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ASSESSING THE INDEPENDENCE OF THE BOARD CHAIRPERSON: FACT OR FALLACY?

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ABSTRACT

Corporate observers have recently devoted increased effort at encouraging corporations to separate the positions of CEO and board chairperson. The primary rationale driving this action is that board chairpersons who do not also serve as CEO are believed to be more independent from firm management than are those board chairpersons who also serve as CEO. Separation of these positions may be especially important in entrepreneurial firms where the founder often remains active in firm affairs. An investigation of Inc. 100 corporations indicates that separate chairpersons do, in fact, differ with respect to tenure as CEO, tenure with the company, stock holdings, and founder status when compared to CEOs who serve simultaneously as chairperson of the board. On two additional dimensions (extent of familial relationships, inside/outside succession), however, separate and joint CEO/board chairpersons can not be distinguished.

INTRODUCTION

The popular press has recently documented an increased attention to CEOs who concurrently serve as board chairperson (joint board leadership structure) in their firms. The more notable accounts have primarily focused on large corporations; however, firms of all types and sizes are subject to increased scrutiny on this issue. Despite apparent pressure to adopt the separate board leadership structure (the CEO does not also serve as board chairperson), few CEOs are eager to sacrifice the control and prestige of holding both of these powerful corporate positions (Dobrzynski, 1991). CEOs of entrepreneurial firms may be particularly reticent to sacrifice the additional measure of control which accompanies the joint board leadership structure (Daily & Dalton, 1992a).

Despite increased attention to this issue, relatively few studies have addressed the nature and impact of board leadership structure. The few studies that do exist provide little guidance regarding which structure (joint or separate) best serves firm owners. An additional concern is a predominate focus on large (e.g., *Fortune* 500) firms. Those studies which have focused on small and/or entrepreneurial (high growth) firms have yielded conflicting results (e.g., Daily & Dalton, 1992a, 1993, 1994).

It would be fair to state that the majority of corporate observers favor the separate board leadership structure. Interestingly, the majority of firms employ the joint structure, in which CEOs serve simultaneously as board chairperson. This is apparent whether the firm is large, small, or entrepreneurial (e.g., Daily & Dalton, 1992a, 1993; Lorsch & MacIver, 1989). What, then, accounts for this conspicuous divergence of practice and prescription? The rationale repeatedly relied on reflects a common theme: As their roles are potentially conflicting, there is a pressing need for independence between the board chairperson and CEO. A separate structure facilitates that independence. A timeless adage holds that the person doing the "counting" should not be doing the "accounting."

Despite the prevalence of the independence view to which we have referred, no one has examined the extent to which separate equals independent in entrepreneurial firms. Our focus on entrepreneurial firms is driven by a number of considerations. First, strategic leaders are more likely to impact firm processes and outcomes in the relatively smaller firm (Eisenhardt & Schoonhoven, 1990; Reinganum, 1985). Smaller firms, for example, are generally characterized by centralized decision making control which is dominated by the CEO (Begley & Boyd, 1986, 1987; Whisler, 1988). The scale and complexity which characterize the large firm often temper the discretion of the CEO and may limit subsequent actions (Dalton & Kesner, 1983; Norburn & Birley, 1988). The smaller firm, however, may facilitate CEO power and more narrowly focus firms' planning, core business knowledge, and environmental scanning processes and systems (e.g., Baysinger & Hoskisson, 1990; Smith & Gannon, 1987).

A second consideration in adopting the separate structure in the entrepreneurial firm is the need for independent oversight. This is a common prescription to those who wish to create and maintain a high growth business (e.g., Hartman, 1990). Independence may be especially important where the founder is the CEO. Even in entrepreneurial corporations, the founder commonly remains active in the management of the firm. One of the reasons investors may be interested in such firms is because of their faith in the founder's ability to effectively guide the organization. A concern with these founders, however, is that they often experience difficulty in separating themselves from the firms they created.

