Doctoral Dissertation

# The Critical Assessment of Heterogeneous Outcome of CEO Hubris

February 2014

HYUN (SAM) JUN PARK

College of Business administration

The Graduate School

Seoul National University

# The Critical Assessment of Heterogeneous Outcome of CEO Hubris

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이 논문을 경영학박사 학위논문으로 제출함

2013년 10 월

서울대학교 대학원

경영학과 경영학 전공

**박 현 준**

최원용의 경영학박사 학위논문을 인준함

2013년 12 월

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# ABSTRACT

# THE CRITICAL ASSESSMENT OF HETEROGENOUS OUTCOME OF CEO HUBRIS

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This dissertation aims to examine and explore the research area of CEO hubris. Research from the institutional theory explains the homogenous aspects of organization, however, lacks the explanations of heterogeneous behavior. This paper attempts to explain the heterogeneous behavior through CEO hubris. Thus, I conducted one empirical study and one review paper based on CEO hubris.

First study is based CEO hubris and institutional theory through corporate social responsibility. It argues that CEO hubris does not follow the norm on corporate social responsibility due to arrogant and

simple minded behavior of CEO hubris characteristics. Rather than following the norm of corporate social responsibility from institutional pressure, the degree of corporate social responsibility from CEO hubris will either be very high or very low. Furthermore, internal control mechanisms using ratios of outside board of directors and foreign ownership as a moderating variable is used for this research.

Second study is a review paper based on CEO hubris, overconfidence, CEO celebrity, and narcissism. This paper attempts to clarify the confusion of similar perspectives by exploring and investigating a comprehensive review of the related theories by looking into the origin, definition, cause and outcome.

Keywords: CEO hubris, Institutional Theory, Corporate Social Responsibility and Corporate Governance

Student ID Number: 2004-30840

# CONTENTS

# Tables



# Figures

# OVERALL INTRODUCTION

The research area of CEO hubris has been a great interest for many scholars. Roll (1986) first conceptually introduced the theory CEO hubris and defined CEO hubris as over-bidding during a corporate takeover. Hayward and Hambrick (1997) was the first to empirically test the theory of CEO hubris and it ignited the empirical stream of research. This dissertation is about critical assessment of heterogeneous outcome of CEO hubris.

The first study investigates the heterogeneous behavior of CEO hubris. This paper introduces the construct of CEO hubris and institutional theory through corporate social responsibility. It argues that CEO hubris does not follow the institutional pressure norm on corporate social responsibility. Furthermore, ratios of outside directors and foreign ownership can be an internal control mechanism to monitor CEO hubris. I have found that CEO hubris does not follow the institutional pressure norm and behave to their arrogant and simple minded decision. This is an empirical research based on Korean companies during 2008~2009.

The second study explores and critically assesses the theory of CEO hubris, overconfidence, CEO celebrity, and narcissism. The goal is to provide a comprehensive review of the four related theories and attempt to give a clear distinction between the theories. I have found and investigated the origin, definition, cause and outcome of the four theories mentioned.

# STUDY 1

## CEO HUBRIS AND INSTITUTIONAL PRESSURE: CORPORATE SOCIAL RESPONSIBILITY

# ABSTRACT

## CEO Hubris and Institutional Pressure: Corporate Social Responsibility

This paper introduces the construct of CEO hubris and institutional theory through corporate social responsibility. Institutional theory explains the homogenous aspect of organization. However, it lacks the explanations of heterogeneous behavior. This paper attempts to understand and examine the heterogeneous behavior through CEO hubris using corporate social responsibility context. Also, what effect can internal control governance mechanisms have on the relationship between CEO hubris and responsiveness on institutional pressure? This paper argues that CEO hubris does not follow the institutional pressure norm on corporate social responsibility. Therefore, the degree of corporate social responsibility will either be very high or very low from CEO hubris. Furthermore, ratios of outside directors and foreign ownership can be a control mechanism. I analyzed 277 Korean companies from 2008-2009 for my research. I found evidence that CEO hubris will not follow the norm and will moderately be higher in degree of corporate social responsibility. This paper provides a new perspective on the academic field of CEO hubris, institutional theory and corporate social responsibility.

# INTRODUCTION

In our modern times, there are many successful chief executive officers (CEO) living in our world as we speak. I have seen countless times where the successful CEOs saved the devastating failing companies with poor performance. During these high rates of success, many CEOs can be positively affected towards pride. It is a well-known fact that people are easier to change in their character once they believe that they are the best at what they do. Moreover, if accumulated past and recent success exists, CEOs can believe that they are always right in their decision making. In addition, praise from the media through news, magazine, and internet can create an escalation in pride which scholars calls the 'hubris hypothesis' (Hayward & Hambrick, 1997).

The CEO hubris concerns about over-bidding during a corporate takeover. Bids are over price from the market valuation even when the valuation of current market shows positive gain. Basically, infected hubris overpays their target firm (Roll, 1986). A premium pay during corporate takeover occurs even though it is not needed, and this phenomenon has questioned many scholars. Haspeslagh and Jemison (1991) stated that managers' egos during acquisition outpace their logic frequently. Previous research has not paid enough attention towards the relationship between hubris and institutional theory using corporate social responsibility as a context. So, I wanted to find some possible solution to this question. How does CEO hubris affect to firm's responsiveness on institutional pressure?

In order to possibly find the answer to this question, I have linked the theories of hubris, institutional theory, and corporate social responsibility. Previous literature in CEO hubris focused on the definition, conceptual, and possible causes of CEO hubris. Roll (1986) first defined the term 'hubris hypothesis in regards to the premium paid acquisition. This was the start of the CEO hubris theory. As years progressed, Hayward and Hambrick (1997) examined the role of CEO hubris during large size premium acquisition. It explained and provided some factors to describe the possible reasons for the change and existence of CEO hubris.

The purpose of this paper is to contribute to the research stream of CEO hubris, institutional theory, corporate social responsibility, and corporate governance. Throughout the years, many managerial techniques such as: six-sigma, total quality management, just-in time and many others have been performed through institutional pressures. The six-sigma was very popular in the 1990s and 2000s in the American management field and it crossed over all the way towards

Asian countries like Korea. There are many different institutional pressures and recently corporate social responsibility can be considered as one of them. Forbes (2012) has rated Walt Disney as number three and BMW and Apple ranked at the top five in terms of corporate social responsibility. Companies around the globe spend millions of dollars every year on corporate social responsibility such as: programs to support local communities, invest in clean technology, donation, and others.

Likewise, top Korean firms such as Samsung and LG have adopted corporate social responsibility due to the institutional pressure. LG Electronics union is one of the Federation of Korean Trade Unions (FKTU) affiliate which is a national center which deals with majority of South Korean unions engaged in corporate social responsibility. The (FKTU) participated actively in drafting the ISO-26000 which is a CSR accreditation approved by International Standard Organization in 2010. It is a guideline and framework to integrate and implement social responsibility into values and practices. The FKTU publicized the ISO-26000 in South Korea (Liem, 2011). Samsung group is another great example who has been praised greatly for their activity in corporate social responsibility. They focus on philanthropy, donations, peaceful co-existence with its subcontractors, and environment sustainability

(Liem, 2011).

Previous research on institutional theory explains the homogenous aspect of organizations; however it lacks the explanations of heterogeneous behavior. CEO hubris can possibly answer this behavior using corporate social responsibility as a context in Korean perspective. CEO hubris is more likely to behave arrogantly by showing off to the public and existing companies because of their characteristics. Therefore, in this paper, I stated that the degree of the corporate social responsibility from CEO hubris will either be very high or very low, rather than following the norm from the institutional pressure. Furthermore, I identify the moderating role of internal governance which can be a control mechanism which can have great impact between CEO hubris and the degree of corporate social responsibility.

The external factors can constrain their impacts in decision making (DiMaggio & Powell, 1983; Hannan & Freeman, 1977). In this paper, the internal governance can be a controlled mechanism. The ratios of outside directors and foreign ownership can favor the stakeholder's interests because they are more interested in complying with environmental standards (Johnson & Greening, 1999). Also, ratios of outside directors are considered the representatives of external stakeholders and provide knowledge and relationship with diverse stakeholders (Wang & Dewhirst, 1992). Therefore, ratios of outside directors tend to lean toward philanthropic activities (Ibrahim & Angelidis, 1995). In addition, ratio of foreign investors can also be control mechanisms because foreign investors have positive impact on the spread of corporate social responsibility practices among Korean firms (Oh, Chang, & Martynov, 2011). Therefore, ratios of outside directors and foreign ownership can control the degree of corporate social responsibility.

As a research setting, I tried to explain the phenomenon of the heterogeneous organizational behavior, rather than the homogeneous based on corporate social responsibility context in Korea with CEO hubris. For this research, I used the listed Korean Economic Justice Institute (KEJI) Korean firms during 2008-2009. This research can possibly contribute in the stream of CEO hubris research and give a clearer relationship between CEO hubris, institutional pressure and corporate social responsibility.

# THEORY AND HYPOTHESES

## CEO Hubris

The term Hubris originated from the Greek mythology. It is defined as exaggerated self-confidence or pride (Hayward & Hambrick, 1997). Roll (1986) brought hubris to attention to the business world. Managers who are infected by the hubris over price their bids compare to the current company valuation. They simply pay too much for their targets during takeover.

An overconfident CEO can be described as CEO hubris. The characteristics of such can be: Arrogant, conceit, egotism, greed, shameless, and etc. These magical thinkers has become to a belief that their decision towards any possible situation in business practices are precise and leads to a successful outcome. Due to their overconfidence, a hubristic CEO can act arrogantly during the times of turbulence. However, troubles can arise because the investments made by CEOs are not aligned with the same interest of shareholders (Jensen & Meckling, 1976) and due to the separation of ownership and control (Fama & Jensen, 1983).

Unlike the past research in this area, Hayward and Hambrick (1997) focused on the behavioral factors like individual profiles, self-images, and background during acquisition pricing. Hiller and Hambrick (2005) created a concept on executive self-assessment to evaluate ourselves and relationship with environment (Judge, Bono, Erez, Locke, & Thoresen, 2002). The four component traits which make up the core self-evaluation are: self-esteem, self-efficacy, locus of control, and emotional stability. Unfortunately, it is difficult to measure the CEO hubris directly. However, Hayward and Hambrick (1997) factor findings, has allowed me to further examine the hubris theory.

### *Recent organization Success*

Everyone wants to succeed in their profession once in their own lifetime. However, dreams do not always come true for everyone. In this manner, recent organizational success to a CEO is priceless and it can create high self-esteem to escalate and change their vision, personality, and behavior. Calder (1977) and Pfeffer (1977) describe leadership to explain and account for organizational and outcomes. In addition, Staw (1975) had a similar conclusion, however argued that self-reported opinions or organizational actors may constitute attribution inferences instead of actual determinants of events. However conversely, poor organizational performance can attribute to the leader which declines the top management power (Eisenhardt & Bourgeois,

1988) and it can also destroy CEOs confidence which can lead to reduction in their authority. In this vein, CEOs recent organizational success can portray and gain authority which can result in CEO hubris. So, recent organizational success can create CEO hubris and will create a positive degree in corporate social responsibility to boast to the public, community, and existing companies.

### *Media Praise*

The CEO stardom can contribute towards heightening the CEO to behave like kings. The term CEO celebrity can be defined as when journalists broadcast the attribution which a firm's positive performance through CEO's actions (Hayward, Rindova, & Pollock, 2004). There are other factors which can create CEO celebrity such as publicists, public relations, and analysts. Through all these public attentions and media praise, CEOs behavior can ultimately change which can also create managers to be committed to their past strategic choice that made them the celebrity (Camerer & Lovallo, 1999). This raises the issue of CEO with media praise can become CEO hubris by not listening to other stakeholders and sticking to their existing ways even if it does not fit in their current plan for success. These kinds of concentrated media attention can reinforce CEOs inter-organizational and intra-organizational power (Pfeffer, 1981), in which, CEOs can be affected to hubris. When massive media praise occurs, celebrity CEO can be made. Wade, Porac, Pollock, and Graffin (2008) stated that compare to their colleagues, celebrity CEOs receive much more compensation in job perks. In addition, they enjoy in increasing their power of prestige because this can allow them to serve as a board of directors in other firms and also give them the opportunity to network with managerial elites (Finkelstein, 1992).

