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The Impact of Ownership Duality on Firm Performance in Egyptyte

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Abstract

Corporate governance is considered to have significant implications for the growth prospects of an economy. Good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies. The purpose of this study was to examine the relationship between corporate governance practices and firm performance in Egypt, as a result of the adoption privatisation since 1996 and the extent of changes to corporate governance practices. During this period, the firms that operated in Egypt were affected by political and economic transformation. The theoretical basis for this study was agency theory, which focuses on the ownership duality and control. The conceptual framework of the study described how the board structure in Egypt impacted on firm performance. In this framework corporate governance were be indicated ownership duality. Ownership duality refers to the separation of the position of chairman and CEO. The research explored the relationship of this variable to firm performance. Firm performance was assessed by Return on equity, Return on assets and Tobin's Q. This is the first study conducted in Egypt on corporate governance and firm performance during periods of high volatility in the environment due to adverse economic and political conditions after the 25th of January's revolution. As a result, this study makes a significant contribution to the body of knowledge on corporate governance in developing countries and illustrates how corporate governance impacts on firm performance in unstable political and economic environments such as that experienced in Egypt. This study is a comparative analysis to measure the changes to corporate governance practices from 2005 to 2012. A sample of 42 companies was selected from the top 100 listed companies in *EGX 100(Egyptian stock exchange).* The selection was determined by the availability of data for both years. Data were obtained from annual reports and the Egyptian Capital Market Authority. In addition, key accounting data as well as annual reports were obtained from the following sources: Cairo and Alexandria Stock Market Exchanges (CASE) and financial year book (financial statements from 2005 to 2012).The data were analysed with SPSS to obtain quantitative measures of descriptive statistics, Spearman's correlation and analysis of variance. Descriptive statistics from the study showed positive relationship for separate leadership and firm performance based on return on equity. In this study, the positive relationship between corporate governance structures, separate leadership, and firm performance indicate that firms have implemented corporate governance strategies, which have resulted in higher profitability and share price performance.

JEL classification: Corporate governance, separate ownership, firm performance, Egypt

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1. Introduction

Corporate governance issues are not only important in developed economies, but also they are even more important in developing economies, since the latter do not have well-established financial institution regulation to deal with these issues, which are currently handled by the state. The current study will contribute to the standing body of knowledge concerning corporate governance practices and firm performance by providing additional evidence on the impact of separate ownership on firm performance in emerging economies, focused on the Egyptian experience, a part of the world that has been neglected in the literature. Egypt is a country in the Middle East North African (MENA) region with a strategic geographical and economic significance and high potential for development. Its economy has been strongly affected by the 25th of January's revolution with a balance of payment deficit due to high political instability, apart from macroeconomic problems that are common to other countries within the emerging markets. Therefore it is important to realise how corporate governance practices affect firm performance in such markets. Investigation of corporate governance in a developing country such as Egypt is important.

The Egyptian Stock Market has attracted foreign and local investors, which has resulted in increased importance of good corporate governance, providing improved access to sources of capital even in a volatile political and socio-economic environment. In addition, this will be the first study to be carried out in a highly volatile environment on corporate governance practices in relation to separate ownership practices and their affect on firm performance. Moreover, this study also contributes to agency theory concerning the accountability of the board to shareholders and other stakeholders of firms operating in highly volatile political and socio-economic environments, by means of the adoption of good governance practices resulting in better management, henceforth increased performance. Separate ownership can make a considerable contribution to corporate governance resulting in effective reporting practices through the concept and goal of sustainable development, which will enhance the value of firms. Thus this study will provide a new perspective in studying the relationship between corporate governance practices of board structure and firm performance. This study will not only benefit the corporate sector of Egypt, but it will be of significance for other MENA countries that are politically and culturally similar to Egypt.

It will also benefit regulators, decision makers, investors and researchers as well as help the policy makers to set novel and better-quality standards for best practices. It will be of significance to researchers as the conceptual framework may be a suitable future research tool to assess ownership structure and firm performance in other developing countries. The reminder of the paper is organised as follows: Section 2 presents the conceptual framework of the study. We provide a summary of selected empirical studies on corporate governance with findings in Section 3. Data, sample construction and empirical models are discussed in Section 4 and the researcher then reports the empirical findings and analysis in Section 5. Section 6 concludes the paper and suggests some policy recommendations.

