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Executive Hubris: The Case of a Bank CEO

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Abstract

Purpose – Can personality traits of Chief Executive Officers (CEOs) be detected at-a-distance? Following newspaper speculation that the banking crisis of 2008 was partly caused by CEO hubris, this paper analyses the CEO letters to shareholders of a single bank over ten years for evidence of CEO personality traits, including: (i) narcissism (a contributor to hubris), (ii) hubris, (iii) overconfidence and (iv) CEO-attribution. Following predictions that hubris increases the longer individuals occupy positions of power, the research examines whether hubristic characteristics intensify over time.

Design/methodology/approach – This paper takes concepts of hubris from the clinical psychology literature and applies them to discourses in CEO letters to shareholders in annual reports. The research comprises a longitudinal study of the discretionary narrative disclosures in the CEO letters to shareholders in eight annual reports, benchmarked against disclosures in the CEO letters to shareholders of the previous and subsequent CEOs of the same organisation.

Findings – Results point to evidence of narcissism and hubris in the personality of the Bank CEO. Over half the sentences analysed were found to contain narcissistic-speak. In 45% of narcissistic-speak sentences, there were three of more symptoms of hubris – what Owen and Davison (2009) describe as extreme hubristic behavior. In relation to CEO overconfidence, only seven (2%) sentences contained bad news. More than half of the good news was attributed to the CEO and all the bad news was attributed externally. The research thus finds evidence of hubris in the CEO letters to shareholders, which became more pronounced the longer the CEO served.

Research limitations/implications – The analysis of CEO discourse is highly subjective, and difficult to replicate.

Originality/value – The primary contribution of this research is the adaptation of the 14 clinical symptoms of hubris from clinical psychology to the analysis of narratives in CEO letters to shareholders in annual reports to reveal signs of CEO hubris.

Keywords Discretionary narrative disclosures, Annual reports, Narcissism, Hubris, CEOs, Social psychology

Paper type Research paper

Executive Hubris: The Case of a Bank CEO

1. Introduction

Although there has been speculation in newspapers that the 2008 banking crisis was partly caused by CEO hubris (e.g., Plumb and Wilchins 2008), there is little evidence to support this conjecture. Since the 2008 banking crisis, there is considerable interest in the profile of those who work in banks. Indeed, Dutch anthropologist, Joris Luyendijk, together with the *Guardian* newspaper in the UK, set up a blog in September 2011 to study the anthropology of the "Square Mile" – London's financial district (Luyendijk, 2011).

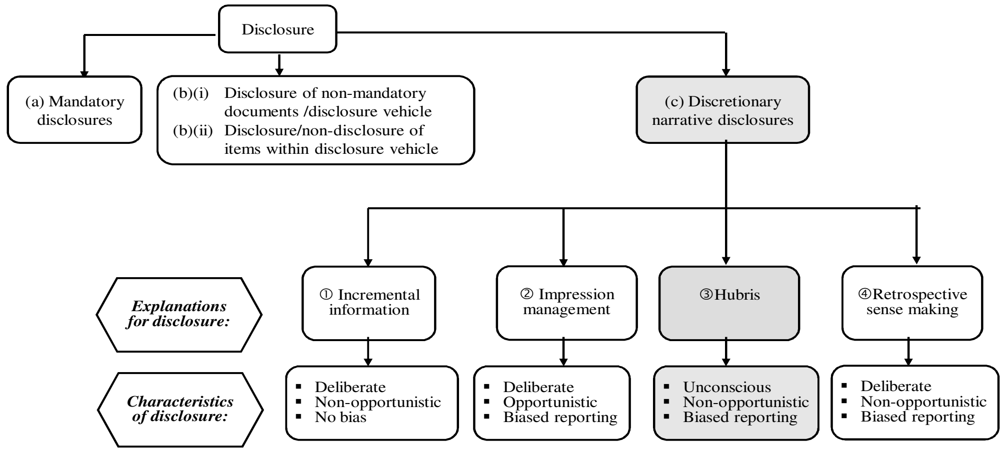
Bollaert and Petit (2010) call for more research into hubris to further our understanding of top executives and their impact on organisations. Hubris is an important corporate issue to study, as extreme hubris may constitute a risk to companies and to their reputations. For example, Read (2007) discusses the effects of hubris on reputation in relation to Apple's problematic launch of the iPod Nano and allegations against Foxtons estate agency by the BBC's investigative programme *Whistleblower*. Goldman (2006: 744) advocates "toxin detectors" to detect highly toxic leaders within organisations. CEO narratives in corporate reports provide an opportunity to detect hubris at-a-distance. Empirical studies have not systematically documented the existence of hubris in corporate narrative reports. Amernic and Craig (2006: 26, 34) refer to hubris in their analysis of the CEO letters of Enron and in relation to the subsequent testimony of the managing partner of Arthur Andersen. Amernic and Craig (2006: xi) advocate close and careful analysis of the words used by CEOs as they can reveal chilling clues to the ways CEOs seem to think. Craig and Amernic (2011) suggest CEO discourse can reveal markers of leadership dysfunction.

This paper analyses whether there is evidence of hubris in the corporate narratives of a Bank CEO by means of content analysis of the CEO letters to shareholders of one bank to gain insights into the personality of the CEO. Four proxies of hubris are considered: narcissism, hubris, overconfidence and performance attribution. The study is based on a single case during the CEO's tenure. The objective is to uncover whether a deeper cognitive behavioural trait might have contributed to the CEO's strategy, ultimately resulting in his nemesis, when he resigned in the face of the Bank's collapse. Two questions are addressed: Is there evidence of hubris in the corporate narratives of the Bank CEO letters to shareholders? Did the evidence of hubris increase over the tenure of the CEO? However, it is acknowledged that even if evidence of hubris is found in the CEO letters to shareholders, it cannot categorically be concluded that this alone caused the banking crisis of 2008 or the collapse of the case study Bank.

Corporate documents such as annual reports, traditionally used for the purposes of accountability, can reveal other insights that are potentially useful on the managers to whom investors have entrusted their wealth. Managers are required to prepare corporate documents, including annual reports, to provide useful information for decision making and an account of their stewardship to shareholders. Managers may use these corporate reports for their own personal advantage, and shareholders may draw inferences from the accounts provided, beyond the accountability purpose intended.

