	0.076 ***	0.044 ***	0.060 ***	0.052 ***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
SAG	+	0.019 ***	0.016 *	0.037 ***	0.013	0.023 **
		(0.003)	(0.072)	(0.001)	(0.160)	(0.011)
LEV	-	-0.486 ***	-0.681 ***	-0.382 ***	-0.438 ***	-0.514 ***
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Adjusted R^2		0.179	0.250	0.145	0.171	0.178
F-value		22.631 ***	11.518 ***	14.053 ***	19.940 ***	14.071 ***
N		1194	349	845	531	663

*Notes: ROA: net income/ average total asset * 100%. ROE: net income/average net worth * 100%. DUALITY: is a dummy variable that is set to 1 when there is CEO duality and 0 otherwise. INCEO: is a dummy variable that is set to 1 when there is CEO internalization and 0 otherwise. BS: the number of directors in the company. CS: The number of directors controlled by the ultimate controller. IDS: the number of outside independent directors on the board of directors. OCD: the number of non-ultimate-controller directors who control other listed companies. OFD: the number of non-ultimate–controller directors who represent foundations under their control. DSE: the stock-control right- the earnings-distribution right. DSS: the seat-control right - the stock-control right. SIZE: the natural log value of the total assets of the company. SAG: (current year's net sales- last year's net sales) / (last year's net sales)*100%. LEV: (total liability/total assets)*100%.*
****, **, and * indicate significance at the 1, 5 and 10 percent levels respectively.*

When we separated sample companies into ones with CEO duality and ones without, our analytical results showed that the independent directors are less able to exert their supervisory capacity under CEO duality. When there is no CEO duality, the number of independent directors is significantly and positively correlated to company performance, and DES has a greater negative effect than it does on companies with

CEO Duality

Model (3) separates companies into those with internalized CEO and those without in order to conduct a regression analysis. The analysis shows that, in companies with CEO duality, the company performance decreases, regardless of whether there is CEO internalization. When there is INCEO and DSS, company performance is more significantly and negatively affected than when the CEO is not internalized. DSE and company performance have a significantly negative relationship under non-INCEO conditions.

As indicated by Table 3 (ROA regression model analysis) and Table 4 (ROE regression model analysis), in both the group model and the scattered model, the control variables SIZE and SAG are significantly and positively related to company performance, and LEV and company performance are significantly and negatively related. This finding indicates that, the bigger the SIZE and SAG of listed Taiwanese companies, the better the performance; and the higher the LEV, the worse the performance.

CONCLUSION

This research uses listed Taiwanese companies as sample companies. To examine the effects on firm performance of leadership structure of the boards of directors, the effects of misalignment between the stock-control rights and the seat-control rights and between the seat-control rights and the earnings-distribution rights, and related variables such as sales growth ratio, debt ratio, and company size.

Our analyses of the sample reveals that, in 30% of Taiwanese companies, the chairperson also assumes the position of CEO, a percentage lower than that of the US but higher than that in Europe. In the greater Chinese area (including Mainland China, Hong Kong, Macao, and Taiwan), the majority of companies are family-owned, and family members and friends are elected as CEOs in order to maintain exclusive management control (Yeung, 2000; Chen, 2001; Ahlstrom et al., 2004; Lien et al., 2005; Liu et al., 2006). Our research reveals that 44% of the companies have CEO internalization, rather than duality; therefore, the CEO is still controlled by the controlling interest. This finding is consistent with current research. Of the sample companies, 5.6% have a misalignment between stock-control rights and earnings-distribution rights, and a small percentage have a serious misalignment. The misalignment between seat-control rights and stock-control rights shows that the situation wherein someone acquires company control by purchasing powers of attorney from stockholders is present in Taiwan. The internalization of boards of directors is also a common occurrence.

The findings and results of this research can provide Taiwanese governing bodies with a reference for strengthening corporate governance policies. For example, the number of independent directors and company performance show a significantly positive relationship, which is consistent with the direction of today's governmental policies. However, the current requirement as to the number of independent directors in listed companies applies only to

companies established after 2002, so we recommend that this requirement be applicable to all businesses. In addition, because agency problems occur because of CEO duality because independent directors are less able to operate under CEO duality, policies should be set in place to alleviate this situation. In listed Taiwanese companies, the stock-control right and the cash flow right are often misaligned, and the occasions of severe misalignment indicate that the control. This practice and the resulting misalignment exert a negative effect on company performance and stakeholders and are worth the attention of governing bodies. These findings also serve as a valuable reference for the investing public and stakeholders during their decision-making. Since this research is an analysis of listed Taiwanese companies, it cannot provide more generalized statements about the relationship between the board leadership structure and firm performance.

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