This study relies on a sample of entrepreneurial (*Inc.* 100) corporations to empirically investigate the extent to which the separate board chairperson (not also serving as CEO) is more independent than the joint CEO/chairperson. This examination may provide some understanding regarding the independence dimensions of CEO/chairperson structures in high growth firms.

SEPARATE AND INDEPENDENT?

A primary concern with the joint board leadership structure is that having the same individual serve as CEO and board chairperson encourages the potential for conflicts of interest between management and owners. To address this issue, corporations are required to maintain a board of directors which serves as the representative of shareholders. The board's role can be significantly more difficult, however, when the CEO also serves as board chairperson. Without formal separation between management and the board, managers may more easily operate in a manner which best serves their interests, often at the expense of shareholders' interests (see e.g., Fama & Jensen, 1983; Jensen & Meckling; 1976 for agency theory arguments in support of this point). In this situation, directors may feel unable to "ask the right questions, raise the right issues, or make the right judgments" (Dobrzynski, 1991: 124).

The separate board leadership structure provides a formal separation between the board and management. This separation is expected to provide enhanced monitoring of managerial actions, effectively tempering the opportunity for managers to pursue actions which are in conflict with the best interests of firm owners (e.g., Kesner & Dalton, 1986; Dayton, 1984). With more effective monitoring, then, directors will direct managers' attention to actions which enhance shareholder (owner) value.

In addition to enhanced monitoring, shareholders may benefit from the separate structure as a result of the additional guidance provided by an outside chairperson. Walter Mardis, a partner with Mercer Management Consulting in New York City, recently commented on this issue for entrepreneurial firms: "The truth is, a lot of companies run into trouble because the CEO believes that he or she can run it totally without any kind of outside guidance or help even though it has gotten substantially larger and more complex, and they resist any kind of outside involvement" (Geddes, 1994: 69). The joint structure may also simply be a function of the CEO's need for control, which may prove detrimental to creating value for firm owners. C. Charlie Bahr, president of Bahr International Inc. of Dallas, has provided some perspective on this issue by noting of the positions of CEO and board chairperson: "Often the roles are kept combined for the forceful ego needs of the senior person who has not yet decided to yield authority, responsibility or control, or visibility to other than himself or herself" (Geddes, 1994: 69).

Not all observers, however, embrace the separation of these two positions. CEOs have strongly advocated the joint structure (Lublin, 1992). Supporters of the joint structure suggest that combining the positions of CEO and board chairperson provides a unified focus in the firm (Anderson & Anthony, 1986). This centralized leadership may signal that the firm has a strong leader and eliminates the potential for conflict between the leadership of management and the board since the same individual serves in this capacity. Walter Mardis has provided some perspective on the perceived benefits of the joint structure as well. He notes that unifying the positions of CEO and board chairperson save the entrepreneurial firms money, avoids conflict from having multiple decision makers, allows for quicker turnaround, and results in improved communication at the senior level (Geddes, 1994). Still, advocates of the joint structure recognize that independence and accountability may be sacrificed when the CEO also serves as board chairperson.

We have identified five indicators which we believe may distinguish board chairperson independence. These include: (1) a succession to the position of board chairperson from outside of current officers and directors of the firm, (2) tenure as CEO, (3) tenure with the company, (4) equity holdings, and (5) familial relationships between the chairperson and officers and directors of the firm. Each indicator is discussed in turn.

Succession

The chairperson's appointment from within the organization or from outside the ranks of current officers and directors may provide some evidence of independence from firm management. Outside successions, however, are relatively uncommon events (Vancil, 1987). In the most common scenario, chairpersons assume their role either during their tenure as CEO or upon retiring from the position of CEO. These progressions, while prevalent, have been widely criticized by those advocating chairperson independence (e.g., Sherman, 1993; Wriston, 1993).

The primary concern with these typical succession processes is that the presence of an ex-CEO as chairperson may significantly inhibit the incumbent CEO's ability to initiate changes (Levy, 1993b; Lorsch & MacIver, 1989; Vancil, 1987). This may be particularly true in the case where the chairperson also founded the firm. It has been reported that founders often exhibit considerable difficulty in making the transition from active management to an oversight position (e.g., Sonnenfeld & Spence, 1989).

