

Hiring the Right CEO: The Link Between Narcissism and Innovation



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Problem of practice:

Innovation is increasing in importance for companies — even more so when times are uncertain. The role of leadership, particularly that of a CXO, is pivotal in shaping an organization's innovation strategy and culture. Innovation, especially in large or multiproduct companies, has two different, and critical forms: exploitative innovation (enhancing existing products or services) and exploratory innovation (developing new products or services). Being able to simultaneously balance both forms of innovation is known as innovation ambidexterity. So what kind of leader is likely to exhibit this ambidexterity? The answer comes to us from a [research](#) study conducted by You and team, which explores how the personality traits of a CEO, specifically narcissism, affect a company's ability to manage and balance exploratory and exploitative innovation.¹ This finding has critical implications for executive search, depending on the company's context for innovation, search committees and consultants should include a new criterion – the level of narcissism of CEO candidates

¹ Featured in the November 2022 issue of the *Journal of Product Innovation Management*, authors Shuyang You, Zhengyu Li, Liangding Jia and Yahua Cai in their article: 'CEO Narcissism and Innovation Ambidexterity: The Moderating Roles of CEO Power and Firm Reputation' talk about how CEO narcissism impacts the balance between exploitative and exploratory innovation

Dual innovation challenge

Technological disruptions are pushing companies to redefine the leadership capabilities crucial for top executives, especially in achieving innovation ambidexterity. Innovation ambidexterity refers to maintaining a balance between exploitative and exploratory innovations. As organizations adopt new technologies and business models, they require executives who are adept at navigating both the exploration of new avenues and the exploitation of existing capabilities. The leaders of tomorrow must possess a strategic vision which encompasses this dual approach, combining the agility to innovate with the acumen to optimize and enhance established systems and processes.

But there are conditions which can cause this innovation duality to fail. Recent research by You and team shows that narcissism may sometimes cause business leaders to focus disproportionately on new and flashy projects at the expense of core business functions. Conversely, narcissistic CEOs can prioritize control and power within existing structures, stifling novel ideas and ventures. How prevalent is CEO narcissism? Research at Stanford University found that 18% of CEOs display moderately to highly narcissistic behaviour.² So, if your company requires innovation ambidexterity, but the current CEO is not a good fit, then your organization faces a double whammy. First, the hidden cost of lost innovation opportunities – either incremental or breakthrough – that such CEOs tend to miss. Second, the explicit cost of firing and rehiring, which ranges between 30% and more than 200% of the C-suite executive’s salary.³ To address this challenge, we recommend adopting a two-fold approach: identifying your company’s innovation context and fitment with CEO traits.

Identifying the innovation context

Does your company need innovation ambidexterity? Innovation needs vary across the spectrum: at one end, startups thrive on breakthrough innovation, while on the other end, mature industries such as utilities and mining rely on incremental innovation. However, for an increasingly large section of the economy, maintaining dual engines of innovation— exploratory and exploitative—is crucial. In sectors like healthcare, electronics, mobility, logistics, and industrial equipment, CEOs must maximize value by improving existing offerings while also driving new, breakthrough products and services.

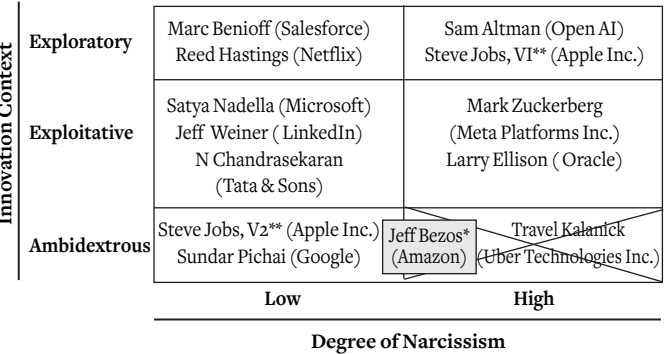
In addition to the industry, a company’s reputation and CEO’s power also matter. The most negative effects on innovation ambidexterity are evident when: a) the CEO is

highly egocentric, and this situation is combined with b) a company’s reputation is moderate (neither high nor low) and c) the CEO’s power is intermediate.

Insights illustrated

To showcase how narcissistic personality traits can influence a company’s ability to balance innovation ambidexterity, we offer some examples. [Third-party accounts](#) have categorized several prominent CEOs with various levels of narcissism (as seen in Figure 1).^{4,5}

Figure 1: Degree of Narcissism and Innovation Balance of Popular CEOs



Source: The above characteristics are based on public information, and do not represent personal opinions about the personalities of the leaders mentioned.

* An exception

** VI: CEO from 1976 to 1985; V2: CEO from 1997 to 2010

From the above figure, the research zeros in on the last row – when the innovation context of the company is about balancing exploratory and exploitative innovation. We deepen this insight by highlighting two examples – Steve Jobs at Apple and Jeff Bezos at Amazon.

Rise & fall of Steve Jobs

Steve Jobs, co-founder of Apple Inc., is often considered a [visionary leader](#) whose management style displayed characteristics associated with narcissism, such as a strong desire for control, a grandiose sense of self, and a focus on personal legacy.⁶ While his leadership led to pioneering products, Jobs’ focus tended heavily towards exploratory innovations, sometimes at the expense of existing markets or improving operational efficiencies, especially in his early years as a leader at Apple from 1976 to 1985.

