



## Hubris Hypothesis and Model of Managerial Irrationality

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### **Abstract**

This paper conveys a conceptual map of managerial hubris literature that is able to present executives with the dangers and traps of hubris that they generally tend to overlook. This paper advances an inclusive appreciation of managerial hubris and discusses the psychological, financial, and management origins of this flourishing literature. Since studies on managerial hubris show that different disciplines have different concerns and empirical approaches. The study has detected both consistencies and inconsistencies in the studies performed within and across disciplines. By doing so, the study therefore managed to provide a multidisciplinary appraisal of previous contributions, gathering and exploring the main links among them. The multidisciplinary assessment of the hubris hypothesis has been offered by developing a conceptual map of hubris literature that identifies antecedents, symptoms, strategy choices, and organizational feedback performance, as well as factors mitigating the impact of hubris on strategic choices. Drawing on the comprehensive appraisal of the conceptual landscape of hubris and identifying promising gaps, important unexplored questions, and limitations of previous studies, this study gathered a set of research paths for future inquiry. Accordingly, this paper may help researchers with various interests (e.g., in decision-making processes, risk management, strategic leadership, corporate governance, and so on) to position their contributions in the actual landscape of managerial hubris investigation. In addition, the proposed hubris conceptual map may be able to alert managers to hubris threats. In this perspective, the study advanced a suite of managerial suggestions to help executives avoid falling into hubris traps.

**Keywords:** Hubris Hypothesis, Model of Managerial Irrationality

**JEL Classification:** G34

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### **Background of the Study**

The term hubris first appeared in the 1960s and 1970s in the field of psychology, where it was conceived of as an excess of confidence about being correct or obtaining a certain outcome combined with excessive pride (Fischhoff, Slovic, & Lichtenstein, 1977; Judge, Piccolo, & Kosalka, T. (2009); Keren, 1997; Oskamp, 1965; Russo & Schoemaker, 1992). While confidence reflects a belief—based on analysis of information—in one's capacity to execute a particular job well (Bandura, 1997; Gist & Mitchell, 1992), 'beyond an early stage in the process of collecting information, predictive precision reaches a peak (Oskamp, 1965, p. 261). Consequently, because

confidence is not based on plausible inferences and explanations that lead people to construct self-consistent and self-evident cognitions, the illusion of accuracy emerges. The line between confidence (or self-efficacy) and overconfidence lies in taking information in a noncritical fashion and in an untenable faith in one's ability to achieve target outcomes. Besides extreme certainty of being correct or producing a certain outcome, another key driver of hubris is an excess of pride.

Managerial hubris can be traced to two pioneering contributions. Roll (1986) established a hubris hypothesis in economic research to detect an overaggressive CEO who overestimates the future acquisition synergy value and, consequently, the advisability of such purchases. A decade later, Hayward and Hambrick (1997) introduced Roll's hubris hypothesis in management by studying how much above pre-bid market prices CEOs pay for acquisitions. Since then, managerial hubris has continued to be a theme of interest that challenges traditional assumptions of managerial opportunism and risk aversion (Eisenhardt, 1989a) and examines confidence and risk-taking differences in how people make judgments and decisions.

Self-confidence is typically believed to be a quality of leadership. It helps leaders formulate creative and striving visions (Luthans, Luthans, Hodgetts, & Luthans, 2001; Shipman & Mumford, 2011) and brings a sense of excitement and enthusiasm (Chemers, Watson, & May 2000) and a willingness to take risks (Luthans & Peterson, 2002). However, there is a downside. Excess self-confidence may engender excessively ambitious strategies, exaggerated decisiveness, impulsivity and need for power, and spontaneous risk-taking. The consequences of these actions may be catastrophic. Some corporate failures, such as Enron, Global Crossing, the National Kidney Foundation, Tyco, Parmalat, Vivendi Universal, and WorldCom, have been anecdotally attributed to "managerial hubris" (Hayward, 2007)—that is, overconfidence mixed with excessive pride (Judge, Piccolo, & Kosalka, 2009). CEOs' hubris can lead them to overestimate their capacity, efficiency, and chances of achievement and acknowledge the greater hazards associated with grandiose approaches. They often fail to properly tackle changing realities and uncertain settings. Interestingly, hubris bias leads executives to espouse overly simplistic formulas for success, which has serious consequences for performance.

In the past few years, there has been a rapid increase in the number of studies on managerial hubris. A search in business journals that are cataloged by Thomson Reuters shows the existence of 182 articles on hubris bias and its influences on managerial judgments and decisions, with the vast majority of those articles appearing just in the past seven years. The recent rapid development of managerial hubris literature is justified by the important influx that overconfident CEOs may have on organizational survival and, more generally, on the welfare of society (Hayward, 2007). It also confirms that managerial hubris has achieved the status of a relevant subject in business studies.