In addition to compromising CEO effectiveness, this succession process may impair the effectiveness of the chairperson who may hesitate to provide the appropriate amount of leadership in order to avoid appearing to be power hungry (Levy, 1993b). Still another potential concern is that the chairperson who ascended from the position of CEO very likely hand picked his or her successor. It is likely in this situation for the chairperson to feel conflicted should the CEO fall short of the board's expectations (Vancil, 1987). It would appear, then, that an inside succession to board chairperson may compromise the effectiveness of both management and the board on several dimensions (e.g., Sherman, 1993).

The far greater frequency of inside successions suggests that there are benefits to having a former executive serve as board chairperson. One such benefit is continuity (Vancil, 1987). A second benefit is that the former CEO may be uniquely qualified to advise the current CEO (Sherman, 1993). Wriston (1993), however, has suggested that no formal structure is necessary to realize this benefit. Should incumbent CEOs wish the advice of their predecessors, they need only ask.

The issue here is whether the chairperson who concurrently serves as CEO (joint structure) is more or less likely to be brought in from outside the organization as compared to the chairperson not concurrently serving as CEO (separate structure). If the separate chairperson is more likely to have succeeded to this position from outside the organization as compared to the joint CEO/chairperson, there would be some affirmation of independence.

> H_1: Separate chairpersons will be less likely to have succeeded to their position from within the organization as compared to joint CEO/chairpersons.

Tenure

The chairperson's tenure, both as CEO and with the organization, may also provide some evidence of independence. Pfeffer (1982) has found that tenure tends to foster organizational "cohort" groups. Cohort membership, especially over an extended period of time, would provide some indication of shared values among group members (Alderfer, 1986). These shared values may lead to a sense of allegiance with firm executives (Fredrickson, Hambrick, & Baumrin, 1988). Organizational tenure may also increase members' resistance to change by increasing their commitment to established organizational practices and policies (e.g., Buchanan, 1974; Katz, 1982).

Here, the issue is whether the separate chairperson differs in the amount of organizational tenure as compared to the joint chairperson. Because tenure as CEO is likely to be strongly related to the succession process, we also consider the chairperson's overall tenure with the organization. Assessing both aspects of tenure may also be important because distinguishing between chairpersons with no formal ties to the organization as compared to those who have served the firm in some formal capacity may be difficult. It may be, for example, that all chairpersons will have served the firm for some period of time. Our approach allows us to assess relative levels of independence between separate and joint chairpersons.

> H_2: Separate chairpersons will have less tenure as CEO as compared to joint CEO/chairpersons.
>
> H_3: Separate chairperson will have less organizational tenure as compared to joint CEO/chairpersons.

Equity Ownership

The amount of equity which the chairperson holds in the firm may also provide some evidence of their independence from firm management. Consistent with agency theory arguments, increased equity positions should facilitate an alignment between the chairperson and owners' interests (Oviatt, 1988). Chairpersons with significant ownership stakes in the firm may be more likely to take an active role in monitoring management's performance, particularly since their wealth is directly related to the firm's stock performance. This is an especially salient issue in examinations of entrepreneurial firms where the founder typically maintains both a formal position in the organization and a substantial equity position.

Not all observers agree, however, that outside directors should hold equity in the firms they serve. Some have suggested that in order to remain truly independent, the chairperson should maintain no ties, including ownership, to the firm (see e.g., Daily & Dalton, 1992b). Equity ownership may serve to increase the chairperson's interest and involvement in firm affairs. This increased involvement may ironically erode the ability of the chairperson to behave independently.

An additional concern with equity ownership is that it may serve as an entrenchment mechanism, thereby, decreasing the likelihood of shareholder-oriented behavior (Daily &

Dalton, 1992b). While there is clearly no consensus on the firm-level benefits to be gained from chairperson equity ownership, the fundamental point is whether the joint CEO/board chairperson has more or less firm equity as compared to the separate board chair counterpart.