Figure 1 locates this research in the prior disclosure literature. Discretionary accounting narratives generally appear in the unregulated sections of annual reports to support and expand upon the regulated accounting disclosures in the audited financial statements. Accounting narratives in a variety of disclosure vehicles or media have been studied in prior research, including CEO letters to shareholders in annual reports (Amernic et al., 2010; Craig and Amernic 2008; Hooghiemstra 2010). Merkl-Davies and Brennan (2011) put forward four explanations (which are not necessarily mutually exclusive) for discretionary narrative disclosures in corporate documents: ① incremental information – provision of useful information to investors to aid their decision making; ② impression management – deliberate bias arising from opportunistic managerial behaviour with the objective of manipulating organisational audiences' perceptions of the firm; ③ hubris – self-deception or egocentric bias resulting in sub-conscious cognitive bias in corporate narratives; and ④ retrospective sense making whereby managers provide an account of organisational actions and events by retrospectively assigning causes to them (Aerts, 2005). This paper investigates the third explanation – hubris – which heretofore has attracted little attention in the disclosure literature. The impression management explanation assumes that managers opportunistically exploit information asymmetries between them and organisational audiences by means of biased reporting. However, biased reporting can also be due to managerial hubris. Whereas impression management constitutes opportunistic managerial behaviour with the purpose of manipulating organisational audiences' perceptions of firms and their performance, hubris constitutes self-deception or egocentric bias. Egocentric bias results in managers being biased towards their own performance. Craig and Amernic (2011, p. 563) argue that inferring personality traits such as narcissism (and, by extension, in this paper hubris) at-a-distance from corporate communications and disclosures is not unusual. Schafer (2000) discusses the challenges, methods and constructs applied to political leaders using at-a-distance research approaches. One problem with research that makes inferences from corporate disclosures is the difficulty of being certain whether the narratives arise from deliberate, opportunistic bias (impression management), unconscious bias (hubris) or deliberate, non-opportunistic bias (retrospective sense-making). Given the methodology in this paper, inferences are made from a hubristic perspective.

Figure 1: Locating the study in the prior disclosure literature: a taxonomy



Key: Shading represents the location of this research in the prior literature

Content analysis is applied to the CEO letters to shareholders of the Bank during the years of tenure of the CEO using four proxies / linguistic markers of hubris. First, corporate narratives in the CEO letters to shareholders are analysed for four signs of narcissism in CEO-speak (see Amernic and Craig 2007, p. 27). There is a close affinity between narcissism and hubris (Owen and Davidson 2009) with narcissism being viewed by many scholars as a contributor to hubris (Hayward and Hambrick 1997; Chatterjee and Hambrick 2007; Kroll, et al., 2000). Second, an analysis of CEO discourse in corporate narratives exhibiting signs of narcissism is conducted for evidence of hubris. Third, the news content of the CEO letters to shareholders is analysed for evidence of CEO overconfidence. News is classified as being good, bad or neutral. Finally, performance attribution in the CEO letters to shareholders is analysed – are positive outcomes and successes credited to the CEO himself? Such self-attribution may reinforce the manager's authority and dominance (Hietala et al., 2003). Prior research has investigated performance attribution among executives and has shown that excessive attribution to self can undermine the top management team unity (Hambrick and D'Aveni 1992). Self attribution can become a form of destructive narcissism as identified by Amernic and Craig (2007) and has been shown to influence managerial overconfidence leading to hubris and impaired judgment when making strategic decisions. Brown (1997) discusses how the concept and theory of narcissism can be applied to understand the legitimacy attributions made by organisational participants and external institutions. The degree of positive news attributed by the CEO to himself is measured as a proxy for uncovering hubristic tendencies in his personality. Studying the discourse of bank CEOs appearing before UK House of Commons committees, Hargie et al. (2010) find a tendency for bank CEOs not to take responsibility for the banking crisis and to attribute blame to external events they assert to have been beyond their control.

The Company in this study was transformed during the CEO's tenure from a small bank into a global player. The CEO pursued an acquisitive strategy. Executive hubris has been put forward as an explanation for this kind of behaviour in CEOs. Hayward and Hambrick (1997: 106) suggest that the hubris motive has been relatively neglected by both the management and finance literatures. There has been increasing research on hubris from a behavioural perspective in recent years. This study makes three contributions to that literature. First, by focussing on a single case of a bank CEO over a reasonably lengthy period, this study provides an industry-specific study on whether there is evidence of hubris in the CEO's letters to shareholders. Second, the work of Chatterjee and Hambrick (2007) and Amernic and Craig (2007) is extended, by generating a direct measure of CEO hubris, compared with the indirect proxies of narcissism and hubris adopted, particularly in the takeover literature. The work of Chatterjee and Hambrick (2007), in which they create a composite index of narcissism, has been criticised for their use of a collection of indirect and, to some extent, crude, proxies to measure narcissim – for example, size of CEO photographs in annual reports, prominence of CEOs in press releases, use of first person pronouns in interviews and relative CEO compensation. Third, insights into hubris from the clinical psychology literature are adapted to a manual content analysis of CEO letters to shareholders in annual reports. Such an approach facilitates a deeper understanding of the narrative content than prior measures of hubris in corporate narratives. Craig and Amernic (2011) also use clinical psychology literature to study narcissism in annual reports.

2. Literature review

Bollaert and Petit (2010) provide a useful review of prior literature on hubris in business research. This section of the paper considers hubris from the perspective of (i) strategic leadership and CEOs, (ii) as a cognitive bias in the form of overconfidence (especially in the takeover literature), (iii) as a personality trait following from narcissism and, finally, (iv) as a psychiatric syndrome/personality disorder. The section concludes with (v) a review of research analysing corporate reports as an indicator of personality traits and (vi) summarises how hubris has been measured in prior research.

The word hubris originates from ancient Greek mythology to describe the "*hamartia*" or flaws in the rulers or conquerors in Greek tragedy. It describes excessive pride in individuals. The term has been translated in modern times to describe "*exaggerated pride or self-confidence*" (Hayward and Hambrick 1997: 106), a cognitive unconscious bias. Kroll et al. (2000) examine three situations of corporate hubris – acquisitions, growth for its own sake and disregard for rules. They conclude that, left unchecked, hubris can manifest in arrogance and contempt for the input of others, where top executives pursue strategies out of their own inflated sense of confidence and impaired convictions. In their study of US presidents and UK prime ministers to determine whether hubris is an acquired personality disorder, Owen and Davidson (2009: 1397) lay the groundwork in developing a tangible set of proposed criteria for individuals suspected to be suffering from hubris.

