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CEO Sensitivity to Negative Media Coverage

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RESEARCH BRIEF

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CEOs are challenged with the task of making major strategic decisions on behalf of their firms, balancing the interests of a wide range of stakeholders. Forthcoming research in the *Academy of Management Journal* investigates how a CEO's individual psychology influences the firm's reaction to stakeholder feedback. Specifically, they found that firms responded to investor reactions to their decisions regardless of the CEO's characteristics. At the same time, firms led by CEOs who focus on the past reacted more strongly to negative press reports, and those led by CEOs who look toward the future were less strongly influenced by negative media accounts.

Key Takeaways:

- CEOs' individual psychology influences firm responses to stakeholder resistance, shaping future strategic actions.
- CEOs respond differently to negative press coverage of acquisitions based on their tendency to focus on the past or the future - CEOs with a strong past focus spend less on future acquisitions after negative accounts.
- CEOs respond more consistently to investor reactions to acquisition announcements, regardless of temporal focus.

The researchers examined firms in the S&P 500 at the beginning of 2006 and focused on their acquisition activity over the next six years. On average, after a negative media reaction to a large acquisition, firms spent $500 million less on future acquisitions. The researchers scanned the content of letters to shareholders to assess a CEO's "temporal focus," finding that firms led by CEOs with a strong past focus or those with a low future focus spent over $2 billion less on acquisitions after negative media attention than after media praise. The personality-based differences were not found after negative stock market reactions to an acquisition.

The researchers note that their findings explain how firm decisions can depend on the psychology of CEOs. The different results for reactions to stock market and media reactions also show that firms attend differently to different stakeholders, and subjectivity can differentially influence these responses. Finally, the researchers point out that more investigation is needed to understand whether differences in sensitivity to shareholder reactions are good for the firm.

Source: Gamache, D. L. & McNamara, G. (in press). Responding to bad press: How CEO temporal focus influences the sensitivity to negative media coverage of acquisitions. *Academy of Management Journal*. DOI: 10.5465/amj.2017.0526