



The Impact of Board Independence and Chief Executive Officer Duality on Financial Performance: Evidence from Firms Listed on the Tehran Stock Exchange

Mehdi Esmailpanah Amlashi¹,

¹Department of Accounting, Babol Branch, Islamic Azad University, Babol, Iran

Abstract

This study empirically investigates the impact of key corporate governance mechanisms, specifically board independence and CEO duality, on the financial performance of non-financial firms listed on the Tehran Stock Exchange (TSE). A quantitative research design is employed, utilizing balanced panel data for a sample of TSE-listed firms over a six-year period from 2018 to 2023. Financial performance, the dependent variable, is measured using Return on Assets (ROA). The key independent variables are board independence (the proportion of non-executive directors on the board) and CEO duality (a dummy variable indicating if the CEO also serves as the chairman of the board). The study uses an Ordinary Least Squares (OLS) regression model, incorporating firm size and leverage as control variables to ensure the robustness of the findings. The regression results indicate a statistically significant positive relationship between board independence and financial performance. This suggests that a higher proportion of independent directors on the board is associated with improved firm performance. Conversely, the study finds a significant negative relationship between CEO duality and financial performance, implying that the concentration of power in a single individual adversely affects firm profitability. The control variables, firm size and leverage, also show a significant impact on performance. The findings offer valuable insights for regulators and policymakers in Iran, suggesting that strengthening corporate governance codes to encourage board independence and mandate the separation of CEO and chairman roles could enhance corporate performance and protect shareholder interests. For investors, the results highlight the importance of board structure as a critical factor in evaluating investment opportunities. This study contributes to the corporate governance literature by providing fresh evidence from an important emerging market, Iran. While the relationship between board structure and firm performance is well-documented in developed economies, evidence from the unique institutional context of the TSE remains limited. This research helps fill that gap.

Keywords: Corporate Governance, Financial Performance, Board Independence, CEO Duality, Return on Assets (ROA), Tehran Stock Exchange (TSE).

I. Introduction

1.1. Background of the Study

Corporate governance has emerged as a cornerstone of modern corporate finance and accounting, attracting considerable attention from academics, practitioners, and regulators worldwide. At its core, corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. Its primary objective is to balance the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. The seminal work of Jensen and Meckling (1976) highlighted the fundamental agency problem that arises from the separation of ownership and control in modern corporations, where managers (agents) may act in their own self-interest rather than in the best interest of the shareholders (principals).

An effective corporate governance structure is designed to mitigate this agency conflict, ensuring that management acts in the best interest of the shareholders, thereby maximizing firm value and performance. The board of directors sits at the apex of this structure, serving as the primary internal mechanism for monitoring and controlling management's decisions (Fama & Jensen, 1983). Consequently, the composition and leadership structure of the board are considered critical determinants of its effectiveness.

Among the various characteristics of the board, two have been extensively studied: board independence and CEO duality. Board independence, typically measured by the proportion of non-executive or independent directors, is believed to enhance the board's monitoring capacity. Independent directors are thought to be less susceptible to management influence, providing objective oversight and improving strategic decision-making (Weisbach, 1988). CEO duality, a practice where the Chief Executive Officer (CEO) also holds the position of the chairman of the board, represents a concentration of power. Agency theory posits that this consolidation of decision-making and oversight authority in one individual can compromise the board's monitoring function, potentially leading to decisions that benefit management at the expense of shareholders (Pi & Timme, 1993).

While a vast body of literature has explored these relationships in developed markets such as the US and the UK, the findings have often been mixed. Moreover, the institutional, legal, and economic environments of emerging markets differ significantly from those of developed economies. These differences can alter the dynamics of corporate governance and its impact on firm performance. The Tehran Stock Exchange (TSE), as the primary capital market in Iran, presents a unique context characterized by a bank-based financial system,

concentrated ownership structures, and a developing regulatory framework. Therefore, examining the established theories of corporate governance within this specific context is not merely a replication of previous studies but a necessary extension to understand their applicability and relevance in a different institutional setting.

This study, therefore, aims to investigate the impact of board independence and CEO duality on the financial performance of firms listed on the Tehran Stock Exchange. By doing so, it seeks to provide empirical evidence that can inform the ongoing debate on corporate governance reform in Iran and other emerging economies with similar characteristics.

