



Me, myself and I: The role of CEO narcissism in internationalization decisions



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ABSTRACT

Internationalization decisions represent major objects of international business research; in this context, the respective role of decision-makers, i.e., strategic actors has been under study for now nearly 50 years. However, some important individual characteristics of strategic actors, which seem to influence individual decision-making in a significant way, have been – in contrast to general management research – widely disregarded. Among those characteristics, narcissism plays a decisive role. Trying to provide a first attempt to fill this research gap our paper aims at theorizing on as well as empirically analyzing potential relationships between narcissistic tendencies of CEOs and their internationalization decisions. The empirical study of major German manufacturing firms over the period 2004–2013 shows that CEOs with a high degree of narcissism tend to intensify business activities abroad in general while the expected effect on intensified activities in markets with a high psychic distance cannot be identified. These research results help to better understand the drivers of firms' internationalization, stress the importance of recognizing managerial decision-making in the context of analyzing business activities abroad, and improve the prediction of CEOs' decision-making behavior in general.

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1. Introduction

Sigmund Freud recognized in the early twentieth century: “the leader himself need love no one else, he may be of a masterful nature, absolutely narcissistic, self-confident and independent” (Freud, 1922; chap. X, sec. 5). This characterization of individuals in leadership positions might also hold true for today's organizational context. Plenty of real life examples in which business leaders, i.e., chief executive officers (CEOs), show narcissistic behavior in job-related situations (e.g., Larry Ellison at Oracle, Pehr G. Gyllenhammar at Volvo, and Jürgen Schrempp at Daimler respectively DaimlerChrysler) corroborate this assumption (Maccoby, 2004; Taylor, 2000). Narcissistic individuals show absolute self-confidence as well as excessive self-admiration, feel intense need for power and prestige and strive after positions of authority and leadership (Kernberg, 1979; Kohut, 1971; Resick, Whitman, Weingarden, & Hiller, 2009). To specify the organizational relevance of CEO narcissism two main personality features have to be considered: On the one hand, narcissists choose major, risk-

laden and spectacular projects (Kets de Vries & Miller, 1985); on the other hand, they show a high degree of selfishness, i.e., to pursue self-serving actions is particularly relevant to them (Brown, Sautter, Littvay, Sautter, & Bearnes, 2010). These behavioral patterns influence managerial decision-making in a significant way (Chatterjee & Hambrick, 2007); consequently, scholars have started to analyze organizational outcomes of CEO narcissism with increasing frequency. So far, several relationships between CEOs' narcissism and a firm's activities have been subject of academic research: e.g., CEO narcissism and performance (Chatterjee & Hambrick, 2007; Patel & Cooper, 2013), CEO narcissism and corporate leadership (Craig & Amernic, 2011; Resick et al., 2009), CEO narcissism and takeover processes (Aktas, De Bodt, Bollaert, & Roll, 2012), CEO narcissism and interorganizational imitation (Zhu and Chen, 2015), CEO narcissism and entrepreneurial orientation (Engelen, Neumann, & Schmidt, 2013) or CEO narcissism and the organizational adoption of technological discontinuities (Gerstner, König, Enders, & Hambrick, 2013). However, the increase of research interest does not reflect itself in the international business context; e.g., up to now it has not been investigated if narcissism has an impact on CEOs' internationalization decisions (Aharoni, Tihanyi, & Conelly, 2011). This is astonishing as internationalization decisions – more specifically, decisions to

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intensify company's business activities abroad – reflect a prime example for situations in which CEOs are able to achieve personal goals (Oesterle, Richta, & Fisch, 2013). In addition, international operations are (potentially) associated with great advantages but also certain threats. Therefore, to understand which drivers are the most relevant in the context of pushing business activities abroad has to be a key issue for companies. We would like to address this highly relevant problem area and thereby compensate for the research gap with the following paper.

Due to the increasing globalization of the world economy in the recent decades internationalization decisions have evolved into an essential part of the strategic challenges a firm faces (Schotter & Beamish, 2013). International business literature often views internationalization decisions as purely rational – e.g., by assuming that international firms exclusively take economic benefits into consideration when pursuing international activities (Schotter & Beamish, 2013) – and accordingly neglects individuals as decision-makers (Aharoni et al., 2011; Nielsen & Nielsen, 2011). Given that some companies pursue riskier internationalization strategies than others it is only reasonable to ask why and what kind of CEOs come to these decisions. Combining insights from upper echelons theory, latest findings in the field of behavioral decision-making, and internationalization research we analyze the link of CEOs' personalities and respective consequences in companies' business activities abroad. The objectives of the paper are to (1) point out that a certain personality attribute – narcissism – influences managerial decision-making in a significant way, (2) show respective consequences for the internationalization of firms on a conceptual level, and (3) empirically analyze relationships between narcissistic tendencies of CEOs and the international evolution of companies.