Therefore, CEO hubris can create positive degree in corporate social responsibility to increase their power and also to increase their fame and good image to the public. Surely, the linkage between media praise and CEO celebrity seems positive related. Nevertheless, my baseline is that media praise can create CEO hubris.

## CEO HUBRIS AND INSTITUTIONAL THEORY

Institutional theory adopts and maintains widely accepted practices for organizations legitimacy (DiMaggio & Powell, 1991). Institutionalization involves social processes and obligation to overtake in status in social thought and action. In addition, Institutionalized products, services, techniques, policies, and programs are adopted ceremonially by many organizations.

In order to gain legitimacy and to follow the norm of rationality and progress in business industry, companies follow the current managerial trend (Abrahamson, 1996). Since corporate social responsibility is popular due to the business campaign towards green and safe environment, diverse large corporations have adopted corporate social responsibility. Likewise, many other organizations are following the footsteps of large corporation through institutional pressure for legitimacy on corporate social responsibility. However, CEO hubris does not follow the norm rather they want to impress and also show off to the public by attaining more corporate social responsibility and not follow the trend or the norm for legitimacy because of their hubris characteristics and CEO hubris success formulas are very simple (Kroll, Toombs, & Wright, 2000). In addition, CEO hubris has the tendency to make quick, less comprehensive, and centralized decision for their actions (Hiller & Hambrick, 2005). In this research, I will be focusing more attention towards CEO hubris and institutional pressure using corporate social responsibility context.

## CEO HUBRIS AND CORPORATE SOCIAL RESPONSIBILITY

One of the prominent ways to show the stakeholder the visible manner and commitment is through corporate charity which is another form of corporate social responsibility and have significant role (Porter & Kramer, 2002). Also, in order to create a possible sustainable image or reputation; companies have adopted the corporate social responsibility. According to the research of Campbell (2007), he proposed that "corporations will be more likely to act in socially responsible ways if there are strong and well enforced state regulations which are in placed to ensure such behavior. Furthermore, Marquis, Glyn, and Davis (2007) stated that in order for corporate efforts to secure legitimacy social practices can be motivated for cultural, institutional, and political reasons. I argue that this current business trend can be considered as an institutional pressure where it is defined as "constraining process that forces one unit in a population to resemble other units that face same set of environmental conditions" (DiMaggio & Powell, 1983). This can arise when there is an effort to achieve rationality with uncertainty which can lead to homogeneity of structure. Previously other institutional pressure for legitimacy has occurred in our time such as: six-sigma, total quality management, enterprise resource planning and others. The definition of legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed systems of norms, values, beliefs, and definitions (Suchman, 1995:574).

Recently, scholars and mangers have greatly been attracted and devoted their attention towards corporate social responsibility due to the increasing attention towards global issues and legitimacy. McWilliams and Siegel (2001) defines the corporate social responsibility as ‘actions that appear to further some social good, beyond the interests of the firm and that which is required by law’. Bronn and Deborah (2009) found some possible motives for corporate social responsibility activity which was: long run self-interest, public image, institutional viability, socio-cultural norms, stockholders interests, and avoid regulation. Long and Driscoll (2007) stated that organizations can use legitimacy to increase their reputation as ethical enterprises. Furthermore, Waldman et al. (2004) used strategic leadership theory to corporate social responsibility and states that transformational leadership engage in corporate social responsibility activities strategically. In addition, institutional approach by Jennings and Zandbergen (1995) examined the role of institutions in shaping the consensus within a firm.

As mentioned above, corporate social responsibility activity can be an institutional pressure and a good reason for CEOs to appear rational to the public. However, CEO hubris will not follow the norm degree of corporate social responsibility because of their hubris characteristics which are simple, and rely on narrow rigid formula for managing (Miller, 1993) and will not legitimize to institutional pressure. CEO hubris does not follow others to validate their action. They only rely on their own insights, so they posses very little doubt or uncertainty. Therefore, CEO hubris will not conform to strategies of others for legitimacy (Hiller & Hambrick, 2005).

The characteristic of CEO hubris relies on fast decision making and act on incomplete decision making and without extensive analysis (Hiller & Hambrick, 2005). In addition, they take on large-stakes, quantum initiatives (Wiseman & Gomez-Mejia, 1998), extreme performance such as big wins or big losses, speed, non-comprehensiveness, boldness, and deviance from industry norm for greater success (D'Aveni, 1994 & Eisenhardt, 1989). Therefore, I can hypothesize that:

***Hypothesis 1:*** *CEO hubris will positively be related with the CSR deviation from industry norm.*

***Hypothesis 1-1:*** *Media praise will positively be related with the CSR deviation from industry norm.*

***Hypothesis 1-2:*** *Recent success will positively be related with the CSR deviation from industry norm.*

## CORPORATE GOVERNANCE: RATIOS OF OUTSIDE DIRECTORS & FOREIGN INVESTOR

In this paper, I explore and investigate that ratio of outside directors and foreign investors have positive impact towards corporate social responsibility. The ratios of outside directors are considered a representative of external stakeholders; their presence can increase the reputation and creditability of organization and also to establish legitimacy (Salancik, & Pfeffer, 1978). Normally, the ratios of outside directors comply with the environmental standards to gain positive reputation (Johnson & Greening, 1999). Furthermore, Wang and Wang and Dewhirst (1992) states that the ratios of outside directors can provide knowledge and relationship with diverse stakeholders which allows them to consider the needs of various stakeholders. Also, the ratios of outside directors can bring stakeholders voice which ultimately can help and satisfy the needs of stakeholders (Chang, Oh, Jung, & Lee, 2012).

In essence, when there is large group of ratios of outside directors it will influence the board’s strategic decision towards social investments such as following the norm of corporate social responsibility activity (Chang, Oh, Jung, & Lee, 2012). Furthermore, ratios of outsides directors are more towards philanthropic activities (Ibrahim & Angelidis, 1995). Usually, the ratios of outside directors can vary in their educational background such as law, education, and non-profit organizations (Zhang, Zhu, & Ding, 2012), which can bring diverse interests and increase firms resources to manage other stakeholders. In this vein, I state that presence of ratio of outside directors can have a negative effect to increase stakeholder’s acceptance and legitimacy. Therefore, I can hypothesize that,

***Hypothesis 2:*** *Ratios of outside directors will negatively be related with the CSR deviation from industry norm*

Oh, Chang, and Martynov, (2011) stated that corporate social responsibility trend in Asian countries have been affected because of Western management practices. In addition, Brancato (1997) stated that U.S. shareholders pressured firms to follow and address social responsibility issues. It can be assumed that higher levels of foreign ownership can support and address organizations to lean towards corporate social responsibility. Furthermore, investing in corporate social responsibility is a way to reduce uncertainty because foreign investors investing in a foreign country is risky and uncertain (Gehrig, 1993). The foreign investors have different background, knowledge, and values because of their foreign market exposures. Therefore, they will likely be more supportive towards disclosing more information towards social and environmental information (Khan, Muttakin, & Siddiqui , 2012). Haniffa and Cooke (2005) stated that there was a positive relationship between foreign ownership and corporate social responsibility disclosures in Malaysia for legitimacy. In sum, I can state that foreign ownership can have a negative effect for corporate social responsibility. Therefore, I can hypothesize that,

***Hypothesis 3:*** *Ratios of foreign ownership will negatively be related with the CSR deviation from industry norm*

Agent theorist suggests that the primary functions of the board are to monitor manager's decision (Fama & Jensen, 1983; Jensen & Meckling, 1976). Agency problem arises because there is a separation of ownership and control. The main argument of agency problem is that managerial decisions are towards self-interest and are not aligned with those of shareholders (Fama & Jensen, 1983). In order to control this problem, the ratios of outside directors can be used for internal control mechanism. In addition, it can lead to better monitoring managerial opportunistic activity. Furthermore, since ratios of outside directors are the representative of other stakeholders, they have incentives to develop positive reputation (Johnson, Hoskisson, & Hitt, 1993). The ratios of outside directors have the advantage of brining independence and impartiality to the evaluation on management decisions (Baysinger & Hoskisson, 1990). Also, it is more likely to be objective guardians of shareholder welfare. In this vein, CEO hubris can possibly be controlled using the ratios of outside directors as an internal control mechanism. Therefore, I can hypothesize that,

***Hypothesis 4-1:*** *Ratios of outside directors will have negative moderating effects between the relationship with media praise & CSR deviation.*

***Hypothesis 4-2:*** *Ratios of outside directors will have negative moderating effects between the relationship with recent success & CSR deviation*

Corporate governance can improve managerial decisions (Denis & McConnell, 2003). Ratios of foreign ownership can monitor and reduce the managerial discretion. Khanna and Palepu (2000) stated that foreign investors are better monitors. The effects of foreign ownership with corporate investment are decreased by reducing the risk taking action behavior (Kim, 2011). When there is an increase in the foreign ownership, the firm value can also be increased due to improve governance structure (Choi, Sul, & Min, 2012). One of the main objectives of foreign ownership is to monitor and prevent opportunistic managers to behave in their self seeking interest. The foreign shareholders use both voice and exit to make their interests clear to management (Ahmadjian & Robbins, 2005). The foreign investors were known to exit when they were unhappy with their stock value. Furthermore, demands for disclosures are generally higher for foreigners, due to the separation between management and owners by geographically, holding high proportion of shares (Bradbury, 1991). Therefore, I can hypothesize that,

***Hypothesis 5-1:*** *Foreign ownership will have negative moderating effects between the relationship with media praise & CSR deviation.*

***Hypothesis 5-2:*** *Foreign ownership will have negative moderating effects between the relationship with recent success & CSR deviation*

The research design is presented in Figure 1.

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Insert Figure 1 about here
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# METHODS

**Research Setting**

There are many successful CEOs who have conquered their fears and claimed what is right for what they have accomplished for their company. They will or have eventually step into their pinnacle point of success in their lives. These continuous successions can create a set of arrogant behavior in which Richard Roll (1986) calls the hubris hypothesis. It has been defined as when individual overpriced the current valuation during the acquisition. Basically, they are paying too much for their target.

Some possible explanations for this kind of behavior are mentioned in previous literatures. It is said that overconfidence is the most ‘robust finding in psychology of judgment’ (DeBondt & Thaler, 1995). Malmendier and Tate (2005) argue that managerial overconfidence can be a factor for corporate investment distortions. In doing so, they overestimate their returns to their investment projects. Narcissism which is based on secure self-esteem can lead excessive self-love (Kets de Vries, 1994). Buss and Chiodo (1991) argues that narcissist is pleased when they have frequent intervals of applause. In addition for this applause to be undertaken regularly, narcissist must also regularly take challenging and visible tasks to the audience (Wallace & Baumeister, 2002). Also, narcissist favors the extreme and grandiose discrete actions (Chatterjee & Hambrick, 2007). Furthermore, Hayward and Hambrick (1997) composites three factors to indicate CEO hubris which are company’s recent performance, media praise for the CEO, and self-importance.

Prior academic works towards CEO hubris were only conceptual. Roll (1986) hypothesized the corporate takeover explanation through hubris hypothesis and Hiller and Hambrick (2005) with CEO hyper core self-evaluation. Later, CEO hubris was empirically tested by Hayward and Hambrick (1997) with three factors mentioned above.

