Doctoral Dissertation

Essays on the CEO Humility:

Focusing on Corporate Temporal Orientation and the Agency Cost

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Abstract

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In this study, I focus on self-interest seeking behaviors and short-termism of professional CEOs, which are of primary interest in the upper echelons theory. Recently, humility, as one of the psychological characteristics of CEOs, has received much attention from both scholars and practitioners. Thus, I attempt to understand whether CEO humility can solve problems associated with the self-interest seeking behaviors and short-termism of CEOs.

In the first part of this study, I examine how CEO humility can moderate the relationship between Top management team(TMT) diversity in background characteristics and the organization’s short-term orientation. I measure the independent variable of TMT diversity in background characteristics with the Blau index (Blau, 1977) and the dependent variable of the organization’s long-term orientation with asset durability. I predict that as TMT diversity in background characteristics increases, the long-term orientation of the organization, captured by asset durability decreases, because of the conflicts from the increasing diversity in firms with Korean cultural settings. In particular, I define CEO humility as a construct that is composed of openness to feedback, self-awareness, appreciation of others, and low self-focus. I expect that when organizations have humble CEOs, these four components reduce conflicts among TMT members, negatively moderating the main relationships mentioned earlier. Besides the moderating effects, I test if CEO humility is positively associated with the long-term orientation of the organization. Based on the panel analysis of 255 companies listed in KOSPI, I find that TMT diversity in age decreases the tendency of the organization to invest in durable assets. When CEOs are humble, the negative relationship between TMT diversity in age and the tendency of the organization to invest in durable assets is negatively moderated, supporting my hypothesis. In addition, I find that CEO humility is positively related to the long-term orientation of the organization.

In the second part, to examine the underlying characteristics of humble CEOs, I empirically studied whether humble CEOs are similar to stewards or agents. If

humble CEOs are agents, they are likely to create agency costs and problems. As supported by previous literature, these problems will be limited by the different types of internal control mechanisms of corporate governance that reduce agency costs. If humble CEOs are stewards, there will be no agency costs and the internal control mechanism will be ineffective. To answer this question, I empirically studied the relationship between CEO humility and agency costs associated with self-interest seeking behaviors captured by earnings management. In particular, reducing agency costs require the resolution of both “information asymmetry” and “conflicts of interest.” I predict that the four underlying characteristics of CEO humility are effective in resolving agency costs. Furthermore, I predict that because humble CEOs are similar to steward CEOs, the excessive appointment of outside directors, the increasing proportion of foreign investors, or the adoption of stock options, will either fail to or negatively moderate the relationship between CEO humility and earnings management. Based on the panel analysis of 210 companies listed in KOSPI, I find that CEO humility is not significantly related to earnings management. However, the proportion of the foreign investors positively moderates the relationship between CEO humility and earnings management. Therefore, even when CEOs are humble, the proportion of foreign investors acts as a strong internal control mechanism and humble CEOs end up engaging in self-interest seeking behaviors, such as earnings management. However, when there is lack of control and monitoring mechanism, CEO humility can lower earnings management. From these results, I can conclude that the humble CEO is not an agent.

Keywords: Corporate Governance, CEO Humility, Time Horizon, Agency Cost, Earnings Management

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CHAPTER I.

Overall Introduction

1.1. Research Background and Objectives

In management, the personality traits of CEOs are often topics of study. The primary focus has been on identifying personality traits that increase or decrease organizational performance. In other words, the personality traits of CEOs have mainly been studied as antecedents of organizational performance. Recently, management scholars began examining the types of personality traits of CEOs that will lead to ethical or unethical behaviors. In South Korea, such questions have received much attention from the media and the public, after Korean Air Vice President Cho, was not satisfied with how a flight attendant served nuts on the airplane, ordered the aircraft to return to the gate before takeoff, causing serious inconveniences to the flight attendants and other passengers. Thus, in this study, I examine CEO humility to identify the personality traits that will lead to ethical behaviors and good intentions. Recently, scholars undertaking research on the upper echelons theory have begun studying humility, as it is a personality and cognitive characteristic of CEOs (Tangney, 2000; Rowatt et al., 2006; Owens et al., 2013; Ou et al., 2014; Beauchesne, 2014; Zhang et al., 2017).

According to the upper echelons theory, CEOs possess the authority to overpower other members in the organization. Using this authority, CEOs implement strategic decisions and changes in the organization. Therefore, the personality traits of CEOs have been treated as antecedents that predict organizational outcomes, strategies, and culture (Rowatt et al., 2006). In this study, I define CEO humility based on four underlying characteristics, including openness to feedback (teachability), self-awareness, appreciation of others, and low self-focus. Then, through empirical studies, I examine how these underlying characteristics of humble CEOs affect the strategic choices of the organization.

I focus on two strategic outcomes of a humble CEO. The first is long-term orientation. Temporal orientation is the time it takes organizations to make decisions about investments, and has been studied as a determinant of the strategic choices and financial performance of organizations (Venkatraman, 1989). I introduce asset durability as a proxy for long-term orientation. Based on the stakeholder theory and agency theory, I argue that humble CEOs will prefer long-term orientation and long-term investment, and empirically prove this prediction. Furthermore, I study the moderating effects of CEO humility on the negatively predicted relationship between TMT diversity and long-term orientation. Later, the hypothesis development section will discuss the details and rationale of this prediction.

Second, I examine agency costs captured and measured by earnings management. Generally, CEOs attempt to protect their self-interests, such as employment and pay, by managing short-term earnings. Specifically, CEOs are highly motivated to manage earnings to avoid personal losses from a decrease in short-term performance of the organization, and to manage their impression and reputation (Davidson et al. 2004). In this study, I assume that earnings management occurs when agency costs increase because of information asymmetry and conflict of interest (Davidson et al., 2004). Humble CEOs share information openly, seek feedback (Ou et al., 2014), involve others, and consider the interest of stakeholders when making decisions (Beauchesne, 2014). Thus, I predict that humble CEOs will reduce agency costs, and study empirically whether there is a negative relationship between CEO humility and earnings management.

1.2. Organization of Dissertation

This dissertation is composed of two empirical studies on CEO humility and its consequences. The organization of the dissertation is as follows:

Chapter 1 introduces this dissertation and includes the research background and objectives.

Chapter 2 contains the first essay of the dissertation on the relationship between CEO humility and long-term orientation, TMT diversity and long-term orientation, and the moderating effect of CEO humility on the diversity-long term orientation relationship.

Chapter 3 contains the second essay of the dissertation on the relationship between CEO humility and earnings management.

Chapter 4 summarizes the result of the two essays, their limitations, contributions, and implications.

CHAPTER II. Effects of TMT Diversity on Corporate Temporal Orientation: Moderating Role of CEO Humility

2.1. Introduction

The western nations lay great emphasis on diversity and its importance has spread to eastern countries too. In terms of corporate governance, organizations facing global competition have realized the importance of diversity in customers, and in internal and external environments. In South Korea, the diversity in global talent has increased. Foreign human resources used to replace the middle class workforce in South Korea. However, the recent trend is of the foreign workforce occupying higher levels of organizational hierarchy, such as the top management team members (삼성경제연구소, 2011). According to the upper echelons theory, a change in the diversity of top management team members represents a change in the diversity of background characteristics and resources. Thus, a change in diversity of the top management team plays a significant role in affecting strategic choices and the organizational outcomes of companies (Hambrick & Mason, 1984).

I focus on how an increase in diversity of background characteristics of TMT members influences conflicts among them and causes problems in the decision making process (Pelled et al., 1999). As conflicts among TMT members increase, it negatively influences the estimated time for decision-making and their productivity (Dreu & Weingart, 2003; Pelled et al., 1999; Smith et al., 1994; Wagner et al., 1984). It is very important for organizations to implement different strategies to reduce conflicts because these strategies affect the decision making process of the organization.

I also focus on the negative impacts of diversity in TMT members on the long-term orientation of the organization, that is, on how diversity in TMT members reduces the probability of organizations preferring long-term orientation. Temporal orientation represents the time it takes companies to make decisions about investment and influences organizational outcomes, such as financial performance and strategic choices (Venkatraman, 1989; Souder et al., 2012; Hayes & Abernathy, 1980). Generally, agency problems such as earnings pressure cause short-term orientation. When organizations become short-term oriented, the companies jeopardize their long-term growth because the short-term orientation reduces R&D investment, training program opportunities, and capital investment (Walsh & Seward, 1990; Zaheer, Albert, & Zaheer, 2000).

Scholars have studied how problems associated with conflicts among TMT members and short-term orientation can be solved with background characteristics of CEOs (Qian et al., 2013). However, there is little study of CEO humility, among these characteristics. I argue that humble CEOs can effectively reduce conflicts among TMT members, and it is important to examine the roles of humble CEOs in reaching positive agreements among TMT members (Dalton & Dalton, 2005). Humility is not just one of the many characteristics of a CEO but also a moderating cognitive and psychological characteristic, which effectively manages internal conflicts among TMT members.

Humble CEOs focus on long-term outcomes rather than immediate success (Rowatt et al., 2006). Therefore, I examine how the strategic choices and cognitive and psychological characteristics of humble CEOs affect the organization’s long-term temporal orientation. In addition, I seek to understand how the humility of CEOs in South Korea can moderate the negatively predicted relationship between diversity in TMT members and long-term temporal orientation. Through the lenses of agency theory and a resource-based view, I conduct an empirical study, and answer these questions.

2.2. Theoretical Background and Hypotheses Development

2.2.1. CEO Humility

While the concept of humility has its roots in psychology with variations in definition across disciplines, this study proceeds by combining the characteristics of CEO humility as defined in strategy and management. Tangney (2000) picks accurate self-assessment of abilities and achievements, self-awareness of mistakes and limitations, openness to new ideas, information and advice from others, capacity to keep success and accomplishments in perspective, low self-focus, and appreciation of others, as the major components of humility. Owens et al. (2013) define a humble person as someone exhibiting 1) willingness to view oneself accurately, 2) displaying appreciation of others, 3) openness to feedback and teachability on new things, with the three factors frequently referenced in the following studies on CEO humility. Furthermore, Ou et al. (2014) structure humility around six aspects, by adding 1) low self-focus, 2) self-transcendent pursuit, and 3) self-transcendent concept.

By combining the definitions of CEO humility from prior studies, this study defines the four characteristics of CEO humility and explores its relationship with the earnings management of a firm. First, a humble CEO is open to feedback (teachability). A humble CEO adapts to new paradigms, has the willingness to learn from others, is open to advice, and possesses developmental readiness (Owens et al., 2013). Second, a humble CEO is self-aware. This implies a capacity to understand one’s own incompleteness and accurately evaluate one’s strengths and weaknesses without any positive or negative exaggeration (Owens, Rowatt & Wilkins, 2011). Such accurate self-awareness of a humble CEO lowers the possibility of self-complacency and overconfidence, which may lead to wrong decision-making (Owens et al., 2013). Third, a humble CEO appreciates others and relies on subordinates (Weick, 2001). A humble CEO also treats his subordinates as equal (Whitener et al, 1998) and includes them in the decision-making process (Morris et al., 2005; Owens & Hekman, 2012). Ou et al. (2014) confirm that a humble CEO empowers leadership in employees and has a positive influence on getting top executives together. Fourth, a humble CEO exhibits low self-focus. This is the awareness of being only a small part of the bigger universe. Such a CEO “forgets himself” (Owens 2009; Tangney, 2000) and pursues ethical principles or the ultimate truth (Morris, Brotheridge, and Urbanski, 2005). Such attitude prevents the selfish pursuit of personal incentives as a corporate manager (transparent pursuit), instead pursuing a common interest and the overall interest of society (Ou et al., 2014). In fact, there is empirical evidence that CEO humility results in pro-social organizational behavior (Exline & Geyer, 2004; Owens, 2009).

