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Are overconfident CEOs better leaders?

Evidence from stakeholder commitments

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Abstract

We find evidence that the leadership of overconfident chief executive officers (CEOs) induces stakeholders to take actions that contribute to the leader's vision. By being intentionally overexposed to the idiosyncratic risk of their firms, overconfident CEOs exhibit a strong belief in their firms' prospects. This belief attracts suppliers beyond the firm's observable expansionary corporate activities. Overconfident CEOs induce more supplier commitments including greater relationship-specific investment and longer relationship duration. Overconfident CEOs also induce stronger labor commitments as employees exhibit lower turnover rates and greater ownership of company stock in benefit plans.

JEL Classification Code: G32, J53, J54, L14, L22

Keywords: CEO overconfidence, Leadership, Customer-supplier, Employee ownership

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