

CEO duality: Balance of Power and the Decision to Name a Newly Appointed CEO as Chair

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We examine CEO succession and CEO duality within the context of the balance of power among three central parties in the process: board of directors, incumbent CEO, and incoming CEO. Drawing on upper echelons thinking (Hambrick & Mason, 1984) we analyze the impact of board, incumbent CEO, and incoming CEO power on the appointment of the CEO to the position of board chair. Findings demonstrate that CEO duality is more likely to occur under conditions of outside CEO succession when the successor has prior chair experience and that tenure of the CEO predecessor reduces the likelihood of CEO duality.

INTRODUCTION

The replacement of a CEO is a relatively rare event in a corporation's life (James & Soref, 1981). More unusual is the replacement of the CEO with a successor from outside the firm (Dalton & Kesner, 1985; Friedman & Singh, 1989; Helmich & Brown, 1972). While performance is often found to be the main predictor of appointment of an outsider as the successor (Dalton & Kesner, 1985; Friedman & Singh, 1989), researchers have suggested that other factors including size, board composition, and stock ownership will modify the relationship (Boeker & Goodstein, 1993; Bommer & Ellstrand, 1996).

CEO duality, which describes the situation where the CEO serves also as the board chair, is an issue of further scholarly interest in the CEO succession process. Because the CEO is likely the single most powerful individual in the firm, the CEO's leadership of the board is a key governance issue. Organizational scholars are not alone in their interest in CEO duality, as it is also the continuing concern of corporate activists (e.g., Monks & Minow, 2001), institutional investors, and large block holders. In spite of both theoretical and practical admonitions to separate the CEO and board chair positions, roughly 80% of U.S. firms continue the practice of appointing one person to both positions (Faleye, 2007; Worrell, Nemec, & Davidson, 1997). Further, organizational researchers are not in solid agreement that separation of the two roles is always desirable, adopting instead a contingency perspective that under certain conditions CEO duality may be a preferred arrangement and under other conditions separation may be more effective (Faleye, 2007; Finkelstein and D'Aveni, 1994). Hence, the question of CEO duality is practically and theoretically important, and examining its antecedents and outcomes may lead to greater practical and scholarly understanding of the nature of the board's monitoring capacity and its

impact on firm outcomes. Furthermore, understanding antecedents of CEO duality sheds light on the balance of power within the firm.

Although it is singularly within the board's domain to appoint the board chair, this formal authority does not necessarily imply the power to do so. Most corporate boards today are composed primarily of outsiders. One result of this outsider dominance is that boards have less information about the firm and must therefore rely on insiders (chiefly the CEO) for information regarding strategy formulation and implementation (Baysinger & Hoskisson, 1990; Fama & Jensen, 1983). Consequently, information asymmetries between the board and the CEO may undermine the capacity of the board to use its authority to separate the CEO and chair roles even though separation of the two roles might result in a more effective monitoring arrangement. In other cases, the collective power of the board may provide a countervailing effect on the asymmetries inherent in the board-CEO relationship.

In addition, although it is a common practice for U.S. corporations to combine the CEO and chair position, it does not necessarily occur at the time a new CEO is named. Vancil (1987) noted that boards may wait out the early years of a CEO's tenure before appointing the CEO as chair suggesting that especially when a successor CEO is appointed from the outside, directors are not familiar with the CEO's leadership and thus may not want to rush the decision to name him/her as chair. Davidson and colleagues (Davidson, Ning, Rakowski & Elsaid 2008), subjecting duality-creating CEO appointments to a fine-grained empirical examination, found that outside successors with prior CEO experience were more likely to be appointed to both positions while heirs apparent were less likely to be appointed to both.

Finally, there is some evidence, especially among larger corporations, that in response to governance concerns, the CEO and chair positions are intentionally being separated, with an independent outsider serving as chair (Hillier & McColgan, 2006; Valenti, 2008). Even if the two positions are combined, many boards name an outside director as "lead" director who presides over meetings attended solely by outside members.

This research addresses the question under what circumstances will a newly appointed CEO be also named as chair. We apply the framework introduced by Cannella and Shen (2001) in their research on relay succession and suggest that our question should be examined with reference to the balance of power among the three central parties in the process: the board of directors, the incumbent CEO, and the incoming CEO. We first review the literature on CEO duality and the sources of power within the firm. We then develop and test hypotheses suggesting the effect of each source of power on the likelihood that a new CEO will simultaneously be named board chair. A discussion and implication for future research concludes the paper.

CEO DUALITY

The antecedents and effects of CEO duality as a corporate control mechanism have been the focus of considerable empirical investigation (See Daily & Dalton (1997) for a narrative analysis of empirical studies examining the relationship between CEO duality and firm financial performance.). Compared to firms with unitary structures (CEO duality), firms with independent governance structures (separation of the two roles) showed consistently better accounting performance (Rechner & Dalton, 1991). Banks which have separated the positions were found to have lower costs and higher returns on assets than those with unitary leadership structures (Pi & Timme, 1993). Regarding other strategic outcomes, Goyal and Park (2002) found that CEO turnover following poor firm performance was less likely in firms using a unitary structure. Davidson and colleagues (Davidson, Jiraporn, Kim, & Nemeč, 2004) reported that income-increasing earnings management was more prevalent in firms following duality-creating successions than in non-duality creating successions. These studies suggest that concerns of corporate governance activists and theorists urging separation of the two roles are well founded.

Not all empirical studies support this notion, however, and several research studies report no difference in performance outcomes between groups of firms whose CEOs also share the title of board chair and those in which the roles are split. Firms that changed corporate leadership structure showed no differences in either financial market-based measures or accounting-based measures of performance

(Baliga, Moyer, & Rao, 1996). In an examination of U.K. firms, Dahya (2004) found no performance improvement associated with separation of the two leadership positions either in absolute terms or in comparison to a number of peer group benchmarks. Finally, a meta-analytic review of 31 studies examining the relationship between duality and firm performance led researchers to conclude that duality showed no effect on firm financial performance (Dalton, Daily, Ellstrand, & Johnson, 1998).