Although research on CEO humility has a short history, and despite its difficulty in measurement, there are many empirical studies, setting various strategy- and leadership-related dependent variables. According to prior studies in organizational behavior, humility exhibits positive relationships with fair, cooperative, and ethical decision-making, prosocial behaviors and forgiveness-related variables, while showing negative relationships with deviant behaviors at the workplace (Hilbig & Zettler, 2009; Exline & Geyer, 2004; Lee, Ashton, Morrison, Cordery & Dunlop, 2008; Shepherd & Belicki, 2008; Sheppard & Boon 2012). In addition, in leadership literature, CEO humility has been found to positively impact job engagement, job satisfaction, team learning orientation, and team member engagement, which can be explained by a humble CEO contributing to create a positive workplace atmosphere and environment. In addition, a humble CEO has positive effects on the integration of top executives and employee performance (Ou et al., 2014). On the other hand, in terms of the effect on organizational performance, it has a negative effect on market valuation (Beauchesne, 2014), leads to ambidextrous strategies, and is associated with a certain level of sustainable performance (Collins, 2001, Ou et al., 2014). While empirical evidence on the effect of humility on corporate performance is mixed, this research aims to understand whether a humble CEO brings about agency costs, by testing the effect of humility on earnings management, which is a representative proxy of the agency problem.

To better understand how the characteristics of CEO humility reflect in corporate behavior or strategy, it is helpful to conduct a comparative analysis between humility and an opposing psychological characteristic, such as narcissism. Narcissism is the concept of an individual captivated by an inflated self-image, and in terms of self-recognition, a narcissistic individual shows contrasting aspects to a humble individual. Narcissists are strongly self-focused, feel superior to others with strong feelings of entitlement, and require constant recognition, praise, and attention, through which they maintain and strengthen an inflated self-view (Chatterjee & Hambrick, 2007). While a humble CEO prefers to not receive public attention (Rowatt et al., 2006), a narcissistic CEO wishes to be at the center of such attention and focus. In general, narcissism and humility stand at the opposite ends in terms of self-awareness and appreciation of others.

However, it is difficult to equate humility simply as anti-narcissism; more appropriately, it encompasses a broader concept having multifaceted characteristics of developmental orientation (openness to feedback), appreciation of others, and self-transcendent pursuit, in addition to anti-narcissistic characteristics. Zhang et al. (2017) comment that both humility and narcissism can coexist within an individual, despite both exhibiting contrasting characteristics. As these characteristics show, it is not appropriate to view humility simply as anti-narcissism or a lower level concept of narcissism, and it is necessary to understand them as distinct concepts, as have prior studies in strategy. According to the empirical evidence of prior studies on narcissism, a narcotic CEO is dynamic, pursues a high-risk investment strategy, and exhibits an ability to quickly turn a crisis into satisfactory performance, while paying excessive attention to social praise and reputation, instead of objective performance benchmarks (Chatterjee & Hambrick, 2007).

2.2.2. Corporate Temporal Orientation

Temporal orientation is defined as the time it takes organizations to make investment decisions and is one of the determinants of strategic choices and financial performance of organizations (Venkatraman, 1989; Souder et al., 2012; Hayes & Abernathy, 1980). CEOs are agents who prefer short-term financial success (Laverty, 1996; Marginson & McAulay, 2008), by reducing their investment in R&D, training, and capital, or sensitively corresponding to earnings pressure (Hayes & Abernathy, 1980). Such short-termism or myopia (Levinthal & March, 1993; Miller, 2002) has been the subject of research mostly in western countries. A primary concern of this research topic relates to measurement issues. Besides investments in R&D and CSR, scholars have failed to provide direct measurement of short-term orientation (Souder & Bromiley, 2012).

Few studies use South Korean samples to measure long-term orientation. After all, in South Korea, ownership structure is not varied or diversified, excessive power is given to few shareholders, and there is no clear separation between ownership and management. However, if the implementation of the stewardship code separates ownership and management successfully and delegates sufficient power to professional CEOs, interest in long-term orientation will increase and motivate scholars to study the antecedents and determinants of long-term orientation using South Korean data (최윤정, 2017).

Traditionally, previous literature demonstrates that investments in R&D and CSR can be proxies for long-term orientation. In addition, innovation-oriented strategies (Hill & Snell, 1988), risk-loving (Hoskisson, Hitt, & Hill, 1993), relationships between shareholder and stockers (Buck et al., 2010), contents analysis of usage of will (Yadav, Prabhu, & Chandy, 2007) can also be examples of proxy for long-term orientation. When scholars use investment in R&D as a proxy for long-term orientation, they determine if organizations primarily focus on long-term investment (Mahoney, Sundaramurthy, & Mahoney, 1997; Bushee, 1998; Harrison & Fiet, 1999; Lee & O'Neill, 2003; Kor, 2006), or driving forces for long-term performance (Singh & Faircloth, 2005). However, these proxies fail to capture every aspect of long-term orientation (Laverty, 1996). In addition, these proxies may represent outcomes of some types of strategic choices or decisions other than those originally attempted to measure. Similarity, proxies using CSR may also face similar problems.

Recently, scholars began introducing content analysis to create a proxy for the management's intention of long-term strategy or time horizon. Brochet, Loumioti and Serafeim (2015) analyzed 70,042 conference calls for 3,613 unique firms for seven years. They defined the proxy for short-termism as the total number of keywords related to short-term information disclosed through the fiscal year in conference calls *divided by* the total number of keywords related to long-term information. Kim and Meschke (2011) are also trying to capture CEO intention by analyzing CNBC interview scripts in a similar context.

In this study, I attempt to directly and fully capture long-term orientation and use asset durability to do so, similar to most recent studies (Asset Durability, Souder & Shaver, 2010). This asset durability represents the extent of annual investment in PP&E comprising annual depreciation expense, besides investment in real estate. Asset durability represents annual investment in the durability of tangible assets. After controlling for industry effects, I use this asset durability to capture the long-term orientation of the organization.

With using panel data temporarily, we can figure out the changes in temporal orientation from one to another year in response to changes in TMT diversity, and this could be possible by using annual investment in PP&E divided by depreciation (Martin et al., 2016). The asset durability of CAPX was, in lots of related literature, used as an indicator of temporal orientation. Not only do many discussions of managerial time orientation refer to CAPX investment (Souder & Shaver, 2010), CAPX is often used to predict future values to estimate measures, including NPV or IRR. In addition, CAPX has its advantage in explaining multiyear effects. For example, even R&D expenditures may not have long-term temporal orientation(Laverty, 1993).

2.2.3. CEO Humility and corporate long-term orientation

Humble CEOs do not seek immediate personal glory and public attention (Rowatt et al., 2006). Humble CEOs, through their empowering leadership, foster integrative TMTs that collaborate, share information, jointly make decisions, and share a common vision (Ou et al., 2014; Simsek, Veiga, Lubatkin, & Dino, 2005). A humble CEO's vision sharing with the senior team is related to ambidextrous orientation (Ou et al., 2015; Jansen et al., 2008), aligning personal goals with those of the firm (Ashford et al., 2017; Podsakoff et al., 1990), which takes a time span of at least five years (Ashford et al., 2017). Since steward CEOs identify themselves with the organization and share similar values, they tend to reflect best the interests of shareholders in their decisions (Deckop et al., 1999). Humble CEOs also show this tendency.

Humble CEOs have self-transcendent pursuits and a broad perspective of service to society, which others would find inspiring (Ou et al., 2014), indicating that humble CEOs focus on long-term objectives rather than short-term goals. CEO humility is accepted by all the managers by emphasizing collective goods and understating ego dominance (Ou et al., 2014). By emphasizing collective goods over self-interest, humility makes itself a strong source of socialized characteristic of charisma (House & Aditya, 1997). Without strong egos, humble CEOs can reduce status differences and gain trust among status-seeking groups, such as managers (Ou et al., 2014). These behavioral tendencies collectively predict long-term orientation of humble CEOs because they understand the importance of others and lack opportunistic behaviors, which appreciate long-term goals and perspectives. Humility has been conceptually related with moral, virtuous, ethical, participative, empowering, and servant leadership (Morris et al., 2005; Hackett & Wang, 2012). Such types of leadership value long-term and broad purposes. Since humble CEOs consider the positive worth of others, their strengths, and contributions (Morris et al., 2005), they can help others reach their full potential and give their subordinates opportunities to grow and proliferate, indicating the presence of long-term orientation.

H1: CEO humility will be positively associated with long-term orientation of the organization.

2.2.4. CEO-TMT Interface

When organizations engage in strategic decision-making, in addition to the CEO, the TMT members in different hierarchical positions are likely to be involved in making decisions, such as financial investment. Therefore, there is interaction between CEO and TMT members when organizations make financial investment decisions. Thus, to better understand an organization’s long-term orientation and long-term investment, this study examines how a CEO’s personality trait influences and interacts with the demographic characteristics of TMT members, which impact the decision-making process of financial investment. I test the moderating effects of a CEO's personality trait on the relationship between the background characteristics of TMT members and the organization's long-term orientation.

In previous studies examining the relationships between TMT diversity and organizational performance, scholars included CEOs as members of the TMT and treated TMT characteristics as antecedents of organizational performance. These studies indicate that focus on TMT members, including CEOs, has more explanatory power in terms of statistics than focusing solely on CEOs (Hambrick, 1994; Hambrick et al., 1996). In other words, previous studies based on the upper echelon theory focused on TMT members rather than CEOs, differentiating themselves from other studies focusing on CEOs and agency theory. However, CEOs play a more significant role than do other TMT members in influencing the strategic decisions of organizations (Dalton & Dalton, 2005). Nevertheless, previous studies ignored the differences between CEOs and TMT members and focused solely on the demographic differences of TMT members. CEOs and other TMT members are at different hierarchical levels and affected by different incentive systems, indicating the need for scholars to differentiate CEOs from other TMT members. Recently, scholars studying upper echelon theory have empirically examined CEOs and other TMT members separately. In other words, they have found that CEOs and other TMT members affect mergers, acquisitions, and diversification strategies differently. Boeker (1997) found that the demographic-related characteristics of CEOs and TMT members have separate influences on strategic changes and decisions. However, even these studies failed to study how the demographic-related characteristics of

CEOs interact with that of other TMT members. In this study, in terms of decisions on long-term orientation, I predict an interaction between the long-term orientation of CEOs and the risk orientation of other TMT members. Later, I prove if the background characteristics of CEOs, such as personality traits, moderate the relationship between TMT diversity and long-term orientation.

