During CEO transitions, many firms choose to retain the predecessor CEO as board chair, in large part to facilitate orderly transitions. While the predecessor CEO can be an important source of advice, he or she may also be a significant hindrance if they do not allow their successor the latitude to make their own impression on the firm. Recent research in the Strategic Management Journal demonstrates that retaining a departing CEO as board chair significantly impacts the ability of the succeeding CEO to engage in strategic change, which influences firm performance.

In examining 181 CEO succession events in high technology industries from 1994 to 2006, the authors noted that 39 percent of CEOs retained the board chair position 12 months after leaving the CEO role. Considering factors which lead to predecessor retention as chair and comparison to firms where the predecessor was not retained, the researchers found that retaining the predecessor as chair resulted in a lesser degree of resource reallocation (expenses relating to R&D, advertising, and SG&A), fewer divestitures, and fewer departures of executive team members. Once the predecessor CEO retired, however, strategic change was more likely in comparison to firms where the predecessor was not retained, including greater levels of resource reallocation, divestitures, and change in top executive positions (both additions and departures). These lessened effects on strategic change ultimately led to more stable performance during retention, and greater levels of performance change (whether good or poor) once the predecessor left the board.

In summary, firms are increasingly likely to retain departing CEOs on their boards; however, this retention has ramifications for succeeding CEOs who appear to have less discretion engaging in strategic change while the prior CEO serves as board chair. The retention of the board chair appears to limit the new CEO’s ability to impose their wishes upon the firm. This restriction is significantly decreased once the predecessor leaves the board.