### **Statement of Research Problem**

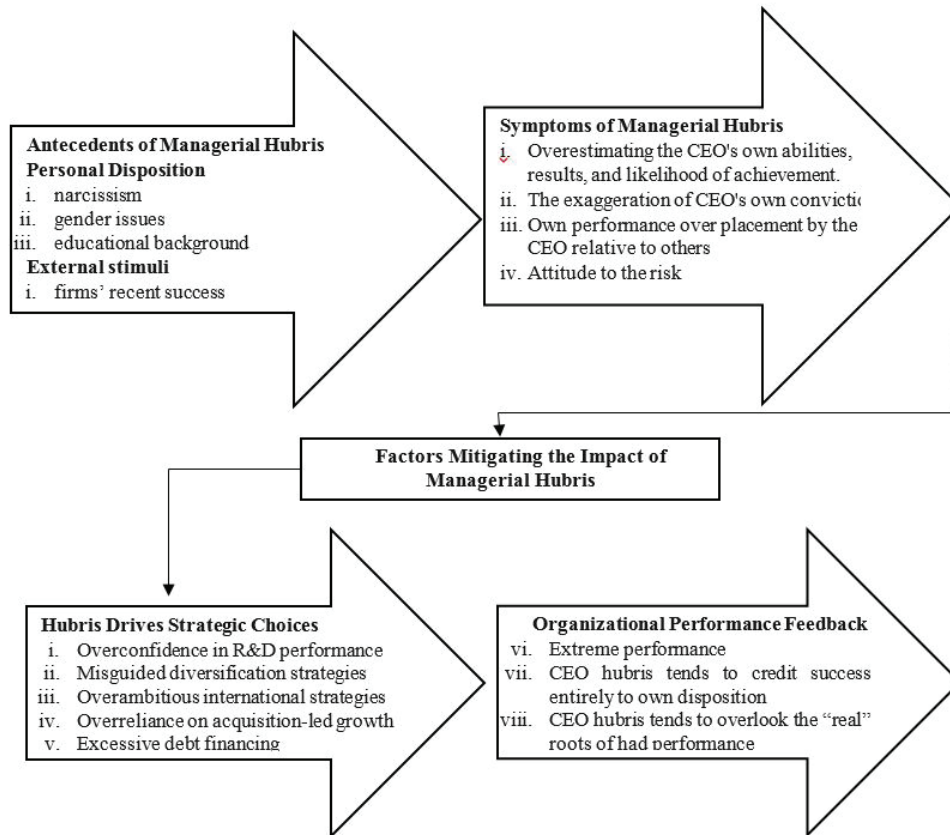
This paper paints a well-versed depiction of the literary landscape of management hubris that creates a better comprehension of what is known about hubris. The study uses a conceptual

map in this regard to reorganize the key themes in hubris. Three factors underlie the decision to perform and present a critical assessment of the literature on managerial hubris. First, while some advances in the psychological foundations of management research have been made in the past decade through intense conversation in international venues and journals (Levinthal, 2011; Powell, Lovallo, & Fox, 2011), the study believes that the time has come to detect and clarify, in a systematic fashion, how the use of the hubris construct has actually developed in the management community.

Second, while prior research has generally applied the hubris hypothesis to a specific context (such as M&A deals, diversification strategy, financial policy choices, corporate social irresponsibility cases, and so on), by detecting a single (significant) manifestation of managerial hubris that led to specific strategies or events, it has contributed to management debate in a pretty fragmented fashion. Quite often when a piece of research is focused on a very specific question, as an old adage says, it may eventually look at some trees and miss the whole forest. In fact, to our knowledge, an organized appraisal of managerial hubris is as yet missing.

Finally, a firsthand inspection of the body of journals in which the articles on managerial hubris were published reveals that two research fields— finance and strategic management— have been the most influential in managerial hubris literature. While a study that provides a comprehensive understanding of the hubris hypothesis is missing, this paper advances a few steps to frame the context in which hubris emerges to offer a portrayal of the backbone of the hubris literature that may be helpful for future investigations as well as for executive awareness.

This paper develops four fundamental contributions. First, it approaches the subject from a truly multidisciplinary background. Over the past couple of decades, the major strands in managerial hubris inquiry have developed their exploration internally in a cumulative way, but they have typically behaved as watertight compartments. Little exchange has developed between and among disciplinary inquiries on hubris, and the study believes the time has come to start some. Second, by reorganizing in an original conceptual map the main studies on managerial hubris, the study supplies a nested appreciation of the hubris history-symptoms-strategic choices-feedback results of the primary cause-effect interactions. Third, by detecting in a systematic fashion the bulk of the extant hubris literature, the study provides a more nuanced understanding of the current landscape of the hubris hypothesis, intended as a relevant managerial construct that presents both bright and dark sides. Finally, by advancing a few steps in framing the critical context in which hubris emerges, affects strategic choices, and delivers performance feedback, the study gathers a few hints that, collectively, shape the contours of an agenda for future investigation in the hubris domain. On this fertile ground, the study also manages to distill a small but nontrivial suite of suggestions for managing hubris symptoms and traps that may prove helpful to practitioners.



