CEOs with top college degrees no better at improving long-term firm performance than other CEOs

September 16 2010

Whether or not a company's CEO holds a college degree from a top school has no bearing on the firm's long-term performance. And when it comes to getting canned for poor performance, CEOs with degrees from the nation's most prestigious schools are no safer than the average CEO, according to new research from the University of New Hampshire.

Conducted by Brian Bolton, assistant professor of finance at the Whittemore School of Business and Economics at the University of New Hampshire, the new research is presented in the working paper "CEO Education, CEO Turnover, and Firm Performance." The paper is co-authored by Sanjai Bhagat of the Leeds School of Business at University of Colorado at Boulder, and Ajay Subramanian of the J. Mack Robinson College of Business at Georgia State University.

"These findings suggest that both boards and researchers should use caution in placing too much emphasis on an individual's education when trying to assess their ability to lead the company and maximize shareholder value," Bolton says.

The research analyzes the relationship between CEO education, CEO turnover, and firm performance. The researchers were primary interested in the role that CEO education plays in a firm's decision to replace its current CEO, the role that it plays in selecting a new CEO, and whether CEO education significantly affects performance.

The researchers used six main measures of CEO education: whether or not the CEO attended a top 20 undergraduate school, whether or not the CEO has an MBA, law or master's degree, and whether or not the MBA or law degree is from a top 20 program. The study includes nearly 15,000 years of CEO experience data and more than 2,600 cases of CEO turnover from 1992 to 2007.

The researchers found that CEO education does not play a large role in the decision by a firm to replace its current CEO; poorly performing CEOs are replaced, regardless of their education. Education, however, does play a significant role in the selection of the replacement CEO; there is a significantly positive correlation between the education levels of new CEOs and those of the CEOs they replace. For example, even after a CEO with an MBA degree gets fired for poor performance, the board still looks to replace him or her with new CEO who also has an MBA.

Hiring new CEOs with MBA degrees does lead to short-term improvements in operating performance. However, the researchers did not find a significant systematic relationship between CEO education and long-term firm performance. CEO education does not seem to be an appropriate proxy for CEO ability.

"Even though CEO education does not lead to superior performance by firms, firms may rely on CEO education in hiring decisions because they have few other identifiable and measurable criteria to use. All else being equal, they rely on what they believe to be the observable pedigrees of the executive," Bolton says.

"Of course, all else is rarely equal, especially when dealing with something as nebulous and potentially unobservable as managerial talent. Interpersonal skills, leadership ability and strategic vision are among the traits that CEOs should possess; these can be difficult to identify and even more difficult to measure. As a result, boards rely on those characteristics which they may be able to observe: work experience, track record, and education," he says.

Provided by University of New Hampshire

Citation: CEOs with top college degrees no better at improving long-term firm performance than other CEOs (2010, September 16) retrieved 3 May 2024 from
https://phys.org/news/2010-09-ceos-college-degrees-long-term-firm.html

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