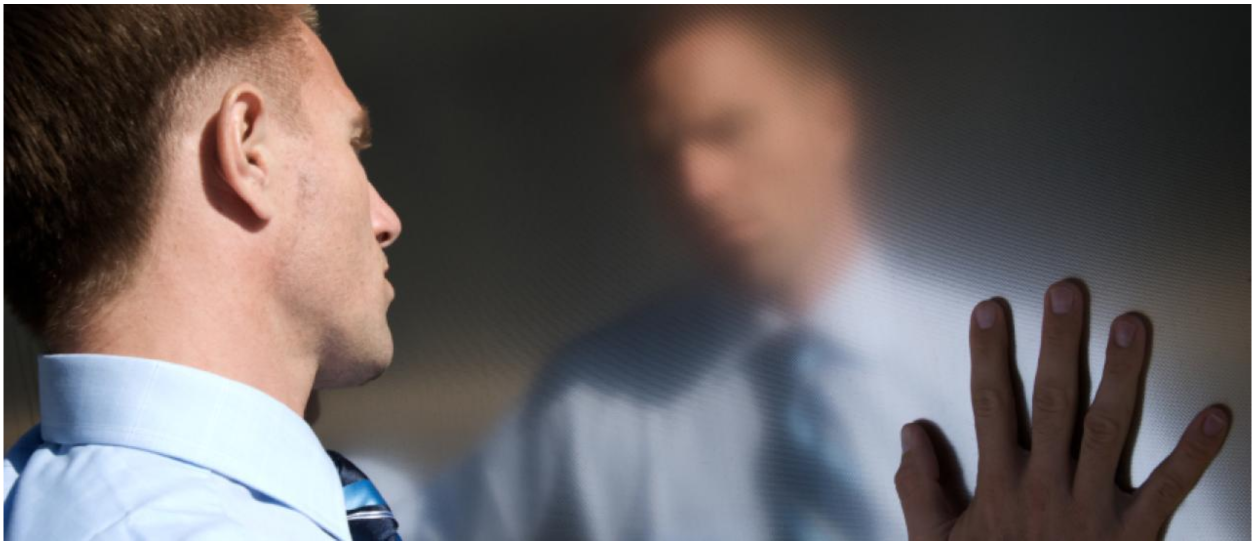
The Fallout of CEO Narcissism



By Guoli Chen , INSEAD Assistant Professor of Strategy and David H. Zhu, Assistant Professor of Management, Arizona State University

Self-assured, charismatic and brazen, highly narcissistic CEOs can undermine strategic decision-making.

Narcissistic people think they know best; they have a tendency to be assertive and excessively confident about their intelligence and judgment. Noted for their charisma, they can rise rapidly through the corporate ranks and tend to be noticed and often favoured by company directors to turn troubled companies around. Once considered a personality flaw, narcissism is now seen as a fundamental personality dimension present (to varying degrees) in all of us and one of the most influential traits when it comes to processing information and making decisions.

Highly narcissistic individuals believe they can learn from experience better than others around them and seek continuous affirmation of their inflated self-view by exhibiting their superiority, devaluing others and reacting aggressively to criticism. Highly narcissistic CEOs can be so blinkered by their own experience and this need to feel superior they may disregard the valuable advice and experience of other board members, having a significant impact on their company’s decision-making process and the way the board functions.

CEO narcissism and a board's interlocks

Organisations have a tendency to imitate each other when it comes to strategy, particularly in times of uncertainty. Copying what other companies do gives their decisions legitimacy and saves, or at least reduces, the cost of search and experimentation. Firms are especially likely to imitate the practices of companies to which their board or CEO has interlocks or ties. The more interlocks a board has the greater the wealth of experience it brings when making tough decisions. When CEOs fail to make use of this combined experience they can substantially undermine the comprehensiveness of strategic decision-making.

Our latest research, **CEO Narcissism and the Impact of Interlocks on Corporate Strategy**, analysed the relationship between narcissism in CEOs and this interorganisational imitation of company strategy and found that when narcissistic CEOs are at the helm, company decisions are *more* likely to imitate corporate strategy used by organisations where they have previously worked and are *less* likely to be influenced by strategy witnessed by other directors on the company's board. In fact results suggested highly narcissistic CEOs may tend to do the opposite of what other directors experienced to demonstrate their superiority.

Demonstrating superiority

The study, of 300 public companies on the 1995 Fortune 500 list between 1997 and 2006, measured CEO narcissism using an unobtrusive approach adopted by Chatterjee and Hambrick (2007;2011) calculating the number of times the CEO's photograph was featured in annual reports and their prominence in company press releases, as well as the cash and non-cash compensation of the CEO relative to other top executives of the firm.

While we expected to find narcissism had some impact on decision-making the magnitude was surprising. Results showed CEOs whose narcissism was one standard deviation above the mean were five times more likely than an average CEO to be influenced by their own experience, and a CEO whose narcissism was half standard deviation higher than average was likely to demonstrate superiority by adopting corporate strategies directly opposite to what other directors' prior experience would suggest.

The results also suggest the more power a narcissistic CEO had compared to the company's board of the directors, the more likely the focal firm's strategy reflects the CEO’s experience, and the less influence the board’s ties had on the decision making process. Similarly the higher the status of the companies with which the CEO had interlock ties, then the more influence he or she was able to exert.

Controlling board interactions

Narcissism has both cognitive and motivational elements. On the cognitive side, narcissists tend to believe they are extraordinarily talented with superior qualities such as intelligence, competence, innovativeness and leadership.

On the motivational side narcissistic individuals seek to have their inflated self-view continuously reaffirmed. They look to garner attention by outperforming others. Highly narcissistic CEOs are more likely to be more dominant in making visible and task-related decisions to demonstrate their authority and superiority. They also tend to favour bold actions, such as large acquisitions, that attract attention.

While there’s no direct evidence to indicate CEOs are more narcissistic than others (there was a huge degree of variance between levels of CEOs studied in our research) companies need to be aware of the challenges that can come with appointing a highly narcissistic CEO no matter how competent and inspiring they may be.

But there are steps which can be taken to reduce their influence and atone for the challenges they present. Boards can ease the CEO’s grip on power by making boards more involved in decision-making through committees or appointing a lead director to coordinate board members’ actions to present a united front.

There’s a lot of research looking at how directors and CEOs interact and we now know that the narcissistic side to a CEO’s personality has a strong impact on this relationship.

Self-moderation

These findings also have important implications for strategic leadership research on managerial discretion and can help explain the diffusion of innovative practices and strategies.

CEOs themselves should be aware of the narcissistic dimension of their personality and take care to control it when making decisions, by taking into consideration experience of other board members. Whether CEO narcissism can be moderated over time by this self-awareness is yet to be proven.

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Guoli Chen is a Professor of Strategy at INSEAD. His research focuses on the influence of CEOs, top executives, and boards of directors on firms' strategic choices and organisational outcomes, as well as the interaction and dynamics in the top management team and CEO-board relationships.