

The Effect of CEO Duality on IPO Underpricing in India: A Comprehensive Review

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ABSTRACT

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This paper reviews the literature on the relationship between CEO duality and Initial Public Offering (IPO) underpricing in the Indian context. CEO duality, where the Chief Executive Officer also serves as the Chairman of the Board, represents a significant corporate governance structure that may influence investor perceptions and pricing decisions during IPOs. While IPO underpricing—the phenomenon where shares are offered below their market value on the first trading day—has been extensively studied globally, the specific role of CEO duality in Indian IPOs remains an area requiring deeper investigation. This review synthesizes theoretical frameworks including agency theory, signaling theory, and resource dependence theory, examines empirical evidence from Indian and international markets, and identifies gaps in the current literature. The review concludes that CEO duality's effect on IPO underpricing in India is contextually nuanced, influenced by institutional factors, market conditions, and investor sentiment unique to emerging markets.

Keywords: CEO duality, IPO underpricing, corporate governance, agency theory, Indian capital markets, emerging markets

1. Introduction

1.1 Background and Context

Initial Public Offerings represent a critical milestone in a firm's lifecycle, marking the transition from private to public ownership. The Indian IPO market has experienced remarkable growth over the past two decades, with companies raising substantial capital through primary market offerings. According to recent data, the Indian IPO market has witnessed unprecedented activity, with hundreds of companies going public and raising billions of dollars. However, the phenomenon of IPO underpricing—where the offering price is set below the first-day closing price—continues to persist, raising questions about pricing efficiency and the factors that contribute to this anomaly. Uncertainty plays a crucial role in underpricing, with larger issues and seasoned offerings experiencing less underpricing compared to smaller IPOs. (Ghosh, 2005) the significance of changes in institutional arrangements for IPO pricing, specifically the shift from fixed price methods to book building approaches. (Mishra, 2017)

Corporate governance structures, particularly leadership configuration, play a crucial role in shaping investor perceptions and market outcomes. CEO duality represents one such governance mechanism where the roles of Chief Executive Officer and Board Chairman are combined in a single individual. CEO duality may lead to deliberate underpricing as dual CEOs might prioritize short-term market performance to enhance their reputation, resulting in an average initial return of 17% in Indian IPOs (Mulchandani et al., 2023). This structure has been subject to considerable debate in corporate governance literature, with proponents arguing it provides unified leadership and clear accountability, while critics contend it concentrates excessive power and weakens board independence. The presence of CEO duality can exacerbate the effects of market momentum and investor sentiment, which are significant contributors to IPO underpricing, as seen in the 14.45% mean underpricing during hot market periods (Mishra, 2017).

1.2 Research Problem and Significance

The intersection of CEO duality and IPO underpricing presents a compelling research area, particularly in the Indian context where corporate governance practices differ from Western markets. CEO duality can centralize decision-making and signal strong leadership, it may also raise concerns about weak governance and information asymmetry, leading to higher IPO underpricing. (Bansal & Sharma, 2016) Traditionally, first time issuer of equity shares relies on some sort of certification mechanisms such as underwriters' reputation, management quality, auditors' reputation, venture capital backing, group affiliation and lock-up agreement to signal the quality of their issue. And unique to Indian IPO market, sometimes issuers use IPO grading as quality indicator, however, there is no consensus on its validity and efficacy as signaling mechanism (Maurya, S. (2017)). In addition to these mechanisms, corporate governance practices of firms have gained considerable research interest over the past decades as researchers across the globe began to investigate its efficacy as signaling mechanism and role in IPO pricing.

The role of corporate governance indicators in IPO pricing is moderately researched area, however, a majority of these researches are found to be in context of other than Asian economies (Yong, O. (2007). And in context of Indian IPO market only a few studies have been conducted in the past which triggers us to take the present study to enrich the extant literature and to contribute to policy making. Several researches in the past have found evidences that corporate governance practices of companies often add to their value, improve the firm's competitive position and provide better access to capital (Shleifer, A. and Vishny, R.W. (1997)). A company following good governance practices is also believed to look after the shareholders' interest and to maximize their wealth. In their study (Sanders, W.M. and Boivie, S. (2004), reported that investors use corporate governance parameters as one of the shortlisting criteria while evaluating the value of a firm making an initial public offering. Hence, corporate governance parameters can be expected to have some signaling quality. However, corporate governance is a very broad concept and governance structure of an organization is a combination of various internal and external governance mechanisms. Therefore, the present study limits its scope only to corporate board-related governance mechanisms which are a subset of overall corporate governance structure of an organization.

