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CEO Duality: A Review and Research Agenda

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CEO duality—the practice of a single individual serving as both CEO and board chair—has been the subject of academic interest for more than 20 years. In that time, boards' use of CEO duality has fluctuated and the scholarly conceptualizations of the phenomenon have become more complex. As such, the need to understand CEO duality has only increased with time. We review and integrate the disparate literature on this topic so that future attempts to study it will benefit from a more complete understanding of the knowledge already produced. We review the demonstrated antecedents and consequences of CEO duality, pointing out that while much work has been done in this area, much remains that we do not understand. Finally, we offer new theoretical, methodological, and contextual directions that researchers could explore to extend knowledge about CEO duality.

Keywords: *boards of directors; agency theory; structure, design, and boundaries*

CEO duality—the practice of a single individual serving as both CEO and board chair—is one of the most widely discussed corporate governance phenomena (Dalton, Hitt, Certo, & Dalton, 2007). Twenty years ago, Finkelstein and D'Aveni (1994) referred to the practice as a "double-edged sword" because of the inherent trade-off between the unity of command associated with duality and the independent oversight associated with a separate board chair. Since the publication of this foundational article, the landscape of board leadership has changed in

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several important ways. First, the Sarbanes–Oxley Act was passed in 2002, with the potential to fundamentally change the nature of board governance. Second, the percentage of S&P 500 firms choosing to separate the CEO and board chair positions has doubled from 20% to 40%. Finally, the percentage of board chairs who are truly independent from management (i.e., not the former CEO) has grown from 9% to 20% (Spencer Stuart, 2010). Much of the original theory developed around CEO duality remains to be tested in this new environment.

Finkelstein, Hambrick, and Cannella (2009) noted that CEO duality is a very contentious issue in public discussions of corporate governance. But underlying the contention surrounding joining or separating the CEO and chair positions is a question: What are the implications of CEO duality? Notwithstanding Dalton, Daily, Ellstrand, and Johnson's (1998) meta-analysis showing no empirical link between CEO duality and firm performance, the debate over this high-profile topic continues in academic and practitioner circles. Activist shareholders have initiated proposals to separate the CEO and board chair positions at News Corp., JP Morgan Chase, and Goldman Sachs, to name just a few examples. For their part, some firms have countered with statements adamantly defending CEO duality, claiming that their boards are sufficiently independent without a separate chair or that duality affords them indispensable unity of leadership (e.g., Chevron Corporation, 2012).

Scholarship on the duality issue remains equally unsettled. As Dalton et al. (2007) observed, despite a lack of evidence supporting a CEO duality–firm performance link, the theoretical basis for a relationship remains quite strong. In an invited commentary on bridging the micro and macro domains, Dalton and Dalton (2011: 405) listed CEO duality as one of two "contemporary, and intensely contentious issues related to the governance of publicly traded companies." Citing the absence of any multilevel studies of CEO duality, Dalton and Dalton concluded that calls to abandon the search for a CEO duality–performance relationship are premature. Consistent with this sentiment, there is ongoing research attention paid to variables that might moderate or mediate the duality–performance relationship and when it might be observed. Given this continued scholarly interest, which only seems to grow with the equivocality of the extant evidence (e.g., Dalton & Dalton, 2011; Gove & Junkunc, 2013), we see a pressing need for a review of what is known about CEO duality and an agenda for moving toward resolution for some of the theoretical and empirical ambiguity surrounding this ubiquitous phenomenon. Unfortunately, a comprehensive review of the CEO duality literature has yet to appear in any of the major scholarly journals. With this article, we seek to provide such a review.

The lion's share of research on CEO duality has focused on how it affects the dependent variable of primary importance in strategic management: firm performance (Kang & Zardkoohi, 2005). One reason that CEO duality is such an attractive topic for scholarly research is that it is dichotomous in nature, as are the two key theories (agency and stewardship) that are brought to bear. All seem to agree that duality reflects lower board oversight and stronger CEO power, while non-duality reflects higher board oversight and weaker CEO power (Finkelstein, 1992; Finkelstein et al., 2009). This dichotomous nature of both the phenomenon and theory surrounding it has led scholars for years to use the duality construct to test competing theories in which board oversight and CEO power figure prominently (Gove & Junkunc, 2013). Agency theory, perhaps the most common framework applied to the study of corporate governance practices, suggests that boards should be independent from management to prevent managerial entrenchment (Eisenhardt, 1989; Fama & Jensen, 1983a).

Because CEO duality directly conflicts with this recommendation, agency theorists have consistently argued that CEO duality negatively affects firm performance (Jensen, 1993; Lorsch & MacIver, 1989).

Conversely, scholars incorporating organization theory-based paradigms, such as stewardship theory (Donaldson & Davis, 1991) and resource dependence theory (Boyd, 1995), have argued that duality promotes unity of leadership, facilitating organizational effectiveness (Fayol, 1949; Gulick & Urwick, 1937). While CEO duality has not been shown conclusively either to promote or to hinder firm performance, this ambiguity has only fueled speculation about it, especially among practitioners (Lublin, 2009; MacAvoy & Millstein, 2004). Scholars have argued for years that CEO duality is more complex than the double-edged sword metaphor suggests (Coles & Hesterly, 2000; Daily & Dalton, 1997; Dalton & Dalton, 2010), and recent research is beginning to build on and substantiate this intuition (Krause & Semadeni, 2013; Quigley & Hambrick, 2012).

In this article, we present a review of the extant CEO duality literature with the objective to identify and synthesize the myriad disparate findings. First, we discuss the extensive list of studies that have searched for a relationship between CEO duality and firm performance. Then, we review the similarly impressive list of studies focusing on other consequences of CEO duality, from executive compensation to the commission of fraud. Third, we examine the existing evidence pertaining to CEO duality's antecedents, arguing that much more work is needed in this area. Finally, we introduce potential new directions for CEO duality research: one theoretical, one methodological, and one contextual. Our review includes studies published over more than 20 years in both management and finance. To identify studies for inclusion, we began with a keyword search for the terms *CEO duality, Board Leadership*, and *Board Structure* in the top-level management and finance journals. We limited our consideration to studies that directly proposed or tested hypotheses about CEO duality. That search led to 48 publications, which we discuss in depth throughout the review.

Our conclusion after examining the extant literature is that CEO duality is far too complex to be considered dichotomously, with dual CEOs viewed as wielding unchecked power and separated CEO and chair roles embodying the essence of good governance. We urge scholars to explore new theories, new methods, and new contexts in order to uncover the nuance and clarify the strategic importance of a phenomenon that has been a fixture of corporate governance research since its inception. We hope that the present review provides the foundation for such exploration.

The CEO Duality–Firm Performance Relationship

Early Correlational Studies

Research on the performance consequences of CEO duality has relied predominantly on two contrasting theories: agency theory and stewardship theory. The dichotomous nature of the CEO duality construct, combined with the strong and contrasting predictions that each theory makes, would seem to permit scholars to rule out one theory and support another with just one significant finding. In the following section, we review the extensive literature that has searched for a relationship between CEO duality and firm performance, typically incorporating one or both of these foundational theories. The studies included in our review are shown in Table 1.

Table 1
Effect of CEO Duality on Firm Performance

Citation	Relevant Findings	Empirical Setting	Performance Measure(s)
Rechner and Dalton (1989)	No effect on performance	141 *Fortune* 500 firms between 1978 and 1983	Shareholder return
Rechner and Dalton (1991)	Negative effect on performance	141 *Fortune* 500 firms between 1978 and 1983	ROI, ROE, profit margin
Donaldson and Davis (1991)	Positive effect on performance	337 U.S. firms in 1987	Shareholder return
Daily and Dalton (1992)	No effect on performance	100 fastest-growing small publicly held U.S. firms in 1990	ROA, ROE, P/E ratio
Daily and Dalton (1993)	No effect on performance	186 small publicly traded U.S. firms (fewer than 500 employees and less than $20 million in revenue) in 1990	ROA, ROE, P/E ratio
Daily and Dalton (1994a)	Negative effect on performance, strengthened by percentage of affiliated directors on the board	114 publicly traded U.S. manufacturing, retail, and transportation firms between 1972 and 1982	Bankruptcy
Daily and Dalton (1994b)	No main effect on firm performance, but strengthened the positive effect of board independence on firm performance	100 publicly traded U.S. manufacturing, retail, and transportation firms in 1990	Bankruptcy
Daily (1995)	No effect on performance	70 publicly traded firms filing for bankruptcy protection between 1980 and 1986	Outcomes of bankruptcy: successful reorganization (good), liquidation (bad)
Boyd (1995)	Positive effect on performance, strengthened by environmental dynamism, scarcity, and complexity	192 publicly traded U.S. firms in 1980	ROI
Baliga, Moyer, and Rao (1996)	Changes in duality had no effect on performance	375 *Fortune* 500 firms between 1980 and 1991	CAER (cumulative average excess returns), ROE, ROA, operating cash flow as a percentage of assets, operating cash flow as a percentage of sales, MVA
Brickley, Coles, and Jarrell (1997)	Some evidence for a positive effect; no evidence for a negative effect	661 large publicly traded U.S. firms in 1988	ROI, stock return, CAR
Worrell, Nemec, and Davidson (1997)	Consolidation of CEO and board chair roles had negative effect	522 CEO plurality-creating events at 438 *Businessweek* 1000 firms between 1972 and 1990	CAR

