



# THE ROLE OF MANAGERIAL DISCRETION IN THE FIRM PERFORMANCE: A CASE STUDY OF PUBLIC LIMITED FIRMS OF PAKISTAN

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Article Information	Abstract
<b>Article history:</b> Submitted: 22 <sup>nd</sup> May, 2024 Accepted: 21 <sup>st</sup> June, 2024 Published: 28 <sup>th</sup> June, 2024	<i>The purpose of this study is to examine the effects of managerial discretion (Firm Size, CEO Duality, and CEO Incentives) on firm performance as measured by ROA and Tobin's Q in non-financial Pakistani firms listed in KSE between 2011 and 2021. The study used the Generalized Method of Movements and Random Effect and Fixed Effect regression models to examine data from 172 firms in order to ascertain the impact of each managerial discretion variables on business performance. The software utilized for this analysis was STATA 12. Information was taken from KSE-listed companies' websites, databases, and annual reports. The study shows that while firm size and Tobin's Q do not significantly correlate, bigger organizations (firm size) have higher return on assets (ROA). Nevertheless, research discloses that CEO duality is not related to firm performance. Though, the research divulges that as the CEO's incentives rise, ROA and Tobin's Q (firm performance) tend to decrease. This research synthesizes and extends important management theories to provide a sophisticated knowledge of the complex dynamics inside managerial discretion (MD), especially in the context of Pakistani non-financial enterprises registered with the KSE. This represents a substantial theoretical contribution. For all the stakeholders involved in the management discretion landscape, this research offers useful insights that include managerial empowerment, well-informed decision-making, regulatory issues, and strategic performance development.</i>
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## Introduction

A common, but implicit, assumption in management studies is that managers have a lot of freedom to do anything they want (Davis & Stout, 1992; Ocasio, 1994). To ordinary observers, it looks obvious, if not natural, that people in positions of authority direct corporate practices and operations (Finkelstein et al., 2009). However, historical and empirical data show that CEOs are

expected to operate within strict limitations, at least in most circumstances (Yukl, 2002). To overcome this apparent contradiction, the idea of managerial discretion (MD) was first presented by Hambrick and Finkelstein (1987). They defined MD as an executive's capacity to influence crucial corporate results.

Li and Tang (2010) define that managerial discretion refers to how much a manager participates in and controls the procedure of making the decisions. Managerial discretion occurs when managers face constraints or ambiguous strategic decisions (Hambrick, 2007). According to Li and Tang (2010) managers have a higher effect on firm performance when management discretion is high since they have additional options for making decisions. When management discretion is limited, managers are constrained in making corporate choices with a broader range of possibilities. Managers' initiative and ingenuity are more likely to be fostered when managerial discretion is high. Implementing innovative approaches and boosting R&D investment can improve innovation quality; but managers' desire for personal gains will end up resulting in an increase in agency costs (Chin et al., 2021). For example, they may make improper investments, either excessive or inadequate, or they may engage in unnecessary economic activities. Increased agency costs will likely stifle long-term innovation.

It is critical to comprehend how a CEO's discretion and power as a representation of management affect the success of the company. Particularly in unpredictable and competitive contexts, MD plays a significant role in firm-level decision-making (Magerakis & Tzelepis, 2020). MD have a significant and growing influence on business outcomes (Magerakis, 2022). However, the empirical evidence regarding the nature of this relationship is still unclear, with conflicting claims and opposing theories. According to sociological and psychological perspectives, such as stewardship theory, subordinates are dependable, socialists, and supportive of the organization. Agency theory, on the other hand, makes the assumption that subordinates are selfish, exploitative, and individualized. Thus, by taking into account related theories, further research is still needed to fully understand how MD affects business success. Yu (2023) also suggests that by considering MD as one of several variables, further research may strengthen the findings. Thus, the goal of the current study is to examine the impact of the CEO—as a steward or agent—on firm performance in the Pakistani setting by using empirical analysis to draw on the theoretical justifications of stewardship and agency theories in connection to MD.

Despite CEOs' significant effect on firm results, CEO discretion remains an understudied variable, particularly in the context of Pakistan. This study seeks to empirically investigate the role of CEOs, either as stewards or agents, in business performance in the Pakistani setting, based on agency and stewardship theories. The current study uses CEO discretion as a managerial discretion to determine its impact on firm performance. Study is utilizing following factors to assess CEO discretion:

- Firm Size
- CEO Duality
- CEO Incentives

The goal of this study is to thoroughly investigate the influence of management discretion in overall business performance. Through these objectives, the study aspires to bring useful information to the field by providing practical implications for both theoretical comprehension and real-world application in the context of Pakistani non-financial firms. This study looks at the particular setting of Pakistan's KSE-registered non-financial enterprises to investigate the links between several elements of CEO discretion and firm performance. By combining these characteristics, the research hopes to provide insights that go beyond the local level, particularly

in a sector where enhancing corporate performance is critical to the satisfaction of customers. The research emphasizes the importance of CEO discretion in managing the social, economic, and regulatory contexts. CEO discretion and company performance are critical to organizational success, and this study tries to improve understanding of its role in a location with diverse socioeconomic circumstances. The study's theoretical approach provides valuable insights for managers, regulators, and leaders of Pakistani publicly listed firms, while also laying the groundwork for subsequent empirical research.

## **Literature Review:**

### ***Theoretical Foundation:***

Theories of agency and stewardship offer helpful perspectives on managerial discretion. Agency theory states that managers are opportunistic actors with their own aims, just like any other rational person. Managers may choose to decrease their employment risk (Amihud & Lev, 1981) or increase their influence, reputation, and salary in place of concentrating on business success. Agency theory suggests that managers who support socially conscious behavior may be doing so more for their own benefit than the firm as a whole. Managers may use company resources to achieve their own professional ambitions, which might lead to personal gains at the expense of the operation of the company (Friedman, 2002).

