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The Antecedents of Simultaneous Appointments to CEO and Chair

In relay succession, boards add the Chair title to successful CEOs, creating duality. Sometimes boards by-pass relay succession and appoint an individual directly into the dual position. We propose that this will occur when there is the need for an unambiguous leader and when the appointee has greater bargaining power. We show that following the firing of the predecessor, when the successor is an outsider, and when the successor is not the designated heir, the incidence of simultaneous dual appointments increases. We also find that executives appointed into the dual positions are older than those appointed only as a CEO.

The Antecedents of Simultaneous Appointments to CEO and Chair

CEO/Chair duality occurs when one individual holds both leadership positions. This leadership structure has received considerable scrutiny from investor groups (e.g., Investor Responsibility Research Center) and pension plans such as the California Employee Retirement System and the New York City Pension Fund. These groups generally recommend that the CEO position be separated from the board chair position. Leading academic researchers have also recommended separation of the two jobs (Jensen, 1993; Lipton and Lorsch, 1992). The problem with duality, as argued by its critics, is that the board of directors is charged with monitoring manager performance. If the top manager is also the Chair of the board, critics argue that board monitoring of managers will be compromised. The interest in duality is presumably based on the idea that it would lead to worse financial performance through increased agency costs than when the CEO title and Chair title are not invested in one individual. That is, by reducing board independence and by possibly biasing senior managers' performance appraisals, the firm with a dual leadership structure would not be able to perform as well as one with an independent board Chair.

This agency theory perspective motivates much of the criticism that has been placed on the dual governance structure. The arguments center around the idea that duality can lead to a potential abuse of power (Hambrick, 1991; Jensen, 1993). Kesner and Dalton (1986) maintain that duality in a corporation would be the same as one person simultaneously occupying the U.S. Presidency and the Chief Justice of the Supreme Court. Calls for separation of the two positions have come from many sources (e.g. Dobrzynski, 1991; Levy, 1981; Lorsch and MacIver, 1989; Monks and Minow, 1991).

Pension funds, mutual funds and other institutional investors have voiced discontent with companies that have one person in the CEO and Chair position.

There is an alternative perspective on duality and it is based on stewardship theory. Here, there are no fundamental problems with managerial motivation; instead managers want to perform well and be good stewards of the corporation's assets on behalf of shareholders (Donaldson, 1990a, 1990b; Barney, 1990). Under stewardship theory duality may enable a manager to attain superior performance by giving that person complete authority (Donaldson and Davis, 1991). With a dual governance structure there would be no doubt about who is in control. "The organization will enjoy the classic benefits of unity of direction and of strong command and control" (Donaldson & Davis, p. 52).

Despite the public attention and recommendations, the dual leadership structure has remained one of the dominant management configurations in the United States and elsewhere. The dual leadership structure has been extensively studied, and with few exceptions researchers have not found its purported costs to outweigh its benefits (e.g. Berg and Smith, 1978; Chaganti et al., 1985; Cannella and Lubatkin, 1993; Daily, 1995; Brickley, Coles, and Jarrell, 1997; Daily and Dalton, 1992, 1993, 1997; Dalton, Daily, Ellstrand, and Johnson, 1998; Rechner and Dalton, 1989, 1991; Harris and Helfat, 1998; Faleye, 2007). Its benefits include the establishment of an unambiguous leader. That is, when one person is both CEO and Chair, there is no question in the market place or in the firm about who is in charge.

Duality often occurs in the relay succession process. In relay successions, boards add the Chair title to successful CEOs, creating duality. Brickley, Coles, and Jarrell (1997) find that this relay process is very common in U.S. firms. Sometimes boards by-

pass relay succession and appoint an individual directly into the dual position. This succession pattern has received considerably less attention from researchers. The purpose of this study is to investigate the motivations behind the decision to appoint an individual that is neither CEO nor Chair into the dual position. Therefore, we focus on those CEO successions when the standard relay process is not being followed. We propose that this will occur when there is the need for an unambiguous leader and when the appointee has greater bargaining power.

The board of directors has the responsibility to hire, fire, and promote senior managers (Mace, 1971). Ocasio (1999) argues that boards like to follow succession rules when making decisions. Some succession rules are not written, but are instead informal rules that guide behavior (Huse, 2000; Mace, 1971). By following these informal succession rules, boards can lessen internal strife and provide the impression that they are meeting their fiduciary responsibilities. The most common set of succession rules, relay succession or passing the baton, has been outlined by Vancil (1987), with updated analysis provided by Ocasio (1999), Cannella and Shen (2001, 2002a, 2002b), Harris and Helfat, (1998), and Daily and Dalton (1995, 1997). Following this set of succession rules, duality occurs as a natural step as the board promotes a senior executive. In relay succession, the board adds the Chair title to a successful CEO. In other words, time spent as CEO is like an apprenticeship prior to the board investing both titles in one person.

