



## Narcissistic CEOs and executive compensation

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### ABSTRACT

Narcissism is characterized by traits such as dominance, self-confidence, a sense of entitlement, grandiosity, and low empathy. There is growing evidence that individuals with these characteristics often emerge as leaders, and that narcissistic CEOs may make more impulsive and risky decisions. We suggest that these tendencies may also affect how compensation is allocated among top management teams. Using employee ratings of personality for the CEOs of 32 prominent high-technology firms, we investigate whether more narcissistic CEOs have compensation packages that are systematically different from their less narcissistic peers, and specifically whether these differences increase the longer the CEO stays with the firm. As predicted, we find that more narcissistic CEOs who have been with their firm longer receive more total direct compensation (salary, bonus, and stock options), have more money in their total shareholdings, and have larger discrepancies between their own (higher) compensation and the other members of their team.

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*The difference between God and Larry Ellison: God doesn't think he's Larry Ellison. ~ M. Wilson*

### 1. Introduction

In the past several years, there has been a growing interest in how narcissistic leaders affect the organizations that they lead (e.g., Maccoby, 2007; Padilla, Hogan, & Kaiser, 2007; Rosenthal & Pittinsky, 2006). Research has suggested that narcissistic leaders—typically characterized by dominance, self-confidence, a sense of entitlement, grandiosity, and low empathy—can both positively and negatively influence organizations. On the positive side, narcissists are more likely to be seen as inspirational, succeed in situations that call for change, and be a force for creativity (Deluga, 1997; Gupta & Spangler, 2012; Maccoby, 2007). On the negative side, narcissistic leaders have been shown to be more likely to violate integrity standards (e.g., Blickle, Schlegel, Fassbender, & Klein, 2006; O'Connor, Mumford, Clifton, Gessner, & Connelly, 1995), have unhappy employees and create destructive workplaces (Blair, Hoffman, & Helland, 2008), and inhibit the exchange of information within organizations (Nevicka, De Hoogh, Van Vianen, Beersma, & Mcllwain, 2011).

While provocative, most of the empirical research on narcissism has been conducted using student samples. There is, however, some interesting theorizing about how narcissism among senior managers might affect organizations (e.g., Campbell, Hoffman, Campbell, & Marchisio, 2011; Padilla et al., 2007). Rosenthal and Pittinsky (2006: 617), for example, note that “narcissists have the charisma and vision that are vital to effective leadership,” but that these leaders are also prone to bullying subordinates, violating ethical standards, and making risky decisions. Campbell and colleagues (Campbell et al., 2011) hypothesize that narcissistic leaders may succeed in the short term, but over time, they “destroy the systems that they and others depend on to

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survive and thrive” (p. 280). Despite these mixed findings, there is strong evidence that people who are more narcissistic are more likely to emerge as leaders precisely because of their dominance and grandiosity (Brunell et al., 2008).

CEOs of organizations are particularly relevant subjects for deepening our understanding of narcissism in organizational settings. The difference between having healthy levels of self-confidence and self-esteem, which are appealing and useful qualities for leaders, and being narcissistic is that narcissists have an elevated sense of self-worth such that they value themselves as inherently better than others. That said, the difference between those who are self-confident and those who are narcissistic are often difficult to detect. Thus, it is likely that both highly self-confident and narcissistic people are disproportionately selected into CEO jobs.

Further, the characteristics of narcissistic CEO's can affect both an organization's strategies and operations in important ways. For instance, Chatterjee and Hambrick (2007, 2011) have shown that CEOs' narcissism was positively related to their firms' strategic dynamism (the degree to which an organization's strategy adapts to changing environments), as well as to the number and size of acquisitions that the firm made. Narcissistic CEOs were also less sensitive to objective indicators of their performance, however, and tended to overpay for acquisitions. Resick and colleagues (Resick, Whitman, Weingarden, & Hiller, 2009) studied the CEOs of major league baseball organizations over a 100-year period and found that more narcissistic CEOs were less concerned with equitable rewards, but the researchers concluded that some of the CEOs' arrogance and grandiosity could actually improve firm performance.