The Indian market provides a unique setting for examining this relationship due to several factors. First, India's corporate governance framework has evolved significantly since the introduction of Clause 49 of the Listing Agreement and subsequent regulations by the Securities and Exchange Board of India (SEBI). Second, family-owned businesses and promoter-dominated structures are prevalent in India, making governance structures particularly relevant. Third, the Indian market represents an emerging economy with different institutional characteristics compared to developed markets, potentially moderating the relationship between CEO duality and IPO outcomes.

1.3 Objectives and Scope

This review paper aims to accomplish several objectives. First, it seeks to synthesize the theoretical frameworks that explain the relationship between CEO duality and IPO underpricing. Second, it reviews empirical evidence from Indian and international studies to understand what is currently known about this relationship. Third, it identifies contextual factors specific to the Indian market that may influence this relationship. Fourth, it highlights gaps in the existing literature and proposes directions for future research.

The scope of this review encompasses academic research published primarily over the past two decades, focusing on studies that examine either CEO duality or IPO underpricing, with particular attention to those investigating their intersection. While the primary focus is the Indian market, relevant international studies are included to provide comparative perspectives and theoretical grounding.

2. Theoretical Frameworks

Agency Theory

Jensen and Meckling (1976), proposed agency theory in 1976. Under agency theory he postulates managers will be encouraged to put their own interests ahead of those of shareholders if ownership and management are kept separate. Top management who has access to better knowledge as well as financial freedom and a lack of supervision may be tempted to behave in a manner that is opportunistically beneficial to their own welfare. As a result, they have a propensity to invest more money than the optimum level that is actually needed, which is against the interests of shareholders. Corporate governance is a good way to solve agency issues and ensure that managers' and shareholders' interests are aligned. by using this we can eliminate the investment efficiency. Effective governance tools, like audit committees and incentives for the CEO, as well as more independent directors and more diversity among directors, can make investments work better.

Information Asymmetry Theory

Biddle et al. (2009), Myers and Majluf (1984), Jensen and Meckling (1976), Information difficulties, such as moral hazard and adverse selection, caused by a lack of complete data may have a significant impact on investors' final choices. When there is insufficient information in the market regarding the quality of the company or the project, adverse selection occurs. In such a scenario, capital providers may reduce the amount of capital they give or charge more for it. Financial restrictions might force businesses to forego certain lucrative investments, leading to underinvestment issues. Overinvestment issues manifest as a result of managers using company funds for their personal profit by undertaking initiatives that could not be in the best interest of shareholders. Information Asymmetry between companies and their sources of capital can be reduced by improving the quality of financial reporting and good corporate governance. Characteristics of the Board of Directors that improve involvement, constructive communication, and mutual understanding within the atmosphere of trust amongst its members are likely to result in increased flow of information and a reduction in unproductive investment. This makes investments more efficient.

Stewardship Theory

Meynah (2010), According to the stewardship idea, there's no interest conflict between the firm's management and its shareholders. Stewards look after things for others. Stewards do not own what they are responsible for, but they must do their tasks diligently since they must answer to the owner. Stewards must sacrifice their personal interests and ego to perform appropriately on the behalf of the owner or principle. Stewards benefit from achieving corporate, group, or social objectives. Stewards don't compromise their own ambitions. Stewards understand the trade-off between personal wants and corporate

goals but feel that attaining organizational or community goals will also meet their own needs. However, ethics as a foundation for conduct and action implies that stewards choose freely between good and bad activities and are accountable for their actions. Therefore, if the management of a company has the attributes of stewards, the company will flourish and the shareholders will reap the benefits.

3. CEO Duality: Concept and Prevalence

3.1 Defining CEO Duality

CEO duality exists when a single individual simultaneously holds the positions of Chief Executive Officer and Chairman of the Board of Directors. The CEO is responsible for day-to-day management and strategy implementation, while the Chairman leads the board, facilitates board meetings, and represents the board in communications with management and shareholders. When these roles merge, the individual wields substantial influence over both management decisions and board oversight. The issue of separation of the top two posts has been addressed in the Cadbury Committee (1992), which recommended that the roles of the board chairman and the CEO be separated. The impairment in the board independence could affect the board incentives to ensure that management pursues value-increasing activities. The Hampel Report (1998) points out that, in some circumstances, the top two roles can be combined, but it recommends that the reasons for combining the roles be publicly disclosed.