**Figure 1: Managerial Hubris Conceptual Map**

Moving from a review of hubris in the psychology literature, we now look at research on managerial hubris. Because executives affected by hubris bias may have a strong influence on organizational resources and strategy configuration (Workman, 2012), it seems important to understand how this psychological bias emerges and how and to what extent a CEO's psychological makeup may alter his or her strategic choices, behaviors, and performances.

Compared to the general population, CEOs have a greater frequency of hubris bias (Hiller & Hambrick, 2005) because characteristics typical of leaders may lead to managerial hubris. For example, Goel and Thakor (2008) found that overconfident individuals are more likely to move up the ladder and be promoted to CEO than are rational executives.

Most previous studies have paid attention to either the antecedents and symptoms of managerial hubris or their effects on a narrow set of strategic choices (e.g., acquisition premium or investment in R&D). Developing of a conceptual map of managerial hubris literature (see Figure 1), provides a sequential appreciation of the main cause-and-effect relationships: antecedents of managerial hubris, symptoms of managerial hubris (on judgments and decisions in organizations, and on risk-taking), hubris-driven strategic choices, and organizational performance feedback. The study also reviews factors mitigating the impact of managerial hubris.

On the left side of Figure 1 (first part), the study finds the antecedents of hubris, in terms of personal dispositions and external stimuli. In the second rectangle, the study finds the symptoms

of managerial hubris. Specifically, because hubris can manifest itself in three specific ways (i.e., overestimation of one's own skills, results, and likelihood of achievement; over-precision in one's views; and over-placement of one's performance with that of others) The study consider how each of these symptoms shape CEOs' interpretation of internal and external situations and, therefore, their judgments, decisions, and risk assumptions. In the third rectangle of Figure 1, the study finds the strategic choices (such as the decision to diversify geographically or with products, acquisitions, and investment in R&D) that may be driven by hubris. At the right side of the figure (the fourth rectangle), the study observes the impact of hubris on organizational performance. The conceptual map also encompasses the existence of factors mitigating the impact of managerial hubris (e.g., corporate governance mechanisms, market munificence, and market complexity) on strategy formulation and implementation.

### **Antecedents of Managerial Hubris**

In contrast, extant research has managed to recognize consistent and solid instruments to assess hubris indirectly. For instance, Malmendier and Tate (2005a) operationalized managerial overconfidence as CEO option holdings. While rational CEOs prefer to diversify their personal portfolios, CEOs affected by hubris systematically maintain high personal exposure to firm-specific risk because they are (overly) optimistic about future performance (Campbell, Gallmeyer, Johnson, Rutherford, & Stanley, 2011; Gervais, Heaton, & Odean, 2011). Other empirical studies from the finance field use frequent and multiple acquisitions as a proxy for CEO overconfidence (Doukas & Petmezas, 2007; Heaton, 2002).

An alternative fertile line of research is devoted to analyzing dispositional or situational factors that are deemed to be the drivers of the emergence of managerial hubris. This stream has identified a few key antecedents (or sources) of managerial hubris, including narcissistic personality traits. If an executive has excessive self-love and a corporate context that encourages overconfident behavior (Kroll, Toombs, & Wright, 2000), it is probable that he or she will be infected by hubris (Judge, LePine, & Rich, 2006). Various studies have examined how gender influences overconfidence. They confirm that males are more confident than females and that they will trade more excessively (Barber & Odean, 2001; Biais, Hilton, Mazurier, & Pouget, 2005; Dahlbom, Jakobsson, Jakobsson, & Kotsadam, 2011). An extra element related to hubris was indicated by Bhandari and Deaves (2006). They discovered that males with high education tend to have a greater level of certainty than their counterparts with less education.

Beyond personal elements, the hubris literature recognizes a set of contextual elements that are wellsprings of managerial hubris: (a) a firm's recent success, (b) recent media praise, (c) the CEO's self-importance, and (d) the CEO's sense of power and long tenure in prestigious positions. First, Hayward and Hambrick (1997) recognized in firms' recent success the main source of managerial hubris. Since they overemphasize the role, they had in explaining past organizational performance, individuals tend to reduce mental efforts to search for higher performance (Mahajan, 1992). When executives attribute the firm's good performance entirely to their leadership, it is likely that they will suffer from hubris. While the firm's recent success is a wellspring of managerial hubris, prolonged volatility in firm performance may have a negative impact on managerial confidence; poor performance may decrease the executive's sense of confidence and core self-evaluation (Hiller & Hambrick, 2005). Gervais and Odean (2001), however, have developed a model according to which a tendency to assume higher accountability for achievement than failure can lead effective executives to over-confidence.

According to Hayward and Hambrick (1997), the second source of managerial hubris comes from recent media praise. The business press frequently attributes a firm's good performance to the disposition of its strategic leader. These attributions may be instrumental in shaping the CEO's belief that he or she is the architect of the firm's success, rather than recognition of a spectrum of situational and conditional factors that affected the success. By applauding performance and magnifying a CEO's efficacy and control, recent media assessment strengthens his or her stature and may feed into a phenomenon known as 'CEO celebrity' (Hayward, Rindova, & Pollock, 2004). Finance studies frequently operationalize CEOs' hubris by counting words in the news media relating to overconfidence or its opposite in proximity to the company name and the keyword CEO (Gervais et al., 2011; Hirshleifer, Low, & Teoh, 2012; Malmendier & Tate, 2005b).

