

## **Narcissistic CEOs and their effects on company strategy and performance**

### **RESEARCH QUESTION**

Although prior research has generated a wealth of insights about how executive characteristics are manifested in organizational outcomes, almost no attention has been devoted to one of the most vivid qualities observed in some CEOs: extreme narcissism. Drawing on psychological research we argued that narcissism is a personality dimension, rather than a pathological disorder. Because narcissism drives people to assume positions of power and influence, and because the self-esteem associated with narcissism helps in professional advancement, we can anticipate that CEOs will tend, on average, to be more narcissistic than the general population. However, CEOs will still vary in their degree of narcissism, just as they have been shown to vary on other personality dimensions. There may be very few CEOs who have an absence of, or very little, narcissism; but we can expect variance otherwise, with moderate, high, and very high levels of narcissism amply represented in executive populations.

Highly narcissistic CEOs – defined as those who have very inflated self-views, and who are preoccupied with having those self-views continuously reinforced (Campbell, Goodie, and Foster, 2004) – can be expected to engage in behaviors and make decisions that have major consequences not only for the individuals who interact directly with them, but also for broader sets of stakeholders. What are the strategic consequences and performance outcomes of having a narcissistic CEO at the helm of an organization?

### **HYPOTHESES**

Through bold strategic initiatives, narcissistic CEOs can engage in the exhibitionism that will garner an attentive audience. Merely maintaining the status quo, or simply refining and elaborating on an existing strategy, may seem a reasonable course

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of action for a CEO who has only moderate level of narcissism. But incrementalism is too invisible, too mundane, to suit the needs of the highly narcissistic CEO. Narcissists need an attentive audience, which in turn means they need drama. Thus, narcissistic CEOs will favor strategic flux or dynamism, in order to deliver a drama that will gain attention in a way that strategic stability cannot.

*Hypothesis 1: The greater the narcissistic tendencies of a CEO, the greater the dynamism of the company's strategy.*

In business, some strategic initiatives are more grandiose and attract more attention than others. Acquisitions, and particularly large acquisitions, are among the most visible initiatives a CEO can take. In one bold stroke, the CEO can expand the size, and often the scope, of the company. While acquisitions do not always garner positive acclaim, they are highly visible, attract the audience that is needed by the narcissistic CEO, and feed his or her need to be seen as bold and daring. By comparison, incremental improvements of product quality, lining up new distributors, and reducing costs do not have much visibility; they do not attract much note or acclaim. Incremental initiatives might lead to competitive success, but they are not the preferred route, or the primary route, taken by the narcissistic CEO.

*Hypothesis 2: The greater the narcissist tendencies of a CEO, the greater the number and size of acquisitions made by the company.*

We can expect that narcissistic CEOs will tend to deliver extreme performance – big wins or big losses. The grandiose, bold actions that are preferred by narcissistic CEOs will be high-risk, high-reward. For example, the large acquisitions favored by narcissists are known to increase performance variance. Other types of grandiose actions that might be preferred by narcissistic CEOs – such as large increases in R&D spending,

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aggressive international expansion, and large-scale new product launches – will similarly tend to generate more extreme outcomes than will more moderate, or measured, strategic initiatives. The bold initiatives taken by narcissistic CEOs will tend to either reap big benefits from first-mover advantages or suffer major losses from misjudging the environment. Additionally, the ongoing strategic flux that is preferred by the narcissistic CEO will cause the company to be continuously at the leading edge of new opportunities or newly envisioned pathways to success, instead of trying to refine existing formulas. This strategy of continuous novelty will give rise to extreme performance; each new, transitory direction will tend to either be a big hit or a big miss (Finkelstein and Hambrick, 1990).

*Hypothesis 3: The greater the narcissistic tendencies of a CEO, the more extreme the company's performance.*

The grandiose and ever-shifting strategic actions taken by the narcissistic CEO will not only cause extreme performance, but also wide fluctuations in performance. Big, quantum initiatives that are quickly followed by yet more, but different, large-scale actions will give rise to relatively unstable performance patterns (Bromiley, 1991; Wiseman and Gomez-Mejia, 1998). A narcissistic CEO, then, will tend not to be a consistently high performer or a consistently low performer (either of which could follow from Hypothesis 3), but will instead be prone to wide swings in performance, or instability, from one period to the next. In contrast, the more incremental and persistent strategic approaches that are favored by non-narcissists will yield steadier, more consistent business outcomes.

*Hypothesis 4: The greater the narcissistic tendencies of a CEO, the more volatile the company's performance.*

## METHODS

### Sample

We analyzed a sample of CEOs in computer software and hardware industries. We started by identifying all software (primary SIC 737)<sup>2</sup> and hardware (SIC 357)<sup>3</sup> companies listed in Execucomp between 1992 and 2004. We identified the CEO for every firm-year in this timeframe and then imposed two filters. First, we only considered those CEOs who started their tenures (year  $t$ ) in 1991 or later. Second, we included only those CEOs who had four or more years of tenure within our time panel. These two filters generated 111 CEOs in 105 unique firms.

We averaged data from the second and third years of each CEO's tenure ( $t+1$  and  $t+2$ ) to measure narcissistic tendencies; we omitted any attention to the first year of the CEO's tenure, because of anomalies associated with succession. Our dependent variables were measured annually for each of the subsequent years of the CEO's tenure ( $t+n$ , where  $n>2$ ), yielding a total of 352 firm-years for testing the effects of narcissism.

### Measurement of Narcissism

We used six unobtrusive indicators of narcissistic: the prominence of the CEO's photograph in the company's annual report; the CEO's prominence in the company's press releases; the length of the CEO's *Who's Who* entry; the CEO's use of first person singular pronouns in interviews; the CEO's cash compensation divided by that of the second-highest paid executive in the firm; and the CEO's non-cash compensation divided by that of the second-highest paid executive in the firm. These indicators co-varied greatly in our sample (verified through exploratory and confirmatory factor analyses), allowing their combination into a 6-item narcissism index.

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### **Model and estimation**

Because we had multiple observations for almost all firms, we used generalized estimating equations, which derive maximum likelihood estimates and accommodate non-independent observations. We used robust variance estimators in all our models.

## **RESULTS**

Hypothesis 1 predicted that CEO narcissism is positively associated with strategic dynamism. For our first measure of strategic dynamism, reflecting changes in resource deployment, results supported the hypothesis ( $p < .01$ ); for the second indicator of strategic dynamism, change in SICs, CEO narcissism had a marginally significant effect ( $p < .10$ ).

Hypothesis 2 posited that CEO narcissism is positively related to strategic grandiosity, as indicated by number and size of acquisitions. We find support for both of these indicators.

For our test of Hypothesis 3 – that CEO narcissism is positively associated with extreme performance – we find considerable support.

Our final Hypothesis 4, regarding the effect of CEO narcissism on performance volatility, was only partially supported. CEO narcissism was positively related to ROA volatility ( $p < .01$ ), but had no significant effect on TSR volatility.

In sum, we find substantial support for our hypotheses. Our measure of CEO narcissism (which was based on indicators early in the CEO's tenure) was predictive of company outcomes (observed in subsequent years): strategic dynamism, strategic grandiosity (as indicated by number and size of acquisitions), extreme performance, and (for ROA) volatility of performance.