One size doesn't fit all: CEO education is no guarantee of stock market success

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A CEO's educational achievement is no guarantee of a company's stock market success according to new research.

Previous studies on this topic are based on the idea that the more educated a CEO is, the better a company does on the stock market.

However, new research from the Universities of Portsmouth, Cardiff and St Andrews challenges this notion, by providing evidence that firms led by CEOs with top academic degrees—either Ph.D.s or MBAs—do not necessarily perform any better than the rest of the market.

Looking at Initial Public Offerings (IPOs) in the United States over a 20-year period from 1998 to 2018, the researchers found that firms led by CEOs with a Ph.D. or an MBA have three- year post-listing returns that are 12% and 11% higher, respectively, than the typical issuer.

Yet these figures hide an important distinction, as this impact varies with issuer size and age. A Ph.D. is associated with higher IPO performance when innovation and specialized knowledge are prioritized, such as in small, young, or R&D-intensive firms. In contrast, an MBA adds value when management skills are required to cope with a larger firm size and organizational complexity.

Study co-author Dr. Konstantinos Kallias, Senior Lecturer in the School of Accounting, Economics and Finance and the University of Portsmouth, said, "It has always been assumed that CEO education drives investor valuations up and these studies invariably treat education like a commodity."

"Our findings challenge this notion and caution that a stellar academic background is beneficial only to the extent that it can cater to specific organizational priorities; ultimately, what market investors value are the skillsets honed by the various education types, rather than scholastic achievement per se. This should have resonance for firms recruiting for the top executive position."

The research found that specialized education, achieved through a Ph.D. degree, creates value in small and/or young firms where the need for entrepreneurial spirit is greater. Furthermore, in R&D-intensive industries, higher valuations are assigned to firms led by CEOs with a Ph.D., as specialized knowledge is commonly linked with individuals who are more likely to assimilate new ideas and embrace technology, as well as those who are less risk-averse than their non-expert counterparts.

The opposite holds true for CEOs with rigorous general management education through MBAs, whose effect on valuation is strongest at the high end of issuer size and age distributions.

Additional evidence from the use of venture capital (VC) reinforces this: CEOs with a Ph.D. are more likely to align forces with VC firms which offer complementary management expertise.

Dr. Kallias said, "Our results suggest that IPO investors remain indifferent to CEO education if this is unrelated to the issuer's main organizational and environmental challenges, which explains the inconclusive evidence of prior research.

"More generally, our findings can guide nomination committees and the practice of informed corporate governance, which is crucial given the ubiquity of candidates with top-notch academic qualifications. Finally, understanding the conditional role of education is of fundamental importance for providers of academic services and the executive job market alike."

The research is published in the *Journal of Business Research*.

More information: Antonios Kallias et al, One size does not fit all: The conditional role of CEO education on IPO performance, *Journal of Business Research* (2022). DOI: 10.1016/j.jbusres.2022.113560

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