Beyond economic rationale: psychological dimension as a complement perspective to understand the strategic motivation of near-retirement CEOs

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RÉSUMÉ:

Are all CEOs driven by wealth maximization at the last stage of their career? Although extant literature based on economic rationale suggests that near-retirement CEOs are more likely to be risk averse and tend not to initiate a long-term risky strategy, we argue that at the top position and this life stage they are more likely than other individuals to be satisfied with their wealth and driven by psychological needs. It is therefore crucial to incorporate their psychological characteristics into the analysis of near-retirement CEOs' motivation behind strategic decisions. This conceptual paper proposes three such psychological characteristics and suggests the direction and degree of their impacts on near-retirement CEOs' strategic decision. It extends the present knowledge on CEO career horizon and decision making literature, and contributes to corporate governance practice.

Tous les PDG en fin de carrière sont-ils motivés par un souhait de maximisation de leur richesse personnelle ? Alors que la littérature s'appuie sur un raisonnement économique pour suggérer que les PDG sur le point de partir à la retraite tendent à diminuer leur prise de risque et à éviter de s'engager dans une stratégie de long terme, nous proposons qu'à ce stade de leur carrière, ils sont plus satisfaits de leur richesse que d'autres individus et sont en fait plutôt motivés par des besoins psychologiques. Il est donc crucial d'inclure leurs caractéristiques psychologiques dans l'analyse des motivations des PDG en fin de carrière dans leurs décisions stratégiques. Cet article conceptuel met en avant trois de ces caractéristiques et étudie leur impact. Il étend la connaissance sur l'horizon de carrière du dirigeant et la prise de décision et contribue également au sujet de la gouvernance d'entreprise.

Mots-clés: Horizon de carrière du dirigeant, prise de décision, hubris, loyauté.

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1. INTRODUCTION

The current literature on CEO career horizon, referring to the time left in their office before retirement, has focused on economic motivations and self-interest of near-retirement CEOs as suggested by agency theory. The literature argues that near-retirement CEOs tend to be more risk-averse and short-termist than CEOs with longer career horizon because they want to protect and/or maximize their wealth before leaving the office (Sundaram & Yermack 2007; Matta & Beamish 2008; Davidson et al. 2007). As a consequence, they tend to refrain from initiating a long-term risky strategy. However, empirical studies are inconclusive on this argument. Some studies observe a reduction in R&D expenditures (Dechow & Sloan 1991; Barker III & Mueller 2002), while others find R&D expenditure growth unchanged (Butler & Newman 1989; Conyon & Florou 2006; Cazier 2011) during CEO pre-retirement years. Murphy & Zimmerman (1993) find that declines in R&D and advertising expenditures are mainly caused by poor firm performance, not horizon issues. These inconclusive findings can be, in part, attributed to some omitted influencing factors on near-retirement CEOs' strategic decisions. We argue that analyzing their strategic decisions' motivations only through economic rationale lens may overlook their human dimension, and that CEOs' psychological characteristics play an important role in driving their behavior at this life stage.

According to psychological, sociological, and career development literatures, individual decisions along one's life course are influenced by a wide range of motives, such as needs for physiological and safety satisfaction, belonging, achievement, recognition, social status, altruism, and belief (McGregor 1960; Donaldson 1990). Individuals' motives are affected by personal factors, which have been modified by environments from their life experience into the old age (Blau et al. 1956; Super 1980; Roberts & Mroczek 2008). Near-retirement CEOs as individuals are, therefore, certainly influenced by such personal factors or psychological characteristics when making decisions.