2. The Conceptual Framework of the Study

Corporate governance can best be inferred as the set of mechanisms—both market-based and institutional, that persuades managers to make decisions that maximise the value of the firm to its shareholders .The aim of these mechanisms, indubitably, is to decrease the agency costs that rise from the principle-agent problem, which could be external and/orinternal in nature. Internal mechanisms cope with the ownership structure or the degree at which ownership by managers eliminates the trade-off between alignment and entrenchment effects[2]. The separate ownership of the firm will have an important impact on firm performance, since board leadership structure is a device that is instigated to monitor the CEO (McWilliams and Sen, 2007; Abdullah, 2004; Coles, Donaldson and Davis, 1991). Per se, separate ownership is considered important element in affecting firm performance in this study. A combined leadership structure was criticised as an unsuitable way to design the most powerful relationships in an organisation.Therefore, it is important to separate the positions of chairman and CEO (Jensen, 1993; Fernando, 2007). In line with this view, concentrated power affords an opportunity for CEOs to make decisions to benefit themselves causing damage to the shareholders wealth. Combined leadership structure is also linked with signs of ineffective governance; such as adoption of poison pills (Mallette and Fowler, 1992) and hostile takeovers (Nelling and webb, 2009).Thus, it is the responsibility of the board to monitor the performance of the top management.

[2]Equity ownership by insiders can align insiders' interests with those of other shareholders, thereby leading to greater firm value. However, higher ownership by insiders may result in a greater degree of managerial control, potentially entrenching managers. Wan (1999) finds that management ownership does in fact exhibit an inverted U-shaped relation with Tobin's Q -ratio

However, when the chairman is also the CEO, his/her ability to oversee and monitor the management is reduced, causing conflict of interest and lack of independence (Lorsch and MacIver, 1989; Dobrzynski, 1991; Millstein, 1992). In this regard, Cadbury (1992) recommends that if the chairman is also the CEO, it is important to have a strong independent element on the board and suggests that the principle the role of the chairman and CEO should be separated. In relation to the agency theory, board reform advocates separation of the position of chairman and CEO, because of their concern of the potential for dominated boards by the management.

Combined ownership structure encourages CEO entrenchment and can lead to opportunistic and ineffectivebehaviour (Jensen and Meckling, 1976; Rashid, 2008). Similarly, Finkelstein and D'Aveni (1994) argue that, combined structure promotes CEO entrenchment by decreasing board monitoring effectiveness. A single person serving as the CEO and chairman will attain extensive power and control, and will weaken the decision control by the board (Morck, Shleifer and Vishney, 1989). Consequently, it will allow the CEO to pursue goals that are considerably different than shareholder goals (Mallette and Fowler, 1992). Agency problems and the board's failure to control have been linked to negative outcomes, for instance: awarding golden parachutes (Singh and Harianto, 1989), payment of greenmail (Kosnik, 1987), higher levels of executive compensation (Boyd, 1994), and adoption of poison pills (Malletteand Fowler, 1992). Accordingly, agency theory suggests that combining the positions of chairman and CEO, declines board control and affects firm performance negatively (Boyd, 1995). Hence, as suggested by the agency theory a positive relationship exists between separate ownership structure and firm performance. Firm performance is affected by separate ownership of firms in Egypt, because their success or failure is dependent on the extent to which they are managed efficiently. Separate ownership structure improves firm performance by means of better management and efficient allocation of firms' resources. Earnings generated from superior performance, contributes significantly to stock prices. Thus, separate ownership can increase the demand for stocks as well as increase the stock price of anorganisation. On the other hand, the stewardship theory advocates that the combined ownership structure provides a unified leadership structure and removes any external and internal ambiguity regarding the responsibility for firm outcomes and processes (Donaldson, 1990; Finkelstein and D'Aveni 1994). Consequently, as recommended by stewardship theory, the combined structure will enable superior firm performance.

In this regard, Donaldson and Davis (1991) argued that firms relying on combined leadership structure achieved better firm performance, as measured by return on equity, compared to the firms with separate ownership structure. Moreover, Boyd (1995) states that combined leadership are considered as providing clear direction of a single leader and faster response to external events. In addition, when individual holding both the CEO and chairman position is expected to have better knowledge about firm and industry, and will be more committed to the organisation than an external chairman. He also states that advocates of combined ownership structure consider the position of the chairman as being relatively less powerful, more symbolic and ceremonial than the position of CEO. However, the separation of the two positions is also important due to the need to attract external finance (Suryanarayana, 2005). It makes an important contribution to increasing accountability and ensures the shareholders objectives are given due weight (Baxt, Ramsay and Stapledon, 2002). Thus, separate ownership can impact the market value of a firm.

