

Integrity, innovation and risk-taking is a rare combination in CEOs, new research suggests

March 13 2023, by Prachi Gala



Credit: Pixabay/CC0 Public Domain

Corporate chief executive officers who have a high degree of integrity—that is, [a commitment to act](#) by a morally justified set of principles and values—tend to be less creative, more risk-averse and less likely to take initiative than other CEOs, [according to new research](#) I co-authored.

[Past research suggests](#) that as a result, their companies are likely to be less competitive and less profitable.

Having a lot of integrity [has traditionally been considered](#) one of the most important qualities of a business leader. Research has shown that a high level of CEO integrity is a key trait [in determining employee loyalty](#) as well as [preventing problems like fraud](#).

My colleague [Saim Kashmiri](#) and I wondered, however, if there are any downsides to being a top boss with lots of integrity. So we analyzed financial and other information on 213 companies listed in the Forbes 500 from 2014 to 2017. We only included companies where CEOs had been hired from 2011 to 2013 and stayed with the [company](#) until at least 2018.

We determined a CEO's level of integrity by analyzing their annual letters to shareholders for key words. Specifically, past research has shown that people [who use a lot of "causation words"](#)—such as "because," "hence" and "therefore"—tend to have a low degree of integrity because such words are often used to rationalize ethically questionable actions.

We scored CEOs who used few of these causation words in their letters

as having a high level of integrity.

We tested the validity of this method several ways, including by looking at companies ranked as the most ethical by independent observers like Forbes. We found a high correlation between our measure of integrity and these companies.

Similarly, to gauge how innovative, proactive and likely to take risks these CEOs were, we analyzed the shareholder letters for key words that [existing research](#) has identified as being highly correlated with those traits. We then conducted a [regression analysis](#), a statistical technique that identifies associations between two variables along with the magnitude of that association, as well as significance of whether the association is by chance.

Our analysis found that CEOs who scored the highest in terms of integrity also scored the lowest on our measures of innovation, proactiveness and risk-taking—traits [often associated with entrepreneurial behavior](#).

The correlation was stronger among CEOs who were also chairs of their boards of directors—giving them considerably more power over the company—or who we determined to be very overconfident.

The correlation was weaker among CEOs in charge of more consumer-oriented companies, such as retailers, and CEOs who received more of their compensation with [company stock](#)—which tends to reward higher performance.

Companies led by CEOs who take more risks, act more proactively and are innovative tend to [outperform their competitors financially](#) in part because they are active in finding fresh market opportunities, which [strengthens the business's competitive position](#). Such companies [also](#)

[tend to be stronger at marketing.](#)

We are not suggesting companies should avoid hiring leaders with high levels of integrity. In fact, [research has shown](#) that [integrity is a predictor](#) of good leadership and fundamental to fostering commitment and loyalty among employees.

However, corporate boards are duty-bound to choose [chief executives who will increase shareholder value](#). So they should be aware of these tendencies and help their high-integrity CEOs counterbalance the negatives, such as by offering more incentive-based compensation and establishing processes and structures that stimulate innovation.

While this study analyzed word choices to rate CEO integrity, we are now studying how a CEO's language may affect those around him or her in ways that could have a good or bad impact on a company's bottom line—such as improving creativity or causing employees to leave their jobs. We are currently gathering data on reactions to leaders' language choices via employee and manager surveys to learn more.

This article is republished from [The Conversation](#) under a Creative Commons license. Read the [original article](#).

Provided by The Conversation

Citation: Integrity, innovation and risk-taking is a rare combination in CEOs, new research suggests (2023, March 13) retrieved 24 May 2024 from <https://phys.org/news/2023-03-risk-taking-rare-combination-ceos.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--