

Charismatic CEOs lead to higher IPO prices

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The perception and negotiation abilities of more charismatic CEOs result in higher IPO prices and smaller offer price ranges for their firms, according to new research published in the *Strategic Entrepreneurship Journal*. The study found that humility among CEOs, on the other hand—while celebrated in the media—actually goes against the implicit

leadership theory, which suggests that people expect leaders to be strong, charismatic, and aggressive visionaries.

The researchers used a videometric technique for the study, with trained psychologists observing CEOs as they gave interviews and speeches during which they advocated for their [firms](#) to potential investors during IPO roadshows. The research team then compared the psychologists' evaluation of the CEOs' personalities with the firms' IPO performance.

Because potential investors often lack information on the CEO, they base much of how they would value the firm on judgments of the executive's [personality](#) during the IPO roadshows. The study showed CEOs perceived as more humble resulted in more underpricing by investors and to a bigger spread in prices, which captures investors' uncertainty on the CEO's abilities and the firm's success. However, a charismatic CEO is perceived by stakeholders to be confident, knowledgeable, and skillful.

"Our main findings indicate that the CEOs basically need to keep their [humility](#) in check," says study co-author Oleg Petrenko, an assistant professor at Walton College of Business at the University of Arkansas. "There are good things that come out of humility, but in this specific context when they're taking their firm through the IPO process, they need to be a little bit less humble. They need to take more credit and speak up more about their achievements and sing their own song a little bit louder than they would otherwise."

Petrenko cautioned against hiring CEOs based on this particular personality trait, though, instead recommending that—should a CEO be perceived as more humble—another, more charismatic person on the leadership team step in to represent the firm during IPO roadshows and interviews. This underscores the importance of building a team that's complementary to each other's skills and personalities: Don't use a single

personality trait as a CEO selection tool, he explains, but build out the team around the individual's personality.

"One of the main things that we hope that the study achieves is that it brings more focus and interest to the personality of the entrepreneurs and executives," Petrenko says. "The common theme we're starting to see is that investors are not investing just in the idea, they're also investing in the person. We need to better understand the effects of these personality traits that entrepreneurs have, how it affects the way they make decisions, the way they run their firms, and—ultimately—the success of these new ventures."

More information: Jeffrey A. Chandler et al, Do the personal attributes of CEOs matter in the IPO pricing process? An examination of charisma and humility, *Strategic Entrepreneurship Journal* (2022).
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