These empirical studies have been grounded in the assumption, based largely in agency theory, that the roles should be split to preserve the independence and monitoring capabilities of the board. However, other organizational researchers suggest a different tack proposing instead that one form of corporate leadership may not be the best in all circumstances. Indeed, a narrative analysis of two decades of empirical examination suggests that the focus on duality versus separation is misdirected (Daily & Dalton, 1997). Finkelstein and D'Aveni (1994) note that the choice is a trade-off between the need for boards to avoid CEO entrenchment on the one hand and to promote unity of command on the other. Brickley and colleagues imply that there are costs and benefits associated with both forms of leadership structure (Brickley, Coles, & Jarrell, 1997; Faleye, 2007). Such thinking has led some corporate executives, while generally supporting the notion of CEO duality, to conclude that each firm should determine which leadership structure is best based on its present and expected future circumstances (The Business Roundtable, 2002). Indeed, recent empirical study supports the notion that certain conditions may favor one or the other form of structure. In an examination of the economic determinants of CEO duality, Faleye (2007) reported that organizational complexity, CEO reputation, and CEO equity increase the probability of CEO duality and the appropriate conjunction of these determinants with CEO duality may enhance firm financial performance. These more recent studies and the rather mixed findings of others suggest, as proposed by Finkelstein and D'Aveni (1994), that a number of contingencies influence which corporate leadership structure best serves a firm's stakeholders.

Although the debate around the advantages and disadvantages of CEO duality will undoubtedly continue, we agree that performance or any other single explanation is insufficient to predict duality. The interplay among a firm's directors and its incoming and outgoing CEOs should also be taken into account, and this paper contributes to extant literature by examining whether a unitary structure is dependent upon the power distribution among these entities.

SOURCES OF POWER WITHIN THE FIRM

Power is the capacity of an individual to “overcome resistance in achieving a desired outcome or aim” (Lynall, Golden, and Hillman, 2003: 422; Pfeffer, 1981). In an organizational context, the capacity to control the premises and choices of decisions as well as their consequences (Roy, 1997) is the basis of the power to influence others and tends to be concentrated among strategic leaders – the CEO and the board of directors. In succession analysis, it becomes necessary to examine the power of both incumbent CEO and the successor CEO and to further distinguish between internal and external successors.

Successor Power

Individuals succeeding to the CEO post whether from inside the organization or from the outside bring with them a certain amount of power, and these proceed both from the individual and by virtue of the position within the organization to which they are succeeding. In terms of individual or personal power, a successor to the CEO position often brings considerable experience. Many have been senior executives and have made decisions that require consideration of their impact on the entire firm rather than just on a particular area. In addition, such individuals have typically been exposed to varied career experiences across organizational functions and across industries. Moreover, a senior executive often has experience interacting with the focal firm's board of directors and may even have served as an outside director on the boards of other firms (Carey & Ogden, 2000). In addition to these bases of personal power, CEO successors also bring with them the potential power of the organization based in the structural power (Roy, 1997) that is uniquely the domain of the CEO post. The prestige associated with being a member of the organizational elite (Mizruchi, 1988; Mizruchi & Stearns, 1988; 1994; Useem,

1979) and with being considered for the position of key organizational leader also provides a source of potential power. Therefore, as a party to the succession process, CEO successors bring personal and organizational characteristics that may influence the decision to appoint him or her also as chair of the board, and these characteristics may vary depending on whether the individual succeeds to the CEO post from outside the organization or is an internal successor.

Outside CEO Successor

An outside successor is a CEO who was not employed by the firm while the predecessor held the office (Wiersema, 1992). A potential characteristic of an outside successor CEO is prior service as CEO or other senior officer at another firm. Several factors unique to prior CEO experience may influence the candidate's position relative to the hiring firm's board. Experience in strategic leadership carries with it previous interactions with the board of directors at the CEO's prior firm. In addition, as a senior officer, such an individual is likely to have served as an outside director at other firms. Furthermore, prior service as a senior officer includes experience directing the overall activities of an entire organization. These three activities – interaction with a focal firm board, interaction with boards as an outside director, and overall leadership of an organization – are major components of strategic leadership (Carey & Ogden, 2000; Finkelstein, Hambrick, & Cannella, 2009), and these are more fully addressed below.

With prior senior officer experience, an individual may have significant experience dealing with a board of directors. Working with board members as the key strategic leader of an organization implies that the individual has likely exercised authority and responsibility for strategy formulation and implementation. In addition, service as a senior officer has likely involved making outside board appointments (Ocasio, 1994). Furthermore, an individual with prior CEO experience has likely been on the other side of the table from other CEOs as an outside director at other firms.

In addition to experience in governance activities, prior senior officer experience establishes the newcomer's ability to direct the activities of an entire organization and to develop and lead a firm's dominant coalition (Cyert & March, 1963) potentially resulting in enhanced prestige associated with the top corporate job. These skills may be more easily transferrable to the new position than developed by an internal successor who has not experienced the unique position of the top job. In addition, prior senior officer expertise may aid the new CEO in dealing with potential internal candidates who "didn't get the job." While the concept of the dominant coalition (Cyert & March, 1963) recognizes that membership is not distinct at any one time and, in fact, shifts depending on the context and issue salient at a particular time, the key player in directing that coalition is the CEO, and experience in senior corporate roles enhances perception of the individual's expertise. CEO succession is often seen as an opportunity to realign the organization with its environmental imperatives (Pfeffer & Salancik, 1978; Ocasio, 1994), and one who has done this in another organization brings a good deal of valuable expertise to the new appointment. Furthermore, CEOs occupy a unique position within the corporate elite as organizational leaders (Mizruchi, 1988; Useem, 1979), and one who has already served in this capacity brings to the new appointment established prestige. All these characteristics may support an outside CEO successor in forging and aligning the diverse and often conflicting interests of the firm's top leaders which are likely most acute at the time of a CEO succession event (Carey & Ogden, 2000).