2.1 Hubris, strategic leadership and CEOs

Prior research recognises the importance of CEOs to firms and their organisational images. Studies have shown that CEOs personify their corporations to internal and external stakeholders and significantly influence employee perceptions and attitudes, their trust in management and firm performance (Finkelstein and Hambrick, 1996; McGrath, 1995a,b; Park and Berger, 2004). CEOs can have powerful influences on the direction of firms and their strategic choices (Adams et al., 2005). The concept of "*CEO celebrity*" (Hayward et al., 2004) has been used to describe the ascent of CEOs as individuals who becomes the social face of their organisations. Such celebrity CEOs may favour self and ego over their companies (Collins 2001).

Narcissism and hubris have been attributed to CEO and top management risk taking where executives of major firms undertook value destroying acquisitions. Executives at Enron have been accused of suffering from hubris and of being overly confident in their discourse (Craig and Amernic, 2004). Former CEO of SAS, Jan Carlzon, has been shown by Maccoby (2000) to have suffered from narcissism when he progressively became overly expansive in his strategic intent for the Scandinavian airline, not listening to other colleagues. Resick et al. (2009) find that CEO bright-side personality traits (core self-evaluations) are positively related to transformational leadership, whereas dark-side personality characteristics (narcissism) are negatively related to contingent reward leadership. In turn, these CEO personality characteristics are related to the strategies and performance outcomes for their organisations.

2.2 Hubris – a cognitive bias in the form of overconfidence

The analysis of executive psychology and the behaviour of corporate leaders have received greater attention in recent years (Agle et al., 2006; Chatterjee and Hambrick, 2007; Finkelstein et al., 2009). Upper echelons theory, first developed by Hambrick and Mason (1984), was an attempt to consolidate the rather fragmented approach to executive psychology at that time. Upper echelons theory viewed organisational strategies and outcomes as the result of the values and cognitive biases of those in the upper reaches of organisations. These cognitive unconscious biases in turn determine top executives' choices, strategy preferences and dispositions (Jensen and Zajac 2004). Hambrick and Mason (1984) believe that a focus on executive actions from a top management team perspective offers a better explanation of organisational outcomes than focussing solely on one individual such as CEO or chairman. This has also been argued by Hage and Dewar (1973) and Tushman and Rosenkopf (1996). However, in the case of a particularly powerful CEO, focussing on an individual is justified. Once narcissists with super-ego tendencies rise to power, their reality-testing capacities diminish. Behaviour becomes more erratic, together with an inability to meet their goals (Glad, 2002).

Overconfidence is treated as a cognitive bias in the finance literature (e.g., Malmendier and Tate 2005, 2008). In the psychology and management literatures, it is treated as part of a narcissistic personality, involving a "belief in one's superior qualities" (Chatterjee and Hambrick 2007: 354). Further, Kets de Vries (1990) and Chatterjee and Hambrick (2007) suggest that a narcissistic personality leads to hubris, that hubris is an offshoot of narcissism. The consequences of CEO hubris or overconfidence has been studied, primarily in the takeover literature (e.g., Hietala et al., 2003; Aktas et al., 2010). Li and Tang (2010) have extended this research into CEO risk-taking and the moderating factors between CEO hubris and risk taking.

2.3 Hubris – a personality trait following from narcissism

Following a review of relevant management literature, Kroll et al. (2000) contend that hubris is borne of a personality prone to narcissistic tendencies. These tendencies can be reinforced with successes that feed the narcissism. Subjects believe the accolades of others, in particular the media, and have a history of getting away with breaking the rules. Narcissism and related syndromes are not always bad. Kets de Vries (1994, 2004) discusses two types of narcissism: constructive (healthy) narcissism which may lead to great success, or reactive (excess) narcissism which he says is the most salient indicator of defective leadership. As Lubit (2002) notes, although constructive (healthy) and destructive (reactive) narcissism lead to outward self-confidence, they are very different phenomena. Self-confidence in healthy narcissist tends to be in line with reality while it is of a pretentious nature in those individuals prone to reactive narcissism. Constructive narcissists do not search for personal power alone, and have a vision for the organisation. Destructive narcissists, on the other hand, seek personal power and use this power to support their excessive image of self, to curtail negative feedback and to carry out grandiose projects (Glad, 2002).

That narcissism is deemed an important contributory factor in developing hubris is significant given the number of narcissists leading corporations today (Maccoby, 2000). Bollaert and Petit (2012 forthcoming) review hubris and corporate executives. They note the overlap and similarity between hubris and other behavioural tendencies, such as overconfidence and narcissism. Bollaert and Petit (2010) highlight the lack of a precise definition of hubris to operationalise and measure.

2.4 Hubris a psychiatric syndrome/personality disorder

Owen and Davidson's (2009) hubris syndrome explains extreme hubristic behaviour "*constituting a cluster of features (symptoms) evoked by a specific trigger (power), and usually remitting when power fades*." They propose 14 symptoms for hubris, of which three or more must be present for an individual to be deemed to suffer from extreme hubris syndrome, with one at least being unique to hubris. Their 14 symptoms for hubris are developed from the American Psychiatric Association's (2000) *Diagnostic and Statistical Manual* coding system, in conjunction with clinical diagnoses of the following behavioural disorders: narcissistic personality disorder, antisocial personality disorder and histrionic personality disorder. Seven of the 14 symptoms relate to narcissism while five are unique to hubris with one each related to antisocial personality disorder and histrionic personality disorder. Importantly, Owen and Davidson's (2009) symptoms identify many common elements between hubris and other behavioural tendencies. This accords with other studies which treat hubris as a psychological state brought on by some combination of confidence-buoying stimuli and ingrained narcissist tendencies (Finkelstein et al., 2009). Russell (2011) recasts and simplifies the clinical features of the hubris syndrome, its classification and pathogenisis. Owen (2011) extends his work on politicians to a business setting, considering the effects of hubris on the CEO of BP, and the effects of hubristic behaviour on UK banks, and taking into consideration the business culture that contribute to collective hubris. He suggests a neurobiological explanation for the intoxication of power in the hubris syndrome.

Narcissism is an important contributory factor in developing hubris (Maccoby, 2000). Owen and Davidson (2009) identify three key external factors that contribute to hubris: (1) holding substantial power; (2) minimal constraint on the leader exercising authority; (3) the length of time leaders stay in power. As the success of narcissist leaders becomes more pronounced so too do their destructive tendencies (Maccoby 2000). The long term impact of executive hubris on organisational performance has been researched by Collins (2009: 21) who establishes a five stage framework to characterise the decline of corporations whose leaders succumb to hubris. Stage one of this framework is hubris born of success. Further, Collins (2001) showed that companies that went from "*good to great*" were led by executives with a blend of personal humility and professional will, applying their ambition first and foremost to the institution, not themselves. In addition, such executives are relatively modest and attribute a greater amount of positive performance to others. Beginning with 1,435 companies, Collins identified 11 companies that improved performance to become great companies by averaging cumulative stock returns at least three times the stock market average over a 15 year period. The investigation involved the analysis of annual reports, press releases, case studies, media coverage, as well as conducting interviews with CEOs. What Collin's study underscores is the importance of executives maintaining a degree of humility in how they view the organisational accomplishments achieved under their leadership so as to avoid the dangers of destructive hubris setting in and affecting firm performance.