> H_4: Separate chairpersons will have less equity holdings in the firm as compared to joint CEO/chairperson.

Familial Relationships

The presence of familial ties between the chairperson and officers and other directors of the firm may also provide some evidence of independence, or lack thereof. The existence of familial relationships would presumably jeopardize the chairperson's independence (Kosnik, 1987). Few would expect chairpersons whose relatives are officers and/or directors of the firm to dispassionately assess their contributions. Typically, when family and business systems overlap, the family system dominates decision making processes (Ward, 1987).

The primacy of the family system manifests itself in a number of ways. Small family firms, for example, rely to a lesser extent on formal internal control mechanisms to monitor firm processes and outcomes than do their professionally-managed counterparts (Daily & Dollinger, 1992). Also, the succession process in the family firm is typically dictated by the readiness of the succeeding generation to assume control of the firm (e.g., Vancil, 1987). Lastly, familial relationships may also lead to entrenchment and increased family control of the firm (e.g., Morck, Shleifer, & Vishny, 1988). The important distinction here is whether it can be determined that CEO/board chairpersons differ in the number of familial relationships as compared to separate chairpersons.

> H_5: Separate chairpersons will be less likely to have familial relationships with officers and directors of the firm as compared to joint CEO/chairpersons.

METHOD

Sample

All firms listed in the 1993 *Inc.* 100 ranking were considered for inclusion in this study. These firms were chosen because they are high growth, entrepreneurial firms. Each year, *Inc.* magazine ranks the 100 fastest growing small public firms according to the following criteria: (1) firms must be publicly held, independent corporations, not subsidiaries or operating divisions of other companies; (2) firms must have gone public no later than December 31, 1992; (3) firms' stock must be actively traded; and, (4) firms must have reported 1988 revenues of at least $100,000 but not more than $25 million (*Inc.* 1993: 140). Firms whose 1991 revenues were lower than 1992 and firms operating in the following areas were excluded from consideration in the selection of the *Inc.* 100: utilities, oil and gas exploration, banks, insurance carriers, real estate developers, holding companies, and other investment offices.

The focus on public corporations is critical, as it allows for access to the governance data. Still, of these 100 firms, 19 did not file a corporate proxy report with the Securities and Exchange Commission for the 1992 fiscal year. The vast majority of these non-filing firms went public in either 1991 or 1992. Also, 10 of the remaining 81 firms did not employ a board chairperson and were consequently excluded from this sample. Of the original 100 firms, then, 71 are included in these analyses.

To ensure that the 29 firms which are not included in this study do not differ from the 71 firms for which we have full data, we conducted t-tests on those variables for which complete data were available. These include: five year sales growth, revenues, net income, number of full-time employees, year the firm went public, CEO compensation, whether the founder is also CEO, and CEO equity holdings. The only significant difference noted is that, on average, those firms which could not be included in these analyses were younger ($t= 2.17$; $p = .05$) than the firms for which we have full data. Table 1 provides the means and standard deviations of these variables for the full sample, as well as for those firms employing the separate board leadership structure and those firms employing the joint board leadership structure.

Table 1

Descriptive Statistics for Board Leadership Structures and Full Sample

	Separate Board Leadership Structure	Joint Board Leadership Structure	Full Sample
Variable	Mean (Stnd. Dev.)	Mean (Stnd. Dev.)	Mean (Stnd. Dev.)
Sales Growth	2384.48 (1532.35)	2611.87 (1883.03)	2531.80 (1759.68)
1992 Revenues	99996.32 (112871.37)	64495.43 (63384.77)	76995.75 (85102.08)
1988 Revenues	6175.92(7718.80)	4014.26 (5637.38)	4775.41 (6476.00)
Net Income	12609.48 (22796.97)	1428.17 (10719.64	5365.25 (16762.55)
Full-Time Employees	626.68 (954.81)	488.13 (638.17)	536.92 (760.80)
Incorporation Date	1988.84 (3.387)	1988.37 (4.86)	1988.54 (4.38)
CEO Compensation	257119.64 (148514.92)	276848.54 (176940.85)	269901.75 (166670.12)
Founder/CEO	.40 (.50)	.67 (.47)	.58 (.50)
CEO Equity	5.95 (7.45)	11.12 (9.76)	9.30 (9.30)
Industry Representation			
Health Care	48.00 %	23.91 %	32.39 %
Computer	36.00 %	34.78 %	35.21 %