2.2.5. Diversity

Diversity indicates individual differences between group members at the societal level (Jackson et al., 1995). Diversity includes differences arising from diverse background characteristics, points of views, perspectives, values, and preferences. In addition, it includes different ages, physical appearance, religion, social status, economic status, hometowns, tenure, experience, knowledge, skills, and employment status. Broadly, there are two different types of diversity, demographic-related diversity (Hobman & Bordia, 2006) and job-related diversity (Job-related diversity, Webber & Donahue, 2001). Demographic-related diversity includes societal variables such as age, gender, and race whereas job-related diversity includes educational background, tenure, and job experience. In this study, I define diversity as including both types of diversity.

Before discussing the roles of TMT backgrounds and diversity in impacting the long-term orientation of organizations, it is necessary to examine the relationship between TMT diversity and conflicts. Based on study findings that TMT diversity increases conflicts among TMT members (Pelled et al., 1999; Goodstein et al., 1994), I attempt to study the outcomes of such conflicts further. Many studies argue that conflicts can cause negative impacts on team productivity, decision-making process speed, information sharing, agreement, and cohesiveness (Dreu & Weingart, 2003, Pelled et al., 1999; Smith et al., 1994; Wagner et al., 1984). However, we cannot necessarily conclude that the conflicts always cause detrimental outcomes, because other studies find that cognitive and task conflicts rather than affective conflicts can result in high quality agreements (Amason, 1996, Qian et al., 2013). When generating ideas, members of a team can have cognitive and task conflicts that unite different perspectives, knowledge, and skills. However, when implementing these ideas, team members may face issues in creating momentum and teamwork because of cognitive and task conflicts (Lovelace, Shapiro, & Weingart, 2001). Therefore, when conflicts are interpersonal and affective, they can hider TMT members from making qualitative and quantitative decisions. Based on the agency theory and resource-based view, I must examine how TMT diversity affects the long-term orientation of the organization.

2.2.6. Top management team diversity and Corporate Temporal Orientation

According to the agency theory, we can assume that CEOs and TMT members are risk averse and tend to prefer short-term investment. Thus, when TMT diversity increases conflicts, TMT members can achieve consensus about short-term investment at low level. However, it is necessary for them to work towards management, providing resources, and long-term investment to reach consensus at higher levels (Hoskisson, Hitt & Hill, 1993; Lee & O`neill, 2003). Because role conflicts within a team demotivate the risk-aversion behaviors of individuals (Katz & Kahn, 1978; Marginson & Mcaulay, 2008), conflicts within a team are directly related to short-term orientation (Otley, 1978).

As per the resource-based view, it is widely believed that TMT diversity is positively related to the availability of resources and external communication (Salancik & Pfeffer, 1978). TMT diversity provides problem solving skills and the potential to adapt to internal and external environment changes (Bear et al., 2010). However, this resource-based view is based on the premise that problems can be solved by encouraging diversity-oriented culture and discussion.

Using South Korean samples, Kim (2005) found that TMT members working in a collectivistic culture tend to cohere to each other and emphasize agreement and fast decision-making. Therefore, Kim (2005) concluded that TMT members who share similar background characteristics would be able to reach conformity without many conflicts, thereby, increasing organizational performance. When TMT diversity is excessively high, TMT members find it difficult to reach agreements without conflicts, decreasing organizational performance (한주희 & 김봉진, 2014). South Korea has a tradition of collectivistic culture that appreciates common goals and agreement in decision-making. In such a collectivistic culture, common in

Asian countries such as South Korea, it is difficult to reflect different perspectives and opinions (Kim & Markus, 1999) and take into account different types of resources. Kim and Markus (1999) argued that uniqueness has positive connotations of freedom and independence in American culture. By contrast, they found that conformity has positive connotations of connectedness and harmony in East Asian culture. In all studies (Kim & Markus, 1999), East Asians preferred targets that represented conformity, whereas European Americans preferred targets that represented uniqueness. Analyzing Korean and American magazine advertisements, Kim and Markus (1999) found that Korean advertisements commonly use collectivistic appeals, emphasizing relationships with others.

Since it is difficult to reach constructive agreement in Asian countries with collectivistic cultures, long-term orientation proxies, such as CSR and R&D investments are predicted to negatively relate to TMT diversity. However, there could be exceptions. For example, specific cultures in different countries may predict opposite results. For example, China values a harmonious society, allowing organizational members to reduce conflicts and prefer long-term orientation. In South Korea, it is typical to find conglomerates run by family ownership and TMT diversity may not have a significant influence. In addition, Anglo-Saxons appreciate diversity, allowing them to reach agreement and invest in long-term projects. Besides these exceptions, it is predicted that TMT diversity is negatively related to long-term orientation. This relationship is more prevalent in South Korea.

H2: TMT diversity will have a negative relationship with long-term orientation of the organization.

2.2.7. Interactions between TMT Diversity and CEO Humility

Based on the agency theory and resource-based view, TMT diversity is predicted to negatively relate to the long-term orientation of the organization in the context of South Korea. What happens when CEOs are very humble? Before discussing how CEO humility affects both the agency theory and resource-based view, I must examine how CEO humility affects TMT diversity. When making important strategic decisions, organizations tend to reflect the decisions of CEOs who have greater influence on the long-term orientation of TMTs than do other TMT members. Therefore, to understand the relationship between the background characteristics of TMTs and long-term orientation, I must examine how CEOs' personality traits, such as humility, affect long-term orientation.

In this study, in terms of decisions on long-term orientation, I predict that there is interaction between CEOs' long-term orientation and the other TMT members' risk orientation. In other words, CEOs' background characteristics such as personality traits moderate the relationship between TMT diversity and long-term orientation. In particular, using the agency theory, I have already mentioned that the conflicts among TMT members avoid TMT members from reaching consensus. In addition, the agency theory allows me to expect that conflicts are more likely to be associated with short-term orientation than long-term orientation, which requires a higher level of consensus. However, when humble CEOs work with other TMT members, they allow information sharing among TMT members. After all, humble CEOs reduce information asymmetry, distrust, and conflicts among TMT members. With less information asymmetry and conflicts among TMT members, humble CEOs help TMT members to reach consensus more easily, resulting in the reduction of short-term orientation.

Based on the resource-based view, I predict that an increase in diversity among TMT members provides more resources and opportunities for organizations to pursue long-term orientation. However, this prediction assumes that organizations prefer different perspectives, discussion, conflict-resolution, and individual resources. Since South Koreans value a collectivistic culture, it indicates the lack of a cultural foundation for long-term orientation. If humble CEOs work with a diverse group of TMT members, they will enable TMT members to undertake fluid communication, effective collaboration, and efficient coordination, which are essential for TMTs to integrate resources (Hambrick, 1994). Humility is also positively related to empowering leadership behaviors, which in turn leads to TMT integration. Through TMT integration, a humble CEO will be expected to alleviate the collectivistic culture, which emphasizes overall agreement and fast decision-making, but to leverage the benefits of team heterogeneity, while avoiding the disadvantages of relational conflicts (Ou et al., 2015).

Thus, CEO humility will moderate the negatively predicted relationship between TMT diversity and the long-term orientation of the organization as the follows.

H3: CEO humility will negatively moderate the negatively predicted relationship between TMT diversity and the long-term orientation of the organization.

2.3. Methods

2.3.1. Sample and Data

The sample for this study was collected from secondary data sources. With 2013 as the benchmark, the four-year panel data for empirical analysis comprised of independent and dependent variables for companies listed on the Korea Stock Exchange (KOSPI) from 2013 to 2016. Data on CEOs, especially for measuring CEO humility, are collected from search results on portals and official company websites by confirming the incumbency of CEOs. In case of retirement, data collection was possible only when a CEO's greeting was available in the sustainability report and annual report, during tenure, which excluded firms not disclosing sustainability report and annual report from our sample. Data on directorship at the non-profit, educational level, and the breadth of education were collected from search results on portals and article searches. In addition, the annual reports of each company on the Financial Supervisory Service's DART have been manually collected. The same procedure was applied to collection of data for CEOs of control firms. Information on background data (age, education, function, major, tenure, promotion) of TMT was collected from TS-2000 provided by Korea Listed Companies Association, portal search results, and article search results.

Sources of financial data include KisValue offered by NICE Information Service, annual reports of companies provided by Financial Supervisory Service and TS-2000. Except for the financial service industry, which is highly specialized, industries are classified into 12 industry codes with the presumption that the effect of asset durability, which is the dependent variable, may vary among industries. After excluding loss-making companies that may affect causal relations in the research model from the sample, 225 companies satisfying all above requirements were selected as the final sample.

2.3.2. Dependent Variable

The dependent variable, "corporate long term orientation" is estimated as "asset durability of increased assets," which reflects the long-term preference of companies and the level of investment in durable assets. Asset durability is measured by the annual investment in property, plant, and equipment (PP&E) scaled by annual depreciation expenditure. With using panel data temporarily, we can figure out the changes in temporal orientation from one to another year in response to changes in

TMT diversity, and this could be possible by using annual investment in PP&E divided by depreciation (Martin et al., 2016).

We can calculate asset durability as follows:

Asset Durability = Gross PP&E/Depreciation Expense

2.3.3. Independent Variable

CEO humility

In case of South Korea, the selection of a CEO is particularly difficult because of its peculiar governance structure. This is because dual CEOs are very common. This study selects individuals from TMT members with the title of a CEO, who provide the final signature on the annual report. The individual who provides the final signature to the annual report, which is publicly available to shareholders and other external stakeholders, is directly liable for the content of the annual report. Therefore, a CEO has significant influence on decision-making, which affects the survival and performance of the company, for example, R&D investments with huge responsibilities and pressure.

The independent variable in this study, CEO humility, is a psychological variable that can best be measured through a survey. Therefore, the empirical proxies of humility include (1) the size of the CEO's picture in CEO greetings on the corporate website or annual report, (2) the level of praise and appreciation of other stakeholders in greetings, (3) CEO participation in non-profit organizations, (4) education level of a CEO and (5) breadth of education. These proxies measure humility, following the research method of Beauchesne (2014), standardized in value and averaged to yield the independent variable (HI, Humility Index). Here, the size of picture and appreciation of other stakeholders reflect the “appreciation of others,” while the size of picture and participation in non-profit organization show “low self-focus.” In addition, the education level and breadth of education are proxies reflecting “self-awareness” and “appreciation of others.” The coding of each variable is as follows. First, 0 if the size of the CEO’s picture in the CEO greeting covers more than half the space and 1 otherwise (H1). Second, each word of appreciation, praise, and gratitude for other stakeholders is counted as 1 by counting the number of sentences (H2). Third, participation in greater than or equal to one non-profit organization is coded as 1 and 0 otherwise (H3). A high school diploma is coded as 2, college 3, master’s graduation or completion 4, and doctorate graduation or completion as 5 (H4). Breadth of education is coded by counting the number of majors at the undergraduate level or above (H5). For example, a CEO with an undergraduate major in physics and a graduate major in business administration is coded 2.

TMT Diversity

The demographic characteristics of TMT members are estimated as follows. First, TMT members are defined as other members besides the CEO, and independent directors who comprise the operating committee, as listed on “the registrar of management of listed company.” Second, each characteristic is measured as follows:

(1) Age is calculated from the date of birth.

(2) Education is categorized as 1 (middle school graduate or below), 2 (high school graduate), 3 (college-graduate), 4 (master’s degree) or 5 (Ph.D. degree).