During this time, he proved to be a master of breakthrough or exploratory innovation. For instance, he pioneered the

Apple II, the first highly successful mass-produced personal computers and set the stage for the PC revolution.⁷ He repeated the success with the launch of the Macintosh computer (Mac). However, in launching the Mac, Jobs undermined the sales of Lisa, the next generation of products after Apple III, which focused business users. While the Mac was a hit with the consumers, it failed to make a dent with business users, who found an able substitute with the IBM PC.

Despite his ability to make disruptive innovations, [his narcissistic tendencies often led to disagreements](#) with the board and top management on the importance of stabilizing and growing the existing business versus investing in risky, exploitative projects like Lisa and exploratory projects such as the Macintosh.⁸ These tensions led to Jobs' ouster from Apple in 1985.

While narcissism is often associated with confident and charismatic leadership, it can also hinder true innovation ambidexterity. When he returned to Apple as CEO between 1997 and 2010, Jobs learned to balance incremental innovations (e.g. Macbook Air) with breakthroughs (e.g. iPod, iPhone and iPad).⁹ This was associated with a desire to build an enduring company culture of excellence and letting go of personal control.

Productive narcissist – Jeff Bezos

Jeff Bezos, the founder of Amazon and CEO till 2021, found a different way to demonstrate innovation ambidexterity despite being considered a [narcissistic CEO](#).^{10,11} Under his leadership, Amazon grew from a simple online bookstore into a giant with multiple successful businesses.

Amazon has been an exploratory innovator in several new markets such as cloud computing, where AWS (Amazon Web Services) is a leader, smart home technology through products like Alexa and the Echo devices and online streaming of music and video through the popular Amazon Music and Prime Video services. Amazon's exploratory innovation also included some near misses, such as Amazon Prime Go, which aimed to deliver a cashier-less convenience store experience through computer vision, sensor fusion, and deep learning. This would have enabled customers to pick items off the shelves and walk out without the checkout process, but the idea found few takers.

Exploitative innovations flourished under Bezos as well. He exploited Amazon's book-selling logistics to also sell general merchandise – everything from clothes, to consumer electronics. Fulfillment by Amazon is another business that leveraged Amazon's existing expertise in logistics and distribution to offer storage and shipping

services to third-party sellers. Amazon Prime was another innovative service – expedited shipping and exclusive shopping benefits for subscribers – that was built on existing logistics capabilities.

It is important to note that Bezos realized the importance of delegation and teamwork and management of these exploitative innovations was handed over to his trusted team. For example, AWS – Amazon's most profitable and breakthrough innovation – grew under the leadership of Andy Jassy from 2012 to 2016. Similarly, other Amazon executives scaled up businesses such as Amazon Prime (led by Greg Greeley), and the Kindle e-reader (developed and led by Steve Kessel). This approach highlights how Bezos, despite his perceived narcissism, recognized the value of surrounding himself with capable leaders and entrusting them with critical aspects of Amazon's growth, hence fostering a culture of innovation ambidexterity.

So, if your company requires innovation ambidexterity, but the current CEO is not a good fit, then your organization faces a double whammy. First, the hidden cost of lost innovation opportunities – either incremental or breakthrough – that such CEOs tend to miss. Second, the explicit cost of firing and rehiring, which ranges between 30% and more than 200% of the C-suite executive's salary



Detecting narcissistic tendencies

If the innovation context of an organization is primarily exploratory, then even moderately high narcissism might be useful. Moderate levels of narcissism in CEOs can be beneficial, as they may foster the confidence and charisma needed for innovative leadership. However, if the innovation context requires balancing new explorations with exploitative innovations, one must detect and weed out excessive narcissism. Excessive narcissism can disrupt the balance between exploratory and exploitative innovations, as evident from the example of Steve Jobs during his first stint at Apple from 1977 to 1985.

So the million-dollar question is: How can organizations determine the levels of narcissism to effectively balance the positive aspects of CEO narcissism, such as confidence and charisma, with the potential negative impacts?

During an extensive search process, executive candidates can undergo assessment, which should include checks for levels of narcissism. Another, quick and dirty way was listed by the [Forbes magazine](#).¹²

- Check your candidates' use of first-person singular pronouns ('I', 'my', 'me', and 'mine') in public statements, such as the Q&A portions of their most recent earnings calls. Earnings call transcripts are publicly available. Focus on the Q&A sections, as these are less scripted and more reflective of the CEO's natural communication style.
- Calculate the proportion of these pronouns relative to the total words spoken in the Q&A sections. Compare the results with those of other CEO candidates to determine relative levels of narcissism.

- According to the results, on average, out of 25 CEOs, most narcissistic CEOs used the pronouns 4.5% times and the least narcissistic ones had used them was 0.5% times.

Conclusion

The research by You and the team underscores the importance of understanding a CEO's personality traits, particularly narcissism, and their impact on a company's innovation strategy. By leveraging practical assessment methods, such as analysing the use of first-person singular pronouns in earnings calls, companies can gain insights into the narcissistic tendencies of potential leaders. This, combined with a thorough evaluation of past performance, references, and psychometric tests, can help organizations make more informed hiring decisions. As demonstrated by the leadership journeys of Steve Jobs and Jeff Bezos, the ability to balance confidence with delegation, and visionary thinking with operational efficiency, is key to fostering a culture of innovation ambidexterity, thereby securing a competitive edge in an increasingly dynamic and uncertain business environment.

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