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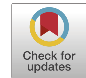

Venture governance: CEO duality and new venture performance

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ABSTRACT

The ‘one person, two jobs’ role (known as CEO duality) has been debated for decades. In this study, we address how the overall leadership structure of new firms relates to their performance. We investigate direct effects as well as conditional effects. Our main finding is that CEO duality is beneficial in the earliest growth stage and that the number of board members is important. Contextualizing the leadership structure, we find that CEO duality is beneficial with smaller boards, and vice versa with larger boards. Implications for theory and practice are discussed.

1. Introduction

Despite voluminous empirical research, there is still persistent disagreement on the type of governance model that is the most optimal for firms (Dalton et al., 1998), and even more so for smaller and newer firms. Except for Daily and Dalton (1992, 1993), the vast amount of research surrounding CEO duality and venture governance has focused on large, established firms. Studies on governance structure have mostly focused on publicly traded firms, those examining small privately held, entrepreneurial firms are few and far between (Krause et al., 2014). Dalton et al. (1998) was not optimistic that more research in this area would yield any significant useful insights, although, in a later study, Dalton and Dalton (2011) asserted that the calls to abandon further studies of the CEO duality-performance relationship were premature.

In a recent special topic forum at the Academy of Management Review on the implications of uncertainty on management theories, we learn from Alvarez and Porac (2020) that managing under *fundamental* uncertainty is a very different animal than managing in more predictive environments, as in the case for larger firms. For instance, building on Garg and Eisenhardt’s (2017) studies of new ventures, in a special symposium on *venture governance*, Garg (2020) ‘flipped’ the agent/principal roles in agency theory, and suggested looking at venture CEOs as the *principal* and the board members as *agents*. This view offers interesting challenges, especially combined with Alvarez and Porac (2020) notion of fundamental uncertainty. We submit to both these two claims above and look into the CEO duality performance relationship of new firms. So, we ask, what is the preferred leadership structure under such conditions? Is it CEO duality (the ‘one person, two jobs’ situation), or is it not? And if so, under what circumstances? The main purpose of this study is to explore whether, and under what circumstances, the CEO duality is good for early-staged venture performance.

The empirical results of this paper shed some light on what extent CEO duality is beneficial to new firms and support Garg and Eisenhardt (2017) flipped role of the agent/principal in the agency theory. We submit to the idea that due to the nature of start-ups where the incumbent CEO has much more at stake than the board members, CEO duality can be a good governance structure for such start-ups. As such, our study contributes to the emerging venture governance literature on entrepreneurial firms, specifically to the question of the most optimal board structure in start-ups (Li et al., 2020, p. 65–66). We think the time is ripe to revisit CEO duality and how that structure can help us to better understand the relationship between structural board leadership and new firm performance, at

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least under conditions of *fundamental* uncertainty (Alvarez and Porac, 2020) which is the case with startups.

To guide our inquiry, we combined the process of literature reviewing with interviewing practitioners, a process that is *abductive* in nature (Sætre and Van de Ven, 2021; Van de Ven, 2018, 2007). Whereas a deductive approach moves from general principles to specific instances, it is vice versa with an inductive approach. However, deductive reasoning makes use of *logical validity* as a criterion, and inductive reasoning makes use of *empirical truth* as a criterion, abductive reasoning moves from the unexplained towards plausible explanations and employs *plausibility* as an assessment criterion. In developing our hunches, we made inferences from general principles to specific instances based on the traditional governance literature. However, our attention was guided towards specific instances by the content of the field interviews, an *abductive* process. In the next section, we develop our hunches employing an abductive research methodology on the emerging topic of *venture governance*. The contextual background is Garg and Eisenhardt (2017) who discovered (that is, *observed*) the 'flipped' role of principals and agents, whereas Garg (2020) in many ways contributed to *confirming* the anomaly. We follow up by developing and evaluating plausible explanations of this flipped role related to the superstructure of the board, which is a question of board leadership structure. Our plausible explanations are in the form of hypotheses which we also formulate and discuss.

2. Hypotheses development

A meta-analysis conducted by Dalton et al. (1998) found no significant relationship between board leadership structure and firm performance. As a meta-analysis, this is a robust finding. Although this may be the case with more established firms, it is unlikely to be the case with smaller firms, and firms in the earlier stages of their growth. Dalton et al.'s meta-study was largely based on reports from studies that assessed data from larger firms. In many ways, the board's role in larger firms is to *maintain the level of the business activity* within legal and ethical frames over time, whereas the role of new venture board is, in many ways, to assist in *growing* the firm within such frames. However, without a proper superstructure, the board will not be able to organize its capabilities very well (Klarner et al., 2018).