Moreover, individuals at the highest organizational position (i.e. CEO) and at this life stage (i.e. pre-retirement) are more likely than other individuals to be satisfied with their level of wealth. Research suggests that individuals' well-being is affected by relative rather than absolute positions (Hill & Buss 2006). Near-retirement CEOs, therefore, are more likely than others to turn their attention to psychological needs. McGregor (1960) argues that when individuals' lower level needs are reasonably satisfied, it is higher-level ones that drive their behavior. Accordingly, it should be these psychological needs that influence to a greater extend CEOs decision at the end of their career. It is crucial, therefore, to theoretically and practically incorporate CEOs' psychological characteristics into the analysis of their motivation behind strategic decisions when approaching retirement.

In this paper, we propose an integrative framework on motivations behind strategic decisions of near-retirement CEOs, in which we incorporate three particular psychological characteristics - hubris, loyalty, and life-goals aspiration - to complement the current economic rationale perspective. Based on this framework, we develop propositions on how these characteristics affect near-retirement CEOs' strategic decisions and counterweight the impacts described by the current literature based on agency theory.

This paper contributes to CEO career horizon and decision making literature by offering a better understanding of the determinants of near-retirement CEOs' strategic decisions. It raises the essentiality of integrating psychological characteristics of CEOs at the end of their career and also expands the present knowledge by suggesting the particular psychological impacts on near-retirement CEOs' strategic decisions. Implications for corporate governance practice can also be drawn from this research.

It is important to distinguish between old age and retirement confrontation before moving forward to next sections. Older CEOs may make strategic decisions differently from younger CEOs as a result of life-long experience (Hambrick & Mason 1984; Hitt & Tyler 1991), but their decision making does not focus on time horizon. On the contrary, the decision making of CEOs who are facing retirement involves an expected future time horizon. The decision making literature suggests that the time horizon used to evaluate decisions impacts how choices are framed. When the evaluation moment (i.e. retirement) is approaching, individuals tend to exhibit a higher degree of risk aversion if they have already achieved their goals, or of risk-taking if they have not in seeking to reach them (Benartzi & Thaler 1995). CEOs, hence, tend to be influenced to a greater extent by their motivation when approaching retirement. Nevertheless, there are some exceptional cases. In the cases where CEOs are motivated by interests of others, their motivation should not influence to a greater degree their decisions when approaching retirement. This is because the time horizon used to evaluate decisions is no longer related to CEOs' retirement, but others' time horizon. This paper focuses on CEO career horizon or CEOs' time remaining in the office before their retirement.

We organize the rest of the paper as follows. We first review the current literature on CEO career horizon. We then propose an integrative framework along with three psychological characteristics and propositions. Finally, we discuss the implications of this research.

2. CEO CAREER HORIZON

When CEOs make strategic decisions, they take their own career horizon and the firm's time horizon into account. If the two horizons are not coherent, the interests of CEOs and the firm (shareholders) may diverge (Jensen & Meckling 1976; Eisenhardt 1989). According to agency theory, this situation can lead to agency problems and generate agency costs (Jensen & Meckling 1976; Eisenhardt 1989). The literature on CEO career horizon suggests that near-retirement CEOs, with short time left in their career, are more likely to be risk-averse than their younger counterparts and cautious about initiating strategy which, if it turns out to fail, may harm their accumulated reputation and economic wealth (Matta & Beamish 2008; Sundaram & Yermack 2007). Researchers find that CEOs close to retirement are less likely to initiate acquisitions (Gao 2010) and international acquisitions (Matta & Beamish 2008) as they represent risky strategy.

Near-retirement CEO's strategic investment aversion sometimes also comes in the form of a reduction in long-term regular business investments (e.g. R&D, advertising, and capital expenditures) in the few years before their departure (Smith & Watts 1982; Dechow & Sloan 1991; Davidson et al. 2007; Cheng 2004; Gao 2010) because they want to boost the firm's current profits, to which their compensation is tied. They will not be around to be accountable for the results of their actions (Narayanan 1985; Rumelt 1987; Barker III & Mueller 2002). Some studies, for instance, find reduction in R&D expenditures during few years before CEO retirement (Dechow & Sloan 1991; Barker III & Mueller 2002). Reduction in R&D expenditures can increase current profitability of the firm, but undermine the firm competitiveness in the long term. Sundaram and Yermack (2007) argue that because CEOs approaching retirement have high-value pension plans and deferred compensation with the firm, they tend to manage the firm conservatively in order to safeguard their deferred benefits. Conservative management includes reducing investment expenditures, initiating less risky projects, preferring debt to equity capital, and extending the firm's debt maturities.