Many companies in our society today have responded positively towards corporate social responsibility which is another form of institutional pressure. In the previous years, the management techniques like: six-sigma, total quality management, enterprise resource planning and others were followed because of their popularity and legitimacy. Meyer and Rowan (1977) stated that in order to appear to have a rational ways of managing organizations and employees towards organizational stakeholders, managers have to create the appearance of rationality. Therefore, in this paper, I state that corporate social responsibility is another form of institutional pressure.

The corporate social responsibility adds value and shows company of their good will which can provide legitimacy and show rational behavior for CEOs for internal and external stakeholders. In addition, corporate social responsibility can create value through incentive mechanism (Burke & Logsdon, 1996). In such, visibility through corporate social responsibility can show business activity and gain recognition. Furthermore, through visibility and positive mass media can also make stock prices to go up and possibility of succession of new product lunches and increase the hubris of self serving behavior. There are different types of corporate social responsibility such as: environmental, human rights, labor, community development, medical and other. However, in this paper, I focus on finding out that CEO hubris does not follow the institutional pressure and does not follow the norm of corporate social responsibility. Instead, CEO hubris either has very high or very low degree of corporate social responsibility. Furthermore, ratios of outside directors and foreign ownership can be an internal control mechanism.

**Sample and Data**

This study used the source from Korean Economic Justice Institute (KEJI) database for the empirical analysis. The economic justice institute provides and seeks research on economic problems. It also promotes economic justice and does critical evaluation on Korean companies. The KEJI data base was evaluated based on seven categories and they are: integrity, justice, community service, satisfaction from consumer protection, satisfaction from environment protection, employee satisfaction, and economic development. However for this research, I only used the sum of the total point from these five categories: integrity, community service, satisfaction from consumer protection, environment protection, and employee satisfaction. This research sample pulled 2 years (2008-2009) from KEJI database because it was the most recent data. There were 200 listed Korean firms each year from the KEJI database. However, due to missing data information's, many companies were dropped from my sample. The total sample of 276 listed Korean firms was used for this research.

## Measurement

### *Dependent Variables*

The dependent variable of this study is corporate social responsibility deviation. As mentioned above, in this paper I argue that corporate social responsibility is an institutional pressure and the degree of corporate social responsibility from CEO hubris will vary and not follow the norm. The period of corporate social responsibility for this research was (2008-2009). Thus, in order to find the median of corporate social responsibility, I used absolute evaluation to find the deviation for the KEJI database score of all the companies listed from 2008-2009. For my analysis for this research, I used OLS regression.

Furthermore, in order to show the robustness of this research, I used the regression analysis using the total score from each of the five categories: integrity, community service, satisfaction from consumer protection, environment protection, and employee satisfaction from the KEJI database without using the deviation. In addition, I also only used the median of the total point from each of the five categories mentioned above.

***Independent Variables***

In order to measure the independent variable of CEO hubris, I based my analysis on the study from Hayward and Hambrick (1997) paper. This study chose media praise and recent organizational success factor for the CEO hubris variable. However, self-importance was not used for this research because the data for this factor which is the salary gap between first and second highest executive salary used by Hayward and Hambrick (1997) cannot be found in Korean companies. In order to find out about the media praise, I counted the total articles related to CEOs' positive performance from the selected companies from the sample from 2007-2008. I used the time lag for a period of one year for this research. Also, I used the top three Korean national newspapers for media praise and they were: Chosun Media Newspaper (Chosun: http://www.chosun.com), JoongAng Daily (JoongAng: http://joongang.joins.com) and

DongA Newspaper (DongA: http://www.donga.com). Also, to measure for recent organizational success, I used return on asset (ROA) of the listed companies from the data from 2007-2008 because it can show how profitable a company's assets are in generating revenue.

### *Moderating Variables*

This study used corporate governance structure for moderating variable. The factors used for this research was the ratios of outside directors and foreign investors in 2008-2009. In order to measure the ratios of outside directors, I found the number of outside director from the data analysis, retrieval, and transfer system (DART: http://dart.fss.or.kr/). I then divided the total number of registered executive by the total number of outside directors for each company from the sample. All the Korean listed companies' information was retrieved from DART. In addition, I used the Kis-Value to find out the ratios of foreign investors of common stock for my data.

### *Control Variables*

In order to control for the effects of this research, I controlled several factors. The age and firm size using the log of number of age and sales were controlled because it can affect the corporate social responsibility activity due to their magnitude. When the company is large, the company will have more activity in corporate social responsibility and media visibility (Brammer & Pavelin, 2004). The price equity ratio 'PER' was controlled because company earnings and high expected future growth can affect corporate social responsibility. I also controlled for leverage because high ratio will be associated with the firms' operation which could affect this research. The year dummy 2009 was also inserted to control for the macroeconomic shocks. Also, I controlled the industries by grouping into division classifications. There were a total of 10 industries. I controlled these eleven industries for this research and higher significance level was supported.

## Results

The Table 1 shows the descriptive statistics and correlations excluding the industry dummy variable for this research. The descriptive statistics in Table 1 shows that multi-collinearity was not a major problem because the mean value was 1.41 and maximum value of VIF 2.43 was calculated.

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Insert Table 1 about here

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The Table 2 presents the results of the dependent variable of deviation median using OLS regression. The model 1 is the baseline model for this research and includes only the control variables. The model 2 inserts media praise, ROA, ratios of outside board of directors, and ratios of foreign investors into the baseline model. The results partially supported Hypothesis 1. CEO hubris will be positively related with the CSR deviation from industry norm. The reason behind this is because of the result of Hypothesis 1-1 and 1-2. The result of Hypothesis 1-1 was supported. Media praise will positively be related with the CSR deviation from industry norm ($\beta=0.005$, $p<0.05$). The result of Hypothesis 1-2 was not supported. Recent success will positively be related with the CSR deviation from industry norm. The result of Hypothesis 2 was also not supported. The ratios of outside directors will positively be related with the CSR deviation from industry norm. However, the result of Hypothesis 3 was supported ($\beta=-0.037$, $p<0.01$). Foreign ownership will negatively be related with the CSR deviation from industry norm.

The models from 3 to 6 insert the moderating variable which considers as the internal control mechanism for this research. The model 3 inserts the ratios of outside directors will have negative moderating effects between the relationship with media praise & CSR deviation. The result of Hypothesis 4-1 was not supported. The model 4 inserts the ratios of outside directors will have negative moderating effects between the relationship with recent success and corporate social responsibility deviation. The result of Hypothesis 4-2 was supported ($\beta$= -0.626, $p<0.05$). The model 5 inserts foreign ownership will have negative moderating effects between the relationship with media praise and CSR deviation. The result of Hypothesis 5-1 was not supported. The model 6 inserts foreign ownership will have negative moderating effects between the relationship with recent success & CSR deviation. The result of Hypothesis 5-2 was also not supported. Lastly, the model 7 shows all the variables all at once.

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Insert Table 2 about here
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In order to check the robustness of this research, I used the regression analysis using KEJI raw data. The table 3 shows the result of the raw KEJI database. It can be seen that the result of the deviation median has better results to explain this research. The KEJI data only supports the independent variable media praise and the significance level of KEJI data was lower.

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Insert Table 3 about here
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This research shows that CEO hubris does not follow the norm of corporate social responsibility activity. Also, it shows that CEO hubris does not show off extremely high. The results of the deviation median data show that CEO hubris is moderately positive towards corporate social responsibility activity which is above the norm.

# DISCUSSION

This paper suggests that CEO hubris does not follow institutional pressure in corporate social responsibility context. Furthermore, corporate governance can possibly be an internal control mechanism. The CEO hubris is considered when CEO overpays their target firm during acquisition (Roll, 1986). The characteristics of hubris are: arrogant, conceit, egotism, greed, shameless, and etc. These kinds of character can display that CEO hubris want to boast and show off. The CEO hubris can arise from media praise and recent organizational success. Global companies like Microsoft, BMW, and Apple have been ranked in the top five in corporate social responsibility (Forbes, 2012) which is considered a recent institutional pressure. Likewise top Korean firms such as Samsung and LG group are performing corporate social responsibility due to the institutional pressure from Anglo-Saxon companies. Since there is the institutional pressure from these large groups, many other companies in Korea are following the corporate social responsibility. However, this research shows that CEO hubris does not get pressured from the institution and so does not follow the norm.

The KEJI database has seven categories and they are: integrity, justice, community service, satisfaction from consumer protection, environment protection, employee satisfaction, and economic development. However, in this research I excluded the justice and economic development category and used the total points from the remaining five categories. The primary reason for this is because justice category was assessed using the ratio of outside directors which can bring causality issues with my independent variable. The same applies to economic development because KEJI evaluated the data using profit which involved ordinary income and ROE.

The hypothesis 5-1, foreign ownership will have negative moderating effects between the relationship with media praise & CSR deviation and 5-2, foreign ownership will have negative moderating effects between the relationship with recent success & CSR deviation was not supported. This can be explained because risk taking is relevant to firms with growth opportunities (Kim, 2011). Foreign ownership can influence managers to take risks close to optimal levels. Also, the hypothesis 4-1, ratios of outside directors will have negative moderating effects between the relationship with media praise & CSR deviation was not supported with an inverse outcome. This can be explained due to CEO duality who serves also as a board. Gul and Sung (2004) stated the power of the CEO and chairman by one person creates a strong individual power which possibly can create CEO Hubris. Furthermore, it can erode board's capability to exercise effective control. The hypothesis 4-2, ratios of outside director will have negative moderating effects between the relationship with recent success and CSR deviation was supported. This can be explained because outside directors have the advantage of bringing independence and impartiality to the evaluation on management decisions (Baysinger & Hoskisson, 1990). It can monitor CEO's personal gain decision making.

The contribution to the field of CEO hubris can be examined through this research. Prior researches have been done related toward corporate social responsibility and firm performance. This paper is the first paper to look into the relationship between hubris and manager responsiveness on institutional pressure. It also contributes to the antecedents of corporate social responsibility. Furthermore, it contributes to the characteristics of CEO, especially CEO hubris which is very important. However, only few studies exist related to the stream of this research. Lastly, this research can be a building block to further enhance the knowledge of CEO hubris research area.

The limitation of this paper is that out of the three factors from Hayward and Hambrick (1997), only recent organizational success and media praise was used. The self-importance factor was excluded in this model because in Korea, it is difficult to find the data of who gets the second highest salary in a company. Another limitation to this research is that there still is much confusion between the theories of CEO hubris, overconfidence, narcissism, and CEO celebrity. A clear definition and measurement analysis of these theories will enhance clarity in the research stream of CEO hubris. Lastly, the moderating variable in this research model was not significantly supported. Despite of these limitations, I expect that this paper can trigger other scholars to research more in the field of CEO hubris. Furthermore, this paper can give better understanding of how and why CEO hubris can affect the business world and corporate social responsibility.

# CONCLUSION

There are few studies in the field of CEO hubris. Previous research on CEO hubris focused on behavioral factors like: individual profiles, self-images, and background during acquisition (Hayward & Hambrick, 1997). This study presents a theoretical framework for the relationship between CEO hubris as antecedent and institutional theory using the degree of corporate social responsibility as a context. This study proved that CEO hubris does not follow the norm of corporate social responsibility due to their hubris characteristics; rather they have moderate activity above the norm.

# STUDY 2

## REVIEW PAPER: ANTECEDENTS AND OUTCOMES OF CEO HUBRIS

# ABSTRACT

## Review Paper: Antecedents and Outcomes of CEO Hubris

This paper reviews the theory of CEO hubris. It is to identify the area of CEO hubris and also to clarify the confusion of similar perspectives related in this field which includes: overconfidence, CEO celebrity, and narcissism. The goal of this paper is to provide a comprehensive review of the related perspective and also to explore the antecedents and outcomes of CEO hubris. Furthermore, this paper investigates to find implications and suggestions for future research.

