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Manufacturing-Based Multinational Corporation Adherence to the Duality Management Structure

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Abstract: *Traditional cultural and societal norms have affected regional human resource management philosophies, including regional adherence to the duality management structure in an organization wherein the CEO and Chairman of the Board are the same person. There have been numerous studies of the financial effects of utilizing the duality management structure as well aswhich areas of the world are most likely to utilize duality. There is also literature addressing the traditional adherence to the duality structure in American versus European organizations, but no studies exist that describe which business sector is more likely to adhere to the duality structure. This paper will examine trends in top performing industrial organizations based on total assets as of 2012 and describe number and location of organizations utilizing the duality management structure. This data will be used to compare European and American management structures with traditional norms.*

Keywords: *Duality management structure, organizational leadership, global manufacturing*

1. Introduction

The duality management structure exists when the CEO and the chairman of the board in an organization are the same person. Studies of duality management have traditionally focused on organizational financial performance over a period of time, and human resource management philosophy related to CEOs and organizational management has tended to address executive structure organizational performance (Chen et. al, 2008; Tonello, 2011). Other literature dedicated to duality points to the likelihood of duality in various regions of the world, including adherence to the duality structure in American versus European organizations, and to the relatively high extent of duality in America and/or the decreasing nature of duality in America and internationally (Peng, et.al, 2007; Fodor, 2008; Awad, 2011). However, no studies exist describing business sectors and their likelihood of utilizing the duality structure. This paper will examine trends in top-performing industrial organizations based on total assets as of 2012 and will describe number and locations of organizations utilizing the duality management structure. This data will be used to compare European and American management structures with traditional norms.

2. Background

Duality is the organizational governance structure in which the same person acts as both Chairman of the Board of Directors (Chair) and the company CEO/President (Vo, 2010; Brink, 2011). A company CEO (sometimes referred to as the President/CEO or Company President) is the highest-ranking executive official of the organization who manages the operations of the company, whereas the Chair generally oversees, organizes, and conducts business related to the company Board of Directors (Board). A Chair that is not CEO often is referred to as a non-executive Chair. In many instances, this type of Chair has the responsibility not only to monitor the Board, but also to critically evaluate the performance of the CEO. An American company that does not separate the roles of CEO and Chair tends to appoint a presiding director (or lead director) position to advise the CEO/Chair and set Board meeting agendas in order to prevent conflicts of interest.

In the US, duality traditionally has been the more common type of company governance structure, especially among higher-earning companies. In 1987, Dalton and Kesner (1987) found that duality was the governance structure for 82% of large corporations in the United States, 30% of large corporations in the United Kingdom, and only 11% of large corporations in Japan. By 1989, a study of 661 large US organizations reported that 81% utilized a duality leadership structure (Brickley et. al, 1996). In 1992, the New York Times reported that 75% to 80% of US organizations operated with a duality structure (New York Times, 1992). Also in 1992, Korn Ferry International found that of the 1,000 largest American companies, 80% operated under the duality template (Vo, 2010).

These statistics have declined in recent years, however. According to a study of 1,500 US companies during the period from 1996 to 2005, the percentage of companies operating under duality decreased from 76% in 1996 to 69% in 2000 and then to 60% in 2005 (Balsam & Upadhyay, 2009). By 2009, it was reported that 54-60% of the top 1,500 US companies operated under the duality structure (RiskMetrics, 2009; Vo, 2010). “37 percent of the S&P 500” organizations in 2009 were reported to operate under duality (Tonello, 2011). Even though duality is still far more common in America than around the world, its popularity has been decreasing in recent decades.

While duality has never been common outside the US, global use of the duality management structure continues to decrease. Booz & Co. (2012) reported that global appointments of new dual CEO and Chair positions decreased from 34% in 2000 to 14% in 2011. Duality in Europe has seen concurrent steep declines, with new appointments of new CEO/Chairs dropping from 53% in 2000 to 17% by 2011 (Booz & Co., 2012). In 2009, only 18% of new CEOs in North America were hired with the added role of Chair, a sharp decrease from the North American historical average of nearly 40% (Kneale, 2009). Like American studies on duality rates, this literature utilized companies’ earnings as criteria in thesample sets, but not sectors of the economy. Many have predicted that the percentage of American companies using duality will soon converge on these global norms.

