

When Integrity Backfires: How CEO Integrity Reduces Risk-Taking and Digital Orientation

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Coles Working Paper Series

Global investment in digital technologies is estimated to attain \$3.4 trillion in 2026, driven by a five-year CAGR of 16.3% (IDC, 2022). Adoption is rising, with technologies like Artificial Intelligence (AI), cloud computing, digital marketing, and data analytics gaining popularity. In the U.S., over 50% of firms plan to integrate AI into daily operations (McKinsey & Company, 2022). This surge reflects the need for competitiveness in a rapidly evolving market (Westerman *et al.*, 2011). Empirical research confirms that firms proactively adopting digital technologies achieve superior financial performance (Salvi *et al.*, 2021).

Although firms worldwide recognize the advantages of digital technologies, their DO—commitment to integrating these technologies—varies, affecting adoption speed, integration of digital technologies and use of the technologies for creation of products, services, and customer solutions (Khin & Ho, 2019a). Highly digital-oriented firms proactively adopt AI, cloud computing, social media, and data analytics, integrating them into operations and strategy. They also invest heavily in digital initiatives to enhance customer engagement and satisfaction (Khin & Ho, 2019a). In contrast, firms with low DO take a reactive approach, waiting for peers to adopt these technologies before following suit. Given that differences in firms' DO translate into differences in their speed of digital adoption and in turn their profitability, an important question that arises is “What factors shape firms' DO?” Surprisingly, existing literature on DO has a few key limitations.

First, the overwhelming work in the area of DO is restricted to highlighting the positive *effects* of DO on such outcome variables as new product development performance (Pan *et al.*, 2021; Ranjan, 2024), relational capacity, sales and market share, employee and customer satisfaction (Silva *et al.*, 2023), as well as overall financial results (Nasiri *et al.*, 2022; Silva *et al.*, 2023). On the contrary, work which has explored the *antecedents* of DO is almost non-existent, limited primarily to a handful of articles

exploring how DO is shaped by such firm cultural variables as market orientation and entrepreneurial orientation (Bali & Joshi, 2023). Particularly, despite strong empirical evidence that the background of firms' executives significantly shapes firm behavior (Kashmiri & Mahajan, 2017), researchers have virtually ignored how the characteristics of CEOs and top management teams influence their firms' DO, creating the need for a relevant exploration (Porfírio *et al.* 2021). Second, even though a few recent papers (Li & Shao, 2023) demonstrate that executives' background characteristics do influence firms' DO, these papers are limited in scope to studying top management teams (e.g., presence of a Chief Technology Officer and CMO) and do not explain adequately how the traits of the most powerful executive — the CEO — shape firms' DO. Third, the handful of papers that explore the link between executives' backgrounds and DO only explore the *main effect* of executives' *demographic characteristics* such as their education, income, age, tenure, and foreign work experience (Li & Shao, 2023) on firms' DO. Examining the *main effect* of CEO' *demographic characteristics* without an exploration of executives' psychological traits or mediating mechanisms linking these characteristics to firms' DO, has also created a “black box problem” according to Lawrence (1997). As a result, we have limited knowledge regarding the actual psychological processes that drive executives' decisions pertaining to digital adoption. This paper addresses key research gaps at the intersection of CEO values and firm DO antecedents. We examine how CEOs' personal values, particularly their integrity, influence their risk-taking propensity, which in turn shapes their firms' DO. Additionally, we explore whether the effect of CEO integrity is moderated by TMT composition (CMO presence) and marketing investments (advertising and R&D intensity).

The objective of our study is to provide answers for specific research questions:

- A. *Is CEO integrity impacting firms' DO?*
- B. *Does CEO risk-taking mediate the relationship between CEO integrity and firms' DO?*
- C. *Do TMT and marketing factors moderate the CEO integrity-firms' DO relationship?*

We focus on CEO integrity over other psychological traits because we expect it to be crucial, diverse, and stable enough to significantly impact firms' strategic and DO. Defined as a commitment to ethical conduct, transparency, and moral foundations (Becker, 1998), integrity is central to strong business leadership (Kirkpatrick & Locke, 1991). Prior research links CEO integrity to various positive outcomes. Firms with high-integrity CEOs exhibit greater employee commitment and trust (Leroy *et al.*, 2012), stronger employee loyalty, superior corporate social responsibility and enhanced firm reputation. These firms also demonstrate superior earnings and accruals quality, lower audit fees, and reduced unethical activities such as asset misappropriation, accounting scandals, and employee fraud. Evidence from additional relevant research leads us to acknowledge that while integrity is a "bright" trait, its potential "dark side" should also be examined (Gala & Kashmiri, 2022). Our research fills a key gap in CEO integrity studies by acknowledging its socially desirable outcomes while also highlighting a downside: firms led by high-integrity CEOs typically exhibit lower DO levels.

Grounded in upper echelon, self-concept maintenance, and regulatory focus theories, we argue that high integrity CEOs are more inclined to weigh potential risks when making strategic choices (as happens with the evaluation of risk accompanying digital adoption) more intensively compared to CEOs with low levels of integrity. High-integrity CEOs' lower risk tolerance leads their firms to adopt a more cautious approach, thoroughly assessing digital technology risks before adoption. Findings from our dataset of 741 firm-year observations corroborate our hypotheses. We find that CEO integrity negatively impacts firms' DO. Also, the lower DO of firms led by high integrity CEOs is partially mediated by the CEOs' lower risk-taking propensity. High R&D intensity amplifies this effect, while CMO presence and high advertising intensity mitigate it. Our results remain robust even after addressing endogeneity, sample selection bias, and outliers.

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