Whereas smaller firms will likely benefit from a CEO that is also the chairman, such a claim is not the case for larger firms. However, as Dalton et al. (1998) indicate, we do not know. In the following, we develop these tentative insights into testable hypotheses.

2.1. The board leadership structure of the new firm, and its performance

Dalton et al. (1998) meta-analysis of empirical studies of board composition found that neither board composition nor the structural leadership of the board has been consistently linked to firm performance. Boyd (1995) investigated CEO duality and performance from the angle of agency and stewardship theory and found that neither of the theories can predict the consequences of CEO duality, although they concluded that CEO duality may assist firms under the right circumstances. In this study, we are interested in finding out what those circumstances are.

What is good with the CEO duality structure is that it leaves the CEO with sufficient power to succeed in more uncertain terrains, whereas when the firm matures and stabilizes, the firm *may* benefit from being released from this extraordinary CEO power. Uncertain environments can, according to Phan and Wood (2020), be understood as *true* uncertainty, or as "known unknowns" (Knightian risks), or "unknown-knowns" (Knightian uncertainty), and the majority of the uncertainties belong to these two categories, and less the "unknown-unknowns". In the earlier phases, it may be impossible to articulate and justify certain entrepreneurial actions (Garg and Eisenhardt, 2017), and the firm may therefore be better off with the dual leadership structure that facilitate speed and action. From our initial field interviews, we captured the practitioner's reflections on these ideas. Not unsurprising, the concept of the 'one person, two jobs' role (that is, the CEO duality leadership structure) is favorably received by the founders and CEOs interviewed in our study, especially during the early phase of start-ups. To illustrate, one of the interviewees reflected: *"I think it's a strength that the CEO is also the chairman because then you have the authority to implement changes, rather than having to wait for meetings and decisions to be made by others. Thus, I think you can be more effective in this position, and hence positively impact performance." (Founder B*).

A first-time founder praised the number of decisions he was able to make during the early days of his start-up, and the speed he was able to make those decisions. This founder also attributed to the importance of creating a start-up based on the vision he had, having the CEO duality structure certainly allowed him to do so. Although, this CEO pronounce that as the start-up grows, the responsibilities on the shoulder of the CEO and chairman would be too great and it may be best to have a separate board structure: *"In the earliest phase, having a separate chair/CEO will mostly just reduce agility and speed. The CEO owns the vision and goals and will probably be just fine as a chair as well. The role of the board will likely grow together with the size of the company, and it will reach a point where CEO duality will become too much for one person." (Founder C*).

This opinion is also shared by other founders who had CEO duality roles in their start-ups. In addition to cutting down decision-making time in start-ups with a CEO duality structure, it is also crucial for the founder, who is normally the CEO, to put a stamp in the early phase of the start-ups. That is, a dual structure allows the CEO and founder to create and shape the start-up according to their visions. Appendix 1 showcase similar insights from the start-up practitioners. Although the literature review is inconclusive, the practitioners point in the direction of a dual leadership structure ('one person, two jobs') because of the autonomy that comes along with the power that can speed up the decision making, because the vision and business model are still in the making. Accordingly, we set forth the following hypothesis:

Hypothesis 1. The dual leadership structure will relate positively to new firm performance.

2.2. The number of directors and the relationship to new firm performance

Studies have shown that board members bring a unique set of knowledge, skills, and experiences to the firms (Kesner, 1988; Kor

and Sundaramurthy, 2009; Withers et al., 2012). The various resources brought in to the board, in the form of human and social capital, have shown to affect strategic change in firms such as firm growth (Kor and Sundaramurthy, 2009) and acquisitions (Haynes and Hillman, 2010). Boards with well-networked members, in the form of a higher proportion of outsider directors, have been shown to have superior economic performance (George et al., 2001). Creating, and establishing board ties may therefore contribute to the performance of new firms.

In their meta-analysis, Dalton et al. (1998) finds that the relationship between board size and financial performance is stronger for smaller firms than for larger firms. Henceforth, we have reason to believe that this may be the case and thus depart from the premise that the number of board directors is relevant for early-stage growth of new firms. One of the practitioners that we interviewed corroborates these assertions: *"A board could be an extension of your existing team, but in the beginning, it's often a smaller board, is a better board to me, but later down the road, you need to grow because you need to find specific people into the board seat. Specific people with specific competence." (Founder E*).