Sometimes, however, a board makes a dual appointment of an executive as CEO and as Chair at the same time. While the board may be following a different set of succession rules, we suggest that this is not relay succession as it has been previously defined (Vancil, 1987). We hypothesize that boards will promote an executive directly into the dual titles when there has been stress on the firms such as poor performance or

following the firing of the predecessor. Here, there may be a need for strong and clear leadership. Therefore, we test if dual appointments are more likely when there has been poor prior performance, when the predecessor has been fired, when the successor is not the designated heir, and when the successor is an outsider. We also argue that boards will be more likely to promote an executive simultaneously as CEO and Chair when the executive is more experienced. Each of these predictions would be consistent with duality being used optimally by the firm's board.

Our results are consistent with duality being used to provide strong and clear leadership. Our findings do not support a relation between poor performance (as measured by the industry-adjusted return on assets) and duality. We find that simultaneous appointments to CEO and Chair are more likely to occur when the predecessor has been fired, when the CEO is an outsider, when the CEO has not been the heir apparent, and when the CEO is somewhat older. Prior performance is not significantly related to the likelihood that a firm will make a dual appointment, and dual appointments do not have power to predict the short term performance of the firm.

DUALITY

Relay Succession and Duality

Relay succession is perhaps the most common set of succession practices (Fortune, 1988). In relay succession, duality is a normal part of the succession planning process for senior executives. Vancil (1987) describes relay succession as a process in which a company grooms an heir-apparent and promotes the heir into positions of increasing authority in the company hierarchy. In relay succession, the board of directors appoints the president or COO as the heir to the CEO. After a suitable probationary

period and when the need for a new CEO occurs, the board appoints the heir to be the new CEO. This probationary period is not fixed and may be highly variable across companies. For example, Cannella and Shen (2001) find that tenure in the heir position averages 4.5 years but has a standard deviation of nearly 3.7 years. After an additional probationary period, the board adds the chair title to the CEO. Thus, duality is simply one step in the progression of authority within a company. As the relay process is continuous, the CEO/chair relinquishes the president title and gives it to the new heir. When the new heir is ready, (s)he becomes the new CEO while the former CEO retains the chair position. Here the two positions are separate again until the Chair relinquishes this title.

There are other ways in which duality occurs as a progression. For example, some companies utilize the horse race, which is examined by Ocasio (1999) and Cannella and Shen (2001). Here, several executives actively compete for the CEO spot. The winner of the horse race receives promotion to CEO. Later, this CEO may become board chair as well. As in relay succession, when there is a horse race the chair position does not necessarily go to the successor CEO at the time of appointment to CEO. In both relay succession and the horse race, successor CEOs move up through the internal ranks to the CEO position and only later become both CEO and chair.

Companies often choose not to appoint an internal candidate when the situation calls for change. For example, when prior firm performance has been poor (Kesner & Sebora, 1994; Cannella & Lubatkin, 1993) or when the prior CEO has been fired (Borokhovich, Parrino & Trapani, 1996) companies will be more likely to hire an outsider as the successor CEO[1]. In these instances, there is an apparent need to bypass the internal succession process.

The same type of situations that persuade boards to by-pass internal succession may also create the need for an unambiguous leader. By appointing a dual successor, they send a signal to the external market place (and perhaps to employees in the company) that one person is in charge. The signal implies that there is one leader who has the authority to address the situation. When there has been a problem such as poor performance and/or the firing of a CEO, companies may forgo internal succession progression and appoint one leader simultaneously as CEO and chair. For example, Davidson, Tong, Worrell, and Rowe (2004) find that when a CEO becomes injured or too ill to continue, boards often replace the CEO with the board chair, creating a dual leader.

Agency Perspective on Duality

One position on duality is based on agency theory. Agency theory examines the consequences arising from the fact that owners contract with managers to run the firm. The manager becomes responsible for the day-to-day operations of the firm and for maximizing the utility of the owners. Agency theory rests on the idea that owners and managers of large firms pursue their own personal utility maximization. As a result, decisions made by managers may not always coincide with maximizing owner utility. The costs to owners of lost utility are agency costs.

Owners recognize the potential for agency costs and construct various mechanisms to monitor and control managers. Among these mechanisms is the board of directors. The board is charged with keeping potentially self-serving managers under control by, for example, overseeing major strategic decisions, designing pay packages for managers, and monitoring manager performance.

Some agency theorists argue that the dual governance structure allows managers to undermine board power (Jensen, 1993). Under a dual governance structure, the lead

manager is the CEO, and this person is also the head of the group that monitors and rewards performance. An analogy would be to allow students to assign their grade in a college class when their ability to attain post-graduation employment rests heavily on the grade they receive.

There is some empirical evidence suggesting that the dual governance structure could lead to increased agency costs. For example, Davidson, Jiraporn, Kim, and Nemec (2004) find that income-increasing earnings management is greater under newly-appointed dual leaders than when the newly appointed leader is only a CEO. Mallette and Fowler (1992) find the adoption of poison pills (which can reduce the likelihood of a merger) is more likely under dual leadership, and McWilliams and Sen (1997) show greater negative abnormal returns occur following anti-takeover amendments when there is dual leadership. Furthermore, dual leadership seems to entrench CEOs by reducing the likelihood of their being fired (Cannella & Lubatkin, 1993).

An Alternative Perspective

Donaldson and Davis (1991) suggest that CEO's can best accomplish their financial goals when they are given sufficient authority[2]. For the CEO, this would mean being named to the additional position of board chair. Placing one executive in the dual position would thereby promote shareholder wealth maximization.