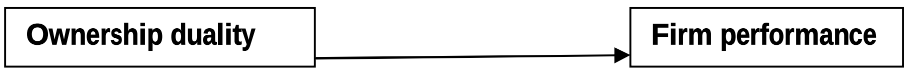

Figure 1: The Conceptual Framework of the Study

Therefore as suggested by the agency theory, the conceptual framework considers the importance of separating the roles of CEO and chairman in affecting firm performance. To test the above argument in relation to the Egyptian context the following hypotheses is suggested.

H0a: ownership duality is not associated with firm performance.
H1a: ownership duality is positively associated with firm performance.

3. Selected Empirical Studies

The first issue that the Egyptian code required for effective corporate governance[3]was the separation of the top two positions of the board (CEO and Chairman).

[3]Egypt Code of Corporate Governance Guidelines and Standards (ECCGGS), Ministry of finance, Egypt, October 2004.

These rules should be considered an addition to the corporate-related provisions stated under various laws - especially the Law on Partnerships, Shareholding Joint Stock Companies, and Limited Liability Companies issued by virtue of Law #159/1981; the Capital Market Law issued by virtue of Law #95/1992 and the decrees and executive regulations regarding their implementation. Thus far, what makes these rules different and unique from all others stated under the abovementioned laws is that the rules governing corporate governance in Egypt are neither legally normandatory binding; rather, they regulate and promote transparent and responsible behavior in managing corporations along with international best practices and means that strike equilibrium between several party interests.

Omran (2009) examined and analysed the post-privatisation corporate governance of a sample of 52 newly privatised Egyptian firms over a period of 10 years, from 1995 to 2005. He found that the state gives up control over time to the private sector, but still controls, averagely, more than 35% of these firms. He also documented a trend in private ownership concentration over time, mostly to the benefit of foreign investors. Ownership concentration and ownership identity, in particular foreign investors, prove to have a positive impact on firm performance, while employee ownership concentration has a negative one. The higher proportion of outside directors and the change in the board composition have a positive effect on firm performance. The study highly recommended relinquishing control and allowing for changes in the board of directors. Abdullah (2004) argues that the reason for separation is that when both the implementation and monitoring roles are assigned by a single person, the monitoring role will be rigorously impaired. Moreover, companies that have combined leadership may have an individual who has too much power and is able to make decisions that maximise his/her personal wealth at the expense of shareholders wealth (Laing and Weir, 1999). On the other hand, it could also be argued that when one person is in charge of both tasks, favourable decisions might be implemented faster provided that person is fully aware of the decisions needed to increase the performance of the firm (Abdullah, 2004).

Evidence in relation to firm performance and board ownership structure is mixed. Chugh, Meador and Kumar (2011) indicted that combined ownership is negatively related to firm performance. According to Coleman (2007), combined ownership has a negative effect on profitability and suggested to separate the position of CEO and chairman chair.

Cheng Wu, Chiang Lin, and Feng Lai (2005) argued that combined ownership is negatively and significantly correlated with firm performance. Rechner and Dalton (1991) found that firms with separate leadership structures outperformed combined structures when measured byreturn on investment, return on equityand profit margins, while Dalton et al. (1998) found no evidence of a relationship between ownership structure and firm performance. As stated by Abdullah (2004), board independence and combined ownership either jointly or singly are not correlated with firm performance. Hermalin and Weisbach (2003) found that US firms with a higher proportion of outside directors are not significantly related with superior performance; yet, board size is negatively related to the quality of decision-making and firm performance. Moreover, Haniffa and Hudaib (2006) also reported that companies which had a combined ownership structure did not perform wellwhen compared to those with a separate ownership structure. This implies that the separation of the two roles is beneficial to firm performance, which is supported by agency theory.