(continued)

Table 1 (continued)

Citation	Relevant Findings	Empirical Setting	Performance Measure(s)
Dalton, Daily, Ellstrand, and Johnson (1998)	No overall correlation with firm performance	Meta-analysis of 31 studies (69 samples, $N = 12{,}915$)	Market and accounting performance indicators
Davidson, Nemec, and Worrell (2001)	CEO–board chair consolidation had negative effect only if heir apparent was not present	421 CEO succession events at 332 *Businessweek* 1000 firms as of 1992	CAR
He and Wang (2009)	Strengthened the positive effect of innovative knowledge assets on firm performance	215 large U.S. manufacturing firms between 1996 and 1999	MTB ratio
Ballinger and Marcel (2010)	Weakened the negative effect of interim CEO successions on firm performance	540 CEO succession events at S&P 1500 firms between 1996 and 1998	ROA, Tobin's q, bankruptcy
Quigley and Hambrick (2012)	Former CEO staying on as board chair reduced performance change following a CEO succession	181 CEO succession events at publicly traded U.S. high-technology firms between 1994 and 2006	ROA, stock return
Krause and Semadeni (2013)	CEO–board chair separation had positive effect following weak performance, but negative effect following strong performance; held primarily for "demotion" separations	1,053 S&P 1500 and *Fortune* 1000 firms between 2002 and 2006	Stock return, mean analyst rating

Note: CAR = cumulative abnormal return; MTB = market-to-book ratio; MVA = market value added; P/E = price-earnings ratio; ROA = return on assets; ROE = return on equity; ROI = return on investment.

While a few earlier attempts were made to understand CEO duality (e.g., Anderson & Anthony, 1986; Berg & Smith, 1978), the systematic search for a relationship between duality and firm performance began with Rechner and Dalton's (1989, 1991) studies of *Fortune* 500 firms. For both works, the authors analyzed a random sample of 141 *Fortune* 500 companies between 1978 and 1983. These two endeavors provided an early indication of this issue's complexity, as they yielded conflicting evidence. In the first study, Rechner and Dalton (1989) measured performance using stockholder returns and found no significant difference linked to CEO duality. In the second study, the authors used accounting-based measures, but the results were starkly different. Using the same sample, they found that firms with a separate board chair outperformed firms with CEO duality in each year of study across three accounting-based performance measures. This provided unambiguous support for the predictions of agency theory (Eisenhardt, 1989; Fama & Jensen, 1983b). However, questions arose about their methodology. The authors originally sampled 250 *Fortune* 500 firms but excluded all firms that changed their structure during the 6-year study period. As a result, almost half of the original sample was excluded. Rechner and Dalton (1991) noted that their sample covered a period marked by increasing use of CEO duality. Unfortunately, their sampling technique did not permit any assessment of the circumstances associated with that shift.

Rechner and Dalton's (1991) conclusions were immediately challenged by Donaldson and Davis (1991), who were the first to introduce stewardship theory to the board leadership debate. Donaldson and Davis argued that joining the chair and CEO roles increases effectiveness and specifically predicted that companies with dual CEO–chairs would outperform those with separated roles. They tested this assertion on a multi-industry sample of 337 U.S. corporations of varying sizes, finding that the mean shareholder return in their sample was significantly greater for firms with CEO duality than for those without.

Building on Rechner and Dalton's (1989, 1991) work, Daily and Dalton (1992, 1993) conducted a pair of studies searching for a main effect of CEO duality on firm performance among small firms, assuming that larger firms were more inertial and therefore harder for a dual CEO–chair to impact. Across two samples and a combination of accounting and market-based performance measures, CEO duality exhibited no significant effect on firm performance.

The Bankruptcy Studies

Faced with the equivocal evidence from investigations of the duality–performance relationship—a positive relationship, a negative relationship, and three null relationships—Daily and Dalton (1994a, 1994b) conducted two studies in which they operationalized firm performance not as a continuous efficiency- or market-based measure, but rather as either the avoidance of firm bankruptcy (Daily & Dalton, 1994a, 1994b).

Daily and Dalton (1994a, 1994b) hypothesized that CEO duality would increase the likelihood of bankruptcy because the increased power afforded to CEOs through the addition of the board chair role would permit them to remain committed to the status quo even when performance was poor. They argued that as a direct result of CEO duality, threat rigidity would be greater among troubled firms with CEO duality than among troubled firms without, and that this would increase the likelihood of bankruptcy. As in their previous studies, the authors tested this hypothesis on two separate samples.

In the first context, a matched-pair sample of 57 bankrupt and 57 survivor firms, Daily and Dalton (1994a) found evidence strongly supporting agency theory: CEO duality significantly increased the likelihood of bankruptcy. In addition, this effect was stronger when the percentage of "affiliated" directors (i.e., not independent directors) on the board was high. In the second context, a distinct matched-pair sample of 50 bankrupt firms and 50 survivor firms, there was no main effect of duality on the likelihood of bankruptcy (Daily & Dalton, 1994b). The interaction with board composition *was* significant, however, bolstering the earlier study's results and further supporting the agency theory prediction. Interestingly, whereas Daily and Dalton (1994a, 1994b) found that CEO duality contributed to firm bankruptcy, Daily (1995), using a sample of 70 firms filing for Chapter 11 bankruptcy, found no evidence to suggest that CEO duality had any impact on a firm's successful or unsuccessful *emergence* from bankruptcy.

These early studies, while methodologically simplistic by today's standards, form a cornerstone of the CEO duality literature, as they sparked initial scholarly interest in the topic. Combined with Lorsch and MacIver's (1989) highly influential governance tome, these works set the foundation for all future CEO duality research, as evidenced by their continued citation.

Beyond Good and Evil

After the conflicting evidence we have cited above was published, the search for a relationship between CEO duality and firm performance became more nuanced. Scholars began questioning the logic that CEO duality must be universally beneficial (i.e., stewardship theory) or universally detrimental (i.e., agency theory). As Boyd (1995: 304) observed, “The critical question . . . is under what circumstances does the consolidation of power and decision-making afforded by duality outweigh the potential abuses described by the agency model?” He argued that CEO duality would be beneficial under conditions of high environmental uncertainty because CEO duality provides a unity of command and speed of decision making that is necessary to manage uncertainty. Under conditions of low environmental uncertainty, however, the risk of CEO opportunism increases, making non-duality, with its independent oversight, more beneficial. Boyd hypothesized that CEO duality would be positively related to firm performance in high dynamism, low munificence, and high complexity environments. Analysis of 192 publicly traded firms from 12 industries generally supported these predictions. In addition, while he found no baseline correlation between duality and performance, he found a significant positive effect once environmental uncertainty was entered into the model. Boyd’s article has proven highly influential, as it was the first to propose a contingency model of CEO duality’s performance effects.

Further complicating the theory around CEO duality, Brickley, Coles, and Jarrell (1997) highlighted the costs associated with CEO *non*-duality that extended beyond those traditionally derived from stewardship theory. They noted that independent board chairs are subject to agency issues just like CEOs and that separating the CEO and the chairman titles increases the cost, and reduces the effectiveness, of information flow between the CEO and chair. They also noted that separation (non-duality) has implications for CEO succession—highlighting that separation has costs as well as benefits. Based on this more complete theory, the authors analyzed the CEO duality–performance relationship and found evidence across a number of performance measures of a positive link (supporting the stewardship prediction). Conversely, they found no evidence of a negative link. As with Boyd’s results, this study provided some support for the stewardship perspective, but left a number of unanswered questions.

Worrell, Nemec, and Davidson (1997) extended the nuance of the duality phenomenon a bit further with their study examining CEO “plurality,” or the combination of the board chair, CEO, and president positions in a firm. The authors used agency theory to argue that CEO plurality creates potential for even greater conflict of interest than CEO duality does. Analyzing a sample of 522 plurality- and duality-creating events at large U.S. firms, the authors found that investors reacted very negatively to CEO plurality, but showed little reaction to duality. Worrell et al. suggested that perhaps CEO duality is not the agency problem that consolidation of all three top positions is.

Given the extensive yet inconsistent evidence, scholarship on CEO duality was overdue for some definitive assessment of the extant evidence. Baliga, Moyer, and Rao (1996) acknowledged the competing perspectives on the issue in their investigation of the CEO duality–firm performance relationship. Using a sample of *Fortune* 500 firms, the authors tested CEO duality’s performance effects along three dimensions: market reactions to announcements of changes in board leadership structure, operating performance changes following changes in board leadership structure, and differences in long-term market value added between firms with duality and those without. With one exception, none of Baliga et al.’s findings supported any relationship between CEO duality and firm performance. The single exception was that firms that changed structures at some point in the study window experienced stronger long-term performance. The authors cautioned that this could simply reflect a "passing the baton" effect, wherein high-performing CEOs are rewarded with the additional title of chairman during their tenure. Baliga et al. concluded that if CEO duality does lead to managerial abuses, the performance implications of such abuses are minimal.

