

# Exuberance in the Corner Office: CEO Core Self-Evaluation and the Rise and Fall of Irish Firms, 2005-2009

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# Research Questions

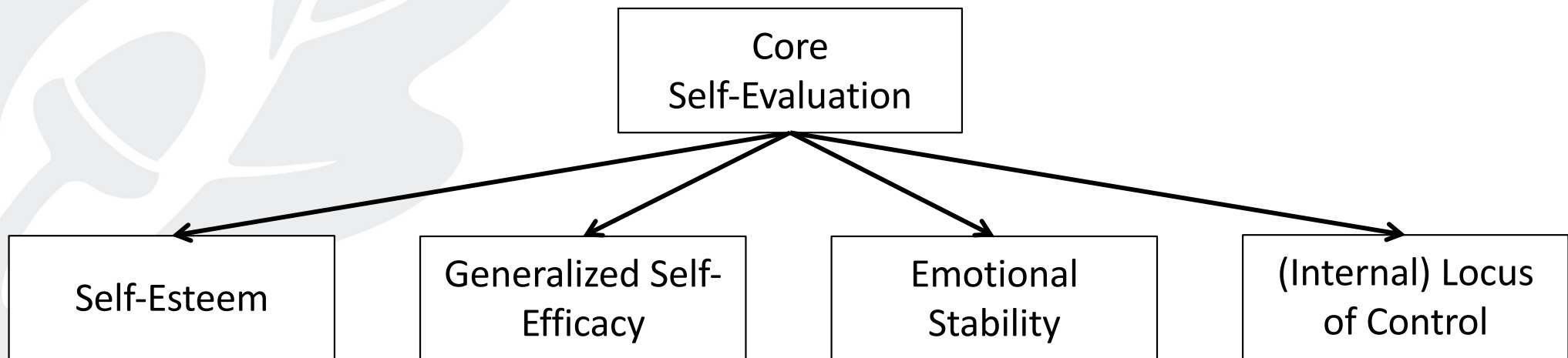


- Are dispositionally highly confident CEOs more likely to deliver favorable or unfavorable outcomes?
- What factors alter the incidence of such results? How do such outcomes unfold over time?

**Are there situations where “positive” CEO traits have sinister or maladaptive consequences?**

# Capturing Dispositional Confidence

- Core self-evaluation (CSE) describes how individuals evaluate themselves in relation to their environment and across situations (Judge, Locke & Durham, 1997; Judge & Bono, 2001)
  - It is a “basic, fundamental appraisal of one’s worthiness, effectiveness, and capability as a person” and provides a measure of dispositional confidence (Judge, Erez, Bono, & Thoersen, 2003; Hiller & Hambrick, 2005)



# Core Self-Evaluation in CEOs

## High CSE CEOs

- Pursue larger initiatives (Haleblian, Markoczy, & McNamara, 2007)
- Proactively seize opportunities (Simsek, Heavey, & Veiga, 2010)
- Decide quickly, intuitively, and with little consultation
- Belief in ability to handle threats and contingencies



**“The picture of an executive who has the authority and discretion to spend millions or billions of dollars and who has a belief that he or she can do no wrong (or can fix all wrongs) is not necessarily a pretty one.” (Hiller & Hambrick, 2005: 313)**

# CEO Core Self-Evaluation in Context

- Role of the macro-context:
  - Environment is a source of cues and stimuli that might stir or interact with a CEOs' ingrained confidence
  - Threats and opportunities in the firm's macro-context shape the pay-offs and penalties of executive confidence
- Conceptualising the macro-context:
  - Booms – periods of munificence in which expenditure, incomes, and investments are growing and prices are rising;
  - Busts – periods of hostility in which spending, incomes, and investment shrinks, usually triggered by crises or shocks

**What are the implication of CEO confidence (CSE) for firm performance during periods of economic munificence (boom) and hostility (bust)?**

# The Benefits of CEO CSE in a Boom ...

- **Undertaking more initiatives at a larger scale**
  - Focus on upside potential for a number of opportunities
  - More opportunities meet bar for investment
  - ...in proportion to the amount of available slack resources

*H1: The greater the combination of CEO CSE and slack, the greater the firm's expansionist initiatives.*

- **Expansion begets performance**
  - Demand growth likely in excess of aggregate industry expansion
  - Thus, performance levels proportional to firm activity

*H2: The greater the scale of expansionist initiatives, the greater the performance of the firm.*

