



journal homepage: www.elsevier.com/locate/emj

Beyond the dark side of executive psychology: Current research and new directions

Helen Bollaert ^{a,b,*}, Valérie Petit ^c

^a IESEG School of Management, Audit and Control Department, 3 Rue de la Digue, 59000 Lille, France

^b Univ. Lille Nord de France, ECCCS, 2 Rue de Mulhouse – BP 381, 59020 Lille Cedex, France

^c EDHEC Leadership and Corporate Governance Research Centre, EDHEC Business School, 59000 Lille, France

KEYWORDS

Top executives;
Hubris;
Overconfidence;
Narcissism;
Authenticity;
Self;
Corporate finance;
Strategic management

Summary In corporate finance and strategic management, the idea of executive hubris has come to dominate perceptions of the psychology of top managers. We analyze existing research and identify issues in definitions and measurement and describe how researchers have fallen prey to hubris fascination. This leads us to put forward two options for future research: within the hubris tradition (improving measures and examining positive aspects and antecedents) and outside it (basing analyses on the self rather than the ego and using a more dynamic and holistic approach).

© 2010 Elsevier Ltd. All rights reserved.

Introduction

The recent financial crisis has focused the attention of the media and the general public on the conduct of a small number of executives whose actions at the top of failing organizations have anecdotally been attributed to hubris. What lies behind this term? Over the last 20 years, academics in corporate finance and strategic management have analyzed executive hubris as a factor explaining firms' decisions, characteristics and outcomes. The hubris hypothesis of corporate takeovers (Roll, 1986) has spawned a specific body of research (see, for example, Malmendier and Tate, 2005, 2008; Hayward and Hambrick, 1997; Chatterjee and

Hambrick, 2007). We qualify this particular area of study, which seeks to demonstrate the negative effects of the negative psychological characteristics of top managers, as the hubris tradition of research.

In this paper, we aim to understand where research in the hubris tradition is headed and whether it is the most appropriate way to further our understanding of the effects of top executive psychological characteristics. We carry out a review of the existing literature in corporate finance and in strategic management into the effects of negative psychological characteristics. We find that this research relies on three main concepts to characterize the dark side of executive psychology: hubris, overconfidence and narcissism. We look behind the concepts used and apply definitions provided by psychology theory to better understand their true nature and their interconnectedness. Our review enables us to pinpoint a number of shortcomings in existing

* Corresponding author. Address: IESEG School of Management, Audit and Control Department, 3 Rue de la Digue, 59000 Lille, France. Tel.: +33 3 20 545 892; fax: +33 3 20 574 855.

E-mail addresses: h.bollaert@ieseg.fr (H. Bollaert), valerie.petit@edhec.edu (V. Petit).

research in the hubris tradition. Firstly, we demonstrate that the theoretical grounding of the concepts used is often weak. For example, the hubris concept relies on a mythical construction which prevents reliance on a genuine definition and definitions of overconfidence used are very general and do not consider more precise approaches developed in psychology theory. In addition, the links between hubris and related concepts are often poorly apprehended leading to problems of comparability. Secondly, we analyze the measures used to capture hubris, narcissism and overconfidence in existing research. We find that there is an overwhelming (although not exclusive) reliance on indirect measures whose link with the characteristic being studied is weak. Finally, we underline the danger of hubris fascination. Researchers are caught in a negative–negative paradigm in which they seek to identify pathological psychological characteristics in top executives and link them to poor performance effects or other disastrous consequences. We suggest that there is a need to recognize our reliance on the hubris myth and break the spell of hubris fascination to explore other aspects of executive psychology.