(3) Function is categorized as 1 (finance/accounting), 2 (marketing/sales), 3 (operation, supply chain), 4 (R&D, technology), 5 (general management/back office), or 6 (others).

(4) Major is categorized by 1 (business/econ), 2 (law/administration), 3 (social science/humanities), 4 (engineering), 5 (natural science) or 6 (others).

(5) Foreign education is categorized by 1 (yes) or 0 (no).

(6) Tenure is calculated from the appointment year.

(7) Promotion is categorized by 1 (internal promotion) or 0 (transferred from another firm).

Among them, background diversity is measured by applying the estimation method of the diversity index, called the Blau index (Blau, 1977; Bantel and Jackson, 1989).

Diversity (div) = $1-\Sigma Pi^2$

In the above equation, Pi implies the ratio of TMT with the i^{th} age or other background diversity, ranging between 0 and 1 with the value closer to 1 implying higher diversity. For example, a TMT with all college graduates will have Div=1-1^2=0 with the diversity index of 0, while a TMT with an equal number of college graduates and masters graduates will have Div=1-(〖0.5〗^2+〖0.5〗^2) with the resulting diversity index of 0.5 reflecting higher diversity.

2.3.4. Control Variables

Following prior studies, this study includes company size (Size), ROA, leverage (lev), and firm age as factors influencing the long-term preferences of the company. For factors affecting CEO characteristics, this study includes CEO type (indicator for a family company), CEO age, tenure, stock ownership, indicator for internal promotion, and industry fixed effects (이호욱 외, 2006; 김민수 외, 2006; Barker & Mueller, 2002; Hill & Snell, 1989).

2.3.5. Empirical Methods

To test the hypothesis, the empirical models in which demographic variables, including background diversity, and CEO humility, are the independent variables, and the company's long-term preference measured by asset durability is the dependent variable are estimated using the random effects model. Both fixed effects and random effects models can be used to analyze panel data. The fixed effects models have the advantage of controlling for unobserved firm characteristics by utilizing within variation for a given firm. However, the sample used in this study contains four years of data on CEO information with only a small subset of observations having change of CEO over the four years, which creates a weakness, because the fixed effects model cannot efficiently handle data with little within variations. Therefore, this study uses the random effects model, which can capture both within variations and between variations and control for firm characteristics using observable data.

The model is the following equation:

$$\mathrm{AD}_{\mathrm{ijt}} = \beta_0 + \beta_1 Div_{jt} + \gamma X_{jt} + \delta Z_{jit} + u_j + e_{it}$$

$$\mathrm{AD}_{\mathrm{ijt}} = \beta_0 + \beta_1 Hum_{ijt} + \gamma X_{jt} + \delta Z_{jit} + u_j + e_{it}$$

$$AD_{\mathrm{ijt}} = \beta_0 + \beta_1 Div_{jt} + \beta_2 Div_{jt} * Hum_{ijt} + \beta_3 Hum_{ijt} + \gamma X_{jt} + \delta Z_{jit} + u_j + e_{it}$$

$$\text{where} \quad \mathrm{i} = \mathrm{firm}, \mathrm{j} = \mathrm{ceo}, \mathrm{t}: \mathrm{year}$$

AD: Asset durability

Div: Age, Edu, Function, Major, Foreign education, Tenure, Promotion diversity

Hum_{ijt}: CEO i's humility in firm i at t

X: firm i’s characteristics (ROA, leverage, firm age, industry, etc.)

Z: CEO j’s characteristics (age, owned stock, tenure, family CEO, internal promotion, etc.)

u_j: firm i’s time invariant unobserved characteristics (firm i’s fixed effect)

e_{it}: error term

Unobservable characteristics (u_j) and error term (e_{it}) are independent of one another, under the assumption that the error term is normally distributed with mean zero and variance of σ^2.

2.4. Results

<Table1> is about here

Prior to panel analysis, the descriptive statistics and correlations are examined to explore the nature of and correlations among variables. According to <Table 1>, the average age of CEOs included in the sample is 59 years, with an average tenure of 16 years, 50% internally promoted, and 31% are family CEOs. In terms of TMT diversity for sample firms, age diversity is higher than educational diversity, which suggests that most TMT members are college graduates with little variation in educational level and come from diverse age groups. It can be expected that age diversity will have a bigger impact on results than educational diversity in subsequent analyses. The results of estimating the random effects model to examine the effect of CEO humility on long-term orientation are presented in <Table 2>.

<Table2> is about here

The results for hypothesis 2 can be confirmed in models 2 and 3. First, hypothesis 2, which predicts a negative relation between TMT diversity and asset durability, is strongly supported with evidence of a significant causal relation at the $p < .01$ level in terms of age diversity. That is, it is partially explained that the tendency to invest in fixed assets increases with age diversity. However, other diversity indexes and asset durability show statistically insignificant relationships. These results do not support hypothesis 2, which predicts significant relations for both. For example, in terms of education, it can be hypothesized that educational diversity between college graduates and masters or doctoral graduates leads to a lower likelihood of conflicts with very few high school graduates as TMTs in terms of educational level, in Korea.

The results for Hypothesis 1 can be confirmed through Model 1. It is confirmed that the positive effect of CEO humility on the company’s long-term orientation, proxied by asset durability, is statistically significant at the $p < .1$ level. That is, it is partially explained that a humble CEO tends to invest more in durable fixed assets.

Of the control variables, size proxied by total assets is shown to be significantly related to asset durability. That is, bigger firms with more assets tend to invest more in durable fixed assets.

Lastly, Model 4 demonstrates the interaction of a humble CEO's presence with variables of TMT diversity in terms of the relationship between background diversity and the dependent variables.

First, in terms of the negative effect of age diversity on asset durability, Model 4 confirms the interactive effect of CEO humility and provides support for the argument of Hypothesis 3. Specifically, the effect of age diversity on asset durability is still negative and significant, while the interactive effect between age diversity and CEO humility turns the main coefficient into a positive sign. This suggests that while the negative effect of age diversity on asset durability continues to be the case for usual CEOs, the effect of age diversity declines with humble CEOs.[1] On the other hand, the effect of educational or other diversity on asset durability is not significant, and thus, un-tabulated.

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[1] However, considering the interactive effect between educational diversity and CEO humility, it is shown that the sign of the effect of CEO humility on asset durability turns from positive to negative. This suggests that CEO humility has a positive effect on asset durability in the presence of age diversity, which has a negative effect on asset durability, not that CEO humility itself has a positive effect on asset durability. This implies that while CEO humility itself has no specific role, its effect is pronounced only when it interacts with certain circumstances.

2.5. Discussions and Limitations

This study measures long-term preference with an accounting variable of asset durability instead of indirect proxies such as R&D and CSR, and thus, allows a direct determination of factors affecting the long-term business decisions of CEOs in various industries.

Furthermore, as an alternative to the “lack of investment preference with long-term view” that is often viewed as a weakness of professional CEOs compared to owner CEOs or founder CEOs, an attempt to document the possibility of CEO humility is worth examining.

Moreover, focusing on the CEO’s position, which plays a special role within the corporate governance structure, as an alternative to control the conflicts of interest induced by diverse backgrounds of TMT, it is suggested to empirically verify the positive effect of CEO humility. The strengthening of transparency in corporate management with the adoption of the Stewardship Code and the high likelihood of appointment of management with “various backgrounds” through shareholder meetings, such diversity may act as the cause of conflicts in business decisions. In such environment, CEO humility can fulfill its role as the moderator of conflicts for sufficient utilization of human capital by inducing harmony within the management team.

Lastly, I would like to focus on the influence of "Family CEO," "CEO ownership" or "*Chaebol*," which have been recognized as the most important predictors for corporate long-term orientation. In my research, these three factors do not show any significant influences on long-term orientation. Although it might be attributed to the unique characteristics of the Korean sample, this would be the counterevidence to the widely known concept that a family or owner CEO sacrifices short-term interests for corporate long-term investment. Some careful research can help understand if any principal-principal conflicts or the issue of tunneling might have a relationship with this short-termism.

This study has the following limitations. First, it uses only age and educational background as the background variables of CEO and TMT members, which may affect long-term decision making. Future research needs to explore the effects of demographic variables such as career or technical experience more extensively. If possible, further research on the effect of interactions among CEO and TMT members on long-term investment decisions through direct measurement using surveys is necessary, instead of indirect measurement of long-term preferences of CEO and TMT members using demographic variables.

Second, while a humility index has been created by manually coding secondary data for measuring CEO humility, the fact that the proxies used do not reflect all of the characteristics mentioned in the hypothesis development section, remains a limitation. This also provides opportunities for future research. This study proposes CEO humility as a characteristic of professional CEOs that can bring about similar effects as family CEOs, whom prior studies have extensively examined, as exhibiting long-term business orientation and investment behavior. Through follow-on research, I hope that many characteristics of steward CEOs such as family CEOs or founder CEOs will be examined, in addition to CEO humility, which creates synergy in long-term investment by inducing harmony within and integrating the diversity of TMT.

Table 1. Descriptive statistics and correlations

	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1.Asset Durability	21.51324	30.32698	1																	
2.Humility	0.019087	0.548123	0.0236	1																
3.Age diversity	0.674002	0.164269	-0.0252	0.0847*	1															
4.Function diversity	0.235216	0.254958	0.0334	-0.0157	0.3086*	1														
5.Edu diversity	0.310896	0.232213	-0.0112	0.2068*	0.2764*	0.1341*	1													
6.Foreign Edu diversi	0.219097	0.214928	0.0372	0.0635*	0.2136*	0.0526*	0.3580*	1												
7.Tenure diversity	0.588967	0.234626	0.0315	0.0993*	0.4967*	0.2044*	0.1369*	0.0941*	1											
8.Promotion diversity	0.204113	0.215098	-0.0005	0.0347	0.1564*	-0.0112	0.0294	-0.0295	0.1959*	1										
9.Major diversity	0.353835	0.260326	0.0342	0.0383	0.2898*	0.1307*	0.2083*	0.1082*	0.2041*	0.0874*	1									
10.Family	0.311304	0.463128	-0.0322	0.1587*	0.0401	0.0231	0.0627*	0.033	0.0877*	0.0162	-0.0556*	1								
11.CEO_Ownership	0.090276	0.225283	-0.0379	0.0734*	-0.0104	-0.0239	0.0432	-0.0927*	0.0594*	0.0738*	-0.0354	0.3066*	1							
12.Internal Promotio	0.627978	0.483492	-0.0025	0.0868*	0.0148	0.0653*	-0.0345	0.0660*	0.0878*	-0.0302	-0.0053	0.3719*	0.0448	1						
13.Tenure	16.31423	13.50831	0.0653*	0.1506*	0.1026*	0.0799*	0.0662*	0.0532	0.2868*	-0.0565*	0.0478	0.3796*	0.1780*	0.3934*	1					
14.ROA	0.026524	0.083443	0.0830*	0.0295	0.023	-0.005	0.1142*	0.0634*	0.0639*	0.0332	0.0358	0.0286	0.0274	0.0372	0.0873*	1				
15.leverage	0.402919	0.208504	0.1070*	0.0074	-0.0104	0.0912*	-0.1230*	-0.0408	-0.037	-0.018	0.0287	-0.1348*	-0.1535*	-0.0644*	-0.1076*	-0.3036*	1			
16.size	20.02691	1.507936	0.0852*	0.1076*	0.2407*	0.1994*	0.1059*	0.1213*	0.1217*	-0.0670*	0.2193*	-0.0950*	-0.1270*	0.0633*	-0.0197	0.0816*	0.1819*	1		
17.Chaebol	0.25213	0.43432	-0.0195	0.0344	0.0776*	0.012	0.0067	0.0373	0.0065	-0.1421*	0.0549*	-0.1327*	-0.1351*	-0.0429	-0.1781*	-0.0239	0.0952*	0.5684*	1	
18. Firm age	39.23292	18.76601	-0.0113	0.1624*	0.1240*	-0.0724*	0.0191	0.0517*	0.1588*	-0.0264	0.0117	0.2292*	0.0411	0.1490*	0.2730*	-0.0421	-0.0591*	0.0407	-0.0104	1