Though the literature seems to consistently argue that separate individuals for the post of CEO and chairman leads to a better corporate governance system, the real issue is whether this leads the board to be a better monitor and, thus, is capable of increasing the value of the firm. Proponents of the CEO duality structure argue that combining these two roles provide a clear focus for objectives and operations (e.g. Andersen and Anthony, 1986; Stoeberl and Sherony, 1985). Separation of CEO and chairman posts has both costs and benefits and it was shown that, for larger firms, the costs are greater than the benefits (Brickley et al., 1997). Evidence by Shamsul Nahar Abdullah (2002) in the Malaysian setting and Bradbury and Mak (2000) in the New Zealand setting confirmed the cost and benefit contention. In their study, Berg and Smith (1978) found that there was no significant difference in various financial indicators between firms, which experienced CEO duality, and firms which did not. The substantial cost of the separation could come from "... the incomplete transfer of company information, and confusion over who is in charge of running the company" (Goodwin and Seow, 2000, p. 43). This could hamper the performance of the firm's financial indicators. It could also be argued that when one person is in charge of both tasks, the decisions are reached faster. Moreover, when the board chairman and the CEO are the same person, he or she is well-aware of the decisions needed to improve the performance of the firm. In another study, Chaganti et al. (1985) also documented evidence similar to that found by Berg and Smith (1978) involving firms that experienced bankruptcy (failure) and survival. Rechner and Dalton (1991) also showed that firms with CEO duality consistently outperformed firms with a CEO non-duality structure, which contradicts the expectations.

3.2 Arguments for and Against CEO Duality

The corporate governance literature presents competing arguments regarding CEO duality's merits and drawbacks.

Proponents argue that CEO duality provides unified leadership with clear accountability. Having one individual in charge eliminates potential conflicts between the CEO and Chairman, streamlines decision-making, and presents a cohesive face to external stakeholders. This unified structure may be particularly beneficial during challenging periods requiring decisive action. Additionally, in firms where the CEO has

founded the company or possesses unique expertise, combining the roles may be appropriate recognition of their capabilities and alignment with shareholders.

From an operational perspective, CEO duality may reduce coordination costs and improve information flow between management and the board. The CEO-Chairman can ensure that the board remains informed about operational realities while maintaining strategic focus. For smaller firms or those in rapidly evolving industries, this streamlined structure may provide competitive advantages. Regulators and governance activists are pressuring firms to abolish CEO duality (the Chief Executive Officer is also the Chairman of the Board). However, the literature provides mixed evidence on the relation between CEO duality and firm performance. Due to huge debate and controversy on CEO duality and its impact on corporate performance there is comparatively a large number of empirical studies. The evidence is mixed and non-conclusive. Some studies found a significant positive relationship between CEO duality and firm performance implying that combined leadership structure (CEO duality) is associated with better firm performance than those with independent leadership structure (CEO non-duality) supporting the stewardship theory (such as Davidson et al, 1990; Donaldson and Davis, 1991; Finkelstein and D'Aveni, 1994; Boyd et al, 1997; Brickley et al, 1997; Sridharan and Marsinko, 1997; Coles et al, 2001; Tian and Lau, 2001; Lin, 2005). In sharp contrast, another set of studies found a significant negative relationship between CEO duality and firm performance implying that combined leadership structure (CEO duality) is not beneficial for performance supporting the agency theory (such as Berg and Smith, 1978; Rechner and Dalton, 1991; Pi and Timme, 1993; Daily and Dalton, 1994b; Daily and Dalton, 1994c; Daily and Dalton, 1995; Worrell et al, 1997; Simpson and Gleason, 1999; Kula, 2005). The other studies found a non-significant relationship (no correlation) between CEO duality and firm performance (such as Chaganti et al, 1985; Rechner and Dalton, 1989; Daily and Dalton, 1992; Daily and Dalton, 1993; Daily and Dalton, 1994a; Baliga et al, 1996; Daily and Dalton, 1997; Dalton et al, 1998; Harris and Helfat, 1998; Fosberg, 1999; Judge et al 2003; Abdullah, 2004; Wan and Ong, 2005; Braun and Sharma, 2007; Elsayed, 2007; Lam and Lee, 2007; Iyengar and Zampelli, 2009). Furthermore, there are numerous studies (such as Boyd, 1995; Donaldson and Davis, 1991; Brickley et al, 1997; Elsayed, 2007) which attempted to explore the industry specific impact of CEO duality and firm performance suggesting that CEO duality and firm performance are contingent and varies across industries. The earlier studies can be criticized on the premise that many of the earlier studies have shown inconsistent results; nearly all the research did not control for industry influence or other corporate governance mechanisms as moderating variables. Using the exogenous shock of the 1989 Canada–United States [Free Trade Agreement](#), we find that duality firms outperform non-duality firms by 3–4% when their competitive environments change. (Tina Yang and Shan Zhao). Critics emphasize that CEO duality undermines board independence and effectiveness.