# INTRODUCTION

The term Hubris originated from the Greek mythology. It is defined as exaggerated self-confidence or pride (Hayward & Hambrick, 1997). Roll (1986) brought Hubris to attention to the business world. Manager infected by hubris over price their bids compare to current company valuation. They simply pay too much for their targets during takeover.

The hubris historically can be seen by famous leaders such as Napoleon and Adolf Hitler. It can also be seen in the commercial failure from Enron and WorldCom. All these examples mentioned, have been affected by hubris which drives them to be reckless during their reign of leadership. By looking into hubris, I can possibly explain and find out why these leaders made their decisions which were bound to fail (Hayward, 2007). In addition, in this research I have found that hubris originated from being overly confident and this can be further discussed by using the theory of overconfidence which refers to as ones exaggerated belief can predict or produce a desired future outcome (Camerer & Lovallo, 1999; Griffin & Tversky, 1992). Overconfidence is a useful factor in the process of discovery. Hayward (2007) gives a very good example where he stated:

Thomas Edison testing over 10,000 combinations of materials before perfecting the light bulb. Throughout the testing process, Edison remained supremely confident; believing a breakthrough would come earlier than it did. "I have not failed," he said at the time. "I've just found 10,000 ways that won't work."

There is another related theory called narcissism which is about is self-love. A healthy amount of narcissism is necessary for successful functioning; it is based on secure self-esteem that allows one to survive everyday life (Kets de Vries, 1994). An unstable sense of self-esteem, however, can lead to excessive self-love in an attempt to compensate. It is this danger of excess that gives narcissism its derogatory connotation and causes it to become a psychopathological condition (Kets de Vries, 1994). Reactive narcissists (those who have the pathological form) have a grandiose sense of self-importance, take advantage of and devalue others, and live under the illusion that their problems are unique and especially burdensome.

Lastly, CEO celebrity is about journalist creating a CEO through media praise which creates and change the CEO status and their view of the world. There are other factors who contribute to the makings of CEO celebrity and they are: publicists, public relations staff, and information intermediaries like the analysts (Hayward, Rindova, & Pollock, 2004). The definition from Hayward, Rindova, and Pollock

(2004) stated that celebrity appears when the journalists broadcast the firm’s positive performance due to CEO’s actions.

These related theories are all very similar and show consensus regarding the CEO characteristics of being extremely arrogant and not concerning about others. They use words overconfidence, pride, arrogant, and etc. inter-changeably throughout their research. This paper will attempt to clear up the confusion of these related theories by finding out the origin, definition, cause and effect. This review paper will also give future suggestions and research implications for future researchers who are interested in this field.

## CEO HUBRIS: THE PHENOMENON

### *Hubris definition, cause, and outcome*

The definition of this concept hubris hypothesis was brought from Roll (1986). The hubris hypothesis exemplified that an individual decision making are made above the current market valuation and loss in value of the bidding shares. Some of the gains can exist for some corporate, however, the average takeover premium could still be caused by valuation error and possibly hubris. Scholars still do not fully comprehend the motives behind mergers and tender offers whether they bring an increase in aggregate market value. The central expectation and prediction of the hubris hypothesis is that total combined takeover gain to target and bidding firm shareholders is not positive. The pattern is usually consistent regarding hubris hypothesis and usually it predicts the loss of value of bidding firm’s shares. Hubris hypothesis can imply inefficiency in the market for corporate control and profit.

An overconfident CEO can be described as CEO hubris. The characteristics of such can be: Arrogant, conceit, egotism, greed, shameless, and etc. These magical thinkers has become to a belief that their decision towards any possible situation in business practices are precise and leads to a successful outcome. Haspeslagh and Jamison (1991) stated that the egos from the acquiring managers outpace their logic frequently. Possible explanations of this kind of behavior are individual profiles background, self-images, and possible assumptions that managers bring during acquisition pricing (Hambrick & Mason, 1984). Hayward and Hambrick (1997) stated that CEO hubris is an individual level construct on CEO trait (exaggerated pride or self-confidence). In terms of trait, Kroll, Toombs, and Wright (2000) stated that CEO hubris appear more frequently in people who are prone to narcissism. Furthermore, CEO hubris feeds on further success. Also, they have a history of breaking the rules and inflicting sacrifice to others and most importantly getting away with it.

A new conceptual approach was introduced called hyper core self-evaluation. This concept derived from the previous four well studies: self-esteem, self-efficacy, locus of control, and emotional stability (Judge, Bono, Erez, Locke & Thoresen, 2002). This new approach connects and consolidates the factors and creates a new factor called hyper core self-evaluation. An executive who has a high core self-evaluation is considered to have self-confidence, self-worth, self-potency, freedom from anxiety. Also, Hayward, Shepherd and Griffin (2006) developed a hubris theory of entrepreneurship by explaining that founder’s overconfidence over estimate their wealth that they will generate from the venture. Furthermore, Lin, Michayluk, Oppenheimer, and Reid (2008) focused their studies on Japanese market and examine the mergers and acquisition activities and have found that hubris can also be shown even internationally. It argues that hubris can be affected through better performance in profit or past stock return regarding their managerial skills.

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Insert Table 4 about here

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***Hubris cause and outcome***

One of the most critical issues of this research is that there was no direct instrument to measure CEO hubris. Hayward and Hambrick (1997) first empirically research this phenomenon using recent organizational success, media praise for the CEO, and CEO's self-importance. It is a part conditional or temporary phenomenon which may have major effects on organizational outcomes. Seth, Song, and Pettit (2000) stated that bidding managers makes mistakes during valuation of target firms. However, managers undertake acquisitions presuming that their valuations on a target firm. This kind of irrational behavior is shown through CEO hubris.

Kroll, Toombs, and Wright (2000) argue that sources of CEO hubris are from narcissism, series of success, uncritical acceptance of accolades, and exemption from the rules. These sources lead to implications of confidence which can turn to arrogance, reliance on simplistic formula for success and failure to face changing realities. Raj and Forsyth (2003) stated that past success may lead to feeling of supremacy which will lead to overestimation of their target firm during take over. In addition, CEO hubris can be connected for motivation to increase the size of the company and market power which deals with increasing their standing and power.

The new concept of hyper core self-evaluation has given researcher to look and evaluate executive to another dimension of analysis. An executive who have hyper core self-evaluation have a characteristics to take grandiose actions which can lead to catastrophic outcomes. Hiller and Hambrick (2005) states that hyper core self-evaluated executive can be considered hubris. The four factors shows hyper core self-evaluation and they are: self-esteem, self-efficacy, locus of control, and emotional stability. First, self-esteem deals with individual overall self-acceptance, self-liking and self-respect (Harter, 1990). Second, self-efficacy deals with one's belief in their capability to successfully execute (Gist & Mitchell, 1992). Third, locus of control refers to as belief that who or what controls the occurrence of life events (Rotter, 1954). Lastly, emotional stability deals with levels of anxiety.

Hyper core self-evaluation affects the decision process and organizational performance because hyper core self-evaluation executive desires either big wins or big losses. Furthermore, these executives either have high success due to speed, non-comprehensiveness, boldness, and deviance from industry norm (D'Aveni, 1994; Eisenhardt, 1989) or large failure due to large-scale, high risk, quick decision with little analysis (Hiller & Hambrick, 2005).

Hayward, Shepherd, and Griffin (2006) stated that the hubris theory of entrepreneurship is based on overconfident founders and this is caused by three separate psychological processes. First is overconfidence in knowledge. Second, overconfidence in prediction and lastly, overconfidence is personal abilities. The environment of uncertainty in information, scarce feedback, and rarity in positive results can make the founders operate with overconfidence and together it can link to hubris. Thus, overconfident CEO hubris can jeopardize the survival of their ventures. In a broader perspective, Hubris can be shown internationally. Lin, Michayluk, Oppenheimer, and Reid (2008) argued that Japanese bidders are affected by hubris by good performance in profitability and prior stock performance engage in value destroying mergers and acquisition.

Hayward and Hambrick (1997) research has also shown great insight towards the study of CEO hubris. They wanted to find the firm performance using cumulative abnormal security (CAR) as a proxy. Most important and useful tool from this research is that they have used stockholder returns to find out the recent organizational success, top tier newspaper & magazines for media praise and CEO cash compensation for self-importance. It is evident that stockholder returns for twelve months prior to date were used for recent organizational success. Also, for the media praise they only used the major newspapers: Atlanta Constitution, Boston Globe, Chicago Tribune, Los Angeles Times, New York Times, Washington Post, and Wall Street Journal. Furthermore, articles were only counted if the article mentions the outcomes to CEOs or commenting on CEOs performance. Lastly, self-importance factor was measured by comparing from the first and the second highest paid officer. These factor finding evidences has greatly contributed to the start of this research area.

Raj and Forsyth (2003) empirical research was based on United Kingdom bidders with CEO hubris management during mergers and acquisition. The proxies for this study were using valuation ratios and bid premium sizes to identify the hubris bidders. The result had a significant profit loss from hubris bidders. Also, Lin, Michayluk, Oppenheimer, and Reid (2008) investigated that Japanese mergers and acquisitions market had hubris presence. It used past market returns to measure the hubris affect. The results showed that overconfident managers were affected by hubris hypothesis which engaged in decision making which would make value-destroying mergers and acquisitions.

Li and Tang (2010) researched on CEO hubris risk taking behaviors and also examined the relationship using the moderating variable of managerial discretion. The CEO hubris was measured using the media praise from Chinese business media and also used survey results from prior firm performance from CEO's in China. The moderating variable of managerial discretion was measured using specific environmental and organizational factors such as: market munificence, market complexity, market uncertainty, firm age, and firm size. The result showed a more positive relationship between CEO hubris and firm risk taking behavior when the managerial discretion was stronger.

These kinds of relevant theories had questioned this research with what is CEO hubris and what factors cause hubris and what is the effect from these causes. We have organized this paper into five different parts and they are: 1) introduction, 2) CEO hubris phenomenon, 3) definition, causes and outcome of overconfidence, CEO celebrity, and narcissism, 4) limitation, and future research 5) conclusion.

# OVERVIEW OF THE MODEL

In order to examine the issues of CEO hubris which I have mentioned above, I am presenting a model related towards antecedents of hubris and their outcomes in **Figure 2**. This model centers on the antecedent conditions which leads to hubris.

There are several researches which lead and create CEO hubris. The overconfidence, CEO celebrity and narcissism are the drivers of CEO hubris which leads to destructive outcome in their strategic decision making and performance. Each three related factors have rationales for explaining the antecedent and outcomes which I have mentioned below.

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Insert Figure 2 about here

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# OVERCONFIDENCE, CEO CELEBRITY, AND NARCISSISM: DEFINITION, CAUSE AND OUTCOME

***Overconfidence definition***

Since CEO's are also considered human beings, they also applied the same biases identified in the field of psychology. It has been understood that studies from experimental economics and social psychology have found that people exhibit overconfidence in their judgment. The first discovery of overconfidence is from Alpert and Raiffa (1969). However, Russo and Schoemaker (1992) gave the most influence on the study of overconfidence. The study revealed that rational managers are also prone to overconfidence.

Many researchers have stated that individuals often view themselves more favorably than seems objectively warranted (Miller & Ross, 1975; Regan, Gosselink, Hubsch, & Ulsh, 1975). Fischoff and Beyth (1975) found that people recall their powers of prediction as being superior to those they demonstrate. Furthermore, Schopler and Layton (1972) stated that their subjects unreasonably viewed their interceptive behavior as successful. Also, gamblers investigated by

Blascovich, Ginsburg, and Howe (1975) overestimated the probability of successful outcomes in actual gambling situations. Meadows, Meadows, Randers, & Behrens, (1972) suggested that self-serving biases have an important influence on future planning. The managers who believe firmly that they are superior compare to the average managers reasonably expect to perform in a superior manner in the marketplace because superior performance is frequently measured in terms of comparative sales volume.