Due to the limited resources in start-ups, the higher number of board members tends to increase the complexity of the management of the board. This bodes well for the start-up from being a lean board to a bigger board as the start-up grows. This is also illustrated by another interviewee: *"I think the number of board members will increase complexity in decision-making and would suggest a small number of board members unless additional members will positively impact the quality of important decisions. For instance, if a new board member has relevant experience in the field, and can contribute to help implement changes to get results, this would be regarded as a positive contribution in my opinion, and thus be a good reason to increase board size." (Founder B*).

As new venture grows through the different phases of its life cycle, it tends to have different needs, different skillsets, and different board sizes. A founder in our study was very strategic in enlisting board members to their venture, - the founder outlines the following: *"We wanted all these board members with different skills. A member with background in finance would bring in the skillsets in* funding, *getting more* funding *in the future. For the chairman, we wanted someone with experience with scaling companies and this chairman had done that journey before [in a previous startup]." (Founder D*).

Henceforth, it is plausible that the number of directors relates to new firm performance. The literature review is inconclusive but suggests a relationship as do also the practitioners. Accordingly, we advocate that the number of directors relating to the performance of the firm:

Hypothesis 2. The number of directors will relate positively to new firm performance.

2.3. Interaction effects within the main superstructure, and new venture performance

Li et al. (2020) makes the point that time has come to investigate board interactions. We, therefore, question what more there is to the case of the 'one person, two jobs' role. We have argued above that not only will CEO duality affect the performance of new firms directly, but this structure will likely affect the performance of new firms *conditionally*, as well. For instance, how does the leadership structure of the board interact with its number of directors? Those questions were also commented on by the interviewees: "*CEO duality is good for when the number of directors is low. It will typically be low at the beginning of a start-ups journey and then the duality is not as problematic as it can be later in the journey with more progress, more directors, more responsibility, etc." (Founder D*).

"A board with a higher number of members will likely require more time than a smaller board. And the more time a CEO spends being a board member, the less time they can spend being the CEO - which is small companies includes much of the daily admin, sales, biz dev, product development, etc. As long as the Chair's obligations are not in the way of this, I think duality is fine." (Founder C).

"I think this duality is good up to a certain point when the startup is not a startup anymore. When the company transitions into a more stable phase, it could be wise to have several opinions on different matters, and collectively make better-informed decisions. Whereas in the starting phase it is more important to do something as opposed to analysis paralysis." (Founder B).

It is plausible that the dual CEO structure will interact with the number of directors in various ways, and that performance will depend on the level of that interaction. Henceforth, we hypothesize that the leadership structure will interact with the number of board members:

Hypothesis 3. CEO duality will moderate the relationship between the number of directors and new firm performance, so the 'one person, two jobs' structure is more effective when the number of directors is fewer, but less effective when the number of directors is higher.

3. Research methods

We employed a mix-method research approach (Tashakkori and Teddlie, 2010), which is a procedure for collecting, analyzing, and integrating both quantitative and qualitative data at certain points in the research within the same study (Creswell, 2014). Neither quantitative nor qualitative data is sufficient by themselves to capture all the facets of interactional dynamics, we, therefore, combine these two analytical approaches, as they complement each other and paint a more complete picture of the phenomenon under investigation (Greene et al., 1989; Tashakkori et al., 1998). We first collected and analyzed the qualitative data, which was conducted after the initial literature review. We started by identifying potential interview subjects in the startup community in Norway to understand the practitioner's view. The quantitative and qualitative phases were coupled (Hanson et al., 2005) when we selected our interview subjects from the data pool.

The research setting of the *qualitative study* is start-ups in Norway. In-depth semi-structured interviews which include CEOs, board chairman, and board members took place during 2021. We used the qualitative design to unravel what the practitioners themselves thought about board governance and firm performance which we identified in the literature review. The qualitative insights were used

to guide our attention towards the specific instances (Sætre and Van de Ven, 2021). The interviews lasted between 30 and 75 min, and we transcribed each of them with the help of *f4transkript* (Creswell et al., 2003). The individual's names and other identifiers were immediately anonymized as we promised confidentiality.