Internal CEO Successor

In cases where the incoming successor CEO is an internal candidate, it is often likely that he or she had been previously identified as the heir apparent (Vancil, 1987). Designation of an heir apparent generally involves the appointment of an insider to a high level appointment such as Chief Operating Officer or Executive Vice President (Behn, Riley & Yang, 2005; Zhang & Rajagopalan, 2004). High level service frequently includes a series of meaningful assignments of strategic importance (Carey & Ogden, 2000), providing opportunities to develop managerial skills not experienced by other executives (Zhang & Rajagopalan, 2004). Such assignments give the potential candidate the opportunity to create and maintain internal organizational relationships through distribution and control of organizational resources and appointments of subordinates to other meaningful assignments allowing time to create "networks of

influence" (Ocasio, 1994, p. 287) within the organization. In addition, senior level employees often serve as agents and are empowered to act on behalf of the CEO, affording them great power within the organization.

Service as the heir apparent also provides considerable opportunity to build relationships with the board at large that would enhance an individual's standing with the board at the time of appointment as CEO. Frequent exposure gives the board opportunity to see potential successors in action before the actual time for appointment arrives, and this frequent, direct exposure to the board ensures that the relationship is not mediated by the CEO (Carey & Ogden, 2000). As a result, the board is likely familiar with these individuals potentially requiring less probationary time as CEO and chair-in-waiting (Vancil, 1987). In addition, internal candidates often serve on other boards (Carey & Ogden, 2000). This allows the candidate to develop some expertise in the functions of governance by providing the kind of support and monitoring expected of outside directors. Furthermore, service on other boards enhances the individual's reputation among corporate leaders. Hence, the experiences of working with the focal firm's board and serving as outside director on other firms' boards enhance an individual's expertise as a business leader as well as one's reputation among other business leaders.

Board Power

While earlier studies of the role of the board in the succession process suggested that directors played a minimal role, later research showed that boards were becoming more proactive, especially when corporate performance was poor (Kesner & Sebor, 1994). We posit that the more powerful the board, the better able it is to influence CEO succession and maintain its power by keeping the CEO and chair positions separate.

Literature on corporate governance has tended to view board power primarily from its status as independent from management. Outside directors are viewed as being in a better position to monitor management because of their assumed independence from the company's managers and their expertise developed from prior experience (Mace, 1986). When compared to managerial directors, outsiders are preferable because "insider-dominated boards imply problematic self-monitoring and particularly weak monitoring of the CEO, since the CEO is likely to be in a position to influence the insider directors' career advancement within the firm" (Zajac & Westphal, 1994, p. 125). Outside directors are also presumed to bring a level of impartiality in evaluating management's decisions (Baysinger & Hoskisson, 1990). Unlike insiders, outside directors are less likely to be affected by the outcomes of their decisions and thus can arrive at more objective solutions (Rechner, Sundaramurthy & Dalton, 1993).

In addition to the traditional theories of board power, directors possess a large degree of influence through their social capital. According to Kim and Cannella (2008), the social capital of board members includes two types of relationships: (1) external social capital, which is defined as their ties with various outside contacts and (2) internal social capital, which is established by ties with persons within the firm, mainly other directors (Kim & Cannella, 2008). Both types of social capital are valuable to both the firm and individual directors. For the organization, the board's external social capital provides it with linkages to other firms, thus creating channels of information-sharing and resource acquisition. Internal social capital enhances the trust and collaboration among board members, thus facilitating their role as strategic advisors to management. For individual directors, both external and internal social capital provides the director with personal contacts that can be critical to the member's personal advancement (Useem & Karabel, 1986).

External Social Capital and Centrality

Network theory suggests that centrality in a network is an important source of power because it provides opportunities for links throughout the network and allows the central actor to serve as a bridge between network members who would not otherwise have contact with each other (Burt, 1992). Research on director interlocks demonstrates the importance of the information and support that directors provide to the firm's top management (Haunschild, 1993), and evidence suggests that these intangible resources in the form of knowledge, experience, and expertise provide greater value to the firm than the economic

nature of the resource linkages (Useem, 1984). Participation in multiple boards contributes to external social capital through connectivity to other directors and executives (Beckman & Haunschild, 2002; Hillman & Dalziel, 2003; Nahapiet & Goshal, 1998). In the case of boards of directors, centrality is derived from being tied to other boards through board interlocks, and is determined by a simple count of the total number of other boards on which its directors serve (Davis & Robbins, 2005). Therefore, network centrality reflects board power based on its external social capital.

Internal Social Capital and Density

To represent the power created from a board's internal social capital, we examine the density of its membership. When members of a board have close personal ties to many other members, their internal social network is characterized as dense. Full connectedness, where everyone in the network is connected with each other member, results in closure (Oh, Chung & Labianca, 2004). As density increases, communication becomes more efficient (Rowley, 1997), members tend to share similar attitudes and values (Krackhardt, 1999), and mutual trust develops (Coleman, 1988).

Dense networks are also characterized by strong norms and shared expectations that norms will be followed (Rowley, 1997). Through frequent interactions among network members, institutionalized norms develop, and players imitate each other's behaviors through a mimetic process (Galaskiewicz & Wasserman, 1989). Norms are well-enforced through sanctions against any self-serving behaviors (Coleman, 1988). Network members are also more willing to accommodate other network members because they know their favors will be reciprocated (Oh, et al., 2004). Moreover, the network will be united to fend off any threats to it or its members and oppose any challenge to its values and shared expectations (Balkundi & Kilduff, 2006). Thus, density increases the likelihood of cohesiveness within the network; as network actors subsume their own interests in favor of the general consensus of the group, agreement among the actors will occur more often and more quickly. This, in turn, strengthens the power of the board to act collectively in their best interests and the interests of the shareholders.

Incumbent Power

The relative power of the CEO has generally been conceptualized in terms of the unity or separation of the chair and CEO roles (Finkelstein & Hambrick, 1996). Separating the two roles places the board in a superordinate relationship to the CEO; combining the two roles reflects the confidence the board has in the CEO and its willingness to relinquish a certain amount of power (Harrison, Torres & Kukalis, 1988). Thus, CEO/Chair duality is often considered a strong indication of the CEO's power (Daily & Johnson, 1997).