Trumbull (2010) distinguishes between the dangers manifest in hubris compared with the prosocial behaviours essential for social survival such as fairness, co-operation and reciprocity. Considering the corporate world, she points to a disease out of control, and the incompatabilities of individuals striving for rank, power and personal reward versus the collective cooperative interests of the community.

2.5 Analysis of corporate reports to reveal CEO personality traits

In addition to the financial numbers in audited financial statements, inferences can be made by interpreting those numbers, and from other qualitative approaches such as close reading of corporate documents and meetings with senior managers. Relatively few parties have the opportunity for up-close-and-personal meetings with senior managers. However, many authors have pointed to the value of analysing CEO discourse such as disclosures in CEO letters to shareholders. These documents provide a personal accountability narrative of corporate CEOs (Craig and Amernic 2011: 566). CEO letters to shareholders also contain latent meanings and signals. Although CEO letters to shareholders are used to present their business to others, they can also be quite revealing of firms and their executives (Bournois and Point 2006).

Prior research on CEO discourse has focussed on the employment of obfuscation or impression management strategies by executives to portray false 'positive' images. Merkl-Davies and Brennan (2007) observe that hubris has been used as an explanation for the price paid in acquisitions but has not been applied in explaining the reporting bias inherent in corporate narratives. There has been less research on CEO narratives to uncover personality traits, such as signs of hubris. Craig and Amernic (2004), Amernic and Craig (2007) and Amernic et al. (2010) are exceptions.

As highlighted by Craig and Amernic (2004), the linguistic techniques that CEOs employ can provide a rich source for understanding their ways of thinking and strategic outlook. Indeed, such is the significance of CEO narratives that *"at times their words exude a self-image of infallibility and an aura of hubris – an image that may prove a liability to the organisation when business problems emerge."* (Amernic and Craig, 2007: 26). Using computerised content analysis, Amernic et al. (2010: v) study CEO letters to measure the tone at the top as reflected by such letters. They speak of the *"…growth of heroic models of leadership, which encourage many CEOs to exaggerate their proficiency, level of insight and ability to command events (many of which are beyond their control)*". An analysis of CEO letters has the potential to reveal how CEO mindsets function. Craig and Amernic (2011) suggest that analysis of corporate communication has the potential to reveal linguistic traces of personality. Using discourse analysis, they study destructive narcissism as revealed in the CEO letters of Enron, Starbucks and General Motors. Craig and Amernic (2011) analyse CEOs' public language, which mediates the interactions of their companies and organisational audiences for those corporate disclosures. It is not the objective of their research to diagnose the psychological state of mind of the CEO.

2.6 Measures of hubris in prior research

Some scholars attempt to distinguish between narcissism, overconfidence and hubris while others use the terms interchangeably. While hubris, overconfidence and narcissism display some distinguishing features, they are essentially intrinsically linked. Anderson and Tirrell (2004), in their short case studies, examine the influence of ego on accounting choices in financial statements. A measure of managerial hubris requires data that reveals managerial psychology. Given the inherent difficulty of attaining access to and interacting directly with CEOs much of the prior research into executive hubris has relied on indirect measures of hubris (Brown and Sarma, 2007). An exception is Ben-David et al. (2007) who use direct measures of overconfidence and optimism by surveying, through 25 quarterly surveys, between 2,000 and 3,000 chief financial officers (CFOs) with a short questionnaire. Two overconfidence variables are used to assess the degree of miscalibration of beliefs about expectations based on CFO judgements. Although they find that miscalibration depends on company traits, and that CFO overconfidence increases with skill, the variables used in their study capture genuine miscalibration of beliefs. They conclude that firms with overconfident CFOs invest more and engage in more acquisitions even though the market reaction to the acquisitions is negative. Brown and Sarma (2007) highlight the importance of considering CEO dominance when looking at CEO overconfidence. Their measure of CEO dominance is a proxy of executive compensation. The relationship between narcissism, using indicators from early in CEO tenure, and its impact on organisational outcomes in later years was investigated by Chatterjee and Hambrick (2007). Four measures of CEO narcissism were used; (1) the prominence of the CEO's photograph in the annual report; (2) the prominence of the CEO in company press releases; (3) the use of first-person singular pronouns; as well as (4) CEO compensation relative to the second highest paid board executive. Based on CEOs in the computer industry, Chatterjee and Hambrick (2007) investigate the effects of narcissism on acquisitions, strategic dynamism, performance extremeness and performance fluctuation, finding strong relations for each variable. Aktas et al. (2010) measure CEO narcissism in 1,700 transcripts of CEO speech by reference to personal pronoun use. Their results represent a strong case for the association between CEO psychological characteristics and takeovers.

3. Research questions and methodology

Two research questions are addressed.

RQ1: Is there evidence of hubris in the corporate narratives in the Bank CEO letters to shareholders?

Four proxies / linguistic markers for identifying manifestations of hubris are used in the analysis as follows: (i) narcissistic-speak, (ii) hubris, (iii) overconfidence – over-emphasising good news and under-emphasising bad news, and (iv) attribution of good news internally and bad news externally?

RQ2: Did the evidence of hubris increase over the tenure of the CEO, the longer the CEO of the Bank held the position of power?

To examine each of the four proxies / linguistic markers for hubris, content analysis is applied to the CEO letters to shareholders.

3.1 Sample selection

The case was selected for four reasons: (1) the length of tenure of the CEO – as hubris develops over time (Owen and Davidson 2009), it was essential to choose a CEO who had served more than the average term of CEOs. Voulgaris et al. (2010) found CEO average terms to be 5.5 years for FTSE 100, 250 and small cap firms; (2) The CEO engaged in multiple takeovers throughout the term of office; (3) the case involved extreme success followed by extreme failure – redolent of the Icarus syndrome (Miller, 1991); (4) the identity of the company and the CEO were inextricably linked in the media – Hayward and Hambrick (1997) argue that media praise is a powerful antecedent to hubris, as it contributes to a feeling of prestige and self-importance among senior managers. In the year prior to the commencement of this study, this case and the CEO in question came to attention in an unpublished masters dissertation. Using newspaper coverage in Lexis Nexis, and following the methodology of Flynn and Staw (2004), Marron and Moloney (2009) classify the CEO in this paper as 'dominant' by reference to the proportion of the newspaper articles about the Bank featuring the CEO's name (27% of articles).