Alternatively, stewardship theory presents managers as stewards rather than agents, providing a different viewpoint. Stewardship theory provides an explanation of managerial conduct that is pro-organizational (Davis et al., 1997). This suggests that when given more opportunities to influence business results, the CEO will act in the best interests of the company. It is believed that CEOs are motivated to deliver when they have a sense of autonomy and responsibility (Keay, 2017; Schillemans & Bjursrm, 2020). Stewards prioritize the long-term success of the company over its immediate success, (Zhang et al., 2018), indicating that discretion will be used to advance the organization's goals. Disputes between agents and principals are minimized when the CEO aligns his or her interests with the company. When there is less disagreement, everyone in the organization may concentrate more on activities that will boost individual performance, which will eventually boost the organization's performance (Fox & Hamilton, 1994).

These philosophical frameworks, when compared, offer a comprehensive understanding of how managerial choices impact the company's success. By integrating ideas from agency and stewardship theories, businesses may better comprehend the CEO's discretion and its role in corporate performance, improving both short-term results and long-term value creation for stakeholders.

### ***Hypotheses Development:***

Numerous studies have examined the empirical relationship between managerial discretion and company performance, but their conclusions have produced mixed results (Hadani et al., 2015). Several studies have failed to find any relationship between managerial discretion and corporate performance (Zahra & Stanton, 1988; Demsetz & Lehn, 1985; Agrawal & Knoeber, 1996). Studies show a positive relationship between managerial discretion and business success (such as by Donaldson & Davis, 1991; Kesner, 1987). The uneven effects of CEO/managerial discretion on corporate success stem from the conflicting principles of stewardship and agency theories.

### ***Firm Size:***

Firm size is one of the primary causes of organizational slowdown, among other features of organization (Hambrick & Finkelstein, 1987). Large companies frequently have established administrative procedures and hierarchical systems, making major modifications difficult (Nelson & Winter, 1982). Since they are less likely to take the initiative to grow their operations, large firms are frequently more inactive than small ones (Audia & Greve, 2006). The more inertia a firm has, the less discretionary flexibility there is for executives (Finkelstein & Hambrick, 1990).

There is a divide in the research on the connection of firm size with performance. Though some scholars highlight positive association between firm size and performance (Almashhadani & Almashhadani, 2022; Schreck & Raithel, 2018; Doğan, 2013; Dewi & Wijaya, 2021; Shubita & Alsawalhah, 2012; Asad & Cheema, 2017; Nguyen & Huy-Cuong, 2015), whereas (Olajide et al. (2017); Shepherd (1972); Banchuenvijit (2012) found that firm size is negatively related to firm performance, while Whittington (1980); Purwohandoko (2017); Sulaiman et al. (2019) report that firm size has a negligible effect on firm performance.

In general, the effect of firm size on performance differs according on the stewardship or agency role that managers play. While agency theory highlights the potential issues and agency costs that larger companies may encounter, stewardship theory contends that larger firms may have an advantage in choosing responsibility-oriented management. Therefore, study hypothesize that: ***H1: Managerial Discretion (firm size) has impact on firm performance (Stewardship vs Agency Perspective)***

### ***CEO Duality:***

Previous research has shown that duality decreases the board's attentiveness (Hayward & Hambrick, 1997). With the recent high-profile company failures in the early 2000s, CEO duality has become a worrying issue (Aktas et al., 2019). According to agency theorists, CEO duality undermines the board's monitoring function by giving the CEO considerable influence over the board (Kalyta & Magnan, 2008). According to agency theory, a strong CEO is the result of CEO duality, who then utilizes their position to hinder the board's capacity to make decisions and oversee its behavior, both of which have an effect on the organization's performance (Rashid Issa, 2019).

on the contrary, utilizing stewardship theory, He and Wang (2009), argue that CEO duality would strengthen the positive effects of creative thinking on corporate performance. Separating the roles of CEO and chairperson has further consequences, such as costs associated with knowledge asymmetry between the two (Brickley et al., 1997). These costs are exacerbated when the organization's operations require the deployment of significant knowledge resources. According to the authors, CEO duality would positively impact productive knowledge assets and company performance as it would enable CEOs to make better use of their company's resources. These arguments are supported by stewardship theory, which claims that because of the unified structure of authority, CEO duality may be advantageous for business success.

Even though there is a wealth of important literature, studies showing how CEO duality affects a firm's performance are contradictory and ambiguous. Many studies have shown that there is no apparent correlation between CEO duality and business performance (Benz & Frey, 2007; Duru et al., 2016). Furthermore, Harris and Helfat (1998) reported that three of the thirteen research highlighted that the performance of an organization is negatively impacted by CEO duality; the remaining ten either revealed positive results or no effects at all. Recent research

indicates that CEO duality improves business performance (Pham, D. & Pham, Q, 2020). However, a different research conducted in 2008 by Cornett et al. and Le et al. (2023) emphasize that CEO duality typically degrades organizational performance. Yang and Zhao (2014) stress that CEO duality may control and observe the company visibly and continuously, leading to improved company performance and benefits for shareholders. The review of the literature demonstrates that CEO duality effects on company performance. is unclear. Accordingly, the current study using stewardship and agency theory lens leads to the following hypothesis:

***H2: Managerial Discretion (CEO duality) has impact on firm performance (Stewardship vs Agency Perspective)***

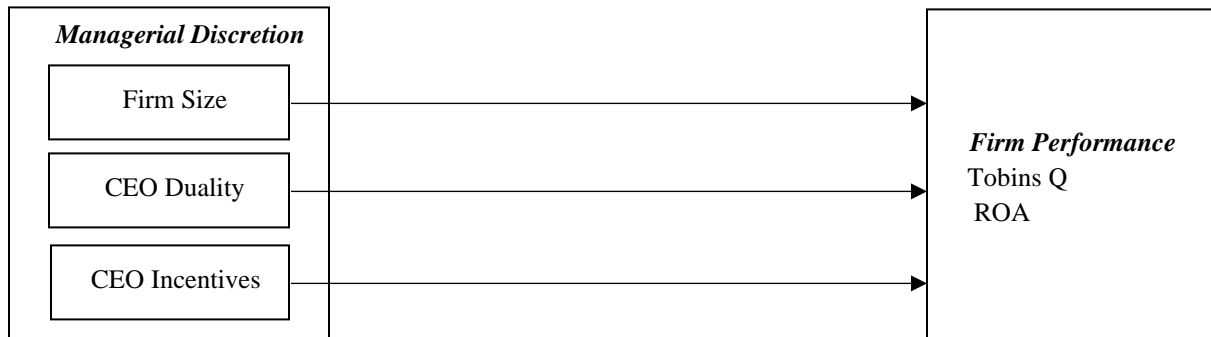
***CEO Incentives:***

It may be challenging and difficult to determine whether CEO compensation and business success are correlated; some academics even contend that there may not be a significant relationship between the two. Research by Faleye et al. (2013) and Fischer & Lindermoyer (2020) show that CEO compensation has little bearing on the performance of an organization. Said another way, there is no relationship or correlation between CEO compensation and business performance. On the contrary, a 2003 research by Perel found that the performance of a business determines the CEO's compensation. According to Korobkin and Dorff (2018), while a CEO's effect and influence vary based on their level of participation but these are reflected in the CEO's remuneration, which is a reflection of the CEO's assessed value and bargaining ability. According to Bo et al. (2023), empirical findings demonstrate that over an extended period, CEO incentives are negatively correlated with the firm performance because CEOs prioritize investments above business development. Agency theory emphasizes such findings as the fact that CEOs may be more interested with acquiring money through their compensation packages than with boosting the profitability of the organization.

When it comes to assessing the relationship between CEO remuneration and corporate performance, stewardship theory offers an alternative to agency theory. According to Francoeur et al. (2017), this paper holds that CEOs are intrinsically motivated to achieve their organization's goals and connect to its mission. The CEO's expanded influence will help both the company and its stockholders (Bovie et al., 2011; Lange et al., 2015). Stewardship theory endorse that sufficient remuneration and structure of the organization motivate CEOs to adhere to their organizational strategy (Hernandez, 2012). This theory claims that CEO incentives can improve business performance and is backed up by several researches in the literature, including Mehran (1995) who finds that CEO rewards are favorably related to ROA and Tobin's Q. According to Elsayed and Elbardan (2018), there is evidence demonstrating that CEO compensation is significantly linked to business performance. Attaway (2000) also emphasizes the tiny but positive association between CEO remuneration and firm performance. An appropriate incentive system closely connects the stakeholders' interest with those of executive (Bo et al., 2023). Based on the literature review and agency-stewardship theories, the study may hypothesize that:

***H3: Managerial Discretion (CEO incentives) has impact on firm performance (Stewardship vs Agency Perspective)***

**Figure 1: Study Framework**



Framework of study has been developed based upon comparative analysis of management theories of agency and stewardship as well as literature review.

### **Research Design and Sample Selection:**

The study uses a quantitative research technique, namely STATA 12, to examine objective facts and evaluate hypotheses within the managerial discretion framework in order to integrate theories with actual data. It is a multifunctional statistical tool that facilitates dataset exploration, summarization, and analysis. It is frequently utilized tool in social science research. The Generalized Method of Movements and the Fixed and Random Effect regression models were employed in the study's STATA 12 data analysis because the goal of this study is to examine the relationship between multiple components of a single variable. The emphasis of current study is on how different factors of MD variable affect company performance.

A well-developed framework is used to examine hypotheses, since conflicting theories are complicated and interconnected, indicating that an analytical or descriptive study technique is appropriate. The process of gathering data is based on secondary sources, mainly yearly reports, which are regarded as dependable and compliant with regulations. To guarantee thorough information retrieval, a worldwide database and corporate websites are included. The study includes 172 non-financial public limited companies that were listed in the Pakistan Stock Exchange between 2011 and 2021. It uses the publicly accessible annual reports for in-depth examination of data, these companies publish annual reports on regular basis as mandated by regulatory bodies.

### **Variables:**

The study analyzes executive discretion and organizational performance in chosen organizations, with an emphasis on various control factors. Managerial discretion, as indicated by firm size, CEO duality, and CEO Incentives is investigated to assess its influence on companies' performance, relying on evidence that more executive discretion has impact on firm performance. Firm size is calculated as the Log of total assets of firm. CEO duality is when CEO holds two chairs i.e. executive and chairperson and measured as dichotomous scale i.e. 1 for duality and 0 for no duality. CEO incentives is measured through the salary and stock options available to CEO. Organizational performance is quantified using Return on Assets (ROA) for short-term outcomes and Tobin's Q for long-term success prediction. Control variables are board composition, gender diversity, slack resources being among the key considerations. These control variables are taken

into consideration to account for their potential impact on managerial discretion and organizational performance, ensuring a comprehensive analysis of the selected firms' dynamics and outcomes.