How would the CEO/chair further shareholder wealth maximization? Finkelstein and D'Aveni (1994) cite early work supporting duality. For example, duality provides unity of command (Fayol, 1949), a leader with clear and unambiguous authority (Massie, 1965), and lessens confusion and conflict among top managers that report to a single leader (Galbraith, 1977). Finkelstein and D'Aveni (1994) also cite works in administrative theory concluding that a strong leader will be better able to set strategic

direction and take decisive action (Barnard, 1938; Chandler, 1962; Andrews, 1971; Miller & Friesen, 1977). Boards may choose a dual leader so that it is clear to stakeholders that one person is in charge.

In contrast to the perspective from agency theory, duality would not harm shareholders. Instead, duality would further shareholder interests.

A Synthesis of Conflicting Perspectives

The alternative perspectives on duality are seemingly at odds. Agency theorists would argue that duality should be counter to shareholder wealth maximization as shareholders and managers pursue utility maximization with different objectives in mind. On the other hand, one could also argue that the CEO/chair with sufficient authority would be better able to maximize both their own and shareholders' utility. The differences in the two views seem to be irreconcilable.

There is another interpretation. Perhaps both views are at least partially correct. That is, there could be agency costs associated with duality and simultaneously be benefits. So when an executive is placed in a dual role, there are both costs and benefits to shareholders (Brickley, Coles, & Jarrell, 1997). In some cases the costs may outweigh the benefits and in others, the benefits outweigh the costs. Presumably, a board would only install a dual leader when they perceive the benefits of the dual governance structure are greater than the perceived costs.

There is empirical evidence that supports this position. Some results show the potential for agency costs in duality situations (e.g. Davidson, Jiraporn, Kim & Nemec, 2004; Mallette & Fowler, 1992; McWilliams & Sen, 1997; Cannella & Lubatkin, 1993). However, studies examining the impact of duality on performance have generally found that duality does not impact overall performance (e.g. Brickley, Coles & Jarrell, 1997;

Daily & Dalton, 1997; Dalton, Daily, Ellstrand & Johnson, 1998). Since there appears to be the potential for agency costs under a dual regime, but the overall effect of duality appears to be neutral, it suggests that there are benefits that offset the costs.

HYPOTHESES

We propose that the decision to simultaneously appoint a single person as CEO and chair will more likely occur following situations or contingencies that create stress on the company. These situations include things such as poor prior performance, the firing of the predecessor CEO, the hiring of an outsider as the successor CEO, and the decision to promote someone other than the heir-apparent. Similarly, boards may feel more comfortable hiring or promoting a dual leader who is older, with more experience. We, therefore, develop hypotheses concerning these situations below.

Duality and Poor Prior Performance

Poor prior performance may create a need for change at the top in a corporation (Kesner & Sebora, 1994). Poor performance can be measured by numerous things. Generally, poor performance refers to below average profitability or below average stock market performance of a firm. There is considerable research suggesting that turnover rates are influenced by prior performance (e.g. Coughlan & Schmidt, 1985; Furtado & Rozeff, 1987; Warner, Watts & Wruck, 1988; Weisbach, 1988; Denis & Denis, 1995; Denis, Denis, & Sarin, 1997; Parrino, 1997). The relation between poor performance and turnover, however, may be mitigated by duality. Goyal and Park (2002) find that turnover rates are lower following poor performance when there is a dual leadership structure than when there is not.

That turnover is influenced by prior performance seems clear. However, if we separate the turnover decision (predecessor chooses to leave the firm, leave the CEO

position, or is fired) from the succession decision (the choice of the new CEO), prior performance may also influence successor choice. There is some empirical evidence to support this conclusion. For example, poor prior performance and turnover is often followed by the hiring of an outside successor (Cannella & Lubatkin, 1993), and relay succession is more likely to occur when performance has been good (Cannella & Shen, 2001).

Poor prior performance may influence the succession decision in other ways as well. For example, poor performance may also create the need or the board's perception of the need to have a clear and unambiguous leader. The unambiguous leader that is both CEO and chair would have greater authority and, perhaps, have a better chance of implementing a plan to turn performance around. We believe that following poor performance and CEO turnover, a board may be more likely to appoint a dual executive. Thus, poor performance will be a contingency that encourages boards not to follow the normal succession progression and to immediately establish a clear leader, a dual CEO/chair. We, therefore, hypothesize:

> H_1: *When prior performance has been poor, boards will be more likely to simultaneously appoint a CEO successor who is also the chair of the board.*

Firing the Predecessor

Ocasio (1999) suggests that the normal succession rules are more likely to be followed when the predecessor has retired. Empirical research has generally supported this contention (Puffer & Weintrop, 1991; Cannella & Lubatkin, 1993). When the board fires a CEO, a power vacuum has been created. The sudden change at the top can create confusion not only inside the organization but also to outside constituents. Here, there may be a need or perceived need for an unambiguous leader. The board may believe that

to create the appearance of unified command in the wake of the firing decision that there needs to be one leader. In addition, following the firing of a CEO, there may appear to be a power vacuum in the company. By appointing an undisputed leader, one that is both CEO and Chair, the perceptions of a power vacuum may be somewhat alleviated. We expect that subsequent to firing a CEO, that the board will be more likely to bestow the successor with both titles, CEO and Chair, than if the predecessor was not fired.