Putting the Debate to Rest

After a decade of rigorous investigation, Dalton et al. (1998) attempted to put the question of a firm performance relationship to rest. They meta-analyzed correlations between CEO duality and firm performance from 69 different samples reported in 31 separate studies. The authors laid out the conflict between agency theory and stewardship theory prior to revealing their results, which showed *no evidence* of any practically significant correlation between CEO duality and firm performance. Regarding moderators, firm size had no impact. Different performance measures sometimes changed the direction of the relationship. For accounting-based performance measures, the duality–performance correlation was slightly negative, and for market-based measures, slightly positive. However, neither correlation was large enough to be meaningful. The authors concluded that the true population relationship is effectively zero, and therefore there is no convincing support for either the agency theory or stewardship theory prediction about performance implications.

The fact that Dalton et al. (1998) reported some statistically significant but practically *in*significant correlations deserves notice because it is reflective of an overall trend in CEO duality research. While many studies report statistically significant findings, the size of CEO duality's effect often falls far below that of the control variables included in the same models (e.g., Ballinger & Marcel, 2010; He & Wang, 2009). This is a common problem in corporate governance research, as well as in any research that relies on publicly available proxy measures to tap theoretical constructs, because the variables used to test theory are often reflective of multiple constructs (Dalton & Aguinis, 2013; Ketchen, Ireland, & Baker, 2013). While this is a limitation of research on CEO duality and corporate governance in general, it only underscores the continued need for more in-depth and fine-grained investigation.

Moving Beyond Agency and Stewardship

Following Dalton et al.'s (1998) meta-analysis, investigations of a direct and simple duality–performance relationship dried up. Interestingly, not long after the publication of Dalton et al., Harris and Helfat (1998) engaged in a dialogue with Davidson, Worrell, and Nemec (1998) about an alternative theoretical interpretation of their earlier findings (Worrell et al., 1997). Harris and Helfat argued that, because negative abnormal returns resulted from announcements of CEO plurality but not CEO duality, Worrell et al.'s findings could indicate that shareholders were responding negatively to poor succession planning, not agency problems. They argued that consolidation of the president, CEO, and chairman roles indicated a lack of succession planning, whereas CEO duality alone did not. Davidson et al. agreed that the explanation was plausible, and set out to test it. Using a sample of 421 succession events at large U.S. firms, they found investors reacted negatively to the consolidation of all three positions, but positively to the creation of a dual CEO–chair role as long as a separate president role was maintained (Davidson, Nemec, & Worrell, 2001). The authors interpreted this evidence as indicating that investors care more about succession planning than about CEO entrenchment. This is an important and rarely employed perspective on CEO duality, one that we hope will garner further empirical examination in the future.

The Devil Is in the Details

As mentioned above, the plethora of conflicting evidence followed by a fairly conclusive meta-analysis (Dalton et al., 1998) effectively ended the search for a direct and simple link between CEO duality and firm performance. Recently, however, scholars have shown a renewed interest in the topic, considering more complex interactions and classifications of CEO duality and considering other outcomes associated with CEO duality that are more proximal than firm performance. For instance, rather than predict a direct performance effect, He and Wang (2009) hypothesized that CEO duality would strengthen the already-positive effect of innovative knowledge assets on firm performance. Similar to Brickley et al. (1997), He and Wang argued that there are costs associated with splitting the CEO and board chair positions, such as the cost of CEO–chair information asymmetries. These costs are magnified when managing the firm requires leveraging extensive knowledge assets. The authors hypothesized that unified leadership would better enable CEOs to utilize firm resources, and therefore CEO duality would positively moderate the relationship between innovative knowledge assets—measured as patent citations and R&D spending—and firm performance. Using a sample of 215 U.S. manufacturing firms, they found empirical support for this prediction.

Contributing to the contextualization of CEO duality research, Ballinger and Marcel (2010) examined the effects of CEO duality for interim CEO successions. While emphasizing the negative effects of interim successions, they hypothesized that these effects would be weakened if the interim CEO was also board chair. They argued that in this context, the relevant risk the firm faces is not managerial entrenchment, but rather top management team dissolution, and a dual CEO–chair should be better able to foster top management unity. Results from a sample of S&P 500 firms supported this prediction.

Recently there have been new developments in the CEO duality literature, in which scholars have continued to point out that the issue is more complex than the simple distinction of combined or separate CEO and chair roles. For example, Quigley and Hambrick (2012) examined former CEOs retained as board chairs following a succession event. Whereas most CEO duality research has assumed that a separate chair would be an independent monitor, Quigley and Hambrick pointed out that in many cases, the separate chair is the former CEO, and this structure can actually *create* agency problems rather than alleviate them. In support of this argument, the authors found, in a sample of U.S. high-technology firms, retaining the former CEO as board chair following a succession event dampened strategic change after the succession, and ultimately decreased the magnitude of change in the firm's performance. In contrast, separate board chairs who were not the former CEO had no significant impact on changes in performance, and positively influenced strategic changes. The authors describe the former CEO who serves as board chair as not an objective monitor, and in some cases, a direct obstacle to strategic change.

In a recent study of S&P 1500 firms, Krause and Semadeni (2013) examined firms going through the process of CEO–board chair separation and identified three types of separation: apprentice, wherein the former CEO remains chair, but a new CEO is appointed; departure, wherein the CEO–chair leaves both roles and two individuals are appointed in his or her place; and demotion, wherein the CEO remains in that role, but relinquishes the board chair position to an independent director. They argued that CEO–board chair separation should be enacted only as a solution to a problem. If a problem exists, then the solution should be beneficial; if not, the solution is unneeded and can be detrimental. Their results confirmed this intuition, revealing that the performance benefits of separation were entirely dependent on the performance context in which the separation occurred. In other words, after controlling for the regression to the mean typically seen in year-to-year firm performance, Krause and Semadeni found that separation—demotion separation, specifically—positively affected future firm performance when past performance was weak, but negatively affected future firm performance when past performance was strong. The fact that this relationship was practically meaningful only for demotion separations suggests that for a CEO–board chair separation to be effective, it must involve the imposition of a truly independent chair to oversee the CEO.

In summary, despite a literature rife with conflicting evidence, small effect sizes, and a meta-analysis showing no overall direct and simple relationship, scholars continue to search for a link between CEO duality and firm performance. More recently, the search has expanded beyond the agency–stewardship dichotomy in which one structure must reign supreme. There are many reasons to believe that the performance implications of CEO duality are conditional and complex. In addition to the evidence already discussed supporting boundary conditions on the agency and stewardship perspectives, a host of potential intervening variables have yet to be explored. Perhaps the issue with the greatest potential to generate insight, and yet with the least amount of research attention so far devoted to it, is the issue of CEOs' and board chairs' individual characteristics. In many cases, the likelihood that CEO duality begets self-interested behavior at shareholders' expense depends almost entirely on who the CEO is and what his or her values, beliefs, and priorities are. This intuition has found support in recent work on CEO organizational identification (Boivie, Lange, McDonald, & Westphal, 2011; Lange, Boivie, & Westphal, 2011), and we hope research in this area will take the issue of CEO–chair characteristics head-on.

In the following pages, we review the literature concerning the remaining consequences of CEO duality, many more proximal to the phenomenon of interest than firm performance. Following that, we examine the antecedents of CEO duality. These two literatures not only constitute valuable areas of investigation in their own right; they also help to clarify potential boundary conditions that could explain the lack of empirical support for a duality–performance link. In this way, we can start to reduce some of the complexity and ambiguity surrounding this ubiquitous corporate governance issue.

CEO Duality and Agency Problems

Although firm performance has been the most commonly studied consequence of CEO duality, there is a rich and growing literature on other consequences. Research in this stream has tended to seek more concrete evidence of specific agency problems linked to CEO duality by emphasizing constructs that are more proximal to CEO decision making than firm performance is. These studies, listed in Table 2, generally fall into one of three topical categories: *succession, entrenchment*, and *risk avoidance*. We review each of these streams below.

Succession Effects

Research on scapegoating (Gamson & Scotch, 1964) and resource dependence theory (Pfeffer & Salancik, 1978) has routinely found that the likelihood of managerial succession increases following poor organizational performance (Wagner, Pfeffer, & Oreilly, 1984). A good deal of research has included CEO duality as a moderator of this relationship, adopting the agency theory argument that more powerful CEOs should be better able to avoid turnover following poor performance than less powerful CEOs.

Harrison, Torres, and Kukalis (1988) conducted one of the first studies to link CEO duality to turnover. Initially, they hypothesized that combined CEO–chairs would be better able to avoid turnover because of the greater power accruing from multiple titles. However, their results actually showed the opposite. Analyzing a sample of 671 large U.S. manufacturing firms, the authors found that poor performance precipitated turnover of combined CEO–chairs, but not of CEOs or chairs holding only one position. The authors interpreted this finding as indicating that while CEO duality does increase power and responsibility, it also comes with a corresponding increase in accountability.

Cannella and Lubatkin (1993) applied a sociopolitical perspective to the issue, focusing on the selection of outside CEO successors. They argued that CEOs with greater influence over their boards will prevent the selection of outside successors because outsider selection signals significant failings on the part of the incumbent CEO. Because of the greater power that CEO–chairs have, Cannella and Lubatkin argued that the effect of poor organizational performance on the selection of an outside CEO successor would hold only if the outgoing CEO was not also the board chair. Their analysis of 472 succession events revealed that while CEO–chairs were less likely to have outside successors *in general*, there was no interaction with performance as hypothesized. The authors interpreted this evidence as corroboration of Harrison et al.'s (1988) explanation that more powerful CEOs are also more accountable for firm performance.