The third source of managerial hubris is a CEO's self-importance (Hayward & Hambrick, 1997), caused by an unrealistic sense of superiority and uniqueness along with a need for admiration. Manifestations of hubris emerge when the individual claims authority, obtains an annual compensation much higher than the other members of the board of directors and accumulates titles and awards for a long time. These things certify managerial superiority and uniqueness: Executives are proud because they perceive that their contributions are extremely important, non-substitutable, and rare (Hayward & Hambrick, 1997). Managerial self-importance is an indirect measure of holding substantial power—that is, 'the potential ability of the CEO to impose his or her overconfident views on the decisions of the firm' (Brown & Sarma, 2007).

The fourth source of managerial hubris is having experience of a high sense of power (Fast, Sivanathan, Mayer, & Galinsky, 2012) and tenure (Owen & Davidson, 2009). Actually, the subjective sense of power in the long run, which underlies prestigious roles, drives executives to become further overconfident in their abilities, knowledge, and predictions (Fast et al., 2012).

## **Symptoms of Managerial Hubris on Judgments and Decisions in Organizations**

Building on the definition of hubris in terms of overestimation of one's abilities, over placement, and over precision, scholars have proposed mechanisms that link CEO hubris to the firm's strategic processes. Table 1 summarizes the main effects of hubris symptoms on executives' judgments and decisions in the context of an organization, covering the good side and the bad side of managerial hubris.

### **CEOs' Overestimation of Their Own Abilities, Outcomes, and Probability of Success**

CEOs' miscalibration of their capabilities, unrealistic optimism and the illusion of being in full control of events have a strong impact on their business and strategic analysis (Hayward, Shepherd, & Griffin, 2006).

First of all, CEOs who overestimate their own abilities, efficiency, and chances of achievement tend to create an over-ambitious vision (Kroll et al., 2000). An original and striving vision has an important motivational power that may capture the emotions of employees (Bandura, 1997; Chemers et al., 2000; Shipman & Mumford, 2011). However, an overambitious vision may go too much beyond a firm's immediate reach. This is likely an inappropriate response to a competitive situation. In addition, an overambitious vision is not easily achievable and may be perceived as unfeasible and an exercise of pure fantasy. Employees are not stimulated by it (Hollenbeck & Klein, 1987; Van Knippenberg, 2000); rather, it generates a sense of frustration and dissatisfaction.

Second, the overestimation by CEOs of their own skills, results, and the likelihood of achievement leads to a lack of focus on formulating strategy and sustainability (Grant & Visconti, 2006). Hubris-affected CEOs draw on their intuition and previous good methods to create rapid decision-making (Hambrick, Cho, & Chen, 1996; Wally & Baum, 1994). Sales development and profitability are favorably correlated with rapid decision-making (Judge & Miller, 1991) as well as with market share gains (Hambrick et al., 1996). Intriguingly, faster decision processes may carry advantages in hypercompetitive settings (D'Aveni, 1994) or high-velocity competitive contexts (Eisenhardt, 1989b; Eisenhardt & Bourgeois, 1988). Despite these positive aspects of quick decision making, paying minimal attention to organization strategy may also be dangerous. Good strategy formulation requires strategic analysis to assess a firm's resources (and, eventually, resource gap), competitive strengths and weaknesses, and so on. When executives overestimate their capabilities and performance, they usually tend to reduce their attention to strategy formulation, sustainability, and performance concerns that are mildly negative or strongly negative (Stone, 1994). Executives affected by hubris can become reluctant or (more likely) unable to see changes in the competitive game (Kroll et al., 2000) or to develop multiple scenarios (Schoemaker, 1993). Barriers to change and CEOs who overflow with complacency make it more difficult to recognize that problems need to be tackled with urgency.

Lastly, overestimating one's own skills and performance gives crystallization to organizational practices— that is, managers prefer to repeat activities that enable them to succeed. While strategic procedures may be influenced by previous good experiences of CEOs, they may suffer from the inflexibility and mindlessness that characterizes the decision-making process driven by hubris. CEOs affected by self-overestimation believe that they have a “recipe” for exceptional performance and swear by its effectiveness. The crystallization of managerial practices encourages successes and carries on numerous subtleties as concerns the accurate recognition of the outcomes that are able to alter internal and external circumstances (Gino & Pisano, 2011).