Consumer	8.00 %	15.22 %	12.68 %
Telecommunications	4.00 %	13.04 %	9.86 %
Environmental	0.00 %	2.18 %	1.41 %
Miscellaneous	4.00 %	10.87 %	8.45 %

Variables

Duality is a binary variable coded as 0 for those firms employing the separate board leadership structure and 1 for those firms employing the joint structure (e.g., Daily & Dalton, 1993).

Inside/outside succession is binary as well, with a chairperson from outside the firm coded 0 and a succession from within the executive or director ranks coded 1. We also rely on two measures of organizational tenure to assess the independence of the chairperson. The first is the tenure of the chairperson as CEO. The second is the tenure of the chairperson, in any capacity, with the firm. Chairperson's ownership position is measured as the percentage of common stock holdings in the organization. The tenure and equity ownership variables are interval level.

Familial relationships between the chairperson and officers and directors of the firm were also noted. This is a binary variable. If no family relationships were present this variable was coded as 0. If the chairperson was related to an officer or director of the firm, this variable was coded as 1.

We also include the status of the board chairperson as founder of the firm as a control variable. Founders may exert significant influence over firm processes and outcomes (e.g., Begley, 1994; Begley & Boyd, 1986); therefore, independence may be less likely when the founder holds the position of board chairperson, irrespective of who holds the position of CEO. Even when founders are no longer active in current management, they seldom completely withdraw from the firm (e.g., Dyer, 1989; Rosenblatt, de Mik, Anderson, & Johnson, 1985). Any objective assessment may be difficult for founders, who often have difficulty separating the firm from themselves (Sonnenfeld & Spence, 1989).

Data were collected from the *Inc.* 100 and corporate proxy statements. All data are reflective of the year 1992.

ANALYSES AND RESULTS

Given the binary dependent variable, and the nature of the independent variables, the hypotheses may be simultaneously assessed with logistic regression analysis. In order to control for the founder chairperson, we rely on hierarchical logistic regression analysis and enter this control variable first, followed by the independent variables.

Table 2 provides the descriptive statistics and inter-item correlations for the study variables.

Table 3 illustrates the results of the simultaneous assessment of the hypotheses. In the following sections, reports of support for hypotheses, or otherwise, and their significance distributions refer to results noted on Table 3.

Table 2

Means, Standard Deviations and Inter-item Correlations for Study Variables

Variables	Mean	S.D.	(1)	(2)	(3)	(4)	(5)	(6)
(1) Chairperson Founder Status	.59	.50						
(2) Inside/Outside Succession	.85	.36	.36**					
(3) Tenure as CEO	4.24	3.77	.18	-.14				
(4) Company Tenure	6.76	3.43	.07	.13	.43***			
(5) Stock Holdings	11.47	13.18	.13	.13	.17	-.11		
(6) Familial Relationships	.23	.42	.31**	.23*	.03	.07	.02	
(7) Joint Structure	.65	.48	.23*	-.23*	.62***	-.07	.09	-.03

* $p < .05$; ** $p < .01$; *** $p < .001$

Table 3

Logistic Regression Results

Independent Variables	Coefficients	Standard Error	Wald	df	Sig.
Chairperson Founder Status [control variable]	1.89	1.03	3.37	1	.03
Tenure as CEO	1.09	.27	16.23	1	.00
Company Tenure	-.67	.24	8.07	1	.00
Stock Holdings	-.06	.03	3.74	1	.03
Familial Relationships	-.04	1.24	.00	1	.49
Inside/Outside Succession	-1.39	1.54	.81	1	.19

H_1 posited that separate chairpersons would be less likely to have succeeded to their positions from within the firm as compared to joint CEO/chairpersons. These data provide no support for this hypothesis (logistic coefficient, -1.39; ns). From these data, it can be determined that (1) even when the position of the CEO and chairperson are separately held, chairpersons are likely to have been selected from within the organization and, (2) there is no difference in the percentage of inside/outside successions as a function of the separate, joint CEO/chairperson distinction.