However, some studies do not find evidence of CEO career horizon problems on long-term regular business investments. R&D expenditure growth is found to be unchanged (Butler & Newman 1989; Conyon & Florou 2006; Cazier 2011) during the CEOs' last years before retirement. Capital expenditures show no evidence of changes during the period before CEO retirement (Butler & Newman 1989; Conyon & Florou 2006). Murphy & Zimmerman (1993) also find that declines in R&D and advertising expenditures are mainly caused by poor firm performance, not by horizon problems.

Near-retirement CEOs are also short-termist because they want to maximize their economic wealth before their departure. Gao (2010) finds evidence of near retirement CEOs' short-termism in takeover decisions. He shows that long-horizon CEOs tend to fund acquisitions through equity, especially when they are overpriced, in order to preserve temporary overvaluation for the long term benefits of the firm. On the contrary, short-horizon CEOs, including near-retirement CEOs, tend to fund acquisitions with cash in order not to signal to the market the firm's shares overprice. Gao (2010) also finds that near-retirement CEOs tend to grasp opportunities of market sentiment by executing the deals which investors are optimistic about although they are not at the best long-term benefits of the firm. The literature finds that near-retirement CEOs also engage in earnings management to increase short-term profits which link to their compensation scheme. Income-increasing accruals are found to be higher in CEOs' final years before retirement (Davidson et al. 2007; Kalyta 2009; Demers & Wang 2010). Demers and Wang (2010) find that younger CEOs engage less in income-increasing accruals and real activities earnings management (e.g. acceleration of sales via price discount, excessive production to diminish cost of goods sold by inventorying part of the overhead expenses) than their older peers.

CEO career horizon problems incur agency costs on firms. Firms need to search for mechanisms to monitor and control CEOs' behaviors on strategic decisions to ensure that the firm's interests are put forward. Scholars have suggested some such mechanisms. Dechow and Sloan (1991) find that R&D expenditure growth is reduced during CEOs' final years, but that this reduction can be mitigated through CEO holdings of stock and stock options and through the relay process of CEO succession. Relay process of CEO succession refers to succession planning where the heir apparent works closely with the departing CEO during few years before his/her departure. After the departure, he/she will assume the chairman position of the board (Vancil 1987). The departing CEO, hence, has less discretion on investment decisions as he/she shares many of the decision rights with the succeeding CEO who also has interests to monitor the departing CEO's decisions. The departing CEO himself/herself also has less incentive to be short-termist as he/she will remain with the firm after retirement (Dechow & Sloan 1991). The findings of Naveen (2006) also suggest that succession planning helps mitigate the horizon problems. Bizjak et al. (1993) conclude that firms with high asymmetric information should tie near-retirement CEOs' compensations to the firm's stock performance after retirement in order to provide optimal investment incentives. Gibbons and Murphy (1992) argue that as managers close to retirement have less career concerns (i.e. implicit incentives causing by concerns about the influence of current performance on future compensations), explicit incentives in the form of compensation contract is necessary. Younger subordinates with their longer career horizons are also found to be able to counterbalance and discipline older CEOs' decisions (McGinnis et al. 1999). Brickley et al. (1999) argue that a potential directorship after retirement helps mitigate CEO career horizon problems.