The primary sources used in this study are the CEO letters to shareholders in the ten annual reports of the Bank over the years of the study. The sample includes by way of benchmark one year prior to the CEO's appointment and one year following his departure. This allows a comparison of CEO letters to shareholders before and after his tenure. Applying content analysis facilitates an assessment of the extent hubris is evident for the CEO and the preceding and succeeding CEOs. Annual reports were downloaded from the Bank's website. Table 1 summarises the data in terms of length of CEO letters to shareholders.

Table 1: Sample of CEO letters to shareholders – data for analysis

Annual Report	*CEO*	*Length in Words No.*	*Sentences (unit of analysis) No.*	
Year -1	Preceding CEO	748	37	
Year 1	✓	883	41	
Year 2	✓	1,086	49	
Year 3	✓	1,420	60	
Year 4	✓	636	30	
Year 5	✓	673	33	
Year 6	✓	694	32	
Year 7	✓	672	29	
Year 8	✓	1,412	65	339
Year +1	Succeeding CEO	1,864	82	

3.2 Measuring narcissism, hubris, overconfidence and self-attribution

Manual content analysis techniques were employed to analyse CEO letters to shareholders. Adapting from Amernic and Craig (2007) and Owen and Davidson (2009), a classification scheme is developed to analyse the content of CEO letters to shareholders by reference to (1) narcissistic-speak; (2) 14 symptoms of hubris, (3) CEO over-confidence as manifest in good news and bad news themes, and (4) CEO attribution of positive and negative performance.

A pilot study was conducted on the Year 7 annual report of the Bank, resulting in a considerable subsequent refinement of the research methodology and the development of a detailed set of coding instructions. The coding instructions are available from the authors on request.

The coding procedure comprises seven steps as follows:
(1) Construct a classification scheme and a set of rules about how to code, measure and record the data to be classified
(2) Identify sentences (unit of analysis)
(3) Count sentences
(4) Use key words within sentences to categorise those phrases as indicative of narcissistic-speak
(5) Take sentences indicative of narcissism identified in (4) and analyse the sentences by reference to 14 symptoms of hubris.
(6) Identify sentences containing good news and bad news by reference to the keywords concerning company performance
(7) Examine the use of attribution in sentences referring to company performance.

The approach necessitates subjectivity by the coder where consideration of the context surrounding the information influences the coding decisions. A sentence is chosen as the unit of analysis. This is similar to the approach adopted by Hackston and Milne (1996) and Milne and Adler (1999). For the purpose of coding, Weber (1990) notes that a sentence as the unit of analysis is far more reliable than any other unit of analysis. In addition, sentences are chosen ahead of words or statements given the importance of maintaining contextual meaning when interpreting keywords (Milne and Adler 1999). Sentences can also reduce the problem of subjectivity.

(1) Narcissistic-speak (RQ 1 (i))

Following Chatterjee and Hambrick (2007: 360), who assume that narcissism is a precursor of hubris, for the purposes of this study narcissism is analysed first followed by an analysis of hubris. Sentences are analysed using three of Amernic and Craig's (2007) signs of narcissistic-speak. Amernic and Craig (2007) and the more expansive Amernic and Craig (2006) identify an additional sign of narcissistic-speak, excessive self-attribution, which is examined in this paper as part of Research Question 4. A sign of high or unstable self esteem (Hiller and Hambrick 2005) – referred to in this study as excessive self esteem – is added as a sign of narcissistic-speak. Using keywords, sentences are categorised under four signs of narcissistic-speak: (1) Hyperbole; (2) Self-styling as an archetypal company; (3) Language of war, sport and extremism; and (4) Excessive self-esteem.

(2) Symptoms of hubris (RQ 1 (ii))

Analysis for hubris is applied to the sentences showing narcissistic tendencies. Using the symptoms in Owen and Davidson (2009), derived from the American Psychiatric Association's (2000) *Diagnostic and Statistical Manual*, each sentence is coded under 14 symptoms of hubris (see Table 4 for the list of 14 symptoms labelled A to N).

(3) Overconfidence – Good news / bad news (RQ 1 (iii))

Each CEO letter to shareholders is coded for good and bad news using keywords. Positive keywords attaching to performance denote sentences containing good news while negative keywords attaching to performance indicate bad news. Where sentences cannot be classified as good or bad news, they are coded as neutral. Guthrie and Parker (1990) and Lang and Lundhom (2000) adopt this approach. The first step involves classifying sentences within the CEO narrative as reporting good or bad news in terms of company's operating performance. As highlighted by Clatworthy and Jones (2003), sentences need specific substantiation, that is, they must refer to specific aspects of company performance. A list of keywords is defined from the prior literature (Abrahamson and Amir, 1996; Abrahamson and Park, 1994; Clatworthy and Jones, 2003; Guillamon-Saorin, 2006). The classification takes a subjective meaning-orientated approach, whereby the coder maintains the context surrounding the sentences.

(4) Attribution of performance (RQ 1 (iv))

To analyse the extent of performance attribution, a coding procedure comprising two stages was adopted:

(1) Sentences dealing with corporate results are identified
(2) Corporate results are classified as good, bad or neutral
(3) Corporate results are then classified as being attributed to:
   (a) The CEO
   (b) The organisation
   (c) External parties

Sentences are attributed to the CEO by reference to personal pronouns ("*I*", "*me*", "*we*", and "*ours*"). This approach is similar to that adopted by Clatworthy and Jones (2003) in their study of attribution of good and bad news in the chairmen's statements of top and bottom performing UK listed firms. This process involves the subjective judgment by the coder, having read and interpreted the sentences and taking context into consideration.

3.3 Limitations of the analysis

The research was carried out as rigorously as possible. There is an extensive coding sheet, with details of each coding decision carefully recorded sentence-by-sentence in a spreadsheet. However, no coder cross-check was conducted, which is a weakness of the paper. The analysis of CEO discourse is highly subjective. Arising from this subjectivity, a second coder may arrive at different results. As such, the method is difficult to replicate. While a different coder may arrive at different subjective classifications, a similar trend (or pattern) of findings to those shown in Figure 2 is expected. While the method of analysis taken from clinical psychology is novel, its validity and reliability requires further testing and application. Validity and reliability issues are a problem in clinical psychology even when clinicians have direct access to patients. This difficulty is likely to be exacerbated for at-a-distance (Craig and Amernic 2011) methods such as in this paper. Goldman (2006) applied more direct research methods through action research to conduct a clinical case study using the American Psychiatric Association's (2000) diagnostic tools. He studied a dysfunctional leader suffering from borderline personality disorder, using thick description case study narrative. Goldman was able to conduct research of this type through his position as executive coach, management consultant and psychotherapist in the case organisation.