Table 2. Results with panel data and random effects model

	AD(asset durability)				
	Model1	Model2	Model3	Model4	Model5
	coef/t	coef/t	coef/t	coef/t	coef/t
Humility	6.132*			-40.81**	-81.67***
	(-3.717)			(-14.760)	(-23.050)
Age diversity		-24.53*	-81.35***	-20.94**	-79.84***
		(-9.807)	(-23.310)	(-7.892)	(-23.220)
Tenure diversity		6.8			
		(-8.125)			
Promotion diversity		-0.0731			
		(-6.963)			
Edu diversity		-4.061			
		(-7.721)			
Major diversity		2.059			
		(-6.793)			
Function diversity		-4.719			
		(-6.139)			
Foreign Edu diversity		8.824			
		(-8.904)			
(age diversity)^2			67.38**		66.56**
			(-24.560)		(-24.570)
Humility x age diversity				69.32**	234.0**
				(-21.160)	(-74.190)
Humility x (age diversity)^2					-151.0*
					(-64.480)
ROA	19.95	21.38	24.39	17.1	22.28
	(-13.560)	(-13.500)	(-13.250)	(-13.350)	(-13.250)
lev	9.509	10.45	10.07	8.765	10.51
	(-9.401)	(-9.503)	(-9.268)	(-9.314)	(-9.296)
size	3.062*	3.769*	2.745	3.458*	2.826
	(-1.545)	(-1.609)	(-1.578)	(-1.539)	(-1.578)
Chaebol	3.491	3.689	5.399	3.971	4.478
	(-5.082)	(-5.154)	(-5.062)	(-5.029)	(-5.037)
Firm age	-0.166	-0.155	-0.136	-0.164	-0.17
	(-0.110)	(-0.111)	(-0.108)	(-0.110)	(-0.110)
Family CEO	-5.098	-3.135	-3.565	-3.83	-3.154
	(-4.871)	(-4.879)	(-4.782)	(-4.837)	(-4.837)
CEO Ownership	3.415	3.662	3.291	3.696	3.369
	(-3.976)	(-3.980)	(-3.898)	(-3.906)	(-3.857)
CEO internal promotion	-2.806	-4.623	-4.28	-3.195	-2.963
	(-4.499)	(-4.518)	(-4.437)	(-4.463)	(-4.459)
CEO tenure	0.163	0.224	0.23	0.145	0.115
	(-0.174)	(-0.177)	(-0.171)	(-0.174)	(-0.174)
cons	-17.9	-8.196	.	-10.81	7.453
	(-35.240)	(-37.300)	.	(-34.980)	(-36.150)
Number of Observation	511	518	520	511	511
Number of firms	221	225	225	221	221
Adjusted R2	0.1515	0.1635	0.1606	0.1851	0.1932

CHAPTER III. Are Humble CEOs Agents?

Earnings Management and the Role of Governance Control Mechanism

3.1. Introduction

The agency theory assumes that agents are rational and economically oriented. Therefore, the theory predicts that agents will act in their best interests to increase personal gains and benefits. CEOs of companies and organizations are agents of their principals (shareholders). According to the agency theory, as agents of their principals, CEOs are predicted to maximize their self-interests even when such actions have detrimental effects on the principals' interests.

In contrast to agency theory, the stewardship theory states a different premise about human behaviors. According to agency theory, humans are opportunistic, and CEOs are rational agents. In addition, agency theory assumes that agents have different self-interests from principals, pursuing short-term benefits and risk-aversion behaviors (Jensen & Meckling, 1976; Fama & Jensen, 1983). Unlike agency theory, the stewardship theory assumes that CEOs appreciate high-order values and identify themselves with their organization, pursuing long-term purposes (Davis et al., 1997).

In previous studies, scholars have confirmed that an internal control mechanism is effective in reducing agency costs associated with TMTs' decision-making process. These studies are based on the premise that CEOs are opportunistic agents. By contrast, steward CEOs and TMT members identify with their organization, preferring empowerment and autonomy rather than control mechanism.

The upper echelon theory focuses on studying the impact of managerial background characteristics on strategic choices and organizational outcomes (박철순 & 유진탁 1999; Hambrick & Mason, 1984; Bantel & Jackson, 1989). Many personality traits of CEOs, such as hubris, narcissism, and overconfidence are similar in that they assume that CEOs are agents. The upper echelon theory assumes that CEOs use their own cognitive base and values. Therefore, their psychological traits, age, and financial status reflect in their decision-making process, influencing strategic choices and organizational outcomes. For CEOs that are similar to agents, the internal control mechanism is very effective (Hayward & Hambrick, 1997; Xia et al., 2008; 유재욱, 2010). However, studies based on upper echelon theory and stewardship theory, have focused on family CEOs and founder CEOs. Many studies are based on specific events, such as CEO replacement. Scholars have ignored the relationship between CEO characteristics and stewardship theory. Therefore, it is necessary to study how internal mechanism, empowerment, and autonomy can influence steward CEOs.

In this study, I shift my attention to CEO humility, which recently, has received much attention. Unlike traditional CEO characteristics such as hubris, narcissism, and over-confidence, humility is very similar to stewardship. CEO humility is relatively new. Therefore, few empirical studies have focused on the impacts of CEO humility on strategic change, costs, and organizational performance. Throughout this study, I define CEO humility based on four components and empirically examine its influence on earnings management, which is one of the main representations of agency costs. I study how the similarity between humble and steward CEOs makes the internal control mechanism less effective. I attempt to understand how CEO humility influences organizational outcomes and which control mechanism is appropriate for humble CEOs.

3.2. Theoretical Background

3.2.1. CEO humility and Stewardship

Humble CEOs and steward CEOs are similar in that they have relationships with their subordinates based on noneconomic assumptions (Doucouliagos, 1994). While economic approaches to governance, such as the agency theory tend to assume that subordinates are individualistic, opportunistic, and self-serving (Davis et al., 1997), noneconomic approaches in CEO humility and stewardship theory do not necessarily make such assumptions. Rather, stewardship theory depicts subordinates as collectivists, pro-organizational, and trustworthy (Davis et al., 1997) and humble CEOs appreciate and empower their subordinates (Ou et al., 2014; Owens et al., 2013). Thus, in this section, I describe similarities between humble CEOs and steward CEOs and explain how these similarities can explain both the negatively predicted relationship between CEO humility and agency costs, and the moderating role of control mechanism.

First, stewardship theories focus on intrinsic motivation rather than extrinsic motivation (Davis et al., 1997). Steward CEOs tend to value rewards, including opportunities for growth, achievement, affiliation, and self-actualization (Davis et al., 1997). Stewardship theory assumes that internal work motivation leads to higher levels of performance and satisfaction with work (Davis et al., 1997). In a stewardship relationship, the focus would be on the higher order needs of Maslow's hierarchy (1970). Similarly, humble CEOs are less self-focused and more engaged in self-transcendent pursuits (Ou et al., 2014). Humility is described as a characteristic leading to growth (Owens & Hekman, 2012) and self-realization. Humble CEOs tend to focus less on themselves (Ou et al., 2014), and therefore, are less individualistic and self-serving than their counterparts. Their life purposes are about the larger community, the greater whole, moral principles, or the ultimate universal truth (Grenberg, 2005; Morris, Brotheridge, & Urbanski, 2005), proving that they share similarities with steward CEOs, who focus on collective interests and on the higher order needs of Maslow's hierarchy, as mentioned earlier.

Second, stewardship theory argues that steward CEOs would define themselves in terms of their membership in a particular organization by accepting the organization's mission, vision, and objectives (Kelman, 1958; Mael & Ashforth, 1992). Through identification, an organization becomes an extension of the steward's psychological structure (Davis et al., 1997). Because humility is accepting that something other is greater than is the "self" (Ou et al., 2014), humble CEOs accept that their organization is more important and define themselves in terms of their membership within the organization. Since their self-transcendent pursuits lead humble CEOs to forget the self (Tangeny, 2002) and focus on the larger community and the greater whole (Ou et al., 2014), humble CEOs are expected to identify with their organization.

Third, steward CEOs and humble CEOs are similar because both types value open communication and worker empowerment (Ou et al., 2014). Steward CEOs implement involvement-oriented approaches emphasizing self-control and self-management (Lawler, 1986, 1992). The underlying assumption in this involvement-oriented approach is that when employees are given challenges and responsibility, they will develop self-control. Similarly, since humble CEOs appreciate the opinions and contributions of others, and are open to feedback (Ou et al., 2014), they may allow their subordinates to engage in self-control and self-management when the latter faces challenges.

Based on the three different aspects mentioned earlier, I have established that steward CEOs and humble CEOs are very similar to each other. Why is such similarity important and relevant for this study? I have provided reasons for the similarity between steward CEOs and humble CEOs because I need to justify why humble CEOs are less likely to incur agency costs and why a control mechanism is detrimental for the relationship. I argue that because steward CEOs and humble CEOs are similar, we can apply both the negative relationship between stewardship and agency costs, and the detrimental effects of control mechanisms to humble CEOs. According to Davis and coauthors (1997), a steward's behavior will not depart from the interests of his or her organization and a steward will not substitute or trade self-serving behaviors for cooperative behaviors, reducing the likelihood of agency costs to occur. In addition, for stewards, control can be potentially counterproductive because it undermines the pro-organizational behavior of the steward, by lowering his or her motivation (Argyris, 1964). I will provide more details in hypothesis development in later sections.

3.2.2. Agency Problem and Earnings Management

CEOs are generally perceived to be agents of their principals who are the delegated authority for taking strategic decisions in the organization. In case of separation of ownership and management, as is common in modern society, such separation allows CEOs to maximize their ability to manage the organization. However, such separation causes two primary agency problems incurred by conflicts of interests and information asymmetry. These agency problems have received much attention and resulted in many different perspectives and opinions (Eisenhardt, 1989; Fama & Jensen, 1983).

First, agency problems occur when there are conflicts of interests between agents and principals. These conflicts of interests can lead to agency costs, with detrimental effects on the interests of principals (Jensen, 1986). Second, agency problems can occur because agents and principals have different tendencies toward risk. In particular, agents are more risk-averse than their principals (Lambert, 2001), and tend to focus more on short-term profits than long-term profits to benefit from short-term profits during their tenure. In the stock market, principals are allowed to manage their portfolios, causing them to stay risk-neutral. By contrast, CEOs are agents, meaning that CEOs are highly concerned about their employment and short-term pay based on short-term performance. Lastly, CEOs have information that shareholders do not possess, causing agency problems regarding information asymmetry. CEOs, being agents, can take advantage of information that their principals do not have access to and engage in moral hazard by concealing such information to cater to self-interests.