In his work on the circulation of power and CEO succession, Ocasio (1994) replicated Harrison et al.'s (1988) test of the monitoring capacity of the independent board chair. He hypothesized that the likelihood of CEO succession would increase following poor performance more for non-dual CEOs than for combined CEO–chairs. His study produced results similar to Cannella and Lubatkin's (1993) in that CEO succession was more likely when the CEO was not chair, *across performance conditions* (i.e., there was no interaction with performance). He concluded, however, that separating the CEO and chairman roles does not lead to more effective monitoring, at least when performance is poor.

Aligned with Cannella and Lubatkin's (1993) assumption that powerful CEOs will influence the successor selection process, Zajac and Westphal (1996) went beyond the outsider/insider distinction to consider the demographic similarity between incumbent CEOs and successors. They theorized that when incumbent CEOs have greater power relative to the board (CEO duality was one measure of power), successors will be demographically similar to

Table 2
Effects of CEO Duality on Agency Problems

Citation	Relevant Findings	Empirical Setting
	Effects on succession	
Harrison, Torres, and Kukalis (1988)	Increased the likelihood of poor performance precipitating CEO turnover	671 large U.S. manufacturing firms between 1978 and 1980
Cannella and Lubatkin (1993)	Reduced the likelihood of outsider CEO succession; however, it did not interact with firm performance as hypothesized	472 succession events at large, publicly traded U.S. firms between 1971 and 1985
Ocasio (1994)	Decreased the likelihood of CEO succession; however, it did not interact with firm performance as hypothesized	114 publicly traded U.S. industrial firms between 1960 and 1990
Zajac and Westphal (1996)	Reduced the change in CEO characteristics and CEO–board similarity following a succession event	413 *Forbes*/*Fortune* 500 companies between 1986 and 1991
Goyal and Park (2002)	Reduced the likelihood of CEO turnover and weakened the effect of poor firm performance on CEO turnover	1,278 publicly traded firms between 1992 and 1996
	Effects on entrenchment	
Mallette and Fowler (1992)	Increased the likelihood of poison pill adoption; effect positively moderated by board independence	673 publicly traded U.S. industrial manufacturing firms between 1985 and 1988
Mallette and Hogler (1995)	Increased the likelihood of a board adopting director liability protection, but only for boards with few independent directors	366 U.S. industrial manufacturing firms between 1986 and 1988
Sundaramurthy (1996)	No effect on the rate of adoption of antitakeover provisions	185 S&P 500 firms adopting antitakeover provisions between 1984 and 1988
Sundaramurthy, Mahoney, and Mahoney (1997)	Strengthened shareholders' negative reaction to the adoption of antitakeover provisions	261 S&P 500 firms adopting 486 antitakeover provisions between 1984 and 1988
Coles and Hesterly (2000)	Shareholders reacted positively to the announcement of poison pill adoptions at firms with independent chairmen, as opposed to nonindependent chairmen; effect negatively moderated by board independence	247 firms adopting poison pills between 1984 and 1986
Tuggle, Sirmon, Reutzel, and Bierman (2010)	Reduced boards' attention to monitoring, both on its own and in response to poor firm performance	178 publicly traded firms between 1994 and 2000
	Effects on risk avoidance	
Executive compensation		
Westphal and Zajac (1994)	Increased the rate of long-term incentive program (LTIP) adoption, but at a decreasing rate over time; also decreased the degree of LTIP use after adoption	570 *Forbes*/*Fortune* 500 firms between 1972 and 1990
Westphal and Zajac (1995)	Increased the demographic similarity between the CEO and newly appointed directors and decreased the demographic similarity between existing board members and newly appointed directors; this similarity mediated the positive (negative) effect of CEO duality on the level (performance contingency) of CEO compensation	413 *Forbes*/*Fortune* 500 companies between 1986 and 1991

(continued)

Table 2 (continued)

Citation	Relevant Findings	Empirical Setting
Conyon and Peck (1998)	Minimal effect on the level of top management compensation	94 U.K. FTSE 100 companies between 1991 and 1994
Pollock, Fischer, and Wade (2002)	Strengthened the positive effect of the spread between an option's strike price and the stock's market value on the likelihood of option repricing	136 stock option repricing events at publicly traded software firms in 1998
Firm strategy		
Ellstrand, Tihanyi, and Johnson (2002)	Reduced the degree of international political risk in firms' foreign direct investment portfolios	95 *Fortune* 500 manufacturing firms in 1991
Castañer and Kavadis (2013)	Increased the degree of diversification in firm strategy	59 publicly traded French corporations from 2000 to 2006
Li and Tang (2010)	Strengthened the effect of CEO hubris on firm risk taking	2,790 Chinese manufacturing firms in 2000
Wrongdoing		
Kesner and Johnson (1990)	Only when combined with CEO duality was outside director representation negatively associated with shareholder lawsuits	112 Delaware-incorporated firms between 1975 and 1986
Davidson, Jiraporn, Kim, and Nemec (2004)	Earnings management following CEO duality-creating succession events exceeded earnings management following non-duality-creating succession events	285 succession events at *Businessweek* 100 firms between 1982 and 1992
O'Connor, Priem, Coombs, and Gilley (2006)	Increased the likelihood of fraudulent financial reporting and interacted with board and CEO stock options to further impact fraudulent reporting	130 publicly traded firms between 2000 and 2004

incumbents. When the board is more powerful, successors will be demographically similar to the rest of the board. The authors found broad support for their theory within a sample of 413 *Forbes* 500 and *Fortune* 500 firms. Non-dual CEOs generally had successors who were less similar to them—and more similar to the rest of the board—in terms of functional background, age, degree type, and educational affiliation. Zajac and Westphal's research added further evidence that change with CEO succession is less likely, *independent of the firm's performance*, when the outgoing CEO is also board chair.

While the literature has produced almost no evidence suggesting that CEO duality reduces a board's ability to hold its CEO accountable, the topic still stirs interest, especially since Harrison et al. (1988) provided evidence indicating that dual CEO–chairs were held more accountable. Goyal and Park (2002) revisited the prediction from Harrison et al., and not only did they find that combined CEO–chairs were less likely to experience turnover and that poor performance precipitated CEO turnover, both consistent with Ocasio (1994), but they also found that CEO duality reduced the effect of poor performance on turnover by half. Given this recent evidence, we urge scholars to revisit the possible moderating effect that CEO duality has on the performance–succession relationship.

Entrenchment Activity

A fairly common assumption in CEO duality research is that CEOs will use the authority of the board chair role to entrench themselves against accountability (Finkelstein & D'Aveni, 1994). As we have described above, one way of studying this effect is to examine the relationship with CEO succession. Another approach, however, is to consider the more immediate board-level choices that can protect a CEO—and a board—from facing the consequences of poor firm-level outcomes. We examine the impact of CEO duality on these board choices below.

Mallette and Fowler (1992) conducted the first major empirical examination of the effect of CEO duality on entrenchment activities, focusing on the adoption of poison pills—antitakeover measures that dilute the value and voting power of a potential hostile acquirer's ownership stake. According to the authors, poison pills tend to reduce the potential gains of a takeover for target shareholders, and increase the extent of managerial control. As a result, they hypothesized that boards chaired by their CEO would be more likely to adopt these measures as protection against losing their jobs following a hostile takeover. In addition, they expected this relationship to be stronger when the proportion of independent directors on the board was low.

Examining a sample of 673 publicly traded U.S. industrial manufacturing firms, Mallette and Fowler (1992) found evidence to support their theory that boards with CEO duality were more likely to adopt poison pills. They also found a significant interaction with the percentage of independent directors, but in the opposite direction from what they hypothesized—the effect of CEO duality was strongest when the percentage of independent directors was *high*. The authors suggest that this may be due to the fact that independent directors are less informed than inside directors.

In a similar study, Mallette and Hogler (1995) found that firms with independent leadership structures were less likely to adopt liability protection for their directors, another presumed entrenchment mechanism. Once again, the interaction between CEO duality and board independence contradicted the authors' hypothesis. Independent director representation had no effect when the CEO also served as chair, but significantly increased the likelihood of adopting liability protection if the CEO was not also the chair. The authors concluded that for some governance issues, independent directors may have interests that are more aligned with managers than with shareholders. The cumulative evidence from these two studies suggests that an independent chair can limit some presumed entrenchment activities, although pairing a separate chair with a large proportion of independent directors might be counterproductive.

Continuing in this stream of research, Sundaramurthy (1996) examined the adoption of several antitakeover measures, including supermajority voting requirements, elimination of cumulative voting rights, fair price provisions, classified board provisions, and unequal voting rights. Adopting an agency theory approach, Sundaramurthy argued that boards would be less likely to adopt these measures under non-dual CEOs. To test this hypothesis, she conducted an event-history analysis of 185 S&P 500 firms adopting antitakeover provisions. In direct contrast to the findings of Mallette and colleagues (Mallette & Fowler, 1992; Mallette & Hogler, 1995), her results showed no evidence that CEO duality increased the rate of antitakeover measure adoption. The author attributed this discrepancy to other aspects of CEO duality, such as the identity of the separate chair, concluding that finer approaches to capturing the phenomenon of duality, like including characteristics of the separate chair (former CEO or not), are needed.

