Megalomaniac CEOs: Good or bad for company performance?

January 26 2011

According to a new study, dominant CEOS, who are powerful figures in the organization as compared to other members of the top management team, drive companies to extremes of performance. Unfortunately for shareholders, the performance of a company with an all powerful CEO can be either much worse than other companies, or much better. But there is one solution to an all powerful CEO: a strong board of directors. Companies with strong boards counteract powerful CEOS, and swing the tide of performance to the plus side. This study on dominating CEOs and powerful boards is now published in the *Journal of Management Studies*.

CEOs are typically the individual with the most power in the top management team for a company. Yet, casual observation has shown that some companies with strong CEOs, such as General Electric under Jack Welch or Microsoft as led by Bill Gates have performed tremendously well. Meanwhile, other companies have failed miserably, with often disastrous results for employees and shareholders, when the CEO is very dominant, such as Enron under Kenneth Lay.

The key idea is that a dominant CEO may lead a firm to a deviant strategy. This strategic deviance can yield a strong position for a firm in its markets, or it can drive it to big losses. To control the negative effects of strategic deviance, and balance the power of the CEO, a company needs a strong board of directors. A strong board provides a useful watchdog and a second set of valued opinions to the strategic direction of the company. This oversight by the board can help catch the deviant strategy that could lead to firm failure, before it is implemented by the

CEO and the organization's top management team.

Although strong boards can help counter the potential for big losses or even firm failure that comes from having a dominant CEO, the board does not completely eliminate such a possibility. Other mechanisms of firm governance need to be activated to also provide greater levels of caution against firm failure in light of an all powerful CEO.

Having a dominant CEO can place an organization in jeopardy, but it is a challenge that can be managed. As recommended by the authors of the study, "Having dominant CEOs is risky, but powerful boards help control the downside risk while leaving the upside potential relatively open. Thus, it is possible that coupling dominant CEOs with powerful boards represents an ideal governance arrangement."

More information: "Dominant CEO, Deviant Strategy, and Extreme Performance: The Moderating Role of a Powerful Board."; Jianyun Tang, Mary Crossan, and W. Glenn Rowe. The Journal of Management Studies; Published Online: January 26, 2011
DOI:10.1111/j.1467-6486.2010.00985.x

Provided by Wiley