

CEO Characteristics and Stakeholder Strategy

Increasingly, research is showing that the individual characteristics of CEOs have a strong influence on decisions they make on behalf of their companies. Forthcoming research in the *Strategic Management Journal* examines CEOs' "regulatory focus," a general personality trait describing an individual's orientation toward promotion (how things could be) or toward prevention (how things should be). Researchers examined how a CEO's regulatory focus leads a company to focus narrowly on governance and shareholders or a broader set of stakeholders.

Key Takeaways:

- Differences in stakeholder strategy across companies are related to CEOs' focus on promotion (how things *could* be) versus prevention (how things *should* be)
- Promotion-focused CEOs engage in more socially focused initiatives. Prevention-focused CEOs engage in more governance focused initiatives and are more open to governance-based activism.
- CEO promotion and prevention focus were related to identified strengths in these areas but did not reliably reduce the number of areas of concern.

The researchers gathered data for companies in the S&P 500 at the start of 2006 and tracked governance and social performance as monitored by a third-party rating agency through 2013. They also used letters to shareholders to assess CEOs' regulatory focus. They found that more prevention-focused CEOs led firms with more strengths in governance and were more likely to

settle governance-driven shareholder proxy proposals instead of opposing them or putting them to a vote. More promotion-focused CEOs led firms who exhibited greater concern for issues such as the community, environment, and human rights. They did not find evidence that prevention-focused CEOs lead companies that are more open to social activism, or that regulatory focus has strong effects on areas of concern (as opposed to strengths) around governance or social issues.

The researchers highlight the need for CEOs and boards of directors to be aware of the effect of CEOs' individual personality in light of firm strategy, and institute more deliberation or oversight when CEO tendencies might clash with a company's strategy. They caution that their study does not provide information about which stakeholder strategies are more effective.

Source: Gamache, D., Neville, F., Bundy, J., & Short, C. E. (In Press). Serving differently: CEO regulatory focus and firm stakeholder strategy. *Strategic Management Journal*. doi: 10.1002/smj.3134.