As the study of overconfidence expanded, other scholars researched the theory more in depth. DeBondt and Thaler (1995) stated that overconfidence is the most robust finding in psychology. The major scholars of this area define the term overconfidence as exaggerated sense that which one can predict or produce for a desired future outcome (Camerer & Lovallo, 1999; Griffin & Tversky, 1992). In addition, Russo and Schoemaker (1992) stated that overconfidence is an overestimation of certainty about being correct or producing an outcome. Furthermore, Malmendier and Tate (2008) stated that overconfident CEOs fail to exercise stock options and habitually acquire their company's stock.

The research on overconfidence concentrates and bases their papers on individuals' justification for bias. It is more focused towards individual skills and the external development. An overconfident person behaves and believes that he/she is abnormally successful. Also, they believe that they have much more precise knowledge even about an event which have not occurred which can be looked upon as risk perception bias. Gollin, Terrell, and Johnson (1977) described this kind of state from managers' as "illusion of control."

Odean (1998) stated that overconfident investors overestimate their knowledge regarding value of financial security. Also, they believe their personal assessment of security value is much more accurate. Therefore, overconfident investors believe more towards their own valuations rather than others. In addition, Barber and Odean (2001) researched that overconfident investor's trade excessively using gender. The research argued that men are more overconfident. Therefore, men will trade excessively more than women.

Simon and Houghton (2003) field researched and examined that overconfident managers make overconfident decisions when there is a product pioneering. Klayman, Soll, Gonzalez-Vallerjo, and Barlas (1999) describes that overconfidence occurs when an individual's certainty that his/her predictions are correct exceeds the accuracy of those predictions. Furthermore, overconfidence occurs greatly in pioneering decision contexts compare to incremental decision contexts.

Furthermore, overconfidence encourages managers to purse a riskier action. Also, Doukas and Petmezas (2007) argued that managerial overconfidence stems from self-attribution bias which suggests that managers credit their initial success to their own ability and become overconfident managers and engage in various mergers and acquisition dealings. An overconfident manager can also be described when they have high trade of volume in stock market and aggressively trade which results to low profits. Also, overconfidence manager is considered when it fails to create superior shareholder value compare to rational managers through mergers and acquisitions.

Malmendier, Tate, and Yan (2007) researched the relationship between managerial overconfidence and corporate financing decisions. A CEO was considered overconfident whenever the answer to this question was yes. Does the CEO hold options beyond calibrated thresholds for early exercise? The overconfident factor measurements from this research were: longholder, holder 67, inside information, signaling, and risk tolerance. It also used the outside perception of business press to measure overconfidence.

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Insert Table 5 about here

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***Overconfidence cause and outcome***

Russo and Schoemaker (1992) stated that causes of cognitive overconfidence are based on: availability, anchoring, confirmation bias, and hindsight. The first factor of availability is to consider about the fact that people fail to envision important pathways in the complex net of future events. Second, anchoring is dealing with anchoring on one value or idea and do not adjust sufficiently. Third, confirmation bias deals with cognitive reason in dealings with predictions or forecasts based on one perspective, the initial view rather than looking for other realistic evidence to support their judgments. Griffin and Tversky (1992) suggested that people over-weight the strength of evidence using the letter of recommendation (warmth of a letter, or the size of an effect) relative to the credibility of that type of evidence. Overconfidence is likely to occur when strength of evidence is high, and source credibility is low. Brown and Sarma (2007) stated that CEO overconfidence and CEO dominance promotes riskier acquisition by illusion of control over its outcomes. Lastly, hindsight deals with believing that the world is more predictable than it really is. These cognitive factors can have a great effect on overconfident decision making during business practices.

Malmendier and Tate (2008) stated that overconfidence CEO over-estimate their ability and generate negative returns on current and potential takeover targets. This can be effected with companies who has abundant cash and untapped debt capacity. A CEO was considered overconfident when it used “longholder.” This measurement deals with high levels of equity ownership in a form of stock or large amount of vested stock options. There was strong evidence that overconfident CEOs’ perform negatively on mergers and acquisitions. Malmendier and Tate (2005) argued that corporate investment distortions are based on managerial overconfidence. In addition, overconfident CEOs’ overinvest when they have abundant internal funds. However, they curtail their investments when they have to find external financing. Overconfidence was measure through stock and options which CEO’s receive from compensation. The CEOs cannot hedge the risk by short sell or trade. This phenomenon of under-diversification should make CEO’s to exercise their options early. However, the factors of holder 67, longholder, and net buyer show the opposite approach by overconfident CEO’s. The holder 67 deals with 67% in the money during the fifth year as a threshold. Some portion of the option should have been exercised, when an option is more than 67%. The longholder factor deals with the expiration date rather than vesting period of option package. Lastly, net buyer deals with CEO buying additional stock in spite of the high exposure of company risk. If a CEO is overconfident, these three factors mentioned will be considered. Malmendier and Tate (2005) also developed a measurement for overconfidence by outside perception through how the media portrays the CEO by looking into number of articles with words containing: confident, confidence, optimistic, optimism, and etc.

Hayward, Rindova, and Pollock (2004) stated that overconfidence exists when *ex ante* expected accuracy of judgments exceeds *ex post* accuracy. The feeling of being overconfident enables people to do things which were not capable during normal state (Taylor & Brown, 1988). Strategic actors such as negotiators and senior managers have been found to be overconfident in their judgments (Neale & Bazerman, 1983; Hayward & Hambrick, 1997). Also, Malmendier and Tate (2003) found that overconfident CEO's invest in failure projects because it had significant amount of available cash. Furthermore, Ben-David, Graham, and Harvey (2007) are one of the few papers that had used direct measures of overconfidence and overoptimism through a survey. They used short questionnaire and asked about 2,000~3,000 chief financial officers (CFO) in order to find out about the degree of miscalibration of CFO judgment in their investment. The term miscalibration is a behavioral bias which is similar to overconfidence.

***CEO celebrity definition***

Leadership images are vital in a business world and media can play a crucial role in constructing a leadership image. Past research towards mass communication has shown that the media can influence people's cognition. Also, it has shown that it can transmit knowledge and information, and reinforce or change existing beliefs. Chen and Meindl (1991) researched about how the press constructs a leader's image. Furthermore, when a leader has a positive image it is more likely to maintain that positive image through the mass media. Usually, business leaders are often covered by journalist in the popular press. As more coverage's are shown to the public, it can create CEO celebrity.

Deephouse (2000) defined the term 'media reputation' as overall evaluation of a firm presented in the media. The sources for the information for media reputation can come from company's press release, stakeholders, and media workers. The findings from this research have shown that media reputation can be considered as a resource and it can also influence performance of a firm. Also, Pollock and Rindova (2003) showed that media provided legitimacy and can affect and influence investor behavior.

The term ‘CEO Celebrity’ is when journalist broadcast firm’s positive outcome and the primary cause is from the CEO actions (Hayward, Rindova, & Pollock, 2004). The definition of celebrity can be based from three components and they are: print and electronic mass media, attribution, and firm actions. Journalist selects the firm for coverage and delivers the information to massive audiences. The attribution deals with positive or negative outcomes. A good example is that if there is a positive outcome, then the actor has caused the outcome. Lastly, the features of CEO’s personality, characteristics, and choices can affect firm’s actions and performance.

Everybody wants to be famous. This can also apply to CEO’s in the business world. However, CEO celebrity can have burdens. Wade, Porac, Pollock, and Graffin (2006) researched about the possible burden of CEO celebrity and have founded that certified CEOs does receive higher compensation compare to non-certified CEOs only when firm performance was high. However, certified CEOs received lower remuneration when firm’s performance was poor. Furthermore, certified CEOs does appear to generate positive abnormal returns initially when they are first announced, but as the term grows longer the impact of certified CEO's become negative.

Graffin, Wade, Porac, and McNamee (2008) stated that there is an impact of CEO status diffusion on economic outcomes of a firm. The CEO status can be measured through Financial World's CEO contest. A CEO can receive a gold, silver, and bronze medal for this award. Also, celebrity CEOs can use their high status to leverage and to make their subordinates into the future CEO position. The reason behind for this is because directors can rely on celebrity CEO's judgments and since the subordinates have learned under the celebrity CEO, their potentials are positively assumed.

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***CEO celebrity cause and outcome***

A journalist plays a critical role in creating and informing the public about the firm and the CEO (Baum & Powell, 1995). Also, journalists have the ability to indirectly affect manager's to behave with existing actions or adopt new ones (Clapham & Schwenk, 1991).

Moreover, journalists create CEO celebrity during the process of attributing firm's actions and performance (Hayward, Rindova, & Pollock, 2004). There are other contributors in creating CEO celebrity and they are publicists, analysts, and public relations staff.

When a company has a CEO celebrity it can be valuable to the firm. Fombrun (1996) stated that highly recognized CEO can reassure stakeholders that firm's futures are bright and also enhance firm's to attract high quality employees, leveraging suppliers, and have access to better needed capital for the firm. However in the other hand, CEO celebrity can lead to negative consequences for the firms by bringing managerial overconfidence and hubris which may destroy the future performance of the firm (Wade, Porac, Pollock, & Graffin, 2006). Frank and Cook (1995) stated that "winner-take-all" compensation exists and this implies that CEO celebrity have positive impact on compensation over non CEO celebrity. Lastly, CEOs' have burden of being famous. Fombrun (1996) stated that publicly announced CEO have "burden of celebrity," which implies that CEO celebrity are highly responsible when there is a negative outcome and when the expectations are not met.

The theory of self-attribution is being used to approach for the cause of CEO celebrity. Managers blame failures for external reason and internalize for success. Another form of the cause of CEO celebrity is business press (Chen & Meindl, 1991). Also, the creditability of being CEO celebrity may increase prestige power by building positive reputation among stakeholders (Dalton, Barnes, & Zalenznik, 1968). Furthermore, Hayward, Rindova, and Pollock (2004) stated that star CEOs and key stakeholders embrace and do not reject the CEO celebrity status. They also view CEO celebrity as a valuable intangible asset for companies.

These intangible asset can be diffused by the press and influence the relationships between the CEO and shareholder. Graffin, Wade, Porac, and McNamee (2008) stated that CEO status through certification contest can be endorsed by business press to create positive CEO status. Therefore, CEO with a high status received higher average compensation compare to low status. Also, a star CEO status brings ‘burden of celebrity’, which describes that based on the firm performance, star CEO is either praised or blamed. In addition, the CEO compensation fluctuates depending on the firm performance. If a firm’s performance is positive, a star CEO compensation will be much higher than a CEO who is not considered as a star. In order to meet the positive performance expectations, star CEO have to make riskier choices by making riskier investments. Furthermore, these kinds of public endorsements can increase the bargaining power of celebrity to act and behave in a risky and arrogant manner.

***Narcissism definition***

The past research on narcissism has extensive and rich history. Narcissism was first introduced in psychology by Havelock Ellis (1898) to describe people absorbed in self-admiration. Later, Sigmund Freud (1914/1957) discovered behavioral traits of narcissists and acknowledged that narcissism is a state in which individuals wish to act purely out of desire to strive for an ideal-self. Throughout the research stream of narcissism, researchers have thought of narcissism with various descriptions such as a clinical disorder (Kernberg, 1975), social or cultural trend (Lasch, 1991), and recently, as a psychological construct (Raskin & Terry, 1988). Psychology scholars have developed the validity and reliability tests over the years through Diagnostic and Statistical Manual for Mental Disorders (American Psychiatric Association, 1968).

