

## Motivation

## How much power should a CEO have?

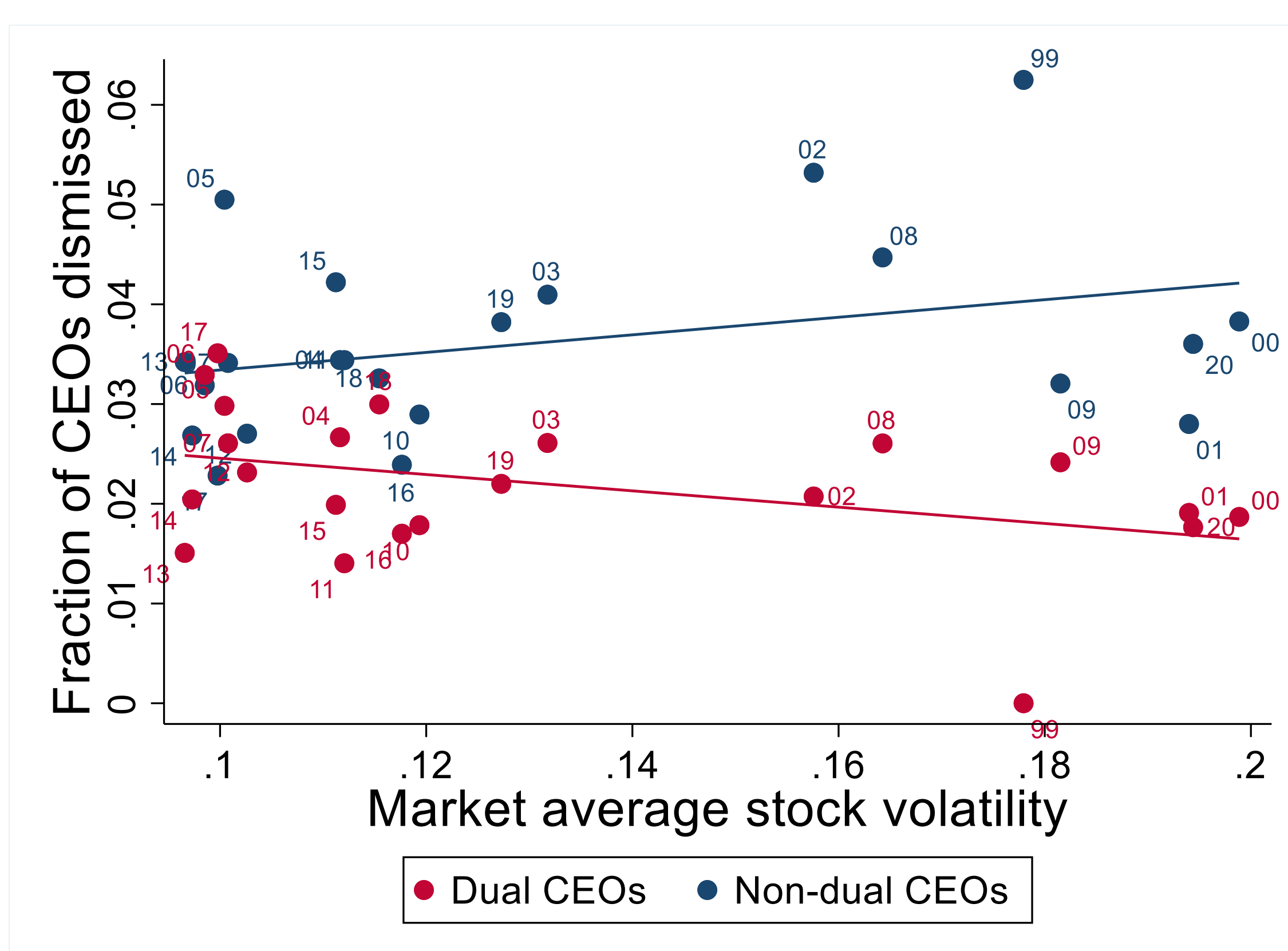
- Conventional concerns about managerial entrenchment
- However, uncertain times often see a rise in strong leadership

## Data and sample

- Uncertainty measured by *Stock volatility* (and alternatives) on the industry-year level
- CEO power measured by *Dual CEO* (and alternatives) on the firm-year level
- Panel data: 2,732 US public firms between 1999 and 2020
- 900 forced CEO turnovers; CEO duality among 54% firm-years

**Research question:** Are powerful CEOs more desirable and more effective in uncertain times?

## Uncertainty and CEO dismissals



Dependent variable =	Forced turnover dummy	
Uncertainty	0.060 (0.14)	
CEO power	0.005 (0.01)	-0.000 (0.00)
CEO power $\times$ Uncertainty	-0.104*** (0.04)	-0.095*** (0.03)
Year FE & Industry FE	Yes	No
Year-Industry FE	No	Yes
Controls	Yes	Yes
Obs	32033	32033

- Powerful CEOs experience significantly fewer forced turnovers as uncertainty increases
- Uncertainty  $\uparrow$  one SD  $\rightarrow$  dismissal rate(powerful CEO)  $\downarrow$  0.57% (for comparison, the average rate is 2.31%)

## Two rival theories of CEO turnover

Optimal dismissal theory: the board makes efficient turnover decisions

- Firms optimally retain more powerful CEOs for their effectiveness
- Powerful CEOs are associated with neither worse performance nor increased compensation

Managerial entrenchment theory: entrenched CEOs influence their own turnover decisions

- Replacing powerful CEOs is especially costly in uncertain times, so they become (even more) entrenched
- Powerful CEOs are associated with both worse performance and increased compensation

Dependent variable =	Q	
Uncertainty	1.930* (1.12)	3.641** (1.46)
CEO power	0.010 (0.07)	-0.037 (0.06)
CEO power $\times$ Uncertainty	0.412 (0.55)	0.767 (0.49)
Year FE & Firm FE Controls	Yes No	Yes Yes
Obs	28569	28569

- Powerful CEOs are not associated with worse performance when uncertainty is higher
- Similar results if measuring performance by *ROA* or *Sales growth*

Dependent variable =	Ln(compensation)	
Uncertainty	-0.118 (0.58)	0.778 (1.01)
CEO power	0.148*** (0.04)	0.118*** (0.04)
CEO power $\times$ Uncertainty	-0.406 (0.25)	-0.453* (0.23)
Year FE & Firm FE Controls	Yes No	Yes Yes
Obs	25432	25432

- Powerful CEOs' compensation does not increase with uncertainty

Dependent variable =	Cumulative return Feb 20th to Mar 20th			
Year =	2020		2019	
CEO power	0.030*** (0.01)	0.028*** (0.01)	-0.007 (0.00)	-0.006 (0.00)
Firm Size		0.009** (0.00)		0.001 (0.00)
Constant	-0.411*** (0.01)	-0.417*** (0.05)	-0.015*** (0.00)	-0.016 (0.02)
Controls	No	Yes	No	Yes
Obs	1427	1424	1539	1537

- Firms with powerful CEOs are more resilient to the COVID-19 shock
- No such result from the placebo test

## Two potential mechanisms for powerful CEOs' effectiveness in uncertain times:

better information sharing with the board

faster responses

## Conclusion

In uncertain times, powerful CEOs are more effective and optimally more likely to be retained.

Visit my website for the full paper:  
<https://www.jiaqizheng.org/>

