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Developing Leaders Quarterly

MAKING ORGANIZATIONS MORE HUMAN

The Curious Organization

Cutting-edge thinking to catalyze your leadership practice

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Art Direction:	Nick Mortimer – nickmortimer.co.uk

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By Henrik Cronqvist and Désirée-Jessica Pély

The Social CEO: Just Human After All

As chief executive officers (CEOs) undertake the role of top ambassadors of their firms, oftentimes becoming well-known public figures, their reputations inevitably become linked to the success of their companies. These top leaders work hard to maintain a reputable image to cultivate the firm's potential to thrive. Part of that effort includes assuming mostly purely professional personas, where they have mastered the art of leaving their social and human dimensions at home—so only the business leader arrives at work, ready to steer the ship towards profit maximization.

Societal regard largely dictates the tendency towards this division between the professional and social self. We collectively imagine that these managers at the pinnacles of their careers invariably embody business-minded mavens who can connect the dots, from finance to marketing to global expansion and all the connected areas of business, without letting personal influences interfere in corporate decisions. Under this societal view, top leaders face pressure to maintain ethical standards and managerial leadership dedicated to profit and forming positive consumer opinion; they are only able to resume their social selves once away from the mental frameworks and social constructs of the business.

Yet, though we may have become accustomed to this rather two-dimensional view of the CEO, these leaders are not exempt from a human being's natural tendency to carry the layers of their personality, ideologies, and social identities into most aspects of their lives, unavoidably seeping into the realm of their professional existence. CEOs, like humans more generally, are a product of their environment, beginning from birth and continuing with the various experiences throughout life. The compilation of these experiences determines not only the individual's human and social aspects but also the policy direction of their firm. In this manner, the firm becomes a reflection of the social CEO, with traits that are inescapable even unto themselves.

Life experiences may stem from occurrences that originate externally, independent of one's own choices, as well as from personal choices and individual traits. In either case, the effects of lived events shape leadership styles in subtle yet impactful ways.

External events

External forces influence chief executives' world views, which in turn influence the policies that they implement. A parent does not choose whether to have a son or a daughter, for instance. Yet, CEOs who have daughters lead with more social responsibility than those without daughters, as shown in a 2017 **study** [**www.ideasforleaders.com/ideas/how-a-daughter-might-shape-the-ceo**], conducted by one of the authors of this article, Cronqvist, along with colleague Frank

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Yu. Specifically, a CEO with a daughter engages the firm in more corporate social responsibility (CSR) endeavours, paying more attention to areas such as employee relations and social and environmental well-being as encouraged by their parenting experience.

Early life circumstances similarly shape individuals in unexpected ways. 'Depression baby' CEOs, or those who grew up during the Great Depression and later in life became leaders of firms, carry the effects of the early circumstantial impacts into their decision-making. These CEOs show less willingness to take financial risk and less likelihood to participate in the stock market, as revealed in a 2011 study by Ulrike Malmendier and Stefan Nagel. By the same token, however, individuals who have experienced high stock market returns show less hesitation towards financial risks, participate more readily in the stock market, and allocate a higher proportion of their liquid asset portfolio to risky assets.

Beyond the Great Depression, results of the study help explain reactions to stretches of either flourishing or discouraging stock market periods. Low stock market participation of young households in the early 1980s, for instance, resulted from disappointing returns in the 1970s, and the high participation of young investors in the late 1990s reflected the boom years of that decade. But their findings indicate that, though more recent financial return experiences have a stronger influence, experiences early in life still carry a significant effect, even several decades later. An early personal economic shock, such as that induced by the Great Depression, affects leaders' attitudes towards risk well into their later years.

Relatedly, the socioeconomic status during one's upbringing, such as growing up in a working-class household, prompts certain policy tendencies that affect company culture. In a 2019 analysis on the subject, Cronqvist, Irena Hutton, and Danling Jiang found that chief executives who come from a low socioeconomic background lead firms with more labour issues than those who were raised in more affluent homes. CEOs who were exposed to low levels of employee welfare as children are less likely to promote employee-friendly labour policies in the firms that they manage. Firms run by CEOs raised in low socioeconomic class undergo more employment and labour litigation, more workplace health and safety violations, and a lower level of overall employee satisfaction with multiple dimensions of firm policies.