### **CEOs' Overprecision in Own Beliefs**

Effective strategy formulation involves an orderly and systematic process that has to start from the managerial analysis of environmental dynamics and organizational circumstances. In this vein, the hubris-shaped formulation of the approach of CEOs is a double-edged sword. Hubristic CEOs, on one side, are overly confident that they understand the right responses and have a clear concept of the possibilities that underlie a particular approach. Taking into account unlikely situations and alternative strategic decisions, they do not waste their time. By leveraging their own intuitions and positive experiences, CEOs affected by hubris are usually able to quickly process information and recognize external opportunities (Hiller & Hambrick, 2005); their strategic decision making is faster than that of rational managers (Hiller & Hambrick, 2005), and they negotiate deals more rapidly (Aktas, De Bodt, Bollaert, & Roll, 2012). These good aspects are, however, offset by the fact that CEOs affected by hubris are frequently unable to see the potential threats in their strategic initiatives and forget to consider the multiple scenarios that may emerge. This means that they are often prone to indulge in shallow strategic analysis.

In addition, over precision in one's beliefs leads to a perseverant approach to strategic choices. The perseverant approach has a good side and a bad side. The good side is that, although internal and external challenges may cast doubt on the actual strategy and the idea to revise or reverse it may emerge, the CEO stays focused on his or her goals and tenaciously engages in actions to accomplish them. The bad side is that the CEO may appear unwilling or unable to change when it is actually needed. Hubristic CEOs consider a too-narrow range of scenarios, overvaluing the worth, quality, and correctness of the information on market dynamics as well

as the organizational and strategic choices that can enhance performance. Unsurprisingly, by overlooking alternative scenarios, hubris-driven executives ignore the decision tree of subsequent decisions and consequences (Shipman & Mumford, 2011).

### CEOs' Over placement of their Own Performance Relative to that of Others

CEOs affected by hubris exhibit excessive pride and reliance on their own abilities to achieve superior performance. Because they hold the core conviction that they possess all the precious knowledge and capabilities, hubristic CEOs typically favor a strategic decision process that is strongly centralized (Miller & Dröge, 1986) on their shoulders. They spend less time deliberating over decisions (Russo & Schoemaker, 1992), and negotiations with employees are more rapid (Aktas et al., 2012). However, hubristic CEOs tend to exclude other individuals from strategy decisions (Tetlock, 2000); the centralization of strategic decisions in a single individual ignores the potential contribution of others, especially when the CEO lacks the cognitive ability and technical skills to make specific strategic decisions.

Hubristic CEOs tend to adopt a defensive posture in the face of critical feedback. The good side of this, as mentioned above, is that they stay focused on their own fixed goals and ideas and persistently chase them, despite internal and external challenges. The bad side is that they tend to pay no heed to other sources of information and viewpoints, especially when these are in conflict with their convictions. While openness to other experiences is generally considered a key element of problem-solving efficacy (Halpern, 2003; McGill, Slocum, & Lei, 1992; Wakefield, 2003), when there is a conflict between subordinates or peers and hubristic CEOs, the latter are unwilling to accept negative evaluations as reliable and significant signals (Smalley & Stake, 1996). In addition, they advance questions about the competence of the evaluator (Kernis & Sun, 1994). Thus, hubris-biased CEOs usually hinder the emergence of practical ideas (Shipman & Mumford, 2011) and neglect to stimulate their organizations to make adjustments in response to critical feedback.

**Table 1: The Impact of Hubris Symptoms on Executive Judgments and Decisions in Organizations**

S/N	CEO's overestimation of own abilities, outcomes, and probability of success	Good side of hubris	Bad side of hubris
1.	Overambitious vision	Overambitious vision is appealing to followers and stimulates a high motivation level.	Overambitious vision is perceived as unfeasible and as an exercise of pure fantasy, engendering frustration and dissatisfaction in individuals.
2.	Low attention to organization strategy	Decision processes are faster and allow for competitive advantages in hypercompetitive contexts.	Managers are reluctant or (more likely) unfit to see changes in the competitive game, as well as to develop multiple scenarios.
3.	Crystallization of mental maps and management practices	Strategic processes are inspired by the exploitation of CEOs' past successful experiences.	Strategic processes are characterized by inflexibility and mindlessness; executives are unconscious about new priorities.
<b>CEO's Overprecision In Own Beliefs</b>			
1.	Shallow strategic analyses	Strategy formulation aims to seize business opportunities.	Executives fail to recognize potential problems in a timely fashion and fail to pay attention to potential threats to strategic initiatives.
2.	Perseverant approach	CEOs instill tenacity in pursuing the firm's strategy and organizational goals.	CEOs appear myopic to changes, even if they are needed.

CEO'S Overplacement of Own Performance Relative to That of Others			
1.	Strongly centralized decision processes.	Strategic decision processes are fast and communication to all the employees is efficient.	Strategic decision making is centralized in a single individual, overlooking the potential contribution of others, even though the CEO lacks the cognitive abilities and technical skills to make those strategic decisions.
2.	Defensive behavior towards critical feedback	CEOs persistently focus on their own fixed goals and strategies and keep on pursuing them.	CEOs neglect to stimulate organizations to make adjustments in response to critical feedback.

### Symptoms of Managerial Hubris in Risk Taking

Hubris bias shapes managerial attitudes to identifying, evaluating, and reacting to risk faced by firms discussed the effect of overconfidence on risk behavior by focusing on risk propensity and risk perceptions as the main determinants of managerial risk-taking Sitkin & Pablo (1992).