However, some researchers show that equity or firm performance linked compensations can provide negative effects by intensifying the CEO career horizon problems. Matta and Beamish (2008) find that near-retirement CEOs with high levels of in-the-money unexcercised options and equity holding are less likely to initiate international acquisitions than their peers with low levels of in-the-money options and equity holdings. The study of McClelland et al. (2012) also suggests that short-career-horizon CEOs with a higher level of ownership will lead to lower financial and market performance in the future. Kalyta (2009) finds evidence of income-increasing earnings management during the CEO's final years only when their retirement-plan benefits are tied with firm performance.

In summary, the current literature on CEO career horizon provides knowledge on near-retirement CEOs' decision behaviors through agency theory lens. It has demonstrated the agency problems that could arise, and suggested some mechanisms to reduce them. However, findings from some studies are in conflict. According to the agency theory, long-term regular business investments (e.g., R&D, advertising, and capital expenditures) should decline during the last few years of a CEO's career, but some studies find no evidence of this hypothesis, as described above. Equity or firm performance linked compensations are found to have effects to alleviate and intensify the CEO career horizon problems in different studies. This suggests that other factors may play important roles in near-retirement CEOs' strategic decisions.

This paper argues that the human dimension of individuals should also be taken into consideration when studying near-retirement CEOs' decision makings. CEOs are not only motivated by economic rationale and self-interest as proposed by agency theory, but also by their psychological characteristics, which seem to have greater effects on their decision making at this life stage. We expand this argument in the next section. There is only one paper to our knowledge that approaches the CEO career horizon problem through psychological lens, which is Strike et al. (2013). Writing in the context of family firms, they argue that near-retirement CEOs are more concerned with the family's socio-emotional wealth (SEW) and legacy they pass to next generations. The findings suggest that family ownership can mitigate the CEO career horizon problems and that family-member CEOs can increase the likelihood of the firm's international acquisitions.

3. PSYCHOLOGICAL CHARACTERISTICS IN DECISION MAKING

Individuals' psychological factors have long been recognized by the psychological, sociological, career development and management literatures to affect their decision making and behavior. Psychological and sociological literatures suggest that human behavior is driven by a variety of motives, including needs for physiological and safety satisfaction, belonging, achievement, status, recognition, realizing one's own potentialities, altruism, and belief (McGregor 1960; Donaldson 1990). When individuals' lower level needs are reasonably satisfied, it is higher-level ones that drive their behavior (McGregor 1960). Wood & Bandura (1989) suggest that the relation among individual behavior, cognitive and other personal factors, and environment is a triadic reciprocal one. Individual behavior is, therefore, unique and inter-dependent with their psychological characteristics and life experience.

The career development literature suggests that personal and situational determinants play important roles in individuals' decision making all along their life course. Super (1980) suggests that over their life time, people play multiple roles (e.g. a child, a student, a citizen, a worker, a spouse, and a parent) depending on the life stage. Fulfilling each role's demands can put constraints on individuals in simultaneously handling multiple roles. Success in one role may lead to success in another role, or failure if too much compromise is required. People, consequently, make a decision to enter or quit a role or a life stage, including retirement stage, all along their life time. The decision making at these decision points is influenced by personal and situational determinants (Blau et al. 1956; Super 1980). Personal determinants begin with genetic constitution, and are later modified by individuals' experience or situational determinants during their life time. Situational determinants comprise geographic, historic, social and economic conditions which individuals have experienced. Personal determinants modified by situational determinants construct individuals' characteristics, intelligence, self-awareness, situational awareness, along with other cognitive traits, which in turn influence their decision making (Super 1980).

The management literature has also recognized the importance of executives' psychological characteristics in their strategic decisions. The upper echelon perspective (Hambrick & Mason

1984; Hambrick 2007) suggests that a combination of psychological and demographic characteristics of top executives can predict the firm's strategic decisions and outcomes. It argues that faced with a large number of environmental and organizational stimuli and ambiguity, top executives interpret the situation and make strategic decisions through their personal schemas, that is, their values, experiences, personalities, and other human factors. March and Shapira (1987) also argue that managerial risk taking propensity vary among individuals and contexts. It can be attributed to intrinsic motivational factors which are encoded as a part of their personality (March & Shapira 1987).