The Narcissistic Personality Inventory, or the NPI, is most used in this field. Raskin and Hall (1979) constructed the Narcissistic Personality Inventory (NPI), which is a 54-item, forced-choice questionnaire to measure the individual differences in narcissism as a personality trait. The Diagnostic and Statistical Manual (DSM-III) criteria for the Narcissistic Personality Disorder was used for the construction of questionnaire. Emmons (1987) factor-analyzed the NPI and identified four factors of narcissism. First, Leadership/Authority (I would prefer to be a leader); Second, Superiority/Arrogance (people can learn a great deal from me); Third, Self-absorption/Self-admiration (I am preoccupied with how extraordinary and special I am). Lastly, Exploitativeness/Entitlement (I insist upon getting the respect I deserve).

Narcissists believe that they are superior to others. They are highly confident of their capabilities and skills. Also, they perceive themselves as better than average on many different qualities and characteristics such as: intelligence, extraversion, and openness to experience (Campbell, Rudich, & Sedikides, 2002). Also, Judge, LePine and Rich (2006) discovered that narcissists rate themselves very highly on leadership qualities and contextual performance. Furthermore, narcissists are likely to have a strong self-enhancement bias in self-evaluations of performance (John & Robins, 1994).

Although narcissists believe in a great deal of self-admiration, they also need external reinforcement or 'narcissistic supply' (Kernberg, 1975). In Freud's original formulation stated that the ego-ideal 'besides its individual side, has a social side', and it can be 'the common ideal of a family, a class or a nation' (Freud, 1914/1957: 103). Narcissism can also by definition have a strong social component. Narcissists need people who will praise them through applause and cheer. Also, there performance escalates during crisis or when others are watching them (Wallace & Baumeister, 2002). Lastly, Narcissists regularly engage in social comparison (Bogart et al., 2004), and also pursue constant external self-affirmation (Morf & Rhodewalt, 2001).

Most of successful CEOs have narcissism and drives their leadership to create a reality to increase and reinforce their narcissism. Narcissism is about self-love (Hiller & Hambrick, 2005). In order to survive on everyday life, secured self-esteem is required however, when it is not present excessive self-love is attempted (Kets de Vries, 1994). Lubit (2002) stated that narcissism with pathological form have these kinds of characteristics: grandiose senses of self-importance, take advantage or devalue others, feel entitled to be treated specially, addiction to compliments and lastly lack empathy.

Furthermore, they feel entitled to be treated specially and to get things their way, addicted to compliments, and lack empathy (Lubit, 2002). A considerable amount has been written about narcissism in executives (e.g., Kets de Vries, 1994; Kets de Vries and Miller, 1985;

Lubit, 2002), though most writings have been theoretical or case study observations rather than large-sample empirical research. Also, Campbell, Reeder, Sedikides, and Elliot (2000) stated that there are different types of narcissist in the areas of psychological functions and they are: self-concept of narcissist, egocentrism, sense of and uniqueness. Furthermore, narcissist strategically regulate through self-concept which includes self-importance, fantasies of fame, power, and negative reaction to possible threats. Lastly, narcissists have very poor interpersonal relationships with others which can be shown through personal entitlement, exploitation of partner, and indifference toward partner's needs.

All the leaders can have certain sense of narcissism internally. They have the notion of self-love, self-importance, self-confidence, strong egocentricity, and fantasies of power. Raskin and Terry (1988) found seven factors of narcissistic personality and they are: authority, exhibitionism, superiority, entitlement, exploitativeness, self-sufficiency, and vanity. Deluga (1997) researched on effective and decisive leadership based on American Presidents using historiometric procedures to evaluate the research. Historiometry use quantitative measurement which includes content analysis to examine biographical information of historical figures. In order to find narcissism, Deluga

(1997) used Narcissistic Personality Inventory (NPI: Raskin & Terry, 1988) to evaluate the presidential narcissism.

Raskin and Shaw (1988) explored a study between narcissism and use of personal pronouns during monologues. The subjects of twenty four males and twenty four females were asked to talk about any topic for five minutes. The subjects then were tested using the narcissistic personality inventory (NPI), Eysenck personality questionnaire, and rotter internal-external locus of control. The results showed that individuals that used more first person singular pronouns “I” then “We” scored high as narcissism. In addition, Sanford (1942) viewed the usage of pronoun as indicators of egocentrism. Furthermore, egocentric people are more likely to use “I”.

Dickinson & Pincus (2003) examined that interpersonal analysis of grandiose and vulnerable narcissism through personality disorder. It discovered that grandiose personalities were associated with narcissistic, anti-social, and histrionic personality disorders. Also, Campbell, Goodie and Foster (2004) studied whether narcissists are more overconfident than others and whether this overconfidence leads to deficits in decision making.

An interesting study by Young and Pinsky (2006) was followed. They evaluated well known celebrities regarding their personality characteristics. The results show that celebrities are a highly narcissistic group. Furthermore, the celebrity group's narcissism score was considerably higher than the average U.S. respondent. Also, female celebrities showed greater narcissism than male celebrities because of component scales of exhibitionism, superiority and vanity.

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Insert Table 7 about here

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***Narcissism cause and outcome***

The dynamics of leaders has been studied for many years and still scholars are still looking into the cause and effect of this research area. One of the key traits that leaders have is that they have the ability to reawaken primitive emotions in their followers. Kets de Vries and Miller (1985) stated that those followers are under the 'spell' of leaders, they will feel proud, helpless, powerfully grandiose, and dependent. Max Weber (1947) describes this kind of feeling from leaders to followers as charisma.

> "A certain quality of an individual personality by virtue of which he is set apart from ordinary men and treated as endowed with supernatural, superhuman, or at least specifically exceptional powers or qualities. These are such as are not accessible to the ordinary person, but regarded as of divine origin or as exemplary, and on the basis of them, the individual concerned is treated as a leader." (pg. 358-359)

Sometimes during this process of feeling dependent, followers over exceeds their feelings and embrace into an idea of 'omnipotent' leader, which the follower may think that this leader can fulfill their dependency needs (Kets de Vries & Miller, 1985). By this conception, follower can destroy their own rational abilities. The definition between leaders and followers were provided by Freud (1921, pg. 123-124) which he stated that "the leader himself need love no one else, he may be of a masterful nature, absolutely narcissistic, self-confident and independent," and also stated that individual's main interest is self-preservation, independent, and impossible to intimidate. Kernberg (1975) stated top leaders are usually prone to having narcissistic personalities of wanting intense power and prestige for authority and leadership. Furthermore, certain types of narcissistic personalities have absolute self-confidence and certainty.

The various lists of narcissistic personality disorders are categorized from the Diagnostic and Statistical Manual of Mental Disorder (DSMIII, American Psychiatric Association, (1980) and its symptoms includes extremes of grandiosity, exploitativeness, exhibitionism and etc. Narcissist relies only on themselves and do not rely on others love or loyalty. Also, they pretend to be self-sufficient, but experience the feeling of emptiness. It is possible that in order to cover up their insecurity, they establish these kinds of factor: power, beauty, status, prestige, and superiority. Furthermore, they expect others to accept their narcissist's characters needs and wished to be catered to their needs (Kets de Vries, 1985).

Kohut (1978) stated that there are three different narcissistic leaders and it derives from reactive, self-deceptive, and constructive. The reactive narcissism is considered when there is a failure during the early childhood and this can be represented by grandiose self and idealized parental image. The feelings of grandiose self-portrays describes a child who display his/her capabilities to be admired. The construct of idealized parental image deals with a child who is perfect; they will be admired by the parents. This early success of interpersonal attachments can create a confident self-esteem. However, narcissistic can arise because parents behavior can be cold or uncaring, and does not give sufficient needs which arises the narcissist behavior of having a self-image of ‘specialness’ (Kets de Vries, 1985). Therefore, reactive narcissists are cold, ruthless, grandiose, and exhibitionistic.

There is another type of narcissistic leaders where they receive love from both parents and get treated as a perfect person and this is called self-deceptive narcissistic. Kohut and Wolf (1978) describe this situation as over-stimulated or overburdened self. In the end, they have to follow their parent’s footsteps and also fulfill their parental hopes and dreams. Therefore, self-deceptive narcissists are milder, less tyrannical, want to be liked, however, lack empathy, and obsessed with their own needs. Lastly, constructive narcissistic leaders are different compare to reactive and self-deceptive narcissistic leaders. Rather, they show signs of confidence about their personal worth. They have patience to wait and to show talents when needed. As mentioned above, there are different causes and outcomes through various types of narcissistic leaders.

## LIMITATION AND FUTURE RESEARCH

This review paper had looked into existing researches in the field of CEO hubris, overconfidence, CEO celebrity, and narcissism.

It researched on finding the definition, causes, and outcomes from these four related theories. The study attempted to give clearer picture of the definition of the four theories, however, clear and general definitions are still scarce. The scholars in this field needs to create a solid definition for future researchers in this field. One of the primary concerns and confusion is because keywords and theories from these theories are interchangeably used in current research from all four theories. Also, the construct measurement of analysis needs to be assembled between these four related theories to reduce the confusion.

It would be very interesting to see future studies with hubris, overconfidence, CEO celebrity, and narcissism with recent theories and events. A possible research between CEO hubris and symbolic management will be interesting, since there is a growing interest in these fields and also it will be interesting to find out whether CEO hubris use symbolic action for their success. Also, CEO hubris or narcissism and ownership structure in family business versus professional business would be unique and fascinating. This can possibly bring an academic impact into the world of family business. Furthermore, it would be interesting to do a research on the positive aspects of CEO hubris, overconfidence, CEO celebrity and narcissism. During uncertainty and inertia, an overconfident CEO can have a positive impact for firm’s initiative and positive outcome. Lastly, research on this area can further enhance the academic and practical knowledge of the individual and organizational level of judgments from executives.

# CONCLUSION

The goal of this paper was to review the various works on CEO Hubris, overconfidence, CEO celebrity, and narcissism to determine what we know and find limitations to better understand this phenomenon more clearly. The CEO hubris and other three related theories have affected almost all industries in some way. Research in these areas needs to be ongoing to help scholars and business practitioners to comprehend the process and determine how to avoid the pitfalls of CEO hubris, overconfidence, CEO celebrity, and narcissism.

# OVERALL CONCLUSION

This dissertation presented a theoretical framework for CEO hubris. The CEO hubris is considered when CEO overpays their target firm during acquisition (Roll, 1986). The characteristics of hubris are: arrogant, conceit, shameless, and etc. These kinds of character can possibly make CEO hubris to show off in front of others and also to act heterogeneously compare to the norm.

The first study investigated into the relationship between CEO hubris as an antecedent and institutional theory using the degree of corporate social responsibility as a context. It has found that CEO hubris does not follow the institutional norm in their decision making; rather they have a heterogeneous behavior and generally have a negative outcome. In my research, I have found evidence that the CEO hubris can arise from media praise through newspaper, news, and magazines. However, recent organizational success in my research was not supported. Nevertheless, I have empirically tested and found that CEO hubris does not follow the institutional norm.

The second study explored and examined four related theories and they are: CEO hubris, overconfidence, CEO celebrity, and narcissism. Previous research have inter-changeably used these theories and caused confusion to CEO hubris researchers. I critically assessed the origin, definition, cause and outcome of these four related theories to possibly clear up the confusion. Although, this review paper does not clarify all the confusion, however, it is the first paper to critically assess these four related theories together to see a holistic picture.

This research had empirically investigated and explored the related theories through a critical review paper and has allowed future researchers to learn about the CEO hubris and the similarities and differences between the related theories. In a practical field, it suggests that CEO hubris can generally bring negative outcome into our current daily business.

