

Age Divide, Risk Decides: CEO-Chair age gap and D&O Liability Insurance

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Abstract

Purpose – This study investigates the impact of CEO-Chairman age dissimilarity on the likelihood of purchasing Directors and Officers (D&O) liability insurance, exploring whether the relationship varies across organizational contexts, such as CEO tenure, state ownership, and family firm status.

Design/methodology/approach – We analyze a sample of 36,210 firm-year observations from publicly listed firms in China from 2001–2021. Using panel data regression, we examine the association between the CEO-Chairman age gap and D&O insurance purchases, incorporating firm characteristics such as CEO tenure, state ownership, and family firm control. We also explore the potential curvilinear effects of the age gap on insurance decisions.

Findings – Our findings show a positive and statistically significant relationship between the CEO-Chairman age gap and the likelihood of purchasing D&O liability insurance. This association is more pronounced in firms with higher CEO tenure, state-owned enterprises (SOEs), and family firms, suggesting that larger governance risks due to leadership disparities drive insurance decisions. Additionally, the relationship is curvilinear, with moderate age gaps leading to a higher likelihood of purchasing D&O insurance, but the effect diminishes at very large age gaps.

Implications – This study underscores the importance of CEO-Chairman age dissimilarity in corporate risk management. For practitioners, particularly in state-owned and family firms, larger age gaps may signal heightened governance risks, driving the need for D&O insurance. The curvilinear relationship suggests that firms should assess the optimal age balance between executives. Policymakers could use these insights to refine governance regulations, particularly in markets with unique ownership structures, enhancing risk management strategies.

Originality/Value – This study contributes to the literature by highlighting the role of leadership dynamics, specifically the CEO-Chairman age gap, in influencing corporate risk management decisions. It offers new insights into how organizational characteristics such as CEO tenure, ownership structure, and family control interact with the firm's approach to risk mitigation through D&O liability insurance. The findings provide valuable implications for governance practices, risk management strategies, and policymaking, particularly in markets with distinctive ownership structures like China.

Keywords: *CEO-Chairman age gap, D&O liability insurance, state-owned enterprises, family firms, CEO tenure.*

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