In order to report the results in a systematic and as transparent manner as possible, tables quantifying the findings follow. The paper therefore quantifies results of an analytical process that is highly subjective. Such quantification should not be interpreted as implying more precision than is possible in such a subjective analysis. Quantification merely demonstrates that the analysis was conducted as rigorously as possible, within the limitations of such a subjective methodology. Further, it is assumed that the more occurrences of a measure, the more the measure is indicated. Finally, as the findings are based on a single case, they cannot be generalised.

4. Results

The CEO letters to shareholders are analysed by reference to narcissistic-speak, hubris, overconfidence in terms of good news bad news, and CEO attribution of performance.

4.1 Narcissistic-speak (RQ 1 (i))

Table 2 shows that a majority (51%) of sentences (173 sentences) within the CEO letters to shareholders from Year 1 to Year 8 met one of the four signs of narcissistic-speak. Thus, there is evidence of narcissism in the CEO letters to shareholders, a contributor to hubris. Although the four indicators of narcissistic-speak are relatively evenly distributed, the most common indicator is hyperbole. This is followed by self-styling as an archetypal company, language of war, sport and extremism and finally exaggerated self-esteem.

Table 2: Analysis of narcissistic-speak Year 1–Year 8				
	No.(%) occurrences		*No.(%) occurrences*	
Narcissistic-speak	47	27%		
1. Hyperbole	45	26%		
2. Self-styling as an archetypal company	41	24%		
3. Language of war, sport and extremism	40	23%		
4. Self-Esteem	173	100%		
Sentences with narcissistic-speak			173	51%
Neutral sentences			166	49%
Total			339	100%

4.2 Symptoms of hubris (RQ 1 (ii))

Each phrase meeting Amernic and Craig's (2007) narcissist CEO-speak was analysed under 14 symptoms of hubris. In cases where a sentence did not meet a hubris symptom it was coded neutral. The majority of sentences met at least one symptom with some sentences meeting up to four. Table 3 analyses the number of sentences meeting none, one, two, three and four symptoms of hubris. There were 46% of sentences meeting two symptoms of hubris, followed by 41% of sentences with three symptoms. Owen and Davidson (2009) identify extreme hubristic behaviour as a syndrome triggered by the acquisition of power (e.g., becoming a CEO of a large organisation). In diagnosing hubris syndrome, constituting a cluster of symptoms, they look for three of the 14 symptoms of hubris, one of which should be one of the five symptoms unique to hubris. In 45% of sentences, there were three or more symptoms of hubris present.

Table 3: Number of symptoms of hubris in each sentence					
No. symptoms of hubris per sentence	*No. sentences*		*Total number (%) symptoms of hubris*		*Average symptoms of hubris per sentence*
Neutral		17	0	(0%)	
1	31		31	(9%)	
2	76		152	(46%)	
3	46		138	(41%)	
4	3		12	(4%)	
Sentences with symptoms of hubris		156	333	(100%)	2.13
Total		173			

Table 4 categorises the 333 symptoms of hubris in Table 3 into the 14 symptoms, labelled A to N. The most frequent symptom of hubris is D at 26.7% – a messianic manner of talking about current activities and a tendency to exaltation (Owen and Davidson 2009). This is not surprising given the CEO's confidence about the position of the Bank. This was followed by symptom F and H, at 18.6% and 13.5% respectively. Symptom F reinforces the CEO's dominance at the helm of the company, while symptom H enunciates his self belief in what he was doing. Four symptoms of hubris (I, J, K and N) were not found in any sentence.

Table 4: Frequencies of 14 symptoms of hubris

Symptom of hubris		*No. (%) occurrences*		*Rank*
D	Messianic manner of talking about current activities and a tendency to exaltation	89	26.7%	1
F[1]	A tendency to speak in the third person or use the royal '*we*'	62	18.6%	2
H	Exaggerated self-belief, bordering on a sense of omnipotence, in what they personally can achieve	45	13.5%	3
G	Excessive confidence in the individual's own judgment and contempt for the advice or criticism of others	31	9.3%	4
C	A disproportionate concern with image and presentation	28	8.5%	5
L[1]	Restlessness, recklessness and impulsiveness	27	8.1%	6
B	A predisposition to take actions which seem likely to cast the individual in a good light in order to enhance image	21	6.3%	7
A	A narcissistic propensity to see their world primarily as an arena in which to exercise power and seek glory	18	5.4%	8
E[1]	An identification with the nation, or organisation to the extent that the individual regards his outlook and interests as identical	11	3.3%	9
M[1]	A tendency to allow their 'broad vision', about the moral rectitude of a proposed course, to obviate the need to consider practicality, cost or outcomes	1	0.3%	10
I	A belief that rather than being accountable to the mundane court of colleagues or public opinion, the court to which they answer is: History or God	0	0.0%	
J[1]	An unshakable belief that in that court they will be vindicated	0	0.0%	
K	(Loss of contact with reality; often associated with progressive isolation	0	0.0%	
N	Hubristic incompetence, where things go wrong because too much self-confidence has led the leader not to worry about the nuts and bolts of policy	0	0.0%	
		333	100.0%	

[1] One of the five unique characteristics of hubris (Owen and Davidson, 2009)

4.3 Good news / bad news (RQ 1 (iii))

The results in Table 5 indicate that 76% of the content of the CEO's letters to shareholders contained good news about the Bank and its operations. Only seven of the 339 sentences were classified as bad news. This is in line with prior research showing that managers tend to focus predominantly on good news in the narratives in annual reports.

4.4 Attribution of performance (RQ 1 (iv))

Table 6 shows the extent of attribution of good and bad news in the CEO letters to shareholders to the CEO himself, to the company or to other external parties. The majority of good news was attributed by the CEO to himself, while the limited amount of bad news was entirely attributed externally. A temporal analysis (not shown in Table 6) shows that, from Year 4, the CEO attributed more positive news to himself than to the company and its external parties. In earlier years, the CEO attributed the success of the organisation to the various divisions involved. However, the narratives in Year 4 to Year 8 represent a shift, possibly reflecting a cognitive bias that the performance of the Group was the result of the CEO's stewardship. Unlike earlier CEO letters to shareholders where the CEO dedicated various sections of his report to the different divisions of the company, as the Bank expanded the tone of the narrative became more egocentric with more self attribution than in earlier years. Attributing positive performance to a CEO can have implications for hubris. Hayward and Hambrick (1997) propose that where organisational success resulting from acquisitions is attributed to the CEO, this increases the CEO's desire to make further acquisitions.

