THE RELATIONSHIP BETWEEN CEO DUALITY AND PERFORMANCE

Corporate governance experts routinely advocate for firms to separate the role of the CEO from Board Chair. Despite this, there is little evidence that firms perform better when the roles are split. Recent research in the *Academy of Management Journal* suggests that it is important to consider the firm's context when the two positions are separated. In particular, the authors suggest that firms split the two roles for three reasons: 1) apprenticeship, where a departing CEO mentors a new CEO as board chair, 2) departure, where a dual CEO-board chair departs and new individuals are named to both CEO and board chair, and 3) demotion, where a sitting CEO is removed from the board chair position in favor of an independent director.

Key Takeaways:

- Splitting the CEO and board chair positions influences stock performance positively when the firm has performed poorly and negatively when the firm has been performing well.
- Effects are strongest when demoting the CEO from the board chair position, such that performance declines if prior performance was high and increases if performance is poor.
- The CEO-board chair role is likely to be recombined if the prior CEO is board chair or if post-separation performance is strong.

The authors examined 1053 firms who had combined CEO-board chairs during 2002-2006, of which 309 separated the positions during the period studied, to consider the implications of separating the roles. Separation of the CEO position from board chair resulted in higher levels of stock performance when the firm's prior performance was poor, but lower levels of performance if the firm had been performing well. Furthermore, separations which demoted a sitting CEO from the chair role had more negative performance than either an apprenticeship or departure. Finally, apprenticeship separations are more likely to lead to the CEO regaining the board chair role in the future than other types of separation. For departures and demotions, the CEO was found to regain the board chair position when future firm performance is high.

While corporate governance advocates suggest a dual structure is important, evidence has not supported this contention. This study notes that when performance is strong, separating the CEO and board chair position is problematic; however, when performance is weak, separation is beneficial. These effects are strongest when the separation occurs when no CEO change occurs, suggesting that taking actions to symbolize strong governance may have negative consequences.

Source: Krause, R. & Semadeni, M. (2013). Apprentice, departure, and demotion: An examination of the three types of CEO-board chair separation. *Academy of Management Journal*, 56: 805-826.