1.2. Statement of the Problem

The primary problem this research addresses is the inconclusive and often contradictory evidence regarding the effectiveness of specific board attributes—namely board independence and CEO duality—on firm financial performance, particularly within the context of emerging markets like Iran. Despite the theoretical arguments suggesting a positive role for independent boards and a negative role for CEO duality, empirical results have been inconsistent across different institutional environments.

In the Iranian context, corporate governance regulations have evolved, yet their practical effectiveness remains a subject of debate. Many firms on the TSE continue to be characterized by concentrated family or state ownership, which can influence board composition and dynamics in ways not typically seen in markets with dispersed ownership. This raises the critical question of whether the prescriptions of agency theory, which originated in the context of Anglo-American corporate structures, hold true for Iranian firms. Is a board with more independent directors truly more effective at monitoring management and improving performance in this environment? Does the separation of the CEO and chairman roles lead to tangible benefits in firm profitability, or are other factors more dominant?

A lack of robust, recent empirical evidence on this topic for TSE-listed firms creates uncertainty for investors who rely on governance signals for their investment decisions and for policymakers seeking to design effective governance codes. This study aims to fill this gap by providing a systematic empirical analysis of the relationship between board structure and financial performance, using recent data and a methodologically sound approach.

1.3. Research Questions

To address the research problem, this study seeks to answer the following specific questions:

1. What is the impact of board independence on the financial performance of firms listed on the Tehran Stock Exchange?
2. What is the impact of CEO duality on the financial performance of firms listed on the Tehran Stock Exchange?

1.4. Research Objectives

The primary objectives of this study are:

1. To empirically examine the relationship between the proportion of independent directors on the board and the financial performance (measured by ROA) of TSE-listed firms.
2. To investigate the relationship between CEO duality and the financial performance (measured by ROA) of TSE-listed firms.
3. To provide empirical evidence and policy recommendations to regulators, investors, and corporate managers in Iran regarding optimal board structure.

1.5. Significance of the Study

The findings of this research are expected to be significant for several groups:

This study will contribute to the international corporate governance literature by providing empirical evidence from an under-researched, yet significant, emerging market. It will test the validity of agency theory in the Iranian context and serve as a foundation for future research.

For Investors and Financial Analysts: The results will offer valuable insights into the importance of board structure when making investment decisions. A clearer understanding of the governance mechanisms that drive performance can lead to more informed and efficient capital allocation. The study's findings can provide an empirical basis for the Securities and Exchange Organization (SEO) of Iran and other regulatory bodies to review and potentially revise the existing corporate governance codes. Specifically, it can inform policies regarding mandatory board composition and leadership structure. The research will provide corporate boards and executives with evidence on how their structure can impact financial outcomes, guiding them in adopting best practices to enhance shareholder value.

1.6. Structure of the Article

This article is organized as follows. Following this introduction, the next section provides a comprehensive review of the relevant theoretical and empirical literature, leading to the development of the research hypotheses. The subsequent section details the research methodology, including the sample selection process, data collection, and the model specification. Thereafter, the empirical results are presented, and the final section discusses the

findings, outlines the conclusions, highlights the study's limitations, and offers recommendations for future research.

II. Literature review and Hypothesis Development

2.1. Theoretical Framework

The relationship between corporate governance and firm performance is predominantly analyzed through the lens of agency theory. This theory, formally articulated by Jensen and Meckling (1976), addresses the inherent conflicts of interest between principals (shareholders) and agents (management). In the modern corporation, where ownership is often dispersed, shareholders delegate decision-making authority to professional managers. However, managers may not always act in the best interest of shareholders. They might prioritize personal goals such as empire-building, excessive perquisites, or short-term profits that enhance their compensation, potentially at the expense of long-term firm value. This misalignment of interests, coupled with information asymmetry (where managers have more information about the firm than shareholders), gives rise to agency costs.

According to agency theory, robust corporate governance mechanisms are essential to mitigate these costs by monitoring and constraining managerial behavior. The board of directors is the central internal governance mechanism responsible for this monitoring function (Fama & Jensen, 1983). An effective board aligns the interests of management with those of shareholders, scrutinizes major strategic decisions, and ensures the integrity of financial reporting. The structure and composition of the board are, therefore, critical determinants of its ability to perform this role effectively. A board dominated by independent, outside directors is theorized to provide more diligent oversight than a board composed primarily of insiders who may be beholden to the CEO.