Table 5: Number of sentences containing, bad or neutral news

	No. (%) sentences[1]	
Good	258	76%
Bad	7	2%
Neutral	74	22%
Total	339	100%

[1] CEO letters to shareholders Year 1–Year 8 during the CEO's tenure

Table 6: Attribution of news to the CEO, the Bank or external parties

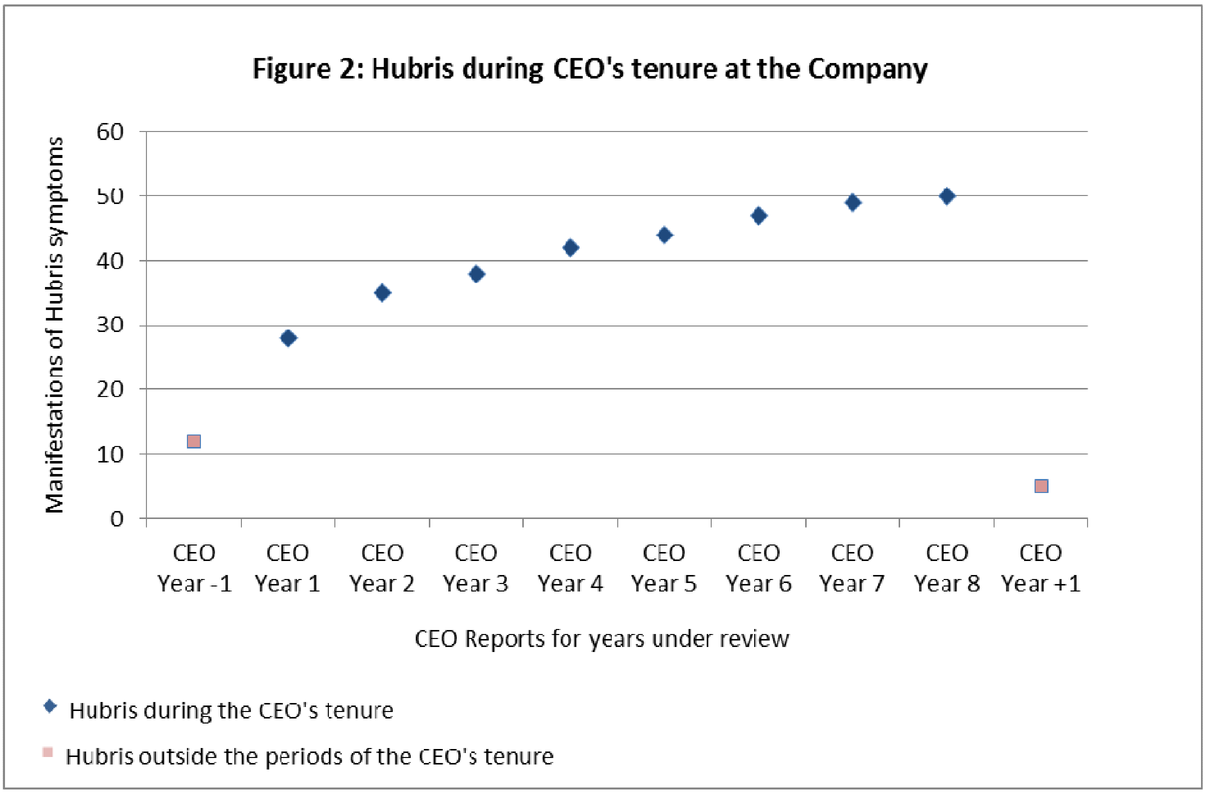
	No. sentences[1]					%
	The CEO	*The Bank*	*Others*	*Neutral*	*Total*	
Good	148	100	10	-	258	76%
Bad	0	0	7	-	7	2%
Neutral	-	-	-	74	74	22%
Total	148	100	17	74	339	100%

[1] CEO letters to shareholders Year 1–Year 8 during the CEO's tenure

4.5 Changes in symptoms of hubris over time (RQ 2)

Figure 2 analyses hubris for Year -1 to Year +1 and shows, as expected, that hubris symptoms exhibited in CEO letters to shareholders increased over time. The symptoms were notably higher than the benchmark predecessor CEO in Year -1 and successor CEO in Year +1. We can conclude that there are differences between the Bank CEO hubris symptoms and benchmark CEO symptoms, but it is beyond this paper to discuss the numerous possible explanations for the differences. The dramatic fall in symptoms in Year +1 is likely to reflect not only a change in leadership but also the collapse of the Bank, the CEO's departure and the economic conditions caused by the banking crisis.

Although the amount of narcissistic sentences within the CEO letters to shareholders meeting hubris symptoms remained relatively constant throughout the CEO's tenure, the number of symptoms of hubris increased as the years progressed, albeit at a slower rate, as shown in Figure 2. This is in line with prior research that shows the longer the term of the position of power the more pronounced becomes the hubris. The Pearson correlation between hubris and length of CEO's tenure is 0.9737 (p-value = 0.00) and is statistically significant. The reason for the slower rate of growth in hubris towards the latter part of the CEO's tenure may be explained by looking at external factors occurring at the time. Analysis of press coverage of the CEO (Marron and Moloney, 2009 – not reported in this paper), a contributor to hubristic behaviour, attributed a greater amount of positive news to the CEO in his earlier years. The media, together with shareholders of the Bank, became more wary of the CEO's intentions in later years.



5. Summary and conclusions

The influence of psychological characteristics and behaviour of executives on strategic decisions and organisational outcomes has received greater attention in management literature in recent years. Cognitive biases can have a potentially detrimental effect on corporate performance if the executives exhibiting such behaviours are left unchecked. CEOs of large multinational corporations are highly influential. Close reading of their discourses can be revealing. Some parties such as external auditors, large shareholders and analysts may have direct behind-the-scenes access to CEOs and can judge their personality and behavior at close quarters. Others, such as small investors and external stakeholders, have to make inferences from publicly available data.

The measures in this study include direct measures to analyse the CEO discourse in CEO letters to shareholders. A meaning-orientated manual content analysis approach was employed to analyse the narrative content of the CEO letters to shareholders of the Bank during the period of the study Year -1 to Year +1. The investigation into the personality of the CEO focuses in particular on the underlying traits of narcissism and hubris. The results point to evidence of hubris in the personality of the CEO.

