

CEO Power

Subjects: **Management**

Contributor: Jun Yang

In management research, CEO power refers to the power that can override objections to influence key decision outcomes within the company. This power can be obtained in formal or informal ways.

corporate strategic change

CEO power

underperformance

product market competition

1. Introduction

Power is the capacity of individuals to exert their will and influence over others [1]; it is derived primarily from control over valuable resources and the ability to punish and reward [2][3]. A higher level of CEO power is often associated with the greater possibility of management volatility and extreme corporate performance [4], more serious earnings management [5], and stronger risk-taking desire [6]. Within existing research, corporate strategic change has not received consistent attention, specifically in the exploration of how CEO power could affect this important outcome. Corporate strategic change is “the transformation of the company’s configuration mode based on the current status of resources, which is reflected in the change of resource allocation in multiple strategic dimensions of the enterprise” [7][8]. Do powerful CEOs initiate more corporate strategic change because they take more risks and can access and allocate more resources? Or do CEOs bring about less strategic change because resistance to change within the organization grows with their power?

Most previous research has not directly and empirically examined the impact of CEO power on corporate strategic change. However, as a constant adjustment to corporate strategy has become a new normal for today’s economy, there is a growing need to explore the relationship. Related studies on the connection between the CEO role and corporate strategic decision-making have provided informative, though inconsistent, insights [9]. Some scholars believe that excessive CEO power leads to risk preference in strategic decision-making [3]. Tang et al. (2011) asserted that corporate strategies under the guidance of a dominant CEO tend to deviate from industry norms, and the probability of performance extremes is high [10]. There is also evidence that power sometimes leads powerholders to make conservative decisions. Maner et al. (2007) found that CEO power may lead to more conservative strategic decisions, especially when power is highly unstable [11]. Despite these seemingly opposite effects, both views signify that CEO power has a tremendous impact on corporate strategic change [10].

We argue that CEO power motivates CEOs to engage in more strategic change. However, increased CEO power also elicits resistance from other stakeholders who impact the change process, a result of the CEO’s power disinhibition and maintenance. As the two forces push and pull, resistance to change may override initiatives to change at one point, but at another point, increased CEO power may affect strategic change negatively. We depict

this relationship between CEO power and corporate strategic change as an inverted U shape based on the approach–inhibition theory of power [3]. According to this theory, power prompts an individual to pay attention to positive arguments for change and encourages a willingness to take risks, but power can also intensify tendencies toward disinhibition and power maintenance, as well as political behaviors [3][11]. CEO power disinhibition and involvement in political behaviors are likely to lead to stakeholder resistance and impede the implementation of strategic change.

2. CEO Power and Corporate Strategic Change

2.1. The Approach–Inhibition Theory of Power

Keltner et al. (2003) developed the approach–inhibition theory of power and suggested dual effects of power: approach and inhibition [3][12]. The approach effect refers to individuals engaging in behaviors that approach a goal when motivated by positive stimuli; the inhibition effect refers to individuals engaging in actions that aim to avoid risks when motivated by negative incentives. When an individual's power increases, their behavioral approach system (BAS) is activated for two reasons. First, the individual with power can obtain some social resources and material rewards easily and maybe be appreciated and respected by many others. Second, when the individual has more power, they will have more control of the pursuit of goals, be less likely to be obstructed by others, and more smoothly acquire information related to rewards. Access to resources and autonomy in goal pursuit encourages the individual with the power to behave proactively and seek changes [13]. Conversely, the reduction of power activates the individual's behavioral inhibition system (BIS). When individuals have relatively less power, they are subjected to more constraints, resulting in a lack of social resources and information. People with greater power tend to anticipate potential rewards, successes, and information and are more likely to demonstrate risky behavior [9]. People with less power tend to expect potential punishment, threats, failures, and less information; they focus on avoiding negative consequences [3].

Power not only encourages individuals to focus on positive outcomes and take risks, but it also produces disinhibited behavior and power maintenance activities [14]. First, individuals with power may tend to act in ways that violate ethical norms and overlook the influence of their actions on others to pursue personal goals [3][15][16][17]. Moreover, following enhanced freedom and increased disinhibition to act consistently to pursue personal goals, powerholders exhibit greater self-cognition consistency when interacting with their low-power counterparts [11][18][19]. Second, the greater the power, the more likely powerholders engage in political activities to maintain their power, such as resolving potential threats in the environment and expanding control over resources [14]. This involvement is likely to increase conflict and escalate friction between powerholders and other stakeholders, both obstacles to powerholders' initiatives [20]. These two adverse effects may damage the interests of other stakeholders in the organization and pose a potential threat to their power and existing status. To cope with adverse situations, stakeholders may deliberately impede initiatives driven by a powerful CEO. Once resistance is greater than the CEO's change initiative, the change process will be impaired.