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# TABLES

## TABLE 1

## Descriptive Statistics and Correlations

| | Mean | S.D. | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Deviation KEJI | 0.039 | 0.027 | | | | | | | | | | |
| KEJI | 0.853 | 0.047 | 0.11 | | | | | | | | | |
| Leverage | 0.776 | 0.755 | -0.08 | -0.02 | | | | | | | | |
| PER | 23.327 | 90.256 | 0.04 | -0.11 | -0.03 | | | | | | | |
| Age | 37.69565 | 14.67446 | 0.02 | -0.01 | -0.15 | 0.05 | | | | | | |
| Dummy year | 0.533 | 0.5 | -0.03 | 0.06 | -0.05 | -0.01 | 0.01 | | | | | |
| Sales [a] | 0.232 | 0.811 | -0.01 | 0.25 | 0.49 | -0.07 | -0.05 | -0.05 | | | | |
| Media Praise | 0.522 | 0.923 | 0.09 | 0.27 | 0.27 | -0.02 | -0.19 | -0.02 | 0.59 | | | |
| ROA | 0.065 | 0.043 | 0.08 | 0.11 | -0.26 | -0.18 | -0.19 | 0.06 | -0.04 | 0.02 | | |
| Outsider B.O.D | 0.457 | 0.105 | 0.09 | 0.05 | 0.2 | 0.12 | -0.03 | 0.04 | 0.42 | 0.37 | -0.01 | |
| Foreign Inv. | 0.136 | 0.143 | -0.14 | 0.15 | 0.05 | 0.05 | 0.01 | -0.03 | 0.45 | 0.32 | 0.01 | 0.17 |

a. in trillion wons

b. Correlations of |0.12| or greater significant at $p < 0.05$ and correlations of |0.15| or greater are significant at $p < 0.01$

## TABLE 2

## Results of Deviation Median Regression Analysis of Study

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|---|---|---|---|---|---|---|---|
| Leverage | -0.002 | -0.004+ | -0.004+ | -0.004 | -0.003 | -0.004+ | -0.003 |
| | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.003) |
| PER | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Age | 0.000 | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 | 0.002 |
| | (0.004) | (0.004) | (0.004) | (0.004) | (0.004) | (0.004) | (0.004) |
| Year Dummy | -0.002 | -0.003 | -0.003 | -0.003 | -0.003 | -0.003 | -0.003 |
| | (0.003) | (0.003) | (0.003) | (0.003) | (0.003) | (0.003) | (0.003) |
| Sales | 0.001 | 0.000 | -0.000 | 0.000 | -0.000 | -0.000 | -0.000 |
| | (0.001) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |
| Media Praise (A) | | 0.005* | 0.004+ | 0.005+ | 0.004 | 0.005* | 0.003 |
| | | (0.002) | (0.003) | (0.002) | (0.003) | (0.002) | (0.003) |
| ROA (B | | 0.036 | 0.040 | 0.043 | 0.036 | 0.042 | 0.051 |
| | | (0.041) | (0.041) | (0.040) | (0.041) | (0.042) | (0.041) |
| Outsider BOD (C) | | 0.021 | 0.022 | 0.020 | 0.021 | 0.021 | 0.022 |
| | | (0.019) | (0.019) | (0.018) | (0.019) | (0.019) | (0.019) |
| Foreign Inv. (D) | | -0.037** | -0.037** | -0.037** | -0.036** | -0.036** | -0.035** |
| | | (0.011) | (0.011) | (0.011) | (0.012) | (0.012) | (0.012) |
| (C) X (A) | | | 0.019 | | | | 0.011 |
| | | | (0.022) | | | | (0.024) |
| (C) X (B) | | | | -0.626* | | | -0.699* |
| | | | | (0.315) | | | (0.302) |
| (D) X (A) | | | | | 0.018 | | 0.018 |
| | | | | | (0.015) | | (0.016) |
| (D) X (B) | | | | | | 0.207 | 0.231 |
| | | | | | | (0.314) | (0.289) |
| Constant | 0.007 | 0.011 | 0.014 | 0.012 | 0.022 | 0.011 | 0.024 |
| | (0.041) | (0.045) | (0.045) | (0.045) | (0.043) | (0.044) | (0.043) |
| Observations | 276 | 276 | 276 | 276 | 276 | 276 | 276 |
| R-squared | 0.059 | 0.109 | 0.113 | 0.120 | 0.117 | 0.111 | 0.132 |
| Adj. R-square | 0.00890 | 0.0471 | 0.0467 | 0.0548 | 0.0517 | 0.0450 | 0.0569 |
| F-statistic | 3.947*** | 3.495*** | 3.395*** | 3.418*** | 3.435*** | 2.971*** | 2.848*** |
| Observations | 276 | 276 | 276 | 276 | 276 | 276 | 276 |

Robust standard errors in parentheses
*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

## TABLE 3

## Results of KEJI Regression Analysis of Study

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) |
|---|---|---|---|---|---|---|---|
| Leverage | -0.012* | -0.009* | -0.009* | -0.009* | -0.010* | -0.009* | -0.011* |
| | (0.005) | (0.004) | (0.004) | (0.004) | (0.005) | (0.004) | (0.005) |
| PER | -0.000** | -0.000* | -0.000* | -0.000* | -0.000* | -0.000* | -0.000* |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Age | -0.004 | -0.001 | -0.001 | -0.001 | -0.001 | -0.001 | -0.000 |
| | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) | (0.006) |
| Year Dummy | 0.006 | 0.006 | 0.006 | 0.005 | 0.006 | 0.006 | 0.006 |
| | (0.005) | (0.005) | (0.005) | (0.005) | (0.005) | (0.005) | (0.005) |
| Sales | 0.010*** | 0.006* | 0.006+ | 0.006* | 0.006* | 0.006* | 0.006* |
| | (0.002) | (0.003) | (0.003) | (0.003) | (0.003) | (0.003) | (0.003) |
| Media Praise (A) | | 0.012** | 0.011** | 0.012** | 0.014** | 0.012** | 0.012* |
| | | (0.004) | (0.004) | (0.004) | (0.005) | (0.004) | (0.005) |
| ROA (B | | 0.086 | 0.089 | 0.093 | 0.087 | 0.085 | 0.103 |
| | | (0.071) | (0.071) | (0.071) | (0.071) | (0.070) | (0.070) |
| Outsider BOD (C) | | -0.036 | -0.035 | -0.037 | -0.037 | -0.036 | -0.034 |
| | | (0.028) | (0.029) | (0.029) | (0.028) | (0.029) | (0.029) |
| Foreign Inv. (D) | | 0.021 | 0.021 | 0.021 | 0.020 | 0.021 | 0.020 |
| | | (0.019) | (0.019) | (0.019) | (0.019) | (0.019) | (0.019) |
| (C) X (A) | | | 0.017 | | | | 0.031 |
| | | | (0.036) | | | | (0.037) |
| (C) X (B) | | | | -0.755 | | | -0.716 |
| | | | | (0.611) | | | (0.613) |
| (D) X (A) | | | | | -0.021 | | -0.025 |
| | | | | | (0.023) | | (0.024) |
| (D) X (B) | | | | | | -0.013 | 0.089 |
| | | | | | | (0.476) | (0.478) |
| Constant | 0.585*** | 0.684*** | 0.687*** | 0.685*** | 0.672*** | 0.684*** | 0.676*** |
| | (0.059) | (0.071) | (0.072) | (0.070) | (0.070) | (0.071) | (0.070) |
| Observations | 276 | 276 | 276 | 276 | 276 | 276 | 276 |
| R-squared | 0.139 | 0.178 | 0.179 | 0.183 | 0.181 | 0.178 | 0.188 |
| Adj. R-square | 0.0926 | 0.120 | 0.118 | 0.122 | 0.120 | 0.117 | 0.117 |
| F-statistic | 6.289*** | 5.744*** | 5.374*** | 5.466*** | 5.450*** | 5.515*** | 4.779*** |
| Observations | 276 | 276 | 276 | 276 | 276 | 276 | 276 |

Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

# TABLE 4: Antecedents and Outcomes of CEO hubris

| Study | Empirical/ Conceptual | Antecedent | Definition | Cause | Measurement | Outcome |
|---|---|---|---|---|---|---|
| - Roll (1986) | - Conceptual | O | - Decision makers pay too much for their acquiring target | - Few takeover offers during his/her career.<br>- Convince himself that the valuation is right | N/A | - M&A premium |
| - Hayward & Hambrick (1997) | - Empirical | O, CC, N | - Individual level construct on CEO trait (exaggerated pride or self-confidence). | - Recent performance<br>- Media praise<br>- Self-Importance | - Stockholder returns<br>- Newspaper & magazine<br>- CEO cash compensation | - M&A premium |
| - Kroll, Toombs, & Wright (2000) | - Conceptual | O,CC,N | - Arrogant confidence<br>- Does not play the same rule like everyone else | - Narcissism<br>- Series of success<br>- Uncritical acceptance of accolades<br>- Exemption from the rules | N/A | - Confidence turns to arrogance<br>- Reliance on simplistic formula for success<br>- Failure to face changing realities |
| - Raj & Forsyth (2003) | - Empirical | O | - Confidence in its ability and adding personal gain believing 'no lose' situation exists.<br>- Striving to increase their standing and market power | - Past success | - Valuation ratios (market-to-book & price earnings ratios)<br>- Bid premium size to identify hubris management | - Leads to degree of arrogance<br>- Pays large premium during acquisition |
| - Hiller & Hambrick (2005) | - Conceptual | O, N | - Self-confidence<br>- Self-worth<br>- Self-potency<br>- Freedom from anxiety | - Emotional stability, Generalized self-efficacy, Locus of control, and Self-esteem<br>- Hyper CSE executives are sure they will prevail | N/A | - Take grandiose actions<br>- Catastrophic results |
| - Hayward, Shepherd, Griffin (2006) | - Conceptual | O | - Greater overconfident | - Overconfidence in knowledge, prediction, and personal abilities | N/A | - Venture failure |
| - Lin, Oppenheimer, Michayluk, & Reid (2008) | - Empirical | O | - Irrational managers & investors | - Past excess market returns | - ROE<br>- ROA,<br>- Profit margin (net profit) | - Value destroying M&A |
| - Li & Tang (2010) | - Empirical | O | - Psychological bias of overconfidence | - Media Praise | - Chinese Business newspaper | - Overestimate the likelihood of success of strategic initiative and takes risk |

*Notes: O= Overconfidence, CC = CEO Celebrity, N = Narcissism*

## TABLE 5: Antecedents and Outcomes of Overconfidence

| Study | Empirical/ Conceptual | Antecedent | Definition | Cause | Measurement | Outcome |
|---|---|---|---|---|---|---|
| - Griffin & Tversky (1992) | - Empirical | O | - Often wrong but rarely in doubt | - Strength (strength or extremeness of evidence) is high, weight (weight or credence) is low<br>Ex. Letter of recommendation | - Calibration Experiment | - Illusion of validity |
| - Russo & Schoemaker (1992) | - Conceptual | O | - Strong belief about their judgments | - Availability bias<br>- Anchoring bias<br>- Confirmation bias<br>- Hindsight bias | N/A | - Flaw in managerial decision making |
| - Camerer & Lovallo (1999) | - Empirical | O | - Neglecting the increased level of competition | - Optimistic biases | - Experimental entry games | - Entry into competitive games or markets & fail |
| - Simon & Houghton (2003) | - Empirical | O | - Excessive certainty about one's prediction | - Pioneering product<br>- Extreme certainty<br>- Achieving success | - Comparing extreme certainty measure to achieved success factor<br>- Differentiated between extreme certainty and all other levels of certainty<br>- Compare initial to past success factor | - Product success failure |
| - Malmendier & Tate (2005) | - Empirical | O | - Better than average: When individuals assess their relative skill, they tend to overestimate their acumen relative to average | - Holder 67<br>- Longholder<br>- Net Buyer | - Taking 67% (option) in the money during 5th year as threshold<br>- Option held until expiration date<br>- Purchase additional company stock despite the risk | - Sensitivity of investment to cash flow. |
| - Brown & Sarma (2007) | - Empirical | O, CC | - The "illusion of control" over its outcome | - Media coverage<br>- CEO dominance | - Australia business press<br>- CEO remuneration: | - Decision to undertake acquisition |
| - Doukas & Petmezas (2007) | - Empirical | O | - Believe that future merger outcomes are under their control | - Self-attribution bias | - High order acquisition deals<br>- Insider dealings | - Superior abnormal returns |
| - David, Graham, & Harvey (2007) | - Empirical | O | - Overestimate the precision of their own forecasts or underestimate the variance of risky processes | - Past own firm returns<br>- Age | - Executive survey | - High corporate investment |