There is also empirical evidence which reports that the ownership structure has no impact on firm performance. According to Yasser, Entebang and Mansor (2011) there is no significant relationship between ROA and Separate ownership. Chaghadari (2011) argued that the separate ownership has a negative impact on ROA. More specifically, separate ownership is found to decrease the effectiveness of the board ofdirectors and firm performance. Ponnu (2008) concluded that impact of proportion of independent directors and separate ownership on firm performance has received close attention by researchers in corporate governance in recent years, and it was found that there is no significant relationship between board independence and separate ownership with firm performance. In addition, Rechner and Dalton (1989) examined shareholder returns over a period of five years; they found no significant distinction between separate and combined leadership structure and firm performance. However, in a later study they argued that a separate structure outperformed a combined structure when examining the accounting based measures of return on investment (ROI), return on equity (ROE) and profit margin (Rechner and Dalton, 1991). In contrast to these findings, there is very little evidence to support performance distinction between separate and combined firms when using economic value added and market value added as performance measures (Balinga, Moyer and Rao, 1996).

4. Methodology

This study is based on a positivist paradigm used deductive reasoning and quantitative techniques.

A quantitative research approach is generally located in the positivist social sciences paradigm, which mainly reflects the scientific method of social sciences (Jennings, 2001). The positivist paradigm espouses a deductive approach to the research process. It thus begins with theories and hypotheses on a particular phenomenon, collects data from the real-world site and subsequently analyses the data statistically to reject or support the initial hypotheses (Welman and Kruger, 2001). Researchers who implement a deductive approach draw on theory to direct the design of the study and the subsequent explanation of their results (Neuman, 1994). The aim is to verify or test a proposed theory, rather than to construct one. Therefore, it can be seen that the identified theory proposes a framework for the whole study, also serving as an organising model for the research hypotheses and for the whole data collection process. The selection of the sample, the sources of data, the procedure in collecting and coding the data, and the quantification of variables and method of data analysis are described below.

4.1 The Sample of the Study

The sample was selected from the top 100 companies listed companies in *EGX 100(Egyptian stock exchange).* The selection was determined by the availability of data for both years. Data were obtained from annual reports and the Egyptian Capital Market Authority. In addition, key accounting data as well as annual reports were obtained from the following sources: Cairo and Alexandria Stock Market Exchanges (CASE) and financial year book (financial statements from 2005 to 2012). The top 100 companies in the CASE were selected because these were more likely to have the resources and motivation to take advantage of the opportunity to adopt good corporate governance practices. Reporting of corporate governance practices is voluntary during this period so the sample was limited to those companies which published a governance report in both 2005 and 2012. The top 100 companies presented annual reports, which included a governance report. Furthermore these companies were better performing, exhibited higher stock returns and were assumed to engage in good governance practices. The voluntary nature of reporting of corporate governance practices during the period studied meant that not all the companies reported on all or even some of the corporate governance practices in their annual reports. These were excluded from the sample.

In addition, the banking and insurance sectors are not included in this study as the characteristics of these firms are different from the firms in other industrial sectors in terms of financial statement profitability measures and liquidity assessment. Also, they were specialised in nature and were subject to different regulations, tax and accounting rules (Zeitun and Tian, 2007). This gave the study a sample of 42 firms. The study examined the data for the years 2005 and 2012. The reason for selection of the years was that the corporate governance guidelines were introduced in 2004. Eight years later, 2012, was a suitable time period, in which companies who had adopted the practices could have been expected to show some change in adoption of the practices and if this had had an impact on firm performance.

4.2 Operationalisation and Measurement of Variables

Literature on corporate governance widely uses dummy variables to measure the board ownership structure (Haniffa and Hudaib, 2006; Abdullah 2004; Lam and Lee 2008). Hence the current study will also represent dummy variables for board ownership structure. If one person occupies the role of CEO and the chairman, it classified as combined ownership and coded '0'. If the roles are occupied by two separate persons it classified as separate ownership and coded '1'. The corporate performance of this study was assessed using market-based measures and accounting-based measures. Return on Equity (ROE) and Return on Asset(ROA), which are considered as representations for accounting measures in this study, and indicate the extent to which the company is efficient in generating profits from shareholders equity and the effective utilisation of companies' assets in achieving the shareholders economic interests, respectively. Tobin's Q (TQ), which is a market-based measure, is used to indicate the market sensitivity of the firm's performance (Weir, Laing and McKnight, 2002). In addition to the variables that are used to hypothesise the relationships, there are another variable that is important in determining firm performance in literature is also considered in this study, which is *firm size*. Firm size may be correlated with firm performance and may be related to separate ownership. Firm size can be represented by book values of total assets and market capitalisation of the firm. The size of a company measured by market capitalisation represents the total value of a company. Market capitalisation is a market estimate of the value of a company, based on perceived future prospects, economic and monetary conditions. It is calculated by multiplying the current price per stock by the total number of outstanding shares.