Risk propensity relates to a continuous tendency to take risks or prevent them (Harnett & Cummings, 1980; Kogan & Wallach, 1964; Sitkin & Weingart, 1995). CEOs affected by hubris are fascinated by the challenge of improving their personal status and respect (Zaleskiewicz, 2001). The narcissistic traits of CEOs' hubris (Owen & Davidson, 2009) are linked to high risk-propensity behaviors (Campbell, Goodie, & Foster, 2004; Foster, Misra, & Reidy, 2009; Lakey, Rose, Campbell, & Goodie, 2008) and lead to a natural tendency to take ambitious and high-flying actions. Generally, CEO hubris aims to enhance his or her self-image in the short run (Chatterjee & Hambrick, 2007) and is not afraid of failure (Elliot & Thrash, 2001).

Risk perception concerns the capacity to assess risk associated with a particular scenario (Sitkin & Pablo, 1992). Hubris bias usually leads to a low perception of danger for two primary reasons. First, hubris prejudice impacts the recognition of success and failure possibilities (Chatterjee & Hambrick, 2007)—the perception of risk quality. Hubristic CEOs overestimate the likelihood of accomplishing excellent performance and underestimate the possibility of poor performance or failure (Li & Tang, 2010). Executives' overestimation of their own abilities leads them to overemphasize their contribution to organizational success and their problem-solving capacities (Camerer & Lovallo, 1999). They unintentionally overlook risk because they suffer from the illusion of control. This bias generates unrealistic and unlikely expectations of the chances of success (Schwenk, 1984, 1986). In addition, CEOs affected by hubris systematically fail to recognize the uncertainty related to their convictions, and they are inclined to overlook potentially bad performances associated with a strategy stemming from their theories and models (Simon, Houghton, & Aquino, 2000).

Second, hubris bias shapes the perception of the magnitude of the potential gain. While CEOs affected by hubris like grandiose initiatives (Hiller & Hambrick, 2005), they usually fail to appreciate the resources required to start new strategic plans and expect too much from the firm's current resource endowment. Additionally, hubris bias leads them to exaggerate the potential outcomes of a strategic choice (Bollaert & Petit, 2010). This misjudgment occurs, for example, when paying too high a premium for an acquisition (Hayward & Hambrick, 1997).

The impact of overconfidence bias on risk propensity and risk perceptions suggests that CEOs affected by hubris are prone to accepting options in which the risk is not fully compensated in the hope of realizing the positive potential and, therefore, often engage in uninformed risk-taking (Busenitz & Barney, 1997; Camerer & Lovallo, 1999; Hiller & Hambrick, 2005). This challenges traditional agency theory assumptions about managerial risk aversion (Eisenhardt, 1989a).

## Hubris-Driven Strategic Choices

While the study has acknowledged that hubris bias plays a central role in activating managerial attention and in elaborating new information, the distinctive influence of managerial hubris in shaping strategies calls for further discussion. Zaremba & Grobelny (2017) indicate that when the purchase is paid with overvalued shares, executives are completely rational, although future price reversals are long-term anticipated. Irrational investor approach assumes that corporate decisions, as mergers and acquisitions, are the response of completely rational managers to market mispricing of securities due to mispricing of prospective acquisition earnings (Zaremba et al., 2018). Chuang (2018) argues that market timing can be a determinant in influencing the performance of M&As glamor versus value firms and finds that bidder. These firms are also more likely to have more access to debt markets and are more likely to use money or debt to finance them. In the context of behavioral theory, these scientists suggest that the greater premium is the consequence of inventory overvaluation compared to the neoclassical theory where the greater premium is derived from the rivalry of several bidders who have witnessed the industry's favorable technological shock.

Zaremba et al. (2018), on the other hand, indicate that the findings are autonomous of the payment type. Chuang (2018) indicates a reduced return on post-announcement transactions engaged in diversifying purchases. Previous evidence, on the other hand, shows that bidders are associated with positive abnormal returns in diversification acquisitions. Regarding the size of acquirers and targets, Lakonishok and Vermaelen (1990) explain that small companies that receive less attention from analysts are more likely to be undervalued. This would imply that large inefficiencies in the stock price would be present in smaller companies. In the case of frontier markets, Zaremba (2016) finds that the value of the anomalies is much stronger within emerging markets than in developed ones.

## Misguided Diversification Strategies

Diversification strategy may be viewed as tackling a managerial hubris problem (Markides, 1996). Managerial hubris generates larger optimism about the emergence of potential synergies among businesses and, thus, leads CEOs to overestimate their abilities and capabilities. Overestimation of their own abilities and capabilities, in turn, drives executives to accept the higher managerial complexity generally related to diversification (especially as concerns unrelated diversification). In fact, a firm's diversification strategy may be hubris driven.