Research has documented various negative consequences associated with CEO duality including higher executive compensation, reduced board effectiveness, and weaker response to poor performance. In the IPO context specifically, CEO duality may raise red flags for investors who view it as evidence of inadequate governance safeguards, particularly as firms transition to public ownership with its associated accountability requirements.

4. IPO Underpricing: Phenomenon and Explanations

4.1 The Underpricing Phenomenon

IPO underpricing refers to the positive initial return investors earn when shares begin trading—calculated as the difference between the first-day closing price and the offering price, expressed as a percentage of the

offering price. This phenomenon is remarkably persistent across markets and time periods, representing one of the most well-documented anomalies in finance.

Empirical evidence indicates that average initial returns range from approximately 10-15% in developed markets to 30-50% or higher in emerging markets including India. While offering price typically understates intrinsic value, the degree of underpricing varies considerably across offerings, influenced by factors including firm characteristics, market conditions, and institutional arrangements.

From the issuer's perspective, underpricing represents money left on the table—capital that could have been raised but was forgone by setting the offering price below market value. For a firm raising ₹1,000 crores in an IPO, 30% underpricing means ₹300 crores in foregone proceeds. Over time and across many offerings, this amounts to substantial value transfer from issuers to initial investors.

4.2 IPO Underpricing in the Indian Context

The Indian IPO market exhibits several distinctive characteristics that influence underpricing patterns. Studies have consistently documented that Indian IPOs experience substantial underpricing, with average initial returns often exceeding 30-40% during various periods, though with considerable variation across market conditions. The Indian IPO market has been studied extensively by researchers, Pande and Vaidyanathan (2007) explained that first day initial return 22.62% by using the sample of 55 A Review of IPO Underpricing: Evidences from Developed, Developing and Emerging Markets 10 IPO from 2002-2004. In line with this, Sahoo and Rajib (2010) studied the IPO underpricing in Indian market and found 46.55% initial return by using 92 IPOs from 2002-2006. Another recent study by, Bansal and Khanna (2012) and Dhamija and Arora (2017) documented initial return 73.13% and 22% respectively.

Several factors contribute to underpricing patterns in India:

Market Conditions and Sentiment:

IPO underpricing in India shows strong time-series variation, with hot issue markets characterized by high subscription rates and substantial underpricing. During boom periods, investor enthusiasm can lead to extreme subscription levels—with some offerings being oversubscribed hundreds of times—and corresponding high first-day returns. Market corrections typically lead to lower underpricing or even overpricing.

Regulatory Environment:

SEBI regulations have evolved to address underpricing concerns, introducing measures including price bands, quota allocations for different investor categories, and disclosure requirements. The introduction of the book-building process represented a major change, replacing the previous fixed-price mechanism. While book-building potentially reduces information asymmetry through price discovery, empirical evidence suggests it has not eliminated underpricing in India.

Firm Characteristics:

Company-specific factors significantly influence underpricing. Firm size, age, profitability, promoter retention, and underwriter reputation all correlate with initial returns. Smaller, younger firms typically experience higher underpricing, consistent with greater uncertainty and information asymmetry. The presence of reputable underwriters and venture capital backing may reduce underpricing by certifying quality.