### Data Analysis and Results:

The study looks at the impact on executive discretion on corporate performance. The study's hypotheses are based on existing theories and literature review. The study's hypotheses are tested using the following econometric models:

#### Model 1

$$FP_{it} = \beta_0 + \beta_1(\text{firm size}_{it}) + \epsilon_i$$

#### Model 2

$$FP_{it} = \beta_0 + \beta_1(\text{CEOD}_{it}) + \epsilon_i$$

#### Model 3

$$FP_{it} = \beta_0 + \beta_1(\text{CEOIN}_{it}) + \epsilon_i$$

#### Model 1:

Estimated Model 1 is based on first hypothesis of the study i.e. *Managerial Discretion (firm size) has impact on firm performance (Stewardship vs Agency Perspective)*. The estimated Model 1 is as under:

$$FP_{it} = \beta_0 + \beta_1(\text{firm size}_{it}) + \epsilon_i$$

#### Model Fit Statistics:

The analysis of variance (ANOVA) table is provided below. This table presents the explained variance, residual variance, and model fit statistics along with a summary of the regression model's output.

**Table 1**

Source	SS	Df	MS
<b>Model</b>	1.09296669	7	0.156138098
<b>Residual</b>	11.1298007	1,518	0.007331885
<b>Total</b>	<b>12.2227674</b>	<b>1,525</b>	<b>0.008014929</b>
<b>F-Statistics</b>		<b>21.30</b>	
<b>P-Value</b>		<b>0.000</b>	

The fit statistics for model 1 are shown in Table 1. The low p-value (0.000) of this model suggests that model's effects are statistically significant. The groups or circumstances that the "Model" source represents differ substantially, as indicated by the F-statistic of 21.30. The data's "Residual" represents unexplained variability or inaccuracy. These results suggest that the proposed variables or tested model has significant effect on the variable being studied. The association between of firm size with firm performance is supported by strong statistical data, and Model 1 has a high degree of predictive power.

#### Test for Heteroskedasticity:

Heteroskedasticity is assessed using the Breusch-Pagan/Cook-Weisberg test in the study.

**Table 2**

<b>Breusch-Pagan / Cook-Weisberg test for heteroskedasticity</b>			
Null Hypothesis (Ho): Constant variance			
Test	Statistics	Notation	p-value

Breusch-Pagan / Cook-Weisberg	5.10	chi-sq(1)	0.0239
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Table 2 provides a summary of the model 1 results. In this instance, a low p-value (often less than 0.05) would lead to the rejection of the null hypothesis (Ho), which proposes a constant variance. Because Model 1's p-value of 0.0239 is less than 0.05, the null hypothesis must be turned down, demonstrating the heteroskedasticity of the regression model. Put another way, it shows that the variance of the errors varies as the independent variable's values change.

#### ***Test for Multicollinearity:***

The Variance Inflation Factor (VIF) is a measure used to assess multicollinearity in a multiple regression model.

**Table 3**

Variable	VIF
Firmsize	1.11
TD	1.43
GD	1.08
SR	1.01
CEOD	1.00
CEOIN	1.06
BICEOI	1.31
<b>Mean VIF</b>	<b>1.14</b>

According to Table 3, the average variance of all variables is 1.14, meaning that, generally speaking, the multicollinearity of the model is neither severe nor considerable. In conclusion, regression model 1 seems to have very little multicollinearity based on the VIF values provided, and most of the variables have close VIFs.

#### ***FGLS Technique for Data Analysis:***

To estimate the impact of independent variable the study applied FGLS technique of regression due to the existence of heteroskedasticity in collected panel data.

**Table 4**

ROA	Coefficient	Robust Standard Error	Z	p-value
Firmsize	0.0074068	0.0013688	5.41	0.000
TD	0.0052401	0.0016578	3.16	0.002
GD	-0.0647609	0.0166721	-3.88	0.000
SR	0.0031077	0.0014484	2.15	0.032
CEOD	0.0029967	0.0043843	0.68	0.494
CEOIN	-0.0040099	0.000957	-4.19	0.000
BICEOI	0.0002358	0.0001159	2.03	0.042

Table 4 displays the results of a regression analysis of model 1 using the FGLS technique to predict the dependent variable ROA (Return on Assets), with Firm Size (firmsize) as the major independent variable and others as control variables. firmsize has a coefficient of 0.0074, which is statistically significant at the 0.05 level. Holding the other factors constant, this means that when firmsize increases by one unit, ROA is expected to rise by around 0.0074 units.

Finally, when firm size is taken as the major independent variable, larger organizations have higher ROA. In this regression model, TD, SR, and BICEOI are all positively and significantly related with ROA, but GD and CEOI are considerably negatively associated with it. CEOD is related with ROA.

**Table 5**

<b>Tobin's Q</b>	<b>Coefficient</b>	<b>Robust Standard Error</b>	<b>Z</b>	<b>p-value</b>
Firmsize	-0.0649548	0.1372032	-0.47	0.636
TD	0.3842609	0.1661772	2.31	0.021
GD	-3.647228	1.671167	-2.18	0.029
SR	-0.0008632	0.1451845	-0.01	0.995
CEOD	0.0665817	0.4394734	0.15	0.880
CEOIN	-0.2030548	0.0959304	-2.12	0.034
BICEOI	0.0103799	0.011622	0.89	0.372

The regression results for the association between the dependent variable Tobin's Q and several independent factors, with "firmsize" acting as the key independent variable and the others as control variables are displayed in Table 5. Model 1 investigates whether company size (firmsize) as a predictor of managerial discretion is positively or negatively impact the firm performance (Tobin's Q). The coefficient for company size is -0.0649, although it is not statistically significant ( $p > 0.05$ ), according to the analysis. This means that in this case, significant association does not exist between the firmsize and Tobin's Q.