In a similar study, Sundaramurthy, Mahoney, and Mahoney (1997) studied investor reactions to the announcements of antitakeover provision adoption. They theorized that since

CEO duality creates a greater risk of CEO entrenchment—according to agency theory—investors would react more negatively to such announcements when the CEO also served as board chair. Using a sample of 486 antitakeover provisions at S&P 500 firms, the authors found support for their hypothesis. While boards with CEO duality were no more likely to adopt antitakeover provisions (Sundaramurthy, 1996), such provisions met with worse investor reactions when adopted by a CEO-led board.

Subsequent to this research, Coles and Hesterly (2000) responded to Sundaramurthy's (1996: 390) call for "a richer operationalization of dual leadership" and distinguished between separate board chairs who were truly independent and those who were not (i.e., former CEOs or other affiliated persons). Thus, they became the first to systematically test for differences in consequences between these two categories. Following Sundaramurthy et al. (1997), they hypothesized that investors would respond more positively to the announcement of poison pill adoptions at firms with an independent board leadership structure. Using a sample of 247 poison pill adoptions, the authors found that the investor reaction was, indeed, more positive for independent-structure firms. In contrast, there was no difference in market reaction between firms with duality and firms without. The authors did find, though, that for firms without independent board chairs, the independence of the rest of the board took on much greater significance for investors.

A problem with much of the CEO duality literature is that it treats the boardroom as a black box, relying on assumptions about board processes. Tuggle, Sirmon, Reutzel, and Bierman (2010) recently chipped away at this problem by specifically considering how CEO duality affects CEO entrenchment through board processes. Rather than assume that boards with CEO duality devote less attention to monitoring, as prior work had done, Tuggle et al. tested whether this was the case. Building on theories of power (Finkelstein, 1992), prospect theory (Kahneman & Tversky, 1979), and the attention-based view (Ocasio, 1997), the authors hypothesized that boards led by a combined CEO–chair would devote less attention to monitoring and that poor performance and CEO duality would moderate this effect. To assess boards' attention to monitoring, Tuggle et al. analyzed board meeting transcripts from a sample of 178 publicly traded firms. They found support for their theory, noting that their work provided the first empirical evidence that boards vary in their monitoring *activity*, and that duality affects this variance.

Tuggle et al.'s (2010) work is an excellent recent example of how evidence about CEO duality's more immediate effects can provide insights about its ultimate impact on the firm. Unfortunately, while Sundaramurthy and others heavily explored the relationship between CEO duality and antitakeover provisions, such research did not extend into the twenty-first century. Given the changes boards have undergone in the past decade, we encourage scholars to renew this line of inquiry.

Risk Avoidance

A major tenet of agency theory is that shareholders can diversify their risks, whereas managers disproportionately suffer the consequences of firm risk taking. Therefore, there is a conflict of interest between the shareholders and executives in terms of the optimal level of firm risk (Eisenhardt, 1989; Jensen & Meckling, 1976). Assuming that the title of board chair confers additional power (Finkelstein, 1992), many have theorized that duality enables CEOs to reduce their exposure to risk. Empirical examination of this theory has primarily focused on three avenues through which CEOs might attempt to avoid risk: executive compensation, firm strategy, and wrongdoing. We discuss each of these below.

Executive compensation. While executive compensation is officially set by the board, agency theorists have argued that powerful CEOs (i.e., CEO–chairs) would be able to influence their compensation such that it better reflects their risk-preferences. For this reason, many have predicted that executive compensation will reflect CEO risk aversion when the CEO is also the chair. Specifically, risk-averse executives might avoid risk by ensuring that the fixed portion of their compensation is high and the performance-contingent portion is low (Westphal & Zajac, 1995). Agency theorists have long argued, however, that shareholders benefit from the opposite: executive pay that is as low and as closely linked to firm performance as possible (Jensen & Murphy, 1990). Westphal and Zajac (1994) explored this conflict of interest in their study of firms adopting long-term incentive programs (LTIPs) for executives. Given the positive stock market reactions to the announcement of LTIP adoptions (Brickley, Bhagat, & Lease, 1985), the authors hypothesized that greater CEO influence on the board—CEO duality being one measure—would actually increase the adoption of LTIPs. They expected this effect to wane over time, however, because the symbolic value of LTIP adoption would decrease as more firms announced such plans. They found considerable empirical support for the symbolic management of stakeholders' perceptions in a sample of 570 *Forbes* 500 and *Fortune* 500 firms. Interestingly, whereas CEO duality increased the rate of LTIP adoption, it decreased the extent to which LTIP plans were actually used, suggesting that powerful CEOs present an image of pay-for-performance, while avoiding much exposure to risk.

In a mediated model of new director selection and executive compensation, Westphal and Zajac (1995) directly tested the assertion that CEOs use the dual position to influence boards of directors, and thereby raise the level of their compensation while reducing the portion of it that is performance-contingent. Similar to their work on CEO succession (Zajac & Westphal, 1996), Westphal and Zajac's study focused on the determinants of new director selection. Specifically, the authors hypothesized that new directors would be more demographically similar to the firm's CEO when the CEO was powerful relative to the board, and more similar to the rest of the board when the balance of power was reversed. They then theorized that this demographic similarity would mediate the effect of CEO/board power on executive compensation. Evidence from a sample of *Forbes* and *Fortune* 500 companies supported their theory. CEO duality exhibited a positive direct relationship with total CEO compensation and a negative direct relationship with the percentage of total CEO compensation that was contingent on firm performance. This direct effect was fully mediated by the change in CEO–board similarity from one year to the next. Importantly, this evidence indicates that in addition to directly affecting their own compensation, CEO–chairs can also affect the compensation-setting process indirectly through director selection.

While agency theory suggests that CEO duality will lead to increased total compensation, not all empirical tests of this theory have shown this to be the case. For example, Conyon and Peck (1998) found virtually no evidence of such an agency cost. They tested whether CEO duality increased CEO compensation in a sample of U.K. firms listed on the FTSE 100. Though they did report a small, marginally significant positive ordinary least squares coefficient, the authors concluded that CEO duality was not an important driver of compensation. In addition, it is important to note that examining the *level* of CEO compensation can be somewhat misleading. Brickley et al. (1997) argued that the compensation cost of a separate chair would be higher simply because of the need to pay two individuals instead of one. Along a similar line of reasoning, the *CEO*'s level of pay is quite likely to be higher if that individual also holds the chair position because that individual is performing two jobs. It does not necessarily indicate any sort of agency problem.

Finally, Pollock, Fischer, and Wade (2002) applied the same theoretical perspective as the previous scholars discussed above, but they examined a different aspect of CEOs' aversion to pay-for-performance: the repricing of previously granted stock options. Assuming that repricing represents an important agency problem, the authors theorized that CEO duality, reflecting high CEO power, would enhance a CEO's ability to secure options repricing. They hypothesized first that the negative spread between a stock's price and the option's strike price would increase the likelihood of repricing and, second, that CEO duality would strengthen this effect. Using a sample of 136 stock option repricing events at publicly traded software firms, the authors found support for their theory, bolstering the assertion that duality increases CEOs' ability to avoid some risks associated with compensation.

Firm strategy. Besides compensation, the differences in the risks confronted by CEOs and shareholders can manifest in other areas, such as the riskiness of firm strategy. Agency theory suggests that CEO–chairs will pursue less risky strategies than non-dual CEOs, as the more powerful CEOs will be better able to shape firm strategy in accordance with their own risk aversion. In a test of this theory, Ellstrand, Tihanyi, and Johnson (2002) specifically proposed that CEO duality would decrease the level of international political risk in a firm's foreign direct investment (FDI) portfolio, arguing that a dual CEO–chair will favor international initiatives that have more certain outcomes. Using FDI data from a sample of 95 *Fortune* 500 manufacturing firms, they found evidence supporting the agency theory-based hypothesis.

Another risk-mitigation strategy is diversification, in which executives diversify their firm's businesses in order to minimize their exposure to fluctuations in specific industries and product markets (Amihud & Lev, 1981). Arguing that, given the opportunity, CEOs will pursue high levels of diversification, Castañer and Kavadis (2013) recently examined whether CEO duality provides such an opportunity. They hypothesized that when free cash flows are high, the CEO has access to slack resources and can use them to engage in value-destructive diversification. Separation of the CEO and board chair roles, one of the authors' measures of "good governance," should prevent this outcome. Using a sample of 59 publicly traded French corporations, they did not find a significant interaction between CEO duality and free cash flows, but they did find a significant main effect of CEO duality on diversification, corroborating Ellstrand et al.'s (2002) findings and providing further evidence that the power of the dual position enables CEOs to reduce their exposure to risk.

In a recent study, Li and Tang (2010) took an altogether different approach to the relationship between CEO duality and firm risk taking. Instead of looking for a negative main effect, they theorized that CEO duality would interact with CEO hubris to *increase* firm risk taking. Whereas agency theory suggests that CEOs are risk-averse, the authors argued that CEOs with high hubris, by virtue of their "exaggerated self-confidence or pride," underestimate the likelihood that risky strategies will fail, and thus pursue greater than optimal risk (Li & Tang, 2010: 45). They hypothesized that CEO duality would exacerbate the effect of hubris on firm risk taking. Measuring risk taking as the decision to invest in new high-technology projects by firms in a unique sample of 2,790 Chinese manufacturing companies, the authors found significant support for their theory. Li and Tang's work moves the CEO duality literature forward in two ways: first, by examining its effects outside the agency paradigm and, second, by examining its effects in a non-Western geographic context. In addition, the addition of hubris has the potential to explain an important part of the ambiguity in prior research.