Ownership Structure:

India's corporate landscape is characterized by concentrated ownership, family control, and business group affiliations. Promoters typically retain majority stakes post-IPO, unlike in markets where IPOs involve larger ownership dilution. This ownership concentration affects pricing decisions, as promoters balance proceeds maximization against control maintenance and long-term considerations.

5. Linking CEO Duality and IPO Underpricing

The relationship between CEO duality and IPO underpricing is unlikely to be uniform across all contexts. Several factors may moderate this relationship:

Market Development and Institutional Quality:

In markets with strong investor protection, transparent disclosure, and effective enforcement, the negative effects of CEO duality may be mitigated. Robust institutions can compensate for weak internal governance through external mechanisms. Conversely, in markets with weaker institutions, internal governance becomes more critical, and CEO duality's negative effects may be amplified.

Firm Characteristics:

The impact of CEO duality likely varies with firm characteristics. For large, established firms with extensive analyst coverage and multiple information sources, CEO duality's effect on information asymmetry may be limited. For smaller, younger firms where information is scarce, governance structure may be particularly salient to investors.

Founder Status:

The relationship may differ when the CEO-Chairman is the firm's founder versus a professional manager. Founder-CEOs may be viewed more favorably despite dual roles, as founders typically have significant personal wealth tied to firm performance, aligning their interests with shareholders. Professional managers with CEO duality may face greater skepticism.

Market Conditions:

The effect of CEO duality on underpricing may vary with market conditions. During hot markets characterized by high investor demand, governance concerns may be de-emphasized as enthusiasm dominates. During cold markets with greater risk aversion, investors may scrutinize governance more carefully, amplifying CEO duality's impact on underpricing.

7. Empirical Evidence: Indian Context

7.1 Overview of Indian IPO Research

Research on Indian IPOs has grown substantially as the market has developed and data availability has improved. Studies examining factors affecting IPO underpricing in India have investigated numerous variables including firm size, age, profitability, issue size, market conditions, underwriter reputation, and venture capital backing. However, relatively few studies have explicitly examined CEO duality's role, representing a significant gap in the literature.

Early studies of Indian IPO underpricing focused primarily on documenting the phenomenon's existence and magnitude. These studies established that Indian IPOs experience substantial underpricing, often exceeding levels observed in developed markets. Subsequent research has investigated explanations for this high underpricing, testing various theories including asymmetric information models, signaling theories, and institutional explanations.

7.2 Studies Examining Governance and IPO Outcomes

Several studies have examined corporate governance's broader role in Indian IPO outcomes, even if not specifically focusing on CEO duality.

Research investigating board characteristics finds that board size, independence, and director expertise affect IPO underpricing. Studies generally find that larger boards and greater independent director representation are associated with lower underpricing, suggesting that stronger governance reduces information asymmetry and improves investor confidence. However, these relationships may be nonlinear, with very large boards potentially being ineffective.

Studies examining promoter retention—the percentage of equity retained by founding shareholders—find mixed evidence regarding its relationship with underpricing. Some studies find that higher promoter retention signals quality and reduces underpricing, while others find no significant relationship or even positive associations. These mixed results likely reflect the complex role of promoters in Indian firms, where high retention may signal either confidence or unwillingness to dilute control.

Institutional investor participation, including venture capital and private equity backing, has received attention as a potential governance mechanism. Research generally finds that presence of reputable financial investors is associated with lower underpricing, supporting certification hypotheses. These investors provide monitoring, bring expertise, and signal quality to market participants.

8. Methodological Considerations

8.1 Measurement Issues

Accurately measuring both CEO duality and IPO underpricing requires careful attention to definitional and computational issues.

Measuring CEO Duality:

CEO duality is typically measured as a binary variable indicating whether the CEO and Chairman roles are combined. However, several complications arise. First, titles and responsibilities vary across firms, with some using "Managing Director" instead of CEO or "President" interchangeably with Chairman. Researchers must ensure they correctly identify the relevant roles.

Second, timing matters—CEO duality should be measured at the time of the IPO, as governance structures may change around the offering. Some studies measure governance at fiscal year-end, which may not correspond to the IPO date, introducing measurement error.

Third, related governance variables should be considered. The presence of a lead independent director or active board committees may mitigate concerns about CEO duality. Separating roles in name only while maintaining effective control through other mechanisms would not address underlying governance issues.