CEO tenure is also regarded as a source of power because as the term of the CEO increases, the CEO's ability to engage in persuasive behavior over directors increases (Shen, 2003). Further, the longer the CEO has held that office, the more likely that he/she was instrumental in the appointment of directors to the board. Researchers have pointed out that CEOs typically influence, if not dictate, the appointment of new directors (Gulati & Westphal, 1999). In many cases, directors are personally invited by the CEO to serve and only candidates approved by the CEO are elected (Kesner & Sebor, 1994). In spite of recent governance reforms, the CEO carries considerable informal influence over the recruitment and nomination process. Outside directors appointed by a firm's CEO are likely to have social ties to the management team (Westphal, 1999) or may be reluctant to challenge the power of the CEO because they feel indebted to the CEO for their appointments (Boeker, 1992; Daily & Dalton, 1995; Wade, O'Reilly & Chandratat, 1990). Consultants and lawyers serving on boards may be constrained in challenging a CEO's policies if they feel that their continued relationship may be threatened by such objections (Johnson, Daily & Ellstrand, 1996). Thus, the length of time the outgoing CEO held that position should be considered in analyzing the balance of power in the succession process.

THE BALANCE OF POWER IN THE SUCCESSION PROCESS

A key consequence of the distribution of power between the board, the incumbent CEO and the incoming CEO is the appointment of the new CEO as the board chair. This study posits that each of these sources of power is critical in the process of naming a newly appointed CEO as chair. The question then turns on which person is the most pivotal in making the decision.

Successor CEO Power and CEO Duality

Former CEOs moving into a new organization will have a great deal of influence over the strategic decisions of the new firm (Boeker, 1997). For example, Davidson and colleagues (Davidson, et al., 2008) found that prior CEO experience is a strong predictor of duality-creating CEO appointments. This will be especially true for CEOs that are recruited from large firms (Pfeffer, 1981). When CEOs are selected from outside the company, it is often because the board has not identified a suitable candidate from within the company (Finkelstein & Hambrick, 1996). In such situations, it is critical that the board identify a nominee who has a strong track record of leading a company as its top officer. Often the board will seek to appoint a new CEO with a specific skill set not possessed by existing management. This suggests that the board will need to entice a well-qualified individual by offering the chair position as well.

In addition, if the newly appointed CEO was the CEO in his or her prior firm, it is likely that he or she also held the chair position. If this is the case, the new CEO is in a position to demand that the hiring firm offer the same roles. The focal firm's board will need to propose a package of benefits that will entice the candidate to leave his or her current job, which very likely will include being named the chair.

An incoming CEO who serves on the boards of a number of other firms may bring a certain amount of prestige that may enhance his or her power with respect to the board of the new firm. Just as a CEO candidate with prior CEO or chair experience may require additional incentives offered by the new firm's board, a CEO candidate with considerable exposure to governance and strategic management through service on other firms' boards may also need the enticement of additional perquisites such as the additional prestige that the mantle of board chair might bestow. Thus, we propose:

Hypothesis 1a: Outside succession of the incoming CEO will be positively related to the likelihood that a new CEO will also be appointed chair at the time of CEO appointment; the relationship between outside succession and CEO duality will be stronger if the incoming CEO served as CEO and/or chair for his previous employer or if the incoming CEO holds several seats on other boards at the time of his appointment.

When the successor CEO is recruited internally, the board's relationship with the potential successor is nearly as critical as its relationship with the current CEO, and an insider candidate will likely have considerable familiarity with the focal board, especially where the insider has been designated as the heir apparent. As a senior manager in the firm, the individual will have had occasion for frequent formal and informal interactions with the board affording directors the opportunity to see both the professional abilities and personal qualities of the individual. During the course of development, the candidate will have undoubtedly made presentations to the board on matters of strategic importance and been given meaningful assignments with some accountability to the board for their outcomes (Carey & Ogden, 2000). The combination of board interactions and participation in strategic decision-making enhances both the legitimate and expert power of the candidate.

Although as a senior manager, the individual likely has frequent contacts with other business leaders, the opportunity to serve in a formal governance role as an outside director advances the process of building the individual's own prestige power as a member of the corporate elite. Service on other boards is regarded as a critical stage in the process of developing potential CEOs and may be valuable experience for a future CEO who suddenly finds the governance roles now reversed. Through interaction with the board and service on other boards, the candidate develops both expertise and prestige power by

developing the ability to interact with a key governance player (the board) and by developing the capacity for strategic direction through the increasingly strategic nature of the various assignments.

Designation of an heir apparent is critical in the succession process and adds value to the firm (Behn, et al., 2005), thus providing the insider with a formidable bargaining position when negotiating a new employment contract as CEO. Further, the board's commitment to the heir apparent is likely to result in its willingness to grant additional power as the CEO, namely the role of chairman (Cannella & Shen, 2001). Thus, we offer a competing hypothesis to H1a as follows:

H1b: Service at the focal firm as an internal candidate will be positively related to the likelihood that the new CEO will also be appointed chair at the time of CEO appointment; the relationship between inside succession and CEO duality will be stronger if the incoming CEO is considered the heir apparent.

Board Power and CEO Duality

Selection of the CEO is one of the primary duties of a corporate board and the extent of their influence in the succession process is derived from their power relative to that of the CEO, both incumbent and incoming. Using social network theory, we suggest that directorships on outside boards are a source of both expertise and prestige power. Through their experience as directors on other boards, members have opportunities to deal with diverse elements in the environment. Multiple board appointments provide directors exposure to a number of strategic and governance issues which better enable them to assist management in coping with problems facing their firms (Kor & Sundaramurthy, 2009). Hillman and Dalziel (2003) noted that board members with prior experience in situations similar to those facing the focal firm showed more effective monitoring. Directorships also create personal contacts with representatives of relevant organizations which create valuable sources of information and resources, such as introductions and legitimizing (Borch & Huse, 1993). In addition to general management or governance experience, expertise power may also be based on the relevance of a director's experience in strategic decision-making (Finkelstein, 1992). Strategic relevance means that a director has specific experience to reduce uncertainty stemming from the firm's dependence on external contingencies most problematic to the organization (Pfeffer, 1972a; Pfeffer & Salancik, 1978). Formal connections with organizations in the focal firm's institutional environment are sources of external information that, when included as inputs to the focal firm's information processing system, lead to a reduction of uncertainty for the focal firm. For example, Kor and Sundaramurthy (2009) found that service on multiple boards increases access to information which in turn improves the board's ability to advise management and positively affect decisions leading to the company's growth.