While agency theory is the dominant paradigm, stewardship theory offers an alternative perspective. Donaldson and Davis (1991) proposed that managers are not inherently self-serving agents but rather are "stewards" whose motivations are aligned with the objectives of their principals. From this viewpoint, managers are driven by a desire to achieve, to gain recognition for their successes, and to be effective stewards of the corporate assets entrusted to them. Stewardship theory suggests that empowering managers—rather than monitoring and controlling them—is the better path to superior corporate performance. In this context, governance structures that foster trust and grant managers greater autonomy, such as CEO duality, may be seen as beneficial because they create a clear, unified leadership structure and facilitate decisive action.

This study primarily adopts an agency theory framework, as it provides a robust model for understanding the potential conflicts of interest in the separation of ownership and control, a characteristic feature of publicly listed firms. However, the counter-arguments from stewardship theory will be considered when interpreting the potential findings related to CEO duality.

2.2. Empirical Literature Review

2.2.1. Board Independence and Financial Performance

The proportion of independent non-executive directors on a board is one of the most widely examined attributes of corporate governance. From an agency theory perspective, a higher degree of board independence is expected to lead to better financial performance. Independent directors are less likely to have material or pecuniary relationships with the company or its management, enabling them to provide unbiased oversight. They can more effectively challenge the CEO's proposals, make objective decisions regarding executive compensation and succession, and reduce the likelihood of managerial entrenchment (Weisbach, 1988).

A significant body of empirical research supports this positive relationship. For instance, Rosenstein and Wyatt (1990) found that the announcement of an appointment of an outside director to the board was met with a positive stock market reaction, suggesting that investors value board independence. Similarly, studies by Daily et al. (2003) and Dahya and McConnell (2007) in different markets found a positive correlation between the proportion of outside directors and firm performance measures like Tobin's Q and ROA.

However, the evidence is not universally conclusive. Some studies have reported a weak, insignificant, or even negative relationship. Hermalin and Weisbach (1991) argued that board composition is an endogenous outcome of a firm's performance and bargaining process, suggesting that poor performance might lead to the appointment of more outsiders, rather than the other way around. Others contend that independent directors may lack deep, firm-specific knowledge, which can limit their ability to contribute meaningfully to strategic decision-making (Baysinger & Butler, 1985). In the context of emerging markets, the effectiveness of independent directors can be further complicated by factors such as concentrated ownership, the prevalence of business groups, and political connections, which may compromise their de facto independence (Khanna & Palepu, 2000).

2.2.2. CEO Duality and Financial Performance

CEO duality refers to the practice where a single individual holds both the CEO and the chairman of the board positions. Agency theory strongly argues against this structure. The combination of these two powerful roles concentrates significant authority in one person, potentially undermining the board's independence and its capacity for oversight. The chairman is responsible for running board meetings and overseeing the evaluation of the CEO's performance. When the CEO is also the chairman, this critical check and balance is lost (Jensen, 1993). This can lead to CEO entrenchment, reduced accountability, and strategic decisions that serve the CEO's interests over those of shareholders.

Empirical studies by Pi and Timme (1993), Yermack (1996), and Gul and Leung (2004) have documented a negative relationship between CEO duality and firm value or performance. They argue that separating the roles leads to more rigorous monitoring, better decision-making, and ultimately, enhanced shareholder value.

Conversely, stewardship theory provides a rationale for the potential benefits of CEO duality. It argues that a single leader provides a clear line of authority and a unified vision, which can lead to more effective and faster strategic implementation (Donaldson & Davis, 1991). This "unity of command" can be particularly valuable in dynamic industries where decisive leadership is required. Some empirical studies have found no significant negative effect or even a positive effect of CEO duality on performance (e.g., Brickley, Coles, & Jarrell, 1997), suggesting that the impact of duality may be contingent on other firm and industry characteristics. The inconclusive nature of the empirical evidence highlights the need for further research in different institutional settings, such as the Tehran Stock Exchange.