Measuring Underpricing:

IPO underpricing is calculated as:

$$\text{Underpricing} = (P_1 - P_0) / P_0 \times 100\%$$

where P_0 is the offer price and P_1 is the first-day closing price. However, implementation details vary:

- Which day's closing price should be used? Most studies use the first trading day, but some markets experience price limits or delayed trading, complicating measurement.
- Should returns be market-adjusted? While raw initial returns are standard, some studies adjust for market movements between pricing and trading dates.
- How should overpricing be handled? Some offerings trade below their offer price initially (negative underpricing). These observations should not be excluded, as doing so would bias analyses.

8.2 Endogeneity Challenges

Endogeneity represents perhaps the most serious methodological challenge in studying CEO duality's effects. CEO duality is not randomly assigned but reflects firms' endogenous choices based on their circumstances, management characteristics, and strategic considerations. If factors influencing the duality decision also affect underpricing, estimated relationships will be biased.

Omitted Variables:

Firm characteristics that influence both CEO duality adoption and IPO underpricing, if unobserved or imperfectly measured, create omitted variable bias. For example, founder quality might affect both whether the founder serves as CEO-Chairman and how the market values the offering. Without controlling for founder quality (which is difficult to measure), the estimated effect of CEO duality may actually reflect founder quality differences.

Reverse Causality:

While less plausible in the IPO setting (underpricing occurs after the duality decision), concerns about reverse causality could arise if firms anticipate market conditions and adjust governance accordingly. For instance, firms expecting harsh market reception might separate CEO-Chairman roles to strengthen governance, creating negative correlation between role separation and underpricing even if separation itself has no causal effect.

Self-Selection:

Firms choose whether to maintain CEO duality based on their assessment of costs and benefits. If firms that separate roles systematically differ from those maintaining duality along dimensions affecting underpricing, comparisons between groups may be misleading.

8.3 Addressing Endogeneity

Researchers have employed various strategies to address endogeneity concerns:

Instrumental Variables:

Instrumental variable approaches require finding variables that affect CEO duality but not underpricing directly (exclusion restriction). Potential instruments might include industry norms, firm age, or founder

characteristics. However, finding valid instruments is extremely challenging, as most variables affecting governance likely have direct or indirect effects on IPO outcomes.

Propensity Score Matching:

Propensity score matching attempts to create comparable treatment and control groups by matching firms with similar observable characteristics. Firms with CEO duality are matched to similar firms without duality, and outcomes are compared. This approach addresses selection on observables but cannot account for unobservable differences.

Difference-in-Differences:

If regulatory changes or other exogenous shocks affect CEO duality prevalence, difference-in-differences designs can estimate causal effects by comparing changes in underpricing for affected versus unaffected firms. However, such opportunities are rare, and assumptions about parallel trends must be satisfied.

Control Variables:

The most common approach involves including extensive control variables to capture factors affecting both CEO duality and underpricing. While this cannot fully address endogeneity, carefully chosen controls can reduce bias. Important controls include firm size, age, profitability, growth prospects, ownership structure, board characteristics, underwriter quality, issue size, and market conditions.

9. Contextual Factors in the Indian Market

9.1 Regulatory Environment

India's regulatory framework for corporate governance and securities markets has evolved substantially, creating a dynamic environment that shapes the relationship between CEO duality and IPO outcomes.

SEBI Regulations:

The Securities and Exchange Board of India has implemented progressively stringent governance requirements for listed companies. The introduction of Clause 49 in 2000 marked a watershed moment, establishing requirements for independent directors, audit committees, and enhanced disclosure. These provisions were subsequently strengthened and codified in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR).

Current regulations require companies to maintain certain governance standards, including minimum percentages of independent directors. For companies where the Chairman is an executive director (which includes CEO duality scenarios), at least half the board must comprise independent directors. For the top 500 listed companies by market capitalization, separation of the Chairman and Managing Director/CEO roles is mandated, with the Chairman required to be a non-executive director.

These regulations directly affect CEO duality prevalence and may moderate its relationship with IPO underpricing. As governance requirements have strengthened, the signaling value of voluntary compliance may have increased, while the stigma of CEO duality may have intensified.

IPO Pricing Mechanisms:

SEBI has reformed IPO pricing mechanisms over time, transitioning from fixed-price offerings to book-building processes. The book-building mechanism, where investors bid within a price band and final prices are determined based on demand, theoretically reduces information asymmetry through price discovery. However, empirical evidence suggests substantial underpricing persists even under book-building.