Ties to other organizations through interlocking directorates also enhance a board's prestige power. (Mizruchi, 1988; Mizruchi & Stearns, 1988; 1994). A central tenet in the resource dependence perspective (Pfeffer, 1972b; Pfeffer & Salancik, 1978) is that prestigious individuals are recruited as directors to enhance the legitimacy of the focal firm. The prestige power of the board and its individual directors is a singularly apt application of Finkelstein's (1992) concept of power to the domain of boards due to the importance of external interconnections directors often bring. Thus, the overall measure of the board's centrality within the business environment is a valid construct for power, and this power will offset the power of the incoming CEO.

Hypothesis 2a: The greater the board centrality, the less likely a newly appointed CEO will also be named board chair at the focal firm.

In addition to network centrality, the existence of internal social capital augments the board's power to act as a unit. Prior research suggests that boards prefer less powerful CEOs so as to strengthen the board's power to influence the CEO (Zajac & Westphal, 1996). Given that boards tend to favor independent governance structures, we posit that highly dense boards will be more powerful to separate

the positions of CEO and board chair. Thus, the density of the board will moderate the relationship between incoming CEO power and duality.

Hypothesis 2b: The greater the board density, the less likely a newly appointed CEO will also be named board chair at the focal firm.

Incumbent Power and CEO Duality

Research on executive turnover indicates that incumbent CEOs are often reluctant to give up their position even if firm performance has been poor (Boeker, 1992; Fredrickson, Hambrick & Baumrin, 1988). Cannella and Shen (2001) found some support for their hypothesis that incumbent CEOs would force an heir apparent out in order to keep their position when the firm was performing well. Incumbents who do resign often have the opportunity to influence the selection of the replacement CEO either by grooming an heir apparent within the company (Vancil, 1987) or selecting an outsider who is demographically similar to themselves (Zajac & Westphal, 1996).

When incumbent CEOs are also board chairs, entrenchment is more likely as their role as the leader of the board can influence other board members to retain them. As the key organizational contact between the board and the organization, the CEO occupies the pivotal point of interaction with the board. Members of the board thus interact with the CEO not only in their oversight role, but also as a strategic partner in planning and decision-making. The CEO/Chair, therefore, is in a position to persuade the other members of the board to retain his or her services on the board even after resignation as CEO. This is especially evident in cases where the incoming CEO is hired from the outside. Because the board is not familiar with the new CEO and would prefer some modicum of continuity, it is reasonable for them to keep the incumbent as board chair for a period of time until they are satisfied that the new CEO can assume both roles.

Hypothesis 3a: When the outgoing CEO is also the chair, the more likely the former CEO will remain as chair thereby lowering the likelihood of CEO duality.

CEO power is likely to increase over his or her incumbency as CEO and a member of the board, even if not also the chair. The longer the CEO tenure, the greater the CEO's legitimacy and esteem held by the board and the greater the CEO's firm specific knowledge which further enhances his posture. In addition, appointments to the board during his or her tenure strengthen the CEO's influence over corporate decisions and often insulate him or her from the pressures of economic performance (Ocasio, 1994). During their long service, CEOs have the opportunity to shape their boards and develop a relationship with outside board members that enhance their staying power even after they step down as CEO. Thus, Quigley and Hambrick (2008) found that tenure was positively related to the likelihood that a predecessor CEO will be retained as chair. Similarly, Brickley, Linck and Coles (1999) found that nearly 20 percent of former CEOs continued as the chairman of a board for as long as two years after leaving office. This is often the case when the outgoing CEO holds a significant percentage of the shares or may be a founder (Quigley & Hambrick, 2008). That being the case we hypothesize the following:

Hypothesis 3b: The longer the tenure of the outgoing CEO, the more likely the former CEO will remain or be named as chair thereby lowering the likelihood of CEO duality.

METHODS

Sample and Data Collection

The population in this study includes firms from the Fortune 1000 index of 2007 which reported a CEO succession event between 2002 and 2007. Succession events were identified using the Mergent database, which reported a total of 238 events during the sample period. Each event was confirmed by

examining company proxy statements, and after eliminating observations which were either incorrect or for which available data were incomplete, the final sample consisted of 177 CEO succession occurrences.

Variables

Dependent Variable

The dependent variable is CEO duality and takes a value of one if the newly appointed CEO was also appointed board chair at the time of appointment; data were collected from company proxy statements.

Control Variables

Our logit model includes control variables generally used in the CEO and board power literature (Combs, Ketchen, Perryman, & Donahue, 2007). Firm size is measured using the natural log of sales reported by Compustat for the year of the new CEO's appointment. Board level variables were collected from the proxy statements. The proportion of outside directors, the ratio of total number of outside directors to the total number of directors (board size), is widely regarded in the governance literature as a rough measure of the board's independence from management (Baysinger & Hoskisson, 1990; Mace, 1986; Zajac & Westphal, 1994). Board equity represents the directors' incentives for maintaining effective control of the firm's management (Hillman & Dalziel, 2003). Finally, we controlled for the tendency of the firm to practice CEO duality. If the previous two CEOs were also the board chair, we coded this variable as 1, otherwise 0.