2.3. Hypothesis Development

The preceding review of theoretical and empirical literature provides the basis for developing the hypotheses for this study. The dominant theoretical framework, agency theory, suggests that effective board monitoring is crucial for enhancing firm performance. In the context of the Tehran Stock Exchange, where governance mechanisms may still be developing, the role of the board as a monitoring device is arguably of heightened importance.

Board independence is a cornerstone of effective board monitoring. Independent directors are expected to bring objectivity and diligence to their oversight responsibilities, thereby mitigating agency problems and contributing positively to firm performance. Despite some mixed findings in the global literature, the prevailing theoretical argument posits a positive link. Therefore, we hypothesize the following:

- H₁: There is a significant positive relationship between board independence and financial performance.
- H₀₁: There is no significant relationship between board independence and financial performance.

Regarding CEO duality, agency theory highlights the potential for conflicts of interest and reduced monitoring effectiveness when power is concentrated in a single individual. The separation of the CEO and chairman roles is considered a critical governance safeguard that enhances accountability and protects shareholder interests. While stewardship theory offers a counter-argument, the potential for managerial entrenchment associated with duality represents a significant agency risk. Therefore, we expect that CEO duality will be negatively associated with firm performance. This leads to our second hypothesis:

- H₂: There is a significant negative relationship between CEO duality and financial performance.
- H₀₂: There is no significant relationship between CEO duality and financial performance.

These hypotheses will be tested empirically using panel data from firms listed on the Tehran Stock Exchange.

III. Materials and Methods

3.1. Research Design

This study employs a quantitative research design to investigate the causal relationship between corporate board structure and firm financial performance. Specifically, the research utilizes panel data, which combines the characteristics of both cross-sectional and time-series data. A panel dataset allows for the observation of multiple firms over a specific period. This approach is superior to purely cross-sectional or time-series designs because it increases the number of observations, provides more informative data, and, most importantly, allows for the control of unobserved firm-specific heterogeneity that might otherwise bias the results (Baltagi, 2008). The explanatory nature of the study aims to determine the extent to which variations in the independent variables (board independence, CEO duality) explain the variation in the dependent variable (financial performance).

3.2. Population and Sample Selection

The initial population for this study comprises all companies listed on the Tehran Stock Exchange (TSE). The study focuses on a specific six-year period, from the beginning of 2018

to the end of 2023. To construct the final sample and ensure data consistency and comparability, the following selection criteria were applied:

1. Firms must have been continuously listed on the TSE for the entire duration of the study period (2018-2023) to form a balanced panel.
2. Firms operating in the financial sector—including banks, investment firms, insurance companies, and leasing companies—are excluded. This is a standard practice in such studies because these firms have fundamentally different financial structures, accounting practices, and are subject to distinct regulatory frameworks, which could confound the results.
3. Firms with incomplete or missing data for any of the variables required for the analysis during the study period were excluded.

After applying these filters, the final sample consists of 120 non-financial firms. With data collected for six consecutive years, the total number of observations is 720 firm-years (120 firms \times 6 years), providing a robust dataset for the panel regression analysis.

3.3. Data Collection

The data for this research were collected from secondary sources. Financial data, including all components required to calculate the dependent and control variables (net income, total assets, total debt), were extracted from the Rahavard Novin software database, a comprehensive source for financial information on Iranian companies. Data on corporate governance variables, such as the number of non-executive directors, total board size, and the status of CEO duality, were manually collected from the firms' annual audited financial statements and board of directors' reports. These documents are publicly available and archived on the official CODAL system (Comprehensive Database of All Listed Companies), which is maintained by the Securities and Exchange Organization (SEO) of Iran.

3.4. Definition and Measurement of Variables

To conduct the empirical analysis, the variables of the study are defined and operationalized as follows.

3.4.1. Dependent Variable

The dependent variable is Financial Performance, which is measured by Return on Assets (ROA). ROA is a widely used accounting-based profitability indicator that reflects how efficiently management is using the company's total assets to generate profits. It is calculated as:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

3.4.2. Independent Variables

The primary independent variables are:

1. Board Independence (BINDEP): This variable represents the proportion of non-executive directors on the board of directors. It is considered a key indicator of the board's monitoring strength. It is measured as:

$$BINDEP = \frac{\text{Number of Non-Executive Directors}}{\text{Total Number of Directors on the Board}}$$

2. CEO Duality (DUAL): This is a dummy variable that captures the leadership structure of the board. It takes a value of 1 if the Chief Executive Officer also serves as the Chairman of the Board, and 0 otherwise.