Regulatory requirements for quota allocations—reserving portions of offerings for retail investors, qualified institutional buyers, and non-institutional investors—affect demand dynamics and potentially influence underpricing. These quotas may interact with governance factors including CEO duality in complex ways.

9.2 Ownership Structures and Family Control

Indian corporate landscape is characterized by concentrated ownership and family control, distinguishing it from Anglo-American markets with dispersed ownership.

9.3 Investor Base and Market Characteristics

The composition of India's investor base affects how governance signals are interpreted and how they influence IPO pricing.

Institutional versus Retail Participation:

Indian IPOs attract significant retail investor participation, much higher than in many developed markets. Retail investors may have different information processing capabilities and governance awareness compared to sophisticated institutional investors. If retail investors are less sensitive to governance nuances including CEO duality, its effect on overall underpricing may be muted. However, institutional investor allocations—which are influenced by governance quality—significantly affect IPO outcomes, potentially amplifying CEO duality's importance.

Foreign Institutional Investors:

Foreign institutional investors (FIIs), now termed foreign portfolio investors (FPIs), have become major participants in Indian capital markets. These investors often apply global governance standards and may be particularly sensitive to CEO duality given its prevalence in their home markets. The growing presence of FIIs may have increased the importance of governance factors including CEO duality in affecting IPO outcomes.

Market Infrastructure:

India's stock exchanges, clearing systems, and market infrastructure have improved substantially, enhancing market efficiency and transparency. However, information asymmetry remains more pronounced than in developed markets, making governance signals including leadership structure potentially more influential.

9.4 Cultural and Social Factors

Cultural factors shape corporate governance practices and their interpretation in India.

Hierarchy and Leadership:

Indian business culture traditionally features strong hierarchical structures and centralized decision-making. In this context, CEO duality may be viewed more favorably than in Western contexts that

emphasize checks and balances. Respected business leaders serving in dual roles might be seen as providing strong, decisive leadership rather than raising governance concerns.

Trust and Relationships:

Relationship-based business practices are prevalent in India, with trust and personal connections playing important roles. In this environment, the identity and reputation of the CEO-Chairman may matter more than formal governance structures. A respected business leader might reassure investors despite CEO duality, while role separation would provide little comfort if the individuals lack credibility.

Evolution of Governance Norms:

Governance norms in India are evolving as market participants gain experience, regulators strengthen requirements, and international standards gain influence. What was acceptable or common practice a decade ago may now be viewed unfavorably. This evolution affects how CEO duality is perceived and its impact on IPO outcomes, with effects potentially varying across time periods.

10. Research Gaps and Future Directions

While research on CEO duality and IPO underpricing has expanded globally, notable gaps persist in the Indian context. Indian IPO studies reveal that governance quality, information asymmetry, market dynamics, and ownership structure significantly influence underpricing. However, the specific effects of CEO duality in shaping these outcomes remain largely unexplored. Limited research has empirically tested how CEO duality interacts with factors such as firm size, business group affiliation, family control, and investor composition, or how it influences mediating mechanisms like disclosure quality, analyst coverage, and institutional investor participation. These gaps point to the need for comprehensive studies that use advanced quantitative tools—such as instrumental variables, difference-in-differences, and machine learning—to strengthen causal inference and uncover non-linear relationships. Mixed-method approaches that combine econometric modeling with qualitative insights from interviews could provide a richer understanding of how firms and investors perceive CEO duality during IPOs. Comparative international research would also help identify whether observed patterns in India are unique or shared across emerging markets. Policymakers could use these insights to design evidence-based regulations, enhance disclosure requirements, and promote investor education, while issuers could refine governance choices to improve market reception and valuation outcomes.

11. Implications

Understanding the influence of CEO duality on IPO underpricing carries significant implications for company management, investors, intermediaries, and regulators. For companies preparing to go public, governance structure should be integral to IPO strategy. If CEO duality heightens investor concerns, firms may benefit from separating CEO and chairman roles well before the IPO to enhance credibility. However, this decision should follow a careful cost-benefit analysis, weighing the potential costs of higher underpricing and risk perception against the advantages of unified leadership and strategic coherence. Clear communication about governance choices and accountability mechanisms can help reassure investors and mitigate perceived risks.