The remainder of the paper is structured as follows: We start with a review of research on the influence of decision-makers on companies' development. The following section deals with behavioral aspects of managerial decision-making. We then show how narcissism exerts influence in this context focusing on the outcomes of internationalization decisions. Finally, we present the results of our empirical study as well as the most important implications and limitations.

The paper extends international business literature by enhancing knowledge about the role of decision-makers – specifically the certain personality feature narcissism – in companies' internationalization. We provide insights into the decisions a narcissistic CEO might take, the consequences for a firm regarding its international activities, and therefore add explanatory power to existing internationalization research. Additionally, the study has implications for the analysis of narcissism as it shows the influence of this personality dimension in a new context.

2. Theoretical background

2.1. Executive influence on organizational outcomes

The role of individual decision-makers as drivers of a firm's actions has been widely discussed in management research (for a comprehensive review of the respective literature, see Finkelstein, Hambrick, & Cannella, 2008). As a starting point, Cyert and March identify the relevance of strategic decision-makers for a company's evolution (Cyert & March, 1963). Similarly, Child's approach sheds light on the role of individuals in the so-called strategic choice context and their power to decide upon strategic goals and actions (Child, 1972). Furthermore, agency theory can be employed as a widely recognized management research stream in which individual decision-makers play a pivotal role (Berle & Means, 1932; Eisenhardt, 1989; Jensen & Meckling, 1976). At last, Hambrick and Mason (1984) provide a comprehensive theoretical approach

regarding the influence of intra-firm decision-makers on a company's strategy. Following their so-called upper echelons concept, organizational outcomes are a reflection of the strategic choices of managers and these choices are in turn a result of their experiences, values, and personalities.

Considering the international business context Aharoni was the first to include individual decision-makers into the analysis of firms' internationalization (Aharoni, 1966). Since then, research on the influence of individuals on decisions regarding foreign business activities has been increasingly conducted: e.g., scholars have shown that the international orientation of managers lead to a better export performance (Dichtl, Koeglmaier, & Mueller, 1990), investigated whether a CEO's age and tenure can be applied to market entry mode choices (Herrmann & Datta, 2002, 2006), demonstrated the relationship between the international orientation of managers and foreign market entry mode choices (Nielsen & Nielsen, 2011), or discovered managerial hassle factors in location choices (Schotter & Beamish, 2013). However, compared to other topics of international business studies the amount of available research still remains on a low level (Aharoni et al., 2011) and the focal point of the paper – narcissism as a predictor of decision-making in an international business context – has not been investigated at all up to now.

In our study we assume that intra-firm decision-makers shape a firm's evolution in a significant way. Furthermore, we focus on the CEO of a company as the key intra-firm decision-maker. The impact of CEOs on strategic change has been part of multiple empirical studies; he/she represents the main leader and architect of a firm (Boeker, 1997; Hutzschenreuter, Kleindienst, & Greger, 2012; Virany, Tushman, & Romanelli, 1985). This pivotal role can be traced back to different reasons: He/she has legal authority and responsibility in a corporate's hierarchy and directs as well as controls organizational goals (Jaw & Lin, 2009). Besides this formal power, the CEO's position is also associated with symbolic power. Stakeholders outside and inside the company recognize the CEO as important ruler of the company's empire (Calori, Johnson & Sarnin, 1994; Nadkarni & Herrmann, 2010; Song, 1982; Weiner & Mahoney, 1981), media coverage focuses almost exclusively on the CEO instead of other top-management team (TMT) members (Hutzschenreuter et al., 2012) and compensation differences between the CEO and the rest of the TMT lead to the assumption that he/she has to bear particular responsibilities. Of course, this should not be misunderstood in the way that CEOs formulate all major decisions or carry them out into operational execution by themselves. They might generate strategic ideas or decide upon project proposals by other members of the organization. Furthermore, CEOs establish and modify the contextual factors of companies via staffing policy, implementation of incentives or structural decisions (Gerstner et al., 2013).

2.2. Decision-making influenced by personality

2.2.1. Upper echelons theory as reference point

Hambrick and Mason (1984) were the first to issue the impact of certain individual characteristics on the strategic behavior of managers. Organizational outcomes are modeled as a result of the managers' strategic choices which in turn are predetermined by the manager-specific interpretation of a decision problem. Because of the complexity of these situations and the constrained cognitive capacity of managers, his/her perception is limited to selective environmental and organizational stimuli. The cognitive base and the respective perception of reality lead to an individual interpretation of the decision problem which results in a specific strategic choice. That's why strategic choices made are a reflection of the manager's personality; this highly personalized construal guides executives' actions. In order to predict and measure the

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