We, therefore, hypothesize:

H_2: When the predecessor CEO has been fired, boards will be more likely to simultaneously appoint a CEO successor who is also the chair of the board than when the predecessor is not fired.

Heir-Apparent

Under relay-succession, companies groom heir apparent executives by giving them the title of President and/or Chief Operating Officer. After a training and probationary period and when the need arises, the board appoints the designated heir into the CEO position. The former CEO becomes Chair of the board. Finally, the new CEO is also given the title of board Chair, and for a period of time one person is both the Chair and the CEO. A new heir-apparent is now found in the President or COO position. Eventually, the CEO title is relinquished to the new heir-apparent and the process begins again. The interaction of these positions during the succession process and its implication for the status of duality is touched on by Brickley, Coles, and Jarrell (1997) and is examined in detail by Worrell, Nemec, and Davidson (1997), Cannella and Lubatkin (1993), and Harris and Helfat (1998).

Duality may also occur in situations other than relay successions. In these cases, the board places one individual directly into the two positions. Here, the successor may

not have served in one of the heir apparent designations. Boards may make these appointments when they do not believe the original heir-apparent is adequate for the job, when a designated heir was never appointed, or when the board wants to follow a process other than relay succession.

Given the progression of authority in relay succession, we expect that the board's promotion of the President or COO into the CEO position will be an indicator that the firm is following the standard relay succession model. They will therefore be less likely to simultaneously appoint this person into the Chair position. We, therefore, hypothesize:

> H_3: *CEO successors are less likely to be simultaneously appointed as Chair when promoted from the President or COO position than if not promoted from these positions.*

Successor Origin

Firms often hire outside CEOs as a response to poor performance and to signal the need for change (Cannella & Lubatkin, 1993; Davidson, Nemec, Worrell, & Lin, 2002; Lubatkin, Chung, Rogers & Owers, 1989; Wiersema, 1992). An outside successor charged by the board to instigate change may feel the need for increased authority to overcome resistance from insiders and to undertake the needed changes. Shen and Cannella (2002) argue that outside executives lack the internal social networks and coalitions that an insider would have and that outside CEO successions can create hostile attitudes from insiders toward the new CEO. The outside CEO may recognize the potential for hostility and believe that to be successful greater authority may be necessary. So the outside CEO candidate may bargain for the additional title of Chair.

In addition, outsiders may bargain for control and argue that to make changes they need unambiguous authority. Presumably the outsider already has current employment and may, therefore, be in a position to negotiate multiple titles and the increased authority

that the titles convey[3]. There may also be a limited pool of acceptable outside candidates. Elsaid, Davidson, and Wang (2008) show that when companies hire outside CEOs, nearly half of the outsiders are already CEO at another firm. So, there is only a limited pool of candidates with the requisite leadership experience, and some companies may also desire an outside candidate with industry experience making the pool of potential candidates even smaller. These factors may increase the bargaining power of the outside successor who may desire the dual role. An inside candidate, on the other hand, as designated heir may have already given-up bargaining power by being an insider. Since the insider has already agreed to be the designated heir, the board may believe the insider is unlikely to turn-down the CEO position. This lessens the insider's bargaining power. We, therefore, hypothesize:

> *H_4: When an outside CEO is hired, boards will be more likely to simultaneously appoint a CEO successor who is also the chair of the board than when an insider is hired.*

Executive Age

Brickley (2003) has argued that successor age may be an important determinant of CEO selection. Age may confer experience. That is, an older executive may give the appearance of having greater experience and depth of managerial talent. Colley, Doyle, Logan, and Stettinius (2003) argue that successor age as well as successor experience are two key variables utilized by boards in making succession decision. Boards do not generally hire CEOs who are younger than age 40 or executives that are too close to the company' expected retirement age.

Successor age may also play a role in board decisions to appoint a CEO simultaneously as board Chair. Boards may be more willing to appoint one person into a

dual position without the person first serving a CEO apprenticeship when the executive is older. Appointing a dual executive who is older may deflect criticism since the board can argue that the executive has the requisite experience simply by virtue of being older and, therefore, more experienced. As suggested by Ocasio (1999), boards are able to justify their decisions as being consistent with their fiduciary responsibility when they follow normal succession rules (e.g. relay succession). To appoint an executive directly into a dual position may be seen as inconsistent with the internal succession progression of the CEO appointment followed by the dual appointment as CEO/chair and, therefore, inconsistent with the board members' fiduciary responsibility. In satisfying their fiduciary responsibility, board members may feel more comfortable and may justify the decision with an appointment of a dual executive who is older and may possess greater experience and depth of talent. We therefore hypothesize:

> *H_5: Executives simultaneously appointed as CEO and Chair will be older than executives appointed only as CEO.*

An alternative hypothesis is drawn from Daily and Dalton (1997). They provide evidence that the dual executives in their sample display less total tenure with their firms than executives holding non-dual titles.