That is, investor confidence level is reflected by market capitalisation. Investment in companies with lower market capitalisation has higher risk compared to the firms with higher market capitalisations; since stocks with higher market capitalisation are more liquid. Alternatively, firms with lower market capitalisationmay be profitable as a result of a higher growth potential. The risk factor involved with firm stocks with lower market capitalisation may be high, even supposing they have higher financial returns (Rashid, 2007). Former empirical studies found that firm performance is positively correlated with market capitalisation (Yarmack, 1996). Firm size can also be indicated by the book value of firms' total assets (TA). Prior research has used total assets to measure firm size. Firm size can be interrelated to other firm performance variables. Pathan et al. (2007) indicates that a statistically significant correlation was reported for total assets and board size. Keil and Nicholson (2003) argued that total assets were positively correlated to board size and board composition. Consequently, the total assets are considered to have an impact on the variables used in this study.

4.3 Data Analysis

Preliminary analysis of the data was carried out for the years 2005 and 2012. At this stage, firms with missing information were excluded from the study and the final sample was reduced to 42 listed companies from the EGX 100. To test the relationships suggested in the hypotheses stated in the conceptual framework, the SPSS statistical program was employed. The analysis included descriptive statistics, two-related-sample t-tests, Spearman's correlation and analysis of variance. Other studies on the relationships between corporate governance practices and firm performance have previously been conducted using regression analysis or ANOVA. Regression analysis is appropriate when the aim is to predict the causal relationships between one or more independent and a dependent variable. In this study, the purpose was not to predict the factors that cause a change in governance but to determine (a) whether a separate ownership (corporate governance practices) had taken place by 2012 as a result of the intervention that was introduced in 2004 and (b) what those changes were. In this case the analysis examined the differences occurring in the time between observations of the same sample. The analysis used in the thesis, analysis of variance (ANOVA), which is based on comparing the differences in the means and the variances between observations, is a suitable statistical method in this study for determining if there were statistically significant differences between the observations.

Descriptive statistics have been extensively used in academic research on corporate governance (Lam and Lee 2008; Abdullah 2004). Descriptive statistics measure the dispersion and central tendency. The most commonly used measures of central tendencies are mode, mean and median. The mean is the most important measure of central tendency (Veal, 2005). The descriptive statistics used in this study consist of mean, minimum and maximum. The mean is calculated to measure the central tendency of the variables in 2005 and 2012. Descriptive statistics are also valuable to make general observations about the data collected. They report on the patterns and trends of data and provide the basis for comparisons between variables. In this study descriptive statistics provide a comparison of changes in the data for 2005 and 2012. They show the extent to which companies have adopted the recommendations of the Egyptian code of best practice on corporate governance and the trends of the firm performance variables.

The minimum is used to compare the lowest values and the maximum is used to compare the highest value of the variables in 2005 and 2012. It is expected that the firms in 2012 will have a higher mean value for separate ownership as recommended by the code of best practice on corporate governance in 2004. Higher mean values for ROA, ROE and Tobin's Q indicate higher performance of the companies. *T-tests* can be used to determine whether there is a significant difference between two sets of means. Therefore, t-tests using SPSS statistical program were employed in this study. Conducting the t-tests necessitates that the normality of the data is not desecrated. Consequently, to test the normality for the data distribution, K-S Lilliefors and Shapiro-Wilk's test for normality was employed. When the sample size is small, one may be unable to reject the normality assumption although it is wrong. If the tests report reasons to doubt the normality assumption, the assumption of a parametric test would be interrupted. Hence, non-parametric tests were conducted since they make limited assumptions about the data distribution. AWilcoxon Signed Rank Test can be used when the distributional assumptions underlying the t-test are not valid. A Wilcoxon Signed Rank Test (Two-Related-Sample Test), is the non-parametric version of paired sample t-test (Carver and Nash, 2006), was conducted to test the significance of the means variables for 2005 and 2012, Two-Related-Sample t-tests are used when there are repeated measurements for the same sample (Carver and Nash, 2006). The correlation coefficients are also used in this study which measures the strength of the linear association between two variables. When the data are not normally distributed, and the researcher doubts a linear relationship, non-parametric measures such as Spearman's Rank Correlation can be used to measure the strength of association.