*Notes: O= Overconfidence, CC = CEO Celebrity, N = Narcissism*

## TABLE 6: Antecedents and Outcomes of CEO Celebrity

| Study | Empirical/ Conceptual | Antecedent | Definition | Cause | Measurement | Outcome |
|---|---|---|---|---|---|---|
| - Hayward, Rindova, & Pollock (2004) | - Conceptual | CC | - When journalist broadcast the attribution of firm's positive performance due to CEO's actions | - Distinctive & consistent action from CEO than industry norm<br>- Journalists bias | N/A | - Journalists exaggerate CEO's contribution to firm performance |
| - Wade, Porac, Pollock, & Graffin (2006) | - Empirical | CC | - Publicly identified as a star carries "burden of celebrity" | - Certification contest | - Results from Financial World's certification contest, CEO of the year | - Positively and negatively affect firm's future performance & CEO compensation |
| - Graffin, Wade, Porac, & McNamee (2008) | - Empirical | CC | - CEO with greater or lesser status by the press influences executive pay and promotion | - CEO status | - Financial World's, CEO of the year contest | - Positive & negative effect on CEO compensation and top management team |
| - Malmendier & Tate (2009) | - Empirical | CC | - Highly skewed of income, market share & public attention | - CEO characteristics | - Newspaper & books | - Award winning CEO's underperform in performance |

*Notes: O= Overconfidence, CC = CEO Celebrity, N = Narcissism*

## TABLE 7: Antecedents and Outcomes of Narcissism

| Study | Empirical/ Conceptual | Antecedent | Definition | Cause | Measurement | Outcome |
|---|---|---|---|---|---|---|
| - Raskin & Shaw (1988) | - Empirical | N | - Extreme self-centeredness<br>- Self-absorption<br>- Self-importance<br>- Fantasies of unrealistic goals<br>- Constant attention & admiration | - Personality | - Personality: Narcissistic Personality Inventory (NPI) | - Select personal topics (past experience or belief) than impersonal topics<br>- Verbal behavior (Pronoun usage "I" than "We" |
| - Deluga (1997) | - Empirical | N | - Self-indulgence<br>- Abuse of leader power<br>- Need for power | - Charismatic leadership | - Personality: Narcissistic Personality Inventory (NPI)-<br>- Biographical information of historical figures | - Impact of presidential performance |
| - Campbell, Reeder, Sedikides & Elliot (2000) | - Empirical | N | - Self-Concept<br>- Egocentrism<br>- Self-importance<br>- Personal entitlement<br>- Exploitation of partner | - Self-serving bias<br>- Rating of task importance | - Personality: Narcissistic Personality Inventory (NPI) | - Self-enhancement strategy |
| - Lubit (2000) | - Concept | N | - Self-love<br>- Grandiosity<br>- Entitlement to exploit others<br>- Devaluation of others | - Effects of early childhood experience, psychological conflicts & defense mechanism, fragile self-esteem<br>- Behavior learned by others | N/A | - Destructive narcissists |
| - Dickinson & Pincus (2003) | - Empirical | N | - Anti-social<br>- Domineering<br>- Vindictive | - Grandiose character | - Personality: Narcissistic Personality Inventory (NPI) | - Unrealistic view of themselves to others |
| - Campbell, Goodie, & Foster (2004) | - Empirical | O, N | - Feel they are superior to others | - Overconfidence | - Personality: Narcissistic Personality Inventory (NPI) | - Deficit in decision making |
| - Young & Pinsky (2006) | - Empirical | CC, N | - Exhibitionsim<br>- Superiority<br>- Vanity | - Celebrities | - Personality: Narcissistic Personality Inventory (NPI) | - High degree of narcissism |

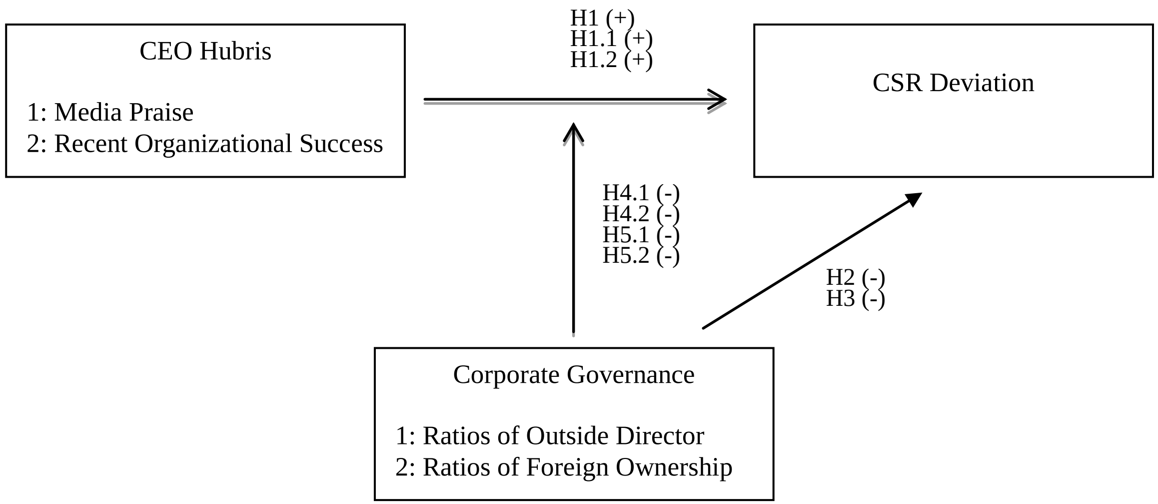
| | | | | | | |
|---|---|---|---|---|---|---|
| - Chatterjee & Hambrick (2007) | - Empirical | CC, N | - Generates more extreme performance (Big wins or Big losses). | - Leadership personality | - CEO’s photograph in annual reports<br>- Use of first personal singular pronouns during interview<br>- Press release | - Strategic dynamism<br>- Acquisitions<br>- Performance extremeness<br>- Performance fluctuation |
| - Lakey, Rose, Campbell, & Goodie (2008) | - Empirical | N | - Efforts aimed at bolstering their positive self-view<br>- Attribute blame to others or their situation for their failures | - Narcissist overconfidence<br>- Heightened risk acceptance<br>- Focus on reward | - Personality: Narcissistic Personality Inventory (NPI) | - Deficit in judgment & decision making<br>- Gambling problems |
| - Duchon & Drake (2009) | - Concept | N | - Extreme love of self<br>- Grandiose sense of self-importance<br>- Powerful sense of entitlement | - Ego defense mechanism | N/A | - Behave unethically |
| - Aktas, Bodt, Bollaert, & Roll (2011) | - Empirical | N | - Pervasive pattern of grandiosity<br>- Need for admiration<br>- Lack of empathy | - CEO’s personality trait | - Using first singular pronouns in speech | - High bid in M&A premiums |

*Notes: O= Overconfidence, CC = CEO Celebrity, N = Narcissism*

# FIGURE

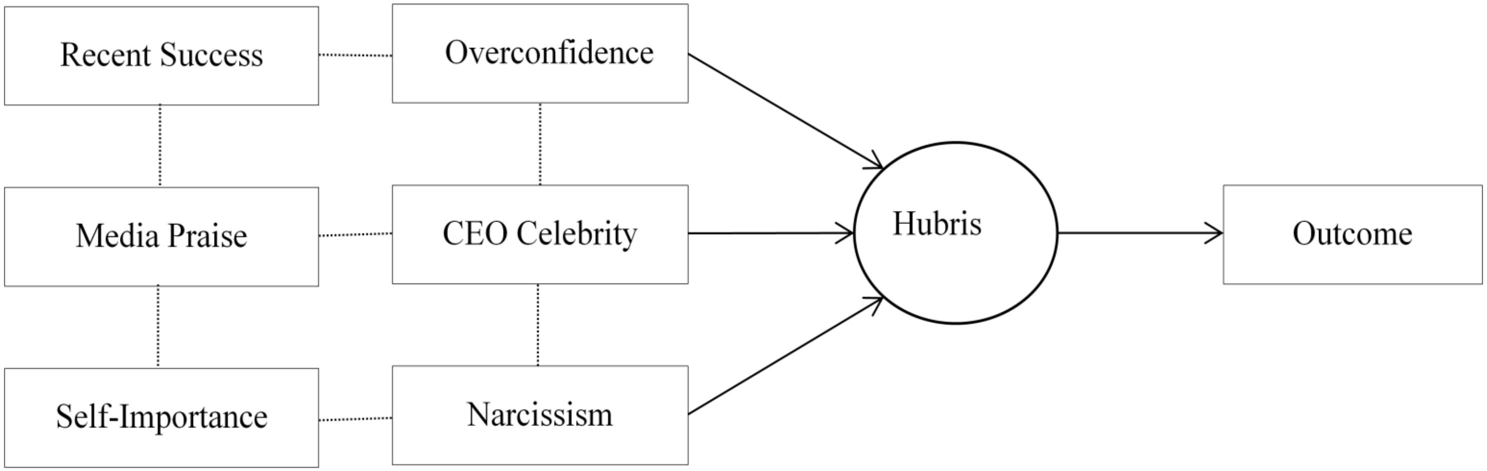
# FIGURE 1

## Research Model



## FIGURE 2

**Summary Model of Antecedents and Outcomes of CEO Hubris**



# 국문 초록

## CEO 휴브리스에 따른 의사결정에 관한 연구

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본 연구는 CEO 휴브리스의 결정요인에 대한 기존 연구들을 검토하여 CEO 휴브리스의 결정요인에 대해서 살펴보며, 이렇게 형성되는 CEO 휴브리스가 제도화 압력하에서 경영자 의사결정에 어떤 영향을 미치는지 실증하고자 하는 연구이다.

첫번째 연구에서는 CEO 휴브리스가 제도화 압력에 대한 순응에 어떤 영향을 어떻게 미치는 지에 대해 진행하였다. 이러한 관계가 내부통제장치에 의해 어떻게 영향을 받는지도 살펴보았다. 본 연구를 통해, 휴브리스가 높은 경영자 일 수록, 기업의 사회적 공헌에 대한 제도화 압력에 순응하지 않을 것이며, 이러한 관계가 내부통제장치인 사외이사나 외국인 주주에의해 약해질 것이라는 가설을 검증하였다. 이를 위해 기업의 사회적 공헌도의 자료가 가용한 2008년부터 2009년까지 276개 한국기업을 대상으로 실증분석을 진행하였다.

두번째 연구에서는 CEO 휴브리스와 유사한 개념으로 다루어지는 과도한 자신감(overconfidence), CEO 셀러브리티(celebrity), 그리고 나르시시즘(narcissism)에 대한 연구들을 검토하여, 각 연구분야에서 사용되는 개념, 선행요인과 그 결과에 대해 비교해 봄으로써, 향후 CEO 휴브리스의 연구방향에 대해 제시하는 리뷰 연구다. 위 네가지 분야 연구의 용어 및 가정, 기본 논리는 매우 유사한 부분이 많아 많은 학자들에게 혼란을 주고 있다. 저자는 각 이론에 대한 기원, 정의, 원인, 그리고 결과를 정리해서

명확한 정의를 시도하였고, 이들간의 차이점에 대해 구분하였다. 이는 향후 휴브리스 분야를 연구하는 연구자들에게 많은 시사점을 줄 것으로 기대된다.

주요어: CEO 휴브리스, 제도화 이론, 사회적 책임, 지배구조

학 번: 2004-30840