Our *quantitative study* is based on data we have acquired from T-Rank AS and TietoEvry ASA, which has data from the national register (a public agency that sorts under the Norwegian Ministry of Trade and Industry). It consists of sales data from 11 355 Norwegian start-ups from the year 2019. We conducted our quantitative analysis with the SPSS 27 software package. The main vehicle of analysis is by means of logistic regression due to the binary nature of the dependent variable. Inspired by Beckman et al. (2014), we created a binary performance milestone variable that reflects accumulated sales from inception. We deem this approach to be more robust for our purpose. The one million milestone refers to the practitioner's rule of thumb of a start-up "doing well". We also counted the number of members of the company board before the year 2020, and we registered to what extend the CEO was also the chairman of the board. The number of directors does not include the board chair. In our study, we controlled for time since inception, since time, in this context, may be considered as a resource. We also controlled for the firm's level of equity mid-way since it reflects the base capital resources of the new emerging firms.

4. Analysis and results

Table 1 shows the means and standard deviations of the variables. Although the mean equity is 5,91 Million Norwegian Kroner (MNOK), the median is 0.120 MNOK, and the mode is 0.030 MNOK - the minimum legal required equity to form a small company. Table 1 shows the correlations between the various variables included in this study. The variables are weakly positively correlated to each other, except for the latter performance variable indicating that many of the same firms are included in the same measure. Time since inception correlates positively to CEO duality ($r = 0.07$, $p < .001$). and number of board director ($r = 0.04$, $p < .001$). Table 1 also shows that CEO duality correlates positively to the 1 MNOK performance milestone ($r = 0.08$, $p < .001$). CEO duality also correlates negatively to equity ($r = -0.05$, $p < .001$), and the number of board directors ($r = -0.30$, $p < .001$), indicating that a separate board chairman can be associated with more developed firms and somewhat higher equities.

Table 2 shows the results of the logistic regressions conducted for this particular study. We only report the odds (Exp(B)) and significance levels for ease of interpretation. From the first results column in Table 2, we can see that time since inception relates positively to the performance milestone measure, and from the second results column, we can see that both the number of board members (Exp(B) = 1.543, $p < .001$) and the CEO duality structure (Exp(B) = 1.206, $p < .001$) matters. As such, we find support for Hypothesis 1 regarding the dual leadership structure and Hypothesis 2 regarding the number of board directors.

From the third results column, we can see that the likelihood of the direct effects increases (Exp(B) = 2.193, $p < .001$), and we can also see that we have support for Hypothesis 3 regarding the interaction effect (Exp(B) = 0.789, $p < .001$). In other words, having a dual CEO more than doubles the likelihood of reaching the performance milestone, but at the same time decreases its conditional effect. Read differently, it appears that a separate board leadership structure (reverse coded duality) becomes increasingly more important the larger the board is. However, the joint effect of these two is difficult to interpret without graphing the relationship. Fig. 1 illustrates the conditional effect on the revenue stream and shows that the performance is high when 'one person, two jobs' (that is, CEO duality) is combined with few directors. The figure also shows that the performance is at its highest when the leadership is divided between the CEO and the chairman, and the number of directors is high. The performance is also at its weakest when this separate leadership structure is combined with few board members. In other words, CEO duality is good when the number of directors is low (mean - 1 s.d.), but not so good when the number of directors is high (mean + 1 s.d.). Then, a separate board chair is better.

Table 1
Descriptive statistics and correlations.

Variables:	Mean	SD	1.	2.	3.	4.
1. Performance	.53	.50				
2. Level of equity	5,91	92,08	.02*			
3. Number of other directors	1.67	1.01	.06***	.08***		
4. CEO duality	.47	.50	.08***	-.05***	-.30***	
5. Time since inception	1.61	.27	.09***	-.01	.04***	.07***

Significance level: *p < .05, **p < .01, ***p < .001. Number of firms = 11 355.

Table 2
Regression results on performance milestone 1 MNOK.

	The model with control variables	The model with the main variables	The full model
(Constant)	.381***	.257***	.234***
Time since inception	1.945***	1.809***	1.784***
Level of equity	1.000*	1.000*	1.000^{+}
Number of other directors		1.206***	1.280***
CEO duality		1.543***	2.193***
CEO duality*#directors			.789***
−2 Log Likelihood	15 610.06	15 453.20	15 427.47
Model LL	94.87***	251.74***	277.48***

Significance level: $^{+}$p<.10, *p < .05, **p < .01, ***p < .001. Number of firms observed = 11 355.