To summarize, in this regression analysis, the key factors influencing Tobin's Q are TD, which has a substantial and positive influence, and the variables GD and CEOIN, which have a significant negative impact. firmsize, SR, CEOD, and BICEOI appear to have no substantial effect on Tobin's Q in either direction.

This model attempted to explore the consequence of managerial discretion (firmsize) on the firm performance (ROA and Tobin's Q) based on agency and stewardship theories. According to the current study, in larger organizations, the CEO has more discretion, thus they focus on short-term profit (ROA) rather than company value (Tobin's Q). The review of prior research highlights that there is support for the study's findings. Sondakh (2019), for instance, found that firm value was somewhat positively impacted by the size of the company. Doğan (2013) found that profitability (ROA) and firm size have a favorable link. Chandra et al. (2020) claim that ROA is positively and significantly impacted by the size of the company. On the other hand, Manoppo and Arie (2016) found that firm value (Tobin's Q) is not significantly impacted by the size of the company. According to another study, Tobin's Q is unaffected by a company's size (Sulaiman et al., 2019). Purwohandoko (2017) discovered that the size of the company has no bearing on Tobin's Q. The results of the study and literature evaluation demonstrate that while there may be a positive correlation between firm success and firm size but it is not necessarily always the case. By the application of diverse operational strategies, executives may use firm size to impact short-term profitability without inevitably raising firm value. They frequently use these tactics to get fast results, like prolonging their employment contracts or increasing their salary and benefits. However, it is critical to note that pursuing short-term profit at the price of long-term corporate value is a risky strategy that may not be in the favor of investors in the long run.

## **Model 2:**

Estimated Model 2 is based on ninth hypothesis of the study i.e. *Managerial Discretion (CEO Duality) has impact on firm performance (Stewardship vs Agency Perspective)*. The estimated Model 2 is as under

$$FPit = \beta_0 + \beta_1(CEODit) + \epsilon_i$$

### ***Model Fit Statistics:***

ANOVA Table 6 summarizes the results of the regression model and provides information about the explained variance, residual variance, and model fit statistics.

**Table 6**

Source	SS	Df	MS
Model	1.09312717	8	0.136640896
Residual	11.1296402	1,517	0.007336612
Total	12.2227674	1,525	0.008014929
F-Statistics		18.62	
P-Value		0.000	

The model fit results are shown in Table 6. The statistical significance of model 2 is indicated by its low p-value i.e. 0.000. The importance of model 2 is confirmed by the F-statistic, or 18.62, which shows that the variance that the model can explain is much more than the variance that cannot be explained. The independent variables in Model 2 have significant impact on dependent variable, and overall, the model is fit.

### ***Test for Heteroskedasticity:***

Heteroskedasticity is assessed using the Breusch-Pagan/Cook-Weisberg test in the study.

**Table 7**

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity			
Null Hypothesis (Ho): Constant variance			
Test	Statistics	Notation	p-value
Breusch-Pagan / Cook-Weisberg	5.64	chi-sq(1)	0.0200

The results of Breusch-Pagan / Cook-Weisberg test are shown in Table 7. The null hypothesis (Ho), which postulates constant variance, is rejected when the p-value is lower than 0.05. Model 2's p-value is 0.0200 which indicates that Ho is rejected, demonstrating heteroskedasticity in the regression model.

### ***Test for Multicollinearity:***

To assess the multicollinearity in the model the Variance Inflation Factor (VIF) is used.

**Table 8**

Variable	VIF
CEOD	1.01
TOD	1.74
BICOI	1.41
TID	1.19
Firmsize	1.11
GD	1.08
CEOIN	1.07
SR	1.01
Mean VIF	1.20

Table 8 demonstrates that VIF values of all variable are less than 5. This suggests that multicollinearity in independent variable is either very low or nonexistent. Regression model 2's mean VIF of 1.20 further supports the finding that the problem of multicollinearity does not exist in the model, by demonstrating that variables are not substantially correlated with one

another. This is encouraging as multicollinearity may make it challenging to understand how one independent variable in a regression model affects the other.

***FGLS Technique for Data Analysis:***

To estimate the influence of independent variable, the study applied FGLS technique of regression due to the existence of heteroskedasticity in collected data.

**Table 9**

<b>ROA</b>	<b>Coefficient</b>	<b>Robust Standard Error</b>	<b>Z</b>	<b>p-value</b>
CEOD	0.0030208	0.0044003	0.493	0.493
BICOI	0.0002357	0.0001163	2.03	0.043
TD	0.0052408	0.0016627	3.15	0.002
Firmsize	0.0074067	0.0013728	5.40	0.000
GD	-0.0647504	0.0167215	-3.87	0.000
CEOIN	-0.0040097	0.0009599	-4.18	0.000
SR	0.0031084	0.0014527	2.14	0.033

As displayed in table 9, CEO duality (CEOD) is the major independent variable while others are controlled variables in the model 2, whereas the study uses the FGLS technique to predict the dependent variable ROA (Return on Assets). p-value of CEOD is 0.493 and it is meaningfully higher than the 0.05 criterion with the coefficient of 0.0030208. In this instance, the high p-value (0.493) indicates that CEOD has no statistically noteworthy influence over dependent variable. In summary, the p-values clearly show that the dependent variable (ROA) is statistically significantly predicted by BICOI, TD, firmsize, GD, CEOIN, and SR; however, CEOD does not seem to have statistically significant effects.

