

Valuing the impact of prosocial CEOs

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New research by SMU Assistant Professor Wei Ting Loh finds that CEOs with a tendency to benefit others can lift firm value. Credit: Singapore Management University

The traditional role of a chief executive officer (CEO) has been to manage the executive team and pursue goals set by the board. But in recent times, CEOs have become more publicly visible as the face and

driving force of an organization, with an emphasis on their leadership qualities.

Some leaders may have natural abilities that they develop, others may learn to lead, but a key factor is personality, which dictates people's behaviors. For someone such as Apple co-founder and CEO Steve Jobs, personality was integral to his way of doing business.

Now, new research co-authored by Wei Ting Loh, who has recently joined Singapore Management University (SMU) as an Assistant Professor of Accounting, examines how a CEO's prosocial tendency—the inclination to do things for the benefit of others—can influence corporate policies and firm value.

"We view prosocial tendency as a fundamental, innate trait," Professor Loh says. "While effective leaders embody multiple qualities, the findings from our study suggest that their innate prosocial tendency contributes to their effectiveness as a leader."

To identify prosocial CEOs, the researchers accessed demographic information from the BoardEx database and looked at off-the-job activities.

"We use CEOs' involvement with charitable organizations to proxy for their prosocial tendency," Professor Loh says. "We define a CEO as prosocial if he or she is involved with organizations that the US Internal Revenue Service classifies as charitable.

"We focus on whether the CEO, as an individual, would devote time out of their busy schedule to charity work. Such involvement captures the CEO's individual behavior, and not their employees' behavior or company's policy."

To further support the measure of prosocial tendency, the researchers were able to access an extant study of CEOs' use of personal pronouns during earnings conference calls.

"We find that prosocial CEOs are less likely to attribute good performance to themselves or to blame others for bad performance. This provides some validation that our measure captures prosocial individuals' other-regarding preferences," Professor Loh says.

Multiple stakeholders

The research resonates with a rising Anglo-American business enthusiasm for stakeholder capitalism—the idea that businesses have a responsibility and corporate purpose that extends beyond their shareholders.

Were the researchers aware of this trend?

"Yes. We were interested in studying prosocial tendency in part because CEOs hold influential positions within organizations and have substantial impacts on their companies' strategic direction, culture, and values," Professor Loh says.

"They are also highly visible in society and interact with a wide range of stakeholders. Therefore, building on the idea that corporations today tend to consider multiple stakeholders' welfare when making decisions, we were interested in examining whether and how CEOs' personal traits, such as their prosocial nature, affect all their stakeholders."

Among these stakeholders would be a company's staff. "In our study, we find that companies with prosocial CEOs implement more employee-friendly policies. These policies could include employee health and safety programs, or benefits and training programs for employees,"

Professor Loh says.

The researchers also found that having a prosocial CEO reduces the likelihood of executive subordinates leaving the firm.

On the money

Harmonious workplaces could be expected to be more productive. So, do prosocial CEOs increase firm value?

"Theoretically, firm value is determined by expected future financial performance and firm risk. These are two potential channels through which prosocial CEOs can influence firm value," Professor Loh says.

"Some prior studies find that employee welfare and satisfaction are positively associated with firm performance, as employees are significantly related to product quality and innovation.

"There is also evidence that [customer satisfaction](#) improves firm performance through repeat business and reduced warranty costs. If prosocial CEOs improve employee welfare by implementing more employee-friendly policies and improve customer satisfaction by enhancing product quality, we expect them to improve firm performance as well," Professor Loh says.

"In our paper, we find that prosocial CEOs increase firm value mainly through lowering firm risk. If prosocial CEOs adopt more employee and customer-friendly corporate policies and engage in more CSR activities, these CEOs are likely to build trust with their employees, customers, suppliers, and regulators.

"Such trust can be perceived as 'moral capital,' which manifests in employee commitment, brand faith, credibility to customers and positive

reputation among communities and regulators.

"Goodwill between prosocial CEOs and stakeholders can reduce perceived risk of the firm, thus reducing cost of capital and return volatility," Professor Loh says.

Trait to consider

Are prosocial CEOs the way of the future?

"We find that CEOs' prosocial values align with their on-the-job behavior and create positive impacts on various stakeholders and society. However, ultimately it is up to boards to identify individuals who best fit their organizations' culture, goals, and needs," Professor Loh says.

"For example, if a firm is seeking to improve employee retention or customer satisfaction, the prosocial tendency of a CEO could be an important trait to consider. Whether prosocial CEOs continue to make an impact and the extent of that impact ultimately depends on organizations' needs and goals."

The research raises a number of possibilities that warrant further examination.

"My co-authors and I are conducting a follow-up study on prosocial CEOs, relating to whether prosocial CEOs also exhibit prosocial tendency in the quality of information they provide to shareholders. The results suggest that prosocial CEOs are less likely to engage in accounting manipulation and are also less likely to withhold bad news from investors," Professor Loh says.

In terms of her own career, Professor Loh has come full circle, having completed her undergraduate degree at SMU in 2012.

"SMU is a special place to me and I am definitely glad to be returning as a full-time faculty member," she says.

Provided by Singapore Management University

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