Advocates for duality report a reduction of information transfer from the CEO to Chair as well as smoother cooperation between the Board and company executives (Vo, 2010; Tsamenyi& Uddin, 2008; Awad, 2011). Opponents of duality cite the objective and fresh organizational insight from the Chair in appraising the CEO and company’s ultimate performance (Jennings, 2000; Awad, 2011).

However, a CEO tends to be more likely to protect his own interests if he is also the Chair, and in the wake of the corporate scandals of 2001, there has been pressure on politicians to curtail duality in order to achieve more ethics and transparency in corporate America. In part because of the widening gap between CEO pay and average worker pay as well as the corporate accounting scandals of 2002, many American CEOs are now looked at with suspicion by average Americans. The higher the profits of an organization, the more likely critics are to feel the organization contains cronyism or corruption, especially if the CEO is also the Chair (Chen, et. al, 2008). There has even been discussion about prohibiting the duality structure (Sharpe, 2012). However, shareholders of major US firms were particularly happy that legislation in the Dodd-Frank Act did not bar the duality model in 2010 (CFOZone.com, 2010).

Few, if any, studies report on CEO profiles from manufacturing companies. However, there is literature that analyzes CEOs of production organizations for other types of inquiries. For instance, industrial CEOs have been surveyed to ascertain their opinion on a variety of issues including the health and prospects for the economy or potential plans to hire employees (PWC, 2013). Another study of manufacturing CEOs brought to light their concerns about the generational challenge, as “more industrial manufacturing CEOs are having trouble attracting and retaining younger workers” (PWC, 2012). Another report on priorities of manufacturing CEOs indicated that manufacturing CEOs generally have “distinct lack of commentary regarding marketing issues” (Clayman, 2012). And manufacturing CEO average pay have been reported, whereas manufacturing CEOs made on average 98,000 in 2013(SimplyHired, 2013).There have been individual studies on the duality management structure in niche areas such as paper and forest products business and the US restaurant industry(Sridharan&Marsinko, 1997; Guillet et al, 2013). Duality studies have assessed specific industries but not sectors of the economy.

Scholarly concentration on duality has occurred in part because the market is extremely vested in successful dynamics between the company CEO and Chair. This study will seek to learn more about characteristics of top-performing industrial CEOs as well as the adherence to duality, whereas all will be assessed vis-à-vis organizational norms.

3. Methods/Results

IndustryWeek is a management resource magazine devoted to the manufacturing sector. It publishes an annual list of top-earning manufacturing companies by revenue. In this study, the top 50 organizations from the 2012 *IndustryWeek* list were taken as the sample set, and their CEO profiles were assessed as of June 2013. Executive biographies were the best source of information, such as those found in the Business week multinational executive profile reports published by Bloomberg (2013).

Of these 50 top organizations from 2012, the US had 14 companies on the list, Japan had 9 companies, Germany had 6, and China had 2. The table below shows the total number of companies operating under duality during June 2013, which was 16 of 50, or 32%.

Table1. *Duality Adherence, Top 50 Multinational Industrial Organizations*

	yes	no
Duality adherence	16	34

For Japanese-based Nissan Motor Co., CEO Carlos Ghosn became the chairman in June 2008 and as such that company was categorized as duality. For Total SA companybased in France, CEO Christophe DeMargerie was named chairman in 2010 and as such that company was also considered to operate under duality. Of the 16 companies operating under duality, 10 were based in the US. Thus, 10 of the 14 US companies in this top 50 list operated under duality. The remaining six organizations were based in Spain, Luxembourg, Japan, Taiwan, France, and China.

As such, there was a disparity in the number of US versus European industrial companies that use duality. Turkey was classified as an Asian country and Turkiye Petrol Rafinerileri AS was not classified as a European country. The76.9% of US manufacturing companies utilizing the duality management structure is much higher than other recent reports listing all types of US organizations operating under duality, including the 37 percent of the S&P 500 companies in 2009 utilizing duality from the Tonello (2011)report.