Person-specific events

Events that occur due to personal decisions may also create character-molding forces that impact firm governance. When an individual makes the personal decision to join the military, for instance, he or she becomes exposed to militaristic

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discipline, viewpoints, and, potentially, wartime and battle. If such a person moves on to become a CEO of a company, they are likely to lead with more inclination towards conservative investment and financial policies, as scholars Efraim Benmelech and Carola Frydman found in their 2015 study. Firms run by CEOs who have served in the military tend to invest less, have lower expenditures on research and development, and pursue slightly lower leverage ratios than their non-military counterparts. Moreover, the management style of CEOs with a military background appears to be more resilient to crisis and fraud, as military training likely instills a strong sense of ethics. Military CEOs are significantly less likely to be involved in corporate fraudulent activity and tend to perform better during times of industry distress.

However, military service brings into question the factor of choice, or the dynamic between externally or internally influenced events. Military experience becomes exogenous and not optional in times of a military draft. Someone drafted into the military would likely experience military life and the hardships of battle, but not from their own volition. If this individual moves on to become a chief executive of a company, he may likely employ a related leadership style with similar outcomes as mentioned above. But the traits that led to these outcomes were ingrained outside of the manager's power to become a different individual, which may have led to differing policy choices. Both drafted and non-drafted military CEOs may end up with the same leadership style, but not by choice, expounding the reality that life shapes the leaders and not necessarily the other way around.

Even an internal identity trait, such as one's name, molds leaders and their governance approaches. A recent **study** by Yungu Kang, David Zhu, and Yan Anthea Zhang shows that an

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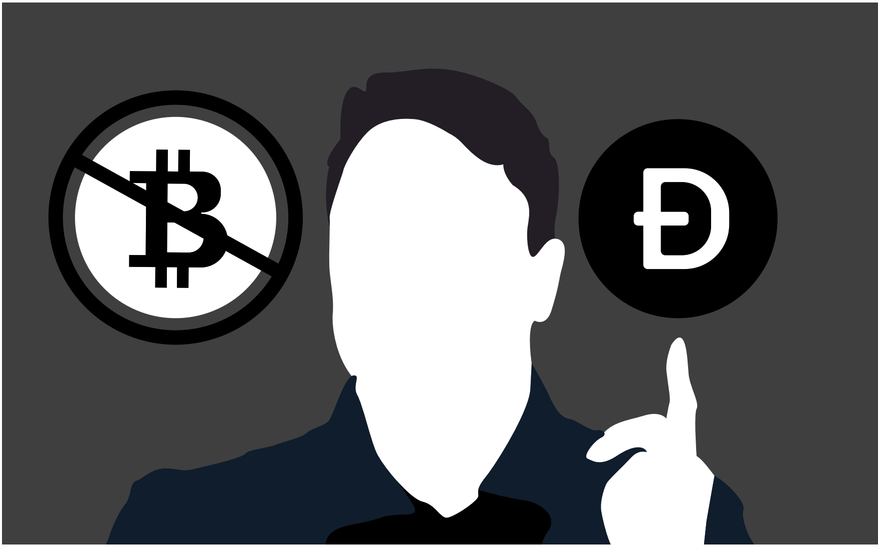
unconventional name, as an internalized trait that one carries throughout life, can point to an unconventional leader, or one that leads a firm with strategic distinctiveness. An individual with an uncommon name tends to develop a conception of being different from peers, and CEOs under this scenario tend to see themselves as different from other CEOs in their industry. These leaders have surpassed potential challenges associated with being different and usually develop a high sense of confidence to tackle potential adversities associated with distinctive strategies.

As CEOs are usually confident individuals, those with uncommon names tend to view themselves as capable of achieving successful outcomes through strategies that differ from those of their peers. These CEOs pursue strategies that deviate from industry norms especially when they carry more confidence and hold more power, as well as when they operate in an environment with more growth opportunities. Elon Musk, for example, is known for leading his ventures with irregular strategies and with openness to strategic changes and innovation. He leads typically unconventional firms based on unconventional ideas.



A CEO's divorce serves as another scenario that carries ripples into corporate policy making. When a couple undergoes a personal choice like divorce, CEOs in this situation adjust leadership decisions based on their concern for personal wealth. In 2019, University of Melbourne researcher Jordan Neyland found that CEOs going through a divorce lose incentive to take on corporate risk. As divorcing top managers experience a significant wealth reduction during divorce settlements, such as in cash or real estate, their portfolios become less diversified and more concentrated on the firm's stock holdings, decreasing their motivation to explore riskier corporate moves.