According to these literatures, near-retirement CEOs' decision making is, thus, influenced by their psychological characteristics modified by their life experience. They may not perceive, anticipate, and behave normatively when they expect their retirement to come. Therefore, psychological characteristics of near-retirement CEOs should be taken into account in complement to economic rationale described in extant literature on CEO career horizon, when studying their motivations behind strategic decisions.

3.1. CEO Pre-Retirement Stage and the Prominence of Psychological Needs

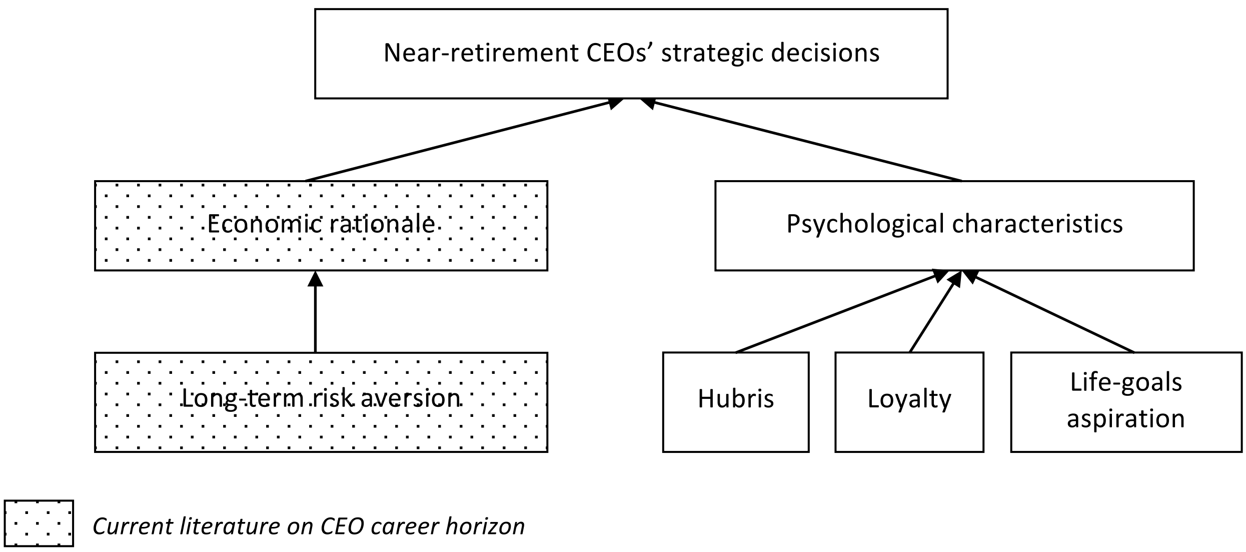
Studies find that individuals' well-being is affected by relative rather than absolute positions (Easterlin 1995; Duncan 1975; Hill & Buss 2006). Relative-positional concerns are found to be greater for goods used to attain other objectives (e.g. income and physical attractiveness) than for goods that are desirable primarily in themselves (e.g. vacation time) (Solnick & Hemenway 1998). CEOs at pre-retirement stage are more likely to be satisfied with their level of economic wealth than almost everyone else because they are more likely to obtain greater compensation and have had longer time to accumulate wealth than their colleagues and other individuals in general.

As mentioned above, McGregor (1960) argues that when individuals' needs at lower levels are reasonably satisfied, it is higher-level ones that drive their behavior. Therefore, individual motivations or aspirations change over time depending on several factors, including contextual and endogenous (March 1978). Near-retirement CEOs, after being satisfied with their economic wealth, are more likely to turn their attention to psychological needs, including social status, recognition, and respect. Accordingly, these psychological needs should influence to a greater extend their decision making at the end of their career. Therefore, it is theoretically and practically crucial to incorporate near-retirement CEOs' psychological characteristics into the analysis of their motivation behind strategic decisions.