**Table 10**

<b>Tobin's Q</b>	<b>Coefficient</b>	<b>Robust Standard Error</b>	<b>Z</b>	<b>p-value</b>
CEOD	-0.0834571	0.4285812	-0.19	0.846
BICOI	0.0108321	0.0113264	0.96	0.339
TD	0.3796298	0.1619486	2.34	0.019
Firmsize	-0.0644562	0.1337112	-0.48	0.630
GD	-3.712803	1.628649	-2.28	0.023
CEOIN	-0.2047729	0.093489	-2.19	0.029
SR	-0.0056671	0.1414903	-0.04	0.968

The regression results for the association of dependent variable i.e. Tobin's Q with several independent variables are shown in table 10. The main independent variable is CEO duality (CEOD), while the other variables are control factors. Based on the suggested hypothesis, Model 2 evaluates if CEO duality (CEOD) is positively or negatively linked to business performance (Tobin's Q). The coefficient of CEOD is -0.0834571 and the p-value is 0.846. The high p-value indicates that CEOD is not statistically significant in predicting Tobin's Q, suggesting that Tobin's Q is not significantly affected by the presence of CEO duality. To put it briefly, the results show that while CEOD, BICOI, firmsize, and SR are insignificant interpreters in this model TD, GD, and CEOIN are significant interpreters of Tobin's Q.

Using agency and stewardship theories as a foundation, this model has attempted to explore the association of managerial discretion with firm performance. According to the study, there is

no discernible connection of CEO duality with business performance. Many other researches, including Finegold et al., 2007; Krause et al., 2014; Yang & Zhao, 2014; Duru et al., 2016, did not find indication of a methodical connection of CEO duality with business performance, in keeping with the current analysis. While Rhoades et al. (2001) provide an unfavorable connection, Van Essen et al. (2012), Mutlu et al. (2018), Dalton et al. (1998), Bergh et al. (2016) also reveal nonsignificant correlation. Kang & Zardkoohi (2005) state that both internal and external variables affect how well a board's leadership structure affects a company's success. According to Dahya (2009), it is usually presumed that benefit of owing a unique leadership framework for the board is that it acts as an impartial regulator of the CEO's actions, increasing the board's monitoring role and improving company performance. diverse company performance indicators lead to diverse outcomes when there is CEO duality. For instance, according to Brick & Chidambaram (2010), CEO duality is adversely correlated with ROA, however the correlation with Tobin's Q is not very strong. According to Cornett et al.'s 2007 research on larger businesses, CEO duality and ROA are unrelated. However, a study by Tuggle et al. (2010) discover an adverse correlation between of CEO duality with ROA. According to Grove et al. (2011), there is a negative association between CEO duality and ROA during the years 2006 and 2007, but insignificant during 2008 or over a three-year period. These studies show that the duality-performance link is not stable over time.

### Model 3:

Estimated Model 3 is based on tenth hypothesis of the study i.e. *Managerial Discretion (CEO Incentives) has impact on firm performance (Stewardship vs Agency Perspective)*. The estimated Model 3 is as under

$$FP_{it} = \beta_0 + \beta_1(CEOIN_{it}) + \epsilon_i$$

### Model Fit Statistics:

ANOVA table summarizes the results of the regression model and provides information about the explained variance, residual variance, and model fit statistics.

**Table 11**

Source	SS	Df	MS
<b>Model</b>	1.08966961	7	0.155667087
<b>Residual</b>	11.1330978	1,518	0.007334056
<b>Total</b>	<b>12.2227674</b>	<b>1,525</b>	<b>0.008014929</b>
<b>F-Statistics</b>		<b>21.23</b>	
<b>P-Value</b>		<b>0.000</b>	

Table 11 shows the model fit statistics for model 3. P-value of this model is 0.000, suggesting that significant differences exists across groups or conditions. This implies that independent variables of model 3 significantly affect the dependent variable and the model as a whole fit the data well.

### Test for Heteroskedasticity:

Heteroskedasticity is assessed using the Breusch-Pagan/Cook-Weisberg test in the study.

**Table 12**

<b>Breusch-Pagan / Cook-Weisberg test for heteroscedasticity</b>			
Null Hypothesis (Ho): Constant variance			
Test	Statistics	Notation	p-value
Breusch-Pagan / Cook-Weisberg	5.01	chi-sq(1)	0.0252

Table 12 summarizes the test results. The Bruesch-Pagan Test returned a p-value i.e.  $0.0252 < 0.05$ . The p-value rejects the null hypothesis. This means that model 3 demonstrates heteroskedasticity, which indicates that the residuals' variance is not constant.

***Test for Multicollinearity:***

To assess the multicollinearity in the model the Variance Inflation Factor (VIF) is used.

**Table 13**

<b>Variable</b>	<b>VIF</b>
CEOIN	1.06
TD	1.43
Firmsize	1.11
GD	1.08
SR	1.01
BICEOI	1.31
<b>Mean VIF</b>	<b>1.14</b>

Table 13 presents the results of the VIF study. According to VIF values, multicollinearity is not a problem in regression model 3, since VIF values for all variables and the mean VIF are close to one. This suggests that the independent variables are not strongly related to one another, and that the coefficients values of the model will most likely be accurate and reasonable.

***FGLS Technique for Data Analysis:***

To estimate the influence of independent variable the study applied FGLS technique of regression due to the existence of heteroskedasticity in collected panel data.