2.2. The Effect of CEO Power on Corporate Strategic Change

Corporate strategic change is the transformation of a company's configuration mode based on the current resource status. The transformation is reflected in changes to resource allocation in multiple strategic dimensions of the enterprise [7]. With a change in resource-allocation mode, the organization's structure and operations will be adjusted. Corporate strategic change usually involves a complicated decision-making process with multiple parties, including CEOs, board members, and other stakeholders. Power is a critical element of the process of formulating and implementing strategic decisions throughout the enterprise [21]. Powerful CEOs can prevail on board members or other stakeholders in their strategic decisions [22]. CEOs with increasing power become the initial drivers to trigger strategic change because they are resourceful and are willing to take risks. However, and at the same time, the self-serving tendencies of powerful CEOs to violate ethical norms and engage in political activities backfire and enflame resistance from other stakeholders, who are also involved with the implementation of a corporate strategic change process. In summary, both forces (from powerful CEOs and other influential stakeholders) interplay in the process of corporate strategic change.

According to the approach–inhibition theory of power, when CEO power increases from baseline to an intermediate level, it is likely to activate the behavioral approach system of CEOs for several reasons. First, a CEO with considerable power can perceive the potential significance and positive influence of corporate strategic change on the development of the organization, regardless of threats within their environments [3][11][23]. High power can reduce individuals' negative expectations of loss, thus reducing their aversion of failure [24]. When the CEO regards power as a CEO responsibility [25], the CEO can ponder the meaning of organizational change, gain insight into external opportunities, assume more responsibilities, seek rational change and the development of the organization, and promote the development of business strategy decisively. In this situation, the CEO's willingness to take risks will grow [6][26][27], helping them make long-term decisions from the perspective of business interest and organizational development [6].

Second, as CEO power increases, the CEOs have access to a wider range of resources and are more likely to receive assistance and resource support from various stakeholders in the organization [3]. The CEO's chance of realizing organizational change through resource allocation increases. Finally, when a CEO is more powerful, they control the company's major decisions [21] and enjoy confidence in the choices and decisions they make [28]. When other executives are deterred, these benefits aid the fight against external interference, questioning, opposition, or obstruction and help them to achieve their own goals [29]. Conversely, when a CEO's power is low, it is easier for them to perceive negative factors such as threats, risks, and pressures behind the corporate strategic change. These perceptions lead to insufficient determination to make an organizational change, and the CEO will become more vulnerable to other executives [30].

According to the approach–inhibition theory of power, increased power can direct an individual's attention to reward, opportunity, and success. When the power reaches an excessive level, however, it also leads powerholders becoming blindly optimistic [6][31], acting on their desires in unethical ways [16][32], and being more disinhibited in behavior [3][33][34][35]. In this scenario, the powerholder is likely to sacrifice the interests of the group; engage in more self-serving, cheating, and opportunistic behaviors [17][36]; and even violate norms at all costs [37][38], paying less attention to the consequences of actions [11][39]. In fact, high levels of power help increase a CEO's

insensitivity to social norms and disapproval [15][40][41], which likely backfires, attracting resistance from, even the rebellion of, other stakeholders in terms of the corporate strategic change advocated by powerful CEOs.

Excessive power also motivates CEOs to focus on strengthening and maintaining their advantageous position and to engage frequently in political activities that help maintain status and position [20][42]. To maintain power (reduce the loss of power), the CEO is likely to extend full control over information and resources, changing economic and social environments to consolidate or establish absolute control over firms, and even promote politics among top management teams (TMTs) [43][44][45].

