

CEOs and Firm Strategic Actions and Firm Performance

Research that will appear early next year in *Personnel Psychology* shows that CEO characteristics are positively related to the firm's strategic actions such as acquisitions, international diversification, product diversification, divestitures, capital investments, firm risk taking, leverage, and product innovation, and these strategic actions are subsequently related to firm performance. For instance, CEO age is negatively related to the firm's international diversification and strategic risk taking. Similarly, CEO tenure is negatively related to product diversification, and strategic risk and strategic change.

Key Takeaways:

- CEO characteristics are related to firm outcomes. For instance, younger CEOs are more likely to be associated with firms that engage in international diversification, risk taking, and product innovation
- CEO tenure is negatively associated with the firm's strategic risk taking, change, and product diversification.
- There is a strong positive relationship between a CEO's prior career experience and the firm's strategic actions.

Using data from 308 studies, researchers used meta-analysis to identify CEO characteristics that are associated with an organization's strategic actions, actions that in turn affect organizational performance. The researchers examined CEO characteristics such as age, tenure, career experience, and a CEO's positive self-concept. They found that CEO tenure is negatively related to firm strategic actions, while prior career

experience is positively related to firm strategic actions. Additionally, CEO age, tenure, formal education, and prior experience are all related to firm performance.

The research team also found that CEO personality affects the firm's strategic actions. In general, CEOs with higher levels of self-concept were associated with more firm strategic actions and higher firm performance. Overall, the research team also found that, in general, firms perform better when their CEOs are older, longer tenured, better educated, have more prior specific experience, and are high in charisma and extraversion.

Their analysis also examined CEO personality characteristics, such as humility, core self-evaluation, emotionality, extraversion, conscientiousness, and charisma. The authors suggest that future research is needed to better understand what connects CEO characteristics with firm performance, precisely what types of prior experiences matter most, how personality traits affect CEO actions, and precisely how CEO extraversion affects firm actions.

Source: Gang, W., Michael-Holmes, R., Oh, I., & Zhu, W. (2015). Do CEOs matter to firm strategic actions and firm performance? A meta-analytic investigation based on upper echelons theory. *Personnel Psychology*, In Press.



UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

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