**Table 14**

<b>ROA</b>	<b>Coefficient</b>	<b>Robust Standard Error</b>	<b>Z</b>	<b>p-value</b>
CEOIN	-0.0039796	.0009562	-4.16	0.000
TD	0.0052597	0.0016579	3.17	0.002
Firmsize	0.0074395	0.0013682	5.44	0.000
GD	-0.0650344	0.0166696	-3.90	0.000
SR	0.0031127	0.0014486	2.15	0.032
BICEOI	0.0002331	0.0001159	2.01	0.044

The results of a regression analysis for model 3 using the FGLS technique are shown in Table 14. With managerial discretion (CEO incentives) serving as the primary independent variable and other variables serving as control variables, the study predicted the dependent variable, return on assets (ROA). With a p-value of 0.000, the coefficient for CEOIN is around -0.0039796, indicating a statistically substantial adverse effect on return on assets. This means that ROA tends to decrease as the CEO's incentives inside the company increase. In summary, increased SR, TD, BICEOI, and firm size are positively associated with higher ROA, as opposed to CEOIN and GD. On the other hand, SC cannot explain the variation in ROA.

**Table 15**

<b>Tobin's Q</b>	<b>Coefficient</b>	<b>Robust Standard Error</b>	<b>Z</b>	<b>p-value</b>
CEOIN	-0.2056046	0.0931168	-2.21	0.027
TD	0.3791084	0.1614503	2.35	0.019

Firmsize	-0.0653608	0.1332376	-0.49	0.624
GD	-3.704957	1.623362	-2.28	0.022
SR	-0.005784	0.141073	-0.04	0.967
BICEOI	0.0109063	0.0112866	0.97	0.334

Table 15 summarizes the regression results of association of dependent variable i.e. Tobin's Q independent variables. The CEO incentive (CEOIN) is the key independent variable, whereas the rest are control variables. According to the analysis, the p-value of CEOIN is 0.027 and coefficient is -0.2056046, suggesting a negative impact on Tobin's Q which is statistically significant. This means that Tobin's Q tends to decrease as the CEO's incentives increase.

These results provide insight into the correlations between each independent variable and the dependent variable (Tobin's Q in regression model 3), as well as the significance of these correlations. Firmsize, SR, and BICEOI appear to have a statistically insignificant impact on Tobin's Q, but GD, TD, and SC appear to have significant effects.

This model highlighted the negative effects of CEO incentives on firm performance. However, since the majority of research is done in advanced countries, there isn't much proof that CEO incentives and company performance are negatively correlated. Nonetheless, a research by Fischer & Lindermoyer (2020) found an unfavorable correlation between CEO remuneration and return on assets (ROA). CEOs who have an exaggerated sense of their own value may endanger the business because they think they are working for the maximum welfare of the investors, even while their activities are undermining firm value (Malmendier & Tate, 2008). Furthermore, compared to other organizations, CEO performance is found to be poorer in companies with significantly larger degrees managerial discretion (Han et al., 2016). Studies by Faleye et al. (2013) and Fischer & Peddy PC (2020) lend credence to the notion that CEO salary has no impact on the business's success. Additionally, Korobkin & Dorff's (2018) findings show that a CEO's compensation is based on their negotiating skills rather than the company's success.

## Discussion:

Most individuals assume the CEO as the highly powerful individual in the organization. Even if the CEO feels they are flawless and cannot make incorrect judgments, a negative CEO effect can be harmful to the organization. Degree of CEO discretion has a noteworthy influence on company results and, hence, performance. Findings of current study on CEO discretion are mixed and generally reflect the agency theory approach, which sees higher CEO discretion as negative, resulting in a significant loss of value to investors. This is because discretion allows CEOs to abuse corporate operations and utilize these to achieve their own goals.

The hypothesis 1 studied the influence of managerial discretion (firm size) on firm performance (ROA and Tobin's Q). Firm size is a crucial organizational level component that allows the CEO to act in his or her own best interests, which eventually influences the both immediate as well as long-term objectives of the firm. Larger firms typically allow for greater managerial discretion. This is because larger organizations often offer a broader range of products or services, have more divisions or business units, and engage in more diverse activities. Because of the company's complexities and scale, managers at larger organizations may have greater leeway in deciding on investments, operational plans, and resource allocation. Furthermore, agency theory suggests that managers may prioritize immediate results above the creation of long-term value. Even if CEO decisions goes against shareholders' long-term interests, managers may prioritize short-term advantages in order to increase their income or job security. On the way, Doğan (2013) found a favorable association between firm profitability (ROA) and size indices.

Chandra et al. (2020) highlight the truth that business size is significantly and positively related to return on assets. Managers might use their discretion to act in their own personal interests rather than the best interests of shareholders. This may lead to agency difficulties that affect performance measures, such as excessive or inadequate investment. They may make actions such as cutting expenses that harm the business's potential of future expansion, increasing immediate profits but not adding to its value over time. The empirical findings of Manoppo & Arie (2016) and Purwohandoko (2017) show that there is no apparent connotation between Tobin's Q i.e. firm value and company size. Prioritizing short-term profits leads to less long-term investments, innovation, and strategic decisions, which may lead to detrimental effect on a company's ability to raise its market value over time.

Furthermore, as mentioned in the hypothesis 2, the CEO gets discretion from the position they hold, which they might utilize to pursue personal or company objectives. Because the CEO is commonly seen as the highly influential position in the firm, especially if the CEO and Chairperson are one person. The results of Hypothesis 2 indicate that the performance of Pakistani firms is not significantly impacted by CEO duality. Studies by Zahra and Pearce (1989); Krause et al. (2014); Bergh et al. (2016); Yang & Zhao (2014) and Mutlu et al. (2018) support the idea that CEO duality possesses little to no effect on performance of firm. This study underlines the agency perspective by demonstrating that in a duality scenario, the CEO is more likely to prioritize personal interests above business performance, lowering firm value. There might not be a definite, widespread good or negative effect of CEO duality on performance in the short term. Another concern with CEO duality is that it may undermine internal checks and balances. The CEO may have more unrestricted options, but this does not necessarily translate into a noteworthy effect on performance of the firm. CEO duality permits the CEO to function freely, which may result in less scrutiny and monitoring of the CEO's operations. This can lead to power concentration and potential conflicts of interest. Furthermore, CEOs with multiple occupations in the firm may be more resistant to external information or challenges to their decision-making that put their own interests ahead of the interests of shareholders or the long-term success of the business.