METHODOLOGY

Sample Selection

The *ExecuComp* data base lists the year of CEO succession. For the years 1992 through 1999 we use this data base to determine the year in which companies appoint new CEOs. From this list we found 1017 CEO successions. To be included in our study, we need to obtain information about the predecessor and successor CEOs. We obtain this

additional information from company proxy statements and from news announcements in the *Wall Street Journal*, the *New York Times*, and the *Lexis Nexis* data base. Using these sources we first determined if the succession actually took place, and then we extracted information about the executives.

Our sample only includes CEO successions. Some of these successions were simultaneous appointments into both the CEO and Chair positions. We did not include promotions from CEO to Chair or CEO to both CEO and Chair positions. Thus, our sample companies that appoint a dual executive are not following the typical pattern of promotions that occur in relay succession. We were able to obtain complete information on 745 of the succession announcements. These companies are our final sample. As shown in Table I, 31% of our sample successions are dual appointments. Since *ExecuComp* contains information for the S&P 1500, our study is somewhat biased toward larger companies.

-----*Insert Table I About Here*-----

Description of Variables

Prior Firm Performance

We measure prior firm performance with the average return on assets (ROA), for the four years before the succession. We obtain the ROAs from COMPUSTAT by dividing net income by total year-end assets. As discussed in Barber and Lyon (1996), it is appropriate to adjust for industry effects so that the profit measure is not just reflecting industry activity. Following a similar procedure to Barber and Lyon, we subtract the industry median ROA from the company ROA. The industry median ROA is the median ROA of all companies on COMPUSTAT with the same 2 digit SIC code. For

comparative purposes, we also include the industry adjusted ROA for the four years following the succession in our descriptive statistics.

Firing of Predecessor

Hatfield, Worrell, Davidson, and Bland (1999) argue that it is difficult to determine whether a CEO has been fired. To solve this problem, they use only successions in which company news releases specifically state that the CEO has been fired. As they indicate, this procedure may miss some firings. It is not uncommon, for example, when a firing takes place, for the board to allow the executive to "save-face" and the executive "resigns" to pursue other interests.

To solve this problem, we examine several variables that help us to determine if CEOs have been fired. First we determine the predecessors' ages. Older CEOs are more likely to retire and therefore, less likely to have been fired. Second, if the former CEO remains as board chair, the executive is less likely to have been fired. We define this variable as 1 if the predecessor CEO remains as board Chair and 0 otherwise. Third, when the news announcement states that the predecessor has taken a position with another company or organization, then it is likely that the turnover has been initiated by the executive and not by the board. We define this variable to be 1 if the predecessor resigns for a new position and 0 otherwise.

To include all of these firing-related variables in a multivariate model would be problematic because there is considerable correlation among them; each variable is theoretically linked to the firing decision. One method of variable reduction is to combine the variables with a factor analysis. In this way, the portion of the variability explained by each of the individual variables is included in a combined variable called the factor loading (Berenson, Levine, and Goldstein, 1983). The factor model creates a

factor loading through the variance-covariance matrix. The factor loading is then used as a single variable instead of the larger number of individual variables. Since each of the three primary variables has been constructed so that a larger value (e.g. older age, a value of 1 if the predecessor remains as Chair, and a value of 1 if the predecessor takes a new position) implies that a firing is less likely, the factor loading has a similar interpretation. That is when the factor loading is large, it is less likely that the predecessor has been fired.

Successor Age

From the proxies and the news releases, we determine the successor's age at the time of the succession. Age is used as a proxy for the experience of the new CEO. As shown in Table I, the average successor is about 52 years old when appointed CEO.

Successor Origin

From the proxy statements and the news releases, we determined the number of years that the successor had been with the company. For our tests, we define an outsider as a successor with no previous work experience with the company. Some executives are hired from the outside for a short period and then promoted to CEO. As such, if a CEO has been with a company for a very short period of time, would this executive be an insider or are they an outsider (Kesner & Sebora, 1994)? Therefore, we also defined outsiders as executives with company tenure of two years or less. Since this alternate designation did not qualitatively change our results, we define outsiders as those with no prior company experience for the remainder of the paper. As shown in Table I, about one-third of the successors are outsiders.

Heir Apparent

We designate a relay succession to be one in which the President or COO becomes the successor CEO, and therefore could have been considered the heir apparent. To identify these firms that appear to be following relay succession practices, we compare the names of all newly appointed CEO's to the names of the President and COO in year t-1, as in Davidson, Nemec, and Worrell (2001). As shown in Table I, 45% of our sample successors held one or both of these titles prior to being promoted or appointed to CEO or CEO and Chair. Alternately, it would be better to determine if each company had a formal succession plan in place. We searched proxy statements and news releases and found virtually no announcements of adoptions of formal succession plans particularly for the earlier years in our sample period. We, therefore, use the indicator of relay succession as given above.

RESULTS

Univariate Comparisons

Table I shows univariate comparisons of our test variables. In our sample 229 firms simultaneously appointed the new CEO as the board Chair and 516 appointed the executive as only CEO. The average industry adjusted ROA is 2.12% in the four years prior for both dual successions and non-dual successions. The lack of a significant difference does not support H_1. The factor loading for predecessor firing is 0.85 for duality successions and is 0.97 otherwise. The difference is significant at the 0.001 level ($t = 6.06$). While the actual values of the factor loadings are difficult to interpret, recall that larger factor loadings suggest that firing is less likely and smaller values suggest firing to have been more likely. Since the factor loading for the duality successions is

significantly smaller than for the non-duality successions, the results support H_2. When a predecessor has been fired, the board is more likely to appoint a dual successor.

