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Narcissistic CEOs at American banks took great risks, study shows

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Banks that were led by a more narcissistic – that is, highly self-loving and self-appraising – CEO before the collapse of the US banking industry in September 2008 suffered more severe consequences of that systemic shock. That is one of the main conclusions by Tine Buyl and colleagues based on a recent study published in the *Journal of Management*.

The authors used a sample of 92 CEOs of US commercial banks from 2006 to 2014 to investigate how narcissistic the CEOs were and how this character trait impacted organizational risk-taking behavior. The researchers also investigated how this affected the resilience of these banks to the 2008 shock in the banking industry and their capacity for recovery.

High-risk derivatives

Before the shock, banks with narcissistic CEOs invested more in high-risk derivatives and off-balance sheet items (including mortgage-backed securities). The effect of CEO narcissism became even stronger when it coincided with compensation policies that encouraged risk-taking (stock options). The effect was cushioned if a board containing experienced and independent directors, and thus more effective monitoring, was in place.

High-risk narcissistic behavior combined with poor corporate governance proved to be a dangerous mix. Banks became vulnerable and, as a result of the depletion of resources and internal buffers, it took longer for them to recover to their pre-shock performance levels.

Capital injections

High-risk investment does not need to be a problem in favorable economic circumstances or if a bank can relatively easily attract new capital. However, the squeeze in the capital market after September 2008 made matters rather complicated.

Capital injections by the US government as part of the Troubled Assets Relief Program (TARP) allowed the banks to partly or entirely replenish their depleted resources and mitigated the adverse effects on the banks' resilience and capacity to recover. Although TARP's objective had been to rescue the crippled financial sector, TARP in fact financed the excessive, high-risk strategies by narcissistic CEOs.

More information: CEO Narcissism, Risk-taking, and Resilience: An Empirical Analysis in U.S. Commercial Banks, *Journal of Management*. (forthcoming 2017).

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