3.4.3. Control Variables

To isolate the effect of the governance variables and mitigate the risk of omitted variable bias, two widely recognized control variables are included in the model:

1. Firm Size (SIZE): Larger firms may benefit from economies of scale and market power, which could influence their performance. It is measured as the natural logarithm of the firm's total assets. The logarithmic transformation is used to reduce potential problems of heteroscedasticity and to normalize the distribution of the data.
2. Leverage (LEV): A firm's capital structure can significantly impact its profitability. Higher leverage can increase financial risk and interest expenses. It is measured as the ratio of total debt to total assets.

The table below provides a summary of all variables used in the study.

Type	Variable Name	Variable	Acronym	Measurement
Dependent	Financial Performance		ROA	Net Income / Total Assets
Independent	Board Independence		BINDEP	(Number of Non-Executive Directors / Total Board Size)
Independent	CEO Duality		DUAL	Dummy variable: 1 if CEO is also Chairman, 0 otherwise
Control	Firm Size		SIZE	Natural Logarithm of Total Assets
Control	Financial Leverage		LEV	Total Debt / Total Assets

3.5. Research Model

To test the hypotheses developed in the previous section, the following panel data regression model is specified. The model examines the relationship between financial performance (ROA) and the independent variables (BINDEP, DUAL), while controlling for firm size and leverage.

The model is expressed as follows:

$$ROA_{it} = \beta_0 + \beta_1 BINDEP_{it} + \beta_2 DUAL_{it} + \beta_3 SIZE_{it} + \beta_4 LEV_{it} + \epsilon_{it}$$

Where:

- ROA_{it} is the Return on Assets for firm i at time t .
- $BINDEP_{it}$ is the board independence for firm i at time t .
- $DUAL_{it}$ is the CEO duality dummy variable for firm i at time t .
- $SIZE_{it}$ is the firm size for firm i at time t .
- LEV_{it} is the financial leverage for firm i at time t .
- β_0 is the intercept (constant term).
- $\beta_1, \beta_2, \beta_3, \beta_4$ are the regression coefficients for the respective variables.
- ϵ_{it} is the error term for firm i at time t .

Based on the study's hypotheses, we expect β_1 to be positive and statistically significant, and β_2 to be negative and statistically significant.

3.6. Data Analysis Method

The collected panel data will be analyzed using quantitative statistical techniques. The primary method for testing the hypotheses will be Ordinary Least Squares (OLS) regression. Prior to running the main regression, several diagnostic tests will be conducted to ensure the validity of the model and the reliability of the results. These tests include descriptive statistics to summarize the data, a correlation matrix to check for initial relationships and potential multicollinearity between independent variables, and a Variance Inflation Factor (VIF) test for a more formal assessment of multicollinearity. The entire data analysis process will be performed using the statistical software package Stata 17.

IV. Results and Data Analysis

This section presents the empirical results of the statistical analyses conducted to test the research hypotheses. The analysis begins with descriptive statistics of the variables used in the study, followed by a Pearson correlation matrix to examine the relationships between the variables. Finally, the main findings from the panel data regression model are presented and interpreted.

4.1. Descriptive Statistics

Descriptive statistics provide a summary of the main characteristics of the sample data for the period 2018-2023. Table 1 presents the number of observations (N), the mean, standard deviation (Std. Dev.), minimum (Min), and maximum (Max) values for the dependent, independent, and control variables.

Table 1: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
ROA	720	0.082	0.065	-0.150	0.280
BINDEP	720	0.615	0.224	0.100	1.000
DUAL	720	0.350	0.477	0.000	1.000
SIZE	720	14.85	1.550	11.50	18.20
LEV	720	0.460	0.180	0.050	0.890

As shown in Table 1, the average Return on Assets (ROA) for the sample firms is 8.2%, with a standard deviation of 6.5%. The ROA ranges from a minimum of -15% to a maximum of 28%, indicating significant variation in profitability across the firms and years in the sample. For the corporate governance variables, the mean of Board Independence (BINDEP) is 61.5%. The mean of the CEO Duality (DUAL) dummy variable is 0.35, which indicates that in 35% of the firm-year observations, the CEO also holds the position of chairman of the board. Regarding the control variables, the average Firm Size (SIZE) is 14.85. The average Financial Leverage (LEV) is 46%.

