

# Study: Companies better off hiring CEO from within in the long term

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When a company wants to appoint a new CEO for strategic changes, they would be better off in the long term by promoting someone from inside the company rather than hiring someone from the outside, according to a new study from Rice University's Jones Graduate School of Business.

The study, "Once an Outsider, Always an Outsider? [CEO](#) Origin, Strategic Change and Firm Performance," has been accepted for publication in [Strategic Management Journal](#) and was co-authored by Anthea Zhang, the Jesse H. Jones Distinguished Associate Professor of Management at Rice.

The study looked at the tenure and performance history of 193 CEOs in the industrial sector between 1993 and 1998. The researchers found that in the first few years of tenure, there is very little difference between the performances of CEOs promoted from within a company and CEOs hired from the outside. However, in later years, internally promoted CEOs outperformed externally hired CEOs.

"Newly appointed CEOs, both outsiders and insiders, tend to make changes, and it may take years to observe the performance impact of the changes," Zhang said. "Therefore, the relative advantage or disadvantage between 'inside' and 'outside' CEOs in initiating and implementing appropriate strategic changes is not seen immediately."

However, after three years, it's clear that inside CEOs fare better than

outside CEOs, according to Zhang. "When it comes to strategic change, outsiders typically are good at doing the rapid cost cutting and divestment. As tenure increases, obvious opportunities for [cost cutting](#) and divestment dry up. Inside CEOs, because of their deep knowledge and root in the firm, are more likely to initiate and implement strategic changes that can build the firm's long-term competitive advantage," Zhang said.

"From the implications of this research, it's clear that companies may be better off in the long term led by CEOs groomed from the inside as opposed to CEOs from the outside," Zhang said. "Boards of companies need to recognize that hiring an outside CEO poses greater risks to the company's performance in the long term."

**More information:** To read the complete study, go to [www.rice.edu/nationalmedia/multimedia/ZhangCEO](http://www.rice.edu/nationalmedia/multimedia/ZhangCEO) .

Provided by Rice University

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