In our sample slightly less than 35% of the successors were previously designated heir apparent for duality appointments, but about 49% were designated heirs in the non-dual appointments. This difference is significant at the 0.001 level (t = 3.71) and is consistent with H_3. We find that 39% of the dual appointments, but only 29% of the non-dual appointments, are outside executives. This difference is significant at the 0.001 level (t =-2.82), and this result is consistent with H_4.

Executives who are simultaneously appointed as CEO and Chair are older than those appointed only as CEO. The average age of executives appointed into dual positions is 54.1 years while the non-dual executives' average age is only 50.5 years. The difference is significant at the 0.001 level (t = −6.31) and supports H_5. We also find that companies with dual appointments are significantly larger than those companies with non-dual appointments, and we therefore include firm size as a control variable in our analyses.

Correlations and Logit Regression Analysis

Table II contains a correlation matrix for our variables. There are a number of variables that have statistically significant correlations. As a result, we present our regressions first as single variable regressions and then in a multivariate format. This approach lets us see the potential effects of multicollinearity, if any.

-----Insert Table II about Here-----

Table III displays the logit regression results. The dependent variable in the logit regressions is a binary variable taking the value of 1 when the board appoints the successor to a dual position and is 0 when it is only a CEO appointment. Since the

dependent variable is a binary variable, we employ logit regressions. Because several of the explanatory variables are correlated, we first report simple single variable logit regressions with each independent variable, in order to avoid the potential problem of multi-collinearity. The single variable logit regressions are numbered 1-6.

-----*Insert Table III About Here*-----

In regression 1, the estimated coefficient for the industry adjusted $ROA_{t\text{-}1 \text{ to } t\text{-}4}$ is statistically insignificant. As in the univariate tests, this result is inconsistent with H_1. The estimated coefficient for the predecessor firing variable in regression 2 is negative as predicted by H_2, and is statistically significant at the 0.001 level. The estimated coefficient for the new CEO's age in regression 3 is positive and significant at the 0.001 level and supports the predictions of H_5. In regression 4, the estimated coefficient for CEO origin (being an outsider) variable is positive and significant at the 0.001 level. This result is consistent with the predictions of H_4. The estimated coefficient for the heir-apparent binary variable in regression 5 is negative and significant at the 0.001 level supporting the predictions of H_3. In regression 6 the estimated coefficient for firm size is positive and significant at the 0.001 level, indicating that larger firms are more likely to make dual appointments.

Regressions 7-10 in Table III are multiple variable logit regressions. The signs and statistical significance of all of the independent variables, except *new CEO outsider* and *new CEO designated heir*, remain similar to the results found in the simple regressions. Regression 7 includes all explanatory and control variables for our sample. The estimated coefficient for *new CEO outsider* is statistically insignificant. The loss of significance suggests that there may be multi-collinearity with other variables. Referring back to Table II, *new CEO outsider* is significantly correlated with the firing variable.

When the predecessor has been fired, it is more likely that an outsider is hired. In addition, the successor origin variable is also highly correlated (at the 0.001 level) with the heir-apparent variable since none of the outsiders would have been heir apparent. To correct for the possibility of multi-collinearity, we drop the CEO origin variable. This yields a negative coefficient of greater significance for the heir apparent variable (regression 8).

Robustness Tests

In our sample, 39 CEO appointments occurred for individuals that were either board Chair, Vice-Chair, or former Chair. Since this is a different type of appointment, we re-estimate our regressions, but we delete these 39 cases. The signs and statistical significance levels of our coefficients remain unchanged, and therefore are not reported.

A further concern is that we may not have adjusted for the past succession practices of each firm in our sample. It is possible that some firms simply always prefer to have a dual leader while other firms do not, regardless of their current situation. We therefore incorporate data on whether the previous CEO was in a dual position before each new CEO appointment. We find that in 499 (67%) out of our 745 firms, the previous CEO was also the board chair. However, of firms that made a dual appointment for their new CEO, only 58% also had the old CEO in a dual position. This is compared to 71% of non-dual CEO appointments where the old CEO occupied both positions (with the difference significant in t-tests at the 0.001% level). In our regression tests, an indicator for the duality of the old CEO takes a significant negative coefficient in all models, but does not change the signs or significance levels of the other variables, and is

therefore not reported. Overall, this means that firms were the old CEO was in both positions were significantly less likely to make a dual appointment for their new CEO.

An alternative means of examining a firm's past succession practices is to isolate those firms in our sample that experience multiple CEO successions over the sample period. This yields 109 firms (207 observations) that make more than 1 CEO appointment. Compared to firms that make only a single CEO appointment, these firms are more likely to make dual appointments (42% versus 27%, which is significant at 0.05% in t-tests). This is also consistent with the argument that firms going through extended periods of uncertainty, proxied for by this measure of CEO turnover, are more likely to opt for a dual appointment. In regression #10, when we include a variable equal to 1 if the lagged appointment was to both CEO and chair positions, and equal to zero otherwise, it is significant at the 0.01 level (chi square = 8.15) in our regression model, while the signs and significance levels of the other variables remain unchanged. This indicates that past CEO succession practices have some influence on the chance of a new CEO being appointed to both CEO and chair positions, although they do not explain all of the variation. The increase in the R^2 of a model including the lagged duality indicator suggests that this variable adds about 9% to the explanatory power of our model.