This approach has been used in previous research which measures the strength of the linear association between corporate governance and firm performance studies (e.g. Vafeas 2000;Abdullah 2004). The analysis of the data found departures from normality in the distribution and also included ordinal data. Hence non-parametric test of Spearman's Rank Correlation was conducted to measure the strength of association between separate ownership and firm performance in this study. Finally, analysis of variance uses F statistics to compute the probability *p*. The F ratio is the mechanism used to test the null hypotheses, which check that the mean of groups do not differ significantly. If *p* is less than a pre-determined threshold (for example, $\alpha = 0.10$) the null hypotheses is rejected and the factors are deemed to have a significant effect (Doncaster and Darvey, 2007). The assumption required for analysis of variance is that it should be an independent sample from normal a population with the same variance. To test the normality and homogeneity, the Kolmogorov-Smirnov test and Levene's test are conducted. Kolmogorov-Smirnov test assesses if there are significant departures from normality in the population distribution. The Levene's test for homogeneity assesses if the population variance for the group are significantly different from each other (Carver and Nash, 2006). These tests have been combined in the SPSS procedures.

5. Empirical Findings and Analysis

The analysis of the relationship of separate ownership and firm performance variables is discussed in this section using the data from the sample. The analysis uses descriptive statistics to compare changes in compliance between 2005, and 2012 and, T-tests will report the significance of the change. Spearman's correlation analysis assesses the association between variables, and an analysis of variance assesses the suggested relationships in the research hypotheses.

2005				2012		
variables	**Minimum**	**Maximum**	**Mean**	**Minimum**	**Maximum**	**Mean**
SOS%	**0**	**1**	**61**	**0**	**1**	**80**
MC%	**285**	**21678**	**3073**	**866**	**97536**	**11567**
TA%	**1765**	**119786**	**17654**	**2576**	**222345**	**38558**
ROE%	**-13**	**43**	**14.76**	**2**	**85**	**21.98**
ROA%	**-3**	**22**	**4.98**	**1**	**35**	**7.68**
TQ%	**0.63**	**2.09**	**0.97**	**0.56**	**4.39**	**1.27**

Table 1: Descriptive Statistics for 2005 and 2012

Analysis of the separate ownership structure (SOS) for 2005 and 2012 (Table 1) reports that 61% of the firms separated the leadership roles in 2005and this increased to 80% in 2012. However, over 80% of the firms in the sample identified the importance of separating the position of chairman and CEO and are complying with the Egyptian code of best practice recommendations issued in 2004. Less than 20% of firms are still combining the posts of CEO and the chairman. Examination of the data also shows that some companies have moved from combined ownership to separate ownership structures. Firm size is represented by market capitalisation and total assets. The minimum value for market capitalisation (MC) for companies in the sample in 2005 was 285 and the maximum value was 21,678, and in 2012 the minimum value was 866 and the maximum value in the sample was 97,536. The mean has increased from 3073 in 2005 to 11,567 in 2012. The descriptive statistics show that market capitalisation of the companies in the sample has increased significantly. Higher market capitalisation suggests increased investor confidence in firms in the sample. Total assets (TA) of the companies in the sample shows a minimum of value of 1765 million, a maximum value of 119,786 million and a mean value of 17,654 million for 2005.

The minimum for 2012 is 2756 million, the maximum is 222,345 million and the mean value is 38,558 million. ROE averaged around 14.76% in 2005 with a minimum value of –13% to a maximum value of 43%. The mean value of return on equity increased in 2012 to 21.98% with a minimum value of 2% and a maximum value of 85%. Results of descriptive statistics show performance based on shareholders' equity increased in 2012. The mean value for ROA was 4.98%, with a minimum of –3% and a maximum of 22% for 2005. In 2012, the mean increased to 7.68%, with a minimum of 1 and a maximum of 35% for 2012. Results report that the profitability based on total assets increased in 2012. As stated in the previous section, Tobin's Q (TQ) measures market performance. A Tobin's Q value of greater than 1 represents a positive investment opportunity. The mean value for Tobin's Q for 2005 was 0.97, with a minimum value of 0.63 and a maximum value of 2.09. In contrast, the mean value for 2012 was 1.27, with a minimum value of 0.58 and maximum value of 4.39. The results of Tobin's Q show that market value of the firm increased over the years. Descriptive statistics in this study show the extent to which companies in Egypt complied with governance structures indicated by separate ownership structure. The accounting–based measures of ROE are greater than ROA.