H_2 and H_3 relate to chairperson seniority. H_2 suggesting that separate chairpersons will have less tenure as CEO compared to joint CEO/chairpersons, is strongly supported (logistic coefficient 1.09; $p < .001$). Separate chairpersons had served as CEO an average of 1.08 years compared to 5.96 years for joint CEO/chairpersons. H_3 is also statistically significant, but opposite to the direction hypothesized. The average organizational tenure for separate chairpersons is longer (7.08 years) than that of their joint CEO/chairperson counterparts (6.59 years). While the differences in tenure are statistically significant (logistic coefficient -.67; $p < .01$), we doubt that this period of six additional months or so of chairperson seniority constitutes a substantively meaningful distinction.

H_4 suggests that separate chairpersons will have less equity holdings in the firm compared to joint CEO/chairpersons. This, too, is supported (logistic coefficient -.06; $p < .05$).

Separate chairpersons own 9.87 percent of the firm's equity, while joint CEO/chairpersons hold 12.35 percent.

The last hypothesis (H_5) noted that separate chairpersons would be less likely to have familial relationships with officers and directors of the firm. There was no support for H_5 as there was no difference in the incidence of these relationships. Separate chairpersons had familial ties in 21.74 percent of firms; those serving jointly as chairperson and CEO had family relationships in 24 percent of the organizations. These differences are not statistically significant.

In summary, separate chairpersons, as compared to those with joint CEO/chairperson roles, were characterized by (1) less CEO tenure, (2) more tenure with the firm, and (3) less equity in the firm. With regard to proportions of inside/outside succession and familial relationships, there were no differences.

DISCUSSION

The results of this study illustrate three indicators which distinguish separate board chairpersons from joint chairpersons. Can the results reported here be responsibility interpreted as evidence that separate board chairpersons, as contrasted with officers that serve as CEO and board chairperson simultaneously, are more independent? That is not a conclusion with which we would be comfortable.

We find the most compelling arguments regarding the independence issue to be associated with familial relationships and inside/outside succession. We would concede that results demonstrating that joint CEO/chairpersons have far more familial relationships with other officers and directors of the firm, as compared to the separate board chairpersons, might be an indictment indicating low levels of independence. The *Inc.* 100 data which comprise this study do not establish this tendency.

We are also persuaded that board chairpersons and CEOs appointed from outside the firm, i.e., outside successions, are probably more independent of the firm and more dispassionate in their judgement at least with regard to prior relationships with current personnel in the firm. If it could have been determined that separate chairpersons were more likely to have been appointed from outside the firm as compared to joint CEO/chairpersons, that, too, might be interpreted as evidence of more independence. These *Inc.* 100 data do not support that view.

The data do suggest that joint CEO/chairpersons have more firm equity than separate chairpersons. Separate chairpersons own 9.87 percent of the firm's equity compared to the 12.35 percent held by CEO/chairpersons. While these data are clear, we are less certain of the appropriate conclusion. We could agree that a chairperson with little or no equity in the firm may well be dispassionate regarding certain fiscal policies and may be more willing to entertain investments and strategies for returns in the longer term. An alternative perspective, however, suggests that board chairpersons should have substantive equity positions in the firm which presumably aligns their interests more closely with those of the shareholders. We recognize, however, that substantial equity holdings may jeopardize the very independence which is sought under the separate board leadership structure.