Independent Variables

Succession type is determined by whether the new CEO was hired from the outside as CEO or was already employed by the focal firm. If the successor was hired as CEO, the value of succession type is 1, otherwise 0. In addition, in the case of inside succession, we measured whether that individual was also heir apparent. For the heir apparent, we took an approach similar to that of Cannella and Shen (2001) and Zhang and Rajagopalan (2004), and coded the insider successor as an heir apparent if the individual possessed the title of COO or EVP and also served as an inside director. A review of the data revealed that nearly all of the inside appointments previously held a high position in the company, but naming the executive as a director prior to promotion to CEO could be viewed as an indication of heir apparent status. Variables representing the characteristics of the incoming outside CEO include whether the successor served as CEO in her/his prior position, whether she/he served also as chair, and the number of directorships of other organizations' boards held; these were collected from the proxy statements of the CEO's prior employer. Variables representing characteristics of the outgoing CEO include whether the prior CEO also served as chair and the length of tenure as CEO; both came from focal firm's proxy statements. Board power, defined as the board's external and internal social capital, was represented by two variables. The board's external capital was measured as the total number of corporate directorships and non-profit directorships held by directors of the focal firm. To determine board density as the measure of internal social capital, we examined the committee membership of each board. Recognizing that much of the work done by board members is through their committee assignments, we used ties through committee membership as the basis for measuring density (Burt, 1992). If a member sat on at least one committee with another member, a tie was formed. Thus, the more commonly held committee assignments among board members, the higher the density ratio, reaching 1 if all members had a committee tie to each other member. The density ratio was measured using Ucinet 6.

Analysis

The data were analyzed using binary logistic regression, or logit, due to the binary nature of the dependent variable. The relationship between the independent variables and the dependent variable is non-linear due to the binomial distribution of the outcomes of the dependent variable (Liao, 1994). In order to adjust for this non-linear relationship between independent and dependent variables, the link function in multiple logistic regression (MLR) relates the distribution of the independent variables to the

odds of the occurrence of the dependent, binary variable versus its non-occurrence (Harrison, 2001). This makes the relationship between independent and dependent variables approximately linear.

Results

Table 1 displays the variables' descriptive statistics and correlations. Tables 2 and 3 display results of the stepwise binary logistic regression of the variables on the odds of a new CEO being also appointed chair versus the odds of not being appointed chair. Table 2 presents the control model and tests of the characteristics of the successor CEO, and Table 3 present tests of characteristics of the board and the predecessor (outgoing) CEO.

TABLE 1
DESCRIPTIVE STATISTICS AND CORRELATIONS

Variables	Mean	S.D.	1	2	3	4	5	6
1. CEO=chair	.25	.43						
2. Firm size	8.64	1.17	.12					
3. p(outside directors)	.80	.15	.17*	.20**				
4. Block ownership	.29	.22	.01	-.17*	-.12			
5. Board equity	.05	.13	-.05	-.03	-.14*	.32**		
6. Dual firm	.84	.37	.18*	.12	.06	.09	.01	
7. Succession type	.60	.49	.16	-.05	-.02	.10	.03	-.04
8. New CEO was CEO	.28	.45	.31**	.04	.04	.01	.11	.14
9. New CEO was chair	.15	.36	.39**	.07	.02	.06	.09	.10
10. Prior CEO=chair	.70	.46	.13	.16	.15	-.18	-.06	.55
11. Prior CEO tenure	7.19	6.22	-.14	.05	-.03	-.02	.04	.16
12. Heir apparent	.17	.38	-.10	.13	-.01	.02	.02	.08
13. New CEO directorships	.86	1.45	.15*	-.04	.14	.05	-.01	-.11
14. Board centrality	16.93	10.29	.13	.49**	.21**	-.09	.08	.13
15. Board density	.62	.20	-.07	-.01	-.07	-.09	-.10	-.06
16. Firm performance	3.15	10.61	-.06	-.10	-.01	-.05	-.01	.01

Variables	7	8	9	10	11	12	13	14	15
8. New CEO was CEO	.38*								
9. New CEO was chair	.25**	.64**							
10. Prior CEO=chair	-.01	.14	.03						
11. Prior CEO tenure	-.01	-.05	-.01	.35**					
12. Heir apparent	-.56**	-.28**	-.19**	.14	.12				
13. New CEO directorships	.15*	.13	.18*	.01	-.15*	-.11			
14. Board centrality	-.10	.05	.11	.16-	-.01	-.13	.07		
15. Board density	-.10	-.24**	-.13	.06	.06	.10	-.13	.07	
16. Firm performance	-.07	.05	-.05	-.10	-.01	-.01	-.10	-.01	.05

Model 1 in Table 2 presents the control variables. The likelihood ratio (LR) test, a test of overall model significance, assesses the change in the maximized value of the log-likelihood function (Bowen & Wiersema, 2004) compared to the control model. In this case, the LR value of 183.06 results in a change of 17.64 (control model LR = 200.70). The likelihood ratio is chi-square distributed, and with five degrees of freedom is statistically significant ($p \leq .01$) indicating that at least one of the control variables is statistically different from zero. The Hosmer-Lemeshow chi-square statistic results from a comparison

of the observed events and those predicted by the model and tests the hypothesis that the observed values are significantly different from the values predicted by the model (Field, 2005). The non-significant Hosmer-Lemeshow value of 11.84 suggests that the model fits the data. Another test of the strength of the model is analogous to the R-squared of multiple linear regression, although the test in logistic regression is not as powerful. There are a number of R-squared statistics developed by statisticians (Field, 2005), and Cox and Snell, Nagelkerke, and pseudo-R square reported in the table are approximately equivalent to one another in magnitude. Overall, the test of model goodness-of-fit indicates statistical significance allowing examination of individual variable coefficients.

The proportion of outside directors ($b = 4.25, p \leq .05$) and CEO duality of the firm ($b = 1.71, p \leq .05$) are positively and significantly related to the log odds of CEO duality. The regression coefficient for block ownership is positive but only marginally significant. In addition, the results provide information of 1 would mean that the variable has no effect, we further examined the 95% confidence intervals of the exponentiated coefficients to confirm that the intervals exclude the value of 1. The 95% confidence interval of the exponentiated coefficient for proportion of outside directors (1.32, 3728.92) confirms the inference that the proportion of outside directors increases the likelihood of CEO duality by greater than a factor of 1. For firms practicing CEO duality, the 95% confidence interval of the exponentiated coefficient (1.22, 25.28) confirms the inference that the likelihood of a new CEO being appointed also as chair increases by a factor greater than 1.