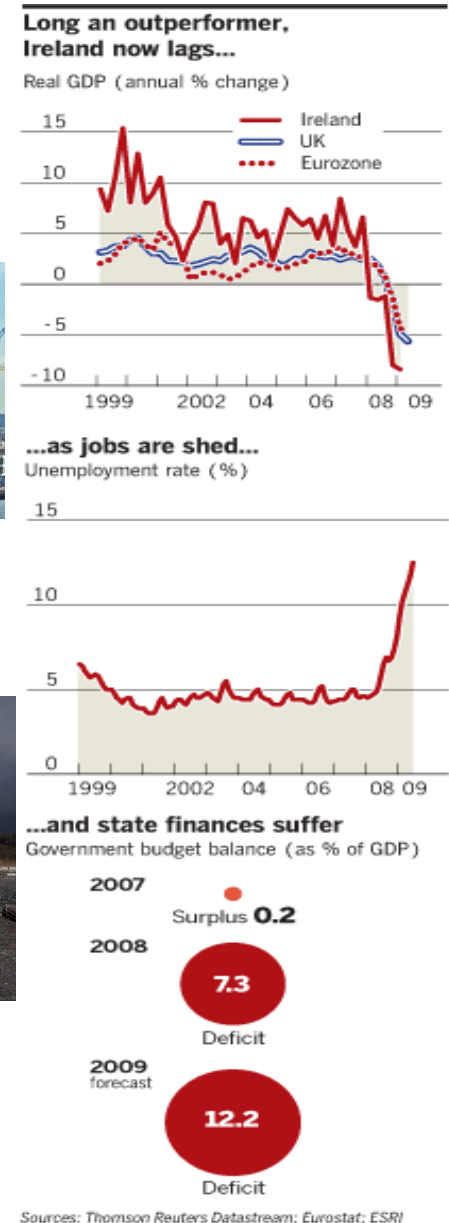
## ...become a bane during the bust

- **Creating organizational vulnerabilities**
  - Less responsive to influence and feedback from TMT members
  - Potential to inhibit TMT environmental scanning abilities
- *H3: The greater the CSE of the CEO during the closing years of the boom, the worse the firm's performance during a bust, even after accounting for the effects of boom-era expansionist initiatives.*
- **A combustible combination**
  - Willingness to invest in higher mean, higher variance projects
  - Failure to reinforce projects with appropriate support systems
- *H4: The greater the combination of CEO CSE and expansionist initiatives during the closing years of a boom, the worse a company's performance during a bust*



# Empirical Setting: From Boom to Bust

- Irish Economy: 2005-2009
  - Rapid growth in consumption, expenditure, and investment
  - Fuelled by cheap credit and (unsustainable) increases in bank lending, house prices, and government spending
  - ... resulting in crash in house prices (and construction sector), yawning fiscal deficit, and EU/IMF bailout in 2010





# Data and Sample

- 156 Irish small-to-medium size private enterprises
- Inclusion criteria
  - CEO responded to survey in 2005 ( $n = 504$ )
  - Complete firm-level financial data available from FAME (Financial Analysis Made Easy) for period 2005 - 2009
- Sources of attrition
  - Missing financial information due to reporting requirements
  - Company status indeterminate (known dissolutions included)