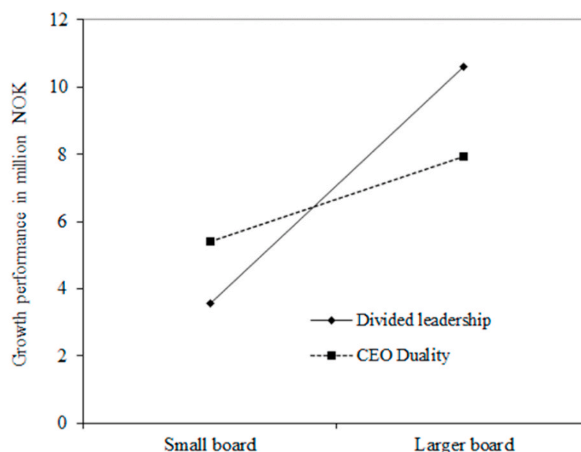

Fig. 1. Interaction effects graphed on the cumulative revenue stream of the firms.

5. Discussion and conclusion

Our study makes two primary contributions to the venture governance literature in the context of entrepreneurial firms. First, we find that CEO duality is beneficial in the earliest stage of new firm development – when the uncertainty typically is very high. Boyd (1995) asked not if CEO duality is good or bad, but at which point or under what condition the CEO duality is good or bad. In the same study, Boyd (1995) concluded that duality can help a firm under the right conditions and suggested that CEO duality would be beneficial when environmental uncertainty is high because CEO duality provides a unity of command and speed of decision-making that is necessary to manage uncertainty. Based on Banham and He (2010), Li et al. (2020) asserted that CEO duality is common in young firms where the separation of ownership and control is incomplete. Garg and Eisenhardt (2017) also "flipped" the role of the CEO and board because the CEO is usually the largest shareholder in entrepreneurial firms. In particular, we find this to be the case when the CEO is also the chairperson, as the dual role may facilitate that the CEO can act forcefully in governing and controlling the board to ensure that the venture succeeds.

Second, we find that the number of board members affects the performance milestone directly. That is, increasing the number of board members will increase the likelihood of better performance. Moreover, we find that the dual board leadership structure is optimal in the context of smaller boards, whereas a separate board leadership structure is more beneficial when the number of board members increases. That is, the data shows that new venture performance is at its highest with CEO duality when the number of board members is low. But when the number of board members increases, a separate board leadership structure is more beneficial. Note that increasing the number of board members will always be beneficial. This has important implications for practitioners. Founders of new ventures ought to start with a dual role and seek to increase the size of the board, for thereafter to split the leadership structure when the board becomes more challenging and difficult to manage. When exactly that ought to take place is for the dual CEO to decide, but our data indicates when the 6 MNOK milestone has been surpassed.

Given all the uncertainties embedded in and around new ventures, CEO duality gives structure to the decision-making environment. This structure epitomizes the nature of new ventures - nimble, fast decision-making, clear and steadfast vision from a single person. That is, the same person as the CEO and the chairman bodes well for new ventures. Decisions can be made without many back-and-forth arguments and the board can move on to the next agenda in the board meetings. For instance, if the CEO and chairman are not aligned with the same vision, it will contribute to creating uncertainties, which can be harmful at very early stage.

We build on performance data collected over just a two-year period, so this represents a weakness of the study. Future studies may look into the role of board leadership structure over time. Future studies could also look into how the dual leadership structure affects performance in different sectors. For instance, is CEO duality more relevant in technologically dynamic industries, as compared to less dynamic industries? Nielsen and Huse (2010), p. 306 asserted that "great potential exists for studies exploring the independent and interaction effects of TMT, board of directors and CEOs". The current study has investigated the joint role of the dual CEO and the directors in new firm growth. Adding other types of directors, and the interaction among these and the CEO and the board members may indeed help us to understand how the dynamics of entrepreneurial suprateams work in growing new firms under conditions of fundamental or true uncertainty. Future studies may usefully also look into the "dyadic" relationships between the dual CEO and the other board members. Who are these directors, how are they accessed, and not least, mobilized? In what way do they interact, and with what kind of expectations?

