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The Effects of Board Independence and CEO Duality on Firm Performance: Evidence from the NASDAQ-100 Index with Controls for Endogeneity

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Abstract

This study examines the effects of board independence and CEO duality on firm performance. We analyze data for the NASDAQ-100 firms over the period 2010-2014. Three measurements of board independence are used: (1) proportion of independent directors, (2) committee overlap, and (3) board interlock. We use an alternative and more appropriate definition of committee overlap and board interlock that only considers independent-director committee overlaps and interlocks. Our method includes the use of a treatment effect approach to control for endogenous issues that have likely caused mixed results in prior research. Several significant results are found from this study. First, independent-director committee overlaps are shown to have a significantly positive relationship with firm performance. Secondly, board interlocks of independent directors are also found to be positively associated with firm performance. Lastly, we find a negative relationship between CEO duality and firm performance. The relevance of these results is discussed from corporate governance policy and academic research perspectives.

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