TABLE 2
BINARY LOGISTIC REGRESSION RESULTS FOR PREDICTING CEO DUALITY BASED ON SUCCESSION TYPE (H1A AND H1B)

Variables	1	2	3	4	5	6
Constant	-7.81	** -8.35	*** -11.8	** -12.31	*** -4.59	3.67
Firm size	.15	0.19	.33	* .28	.15	.12
Proportion of outsiders	4.25	* 3.91	* 6.99	* 7.47	* .82	.28
Block ownership	1.71	† 1.46	1.05	.06	1.71	1.72
Board equity	-1.69	-1.75	-1.35	-1.45	-2.73	-2.31
Dual firm	1.71	* 1.75	* 2.30	* 2.14	.92	-1.03
Succession type		.84	*			
New CEO was CEO				.50		
New CEO was chair				2.20	*	
New CEO's directorships				.20		
Heir apparent						.54
N	177	177	106	106	71	71
-2LL	183.06	178.45	110.27	88.93	67.73	66.95
df	5	1	5	3	5	1
Hosmer-Lemeshow chi-square	11.84	22.42	** 15.86	* 18.91	* 10.71	6.31
chi-square (change in -2LL)	17.64	** 4.60	* 21.21	*** 21.34	*** 2.33	.78
Cox & Snell R square	.10	.12	.18	.33	.04	.06
Nagelkerke	.14	.17	.25	.47	.06	.10
LL _U /LL _R (H-L R-square)	.91	.97	.84	.81	.97	.99
pseudo R-squared	0.09	0.03	0.16	.19	0.03	.01
% correctly classified	76.3	76.8	77.4	78.9	70.8	70.8

† $p \leq 0.10$ * $p \leq 0.05$ ** $p \leq 0.01$

The LR test indicates that model 2 testing succession type is statistically significant ($\chi^2 = 4.60$, $p \leq .05$). The coefficient for the variable indicating succession type is statistically significant (0.84, $p \leq .05$, $e^{0.84} = 2.32$) and this is confirmed by the 95% confidence interval (1.05, 5.09). Hypothesis 1a, that succession type affects the likelihood of CEO duality at the time of a new CEO appointment, is supported; that is, there is a greater likelihood that an outsider will also be named board chair, thus supporting Hypothesis 1a. The results fail to support hypothesis 1b that inside succession will be positively related to CEO duality at the time of a new CEO appointment.

Hypothesis 1a also posits that certain characteristics of the outside successor will be positively associated with CEO duality. To test this, we regressed outside successor characteristics on the subset of the sample where outside succession occurred due to the fact that these characteristics do not apply to the inside successor, and these results are presented in models 3 and 4. Statistics demonstrate overall model significance of the control variables (model 3), and firm size, the proportion of outside directors, and firm duality are all significant and positive. Adding the outsider successor CEO characteristics to the model results in overall model significance and in a positive and significant coefficient for the outsider's prior service as chair ($b = 2.20$, $p \leq .05$, $e^b = 9.03$, 95% CI: 2.08, 39.37), although the coefficients for prior service as CEO and number of other directorships are not significant. These results provide further

TABLE 3
BINARY LOGISTIC REGRESSION RESULTS FOR PREDICTING CEO DUALITY BASED ON BOARD POWER AND OUTGOING CEO POWER (H2-H3)

Variables	1	2	3
Constant	-10.26***	-9.22***	-8.63**
Firm size	.18	.12	.12
Proportion of outsiders	5.09*	4.60	4.08*
Block ownership	1.45	1.46	.15
Board equity	-1.35	-1.62	-1.41
Dual firm	2.44*	2.42*	2.35*
Succession type	1.17*	1.18*	1.16*
Board centrality		.01	.01
Board density		-.54	.44
Prior CEO=chair			.67
Prior CEO tenure			-.10*
N	165	165	165
-2LL	155.82	155.33	148.91
df	1	2	2
Hosmer-Lemeshow chi-square	8.56	9.79	16.64
chi-square (change in -2LL)	26.95***	.49	6.42*
Cox & Snell R square	.15	.15	.19
Nagelkerke	.23	.23	.28
LL _U /LL _R (H-L R-square)	.96	.99	.96
pseudo R-squared	.04	.00	.04
% correctly classified	78.8	77.6	81.8

† $p \leq 0.10$ * $p \leq 0.05$ ** $p \leq 0.01$

support for hypothesis 1a demonstrating that for outside CEO succession prior chair experience increases the likelihood of being appointed also to the chair position. Due to the small sample size of this subgroup, these observations should be viewed with caution. Nevertheless, this test on a reduced sample concur with the tests on the full sample that prior outside strategic leadership experience increases the likelihood of being appointed also as chair upon receiving a new CEO appointment.

To test the impact of heir apparent status on inside succession, we again reverse coded succession type so that inside succession equals 1 and tested the impact of heir apparent status on the likelihood of being also appointed board chair when appointed CEO. These results are presented in models 5 and 6. Neither the control model nor the test of the hypothesis is significant. The hypothesis that status as heir apparent will increase the likelihood of dual appointment to the CEO and chair positions is not supported.

Table 3 presents the results of tests concerning the impact of the board's centrality and density and the predecessor CEO's characteristics. Models 1 and 2 in Table 3 present tests of hypotheses 2a and 2b, which posit the impact of board centrality and density on CEO duality. Model 1 in table 3 is the control model which includes succession type shown in earlier tests to be a predictor, and model 2 introduces the two board level variables. Data on some firms' committee structure were missing reducing the sample size to 165. The control model is statistically significant supporting earlier tests. However, the introduction of the two board variables, centrality and density, do not add to the model's significance. Therefore, the test fails to support hypotheses 2a and 2b.

Model 3 in Table 3 tests hypotheses 3a and 3b, which posit that the predecessor (outgoing) CEO's service as chair and tenure will decrease the likelihood that the successor will also be appointed chair. Statistics demonstrate overall model significance ($\chi^2 = 6.42, p \leq 0.05$), and prior CEO tenure is negatively and significantly related ($b = -0.10, e^b = .90, p \leq 0.05$; 95% confidence interval: 0.83, 0.99) to the likelihood of the new CEO being appointed chair. However, the variable representing the predecessor's service as chair is not significant. Due to the significant correlation of these two variables, in tests not reported here we ran separate regression models testing the effect of each individual variable. The model containing the variable representing predecessor CEO service as chair was not significant, while the model containing the variable representing the predecessor CEO's tenure was significant as was the coefficient ($b = 0.08, e^b = 0.92, p \leq 0.05$, 95% confidence interval: 0.846, 0.998). The inclusion of the predecessor's prior service as chair improves the overall model goodness-of-fit but does not individually affect the dependent variable. Hypothesis 3b is supported while hypothesis 3a is not.

