

CEOs' Childhood Experience and Its Effects on Risk-Taking

Research published in the *Academy of Management Journal* studied the social class upbringing of CEOs and how that childhood experience might influence their strategic choices as CEO. The researchers reasoned that CEOs' formative years have a lingering effect that "imprints" their willingness to take strategic risks as CEO. They theorized that CEOs that come from middle class backgrounds feel as though they have more to lose from failed risks than those from upper *and* lower class backgrounds.

Key Takeaways:

- The social class upbringing of CEOs has a lingering effect on their strategic decision-making as CEO.
- CEOs from middle class upbringings engage in less strategic risk-taking, such as R&D spending, than those from upper or lower classes.
- CEOs from lower class backgrounds are more risk averse if they were educated at an elite university.

The researchers surveyed 272 S&P 1,500 CEOs to assess each CEO's social class background. CEOs from upper/upper-middle and lower/ lower-middle class backgrounds spent more heavily on R&D and capital expenditures and secured more long-term debt than those from the middle class. This was especially true of upper or lower class

CEOs with a more diverse functional work experience background, such as those that have experiences in both throughput and output functional roles. Interestingly, the researchers also found that elite undergraduate education tempered the risk taking of CEOs from lower class backgrounds, with one such CEO claiming, "You don't need to throw another Hail Mary pass if you're ahead by 20 points."

Ultimately, the findings show that early formative experiences based on social class matter, even for CEOs making decisions on behalf of their firms and shareholders. The authors also discuss the need for boards to tailor financial incentives to the risk preferences already held by executives, including those imprinted by their social class origins. These findings may also encourage boards to consider a broader set of the CEO's experiences during the CEO selection process for how those experiences may affect strategic decision-making.

Kish-Gephart, J.J., Campbell, J.T. (2015). You don't forget your roots: The influence of CEO social class background on strategic risk taking. *Academy of Management Journal*, 58(6): 1614-1636.