Agency costs explained earlier have been measured in multiple ways. Traditionally, they have been captured by CEOs' individual pay and abuse of privileges (Bebchuk & Fried, 2003; Tosi & Gomez-Mejia, 1989; Boivie et al., 2011), and excessive investment in unrelated diversification strategies. In addition, scholars have focused on CEOs' investment in R&D, which is necessary to gain competitive advantage, but is highly risky. Specifically, scholars have noted that CEOs who make such investments at the suboptimal level and prefer mergers and acquisitions as strategic choices (Barker & Mueller, 2002).

Among the many ways to measure agency costs, scholars have primarily focused on accounting proxies. For example, scholars have used profit forecast and accounting fraud-related variables, such as earnings forecasting error. In this study, I shift my attention toward earning management strategies chosen by CEOs who attempt to use information asymmetry to maximize their self-interest and stay risk-averse.

CEOs are aware that their employment and short-term pay are largely affected by their organization's short-term profits. Thus, to protect themselves from short-term losses, CEOs are highly motivated to engage in earnings management by providing false report on earnings or losses (Burgstahler & Dichev, 1997; DeFond & Jiambalvo, 1991; Healy & Wahlen, 1999; 최원용 서정일, 2013; Davidson et al. 2004). Such earnings management decisions can occur because CEOs are the delegated authority to report profits or losses. These decisions can cause detrimental impacts on the interests of principals, because the principals do not receive correct information about their companies' accounting data, such as profits and earnings, negatively influencing long-term interests and gains of the organization (Davidson et al. 2004). About 30~40% of loss-making companies among S&P 500 companies (Burgstahler & Dichev, 1997) and 50% of loss-making companies in Korea (송인만 등, 2004) are engaged in earnings management. Methods for earnings management usually include under-recognition of bad debt expense, under-recognition of valuation loss, and discretionary adjustment to accounting standards for R&D and assets on financial statements.

3.3. Hypotheses Development

3.3.1. CEO Humility and Earnings Management

Usually, the two causes of agency problems between shareholders and management are “conflicts of interest” and “information asymmetry.” However, the cause of agency problems may not depend on the preferences of the CEO, such as belief and personal characteristics. First, a humble agent (CEO) has a lower likelihood of experiencing conflicts of interests with shareholders and other stakeholders than a CEO who is not humble. A humble CEO has low self-focus, self-transcendent pursuit of public interest rather than personal gains, and pro-social behavior (Exline & Geyer, 2004). In addition, such CEOs do not seek immediate glory and instead take decisions that are in the long-term interest of the organization (Eberhart, Maxwell & Siidique, 2004). Accordingly, a CEO with high humility has a lower likelihood of having conflicts of interests with shareholders and other stakeholders.

In addition, a firm with a humble CEO has a lower likelihood of suffering from information asymmetry between shareholders and management. This is because a humble CEO has developmental orientation, teachability, self-awareness and appreciation of others that lead him/her to take appropriate decisions by incorporating the opinions of others instead of unilateral decision-making (Hilbig & Zettler, 2009). As prior studies prove, a humble CEO is more likely to include subordinates in the decision-making process (Morris et al., 2005; Owens & Hekman, 2012) and less likely to have incentives to conceal or manipulate information to shareholders and other stakeholders. Because a more humble agent has a lower likelihood of suffering from conflicts of interest with owners and information asymmetry than a less humble agent, he/she is less likely to commit earnings management, which is a form of agency cost.

H1: There will be negatively associated relationship between CEO humility and a CEO's earnings management.

3.3.2. Internal Governance Mechanism and Earnings Management

An internal governance mechanism effectively controls the self-interest seeking behaviors of CEOs and reduces agency cost. Generally, shareholders find it necessary to monitor CEOs to reduce agency costs. However, minority shareholders with less control over their organization than major shareholders cannot monitor CEOs. In addition, these minority shareholders do not have access to the information that CEOs receive. This information asymmetry prevents shareholders from controlling, managing, and monitoring CEOs. Thus, rather than controlling and monitoring their CEOs directly, shareholders choose to implement corporate governance mechanisms to control the self-interest seeking behaviors of

CEOs (김성훈 & 박철순 2000). In this study, I empirically study the effectiveness of board of directors and foreign investors as control mechanisms.

3.3.2.1. Outside Directors

Monitoring by boards of directors can reduce agency costs and improve firm performance (Jensen & Meckling, 1976; Fama, 1980; Mizruchi, 1983; Zahra & Pearce, 1989). Fama and Jensen (1983) stated that a board of directors is the best tool for principals to control and monitor CEO behavior. In addition, they argued that the board of directors must be given incentives to monitor CEOs, and the autonomy and power to control them. As one example of the studies examining relationships between board of directors and earnings management, Peasnell, Pope, and Young (2000) found that as external boards of directors increase, CEOs are less likely to manage their earnings to report excessive or abnormal (discretionary) accruals. By contrast, the audit committee has no direct impact on earnings management. This indicates that external board of directors play an important role in increasing the reliability of financial statements.

In this study, I treat the proportion of external board of directors as control mechanisms for corporate governance, and examine the proportion of external board of directors as a proxy for the independence of the board of directors. Furthermore, I empirically examine how the proportion of external board of directors limits earnings management.

3.3.2.2. Foreign investors

Foreign investors may attempt to control firm managers. Ahmadjian & Robbins (2005) found that a manager felt strong pressure to listen to foreigners when they were aware of foreign ownership. An exit by foreign investors might raise the cost of capital, and especially in emerging markets, it can decrease managerial incentives, because it causes serious harm to firm value (David et al., 2006). Accordingly, foreign investors can acquire comprehensive information from firms' managers and control them in effect, preventing them from acting like agents.

Similarly, CEOs are agents who pursue self-interests. Therefore, foreign investors can play an effective role in controlling earnings management pursued by CEOs. Previous studies that use Korean companies as samples show negative relationships between the percentage of ownership by foreign investors and earnings management (e.g., 전영순, 2003). A study found that as the percentage of ownership by foreign investors' increases, companies pursue more conservative accounting. Furthermore, foreign investors actively engage in monitoring the opportunistic behaviors of CEOs in managing earnings (김정옥 & 배길수, 2006). In addition, when making investment decisions, foreign investors appreciate transparency, allowing the percentage of ownership of foreign investors to become an effective mechanism for reducing agency costs (이진수 et al., 2010). Based on these prior findings, I make the following hypotheses.

3.3.2.3. Stock Options

Agency cost can be reduced by aligning the interest of a manager with that of shareholders (Jensen & Meckling, 1976). Stock options have been studied extensively, as an internal control mechanism that reduces the conflict of interests between a manager and the shareholder of a firm. Therefore, I re-test the following hypothesis regarding stock options.

H2. Control mechanism for governance structure will limit earnings management.

H2a. There will be a positively associated relationship between the proportion of external boards of directors and a CEO's earnings management.

H2b. There will be a negatively associated relationship between the proportion of ownership of foreign investors and a CEO's earnings management.

H2c. There will be a negatively associated relationship between the adoption of stock options and a CEO's earnings management.

3.3.3. Control Mechanism's Moderating Effects on CEO Humility

As mentioned, I argue that humble CEOs and steward CEOs are very similar to each other. Based on this similarity, I predict the moderating effects of control mechanism on corporate governance. To rationalize my prediction and hypothesis, I must first explain steward CEOs. According to Davis and coauthors (1997), a steward's behavior does not depart from the interests of his or her organization and does not substitute or trade self-serving behaviors for cooperative behaviors. Thus, control can be potentially counterproductive for stewards (Davis et al., 1997) because it undermines their pro-organizational behavior, by lowering motivation (Argyris, 1964). For steward CEOs, their pro-organizational actions are best facilitated when the corporate governance structures give them high authority and discretion (Donaldson & Davis, 1991). This situation is attained more readily if the CEO chairs the board of directors (Davis et al., 1997). Under the stewardship model of man, stewards maximize their utility as they achieve organizational rather than self-serving objectives (Davis et al., 1997). Thus, stewardship theorists focus on structures that facilitate and empower rather than those that monitor and control. Similarly, I predict that such structures will work in the best interests of humble CEOs who share many underlying characteristics with stewards.

Additionally, previous literature finds that external control mechanisms, such as an independent board of directors, are not effective when CEOs are already acting in the best interests of the organization (Tompkins & Cheney, 1985). When CEOs identify with their organization, they do not necessarily incur agency costs and any additional control mechanism becomes unnecessary and ineffective (Boivie et al., 2011). Thus, I can conclude that when there is no potential agency costs and problems, control mechanisms cost and lead CEOs to feel discouraged and demotivated (남윤성 & 박철순, 2008). Since humble CEOs tend to identify with their organization and already act in its best interests, control mechanisms will not be effective. In addition, since humble CEOs appreciate others and have low self-focus, they are less likely to maximize their own interests or benefits and to align their interests with those of other stakeholders.

H3. Control mechanism for governance structure will negatively moderate the relationship between CEO humility and earnings management

H3a. The proportion of external boards of directors will have negative or no moderating effects on the negatively predicted relationship between CEO humility and earnings management.

H3b. The proportion of ownership of foreign investors will have negative or no moderating effects on the negatively predicted relationship between CEO humility and earnings management.

H3c. The adoption of stock options will have negative or no moderating effects on the negatively predicted relationship between CEO humility and earnings management.

3.4. Methods

3.4.1. Sample and Data

The sample for this study was collected from secondary data sources. With 2013 as the benchmark, the four-year panel data collected for empirical analysis comprised of independent and dependent variables for companies listed on the Korea Stock Exchange (KOSPI) from 2013 to 2016. Data on CEOs, especially for measuring CEO humility, is collected from search results on portals and official company websites by confirming CEO incumbency. In case of retirement, data collection was possible only when the CEO's greeting in the sustainability report and annual report was available, during tenure, which excluded firms not disclosing sustainability reports and annual reports from our sample. Data on directorship at non-profit, educational level, and the breadth of education was collected from search results on portals and article searches. In addition, the annual reports of each individual company on Financial Supervisory Service's DART have been manually collected. The same procedure was applied to data collection for CEOs of control firms. Information on age and educational history of TMT was collected from TS-2000 provided by Korea Listed Companies Association, portal search results, and article search results

The sources of financial data include KisValue offered by NICE Information Service, annual reports of companies provided by the Financial Supervisory Service and TS-2000. Except for the financial service industry, which is highly specialized, industries are classified into five industry codes with the presumption that the effect of asset durability, which is the dependent variable, may vary with industries. After excluding loss-making companies that may affect the causal relationship of the research model from the sample, 210 companies satisfying all above requirements were selected as the final sample.

