Researchers find large cost benefits for companies with Machiavellian CEOs

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The research specifically measures how CEOs higher on the Machiavellian scale (high Machs) perform at negotiating lower production costs, acquisition premiums and debt financing. To determine high Machs, Aime, along with co-authors Tessa Recendes, Aaron D. Hill and Oleg V. Petrenko, aggregated public video of 198 CEOs at S&P 500 firms from 2000 to 2011. Trained psychology professionals then evaluated the videos using an established scale for Machiavellianism.

"There is an assumption among business management researchers that markets determine costs and CEOs can't contribute much to reducing them through sheer force of personality," said Recendes. "But where CEOs aren't directly negotiating deals, they create culture and priorities within a company which managers use as directives."

To establish CEO influence over costs, the authors first ran multilevel modeling on corporate and financial data from four different data sets, finding a 32.3% CEO effect on production costs and 22.3% effect on financing costs. For acquisitions however, CEO influence is clear: their presence can be felt at every stage from selecting the acquisition targets to negotiating the final deal. With the connection between each cost and CEOs established, the researchers compared how CEOs across the Machiavellian spectrum fared in 1,354 firm years and 186 acquisitions.

"It should be no surprise that CEOs with a Machiavellian focus on bargaining pay less on acquisition premiums," Hill said. "Machiavellianism can drive CEOs to gather more bargaining information because their inherent distrust, to leverage social interactions and coalitions, and to manipulate others allow them to win."

The study found that companies with Machiavellian CEOs paid 12.11 percent lower acquisition premiums, representing approximately $157 million...
or 3.6% of the average deal. Companies with high Mach CEOs also paid $101.19 million less on goods sold and $35.8 million less on debt interest, representing a total of 6.6% savings on the average company's net income. The researchers explained that high Mach expectations and cultural norms filtered down to bargaining performance on production and financial costs.

"Even for the interactions they aren't directly involved in, they set the tone from the top and infuse the organization with a great deal of their traits through their agenda, initial decisions and leadership behaviors," Petrenko said.

The authors note that while high Mach CEOs seem to lower company costs, this might not outweigh the risks of the personality trait. However, the study does help explain the ubiquity of Machiavellianism in the upper echelons of business management, considering the decades-long focus on cost reduction. Adding negotiation structures and opportunity-seeking resources might offer some of the same effect, but there may also be unexplored benefits to Machiavellianism for CEOs.


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