The 16.66% of European manufacturing compares utilizing the duality management structure in this study was similar to the 17% of 2011 new appointments of new CEO/Chairs in 2011 in all Europeorganizations from the Booz & Co. (2012) study.

Table2. *Duality Adherence, Top 50 Multinational Industrial Organizations, US versus Europe*

	US		Europe	
	yes	no	yes	no
Duality adherence	10	3	3	15
Duality adherence-%	76.92%		16.67%	

Another finding of the analysis of the top 50 manufacturing companies is that the tenure of the CEOs who were also chairmen was 7.35 years, whereas the tenure of the CEOs of companies with a separate chairman was only 4.27 years. The 7.35 years is quite higher than the average tenure of CEOs reported to be 6.6 years in 2010 (Favaro et. al, 2011) of the world’s top public companies.

Table3. *CEO Tenure by Duality Adherence, Top 50 Multinational Industrial Organizations*

duality	n	y	All industrial
tenure	4.27	7.35	5.28

The following table displays the types of hires for duality companies. Of these 16 companies, 13 CEOs had previously worked for the company, whereas, three were hired from outside the company. Company founders were counted as working for the company previous to their appointment as CEO/Chair. The 3 hired from outside the company were Antonio BrufauNiubó of Spanish-based Repsol SA, Patricia Woertz of US-based Archer-Daniels Midland Co., and of US-based General Motors Co. In this instance, Akerson was named to the board of directors of General Motors as a representative of the U.S. Treasury In July 2009, which owns a 61% stake in

GM and as such being a board member was not counted as working for the company previously. In 2012, Forbes noted that 66% of Fortune 500 CEOs, were internal hires (Statistic Brain, 2012).As shown in the table below, there was a greater percentage of dual CEOs who were hired internally than the Fortune 500 average. 76% of all the industrial companies surveyed had a CEO who was an internal hire, which again is still higher than the Fortune 500 average.

Table4. *CEO Hiring by Duality Adherence, Top 50 Multinational Industrial Organizations*

	duality		nonduality		All industrial	
internal	13	81.25%	25	73.53%	38	76%
non-internal	3	18.75%	9	26.47%	12	24%

In 2012, Forbes noted that the median age of Fortune 500 CEOs was 55 (Statistic Brain, 2012). However, industrial CEOs tended to be older, with the duality CEOs averaging 59.94 years, and the non-duality CEOs avaraging 58.39 years, as shown in the table below.

Table4. *CEO Age by Duality Adherence, Top 50 Multinational Industrial Organizations*

	duality	nonduality	All industrial
age	59.94	58.39	58.92

4. Future Studies

Studies on organizational management in different cultures or regions of the world will continue to be the focus of literature. While most studies probably will focus on the ultimate financial performance of duality versus non-duality CEOs, others may explore the rationale for continuing with duality, switching to duality from non-duality, or transition strategies from a company founder who utilized duality to a separate CEO and chair in the transition process. With the globalization of markets and the decentralization of operations, variations in cultures will be other routes of inquiry.

5. Conclusion

Of the 50 top performing organizations of 2012, the US had 14 companies, Japan had 9 companies, Germany had 6, and China had 2. The total number of companies operating under duality was 16 of 50, or 32%.Of the 16 companies operating under duality, 10 were based in the US. Thus, 10 of the 14 US companies in this top 50 list operated under duality. The remaining six organizations were based in Spain, Luxembourg, Japan, Taiwan, France, and China.As such, there was a disparity in the number of US versus European industrial companies that use duality. 76.9% of US manufacturing companies utilized the duality management structure and 16.66% of European manufacturing compares utilized the duality management structure in this study. Another finding is that the tenure of the CEOs who were also chairmen was 7.35 years, whereas the tenure of the CEOs of companies with a separate chairman was only 4.27 years. Industrial CEOs tended to be older, with the duality CEOs averaging 59.94 years, and the non-duality CEOs averaging 58.39 years.

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