The market-based measure of firm performance, Tobin's Q, showed a significant increase during the period under review. Finally, these results indicate that firm performance measured by all three ratios increased over the years. Comparison of the mean values of separate ownership structure characteristics and the performance of the companies in the samples for years 2005 and 2012 using two-related-sample t-test are presented in Table2. The details of the results are as follows.

Variable	2005	2012	Z	Sig (2-tailed)	Significant level of differences
SOS	0.61	0.80	-2.323	0.02	0.05
ROE	14.76	21.98	-3.121	0.002	0.05
ROA	4.98	7.68	-2.542	0.010	0.05
TQ	0.56	1.27	-4.267	0.001	0.05

Table 2: T-test of the Mean Values

Comparison of the mean difference in the separate ownership structure in 2005 and 2012 is significant ($z = -2.323$, $p < 0.05$), which was reported by the increase in the mean from 61 percent in 2005 to 801 percent in 2012. This indicated that the number of companies complying with the introduction of the Egyptian code of best practice on corporate governance in 2004 to separate the position of chairman and CEO has changed significantly. In addition, the performance indicators ROE ($z = -3.121$, $p < 0.05$), ROA ($z = - 2.542$, $p < 0.05$) and Tobin's Q ($z = - 4.257$, $p < 0.05$) were significant, indicating that the performance increased significantly for the top 100 listed companies in Egypt from 2005 to 2012. Table 3 presents Spearman's correlation for all the variables in the study. It examined the association between the separate ownership and firm performance variables. Overall, the correlations were low for both 2005 and 2012. But there are a number of statistically significant relationships. Giving that the data does not imply multicollinearity problems, which generally require correlations between variables of 0.80 or more.

Panel A: 2005

	SOS	MC	TA	ROE	ROA	TQ
SOS	1					
MC	0.064					
TA	-0.037	0. 565***				
ROE	0.097	0.499**	0.252			
ROA	0.027	0.31*	0.286**	0.585**		
TQ	0.113	0.485**	0.352***	0.487**	0.126	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
***. Correlation is significant at the 0.10 level (2-tailed).

Panel B: 2012

	SOS	MC	TA	ROE	ROA	TQ
SOS	1					
MC	0.026					
TA	0.123	0. 511***				
ROE	0.365*	0.082	0.175			
ROA	0.029	0.014	-0.564**	0.607*		
TQ	0.061	0.555**	-0.146	0.402*	0.395*	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).
***. Correlation is significant at the 0.10 level (2-tailed).

The results suggested that separate ownership structure was not significantly correlated with performance variables ROE, ROA and Tobin's Q in 2005 but correlation was significant with ROE in 2012. However, correlation test results did not support firm performance based on Tobin's Q and ROA for separate leadership structure, but only ROE supported the correlation for 2012. In order to test the study hypotheses, analysis of variance was employed. Analysis of variance investigated the interaction between separate ownership structure and firm performance. The method that was applied to analyse the variance was multivariate and univariate analysis. The results of the analysis of variance conducted to find the interaction between leadership structure and firm performance reported mixed results (Table 4).

The relationships were not significant for 2005. However, in 2012 separate ownership structure was significant for ROE with F-statistics 10.781 ($p = 0.01, < 0.05$). Neither ROA nor Tobin's Q was significant for separate leadership structure in 2012. However, based on the significant relationship between ROE and leadership structure, null hypothesis (H0a) is rejected and it can be concluded that there is a positive relationship between separate ownership structure and firm performance, accepting the alternative hypothesis (H1a).

Firm performance	2005		2012	
	F	**Sig**	**F**	**Sig**
ROE	0.397	0.550	10.781	0.01
ROA	2.764	0.145	0.132	0.721
TQ	0.192	0.674	0.891	0.271

Table 4: The Analysis of Variance between Separate Ownership and Firm Performance

The relationships provided by the results of the statistical analysis from Spearman's correlation and analysis of variance support the relationship between separate ownership structure and firm performance. Results reported a significant relationship between separate leadership structures and the accounting-based measure ROE. They did not suggest any relationship between separate leadership and firm performance for Tobin's Q or ROA for Spearman's correlation and Analysis of Variance. Therefore, it can be concluded that separation of the position of chairman and CEO resulted in increased performance for listed companies in Egypt, which supports the hypothesis (H1), which states that separate ownership structure is positively associated with firm performance.