Wrongdoing. Finally, a few studies have actually examined the effect of CEO duality on instances of corporate wrongdoing or illegality. For example, Kesner and Johnson (1990) studied instances of shareholder lawsuits. While they hypothesized relationships only between board composition (i.e., the number of outsiders on the board) and the incidence and outcomes of stockholder suits, in their analyses they broke their sample of 112 firms into two groups based on each sample firm's board leadership structure. As hypothesized, they found that boards being sued had smaller proportions of outside directors; however, this result held only if the CEO was also the chairman. Kesner and Johnson's results suggested a trade-off between the independence of board members and the independence of the board chair that would influence much future research on the topic.

While not necessarily wrongdoing, earnings management is certainly a questionable practice, one that involves "flexible accounting principles that allow managers to influence reported earnings, thereby causing reported income to be larger or smaller than it would otherwise be" (Davidson, Jiraporn, Kim, & Nemec, 2004: 267). Davidson et al. theorized that CEO duality would be associated with greater earnings management. Measuring earnings management as the extent to which the firm utilizes "discretionary current accruals" to increase reported income, the authors found that earnings management was greater after duality-creating successions than after non-duality-creating successions. They concluded that while a lot of prior research indicates CEO duality does not harm overall performance, under certain contexts it may lead to larger agency problems.

O'Connor, Priem, Coombs, and Gilley (2006) built on Davidson et al.'s findings in several ways. For one, rather than examine the use of questionable accounting practices, O'Connor et al. focused on the commission of financial fraud. In addition, they hypothesized a moderating effect of CEO duality on fraud, rather than a main effect. Specifically, the authors hypothesized that the effects of CEO stock options on fraudulent financial reporting—whether positive or negative—would be stronger for firms with CEO duality than for firms without. In fact, using a sample of 130 publicly traded firms, they found exactly the opposite relationship. CEO stock options reduced the likelihood of financial fraud, consistent with the incentive predictions of agency theory (Jensen & Meckling, 1976), but the relationship was weaker under CEO duality. In addition, the authors found a very complex interaction among CEO stock options, board stock options, and CEO duality on the commission of financial fraud, such that the likelihood of fraud was highest when CEO and board stock options were high, and the CEO did *not* also serve as board chair. The authors offered the following explanation for their complicated results:

> It may be that in such cases board stock options coopt the board (including the chairperson) by providing incentives for members to abrogate their internal monitoring role and "turn a blind eye" to actions designed to keep short-term stock price high. . . . Another potential explanation . . . is that

> the directors may assume that the outside chair—who is often a former CEO—is doing effective monitoring, and so they therefore decrease their collective vigilance . . . allow[ing] the CEO greater freedom to pursue actions that promote personal gain as the value of CEO stock options increases. (O'Connor et al., 2006: 494)

This complex configuration of governance attributes leading to financial fraud suggests that the creation and mitigation of agency problems is a more complex issue than the dichotomous nature of the CEO duality construct would suggest. Nevertheless, CEO duality does seem to play an important role. O'Connor et al.'s (2006) findings, while complicated, underscore our argument that the effects of CEO duality are more complex and nuanced than the simple agency–stewardship dichotomy implies.

The Antecedents of CEO Duality

In contrast to the literature on the consequences of CEO duality, the literature on antecedents is relatively short and, in our opinion, underdeveloped. What research exists on the determinants of CEO duality has focused almost exclusively on firm-level and individual-level factors, with the one exception being Harrison et al. (1988), who reported that industry concentration increased the likelihood of CEO–board chair combination. Below, we discuss the individual- and firm-level variables that have been investigated as antecedents of boards' choice of leadership structure. The relevant studies are listed in Table 3.

Firm-Level Antecedents

Firm performance. Given that the lion's share of research on board leadership has looked for a relationship between CEO duality and performance, a concern has arisen that a board's choice of leadership structure might be endogenously determined. Iyengar and Zampelli (2009) recently conducted an analysis to determine whether studies treating CEO duality as an exogenous determinant of firm performance suffered from selection bias. They found no evidence to suggest such endogeneity. There have, however, been a few studies specifically examining the impact of firm performance on boards' choice of leadership structure.

One of the earliest studies of CEO duality was also the first to examine the role that performance played in determining duality. Harrison et al. (1988) hypothesized that strong firm performance would precede consolidation of the top roles, while poor firm performance would precede separation. They found evidence to support the former when performance was measured as profit margin and evidence to support the latter when performance was measured as return on assets. While these results were supportive, the authors noted that their sample period was characterized by widespread consolidation of CEO power, so the findings may not be generalizable to the current governance environment.

Consistent with their earlier work, Daily and Dalton (1995) examined the effect of performance on changes in CEO duality using a very specific type of performance measure: firm bankruptcy. They hypothesized that firms experiencing financial distress would be more likely to switch to non-duality than would financially healthy firms because of the increased need for independent oversight. They tested this hypothesis on two separate samples of firms. Analysis of the first sample, consisting of 114 publicly traded U.S. manufacturing, retail, and transportation firms, produced no support. Analysis of the second sample, a different set of

Table 3
Predictors of CEO Duality

Citation	Relevant Findings	Empirical Setting
Harrison, Torres, and Kukalis (1988)	Weak firm performance increased CEO–board chair separation and decreased CEO–board chair combination; in addition, board independence and industry concentration both increased CEO–board chair combination	671 large U.S. manufacturing firms between 1978 and 1980
Daily and Dalton (1992)	CEO founder status had no effect on duality	*Inc.* 100 fastest-growing small publicly held U.S. firms in 1990
Daily and Dalton (1993)	CEO founder status had a positive effect on duality	186 small publicly traded U.S. firms (fewer than 500 employees and less than $20 million in revenue) in 1990
Finkelstein and D'Aveni (1994)	Board vigilance had a positive effect on duality, weakened by strong past firm performance and high informal CEO power	108 publicly traded firms in the printing/publishing, chemical, and computer industries between 1984 and 1986
Beatty and Zajac (1994)	Equity and noncash incentive portions of top managers' compensation had a positive effect on duality	435 firms undergoing an IPO in 1984
Zajac and Westphal (1994)	CEO incentives had a positive effect on duality; firm diversification exhibited a curvilinear effect, such that CEO duality was most common at intermediate levels of diversification	405 *Fortune* 500 and *Forbes* 500 firms between 1987 and 1991
Daily and Dalton (1995)	In Sample 1, impending bankruptcy had no effect on CEO–board chair separation; in Sample 2, impending bankruptcy increased the likelihood of separation, but only in the year of bankruptcy	Sample 1: 114 publicly traded U.S. manufacturing, retail, and transportation firms between 1972 and 1982 Sample 2: 100 publicly traded U.S. manufacturing, retail, and transportation firms in 1990
Sanders and Carpenter (1998)	The degree of a firm's internationalization had a negative effect on duality	258 S&P 500 firms in 1992
Nelson (2003)	CEO founder status had a negative effect on duality	157 goods- and services-producing firms that completed an IPO in 1991
Linck, Netter, and Yang (2008)	Firm size, CEO age, and CEO tenure all had positive effects on duality; however, the presence of high information asymmetry had no effect	6,931 publicly traded U.S. firms between 1990 and 2004
Iyengar and Zampelli (2009)	Boards exhibited no evidence of self-selection regarding CEO duality; in other words, performance did not have an effect	1,880 firm-years collected from nonfinancial, nonutility firms with data in the Execucomp, Compustat, and IRRC databases between 1995 and 2003
Krause and Semadeni (2013)	Apprentice CEO–board chair separations had a positive effect on future recombination; departure separations had a positive effect if performance was strong; demotion separations had no effect	843 S&P 1500 and *Fortune* 1000 firms between 2002 and 2006
Krause and Semadeni (in press)	Older CEOs underwent apprentice separations, younger CEOs demotion separations, and CEOs in the middle departure separations	411 CEO–board chair separation events at S&P 1500 and *Fortune* 1000 firms between 2003 and 2006

100 publicly traded firms, did provide some support for the hypothesis. However, the effect materialized only in the year of bankruptcy declaration, and as the authors note, prescriptive guidelines would suggest that firms implement an independent leadership structure in order to extricate themselves from a downward spiral. In practice, the firms generally maintained duality until the year they declared bankruptcy. Daily and Dalton interpreted this finding as evidence of "threat-rigidity" in the face of financial difficulty.

Since these early works, little research has explored the effect of performance on CEO duality. Recently, Linck, Netter, and Yang (2008) concluded that performance exerted no significant impact on CEO duality, consistent with Iyengar and Zampelli (2009). It may be that the future of this stream of research lies in a more nuanced definition of the duality construct. As mentioned above, Krause and Semadeni (2013) recently classified the change from duality to non-duality into three possible types: apprentice, departure, and demotion. In addition to examining the performance consequences of these types, they also considered which types were the most likely to be reversed (i.e., result in a change back to duality). Perhaps not surprisingly, the authors found that apprentice separations, in which the CEO remains board chair but gives up the CEO role, were by far the most likely to lead back to duality. They also found, however, that among firms undergoing a departure separation, in which the CEO–chair is replaced by two new individuals, firm performance following the separation was positively associated with recombination. The authors reasoned that departure separations function as tests of new CEOs who did not have apprenticeships (Krause & Semadeni, 2013). This result suggests that ascertaining the exact effect firm performance has on CEO duality may require researchers to make finer distinctions of the duality construct.