## Overambitious International Strategies

The most important strategic questions raised by internationalization involve the provision of corporate resources and capabilities in the firm's country of origin and the ability to exploit those resources and capabilities to establish a competitive advantage in another country. Managers may be overconfident in the appropriateness of the knowledge they dominate when they enter into a new geographic market and show excessive confidence in lessons learned in previous international activities (Crick, 2004). For instance, O'Grady and Lane (1996) singled out the problems generated by managerial overestimation of similarities between countries, while Petersen, Pedersen, and Lyles (2008) found that overconfidence is one of the key factors that explain the narrowing of perceived knowledge gaps in internationalization processes. Beyond the effects of overconfidence in knowledge and personal abilities, geographic diversification can be driven by CEO ambition. In this perspective, Grant and Venzin (2009) posited that CEOs desire to avoid losing out to rivals on opportunities created by falling regulatory barriers in financial services.

## Overreliance on Acquisition-Led Growth

CEOs' hubris may attempt to create value governing wide resource breadth and tapping into economies of scope. Often this desire is implemented by means of M&A strategies. As mentioned earlier, Roll (1986) started the flow of managerial hubris research to clarify that purchases are likely to 'represent beneficial valuation mistakes' (p. 213). In turn, Hayward and Hambrick (1997) showed that the hubris of CEOs involves more purchases than non-hubris-affected CEOs, thus destroying shareholder value. High-confidence CEOs overestimate their capacity to produce higher acquisition yields (Malmendier & Tate, 2008). Moreover, according to Doukas and Petmezas (2007) and Billett and Qian (2008), this bias tends to be higher when CEOs have previously managed a successful acquisition. Executives with recent successes are more prone to implement acquisitions that negatively impact their firms' performance (Liu, Taffler, & John, 2009).

Interestingly, overestimation of synergies and own abilities generates an inappropriate transfer of resources from stockholders of the acquiring firm to shareholders of the target firm. In addition, under hubris-affected leadership, acquiring firms' performance drops significantly (Baker, Dutta, Saadi, & Zhu, 2012). This occurs since initiatives to make synergy may 'actually backfire, eroding customer relationships, damaging brands, or undermining employee morale' (Goold & Campbell, 1998).

## Excessive Debt Financing

An emerging area of research in financial economics looks at how corporate managers' personality traits may influence corporate financing decisions (Hackbarth, 2008). Among the findings of this research, hubris-affected CEOs overestimate even if they are faithful to shareholders; they may wish to invest in adverse net current value projects (Heaton, 2002, p. 33). This is particularly the case in firms that have abundant free cash flow, which gives CEOs greater discretion to push an ambitious strategy since they are inclined to take action as this increases their personal prestige. Conversely, in firms with less free cash flow, hubris-affected CEOs are compelled to obtain new financial resources from shareholders or to increase debt amount. As a consequence, CEOs impacted by hubris tend to overinvest when they have plenty of inner resources and restrict investment when they need external funding. And because they overestimate yields and underestimate the danger of their investment projects, they see internal resources as disproportionately expensive (Malmendier & Tate, 2005a). Given the different expectations on the outcome of the investment between equity funders and hubris managers, the former is not willing to raise their investments. In addition, executives affected by hubris judge their firms to be undervalued and equity financing overpriced (Malmendier, Tate, & Yan, 2011). In fact, Lin, Hu, and Chen (2005) found empirical corroboration of a positive association between managerial overconfidence and leverage ratios. Notwithstanding that higher debt levels may exacerbate underinvestment, overconfident executives tend to invest earlier than rational managers, thereby attenuating underinvestment. According to Hackbarth (2008), the latter effect dominates the former one and, thus, the benefits of mild biases exceed their costs.

## Organizational Performance Feedback

In the study, hubris-driven CEOs are more likely than rational managers to choose optimistic and deliberate value-maximizing strategies. Nonetheless, while managerial self-confidence positively influences firm performance, beyond a certain point the influence of hubris may be negative (Campbell et al., 2011).

Typically, CEO hubris is associated with extreme performance. As mentioned above, the bright side of hubris can lead to extraordinary success (Hiller & Hambrick, 2005). However, when executives display symptoms of hubris, one should expect that their strategy formulation will be weak and that they will embark on overambitious goals. As a result, strategy formulation weakness generates bad performance or failure. Worse still, hubris-affected CEOs quite frequently pay little or no attention to disconfirming evidence of their abilities, previsions, or performance, while overemphasizing strengthening confirmations (Klayman & Ha, 1989; Koriat, Lichtenstein, & Fischhoff, 1980). Further, low attention credited to bad performance comes to rejuvenate the debate on how exceptional business leaders who are inclined to credit success entirely to their disposition and ability can disastrously affect their firms' survival (Finkelstein, 2004). Often, these executives fall into a downward spiral that involves the progressive and incremental destruction of wealth (Collins, 2009; Dagnino, Minà, & Picone, 2013). The starting point is faulty diagnosis: Managers fail to look inside success and usually credit the firm's good performance exclusively to their strategic leadership capabilities. This wrong conviction leads to the emergence of hubris bias that then leads sequentially to the appearance of weaknesses in strategy formulation and implementation. Overambitious weak strategy, in turn, generates poorer performance. However, CEOs affected by hubris are inclined to give no recognition to the real roots of bad performance as well as to the dangers associated with it. Rather, in these instances, they tend to formulate new grandiose strategies. The new strategies are generally unreasonable and therefore usually prove unsuccessful. The vicious cycle of overambitious strategy/bad performance/new high-flying strategic choices/failure gives rise to a loop termed the hubris trap.