The CEO's discretion may vary based on their amount of involvement in the affairs of the business, but discretion also appears in the CEO's compensation, as well as other considerations. Finkelstein (1992) advanced the argument that CEO salary is a source of power. The study's third hypothesis examined how CEO incentives affect company performance (ROA and Tobin's Q). The results show that CEO discretion in the form of rewards has a negative impact on business performance. CEO performance is observed to be lower in businesses with significantly larger degrees of managerial discretion compared to other sectors (Han et al., 2016). Research by Fischer & Peddy PC (2020) and Faleye et al. (2013) supports the notion that CEO salary is unrelated to business success. Moreover, Korobkin and Dorff (2018) suggest the capacity of the CEO to negotiate determines their pay instead of the profitability of the company. The present study's findings are in line with Fischer and Lindermoyer (2020) observation that there exists a negative correlation between the CEO's compensation and return on assets. CEO incentives are intended to encourage CEOs to take actions that are advantageous to shareholders. These incentives may include pay and reward plans. By motivating CEOs to optimize shareholder value and make choices that will contribute to the long-term success of the company, these incentives aim to lower agency costs. On the other hand, CEO incentives can seriously harm a company's performance if they are improperly designed or mismatched with shareholder interests. The study's conclusions highlight a crucial point that CEO incentives significantly harm a company's ability to succeed.

### ***Theoretical Contributions:***

By synthesizing basic management theories, this study makes a significant theoretical addition by offering an advanced comprehension of the intricate dynamics of executive discretion, especially in the context of Pakistani firms that are registered with the KSE. An extensive framework for comprehending the varied nature of executive discretion is provided by the analysis of managerial discretion via the lens of agency and stewardship theories. By addressing the challenges and opportunities associated with this phenomenon, the study deepens our understanding of managerial discretion by examining the CEO discretion keeping in view stewardship and agency theories. By locating itself in the specific context of Pakistani non-financial organizations, the study broadens the body of knowledge regarding managerial/executive discretion and company performance in developing markets, reflecting the region's inherent socioeconomic forces at work. Notably, the paper fills in the gaps between theoretical knowledge and real life application for managers, decision-makers, and regulators in the field of Pakistani non-financial organizations by emphasizing the effect of managerial/executive discretion and performance of the firm while keeping in mind two opposing theories. In summary, this study also contributes to theoretical knowledge, directs future research using empirical methods, and provides insightful information for stakeholders in the management area. This study aids the company in realizing the need to restrict the CEO's activities that obstruct or fail to enhance the firm's performance by taking agency theory into account.

### ***Practical Implications:***

This study has several practical ramifications and provides insightful advice for a range of stakeholders involved with managerial discretion, especially in the context of Pakistani non-financial organizations listed with the KSE. However, there isn't much particular attention paid to this link in Pakistan between CEO discretion and business performance. Thus, this research contributes by offering proof, to the comprehension of the nature of this negative association. The research highlights the significance of managerial/CEO discretion for management and decision-makers. It gives decision-makers a more nuanced view of the benefits and drawbacks of this managerial phenomena, enabling them to make well-informed decisions about managerial empowerment. The focus on the unique environment of Pakistani non-financial firms provides local viewpoints that allow them to immediately put recommendations into effect, resulting in long-term approaches to leadership that are contextually appropriate. All things considered, this research offers specific insights into the discretion of CEOs, well-informed decision-making, regulatory concerns, and strategic effectiveness, with beneficial effects for stakeholders in different management situations.

### ***Limitations of Study and Suggestions for Future Research:***

This research uses a theoretical framework that incorporates ideas from the stewardship and agency theories to investigate how CEO/managerial discretion affects company performance. A well-integrated examination of the agency and stewardship perspectives offers an in-depth overview of the role, MD plays in determining the performance of the company, as well as vital information for ethical business practices. The fact that the discretion indicators in this study are related to the organizational, positional, and incentive aspects of CEO discretion is the limitation of this research (Hambrick & Finkelstein, 1987). Future research may also take environmental elements of CEO/managerial discretion into account for a deeper understanding of MD. Moreover, the study looked into direct impact of MD on business performance without taking this variable

into account as a moderator. Subsequent research endeavors may examine the role of MD in regulating the correlation between predecessors and business performance.

***Conclusion:***

The study contributes significantly to our understanding of managerial discretion in Pakistan's KSE-registered non-financial firms by merging and expanding major management theories. The combination of agency theory with stewardship theory results in a comprehensive framework that addresses the complexities of management decisions. The paper dig into the managerial discretion in the contexts of stewardship and agency theories, providing extensive insights while identifying challenges and opportunities associated with this phenomenon. A novel perspective on managerial discretion is added to the literature by examining the connection of managerial/CEO discretion with business performance from the perspective of agency stewardship, especially in the context of Pakistani non-financial organizations. While the practical uses offer insightful guidance to stakeholders including executives, authorities, and decision-makers, the theoretical insights are noteworthy and offer a sophisticated understanding of management dynamics. Focusing on the social and economic realities of the region encourages cultural compatibility and prompt the adoption of the appropriate degree of executive empowerment. This study focuses on non-financial Pakistani companies, makes a substantial theoretical contribution and sheds light on the implications of managerial discretion, the CEO decision-making process, and the effects these variables have on the short- and long-term performance of businesses.

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