Governance characteristics. Research in corporate governance has repeatedly shown that governance mechanisms are often substitutive. Much of the research on the antecedents of CEO duality has focused on the inverse relationship between non-duality and adoption of other forms of board monitoring. Harrison et al. (1988) provided an early indication of this substitutive effect with their finding that outsider board representation—commonly considered a solution to the agency problem (Dalton et al., 2007)—increased the likelihood of CEO duality. Thus, with a high level of board independence, independence of the chairman position may not further benefit governance.

Finkelstein and D'Aveni (1994) examined CEO duality as a consequence of what they termed "board vigilance." Arguing that unity of command is preferable under certain conditions and entrenchment avoidance is preferable under others, the authors offered contingent hypotheses predicting when vigilant boards would adopt CEO duality. Finkelstein and D'Aveni's work was groundbreaking because it was the first to suggest that both duality and separation are associated with dysfunctional outcomes in particular contexts. They argued that informal CEO power and past firm performance both separately and jointly increased the risk of a CEO becoming entrenched. When these factors were high, vigilant boards—boards composed mostly of independent directors with large equity holdings—would choose a separate leadership structure. When these factors were low, CEOs required greater support rather than monitoring, and thus vigilant boards would opt for the combined structure.

The authors sampled three industries to test their theory: publishing and printing, chemicals, and computers. They found that board vigilance was positively associated with CEO duality, but that this relationship was contingent on informal CEO power and past firm performance. The results led them to offer a word of caution to scholars and practitioners when examining CEO duality:

> CEO duality has complex roots that may reflect a fairly sophisticated balancing of objectives by vigilant boards. This view is in contrast to a more commonly held belief, often reflected in the business press, that CEO duality formally institutionalizes the dominance of CEOs over boards. Rather, vigilant boards may have very good reasons to institute duality, as they attempt to balance responsibility for instituting strong leadership with concerns for entrenchment avoidance. (Finkelstein & D'Aveni, 1994: 1102)

This idea of balance between governance mechanisms received further development from Zajac and colleagues (Beatty & Zajac, 1994; Zajac & Westphal, 1994). In two separate studies, it was shown that the use of CEO performance incentives—through equity and/or cash compensation contingent on performance—was inversely related to the separate board leadership structure, indicating a trade-off between two different means of addressing agency conflicts. This result was observed in a sample of 435 firms undergoing an IPO in 1984 (Beatty & Zajac, 1994) as well as in a sample of 405 *Fortune* 500 and *Forbes* 500 firms between 1987 and 1991 (Zajac & Westphal, 1994), suggesting generalizability. What little research exists on the governance antecedents of CEO duality, then, provides fairly strong evidence that boards use the separate board leadership structure as a substitute for other governance mechanisms.

Strategic complexity. Zajac and Westphal (1994) examined another firm-level determinant of CEO duality by arguing that the higher a firm's strategic complexity, the more difficult the task of monitoring. As a result, they expected that CEO duality (i.e., lower board monitoring) would be highest at intermediate levels of firm diversification, which they considered to be the most complex. Their evidence supported this assertion, leading to the conclusion that when monitoring is more costly, such as under conditions of strategic complexity, boards tend to monitor less.

In a study yielding findings that seem to contradict Zajac and Westphal's (1994), Sanders and Carpenter (1998) examined the same relationship, arguing that complex strategies are more difficult to manage, and therefore require a greater division of labor. They operationalized complexity in terms of a firm's degree of internationalization, rather than in terms of product market diversification (Zajac & Westphal, 1994).The authors hypothesized a negative effect of firm internationalization on CEO duality, arguing that "in complex environments . . . firms may need more delegation of authority and division of responsibility, not less" (Sanders & Carpenter, 1998: 164). Using a sample of 258 S&P 500 firms, the authors found that internationalization was negatively associated with CEO duality, interpreting this finding as evidence that separation of CEO and chair can be a conduit for information processing, rather than simply a monitoring mechanism. Unfortunately, this promising approach has received almost no attention since Sanders and Carpenter published their study.

Individual-Level Antecedents

Interestingly, the most commonly studied individual-level antecedent of CEO duality is the founder status of the CEO. The argument is fairly straightforward for why one might expect the dual structure to be more common among founder CEOs than among nonfounder

CEOs. Founders have greater power by virtue of their role in the organization's history and their influence on the board, and thus they would be better able to consolidate that power. Three studies have tested this simple hypothesis and produced contrasting results. Daily and Dalton (1992, 1993) conducted two of the studies. For their first sample, they used the *Inc.* 100 fastest-growing small publicly held firms from 1990. At these entrepreneurial firms, there was no difference in the occurrence of CEO duality between founder-managed and professionally managed firms. For their second sample, they used a sample of small, over-the-counter- and American Stock Exchange–traded firms. In this sample, founders were more likely to hold both the CEO and board chair roles. Finally, using a sample of 157 firms completing IPOs, Nelson (2003) found that firms led by founder CEOs were actually *less* likely to have CEO duality than were firms led by nonfounder CEOs. The author speculated that founder CEOs sometimes have to trade power for outside resources, and as a result relinquish the chair role. Founder-led firms are naturally younger than many of the more mature organizations that have been studied in the effort to understand CEO duality, and it is also possible that the phenomenon may be markedly different for founder-led firms given their age and the naturally high influence of founders in such organizations.

Aside from founder status, the only study of which we are aware to hypothesize individual characteristics as determinants of CEO duality is Linck et al. (2008), who hypothesized that changes in duality would occur primarily as part of a CEO succession event. Their analysis of 6,931 publicly traded U.S. firms revealed that CEO tenure and CEO age were positively related to the incidence of CEO duality, suggesting that firms tended to consolidate the top leadership positions as their CEOs aged. This supports intuition regarding the process of "passing the baton" through CEO succession and board structure change first identified by Vancil (1987).

Finally, in a follow-up study to their earlier work on CEO–board chair separation, Krause and Semadeni (in press) examined the factors that predicted each of the three types of separation. They found that the primary determinant was the age of the CEO prior to separation. On average, CEOs undergoing apprentice separations were the oldest, CEOs undergoing demotion separations were the youngest, and CEOs leaving their firms as part of a departure separation were in the middle. Krause and Semadeni reported that age interacted with board independence and firm performance prior to the separation, such that boards used demotion separations as a second chance opportunity for young CEOs that were not performing optimally. These results, consistent with Linck et al.'s (2008) findings, suggest that individual factors not obviously related to agency or stewardship considerations may play a large part in determining whether or not firms adopt CEO duality.

Research on the determinants of CEO duality has so far produced a set of interesting findings, but remains too sparse to generate firm conclusions. While there remain opportunities to refine the field's understanding of CEO duality's effects, we see the greatest scholarly need being exploration of CEO duality's antecedents. In the following section, we outline several potential directions such exploration could take.

New Directions in CEO Duality Research

New Theoretical Direction: Institutional Theory

As we have demonstrated, the vast majority of CEO duality research has employed a variant of agency theory and/or a variant of stewardship theory to generate hypotheses. This holds whether the dependent variable of interest is firm performance (e.g., Boyd, 1995), agency costs (e.g., Ellstrand et al., 2002), or CEO duality itself (e.g., Finkelstein & D'Aveni, 1994). While these two dominant paradigms have allowed scholars to develop substantial knowledge about board leadership, we believe that their applicability has begun to wane. Both theories reflect somewhat extreme and simplistic views of human nature. Even many agency theorists and stewardship theorists agree that managers—like all humans—are rarely perfectly self-serving or perfectly self-sacrificing (Albanese, Dacin, & Harris, 1997; Donaldson, 1990).

Given the limitations of the agency and stewardship perspectives, we argue that researchers can contribute substantially to the literature by drawing on alternative theoretical paradigms. While there are a number that could apply to the CEO duality phenomenon, we focus on the one that we believe holds the most promise, despite having garnered little empirical attention thus far: institutional theory. It is perhaps surprising that, given the demonstrated role of institutional factors in determining other elements of organizational structure (DiMaggio & Powell, 1983) and governance practices (Davis, 1991), there has been almost no research examining CEO duality through an institutional lens. There are a number of research opportunities in the CEO duality context that could potentially draw on institutional theory, and we will articulate a few. The first concerns legitimacy. With firms increasingly switching from duality to non-duality over time, corporate governance scholars could investigate the institutional pressures driving this trend, specifically the need for legitimacy. Suchman (1995: 574) defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate." While the logic for separating the CEO and board chair positions is rooted in agency theory, this focus on board independence has developed into an expected norm among investors and governance watchdogs (Monks & Minow, 2008). It would be interesting to know—and indeed we hope scholars will eventually reveal—whether boards are opting for CEO duality out of a genuine concern for board independence, or out of a desire for greater legitimacy in the financial community. Interestingly, as we describe below, even generating a prediction as to the direction of effects (toward dual or non-dual) will depend on context.