Frequently the downward spiral outlined above may flow into corporate account scandals. Hubristic CEOs hubris are in fact prone to commit opportunistic frauds (Schrand & Zechman, 2011) and have a manifest disrespect for rules (Kroll et al., 2000). Sometimes, they are prone to fake accounting reports to cover previous hubris-driven mistakes (Dagnino et al., 2013).

### **Managerial Suggestions**

While for its psychological and behavioral traits and inner complexity one would expect hubris to be a research area specifically tackled by academics, quite surprisingly, roughly 7% of the studies published in corporate newspapers, including California Management Review, Harvard Business Review, Sloan Management Review, and Long Range Planning, are hubris-related studies that seek to communicate with managers. These data show that managers are certainly concerned with having access to specific toolkits or guidelines to recognize hubris behavior timely and effectively.

The paper conveys a conceptual map of managerial hubris literature that can present executives with the dangers and traps of hubris that they generally tend to overlook. By better understanding hubris, executives may become more sensitive to how hubris may come to affect them in the course of their professional career. Here, the study offers a specific set of management practices that may help managers avoid plunging into hubris's traps.

### **Antecedents of Managerial Hubris**

Executives ought to bear in mind that the formula of past successes is not an unconstrained one; in fact, it usually does not work in subsequent times. By disallowing an approach that is overly past-oriented, CEOs may be able, therefore, to keep away from crystallizing mental maps that have granted them success for prolonged periods, such as the cognitive conditions that occurred at Polaroid in the 1990s (Tripsas & Gavetti, 2000), as well in previously thriving

technology and managerial practices. Indeed, since CEOs face significant limits to their actions, they are constantly called to acknowledge that firm success does not hinge solely on their unique contribution, which has been referred to as “the CEO effect” (Hambrick & Quigley, 2014).

## **Symptoms of Managerial Hubris on Judgments, Decisions, and Risk-Taking in Organizations**

First, executives ought to recognize that it is wise to involve individuals with different educational backgrounds and experiences in boards of directors (Dagnino et al., 2013). However, as discussed earlier, CEOs affected by hubris tend to over place their own performance relative to others, and thus are likely to overlook others’ opinions rather than being open to ideas coming from people they recognize as experts in a particular field. Second, in strategy analysis, it is worthwhile to explicitly consider scenarios that apparently have a low probability of confirmation (and especially the most extreme ones, whether they are pessimistic or optimistic). Doing so may reduce the impact of CEOs’ overestimation of the chances of success in the strategic decision process. Indeed, by recognizing the wide range of possible values, CEOs become aware of alternative potential outcomes. Therefore, CEOs should examine all possible alternatives with equal attention to reduce the risk of focusing exclusively on the possibilities of success. Third, to promote an environment open to diverse and even conflicting worldviews, CEOs should promote an organizational culture of diversity and openness of opinions. Fourth, CEOs should communicate their own proposals and evaluations only after advisers and consultants have advanced their own suggestions in a roundtable fashion. This practice will ensure that advisers and consultants are not just referring to the CEO.

## **Organizational Performance Feedback**

It is noteworthy that executives need to analyze strategic performance by establishing periodical performance reviews and appraisals, Periodical, planned, and systematic meetings with the board of directors and/or external consulting may help executives to check the validity of their organizational strategy and, when necessary, to make adjustments. In addition, if the firm has recently experienced poor performance, CEOs should not live this outcome as a personal defeat but look at it with moderate detachment. This does not mean denying bad performance, but rather seeking to recognize and properly weigh their sources and effects.

## **Conclusion**

This paper advances an inclusive appreciation of managerial hubris and discusses the psychological, financial, and management origins of this flourishing literature. Since studies on managerial hubris show that different disciplines have different concerns and empirical approaches, the study have detected both consistencies and inconsistencies in the studies performed within and across disciplines. By doing so, the study has therefore managed to provide a multidisciplinary appraisal of previous contributions, gathering and exploring the main links among them. The multidisciplinary assessment of the hubris hypothesis has been offered by developing a conceptual map of hubris literature that identifies antecedents, symptoms, strategy choices, and organizational feedback performance, as well as factors mitigating the impact of hubris on strategic choices. Drawing on the comprehensive appraisal of the conceptual landscape of hubris and identifying promising gaps, important unexplored questions, and limitations of previous studies, the study gathers a set of research paths for future inquiry. Accordingly, this paper may help researchers with various interests (e.g., in decision-making processes, risk

management, strategic leadership, corporate governance, and so on) to position their contributions in the actual landscape of managerial hubris investigation. In addition, the proposed hubris conceptual map may be able to alert managers to hubris threats. In this perspective, the study advanced a suite of managerial suggestions to help executives avoid falling into hubris traps.

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