Investors, in turn, should incorporate leadership structure into IPO due diligence. CEO duality can signal potential governance risk, justifying closer scrutiny, but its implications depend on context—founder-led firms with strong oversight may be less concerning than those with weak boards. Governance assessments should inform valuation and risk adjustments, with investors potentially demanding higher expected returns where concerns exist. Post-IPO, institutional investors can engage constructively with firms to encourage governance reforms that protect long-term value.

For intermediaries such as investment banks, governance considerations should influence both pricing and investor marketing strategies. When advising issuers, underwriters should factor governance quality into recommended pricing discounts, as weaker structures may necessitate higher underpricing to attract demand. During roadshows, intermediaries can help issuers explain leadership choices and governance practices transparently to build investor trust. Offering governance advisory services can further aid firms in aligning their structures with market expectations and improving post-listing performance.

For regulators, empirical evidence on CEO duality and IPO outcomes should anchor policy decisions. If duality systematically reduces market efficiency or investor confidence, intervention through mandatory role separation or targeted guidelines may be justified; otherwise, flexible approaches emphasizing enhanced disclosure and transparency may suffice. Regulators must strike a balance between investor protection and corporate autonomy, promoting governance practices that evolve with market sophistication. Continuous monitoring of leadership structures and their market consequences will ensure that future regulations remain responsive, balanced, and evidence-driven.

12.1 Summary of Key Findings

This comprehensive review has examined the relationship between CEO duality and IPO underpricing, with particular focus on the Indian context. Several key themes emerge:

Theoretical Foundations:

Multiple theoretical frameworks provide lenses for understanding CEO duality's potential effects on IPO underpricing. Agency theory suggests CEO duality exacerbates agency problems and information asymmetry, leading to higher underpricing as investors demand compensation for governance risks. Signaling theory indicates CEO duality may serve as a negative signal of governance quality, amplifying information problems. Stewardship theory offers a contrasting perspective, suggesting unified leadership can be beneficial, while resource dependence theory emphasizes that what matters is whether governance structures facilitate access to critical resources.

Empirical Evidence:

International evidence, particularly from emerging markets, generally supports positive relationships between CEO duality and IPO underpricing, consistent with agency theory predictions. However, evidence from developed markets is mixed, suggesting that institutional context moderates relationships. In the Indian context specifically, direct empirical evidence remains limited, though broader governance research suggests that governance quality affects IPO outcomes.

Contextual Factors:

The relationship between CEO duality and IPO underpricing is shaped by contextual factors including regulatory environment, ownership structures, investor base characteristics, and cultural norms. In India,

factors including family control prevalence, business group affiliations, evolving regulations, and changing market characteristics all influence how CEO duality affects IPO pricing.

Mechanisms:

CEO duality potentially affects IPO underpricing through multiple mechanisms including heightened agency costs, amplified information asymmetry, negative signaling, and reduced governance credibility. These mechanisms may operate simultaneously, with their relative importance varying across contexts.

12.2 Final Thoughts

The intersection of CEO duality and IPO underpricing represents a fertile area for research with important implications for theory and practice. As India's capital markets continue developing, IPO activity expanding, and governance practices evolving, understanding how leadership structures affect market outcomes becomes increasingly important.

For academics, this topic offers opportunities to contribute to governance and IPO literatures while addressing questions with practical significance. The Indian context provides a valuable setting for testing theories developed in different institutional environments and examining how emerging markets' distinctive characteristics shape corporate governance effects.

For practitioners—including company management, investors, intermediaries, and regulators—better understanding of CEO duality's effects can inform decision-making. Companies can make more informed governance choices, investors can better assess IPO opportunities, intermediaries can provide more valuable advice, and regulators can develop more effective policies.

Ultimately, the goal of research in this area is to enhance our understanding of how corporate governance affects market outcomes, contributing to more efficient capital markets and better outcomes for all stakeholders. While significant progress has been made in understanding both CEO duality and IPO underpricing independently, their intersection—particularly in the Indian context—deserves greater attention.

The coming years will likely see increased research activity in this area as data availability improves, methods advance, and the practical importance of these questions becomes more apparent. This review has sought to provide a foundation for such research by synthesizing existing knowledge, identifying gaps, and outlining directions for future investigation.

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