Prior research has highlighted the significance of narcissism and its relation to hubris. Although both symptoms can be differentiated they share many common elements. Most importantly, narcissist tendencies are seen as a contributor to developing hubris. For this reason, signs of narcissism were identified first within the CEO's discourse. Results indicate that the most common form of narcissistic-speak was hyperbole. Given the expansion of the Bank and the number of acquisitions carried out by the CEO during his tenure, it is apt that hyperbole features as the most frequently used linguistic device and underscores the attitude that prevailed during his leadership at the Bank with his ambitions to empire-build.

The second most frequent narcissist form of discourse was self-styling as an archetypal company. This denotes a sense of importance for the company led by the CEO, and by inference suggests the importance of his special style of leadership. By and large such forms of narcissism have hubristic undertones. The third most frequent form of narcissism is language of war, sport and extremism and highlights keywords and phrases used by the CEO to boast about achievements, successes and awards of the Bank during his leadership. Excessive self-esteem was the final sign of narcissistic-speak and signals the over-confidence and favourable opinion of self within the sentences that comprised the CEO's communiqué.

In order to diagnose hubris, at least three of Owen and Davidson's (2009) symptoms of hubris must be present, with at least one unique to hubris (i.e., with at least one E, F, J, L, M – see Table 4). For each year of the CEO's tenure this criterion was met. As the results have shown, the most common symptom of hubris found was D – a messianic manner of talking about current activities and a tendency to exaltation. As highlighted by Owens and Davidson (2009), this is not a unique symptom of hubris, but rather is adapted from narcissistic personality disorder. The messianic manner of the CEO in speaking about the Bank's operations manifested itself in optimism in the way he viewed the Bank's activities. The second most frequent symptom met was F – a tendency to speak in the third person or to use the royal "*we*" – one of the unique symptoms of hubris. The royal "*we*" is indicative of high office, a sense of leadership where the CEO speaks as an individual but is representative of his people at the Bank. The symptom H was the next most frequent, being met 45 times. This is an exaggerated self-belief in what one can personally achieve.

Results from the analysis of attribution of performance are strong and demonstrate the dominance of the CEO. This dominance has been inferred as a contributor to his hubristic behaviour and desire to build his empire at the Bank despite, in latter years, reservations from shareholders and financial markets. From a total of 148 sentences identified as being good news, 57% was attributed to the CEO himself, while only 39% was attributed to the company and a further 4% attributed to outside parties. Similarly, the CEO did not attribute any bad news to himself or the company but stated it was the result of external factors.

The coding of sentences into the four indicators of narcissistic-speak and into the 14 symptoms of hubris is a highly subjective exercise. In mitigation of that limitation, detailed coding instructions are available to readers on request to make those judgements as transparent as possible. However, it is likely that different researchers will arrive at different subjective conclusions in their interpretation of each sentence. In this research, all the coding was completed by one of the two authors. The coding is therefore consistent. The pattern found of increasing hubris over time as shown in Figure 2 is statistically significant and is likely to be found by other coders, even if they make different judgements on the precise coding of each sentence. These signals as to the character and personality of CEOs are ones for investors to consider, in addition to the more traditional accountability functions of annual reports.

This paper has demonstrated the existence of hubris symptoms in the CEO letters to shareholders of one bank caught out badly during the credit crisis of 2008. The only benchmark in the paper is the previous and successor CEOs. Was the hubris syndrome systemic at that time, suffered by all bank CEOs (as suggested by Craig and Amernic 2011), or is the syndrome unique to this one and a number of other banks? More robust benchmarks are required to provide greater evidence on the findings in this paper. Extending the study to other banks, both those that failed during the crisis and those that survived, to examine whether CEO hubris was prevalent across the banking sector is a next step. Further, some countries, notably Australia and Canada, were not adversely affected by the banking crisis of 2008. Indicators of CEO hubris in the annual reports of banks in those countries might be examined. As this is a single case study, there is no benchmark (other than the prior and successor CEOs of the Bank) against which to assess whether this CEO's statements are notably hubristic. An extension of the study might take extreme samples comprising self-effacing CEOs such as those in charge of Collin's (2001) 11 good-to-great companies, and benchmark their CEO letters to shareholders against CEOs showing evidence of narcissism and hubris. In this respect, Craig and Amernic (2011: 565) put forward one General Motors' CEO letter to shareholders as an antithetical contrast to the more typical narcissistic CEO letters to shareholders.[2] A further extension of the research might be to examine linkages between hubris symptoms and risk appetite. In this respect, Lawrence et al. (2011) examine the practices of one peripheral bank which triggered a change in attitude to risk appetite in the banking sector in Ireland, which they attribute to hubris.

Most prior research considers discretionary narrative disclosures from an incremental useful information perspective or an impression management perspective. Agency theory dominates much of this research (Merkl-Davies and Brennan 2011). However, such disclosures can sub-consciously reveal information about the management of companies, about tone at the top (Amernic et al., 2010) and about reputation of firms (Geppert and Lawrence, 2008; Craig and Brennan, 2012). Close reading (Amernic and Craig 2007) of discretionary narrative disclosures by investors may reveal useful information about these otherwise hard-to-study aspects of the firm. Unconscious dynamics can have a significant impact on organisations (Kets de Vries, 2004).

The results point to hubris syndrome in the character of the CEO. Boddy (2011) conjectures that the banking crisis of 2008 was caused not by hubris, but by corporate psychopaths working in the financial services sector. Pech and Slade (2007) put forward a cultural diagnostic tool to protect organisations and guard against organisational sociopaths. Anderson and Tirrell (2004) refer to the importance of personality considerations such as ego in the screening process for potential CEOs. These symptoms might act as a warning to boards of directors in relation to the character traits they look for when recruiting CEOs.

Endnote

[1] In an unpublished replication study on 56 annual reports of six banks in the ten-year period 2001-2010, Edwards (2011) found CEO sentences with narcissistic-speak ranged from 25% to 38% of the total sentences, compared with 51% (see Table 2) for the Bank in this paper. The average number of symptoms of hubris per sentence exhibiting hubris for the six banks ranged between 1.48-1.76, compared with 2.13 (see Table 3) for the Bank in this paper. While the time periods of the research are different, this data would suggest that the Bank in this paper exhibited more hubris than the six in the Edwards' (2011) study.

[2] The method in this paper was applied to the 2005 General Motors' CEO letter to shareholders. While on the one hand this CEO letter to shareholders looks to the improvements that have been set in motion or will be implemented in the near future, on the other hand the tone of the language is repentant of past mistakes and failures. Consistent with Craig and Amernic (2011), we found only two sentences that contained an indicator of narcissism (Hyperbole) but neither of these sentences contained a symptom of hubris.

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