

When CEO hubris leads to environmental innovation



Rupert Murdoch, Marissa Mayer, Jean Marie Messier. What do they have in common? All of them are famous CEOs of successful or unsuccessful business empires and all, at some point, were accused for their hubristic personalities. The 'hubris syndrome' is a psychological state affecting leaders in positions of authority and power. It is characterised by an exaggerated self-belief, sense of omnipotence, excessive confidence in the individual's own judgement, a disproportionate concern with image and presentation, and impulsiveness. Whether this psychological bias actually leads to value-destroying or value-enhancing corporate decisions is still an open question.

According to Steve Blank, professor of entrepreneurship at Berkeley University, hubris is an essential personality trait for any entrepreneur facing ambitious business challenges. And what is one of the most important challenges that CEOs face nowadays? No doubt it is an environmental one. Reducing the environmental impact of products or corporate activities, finding cleaner energy sources and other environmental innovations requires that the CEO have a vision and a certain degree of self-confidence to devote a large amount of corporate resources to long-term and risky green projects.

Indeed, CEOs face several barriers to the adoption of innovative strategies aimed at reducing the environmental impact of corporate activities because compared to general innovation, investments in environmental innovation are less profitable and their returns materialise over a longer period of time. Despite the high societal and regulatory pressures on these corporate social responsibility-related actions and their relevance for CEOs' agendas, we still do not know much about the influence of this managerial psychological bias on innovation for the environment.

In our recently published [paper](#), we analyse whether and how CEO hubris affects the level of environmental innovation, taking into account the contextual conditions that might explain its differential effect. Our main finding is that CEO hubris positively affects the level of environmental innovation. However, this hubris-induced effect is not uniform and systematic, while it depends upon the contextual factors stemming from both the internal and the external environment.

Adopting the upper-echelons perspective, we argue that complex strategic decisions and organisational outcomes are largely the outcomes of behavioural factors and personality traits, among which CEO hubris. The CEO perception of the complex and risky nature of environmental innovation – combined with her hyper self-evaluation – provides the basis for engaging in innovative strategies aimed at reducing environmental risk, pollution, and other negative environmental impacts.

Empirically, we analyse a sample of UK companies operating in sensitive industries, such as oil & gas, alcohol, beverage, tobacco, paper, biotech firms and other industries involved with emerging environmental and social issues, for which we hand-collect data on demographic and psychological traits of CEOs. While some scholars question the possibility that firms in sensitive industries can actually develop and engage in corporate social responsibility activities, others consider these activities essential for their competitive advantage. Our research design involves a multilevel structure where observations are nested within industries and crossed between years.

Our results suggest that CEO hubris can provide the necessary driver for introducing green innovation because the CEO self-evaluation and consequent tendency to overestimate the chance of success mitigate perceptions of risks entailed in environmental innovation projects. However, a pivotal role is played by the level of managerial discretion. The excess resources and the safety nets offered by financial slack facilitate CEOs' risk-taking and long-term orientation, fostering investments in environmentally innovative projects. Conversely, highly uncertain environmental conditions lead CEOs to focus less their attention on the areas they are mostly interested in, thus dampening the positive effect of CEO hubris on environmental innovation.

Our study reveals that focusing solely on main effects might obscure the true relationship between CEO hubris and organisational outcomes. That is, for an organisation run by a hubristic CEO, having available resources is not enough to deliver environmental innovation; it also requires a stable external environment that enables the CEO with a hubristic personality to make correct use of these resources. In this way we highlight the productive benefits of CEO psychological bias (i.e. hubris) that shape firm orientation towards environmental innovation above and beyond organisational and environmental factors.

Our work is informative for stakeholders assessing firms' commitment towards the reduction of environmental risks, pollution, and other negative impacts of resource usage through innovative product/processes. It suggests that stakeholders should carefully take into account the managerial personal and psychological characteristics, besides the organisational characteristics. It is also interesting for practitioners, providing evidence useful to advance the knowledge on drivers and barriers to the adoption of environmental innovation. Finally, our findings are important for organisations and managers themselves as they could inform the process of executive search and selection.



Notes:

- This blog post is based on the authors' paper [Big Egos Can Be Green: A Study of CEO Hubris and Environmental Innovation](#), *British Journal of Management*, November 2017.
- This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.
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