We should also add that while the nearly 10 percent equity holdings of separate board chairpersons is statistically different from the 12.35 percent of the joint CEO/chairpersons, both of these constitute substantive equity positions. We wonder if actual differences in strategy would be likely between the two groups of chairpersons (joint, separate) based on this relatively modest difference in equity position.

It is also true that the chairperson groups differ on tenure as CEO and tenure with the firm. As noted earlier, the difference between these groups with regard to tenure with the firm amounts to some six months. It would be difficult to sustain an argument for major differences in board chairperson independence based on that distinction. There is, however, a more meaningful difference in the comparison of tenure as CEO.

Limitations and Applications

The nature of these data precluded capturing the extent to which either the separate chairperson serves as a "puppet" to the CEO, or vice versa. This is likely to occur in any number of situations. This situation has also been referred to as "marionette management" (Wheelen & Hunger, 1990). Vancil's (1987) work on executive succession, for example, may provide some perspective on this issue. During the succession process it is not uncommon for the position of CEO to be temporarily filled, or even remain vacant for some period of time. During this time the board, specifically the board chairperson, may adopt a hands-on approach to firm management. This may be especially prevalent in the case of a founder/chairperson.

Wheelen and Hunger (1990: 75) recounted a typical example of marionette management which occurred at Winnebago Industries in 1986. The 72 year old founder, John K. Hanson, served as chairperson in 1986 and removed the title of CEO from Ronald Haugen, but left him as president of the firm. Concurrently Mr. Hanson, without assuming the title of CEO which he held for many years, resumed the responsibilities of the CEO while formally holding only the position of board chairperson. This situation clearly illustrates that even when the positions of CEO and board chairperson are formally separated, the separation may be purely illusory.

We might also note that the results of this study may not apply to those firms that are stable, small businesses or to privately-held firms. These findings do, however, provide guidance for the entrepreneur and for those who might work with entrepreneurs in some capacity (e.g., small business counselor, lawyer, CPA, educator). These "independence" issues, for example, may be fundamental as the smaller firm contemplates expansion. Potential investors might take note of these relationships. If the smaller firm should at some point go public, the issue of CEO/chairperson/founder independence might come under close scrutiny.

Geddes (1994) has suggested a list of questions that entrepreneurs should ask when considering the issue of board leadership structure. We would suggest that these questions would be equally appropriate for those working with or for entrepreneurs as well. The questions include: "Is anything falling through the cracks? How are relations with shareholders? What are the company's objectives? What constituencies need to be served in the company? What am I trying to accomplish? Who is this organization? Who could and should be in the organization? What are the tradeoffs between keeping the functions combined in one individual versus separating them?" (Geddes, 1994: 69).

CONCLUSION

There are those who have forcefully argued that, as a matter of policy, the positions of CEO and board chairperson should be separated (e.g., Committee on the Financial Aspects of Corporate Governance, 1992; Dobrzynski, 1991; Levy, 1993a; Lorsch & MacIver, 1989). Based on these *Inc.* 100 data, we find little justification for the prescription. We have not been able to determine dimensions of independence on which separate chairpersons and joint CEO/chairpersons differ sufficiently to warrant such a recommendation.

Even so, fast-growing, entrepreneurial companies should carefully the consider choice of the CEO/chairperson structure. Past research has suggested that adoption of the joint structure may be a means for founders of entrepreneurial firms to retain some measure of control without sacrificing performance (Daily & Dalton, 1992a). Enhanced control may occur at the cost of access to external funds which may be needed to continue firm growth. The centralized structure has the potential to deter the involvement of venture capitalists who often prefer for the board to be more powerful than firm management (e.g., Jarillo, 1989; Rosenstein, 1988). Many venture capitalists elect to "grow" the CEO of an entrepreneurial organization under their tutelage (Rosenstein, 1988, p. 163). This mentoring would likely be more difficult where the CEO also serves as board chairperson. Consequently, even though performance may not be adversely affected by the joint structure, the ability of the firm to pursue aggressive growth opportunities may be hampered by a lack of funding opportunities.

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