We, thus, propose incorporating three psychological characteristics that can strongly influence CEOs' strategic decisions at pre-retirement stage: hubris, loyalty, and life-goals aspiration (see figure 1). This helps extend our knowledge on near-retirement CEOs' strategic motivations beyond economic rationale and provide a more integrative framework on the subject. We expand the analysis on the three psychological characteristics in details in the next sections.

This paper focuses on near-retirement CEOs' decisions on long-term risky strategies (e.g. acquisitions, R&D, and capital expenditures). This is because we are interested in how the career horizon of CEOs impacts on firms' fundamental business and long-term capability building. To build and maintain competitive advantage as well as sustain high performance, firms need a clear vision, long-term strategies, and investments to implement it. We, therefore, focus on how near-retirement CEOs' psychological characteristics affect their long-term risky strategic decisions. To shorten the term, sometimes we use "strategic decisions" to refer to "long-term risky strategic decisions". A long-term strategy, in this paper, refers to a strategy of which the payback period is longer than CEO career horizon. As a consequence, near-retirement CEOs' short-term preference, referring to activities expected to yield benefits in a shorter period than or equal to CEO career horizon (e.g. income-increasing accruals management and other actions aiming to boost and/or preserve the firm's short-term value at the expense of its long-term welfare), is not included in our analysis in this paper.

Figure 1 : An integrative framework of near-retirement CEOs' strategic decisions.



3.2. HUBRIS

Hubris is defined as exaggerated self-confidence or pride which often results in retribution (Hiller & Hambrick 2005). It closely relates to overconfidence in the literature. Hayward and Hambrick (1997, p.106) describe that "*the essential element of hubris is extreme confidence*". Overconfidence refers to a biased overestimation of future returns on investments (Malmendier & Tate 2005; Malmendier et al. 2011) and occurs when a person is certain about his/her prediction which actually exceeds its accuracy (Klayman et al. 1999; Simon & Houghton 2003). Hiller and Hambrick (2005) propose that overconfidence and hubris relate to the same larger construct of hyper core self-evaluation (Li & Tang 2010).

3.2.1 Managerial Hubris

Top executives are more likely to develop hubristic personalities than lay population (Hiller & Hambrick 2005; Malmendier & Tate 2005; March & Shapira 1987). Research finds that individuals' personality traits can be changed through the life course, and often into old age (Roberts & Mroczek 2008). These changes in personality traits are found to be associated with life and work experience (Roberts et al. 2003; Roberts et al. 2006). Top executives are more likely to have experienced a series of achievements in their career. They, thus, tend to have developed high confidence and to be affected by individual tendency to consider themselves "above average" on positive characteristics (Larwood & Whittaker 1977; Alicke et al. 1995; Alicke 1985; Malmendier & Tate 2005).

Moreover, a series of a firm's past success provides its CEO another self-serving evidence of his/her superior capabilities (Hayward 2007; Hilary & Menzly 2006). Self-attribution theory suggests that individuals tend to attribute success of actions to their ability, but attribute failures to external factors (Miller & Ross 1975; Miller 1976). Hayward and Hambrick (1997) suggest that the higher the firm's success, the more likely CEOs would develop this supporting belief and justification of their capabilities.

CEOs' self-serving attribution is also enhanced by approvals from people around them and media praise (Park et al. 2011; Hiller & Hambrick 2005; Malmendier & Tate 2009). With high social status, CEOs tend to be attractive targets of flattery and opinion conformity from their colleagues (Chen 2010; Hayward 2007; Hiller & Hambrick 2005). High level of it can contribute to CEOs' overconfidence in their capability and strategic judgment (Park et al. 2011). Moreover, CEOs are in the position to receive a high degree of media praise. Media tends to attribute firms' outcomes to individual managers and portray them as "heroic" for

success (Meindl et al. 1985) and makes their favorable images well-known to broad audiences (Park & Berger 2004; Hayward et al. 2004), which enforces CEO's self-serving attribution.
In summary, past individual and firm success, as well as external approvals in all forms can serve for CEOs' self-attributing and self-enhancing, which tend to lead to managerial hubris.

