

Toxic confidence: Overconfident CEOs are less likely to learn from performance feedback

Submitted by: BlueSky Public Relations Ltd

Wednesday, 5 August 2020

FOR IMMEDIATE RELEASE

Toxic confidence: Overconfident CEOs are less likely to learn from performance feedback

Overconfident, often male, CEOs are reacting much less to both internal and external feedback, particularly negative assessments, and thus are more likely to lead their businesses to failure, finds new research from Vienna University of Economics and Business (WU Vienna).

Companies often evaluate the success of their current business strategy through feedback in the form of their firm's current financial results relative to their own previous performance or that of other market participants in the same industry and adapt their decisions accordingly.

A recently published study by Christian Schumacher from WU Vienna in collaboration with Steffen Keck and Wenjie Tang from the University of Vienna shows that the personality of CEOs plays an important role in these evaluation processes. Exaggerated self-confidence can stand in the way of rational decisions.

According to the research, overconfident CEOs assess the financial situation of their company more optimistically than their colleagues and react much weaker to external and internal feedback. That can stand in the way of rational decisions, the WU researchers report in the Strategic Management Journal.

“That means: Although the financial situation in the company is possibly very bad and would require a change in the company’s strategy, these CEOs interpret the precarious situation much more positively and only react with a change when it might already be too late – which can of course have devastating consequences for the company”, says Schumacher.

In their quantitative study, the study authors examined all companies in the S & P1500 Index, which includes the 1,500 largest American listed companies, in the period from 1992 to 2014.

The study also revealed that female CEOs were less likely to have an overly confident view of both their company’s financial situation, and their own abilities.

Christian Schumacher, Assistant Professor in the Department of Global Business and Trade at Vienna University of Economics and Business, says: “Women are less often overconfident about their own abilities, which is also reflected in our study. This more accurate assessment means that female CEOs are much more sensitive to different types of feedback about their companies’ current business strategy.”

Research paper published in the Strategic Management Journal. Open access:
<https://doi.org/10.1002/smj.3138>.

END/

For more information, a copy of the research paper, or to speak to Christian Schumacher, please contact Jonny Stone at jonny@bluesky-pr.com or call 01582 790704.