Our analysis of existing research leads us to wonder whether research in the hubris tradition has had its day. We conclude that there is still potential for research within it, given the general interest in the question, provided that we remain aware of the limits of existing research and develop new approaches. We suggest ways to improve the quality of research through improved definitions and measurement and put forward ideas for new research questions within the hubris tradition. The positive aspects of the hubristic behaviors of top executives have received little attention from researchers. Drawing parallels with research into narcissism, we show that hubristic behaviors have some socially desirable aspects and can therefore lead to expectations of positive firm performance. A further neglected aspect is that of the antecedents of hubris. The hubris tradition to date has only considered the effects of a negative psychological characteristic captured at a precise moment in time. There is scope for research examining the contextual factors which cause or aggravate hubris.

Remaining within the confines of the hubris tradition of research does not, however, do justice to the question of top executive psychology. We therefore put forward a paradigm shift to explore new approaches. Seeing executive psychology through the lens of the self, rather than the ego which is used in the hubris tradition, provides a more holistic view. Considering the individual executive from the point of view of the self also raises the question of how he/she becomes affected by ego pathologies. These result from a loss of contact with the true self and the fabrication of a false self and the development of a distorted sense of reality. The notion of true self leads us to analyze the link between authentic leadership and hubris – as an authentic leader continuously strives to develop and maintain his/her true self, we posit that he/she is unlikely to display marked hubristic tendencies. Authentic leadership development further suggests the importance of the dynamic aspects of executive psychology, such as actualization and individuation. There is scope for research into executive learning and self-development which would shed new light on the effect of executive psychological characteristics on an organization's strategy and performance over the long term.

In our conclusion, we summarize our main ideas in the form of a research agenda which offers a choice between continuity within the hubris tradition and a paradigm shift toward new approaches to executive psychology.

Hubris at the top: a critical review

Over the past few years, the impact of the psychological characteristics of top executives on firm decisions and performance has been receiving more and more attention (see Finkelstein et al., 2009 for a review) especially in the areas of corporate finance and strategic management. The main thrust of this research, especially in corporate finance, has been to view the negative aspects of executive psychology as a way to explain negative firm outcomes, especially those resulting from large stakes initiatives such as mergers and acquisitions (M&A). Most research in this area has focused on the negative effects of hubris, overconfidence and narcissism and has come to form a particular body of work in what we label the "hubris tradition". The main studies are summarized in Table 1. We use the term "hubris tradition" to describe the approach, in the fields of corporate finance and strategic management, which seeks to analyze the effects of excessive/deviant top executive traits and behaviors resulting from negative psychological characteristics. In this section, we carry out a critical review of existing papers which forms the starting point for our discussion of the future of research in the hubris tradition.

The hubris hypothesis – a mythical approach

In the field of corporate finance, Roll (1986) puts forward the hubris hypothesis to explain the puzzling losses to acquiring firm shareholders on the announcement of an acquisition. According to the hypothesis, CEOs may overestimate the value of synergies in the combined entity and therefore pay too high a price for a target. On the announcement of a deal, this leads to a decrease in the value of the acquiring firm and an increase in the value of the target. The hubris hypothesis does not provide the only possible explanation for value destructive effects in the acquiring firm, but it is the only one which explains the transfer of wealth from acquirer to target shareholders and as such it has inspired a rich stream of empirical work on M&A. However, few papers have attempted to identify and measure hubris itself and analyze its effects in large samples. Exceptions are Hayward and Hambrick (1997) and Li and Tang (2010) in the field of strategic management. Hayward and Hambrick (1997) find that CEO hubris is a significant factor in explaining high premiums paid by acquirers. Li and Tang (2010) document the role of CEO hubris in increasing firm risk taking.

We feel that there is an issue with this type of research, in that the hubris hypothesis does not build on a precise definition of the hubris concept (by precise definition, we mean an accepted diagnostic pattern or a cognitive or behavioral definition), but on an analogy with Greek mythology. Hubris refers to excessiveness in mythical persona and narratives. It is linked to Nemesis (destruction), who intervenes in retribution on those who have provoked her, and also to Ananke (destiny), which the hero, under the influence of

Download English Version:

<https://daneshyari.com/en/article/1015231>

Download Persian Version:

<https://daneshyari.com/article/1015231>

[Daneshyari.com](https://daneshyari.com)