In summary, as CEO power grows, CEO willingness and enthusiasm for promoting strategic change in the organization also grows. Simultaneously, resistance from other stakeholders may increase, as a powerful CEO may pursue personal goals and, possibly, violate ethical rules. Once CEO power exceeds a threshold, disinhibited tendencies lead to self-interested and opportunistic behavior, resulting in increased resistance to the CEO's initiatives for corporate strategic change. These factors inhibit the initiation and implementation of strategic change [14]. Based on this discussion, we propose that there will be an inverted U-shaped relationship between CEO power and corporate strategic change where CEO power is positively related to the corporate strategic change to a point, after which it becomes negative.

References

1. Finkelstein, S. Power in top management teams: Dimensions, measurement, and validation. *Acad. Manag. J.* 1992, 35, 505–538.
2. Emerson, R.M. Power-dependence relations. *Am. Sociol. Rev.* 1962, 5, 31–41.
3. Keltner, D.; Gruenfeld, D.H.; Anderson, C. Power, approach, and inhibition. *Psychol. Rev.* 2003, 110, 265.
4. Adams, R.B.; Almeida, H.; Ferreira, D. Powerful CEOs and their impact on corporate performance. *Rev. Financ. Stud.* 2005, 18, 1403–1432.
5. Bannister, J.W.; Newman, H.A. Accrual usage to manage earnings toward financial analysts' forecasts. *Rev. Quant. Financ. Account.* 1996, 7, 259–278.
6. Anderson, C.; Galinsky, A.D. Power, optimism, and risk-taking. *Eur. J. Soc. Psychol.* 2006, 36, 511–536.
7. Hofer, C.W.; Schendel, D. *Strategy Formulation: Analytical Concepts*; West Pub. Co.: Saint Paul, France, 1978.
8. Zhang, Y.; Rajagopalan, N. Once an outsider, always an outsider? CEO origin, strategic change, and firm performance. *Strateg. Manag. J.* 2010, 31, 334–346.

9. Greiner, L.E.; Bhambri, A. New CEO intervention and dynamics of deliberate strategic change. *Strateg. Manag. J.* 1989, 10, 67–86.
10. Tang, J.; Crossan, M.; Rowe, W.G. Dominant CEO, deviant strategy, and extreme performance: The moderating role of a powerful board. *J. Manag. Stud.* 2011, 48, 1479–1503.
11. Anderson, C.; Berdahl, J.L. The experience of power: Examining the effects of power on approach and inhibition tendencies. *J. Personal. Soc. Psychol.* 2002, 83, 1362.
12. Cho, M.; Keltner, D. Power, approach, and inhibition: Empirical advances of a theory. *Curr. Opin. Psychol.* 2020, 33, 196–200.
13. Van Kleef, G.; Lange, J. How hierarchy shapes our emotional lives: Effects of power and status on emotional experience, expression, and responsiveness. *Curr. Opin. Psychol.* 2019, 33, 148–153.
14. Anderson, C.; Brion, S. Perspectives on power in organizations. *Annu. Rev. Organ. Psychol. Organ. Behav.* 2014, 1, 67–97.
15. Tost, L.P.; Gino, F.; Larrick, R.P. Power, competitiveness, and advice taking: Why the powerful don't listen. *Organ. Behav. Hum. Decis. Process.* 2012, 117, 53–65.
16. Kennedy, J.A.; Anderson, C. Hierarchical rank and principled dissent: How holding higher rank suppresses objection to unethical practices. *Organ. Behav. Hum. Decis. Process.* 2017, 139, 30–49.
17. Pitesa, M.; Thau, S. Masters of the universe: How power and accountability influence self-serving decisions under moral hazard. *J. Appl. Psychol.* 2013, 98, 550–558.
18. Guinote, A.; Weick, M.; Cai, A. Does power magnify the expression of dispositions? *Psychol. Sci.* 2012, 23, 475–482.
19. Van Kleef, G.A.; Côté, S. Expressing anger in conflict: When it helps and when it hurts. *J. Appl. Psychol.* 2007, 92, 1557.
20. Greer, L.L.; Bunderen, L.V.; Yu, S. The dysfunctions of power in teams: A review and emergent conflict perspective. *Res. Organ. Behav.* 2017, 37, 103–124.
21. Eisenhardt, K.M.; Zbaracki, M.J. Strategic decision making. *Strateg. Manag. J.* 1992, 13, 17–37.
22. Hilman, A. The effect of board capital and CEO power on strategic change. *Strateg. Manag. J.* 2010, 31, 1145–1163.
23. Guinote, A. How power affects people: Activating, wanting, and goal seeking. *Annu. Rev. Psychol.* 2017, 68, 353–381.
24. Inesi, M.E. Power and loss aversion. *Organ. Behav. Hum. Decis. Process.* 2010, 112, 58–69.