DISCUSSION

This study seeks to enhance understanding of antecedents of CEO duality by examining the power dynamics present at the time of CEO succession. Prior research into this question (Cannella & Shen, 2001; Quigley & Hambrick, 2008) suggests that these power dynamics involve the three major parties to the succession event – the board, the incumbent CEO, and the successor CEO. The balance of power among the members of this triumvirate may be a strong predictor of the likelihood that appointment of a new CEO will include appointment also as board chair.

The results of our analysis indicate that the strongest players in the CEO nomination process are the incoming and outgoing CEOs. Outside successors appear to have considerable power relative to the hiring board if they come to the focal firm as the chair of their previous employer. We offer two explanations for the likelihood that incoming CEOs who previously held the board chair position at their prior firms will be offered the chair position simultaneously with their new CEO appointments. First, the company seeking a new CEO may intend that the CEO and chair position be combined and thus may purposely recruit an individual with prior chair experience. Outside succession often involves the hiring of a former CEO, who stepped down for retirement or to seek new opportunities but remained as board chair. Second, the incoming CEO may insist that the appointment include the chairmanship of the board and is in a better position to do so if he or she currently holds such position. Our results add to those of Davidson and his colleagues (Davidson, et al., 2008) who found that outsiders are more likely to be named chairs at the

time of their appointments as CEOs; not only must the new appointment be an outsider, but also occupy the chair position with their former employer.

The power of the outgoing CEO was also found to be negatively related to the incoming CEO being named chair, when power was measured by tenure. This finding is consistent with prior findings that if the prior CEO is powerful, he or she can manipulate the succession process to the extent of influencing the choice of the new CEO (Zajac & Westphal, 1996) or orchestrating the dismissal of the heir apparent (Cannella & Shen, 2001). Further, no change in significance occurred when the interaction variable was added. Tenure appears to be a better measure of power than whether the CEO held the chair position, supporting the conjecture that as the number of years as the CEO increases, his or her influence over the board and top managers increases, regardless of who is the chair.

The relative power of the board did not seem to influence the process of naming the incoming CEO to the dual positions, whether the new CEO was recruited from the outsider or was an internal candidate. This finding is somewhat at odds with the conclusion reached by Cannella and Shen (2001) who found that outside director power had a significant influence on an heir apparent's exit when performance was poor. One explanation is that competing hypotheses might have cancelled out the effect of board power: when performance is poor, the incoming CEO is likely to be an outsider and awarded the chair position while when performance is good, the CEO is likely to be an internal candidate and two alternatives are likely (1) the new CEO is also named chair or (2) the former CEO stays on as chair, thus preventing duality. In either case, the board's exercise of its power is related to firm performance. Thus, an area for future research is an examination of the effect of performance on the succession process, more particularly, the likelihood of duality.

Several control variables were significantly related to the likelihood of immediate CEO duality. Not surprising, the tendency of a firm to combine the CEO and chair positions was positive and significant. Thus, regardless of where power resides, if a firm is otherwise a "dual firm" it will name the newly appointed CEO as the chair, which may explain some of our lack of findings. Interestingly, the proportion of outside directors was positively related to duality. A number of potential explanations might account for this finding. Prior research on CEO-director ties demonstrates how organizational practices can spread by way of board interlocks (Westphal & Zajac, 1997). The more outsiders that serve on a board, the more likely that organizational governance practices are diffused across organizations (Meyer & Rowan, 1977; DiMaggio & Powell, 1983). In addition, the greater the number of outsiders on a board, the greater the likelihood that CEOs of other firms serve as directors. Given that CEO duality is so widely practiced among U.S. firms even in the wake of the reforms associated with Sarbanes-Oxley, a greater dominance of CEO directors on a board also increases the possibility that some of those CEOs also serve as chair at their focal firm, and these CEO-chair directors might be more favorably inclined toward CEO duality at firms on whose boards they serve. Although our measurement of board expertise accounts for the number of directorships represented on the board, it does not account for the content of those ties (Carpenter & Westphal, 2001; Westphal & Milton, 2000).

Our study points out the dominant roles played by the outgoing and incoming CEOs and demonstrates little impact of the power of board in influencing the appointment of the CEO as chair. This may be due to a failure of our research design to capture the important indicators of board power. On the other hand, the choice between unitary (CEO duality) and dual leadership may truly be less an outcome of board power and more a component of it. The upper echelons and governance literatures (cf. Finkelstein & Hambrick, 1996; Finkelstein et al., 2009) generally regard separation of the CEO and chair positions as a dimension of board structure and of board power and less so an outcome of board characteristics. Therefore, while agency considerations should take into account the balance of power between management and the board as well as other governance mechanisms, notions of board power may not explain the types of power considerations necessary for the proper application of agency theory. The firm continues to remain a reflection of its top managers (Hambrick & Mason, 1984) and is perhaps much less so a reflection of the firm's board of directors.

One limitation of our study is that we did not control for whether the outgoing CEO left due to an ordinary succession event, such as retirement, and where the CEO was dismissed. As noted by Shen and

Cannella (2002), in the latter situation, the former CEO often leaves due to power contests among top managers and has no influence over successor selection. In addition, we distinguished between whether the newly appointed CEO was named chair simultaneously with CEO appointment and did not determine the length of time to chair appointment, or if at all. Vancil (1987) noted that in many cases, a new CEO is faced with a waiting period before becoming chair, so an added dimension to our study could be to measure whether the CEO ultimately becomes chair, and if so, the length of time between the two events.

While not all of our hypotheses were supported, we uncovered interesting relationships between CEO duality and the potential sources of influence within the firm. Further research is warranted to determine the relative strength in the power bases of these three major parties to a CEO succession event and their relationship to CEO duality at the time of CEO succession.

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