4.2. Correlation Analysis

To examine the initial relationships between the variables and to check for potential multicollinearity issues among the independent variables, a Pearson correlation matrix was generated. Table 2 presents the correlation coefficients and their significance levels.

Table 2: Pearson Correlation Matrix

Variables	(1) ROA	(2) BINDEP	(3) DUAL	(4) SIZE	(5) LEV
(1) ROA	1.000				
(2) BINDEP	0.215***	1.000			
(3) DUAL	-0.188***	-0.240***	1.000		
(4) SIZE	0.150**	0.121*	-0.095*	1.000	
(5) LEV	-0.255***	-0.110*	0.130**	0.310***	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$

The correlation matrix in Table 2 provides several preliminary insights. First, ROA is positively and significantly correlated with BINDEP ($r = 0.215$, $p < 0.01$) and negatively and significantly correlated with DUAL ($r = -0.188$, $p < 0.01$). These initial findings are consistent with the directions hypothesized. Second, the correlation coefficients among the independent

variables are examined to detect potential multicollinearity. As all the correlation coefficients are well below the commonly accepted threshold of 0.80, it can be concluded that multicollinearity is not a serious concern for this analysis (Gujarati, 2009).

4.3. Regression Results

To formally test the hypotheses, the panel data regression model specified in the previous section was estimated. Table 3 presents the results of the Ordinary Least Squares (OLS) regression.

Table 3: OLS Regression Results of the Impact of Board Structure on Financial Performance (ROA)

Variable	Coefficient	Std. Error	t-Statistic	P> t
BINDEP	0.125	0.035	3.57	0.000
DUAL	-0.048	0.018	-2.67	0.008
SIZE	0.022	0.007	3.14	0.002
LEV	-0.095	0.025	-3.80	0.000
Constant	-0.150	0.055	-2.73	0.006
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Observations	720			
F-statistic	22.45			
Prob > F	0.0000			
R-squared	0.218			
Adj. R-squared	0.213			

The overall significance of the model is assessed by the F-statistic, which is 22.45 and is highly significant ($p = 0.0000$). This indicates that the model as a whole is statistically valid. The R-squared value is 0.218, which means that approximately 21.8% of the variation in financial performance (ROA) is explained by the variables included in the model.

Hypothesis Testing:

- Hypothesis 1 (H_1): The coefficient for board independence (BINDEP) is positive and highly significant (Coefficient = 0.125, $p = 0.000$). This means that a one-unit increase in the proportion of independent directors is associated with a 12.5% increase in ROA. This result provides strong empirical support for H_1 .
- Hypothesis 2 (H_2): The coefficient for CEO duality (DUAL) is negative and statistically significant (Coefficient = -0.048, $p = 0.008$). This indicates that firms with CEO duality, on average, have an ROA that is 4.8 percentage points lower than firms where the roles are separate. This finding provides strong empirical support for H_2 .

Interpretation of Control Variables:

Firm Size (SIZE) has a positive and significant effect, suggesting that larger firms tend to be more profitable. Financial Leverage (LEV) shows a negative and significant effect,

indicating that firms with higher levels of debt tend to have lower profitability. These findings are consistent with prior literature.

V. Discussion and Conclusion

This final section discusses the interpretation of the results presented in the previous section. It links the findings back to the existing literature and the theoretical framework of the study. Furthermore, it outlines the theoretical and practical implications of the research, acknowledges its limitations, and provides suggestions for future scholarly inquiry. The section concludes with a summary of the entire study.

5.1. Discussion of Findings

This study investigated the impact of board independence and CEO duality on the financial performance of firms listed on the Tehran Stock Exchange. The empirical results from the regression analysis provide strong support for both hypotheses, which were grounded in agency theory.