3.4.2. Dependent Variable

The hypothesis proposed in this study suggests that CEO humility increases the likelihood of earnings management and requires an estimation of earnings management to test this hypothesis. Research on earnings management uses the discretionary accruals model to detect earnings management phenomenon, induced by executive compensation or proxy fight (DeAngelo, 1988), import tariff inducement (Jones, 1991), and various other earnings management incentives. Normally, total accruals (TA) refer to the difference between net income reported by the company and cash inflows that are debited to the company’s account. That is, they refer to income reported only on the books, without actual cash inflows, and can be further decomposed into non-discretionary accruals that are assumed to be free of earnings management, and discretionary accruals under the assumption of earnings management incentives. For example, while non-discretionary accruals include depreciation expense, contingent liabilities, accounts payable from business operations, and so on, which might contain few earnings management incentives, discretionary accruals contain the under-recognized part of the allowance for bad debts or valuation loss, income inflated by discretionary application of accounting standards and intentionally deleted part of research and development expense. Owing to the absence of separate line times for discretionary accruals, researchers propose various estimation models. This study measures earnings management as discretionary accruals estimated by the modified Jones model, which is most widely used in related accounting research (Dechow et al., 1995). The modified Jones model is as follows.

$$TA_{it}/A_{it-1} = \alpha_1 [1/A_{it-1}] + \alpha_2 [(\Delta REV_{it} - \Delta REC_{it})/A_{it-1}] + \alpha_3 [PPE_{it}/A_{it-1}] + \varepsilon_{it}$$

where

TA_{it} : Company i's total accruals in year t

ΔREV_{it} : Company i's change in revenue in year t

ΔREC_{it} : Company i's change in accounts receivable in year t

PPE_{it} : Company i's property, plant and equipment in year t

A_{it-1} : Company i's total assets in year t-1

ε_{it} : Residual

Discretionary accruals (DACC) representing earnings management in the above model are estimated as residuals from the industry-year estimation in the above model. Total accruals (TACC) are calculated as net income minus operating cash flows.

3.4.3. Independent Variables

CEO humility

The independent variable in this study, CEO humility, is a psychological variable that can only be measured with a survey. Therefore, empirical proxies of humility (1) the size of the CEO's picture in the CEO greetings on corporate websites or annual reports, (2) the level of praise and appreciation of other stakeholders, (3) CEO participation in non-profit organizations, (4) education levels of a CEO and (5) breadth of education, are collected to measure humility following the research method of Beauchesne (2014), standardized in value, and averaged to yield the independent variable (HI, Humility Index). Here, the size of picture and appreciation of other stakeholders reflect the "appreciation of others," while the size of picture and participation in non-profit organizations shows "low self-focus." In addition, educational level and breadth of education are proxies reflecting "self-awareness" and "appreciation of others." The coding of each variable is as follows. First, 0 if the size of the CEO's picture covers more than half the space and 1 otherwise (H1). Second, each word of appreciation, praise, and gratitude for other stakeholders is counted as 1 by counting the number of sentences (H2). Third, participation in greater than or equal to one non-profit organization is coded as 1 and 0 otherwise (H3). In education, a high school diploma is coded as 2, college 3, master's graduation or completion 4 and doctorate graduation or completion as 5 (H4). Breadth of education is coded by counting the number of majors at the undergraduate level or above (H5). For example, a CEO with an undergraduate major in physics and a graduate major in business administration is coded 2.

Internal control mechanism

The effectiveness of foreign investors was measured by the percentage of a firm's shares held by foreign investors. In relation to independent directors, this study assumes, according to Fama and Jensen (1983) that independent directors have greater incentive to perform monitoring and supervising roles than inside directors. In addition, the ratio of independent directors in the board of directors is increasing in the effectiveness of monitoring and supervising roles, as they are less likely to collude with management to appropriate the wealth of shareholders. Therefore, this study assumes that the ratio of independent directors in the board of directors is increasing in the effectiveness of corporate governance, and denotes observations with the number of independent directors higher than the required number according to a relevant law as 1 and observations with the required number of independent directors as 0 (excessive appointment). Listed companies are required to appoint at least 1/4 of the board of directors as independent directors (minimum of 1) and large listed companies and associated member companies with asset size above 2 trillion Won are required to appoint 1/2 of the board of directors as independent directors (minimum 3).

A firm that adopts stock options was coded “1” and “0” otherwise.

3.4.4. Control Variables

Following prior studies on the factors influencing earnings management, this study includes company size, leverage, prior year total accruals, prior year ROA, and asset growth. In relation to CEO characteristics, this study includes indicator for owner CEO (family CEO), CEO age, CEO tenure and industry fixed effects (DeFond & Park, 1997; Duke & Hunt, 1990; Bushee, 1998).

3.4.5. Analysis

To test the hypothesis, empirical models in which CEO humility and variables for internal control mechanisms, such as indicator of excess appointment of independent directors and stock ownership by foreigners are the independent variables, and the company’s discretionary accruals is the dependent variable, are estimated using the panel analysis method. First, the White and Durbin-Watson tests are conducted to detect heteroskedasticity and autocorrelation problems in the panel data and show that both problems exist in the data. In such a case, both fixed effects and random effects models can be used to derive unbiased estimators. The analysis is conducted using the random effects model to reflect greater within and between variations. The equation is as follows:

$$\mathrm{DACC_{ijt}} = \beta_0 + \beta_1 Hum_{ijt} + \gamma X_{jt} + \delta Z_{jit} + u_j + e_{it}$$

$$\mathrm{DACC_{ijt}} = \beta_0 + \beta_1 M_{jt} + \gamma X_{jt} + \delta Z_{jit} + u_j + e_{it}$$

$$\mathrm{DACC_{ijt}} = \beta_0 + \beta_1 Hum_{ijt} + \beta_2 Hum_{ijt} * M_{jt} + \beta_3 M_{jt} + \gamma X_{jt} + \delta Z_{jit} + u_j + e_{it}$$

$$\text{where} \quad \mathrm{i = firm, j = ceo, t: year}$$

DACC: Discretionary Accruals

M: Foreign ownership or outside directors or stock options

Hum_{ijt}: CEO i's humility in firm i at t

X: firm i's characteristics (ROA, leverage, firm age, industry, and so on)

Z: CEO j's characteristics (age, owned stock, tenure, family CEO, internal promotion, and so on)

u_j: firm i's time invariant unobserved characteristics (firm i's fixed effect)

e_{it}: error term

Firm's time invariant unobserved characteristics (u_j) and error terms (e_{it}) are independent. The error terms are assumed to have an average of zero and follow normal distribution.

3.5. Results

Prior to panel data analysis, descriptive statistics and correlations are examined to explore the nature of and correlations among variables.

<Table 3> is about here

Of the sample companies, 40% have excess appointment of independent directors, with stock ownership by foreigners at about 10%.

<Table 4> shows the results of the panel data analysis examining the effect of CEO humility on earnings management. Models 1~2 confirm causal relations between the independent variables and dependent variables predicted in Hypotheses 1 and 2. First, Hypothesis 1, which predicts a negative relation between CEO humility and earnings management, is not supported with evidence of a significant causal relation. Next, among the independent variables of internal control mechanism in Hypothesis 2, the effect of excess appointment of independent directors (Hypothesis 2a) and the adoption of stock options (2c) are statistically insignificant. On the other hand, the effect of stock ownership by foreigners (Hypothesis 2b) is negative and statistically significant at the $p < .01$ level.

Models 3, 4, and 5 confirm the results of Hypothesis 3. In terms of the relationship between CEO humility and earnings management, the interactive effects between stock ownership by foreigners, excess appointment of independent directors, adoption of stock options, and CEO humility are demonstrated. First, a look into

Model 3 confirms the statistically significant negative relation between CEO humility and earnings management. The interactive effect between CEO humility and stock ownership by foreigners (Hypothesis 3b) has a statistically significant positive effect on earnings management (DACC). As in Model 1, not considering the interactive effect between CEO humility and stock ownership by foreigners forces the coefficient on CEO humility to reflect both the main negative effect of CEO humility on earnings management and the positive interactive effect between CEO humility and stock ownership by foreigners on earnings management. The fact that Model 1 suggests no significant effect of CEO humility on earnings management can be a result of the offsetting effects of the negative direct effect and the positive interactive effect. Based on this, it can be interpreted that the likelihood of self-serving behavior through earnings management can increase, even for a humble CEO, in the presence of strong internal control mechanism because of stock ownership by foreigners, and that the negative effect on earnings management can be significant in the absence of internal control. On the other hand, Models 4 and 5 suggest that Hypothesis 3a and 3c can be rejected because of the insignificant effect of excess appointment of independent directors or stock options on the relation between CEO humility and earnings management.

<Table 4> is about here

3.6. Discussions and Limitations

Using KOSPI-listed companies as a sample, this study focuses on the empirical analyses of a causal relation between CEO humility and agency costs represented by earnings management and the interactive effects of internal control mechanisms. Empirical results suggest marginally significant results on the relation between CEO humility and earnings management. In addition, this study represents early research to document the role of CEO humility from the perspective of agency cost and contributes by freshly documenting CEO characteristics that effectively constrain agency costs by controlling for information asymmetry and conflicts of interest. Furthermore, this study demonstrates that the role of an internal control mechanism in constraining agency costs can differ depending on CEO characteristics. That is, for a humble CEO exhibiting stewardship, existing control mechanisms that assume the “agent,” may not work effectively. The observation that one of the control mechanisms, “foreign investor,” induces a humble CEO to increase earnings management supports the above findings. Contrary to the prediction, the effectiveness of internal control mechanism measured by the excess appointment of independent directors has no significant relation with earnings management. This suggests that the ratio of independent directors alone cannot sufficiently measure the level of board independence. In addition, given related laws restricting the ratio and number of independent directors in Korea, it is necessary to confirm the qualitative aspects of independent directors’ functions. For example, how active are independent directors in the board of directors? Can independent directors be “independent” with a low likelihood of collusion with management to test the effects of their independence from the board of directors and control mechanisms on management by CEOs? Therefore, future research must undertake correlation analysis between variables for corporate governance and earnings management by considering the actual participation and independence of independent directors in the board of directors.

Moreover, while this study uses CEO humility as an empirical measurement because of data limitations, future research must sharpen its analysis through a detailed survey of CEOs, TMTs, and big data analysis.