6. Conclusion

Separate ownership structure is positively related with firm performance. The hypothesis that separate ownership structure was related to firm performance was accepted. Results of Spearman's correlation analysis for association were presented in Table 3, and analysis of variance in Table 4 reported a significant level of 5% for ROE in 2012, supporting hypothesis H1a. This relationship was not significant for Tobin's Q and ROA. However, it can be concluded that a relationship exists between firm performance and separate ownership structure founded on ROE.

Results signified that separation of responsibilities at the top levels affords better results, since the chairman is responsible for formulation of strategies and the CEO is responsible for implementation of strategies and daily operations of the firm. As a result, it can be concluded that higher profitability for Egyptian firms is attributable to effective management, due to the separation of the position of CEO and chairman. These results were supported by former research on the relationship between separate ownership structure and firm performance. These results were consistent with the study conducted by Rechner and Dalton (1991), which stated that firms with separate ownership structure do better than firms with combined ownership structure when it comes to ROE.

This view is supported by Rhodes (2001), which signified that firms with separate ownership structures are linked with higher accounting returns rooted in ROE compared to combined roles. Another study carried out by Leng (2004) concluded that combined ownership structure was not significant for ROE. In this study, ROA was not significantly related to separate ownership structure. Conversely, Dehaene, De Vuystand Ooghe 2001reported a significant relationship between combined ownership structure and ROA. They concluded that the same person acting as CEO and chairman will try to enlarge their investment in the firm headed for increasing the size of the firm. The significant relationship between separate ownership structure and firm performance in Egypt based on ROE are supported by agency theory. Consistent with the literature, the relationship between separate ownership and firm performance is based on agency theory, which is concerned with unifying the interest of shareholders and managers to maximise the wealth of shareholders. Hence, advocates of agency theory argue that the position of chairman and the CEO should be separated, as the combined structure may reduce the effectiveness of monitoring (Finkelstein and D’Aveni, 1994). Although stewardship theorists indicate that one person occupying both roles may improve firm performance, as it removes external and internal ambiguity about responsibility for firm outcomes and processes (Donaldson 1990; Finkelstein and D’Aveni, 1994), separate leadership structure in this study is supported by agency theory for maximisation of shareholder wealth. In addition, the results also reported an increase in ROE for companies in Egypt for the study period. ROE is measured by efficiency of management in generating profits from shareholders’ financing.

Thus, the key function of the corporate governance mechanism is to provide guarantee to shareholders that managers will achieve results which are in the best interest of the shareholders (Shleifer and Vishny, 1997). One way in which this goal can be accomplished, is through a well-structured board that ensures the interests of the managers are consistent with those of the shareholders. Separation of these two roles leads to creating greater accountability and effectively managing the company, resulting in better uses of shareholders' financing to generate earnings in the form of ROE (Monks and Minow, 2004). The practice of separation of the ownership roles is becoming increasingly widespread with private firms and its advantages are recognised in the context of Egypt. As the size of the firm increases, the number of companies that split both roles increases. The need for separation is felt when the requirement for external finance, as well as firm size increase. However, separation of the ownership structure among listed companies has produced opposite results for market-based measures and accounting based measures of firm performance. The accounting-based measure of firm performance of ROE proposes better performance by means of a separate ownership structure, while the market-based measure of firm performance Tobin's Q shows otherwise. Similar results were supported by Haniffa and Hudaib (2006). Their results imply that companies have accounted better accounting results through a separate ownership structure.

Conversely, the results derived from market measures were not significant, which is should not be the case in an emerging market trying to attract investors. This may be due to the fact that ownership structure on its own may perhaps not have been considered by the Egyptian market. In an environment such as Egypt the separation of the two positions is important. In such environment, the chairman is necessary to have a strategic sense, capable of analysing the risk inherent in the business environment. It is also the chairman's task to establish strategies that would alleviate the risk and increase profitability of firms. Finally, ownership duality is an important characteristic of corporate governance in Egypt. Separation of leadership positions of chairman and CEO enhance the performance of the Egyptian firms, since separation of the roles results in effective monitoring, planning and higher profitability. Analysis of the best performing companies in Egypt indicates that the companies have diversified into markets and products. This implies that even firms operating in unstable political and socio-economic environments, separate ownership structures perform better, as a result of the ability of the chairman to establish strategies appropriate to the surrounding environment.

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