

# The Impact of Multi-Role CEO on Enterprise Performance——Research on Identity Motivation from the Perspective of Chaxu Climate

\*Huishu Liu

Beijing Jiaotong University, Beijing, China

18120698@bjtu.edu.cn

**Keywords:** Organizational behavior, Chaxu climate, Identity incentive, Enterprise performance, State-owned holding enterprise, The private enterprise.

**Abstract.** The Chaxu climate is the product of the interpersonal relationship within the organization under the background of Chinese native culture. This paper argues that executives as a group of the most important human resources, influence of Chaxu climate to the enterprise is through the influence of the organization which is formed by the circle for the center with executives to reflect, in this paper, based on Chaxu climate theory, incentive theory and principal-agent theory to analyze the relationship between executive identity incentive and performance of the enterprise and its difference in state-owned enterprises and private enterprises. In addition, the paper empirically tests the relationship between executive identity incentive and corporate performance with the panel data of 119 real estate listed companies. It is found that in state-owned enterprises, identity incentive has a significant negative impact on enterprise performance, but in private enterprises, identity incentive is not related to enterprise performance.

## Introduction

Nowadays, most companies in the industry have executives who serve as both the chairman and the CEO. This position is an identity incentive for executives, which may affect business performance by affecting Chaxu climate. As an important internal interpersonal relationship phenomenon of Chinese traditional culture and social psychology, Chaxu climate means that corporate executives, as the core of the enterprise, will divide employees into insiders and outsiders by the degree of closeness [1]. However, outsiders who feel the difference in resource allocation will have an unfair perception, so members may reduce their investment in organizational work and indirectly negatively affect corporate performance.

In order to improve the performance of enterprises and the efficiency of economic growth, this paper starts from the perspective of Chaxu climate, and I have two goals: First, I want to study whether the current status of the executives in the enterprise will have an impact on the performance; the second is to clarify the difference of this impact between state-owned holding companies and private enterprises.

## Theoretical Basis and Hypothesis

### Executive Identity Incentives and Corporate Performance

In many companies, I find that many companies have the same chairman and general manager. This position is an incentive for executives because the executive's dual positions can make them more profitable. This article names this incentive as an identity incentive. The relationship between executive identity incentives and firm performance can be explained by the theory of Chaxu climate.

In this theory, according to the subordinates and the quality of their exchanges, the leadership divides the subordinates into three circles: "inner circle", "outer circle" and "middle circle". Different circles follow different interaction rules [2]. In fact, each circle has a certain difference pattern, and the subordinates in each level can be subdivided into core area members, middle area members, and marginal area members [3]. People in the circle have different circle identities due to

location differences, there are organizational circle barriers between different circles.

In the work, members in outside circle can often feel the difference and the circle barrier by comparing the resource allocation between themselves and the insiders [4]. For example, in the performance appraisal or evaluation of the award, within the circle People tend to have more opportunities for promotion and profit than outsiders. This difference will affect the organizational justice of members outside the circle, especially for those members of the organization whose political skills are not high, they tend to reduce the inputs of work to balance their psychological unfair perceptions [5], which is not conducive to business performance.

Under this theory, if the executive is both chairman and CEO, it will affect the number of people in the leadership, leading to the number of executives to streamline, with more centralized power and smaller organizational circle, the number of people included in the circle will decrease, which will lead to more members who feel that the organization is unfair, affect the atmosphere of organization, and then indirectly affect the enterprise performance. Therefore, to sum up, proposing the following hypothesis:

H1: Executive identity incentives can affect corporate performance

### **The Difference between Executive Identity Incentives and Firm Performance under Different Types of Enterprises**

There has been a lot of research on the relationship between executive incentives and corporate performance. However, due to the special national conditions in China, there are few studies on identity incentives in China. There are only a small number of relevant research on authority incentives, and there is less research on the difference between the state-owned holding companies and private enterprises.

The impact of identity incentives on business performance is different between state-owned holding companies and private enterprises, the difference can be reflected in both regulatory and decision-making risks.

From the perspective of regulatory strength, the equity of state-owned holding companies is already very concentrated. When the executives and the chairman are held by the same person, the equity and authority are double concentrated, the shareholding share owned by the remaining shareholders is smaller than the chairman. And many of the top executives and directors of state-owned holding companies have a political background, so that other shareholders have weaker supervision over the executives. When the chairman is also the CEO, other shareholders will not agree to pay an agency fee to hire the chairman to be a senior executive. According to the principal-agent theory, if the compensation plan signed by the two parties cannot simultaneously ensure that the interests of both parties can be maximized and the supervision is insufficient to regulate the behavior of the executives, then there is likely to be a problem of excessive management power within the company. Will use their powers to seek personal gain for themselves.

Some scholars have confirmed that giving too much power to executives is not good for governance companies. Gu [6] research also found that the CEO's structural power has a negative impact on business performance.

Chhaochharia discovered in 2009 that the lack of high-level supervision will lead to a negative impact on corporate governance effectiveness [7]. For example, in daily management, the executive (the chairman) will use his authority to conduct more on-the-job consumption and artificially increase executives private income, this behavior will lead to a high corporate agency cost, which is bad to corporate performance.