CONCLUSIONS

Duality occurs when one person holds both of a firm's two top executive positions, CEO and Chair. This leadership structure is very common in U.S. firms and generally occurs in the relay succession process in which the CEO is promoted to CEO/Chair (Brickley, Coles and Jarrell, 1997). Our contribution to the literature is that we examine an alternative, the instances in which companies hire a person directly into

the CEO/Chair position. We therefore build upon studies that examine the characteristics of firms employing a dual leadership structure (Faleye, 2007), by focusing on when the CEO succession process gives rise to duality. Ocasio (1999) describes how informal rules guide corporate behavior in general, but more specifically how succession rules guide CEO succession decisions. The type of succession leading to duality that we investigate is not as common as the relay succession process, and may, therefore, occur outside the traditional succession rules.

We show that when there has been organizational stress that creates the need for a new leader, boards will often appoint an executive directly into a dual position. This suggests that the organizational structure needs of a company may be situationally dependent. Boards may not, in some situations, be able to wait for a CEO to gain experience before promoting the CEO into the dual positions. In particular, when a company fires the former CEO, the board may perceive that an unambiguous leader is needed. In these cases, boards are more likely to directly appoint the successor into the dual positions. We also show that when boards appoint a dual executive, fewer of them have been designated as heir apparent. This may be partially explained by the fact that many of the dual appointees are outsiders, but also by the fact that boards may not want to appoint an heir into a dual position before the heir has served their complete apprenticeship. In addition, when boards appoint an outside successor, the successor is more likely to be appointed as both CEO and Chair.

Boards must meet their fiduciary responsibility. Appointing someone simultaneously as both CEO and Chair could bring accusations that the executive is not ready for both mantels. Our results show that the average successor age of the dual executive appointments is greater by nearly three years than for those appointed only as

CEO. This may give justification to the board decision since the older executive would have more experience.

Overall, our results are consistent with dual appointments being made when a firm needs a strong and unambiguous leader. We do not find evidence that dual appointments influence the firm's short-term performance. It is therefore unclear if proposals to limit dual appointments would be in the best interest of shareholders, because our research indicates that it is not agency conflicts, ex ante, that are driving the dual appointment decision. Instead, our findings are consistent with dual appointments being made to optimally contract with a new manager at a time when the firm is subject to increased stress and uncertainty.

Our study suffers from the following limitations. First, our sample comes from the *Execucomp* database. This database covers relatively large companies and those that receive considerable scrutiny from financial analysts. Our results may, therefore, not be applicable to smaller firms. Second, we do not have access to the actual decision process and discussions that occur in boards and lead to the hiring of one person into a dual role. Perhaps with other methodologies, future research could be directed toward this issue. Finally, we define organizational stress as the firing of a predecessor and poor financial performance and hypothesize that this stress creates the need for an unambiguous leader. There may be other factors that create this need. For example, there may be certain industry situations and opportunities that create this need. Or, there may be internal situations within the firm that are not readily apparent to outside observers and researchers that create this need. Other research methodologies may be able to address these issues as well.

ENDNOTES

[1] It is interesting to note that when there has been poor prior performance and the board hires an outside CEO, the stock market reacts positively (Lubatkin, Chung, Rogers, and Owers, 1989). So the market reacts positively when succession rules are followed (Shen and Canella, 2003) and when the situation requires succession rules to be ignored and the board ignores them (Lubatkin et al, 1989).

[2] This alternative perspective on duality has its roots in stewardship theory. Under stewardship theory, executives are motivated to act in the best interests of a company's stakeholders, including stockholders.

[3] There is considerable anecdotal evidence supporting the proposition that outsiders have increased bargaining positions. Having viewed numerous dean and department head searches, we have observed that outsiders are more successful in bargaining for increased departmental resources and lucrative contracts. The AACSB salary surveys always show that newly hired full professors make more, on average, than full professors, in general. In the sports world, we observe this as well. For example, Bill Parcels left the Patriots, a successful franchise, to join the Jets so that he could be not only head coach but also general manager.

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Table I: Descriptive Statistics for Dual Versus Non-dual Successions

The table presents average figures for our sample of 745 CEO successions, with standard deviations given in parentheses. All figures are measured during the year of CEO succession, which occurs between 1992 and 1999, except total assets, which are as of year t-1, and industry-adjusted ROA, which is the average over years 1 to 4. *** indicates $p \leq 0.001$.