Author statement

Dennis Gan: Conceptualization, Investigation, Methodology, Data curation, Writing - Original draft preparation, Writing-Reviewing and Editing, Resources, Formal analysis, Software. **Truls Erikson:** Conceptualization, Formal analysis, Methodology, Supervision, Writing- Reviewing and Editing, Software, Validation.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Appendix

Appendix 1
Overview of themes and inductive evidence from data

Founder	Field quotes in support for H1	Field quotes in support for H2	Field quotes in support for H3
Founder A	"I don't think CEO duality is good, normally but in some stages, it can be a necessity. It will give speed but will also increase risk of bad decision and risk of action not benefiting all shareholders/employees."	"It depends on the stage the startup is in. Early stage can be few, but the more mature the more important it is to have a board that can guide the company without too many ties to specified fractions within the company."	I don't think CEO duality is good, normally but in some stages, it can be a necessity. If you still want to do the duality it is important that the duality is controlled by more board of directors so not all power is included at one person. Also, it is important that no one can signed documents alone that will have great impact on the company (save new sales of services)
Founder B	"Regarding the CEO-duality I think it is a strength that the CEO is also the chairman, because then you have the authority to implement changes, rather than having to wait for meetings and decisions to be made by others. Thus, I think you can be more effective in this position, and hence positively impact performance."	"I think the amount of board members will increase complexity in decision-making and would suggest a small number of board members unless additional members will positively impact the quality of important decisions"	"I think this duality is good up to a certain point when the startup is not a startup anymore. When the company transitions into a more stable phase, it could be wise to have several opinions on different matters, and collectively make better informed decisions. Whereas in the starting phase it is more important to do something opposed to analysis paralysis."
Founder C	"I think it depends on the scale and scope of the company. In the earliest phase (i.e. the first 12 months), having a separate chair/CEO will mostly just reduce agility and speed. The CEO owns the vision and goals and will probably be just fine as a chair as well. The role of the board will likely grow together with the size of the company, and it will reach a point where CEO duality will become too much for one person."	"I think this hinges largely on the quality, commitment and relevance of the board members. I'd rather have one committed, competent board member, than 5 mediocre ones. The larger your board, the more time it will require to maintain, so you have to decide where the payoff beats the cost."	"A board with a higher number of members will likely require more time than a smaller board. And the more time a CEO spends being a board member, the less time they can spend being the CEO."
Founder D	"In the beginning, CEO duality is a benefit, because you can just make decision and move on. No admin, no time spend defending, discussion, you just do everything. In the beginning, you just need speed, but then again, after a certain amount of time, you also need to make good decision and it's better that you are not the same person in all these roles. You have different people, and you have a discussion on the way forward."	We wanted a few things, we want the industry experience, because we were media, we didn't have much knowledge, that's how we got board member X in as he represent the industry. And then we wanted someone who knew a lot about finance, that's how the portfolio manager works.	"I think CEO duality is good for when the number of directors is low. It will typically be low in the beginning of a startups journey and then the duality is not as problematic as it can be later in the journey with more progress, more directors, more responsibility etc."
Founder E	"The influence the founder has in the beginning is crucial for the development of the startup from day one. If you put someone else in the chair, that person has different opinion from day one, compared to what the CEO has as the founder, then you have a difficult situation. But what we are trying to tell all our startups is that if you do a duality for both positions, you can only do it in certain amount of time." "If you are the CEO and the Chairman, you have more opportunity to put your stamp onto everything. The minute you put a different person into the chair position, then you need to have consideration of everyone else all the time."	I'm a great fan for companies that actually use boards, because you can get a lot of experience into it, that you don't have to pay for it in the beginning. And it could be an extension of your existing team.	"If you have very early phase startup, you should have a lean board. That means, 3–4 board members at the maximum, in the beginning, that's my take on it. When the company grows, this can be already 3,6, 12, 18 months' time. Then you need to put more both interests and effort into the board. But in the beginning, it's often a smaller board, is a better board to me, but later down the road, you need to grow because you need to find specific people into the board seat. Specific people with specific competence." "Day zero, I have no problem with just having 1 or 2 or 3 of the founders being on the board from day one. Just to get it started. Because often, the creativity, the whole creative process of starting the company needs to come from the founder."
Founder F	"Often, it could be a good thing since, a lot of responsibility in both roles at the same time. As things get bigger, it's beneficial to split different tasks between board chairman and CEO."	Now we have a big board, there is more competence. So, it might be more efficient for the company as a whole when we have people from startup experience can share some smart thoughts about how to do things.	I don't think having more people in the board will take more time for me to manage. It only makes me prepare better for meetings.

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