From the perspective of decision-making risk, when the chairman of the state-owned holding company is also the CEO, the rights are highly concentrated. When making strategic or tactical decisions of enterprises, most of the decision-making power is in the hands of the chairman (CEO). It is difficult to make brainstorming in the process of making decisions, and it is inevitable that there will be dictatorial situations. The quality of decision-making is highly dependent on the level of the executives themselves. Moreover, the state-owned holding company has a large system and many levels. It is easy to have a rigid management problem. It is difficult for the

decision-making of the senior management to be corrected in time. The centralized governance has great risks for the state-controlled enterprises and is not conducive to corporate performance. Some scholars have confirmed that the excessive power incentive of state-owned holding enterprises will have a negative impact on performance. In addition, a study conducted by Yi and Chen in 2018 found that overconfidence of CEO would negatively affect corporate governance quality, thereby indirectly affecting performance level, which was stronger in state-owned enterprises [8].

However, the shareholding ratio of private enterprises is relatively scattered, and the difference between the shareholding ratio of the chairman and other shareholders is far less than the difference in the state-owned holding companies. Therefore, when the chairman is also the CEO, the corresponding supervision institution has a strong supervision on the executive. In private enterprises, when the chairman concurrently serves as the CEO, he (she) will be subject to strong supervision. In addition, the system of private enterprises is generally small, with few levels, flat structure and relatively flexible management. When the executive makes mistakes in decision-making, the management strategy will be adjusted accordingly, so that the mistakes can be timely corrected.

Therefore, compared with state-owned holding enterprises, the concentration of executive power does not have much impact on private enterprises. Therefore, to sum up, proposing the following hypothesis:

H2a: In state-owned holding companies, the identity incentives of executives are negatively correlated with corporate performance. H2b: In private enterprises, the identity incentives of executives are not related to corporate performance.

## Measurement and Research Model

### Variable Measurement

**Enterprise performance.** Enterprise performance refers to the sum of the income and non-operating income obtained by the enterprise through operating business and decision-making investment during an operation period. This article selects variables from the most representative aspect of profitability. In this paper, only three years of data research is used, so the research focus is biased towards short-term performance, so the return on equity (ROE) is taken as the explanatory variable. At the same time, the total return on assets (ROA) is selected as the reference value for the robustness test.

**Executive identity incentive.** This paper finally decided to use the power concentration (POWER) to represent this variable. Some companies have the same chairman and CEO. This study considers the situation of the chairman and general manager as an incentive. If the CEO and the chairman are not the same person, this article assigns 1; if the CEO and the chairman are both same person, so assigns 2, it means that the executive enjoys a higher status, authority and status.

The control variables in this paper include material incentive for senior executives (LNPAY), enterprise size (SIZE), growth (IORE), education background of senior executives (EDUC), whether there is equity incentive (HOLD), management expenses (COST) and enterprise nature (NATURE).

### Research Model

Considering the hysteresis of salary and authority on enterprise performance, this paper lags the two variables of executive compensation and authority concentration by one period, and the first period of variable lag is represented by the lower corner mark "-1". According to the hypothesis, the following model can be established:

$$ROE = \alpha_1 + \beta_1 POWER_{-1} + \beta_2 LNPAY_{-1} + \beta_3 SIZE + \beta_4 IROE + \beta_5 DEUC + \beta_6 HOLDING + \beta_7 COST + \varepsilon_1 \cdot (1)$$

## Study Samples

All the data used in this paper are filtered from the CSMAR database. The final analysis included 119 companies and 357 sets of data.

For the two independent variables, we selected the data participation analysis from 2014 to 2016; I selected other data from 2015 to 2017 to participate in the regression.

## Research Analysis and Test

### Correlation Analysis

Table 1. Correlation analysis of variables (State-holding enterprise)

Variable	ROE	LNPAY	POWER	COST	SIZE	EDUC	HOLD	IORE
ROE	1.000							
LNPAY	0.231***	1.000						
POWER	-0.152**	0.017	1.000					
COST	-0.019	-0.144	-0.027	1.000				
SIZE	0.171**	0.686***	-0.068	-0.250***	1.000			
EDUC	-0.047	0.067	-0.024	-0.073	0.116	1.000		
HOLD	-0.025	0.114	-0.017	-0.094	0.288***	0.113	1.000	
IORE	-0.005	0.044	0.196***	-0.010	0.076	-0.147**	0.065	1.000

Note: \*\*\* indicates a test with a significance level of 1%, and \*\* indicates a test with a significance level of 5%.

As can be seen from the table, the correlation coefficients between roe and executive compensation have passed the significance test at the level of 5%, and executive compensation has a positive impact on performance, while authority concentration has a negative impact on performance, which preliminarily proves that hypothesis H2a is correct.