Table 3. Descriptive statistics and correlations

	Mean	Std.	DACC	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1.Discretionalry Accruals	-0.002	0.075	1															
2.Humility	0.019	0.548	-0.0428	1														
3.Foreign Ownership	10.310	13.233	-0.0142	0.0618*	1													
4.Outside Directors	0.441	0.497	-0.0268	0.0800*	0.1161*	1												
5.Stock Option	0.020	0.139	0.0013	-0.0184	-0.0343	0.0231	1											
6.Family CEO	0.311	0.463	0.0089	0.1587*	-0.0983*	-0.0437*	-0.0950*	1										
7.CEO tenure	16.314	13.508	0.0139	0.1506*	0.0576*	0.1192*	-0.1094*	0.3796*	1									
8.CEO internal prom	0.628	0.483	-0.022	0.0868*	0.0509*	0.0705*	-0.0828*	0.3719*	0.3934*	1								
9.Net Income Loss	0.212	0.409	-0.2607*	-0.0311	-0.1445*	0.0104	0.0803*	-0.0228	-0.1173*	-0.0299	1							
10.ROA	0.027	0.083	0.5462*	0.0295	0.2008*	-0.0322	-0.0611*	0.0286	0.0873*	0.0372	-0.5851*	1						
11.Leverage	0.403	0.209	-0.1211*	0.0074	-0.1170*	0.0988*	0.0440*	-0.1348*	-0.1076*	-0.0644*	0.3037*	-0.3036*	1					
12.Size	20.027	1.508	-0.0104	0.1076*	0.5000*	0.1376*	-0.0159	-0.0950*	-0.0197	0.0633*	-0.0663*	0.0816*	0.1819*	1				
13.Chaebol	0.252	0.434	-0.0324	0.0344	0.2170*	-0.0264	0.0692*	-0.1327*	-0.1781*	-0.0429	0.0154	-0.0239	0.0952*	0.5684*	1			
14.Firm age	39.233	18.766	0.0074	0.1624*	-0.0405	0.0055	-0.0810*	0.2292*	0.2730*	0.1490*	0.0121	-0.0421	-0.0591*	0.0407	-0.0104	1		
15.Total Accruals	-98300000	560000000	0.1319*	-0.0902*	-0.2911*	-0.0836*	0.0118	0.0708*	0.049	-0.0593*	-0.0424*	0.0476*	-0.0716*	-0.4327*	-0.1604*	-0.0223	1	
16.TotalAssetGrowtl	0.044	0.201	0.2156*	-0.0349	0.0179	0.0219	0.0463*	-0.0419*	-0.0215	-0.0649*	-0.1819*	0.2802*	-0.0608*	0.0147	-0.0383	-0.0356	0.0558*	1

Table 4. Results with panel data and random effects model

	DACC(Discretionary Accruals)					
	Model1	**Model2**	**Model3**	**Model4**	**Model5**	**Model6**
	coef/t	**coef/t**	**coef/t**	**coef/t**	**coef/t**	**coef/t**
Humility	-0.003		-0.015**	0.000	-0.003	-0.012*
	(-0.543)		(-2.159)	(0.023)	(-0.647)	(-1.665)
Foreign Ownership	-0.001**	-0.001**	-0.000*	-0.001**	-0.001**	-0.000*
	(-2.278)	(-2.207)	(-1.890)	(-2.321)	(-2.300)	(-1.951)
Outside directors	-0.006	-0.007	-0.006	-0.005	-0.005	-0.005
	(-1.051)	(-1.294)	(-1.233)	(-0.869)	(-0.989)	(-0.917)
Stock option	0.022	0.023	0.020	0.022	0.030*	0.028
	(1.346)	(1.395)	(1.225)	(1.358)	(1.690)	(1.592)
Humility x Foreign			0.001**			0.001***
			(2.539)			(2.724)
Humility x Outside				-0.009		-0.014
				(-0.906)		(-1.374)
Humility x StockOption					0.068	0.068
					(1.268)	(1.287)
Net Income Loss	0.033***	0.032***	0.032***	0.033***	0.034***	0.033***
	(4.239)	(4.231)	(4.226)	(4.219)	(4.337)	(4.306)
ROA	0.570***	0.564***	0.567***	0.573***	0.577***	0.579***
	(14.605)	(14.635)	(14.604)	(14.628)	(14.639)	(14.717)
Leverage	-0.017	-0.016	-0.011	-0.017	-0.016	-0.009
	(-1.087)	(-1.054)	(-0.711)	(-1.084)	(-0.987)	(-0.576)
Size	0.005*	0.004*	0.004	0.005*	0.005*	0.004
	(1.655)	(1.658)	(1.275)	(1.676)	(1.686)	(1.311)
Chaebol	-0.017**	-0.018**	-0.015**	-0.018**	-0.016**	-0.015*
	(-2.291)	(-2.401)	(-2.034)	(-2.342)	(-2.144)	(-1.954)
Firm age	0.000	0.000	0.000	0.000	0.000	0.000
	(0.836)	(0.883)	(1.032)	(0.871)	(0.856)	(1.122)
TACC	0.000***	0.000***	0.000***	0.000***	0.000***	0.000***
	(3.269)	(3.474)	(3.861)	(3.193)	(3.266)	(3.820)
Total assset growth	0.004	0.006	0.004	0.002	0.001	-0.001
	(0.233)	(0.339)	(0.216)	(0.149)	(0.089)	(-0.056)
Family CEO	-0.008	-0.008	-0.008	-0.008	-0.007	-0.007
	(-1.173)	(-1.284)	(-1.196)	(-1.166)	(-1.104)	(-1.119)
CEO Tenure	0.000	0.000	0.000	0.000	0.000	0.000
	(0.800)	(0.770)	(1.246)	(0.811)	(0.833)	(1.338)
CEO internal promotion	-0.014**	-0.014**	-0.015**	-0.014**	-0.015**	-0.016***
	(-2.325)	(-2.350)	(-2.502)	(-2.319)	(-2.424)	(-2.614)
_cons	-0.078	-0.075	-0.062	-0.080	-0.081	-0.066
	(-1.521)	(-1.505)	(-1.222)	(-1.550)	(-1.574)	(-1.299)
Observation	574	586	574	574	574	574
Number of firms	194	198	194	194	194	194
Adjusted R2	0.3468	0.3441	0.3552	0.3479	0.3491	0.3599

note: *** p<0.01, ** p<0.05, * p<0.1

Chapter IV.

Overall Conclusion

This study contributes to the literature by using data on CEOs in Korean firms to empirically document the relationship between CEO humility and agency cost. In addition, by establishing a link between CEO characteristics such as “humility” and long-term orientation of a firm, this study supports the upper echelon theory.

This study proposes CEO humility as a characteristic of professional CEOs that can bring about similar effects as family CEOs, whom prior studies have studied extensively, as exhibiting long-term business orientation and investment behavior. As an alternative to the “lack of investment preference with long-term view” which is often viewed as a weakness of professional CEOs compared to family/owner CEOs or founder CEOs, I attempted to examine the possibility of CEO humility . In the similar vein, I hope future researches would examine many other characteristics of CEOs besides humility, which would have an impact on long-term investment or reducing agency costs by inducing harmony and integrating TMT members.

I also hope future studies would develop diverse measurements regarding top management’s characteristics including humility. Development of big data research methods and growth of various media data sources including video and audio-metrics would help enriching the sources of measurements.

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국문 초록

최고경영자의 겸손함에 관하여:

기업의 장기지향성과 대리인비용을 중심으로

홍성민

서울대학교 대학원

경영학과 경영학 전공

본 연구는 최고경영층이론의 주요관심사 중 하나인 전문경영인의 대리인적인 자기이익추구와 단기성과 지향적 태도, 즉 short-termism 에 주목하고, 최근 최고경영층이론에서 주목받고 있는 경영진의 심리적 성향중 하나인 겸손함(humility)이 이러한 태도에 대한 하나의 해결책이 될 수 있을지에 대한 답을 내려보고자 하였다.

첫 파트에서는 최고경영진(Top management team, TMT) 내의 멤버들의 다양한 배경적 구성으로 인하여 경영진의 갈등이 야기되고, 그 과정에서 경영진이 각자 대리인적인 이기적 선택에 의해 기업의 전략이

단기지향적으로 흐르는 상황에서, 겸손한 CEO 가 부임할 경우 그러한 관계에 어떠한 조절 효과를 줄 수 있을지를 실증해 보았다. 구체적으로는 독립변수로 TMT 멤버들의 배경적 다양성을 대표적인 다양성 측정 방식인 Blau 지수(Blau, 1977)에 의해 측정하였고, 지나치게 TMT 구성이 다양해질 경우 갈등이 심화되어 '기업이 얼마나 내구성 있는 자산에 투자하는지(asset durability)'로 측정한 종속변수인 기업의 장기지향성에 부(-)의 영향을 줄 것으로 예측하였다. 또한, 겸손함의 특징을 1)피드백에 대한 수용개방성(openness to feedback) , 2) 자기자신을 잘 앎(self-awareness), 3)타인에 대한 인정(appreciation of others), 4) 낮은 자기중심성(low self focus)의 네 가지로 규정하고, TMT 의 특별한 구성원으로서 '겸손한 CEO'가 부임할 경우, 각 4 가지 요소가 팀내 갈등을 해소하는 방향으로 작용하여, 앞에 서술한 부(-)의 main effect 를 약화시키는 방향으로 조절할 것으로 예상하였다. 추가적으로, CEO humility 자체도 장기지향적인 전략적 포지션을 취할 것으로 예상하였다. KOSPI 에 상장된 국내 225 개의 기업을 표본으로 2013~2016 년의 4 개년도 패널분석을 실행한 결과, TMT 내 연령의 다양성이 심화될수록 기업이 내구적인 자본에 투자하는 성향이 저하되었음이 실증되었고, 이 경우 humble CEO 는 이 관계를 정(+)의 방향으로 moderate 하며 약화시킴으로써, 가설은 증명되었다. 또한, CEO humility 자체도 기업의 장기지향적 투자에 positive 인과관계가 있음이 증명되었다.

두번째 파트에서는 겸손한 경영자의 본질을 보다 심층적으로 분석해보고자, 과연 그는 대리인인지 혹은 그 대척점에 있는 개념인 청지기(steward)인지의 여부를 검증해보고자 하였다. 그가 대리인이라면 반드시 대리인 비용을 발생시키며 대리인 문제를 일으킬 것이고, 발생한 문제는 기존 문헌에서 대리인 비용을 줄이는 것으로 검증된 각종 지배구조 내부 통제장치에 의해 제한될 것이다. 그가 청지기라면, 대리인 비용은 발생하지 않을 것이며, 통제장치는 제 역할을 하지 못할 것이다. 이의 검증을 위해, 본 연구자는 우선 CEO humility 와 '이익조정'이라는 지표로 측정한 사익추구적인 대리인 비용과의 관계를 검증했다. 구체적으로는, 대리인문제가 해소되기 위해서는 이를 야기하는 두 가지 요인, 즉, 정보 비대칭(Information asymmetry)과 이해관계 충돌(Conflict of Interests)이 각각 해소될 필요가 있는데, CEO humility 를 규정하는 네 가지 요소들이 각각을 해소시키며 이익조정행위를 줄일 수 있을 것으로 예상하였다. 나아가 겸손한 CEO 는 steward 적인 성향을 지님으로 인해, 사외이사(outside director)의 초과 임명이나 외국인 투자자의 비율 증가 같은 통제장치가 겸손한 CEO 가 이익조정행위에 미치는 영향을 조절하지 못하거나, 약화시키는 방향으로 조절할 것으로 예상하였다. KOSPI 에 상장된 210 개 회사의 정보를 바탕으로 패널 분석을 행한 결과, 독립변수인 CEO 의 겸손함과 종속 변수인 이익조정과의 부(-)의 관계는 기본적으로 유의미한 인과관계를 가지지는 못하는 것으로 확인되었다.

다만, CEO humility 와 내부통제장치인 외국인투자 비율의 상호작용은 이익조정에 유의미하게 정(+)의 영향을 미치는 것이 확인되었다. 이를 통하여, 겸손한 CEO 라고 할지라도 외국인 투자자라는 내부통제장치의 영향을 강하게 받을 경우 이익조정이라는 자기이익추구적 행위를 행할 가능성이 높아지며, 외국인투자자와의 상호작용, 즉 견제가 배제된 상황에서는 오히려 이익조정에 미치는 부(-)의 영향이 유의미하게 드러난다고 해석해볼 수 있다.

Keywords: 기업지배구조, 휴밀리티, 장기지향성, 대리인비용, 이익조정

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