Ironically, while divorce signifies a usually detrimental life experience and marriage generally a happy one, both life events lead to similar impact on the CEO's approach to risk. Earlier research by Nikolai Roussanov and Pavel Savor reveals that a married CEO will more frequently refrain from risk-prone activities as compared to single CEOs. The difference in risk aversion indicates that marital status sways the leader's

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risk preferences. A married CEO will generally engage less readily in activities like capital expenditures, R&D, advertising, and acquisitions. Their single counterparts, meanwhile, prove more open to risk, but also lead firms that exhibit higher stock return volatility.

Behavioural consistency

Insights on the self and associations to leadership styles extend to the notion of behavioural consistency. A constancy of behaviour, or the tendency of individuals to behave consistently across situations, creates patterns of behaviour in managers that encompass the policy direction of their firms. In a 2012 study, Cronqvist and colleagues Anil Makhija and Scott Yonker assessed top managers' level of personal debt tolerance by analyzing information on CEOs' primary homes and mortgages, since mortgage debt tends to be the most important source of debt. Compared to their use of corporate leverage during their tenures, they found that CEOs with lower debt

Top executives with a high ownership rate of luxury goods, including expensive cars, boats, and houses, usually lead a loose corporate environment at their firms

tolerance manage firms that exhibit more conservative corporate capital structures, suggesting that leaders of firms imprint their personal preferences on the capital structures of the companies that they manage.

Political ideology also carries over to corporate financial views. A study in the Journal of Financial and Quantitative Analysis reveals that personal political preferences significantly determine corporate policies. In the US, Republican CEOs, who usually hold conservative personal views, pursue more conservative financial policies than do Democrats. On average, Republican managers have lower levels of corporate debt, lower capital and R&D expenditures, and less propensity to engage in risky investments. They tend to lead firms with lower volatility of stock returns in correlation with a safer capital structure and investment policies.

Other off-the-job behaviours also extend with consistency into the workplace. Scholars in one analysis showed that executives with low frugality and with past legal infractions, such as driving under the influence, drug-related charges, domestic violence, reckless behaviour, disturbing the peace, and traffic violations, have a higher probability of financial reporting risks during their leadership role. In fact, CEOs and CFOs with a legal record are more likely to commit fraud, as reflected in such an executive being named for fraudulent corporate reporting in an Accounting and Auditing Enforcement Release by the Securities and Exchange Commission.

Meanwhile, top executives with a high ownership rate of luxury goods, including expensive cars, boats, and houses, usually lead a loose corporate environment at their firms. The approach generates an increased probability of other insiders engaging in fraud and unintentional material reporting errors, especially as impacts become more pronounced over the non-frugal CEO's tenure. This governance style usually produces cultural changes that may include the appointment of an unfrugal CFO, an increase in executives' equity-based incentives to misreport, and an environment of less board monitoring intensity, all of which may increase fraud risk.

But whether behaviours stem from external or personal events, and whether they reflect behavioural consistency or 'of the moment' situations such as divorce, life experiences allow for varying CEO leadership styles. The various scenarios of imprinted CEO personality on firm policies demonstrate that, even in business, human nature is inescapable. And yet this inescapability colours the corporate world. If you remove CEO human and social layers, corporate leadership would likely result in mostly homogenous policies and outcomes, with firms and their leaders looking closer to carbon copies of one another.

If one's experiences outside of the workplace would not influence the professional realm, assertive decisions—including mistakes—would solely be based on numbers and market signals. Global corporate wheels would turn under almost robotic machinery without obvious connections to the cultures

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and societies that they affect. Instead, the decisions of top-level managers reflect personal, social, human influences that pave a firm's own path and 'character'. Successes and failures of CEOs and firms build stories, teach lessons, and set examples for future leaders. The machinery of business remains intrinsically intertwined with the nuances and experiences of society because its leaders remain social humans after all.

Full references and further reading for this article is available - please contact editor@dl-q.com citing this article with references.

Henrik Cronqvist *is Dean and Professor of Finance of the George L. Argyros School of Business and Finance at Chapman University in Orange, California, a position he began on 1 August 2022. He previously served as a professor of finance at the University of Miami School of Business. Cronqvist's research focuses on behavioural, social, and corporate finance with a focus on the behaviour of corporate executives and investors.*

Désirée-Jessica Pély *is the CEO and Founder of loyee.io. She holds a PhD in Financial and Behavioral Economics from Ludwig-Maximilians Universität München, Miami, and Yale. She has taught 2,500 business, economics, and maths students in finance, risk management, and venture capital.*

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