Summary of Paper: CEO outside Board Service and Managerial Short-Termism

What is this Study About?

This study examines whether CEOs who serve on the boards of other companies are less likely to make short-term business decisions—like cutting R&D spending to meet earnings targets—and more likely to take actions that improve long-term performance. Using 12,675 U.S. firm-year observations from 2004–2018, the authors test how the number of outside board positions influences managerial behavior.

What are the major findings of the study?

CEOs with one or two outside directorships are significantly less likely to cut R&D for short-term earnings boosts and more likely to engage in innovation and long-term value creation. These benefits disappear at three or more directorships. The positive effects are strongest in firms with high short-term pressure, such as those just missing earnings targets, operating in homogeneous industries, or having weaker governance.

Why is the study important?

It directly addresses a major governance debate: should CEOs be allowed to serve on other boards? The findings challenge blanket restrictions by showing measurable benefits up to two outside boards. For auditors, analysts, and governance advisors, this evidence supports nuanced board-appointment policies.

What is the impact on professional practice and society at large?

For practitioners, allowing CEOs limited outside board service can be a governance tool that encourages sustained R&D investment, supports strategic innovation, and enhances shareholder value. For society, it suggests that corporate leadership structures can be designed to counteract "short-termism," a concern flagged by policymakers like the SEC and institutional investors such as BlackRock.

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