Table 2. Correlation analysis of variables (Private enterprise)

Variable	ROE	LNPAY	POWER	COST	SIZE	EDUC	HOLD	IORE
ROE	1.000							
LNPAY	0.460***	1.000						
POWER	-0.046	-0.133	1.000					
COST	-0.526**	-0.390***	-0.038	1.000				
SIZE	0.393***	0.678***	-0.063	-0.147	1.000			
EDUC	0.117	0.346***	-0.102	0.012	0.253***	1.000		
HOLD	0.125	0.291***	-0.110	0.029	0.428***	0.126	1.000	
IORE	0.419***	0.225***	0.020	-0.099	0.260***	0.136	0.183**	1.000

The correlation coefficient between ROE and executive compensation indicates that there is a significant positive correlation between the two; the correlation coefficient between ROE and executive identity incentive indicates that the correlation is not significant, and it can be initially proved that H2b is correct.

### Regression Model Selection and Analysis

When performing regression processing on the panel data, the regression should be performed in the order of the fixed model and the random model in the stata14.0, and then the Hausmann test is performed, and according to the P value calculated by the Hausmann test, we can choose the type of regression model.

Table 3. Results of hausman test

Type of enterprise	State-owned holding enterprise	The private enterprise
Model	Model 1	Model 2
P value	0.388	0.000
Model type	Random type	Fixed type

From the above table, State-owned holding enterprises should choose random effect for regression. Private enterprise model should choose fixed effect regression.

Table 4. The analysis of executives incentive and performance of state-owned and private enterprises

ROE	Model 1 (State-owned holding enterprise)			Model 2 (The private enterprise)		
	Coefficient	St. e	P value	Coefficient	St. e	P value
POWER	-5.114*	2.905	0.078	0.584	1.981	0.769
LNPAY	4.010**	1.921	0.037	4.771***	1.608	0.004
COST	0.147	0.799	0.854	-0.001***	0.0002	0.001
SIZE	0.323	1.230	0.793	-5.070**	2.032	0.014
EDUC	-2.573	3.152	0.414	-4.592	3.854	0.236
HOLDING	-1.429	2.215	0.519	0.975	1.839	0.597
IORE	-0.081	0.488	0.867	2.598**	1.205	0.033
Cons	-48.103	24.780	0.052	64.105	45.309	0.160
NATURE	1			0		
Sample	185			172		
Adj R2	0.190			0.172		

Notes: \*\*\* means passing the 1% significance level test, \*\* means passing the 5% significance level test, \* means passing the 10% significance level test

After random regression of 185 sets of data of state-owned holding companies, we can see that in the model 1, when the identity incentives and the salary incentives exist simultaneously, the two passed the significant test of 5% and 10% respectively. The impact on firm performance is significant, and the coefficient of the identity incentive variable is negative. So you can get a conclusion, hypothesis H1 and H2a are true. In state-owned holding companies, salary incentives will motivate executives to work, thereby promoting corporate performance.

However, when employees are at the level of senior management, higher identity incentives in state-controlled enterprises are unfavorable to corporate performance. The equity and actual control rights of state-controlled enterprises are higher than those of private enterprises. Higher identity incentives will promote high, the rights of management are more concentrated, it is easy for a senior executive to make decisions when making decisions. It is more difficult to achieve extensive communication in the enterprise, and even affect the cultural atmosphere of the entire enterprise. And the degree of centralization is too high, so it is easy for employees to feel the pressure.

In private enterprises, the regression results of 172 sets of data indicate that when salary incentives and identity incentives exist simultaneously, executive compensation passes the 1% level of significance test, but identity incentives cannot pass the significance test. So you can get a

conclusion, assuming hypothesis H2b is true. In private enterprises, executive compensation incentives will have a positive effect on corporate performance, but identity incentives have no effect on business performance. This may be because the equity of private enterprises is relatively dispersed, so when the chairman is concurrently a CEO, the relevant supervision is higher than that of state-owned holding companies.

The model of private enterprises determines that the governance structure of enterprises is more flexible, the mobility and distribution of personnel are stronger, and they can better adapt to the decisions of executives. Therefore, the centralized management of executives cannot have a significant impact on corporate performance.

### **Robustness Test**

This paper uses the return on equity (ROA) to replace the return on equity (ROE) for robustness test. The conclusion that the total return on assets (ROA) replaces the dependent variable is the same as the original conclusion, so the conclusion is valid.

## **Conclusions and Discussion**

### **Summary**

(1) In state-owned enterprises, identity incentives are unfavorable to corporate performance.(2) In private enterprises, identity incentives are not related to corporate performance.(3) Except for salary incentives, which have a significant impact on the performance of private enterprises, the management costs in private enterprises also have a significant negative impact on corporate performance, but the impact is small, but this is enough to show that management costs are related to corporate performance. The internal consumption of private enterprises will reduce the enterprises performance.

### **Discussion**

(1) In the real estate industry, state-owned holding companies should reduce the situation of the chairman and the CEO are the same one. If too much authority is concentrated on one person, the performance of the company will decline. In addition, the focus of incentives for executives should be placed on salary incentives, and the incentives for compensation are the biggest.

(2) Private enterprises should focus on compensation incentives, supplemented by equity incentives; the phenomenon of chairman and general manager has no effect on corporate performance. Similarly, companies should pay more attention to their abilities and experience when appointing senior executives. A blind focus on high education will not bring profits to the company. Private enterprises should strictly control management costs, the management costs will have a negative impact on business performance.

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