How should boards handle visionary CEOs?

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The recent firing and rapid rehiring of Sam Altman, the co-founder and CEO of ChatGPT creator OpenAI, illustrates the delicate dance between visionary CEOs and the boards who oversee them.

Some CEOs—often founders—are fueled by strong convictions about the strategic direction their companies should take. But their boards sometimes don't share their visions.

When that happens, what is the board's role in governance? Should it monitor or advise the CEO? Should it back off and approve the CEO's strategy?

The answer depends on how deeply the CEO is invested in the strategy, says Volker Laux, professor of accounting at Texas McCombs and Randal B. McDonald Chair in Accounting. In new research with co-author Xu Jiang of Duke University, Laux built a model of board/CEO relationships, in which a CEO has a strong belief about the state of the industry and the strategy they've created.

The board, representing shareholders' interests, gathers information to either confirm the CEO's plan or recommend a switch. But how much effort the board puts into gathering that information—and whether it uses that data to persuade or overrule the CEO—depends on how strongly the manager believes in their vision, the model shows.

Persuadable CEO

If the CEO is only "mildly overconfident," says Laux, the board will invest more resources to collect information and give advice. In this scenario, if the information shows the strategy is not the right one, the CEO listens and changes direction.

High-Confidence CEO

Sometimes, the CEO has a higher level of confidence and no longer listens to the board's advice—even if its information suggests the vision is wrong. In such a situation, the board's best course is to act as a monitor, with the option of overruling the CEO if the accumulation of information supports a new strategy. The stronger the CEO's belief bias, the less information the board will collect, the model finds.

Very High-Confidence CEO

If the CEO is a visionary who strongly believes in their ideas, the board may decide not to intervene, even if it's convinced a new direction would better serve shareholders. In this case, the board rubber-stamps the CEO's strategy because the CEO will be highly motivated to make it succeed.

"It can actually be optimal to be passive," says Laux. "You often hear that boards are too passive and rubber-stamp the CEO's vision or ideas, but our setting shows that in certain situations, it can be the right move."

The alternative—forcing a visionary CEO to change strategy—could backfire by depleting the CEO's enthusiasm and derailing the company's progress. It could ultimately mean replacing the CEO. Both scenarios would be costly to shareholders, as the back-and-forth conflict between Altman and his board demonstrates.

"If the loss of motivation would be substantial, the board won't insist on a strategy shift," Laux says. "They will just let the CEO run with his idea."

The paper is published in the *Journal of Accounting Research*.

More information: XU JIANG et al, What Role Do Boards Play in Companies with Visionary CEOs?, *Journal of Accounting Research* (2023). DOI: 10.1111/1475-679X.12514

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