

How CEOs Affect Firm R&D in the Face of Inconsistent Feedback

Why do decision makers persist with outdated strategies that, while proven successful in the past, do not meet the current needs of the firm? Recent research in press at the *Academy of Management Journal* examined how inconsistency in KPI information influences strategic decisions such as R&D expenditures. The authors argue that decision makers can either take a problem-solving approach (i.e., focus on indicators that are below expectations) or a self-enhancing approach (i.e., focus on indicators that are above expectation) to reconcile inconsistent KPI feedback. Further, the authors suggest that each CEO has a unique constellation of four forms of power – formal organizational position (structural power), percentage of organizational ownership (ownership power), ability to communicate and interact with stakeholders (expert power), and reputation within the broader industry (prestige power) – which shapes attention towards positive or negative information and, thus, should shape which approach a firm takes to reconcile inconsistent KPI feedback.

Key Takeaways:

- On average, firms engage in *more* R&D when there is inconsistent information regarding firm performance
- CEOs high in structural or ownership power prompt less R&D
- CEOs high in prestige or expertise in marketing/sales prompt more R&D

The authors gathered data on R&D behaviors and performance feedback/prospect for 241 S&P 500 firms over 12 years (for a total of 1887 firm-years of data). The authors then measured each CEO's constellation of structural, ownership, expert, and prestige power. Overall, the authors found evidence suggesting firms engage in *more* R&D when there is inconsistent information regarding firm performance, and that *this*

tendency is influenced by CEO power. CEOs with high structural or ownership power followed a self-enhancement approach and the firm subsequently engaged in less R&D. CEOs with high prestige or expertise power followed a problem-solving approach and the firm subsequently engaged in more R&D.

The authors suggest that these findings point to when boards of directors need to provide assistance and guidance to CEOs regarding shaping strategic decisions in the face of inconsistent information. Powerful CEOs may be able to shape board decisions through explicit (e.g., information withholding or agenda control) and implicit (e.g., norm shaping) tactics. The authors caution that boards should become aware of the influence of CEO power on strategic decision making and be especially vigilant at times when there is inconsistent information available.

Source: Blagoeva, R., Mom, T., Jansen, J. J., & George, G. (in press). Problem-Solving or Self-Enhancement? A Power Perspective on How CEOs Affect R&D Search in the Face of Inconsistent Feedback. *Academy of Management Journal*. doi: 10.5465/amj.2017.0999.

