Altruistic CEOs can be as risky as greedy ones

blogs.lse.ac.uk/businessreview/2015/12/18/altruist-ceos-can-be-as-risky-as-greedy-ones/

12/18/2015

The Securities and Exchange Commission recently adopted a requirement for U.S. companies to disclose the disparity between CEO and worker pay. This outcome reflects present tensions between the desire to reward performance while also seeking to establish what is an equitable division of the wealth generated by today's behemoth corporations. The latest requirement is arguably an outcome that has resulted from backlash against numerous "greedy CEOs" who have made headlines in recent memory for their "pursuit of excessive or extraordinary material wealth".

Our most recent article continues a line of work considering what constitutes greed and exploring its ramifications. A widely held tenet of classical economic theory is that individuals are self-interested. Generally, self-interest has contributed to work ethic and innovation and consequently to economic growth. However, it is increasingly clear that self-interest is more complex than previously assumed as it may vary widely at the individual level. Over the last two decades, in numerous instances managers have demonstrated a level of extreme self-interest that has been harmful to many others both in and outside of their organizations. Simultaneously, other managers appeared to exhibit managerial altruism, defined as concern or regard for the needs of others without ulterior motive.

To connect these two extremes, we conceptualize self-interest on a continuum, with greed at one end and altruism at the other. Greed suggests an individual is excessively focused on self, with virtually no regard for the welfare of others. Conversely, altruism is focused on the needs of others, even at the exclusion of oneself. This conceptualization of self-interest on a continuum, with greed and altruism at opposing ends challenges the limiting assumption of universal self-interest.

In our work, we retrace some of the many examinations of greed in many spheres – philosophical, political, theological, ethical, economic and social psychological. Up until the early Industrial Revolution, greed was considered a negative, dark and even sinful trait that generally brought about undesirable consequences for the individual. Philosophers reasoned that if greed became an accepted social norm adverse societal consequences would follow. After the unparalleled economic growth of the Industrial Revolution however, perceptions about the accumulation of wealth shifted. The line between self-interest and greed, still clear in the work of Adam Smith, became blurred. The study of greed largely disappeared from academic journals.

Altruism, as a concept is "younger" than greed. It was first mentioned by Auguste Comte in 1853 to describe the counter principle to the assumption that individuals are self-interest maximizers. In other words, altruism stands in opposition to greed on the self-interest continuum.

Both greed and altruism of managers have pervasive effects on organizations. For example, research has shown that greed is often present in CEOs with shorter, rather than longer tenure indicating that greedy executives are focused on short-term decisions and short-term financial outcomes that most benefit them. While greedy behavior is often presumed to result in negative outcomes, greed might often provide short-term benefits, such as the temporary uplifts in profit that Volkswagen obtained by skirting environmental regulations. We suggest that CEO greed is more likely to lead to corporate wrongdoing. The Basel Committee on Banking Supervision similarly cautions about the aggregate effects of greed when stating, "excessive and imprudent risk taking by top executives motivated by greed represents a major hazard to [the] world economy". Due to the undesirable effects of greed, executives suffering from insatiable avarice often are dismissed for ethical violations while others voluntarily leave their positions in search of even more generous compensation and benefit packages.

In contrast, organizations run by altruistic CEOs are affected by very different influences. Altruism is associated with corporate citizenship and altruistic CEOs are less likely to focus on securing their own immediate financial returns, instead emphasizing the long-term success of multiple stakeholders. However, while altruism is generally considered to be a desired behavior within an organization, extreme altruism may not always lead to long-lasting or "successful" organizations. Due to the emphasis on pro-social instead of financial returns, altruistic CEOs' may underperform industry benchmarks and be dismissed for performance reasons.

Thus, we propose that the most successful organizational leaders exhibit moderate self-interest. They must be sufficiently motivated by their incentives to respond to the multiplicity of performance pressures on their organization in order to stay at the helm; while also ensuring that others—i.e., employees, suppliers, shareholders and other stakeholders—are able to accomplish their personal and organizational goals). This type of leadership is important across a variety of organizations, from large, established firms to smaller and newer entrepreneurial firms, including family businesses. It also is highly relevant in other types of organizations such as non-profit and governmental organizations.

We hope in our work to contribute to a robust conversation on how greed can negatively affect organizations, while also considering the presence of many altruistically-oriented managers. In doing so, we acknowledge that appropriate levels of self-interest can well-serve an organization.

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Notes:

- *This article is based on the authors' paper Tipping Point: Managers' Self-Interest, Greed, and Altruism Journal of Leadership & Organizational Studies August 2015 vol. 22 no. 3 265-279.*
- *This post gives the views of its authors, not the position of LSE Business Review or the London School of Economics.*
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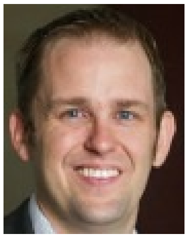

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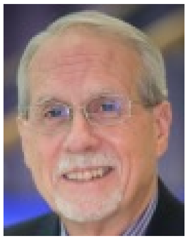

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