

Prosperous Economic Conditions Can Lead to Problematic CEO Behavior

Research published in *Organization Science* studied the effect of broader macroeconomic conditions on financial misconduct perpetrated by CEOs. The study examines how the economic conditions both during CEOs' initial career experiences and while serving as CEO permanently shapes their attitude towards risky and ethically-borderline financial behaviors. The authors argue, in both cases, that more prosperous economic conditions lead to increased CEO misconduct.

Key Takeaways:

- CEOs engage in more corporate misconduct – in this case, stock option backdating – when macroeconomic conditions are prosperous.
- CEOs who first entered the workforce in a prosperous economy are more likely to engage in misconduct.

The researchers examined CEO misconduct in the form of backdating stock options, in which a CEO would receive a stock option grant but report it as being received on an earlier date that was more beneficial to them financially. They studied stock option backdating from 1996-2005, a period during which this behavior

occurred frequently before ultimately being exposed in part due to a Wall Street Journal investigation in early 2006. The researchers found that stock option backdating was more common during periods when the economy was stronger (i.e., lower unemployment rate). In addition to that broader trend, the researchers also found that CEOs who first entered the workforce during periods with lower unemployment rates were more likely to engage in stock option backdating.

The authors argue their findings suggest that CEOs are more likely to push ethical boundaries for financial gain not when times are lean or desperate as some may expect but rather when economic prosperity breeds increased confidence and potentially lax oversight. The authors also note more generally that their findings speak to the how CEOs are profoundly shaped and influenced by their early career experiences such that their actions as CEO can often be traced back to those experiences even after many years of ensuing experiences and achievements.

Bianchi, E.C., & Mohliver, A. (2016). Do good times breed cheats? Prosperous times have immediate and lasting implications for CEO misconduct. *Organization Science*, 27(6): 1488-1503.