One area that has not been well explored is the extent to which the CEO's narcissism may affect patterns of executive compensation. Most of the research on CEO compensation has assumed an agency theory model (e.g., Bebchuk & Fried, 2004; Tosi & Gomez-Mejia, 1989) and explored mechanisms through which compensation systems can be designed by owners, represented by boards of directors, to ensure that the interests of the executive are aligned with those of the owners. Although there is general support for many of the predictions derived from agency theory, a long tradition of research has demonstrated that CEOs also can influence the board to develop policies that advantage the CEO (c.f., Bebchuk & Fried, 2004; Finkelstein & Boyd, 1998; Gomez-Mejia, Tosi, & Hinkin, 1987; Lorsch & MacIver, 1989; O'Reilly, Main, & Crystal, 1988; Tosi & Gomez-Mejia, 1989; Van Essen, Otten, & Carberry, in press; Wade, O'Reilly, & Chandratat, 1990; Westphal & Zajac, 1995). There are a number of mechanisms through which this could take place, however little has been done to identify whether the personality of the CEO is a factor in influencing how compensation decisions are made. Our goal in this paper is to investigate the relationship between the CEO's narcissism and his or her compensation. We first review the general research on narcissism and then describe how narcissism is related to leadership. We then focus on how the characteristics of the narcissistic might provide the opportunity and motivation to influence compensation decisions over time. Given narcissists' tendency to be self-serving, exploit others, and have low empathy, we propose that over time CEOs who are more narcissistic will be more likely to extract higher levels of compensation than will those who are less narcissistic. Further, we predict that, because of their inflated sense of self-worth, CEO's who are more narcissistic will have larger spreads in compensation between their own compensation and compensation among other members of their top management team. We test this in a set of 32 high-technology firms.

### 1.1. *Narcissism qualities and dimensions*

The term *narcissism* comes from the Greek myth of Narcissus, the story of a young man who fell in love with his own image. Building on Freud's (1914) original conception, psychologists have generally thought of narcissism as a relatively stable personality trait (Campbell, Bush, Brunell, & Shelton, 2005) characterized by a sense of personal superiority (Campbell, Goodie, & Foster, 2004; John & Robins, 1994), grandiosity (Morf & Rhodewalt, 2001), dominance and a desire for power (Emmons, 1987), and a desire for attention and confirmation of their superiority (Bogart, Benotsch, & Pavolic, 2004). Narcissists lack true empathy and therefore can be exploitative, taking credit for others' accomplishments and shifting blame to others (Brunell et al., 2008; Lubit, 2002; Rauthmann, 2012). They can be aggressive and hostile when confronted with criticism or negative feedback (Exline, Baumeister, Bushman, Campbell, & Finkel, 2004; Vazire & Funder, 2006).

At the same time, narcissistic individuals are often seen as appealing and interpersonally skilled (Chatterjee & Hambrick, 2007; Deluga, 1997). Their sense of self-confidence often leads others to follow them, while their own sense of self-importance leads them to self-promote and seek out situations in which they can dominate (Hogan, Raskin, & Fazzini, 1990). Since they convey an image of a prototypically effective leader, with a strong sense of self-efficacy and capability, they frequently emerge as leaders (Judge, LePine, & Rich, 2006). Upon first impression, narcissists are often seen as charismatic and charming. Young and Pinsky (2006), for instance, showed that celebrities were more narcissistic than the general population, and that reality television personalities were the most narcissistic. Back, Schmulke, and Egloff (2010) examined why people are commonly attracted to narcissists. Across three studies, they found that when first meeting, people who are more narcissistic made a more positive impression and were more popular than were those who were less narcissistic. Their self-confidence and assured body movements made a positive impression on those whom they were meeting for the first time. Surprisingly, it was also the narcissists' sense of entitlement and a tendency to manipulate others that others found attractive.

Although there is general agreement about its overall nature, there is some controversy about how narcissism is most accurately assessed and whether it is a single dimension or characterized by multiple dimensions. Clinical evaluations of narcissism indicate that it can take at least two broad forms: *grandiose* narcissism reflects traits related to grandiosity and dominance where *vulnerable* narcissism is defined more by defensive responses that obscure feelings of inadequacy and negative affect (Dickinson & Pincus, 2003). Although these two forms of narcissism may be conflated in some overall measures of trait narcissism, they do reflect distinct nomological networks. In terms of the Big 5 personality dimensions, grandiose narcissism is associated with higher extraversion and

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