25. Sassenberg, K.; Ellemers, N.; Scheepers, D. The attraction of social power: The influence of construing power as opportunity versus responsibility. *J. Exp. Soc. Psychol.* 2012, 48, 550–555.

26. Lewellyn, K.B.; Muller-Kahle, M.I. CEO power and risk taking: Evidence from the subprime lending industry. *Corp. Gov.* 2012, 20, 289–307.

27. Li, J.; Tang, Y. CEO hubris and firm risk taking in China: The moderating role of managerial discretion. *Acad. Manag. J.* 2010, 53, 45–68.

28. See, K.E.; Morrison, E.W.; Rothman, N.B.; Soll, J.B. The detrimental effects of power on confidence, advice taking, and accuracy. *Organ. Behav. Hum. Decis. Process.* 2011, 116, 272–285.

29. Smith, P.K.; Bargh, J.A. Nonconscious effects of power on basic approach and avoidance tendencies. *Soc. Cogn.* 2008, 26, 1–24.

30. Guinote, A. Power and affordances: When the situation has more power over powerful than powerless individuals. *J. Personal. Soc. Psychol.* 2008, 95, 237.

31. Fast, N.J.; Sivanathan, N.; Mayer, N.D.; Galinsky, A.D. Power and overconfident decision-making. *Organ. Behav. Hum. Decis. Process.* 2012, 117, 249–260.

32. Hirsh, J.B.; Galinsky, A.D.; Zhong, C.-B. Drunk, powerful, and in the dark: How general processes of disinhibition produce both prosocial and antisocial behavior. *Perspect. Psychol. Sci.* 2011, 6, 415–427.

33. Winter, D.G. *The Power Motive*; Free Press: New York, NY, USA, 1973.

34. Winter, D.G. The power motive in women—and men. *J. Personal. Soc. Psychol.* 1988, 54, 510.

35. Winter, D.G.; Barenbaum, N.B. Responsibility and the power motive in women and men. *J. Personal.* 1985, 53, 335–355.

36. DeCelles, K.A.; DeRue, D.S.; Margolis, J.D.; Ceranic, T.L. Does power corrupt or enable? When and why power facilitates self-interested behavior. *J. Appl. Psychol.* 2012, 97, 681.

37. Lammers, J.; Stapel, D.A. Power increases dehumanization. *Group Process. Intergroup Relat.* 2011, 14, 113–126.

38. Malhotra, D.; Gino, F. The pursuit of power corrupts: How investing in outside options motivates opportunism in relationships. *Adm. Sci. Q.* 2011, 56, 559–592.

39. Galinsky, A.D.; Gruenfeld, D.H.; Magee, J.C. From power to action. *J. Personal. Soc. Psychol.* 2003, 85, 453.

40. Bargh, J.A.; Raymond, P.; Pryor, J.B.; Strack, F. Attractiveness of the underling: An automatic power, sex association and its consequences for sexual harassment and aggression. *J. Personal. Soc. Psychol.* 1995, 68, 768.

41. Van Kleef, G.A.; Oveis, C.; Van Der Löwe, I.; LuoKogan, A.; Goetz, J.; Keltner, D. Power, distress, and compassion: Turning a blind eye to the suffering of others. *Psychol. Sci.* 2008, **19**, 1315–1322.
42. Willis, G.B.; Guinote, A. The effects of social power on goal content and goal striving: A situated perspective. *Soc. Personal. Psychol. Compass* 2011, **5**, 706–719.
43. Cao, Q.; Simsek, Z.; Zhang, H. Modelling the joint impact of the CEO and the TMT on organizational ambidexterity. *J. Manag. Stud.* 2010, **47**, 1272–1296.
44. Eisenhardt, K.M.; Bourgeois, L.J., III. Politics of strategic decision making in high-velocity environments: Toward a midrange theory. *Acad. Manag. J.* 1988, **31**, 737–770.
45. Haleblian, J.; Finkelstein, S. Top management team size, CEO dominance, and firm performance: The moderating roles of environmental turbulence and discretion. *Acad. Manag. J.* 1993, **36**, 844–863.

Retrieved from <https://encyclopedia.pub/entry/history/show/30578>