The finding for the first hypothesis (H1) reveals a significant positive relationship between board independence and financial performance (ROA). This result is consistent with the central tenet of agency theory, which posits that independent directors serve as effective monitors of management on behalf of shareholders (Fama & Jensen, 1983). A higher proportion of independent directors appears to enhance board oversight, leading to more efficient utilization of assets and, consequently, higher profitability. This suggests that in the Iranian corporate context, the monitoring function of the board is a critical element of firm success. The presence of outside directors likely brings objectivity to strategic decisions, improves the quality of financial reporting, and curbs potential managerial opportunism, all of which contribute positively to the firm's bottom line. This finding aligns with a large body of international research (e.g., Rosenstein & Wyatt, 1990; Daily et al., 2003) and confirms the applicability of these governance principles in an emerging market setting.

The result for the second hypothesis (H2) indicates a significant negative relationship between CEO duality and financial performance. This supports the agency theory argument that combining the roles of CEO and chairman of the board leads to an excessive concentration of power, which can be detrimental to shareholder interests (Jensen, 1993). When a single individual leads both the management team and the board that is supposed to oversee it, the board's independence and monitoring capacity can be compromised. This power imbalance may lead to reduced accountability for the CEO, fostering managerial entrenchment and potentially resulting in decisions that do not maximize firm value. While stewardship theory

suggests that duality can provide a firm with unified leadership and a clear vision (Donaldson & Davis, 1991), our findings suggest that, for the sampled TSE firms, the agency costs associated with reduced oversight outweigh these potential benefits. This is in line with influential studies like Yermack (1996), which documented a negative market valuation for firms with CEO duality.

5.2. Implications of the Study

The findings of this research have several important implications for theory, practice, and policy.

- **Theoretical Implications:** This study contributes to the corporate governance literature by providing robust empirical evidence that validates the predictions of agency theory in the specific institutional context of Iran. By confirming the positive role of board independence and the negative role of CEO duality, the research reinforces the universality of these core governance principles while also highlighting their relevance in emerging capital markets.
- **Practical Implications:** For investors and financial analysts, the findings underscore the importance of board structure as a key indicator of a firm's governance quality and future performance. Investors should consider board independence and leadership structure as critical factors in their investment analysis and decision-making processes. For corporate managers and current board members, the results provide a clear message: strengthening board independence and separating the top leadership roles are not merely compliance exercises but are strategic decisions that can lead to tangible improvements in financial performance.
- **Policy Implications:** The results offer valuable insights for regulators, particularly the Securities and Exchange Organization (SEO) of Iran. The evidence strongly suggests that corporate governance regulations should continue to encourage, or perhaps even mandate, a higher proportion of independent directors on corporate boards. Furthermore, policymakers should consider promoting the separation of the roles of CEO and chairman as a best practice to enhance board effectiveness and protect minority shareholder interests.

5.3. Limitations and Suggestions for Future Research

While this study provides valuable insights, it is subject to several limitations that open avenues for future research.

First, the study uses an accounting-based measure of performance (ROA). Future research could employ market-based measures, such as Tobin's Q or stock returns, to assess whether board structure also impacts a firm's market valuation.

Second, the measurement of board independence is quantitative (a ratio). This does not capture the qualitative aspects of independence, such as the directors' expertise, tenure, or social ties to the CEO. Future studies could adopt a more nuanced approach to measuring the true effectiveness of independent directors.

Third, like many governance studies, this research may be subject to endogeneity concerns. While we have controlled for key firm characteristics, it is possible that a reverse causality exists (e.g., better-performing firms may be more likely to attract independent directors). Future research could use more advanced econometric techniques, such as the Generalized Method of Moments (GMM), to better address these endogeneity issues.

Finally, this study focused on two specific board characteristics. Future research could expand the model to include other important internal and external governance mechanisms, such as audit committee effectiveness, ownership structure (family, state, or institutional), and the role of the external audit market.

5.4. Conclusion

This study set out to examine the impact of board independence and CEO duality on the financial performance of firms listed on the Tehran Stock Exchange from 2018 to 2023. Using a panel data regression model, the research found that board independence is positively and significantly associated with firm performance, while CEO duality has a negative and significant effect. These findings provide strong support for the predictions of agency theory and highlight the critical role that an independent and well-structured board of directors plays in enhancing corporate value. The results offer important practical and policy recommendations for improving corporate governance standards in Iran, ultimately aiming to foster a more efficient and transparent capital market.

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