		Full Sample	Dual Appointments	Non-dual Appointments	t-statistic
1.	Dual Succession Indicator	30.74% (46.17%)	N=229	N=516	
2.	Industry Adjusted ROA $_{t-1 \text{ to } t-4}$	2.12% (9.21)	2.12 (8.14)	2.12 (9.65)	-0.00
3.	Industry Adjusted ROA $_{t+1 \text{ to } t+4}$	1.23% (14.96)	0.87 (13.32)	1.38 (15.63)	0.46
4.	Old CEO Not Fired[a]	0.93 (0.25)	0.85 (0.36)	0.97 (0.18)	6.06***
5.	New CEO Age	51.58 (6.94)	54.12 (7.74)	50.45 (6.24)	-6.31***
6.	New CEO Outsider	32.08% (46.71)	39.30% (48.95)	28.87% (45.36)	-2.82***
7.	New CEO Designated Heir	44.56% (49.74)	34.50% (47.64)	49.03% (50.04)	3.71***
8.	Total Assets[b] ($000,000's)	4,082.67 (13,631.83)	6,589.09 (16,795.13)	3,006.75 (7,802.63)	-3.26***

[a] To measure CEO firing, we combined three variables utilizing a factor analysis. The three variables are predecessor CEO age, predecessor CEO board Chair status (1=yes, 0=no), and predecessor CEO new job status (1=yes, 0=no). The variable is the factor loadings from the three variables. A large value suggests firing is less likely while a low value suggests firing is likely.

[b] We show the dollar value of total assets in this table, but use the log of assets in the statistical tests in this table and in the subsequent tables.

Table II: Correlation Matrix of Variables

This table present correlation coefficients for the variables in our sample of 745 CEO successions over the period from 1992 to 1999. *** indicates $p \leq 0.001$, ** indicates $p \leq 0.01$, and * indicates $p \leq 0.05$.

		1	2	3	4	5	6	7	8
1.	Dual Succession Indicator	1.00							
2.	Industry Adjusted ROA $_{t-1 \text{ to } t-4}$	0.00012	1.00						
3.	Industry Adjusted ROA $_{t+1 \text{ to } t+4}$	-0.01590	0.57740***	1.00					
4.	Old CEO Not Fired[a]	-0.21710***	-0.00488	0.00528	1.00				
5.	New CEO Age	0.24366***	-0.02508	0.02290	-0.09612***	1.00			
6.	New CEO Outsider	0.10305***	-0.03759	-0.02661	-0.11644***	0.07352*	1.00		
7.	New CEO Designated Heir	-0.13491***	0.02389	0.02025	0.20321***	-0.08438*	-0.45420***	1.00	
8.	Ln (Total Assets)	0.09577***	0.01155	0.07950*	0.06588	0.11320***	-0.00895	0.26021***	1.00

[a] To measure CEO firing, we combined three variables utilizing a factor analysis. The three variables are predecessor CEO age, predecessor CEO board Chair status (1=yes, 0=no), and predecessor CEO new job status (1=yes, 0=no). The variable is the factor loadings from the three variables. A large value suggests firing is less likely while a low value suggests firing is likely.

Table III: Logistic Regression Analysis

This table presents coefficient estimates from logistic regression models where the dependent variable is 1 if CEO appointment also includes appointment to chair and is 0 otherwise in our sample of 745 CEO successions over the period from 1992 to 1999. Chi-squared statistics are given in parentheses. *** indicates $p \leq 0.001$, ** indicates $p \leq 0.01$, and * indicates $p \leq 0.05$.

Reg.	Constant	Industry-Adjusted ROA $_{t-1 \text{ to } t-4}$	Old CEO Not Fired[a]	New CEO's Age	New CEO Outsider	New CEO Designated Heir	Ln(Assets)	Lagged Duality Indicator	R^2
1	-0.8124***	99.38							0.00%
	(99.38)	(0.00)							
2	0.7221*		-1.6669***						5.90%
	(5.96)		(29.38)						
3	-5.0057***			0.0802***					8.31%
	(56.38)			(41.04)					
4	-0.9709***				0.4668***				1.46%
	(95.03)				(7.85)				
5	-0.5615***					-0.6023***			2.58%
	(30.11)					(13.39)			
6	-1.4354***						0.0959***		2.19%
	(43.18)						(9.98)		
7	-3.6742***	0.00260	-1.5142***	0.0711***	0.1297	-0.4605*	0.1062***		16.09%
	(22.75)	(0.06)	(20.34)	(29.48)	(0.41)	(5.23)	(11.08)		
8	-3.6023***	0.00247	-1.5201***	0.0711***		-0.5204***	0.1075***		16.02%
	(22.49)	(0.06)	(20.55)	(29.49)		(8.49)	(11.50)		
9	-3.3768***	0.00201	-1.4557***	0.0758***	0.1974	-0.2896			13.96%
	(20.26)	(0.04)	(19.80)	(34.45)	(0.99)	(2.20)			
10	-4.5305***	0.000692	-1.2658*	0.0884***	-0.2284	-1.0585**	0.1199*	0.9676**	25.81%
	(11.10)	(0.00)	(5.23)	(13.53)	(0.43)	(6.92)	(4.76)	(8.14)	

[a] To measure CEO firing, we combined three variables utilizing a factor analysis. The three variables are predecessor CEO age, predecessor CEO board Chair status (1=yes, 0=no), and predecessor CEO new job status (1=yes, 0=no). The variable is the factor loadings from the three variables. A large value suggests firing is less likely while a low value suggests firing is likely.