# Measures

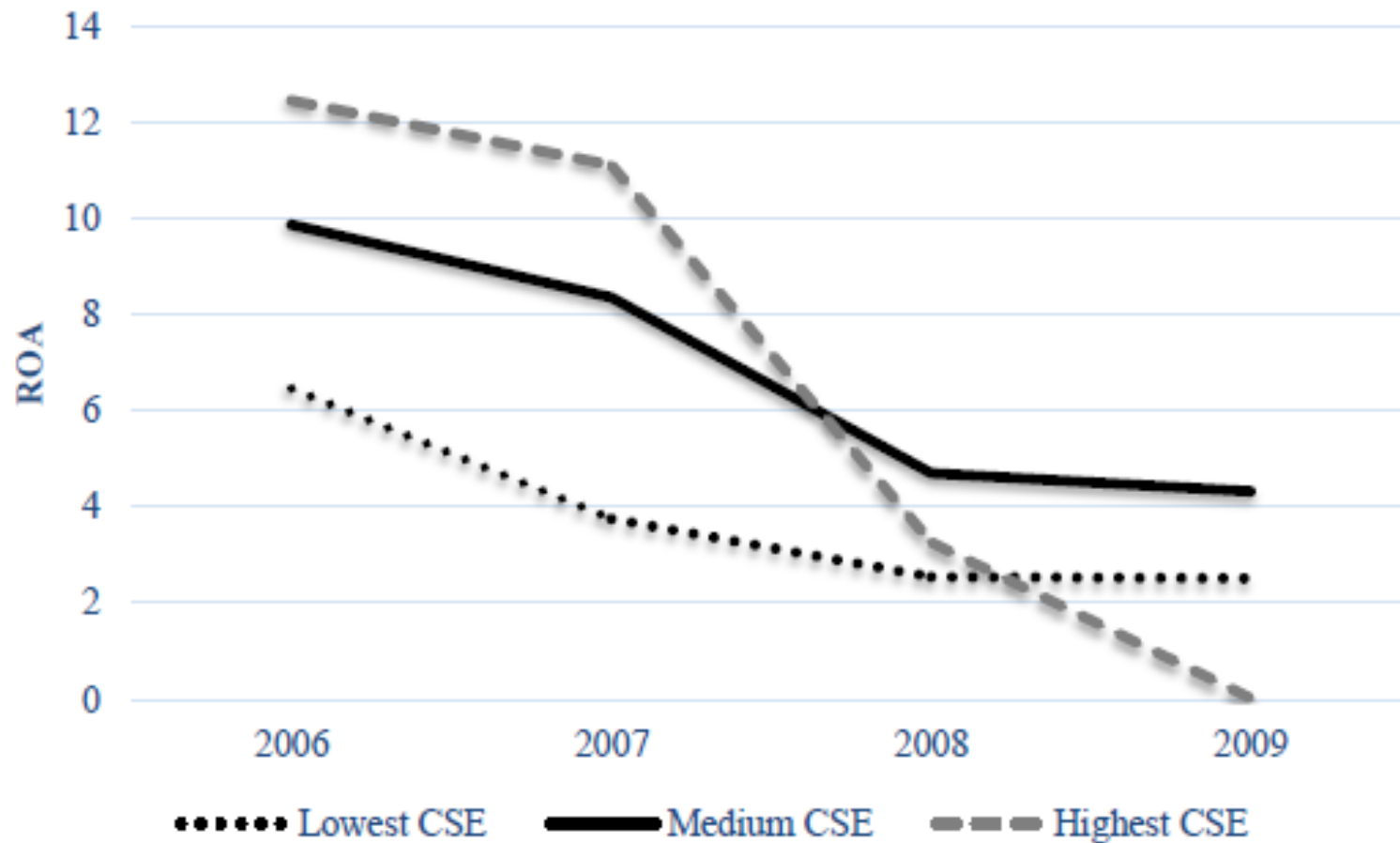
Variable	Measure/Data Source	Time Period
CEO Core Self-Evaluation	12 item survey instrument developed by Judge et al. (2003) measured on 7 point scale ( $\alpha = .78$ )	2005
Firm Performance	ROA	2006-2009
Expansionist Initiatives	Index combining annual percentage changes in total assets, administrative expenses, and long-term debt	2006-2007
Slack	Index combining current ratio and interest cover ratio	2004-2006
Controls	Firm size, firm age, past ROA, industry expansion, industry ROA, and CEO tenure.	

# Empirical Findings

- **During the boom...** CEO CSE associated with increased expansion and performance when slack resources available
  - Performance effect persists even when accounting for expansionist initiatives
- **During the bust...** CEO CSE is associated with decreased performance
  - This effect is amplified when more expansionist initiatives were undertaken during the boom

**The pattern of trajectories is particularly telling.**

# Performance Trajectory of CEOs with Lowest, Medium, and Highest CSE



# Contributions

- We demonstrate concrete links between actual CEOs' core self-evaluations and firm behavior and performance
  - Prior work focused on laboratory studies, simulations, or more proximate variables
  - Examined this relationship as distinct from expansionist initiatives
- We show that performance implications of executive confidence are contingent upon macroeconomic context
  - Provides a boundary condition between organizational behavior and executive settings

# Future Research Opportunities

## Related to process:

- During the boom:
  - Do leaders with higher levels of a CSE say yes more often, or do they differ in the riskiness of the initiatives they say yes to?
  - What explains the residual effect of CSE?
- During the bust:
  - Are they slow to recognize or accept bad news? Is this helpful or harmful? How long does the “hangover” last?

## Related to structure:

- Does the CEO’s CSE affect:
  - the composition and processes of the top management team?
  - how other traits are expressed (e.g., humility, intelligence)?
- Will these effects carry over to settings with more formal governance mechanisms?