A recent development in corporate governance sits at the intersection of legitimacy and signaling theory. Since the passage of the Sarbanes–Oxley Act, nearly all boards with CEO duality have appointed from among their independent members a lead or presiding director. While the nature of this position varies by firm, the lead independent director is generally thought to take on many of the responsibilities of an independent board chair. In just the past decade, institutional pressure to adopt either an independent chair or a lead director has reached the tipping point. Goldman Sachs recently appointed a lead director in order to quell anger over its use of CEO duality (Rappaport, 2012). With the practice growing from nonexistence to near-saturation in just over 10 years (Spencer Stuart, 2011), researchers have a unique opportunity to examine whether firms are using it to signal independence without a significant structural change (Westphal & Graebner, 2010; Westphal & Zajac, 1994), as well as the potentially numerous environmental and firm-level factors that may have affected the practice's rate of adoption. Goldman Sachs's example suggests that appointing a lead independent director can maintain a firm's legitimacy in the short term, but it remains to be seen whether that effect will hold once the practice has been commonplace for a few years. Evidence on the diffusion of innovation practices suggests that such late-adopters, through inconsistent implementation, will not generate the same benefits as early adopters, and can even delegitimize the practice through poor implementation (Fligstein, 1985; Westphal, Gulati, & Shortell, 1997).

Legitimacy swings both ways, however. Though CEO duality may threaten a firm's legitimacy in some environments, it can bolster or just maintain a firm's legitimacy in other environments. For instance, agency theory has produced a norm of independence among the boards of large, Western firms that informs their legitimacy. In other cultures, however, a CEO who does not also serve as board chair might be perceived as weak and ineffective, thus threatening the legitimacy of the entire firm. Consider L-3 Communications' defense of CEO duality at their firm:

> In L-3's industry, the Board of Directors believes that access to decision-makers in foreign countries is made easier when the roles of Chairman and CEO are combined as their customs often dictate having comparable titles when conducting negotiations. Moreover, since most of L-3's industry peers have combined the roles of chairman and CEO, L-3 believes that separating such roles would put us at a significant competitive disadvantage. (L-3 Communications Holdings Inc., 2013: 31)

For many multinational firms, CEO duality might be the pivotal signal that secures their legitimacy in foreign markets. As this passage from L-3 Communications' proxy statement reveals, conformity to local customs extends beyond legitimacy and becomes a strategic issue for such firms. We encourage governance scholars to explore this possibility, which has received almost no attention thus far.

Besides legitimacy, other institutional factors likely play a role in the CEO duality phenomenon. Arguably, a firm's choice of duality or non-duality owes much to that firm's history and the influence and preferences of its leaders. Earlier, we mentioned the few studies that have examined founder status as a predictor of whether the CEO will also hold the board chair title (Daily & Dalton, 1992, 1993). Because of their disproportionate influence, we expect that founder preferences will be seen in boards' choice of leadership structure even after the founder's departure from the firm (Nelson, 2003). Similarly, dominant families or investors will likely exert some influence on the boards' choice of CEO duality or non-duality, especially if those groups are present on the board (Anderson & Reeb, 2004). These factors have so far eluded any systematic study in the CEO duality context, and we hope that will change in the future.

New Methodological Direction: In-Depth Qualitative Investigations

A commonly cited limitation in the corporate governance field is the reliance on coarse, publicly available proxy measures, such as CEO duality, to approximate theoretical constructs (Dalton & Aguinis, 2013). While the dichotomous CEO duality measure has enabled the testing of competing hypotheses based on agency theory and stewardship theory, it introduces the potential for error if, in fact, any aspect of the board leadership phenomenon falls outside a two-category framework (Gove & Junkunc, 2013). While some work has acknowledged the multifaceted nature of the CEO–board chair split (Coles & Hesterly, 2000; Krause & Semadeni, 2013; Quigley & Hambrick, 2012), most studies incorporating CEO duality treat it as an either/or construct. Until new methods provide the opportunity, we do not see this changing.

The corporate governance literature in general and the CEO duality literature in particular boasts much theory tested, but little theory built (for an exception, see Pitcher & Smith, 2001). This has occurred for two reasons: because data for testing theory are readily available and data for building theory are not. There is a general perception that organizations are unwilling to provide access to their boards and their executives, especially the closed-door discussions. This may be true for many organizations, however many scholars have conducted successful case studies of organizations, complete with detailed interviews with senior managers. We believe that if the field is to benefit from a conceptualization of board leadership that is more reflective of reality, qualitative research must play a part.

We propose that the time has arrived for in-depth qualitative studies of corporate governance, and specifically of the role of the board chair. Beyond a few general inquiries based on a small set of interviews (Parker, 1990; Roberts, 2002), the governance literature lacks any substantive qualitative investigation of the chair's role and responsibilities. Much can be learned from reading press interviews and proxy statements, but until scholars can get inside the boardroom and witness the discussions taking place and the interaction between the chair and the CEO—if they are separate—we will always have an incomplete understanding of the phenomenon. Tuggle et al.'s (2010) work, which content-analyzed the minutes from board meetings, provides an excellent starting point (see also Schwartz-Ziv & Weisbach, 2013). Were scholars to immerse themselves in board activity, conducting multiple in-depth interviews with directors, executives, and board chairs, they might discover that the lack of evidence for a duality–performance relationship has more to do with a misspecification of the board leadership construct than with the validity of either agency theory or stewardship theory.

For example, we anticipate that many board chairs not serving simultaneously as CEO will view their role quite differently from how agency theorists have traditionally described it. Given the strong interpersonal connections that often exist between executives and directors (Westphal, 1999), we find it more likely that board chairs will see themselves as a support mechanism for the CEO, rather than as a vigilant monitoring mechanism. There is some support for this notion in Hambrick, Finkelstein, and Mooney's (2005) work on executive job demands. It could very well be that board chairs see their role as removing the additional burdens of board leadership from the CEO's shoulders, freeing the CEO to focus on setting the firm's strategic direction (Lorsch & Zelleke, 2005). Alternatively, the chair could see his or her role as interacting with external stakeholders, leaving the CEO to focus on internal matters. There is probably a wide range of approaches to the role of board chair, far surpassing the limited set acknowledged in the literature. We will not know, however, until scholars put boards of directors under the qualitative microscope.

New Empirical Context: Entrepreneurial Ventures

While some early empirical work investigated CEO duality in an entrepreneurial context (Daily & Dalton, 1992, 1993), the vast majority of research in this area has focused on large, established corporations. Even the few studies that have looked at duality among entrepreneurial firms have sampled publicly traded, albeit young, companies. To our knowledge, studies examining board processes and structures among small, privately held, entrepreneurial ventures are few and far between (for exceptions, see Bruton, Fried, & Hisrich, 1997;

Fried, Bruton, & Hisrich, 1998). Garg (2013) recently identified ventures as a fruitful empirical context for studying boards of directors, not just because so little research exists in this context, but also because the concept of independent monitoring, integral to most governance research, is losing most of its significance.

In contrast to large, publicly traded firms, privately held entrepreneurial ventures with several owners are less likely to suffer agency problems. Their board members are typically owners and venture capitalists continuously monitor and interact with the CEO, rather than wholly independent professionals and former executives meeting between four and eight times each year. The shareholders of a small entrepreneurial venture need not worry about whether the CEO's interests conflict with theirs, because often the CEO is the largest shareholder, and if not, the board is well equipped to handle conflicts of interest. We anticipate that scholars at the nexus of strategy and entrepreneurship could generate considerable knowledge by building and testing theory about board leadership in entrepreneurial or startup contexts.

As an example, the source of a venture's funding could have a direct impact on the venture's choice of leadership structure. Venture capitalists are known to use a heavy hand with their investments, and it is likely that venture capitalists would opt for the board leadership structure that afforded them the most control. At first blush, that might seem like a non-dual structure, since duality has traditionally been seen as empowering the CEO. This would probably be true if the appointed chair were chosen from among the venture capitalists. If, however, the board chair was not, then that individual might actually provide a buffer between the CEO and the rest of the board, thus protecting the CEO from too much interaction with large investors such as venture capitalists (Krause & Bruton, in press).

Conclusion

More than at any other time since Finkelstein and D'Aveni (1994) published their foundational study on CEO duality, board leadership is in flux. Large firms are increasingly opting for a separate and independent chairman of the board (Lublin, 2012). This shift has garnered praise from governance advisors and institutional investors (Monks & Minow, 2008), but has also introduced new problems, such as the very public disagreement between the CEO and the independent chairman at insurer AIG (Lublin & Ng, 2010). That conflict ultimately ended with the chairman resigning, raising questions about the integrity of CEO non-duality. At the same time, policy makers are weighing whether to mandate a separate chairman at all U.S. firms. We believe such action would be misguided, not because the issue of CEO duality is unimportant, but because it is too important and too *idiosyncratic* for all firms to adopt the same structure under the guise of "best practice." The most consistent finding in the CEO duality literature is that separating the CEO and board chair positions does not, on its own, improve firm performance. Given that the performance implications of CEO duality are contingent on an array of factors (Boyd, 1995; Krause & Semadeni, 2013), only some of which are known, boards should be left free to adopt the structure they deem to be strategically beneficial for their firms.

Now more than a decade into this fundamental shift in corporate governance practice, we as a scholarly community find ourselves in a board leadership environment that bears little resemblance to the world in which much of the extant literature was generated. We hope that this review of that literature will spawn a new wave of future research on the topic of CEO duality, so that we may develop a more holistic and nuanced understanding of the mechanisms operating at the apex of the modern corporation.

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