3.2.2 Impact of Managerial Hubris on Decision Making

Hubris impacts decision makers' risk taking and hence firm strategic choices through three cognitive mechanisms: overestimating their own capabilities, over-optimizing the investment's chance of success, and underestimating resource requirements (Li & Tang 2010). Firstly, hubristic managers overestimate their own capabilities to manage investment projects (Hiller & Hambrick 2005; March & Shapira 1987; Hayward et al. 2006; Hilary & Menzly 2006; Kahneman & Lovallo 1993). March & Shapira (1987) suggest that managers accept risk partially because they believe that they can manage and get rid of it. Secondly, hubristic managers are also overoptimistic about the chance of success (Simon & Houghton 2003; Malmendier & Tate 2005; Malmendier et al. 2011; Galasso & Simcoe 2011). Hayward et al. (2006), for instance, suggest that overconfident founders overestimate the likelihood of their venture's success and their ability to ensure it. The optimism on the chance of success can be attributed to their belief that the performance of their project depends to a small degree on factors outside their control (Li & Tang 2010) and/or that their private information is more relevant and valuable than external information (Bernardo & Welch 2001). Thirdly, hubristic managers also underestimate the need of resources to run investment projects (Malmendier & Tate 2005; Hayward et al. 2006). Malmendier and Tate (2005) find that overconfident CEOs tend to fund their investments by internal cash flow because they believe that it would be sufficient.
The results of these three cognitive mechanisms is the tendency of hubristic managers to see less risk on a strategic investment than there actually is (Kahneman & Lovallo 1993; Simon & Houghton 2003; Malmendier & Tate 2005; Li & Tang 2010). Consequently, they are more likely to initiate a risky strategy than their non-hubristic peers.

3.2.3 Hubristic Managers' Risk Taking and Aspiration Level

The fact that hubristic CEOs systematically overestimate the success probability of strategic projects tends to raise their aspiration level for firm performance (Li & Tang 2010). Aspiration level refer to the minimum level of performance deemed to be satisfactory by the decision maker (Schneider 1992). It is the separating point where performance is perceived as success or failure (Greve 1998). Hubristic CEOs, through the three cognitive biases described above, wrongly believe that the firm can achieve the aspiration level that they set. As a consequence, the actual firm performance relative to the aspiration level becomes worse and is perceived as failure. Prospect theory suggests that individuals tend to be risk-taking when their reference point or aspiration level is not attained (Kahneman & Tversky 1979; Bromiley 1991; Greve 1998). Accordingly, hubristic CEOs will search for solutions to improve firm performance (Cyert & March 1963) and consequently become more risk-taking (Li & Tang 2010).

3.2.4 Hubristic Managers' Risk Taking at Pre-retirement Stage

The literature on decision making behavior recognizes that individuals are far more willing to gamble with a positive expected outcome when they have an opportunity to re-play several times (Benartzi & Thaler 1999; Kahneman 2003). That is, the time horizon used to evaluate a decision influences how different choices are framed. In addition, myopic loss aversion suggests that when their evaluation time is coming close, individuals reveal a higher degree of loss aversion, that is, a higher degree of risk-aversion if they are above their aspiration level and of risk-taking if they are below it (Benartzi & Thaler 1995). This argument is confirmed by several studies. For instance, it is found that underperforming fund managers tend to increase the risk level of their portfolio when the performance evaluation moment is coming close, especially when the fund is characterized as short-term oriented (Lütje 2009), while outperforming managers tend to lock in (Brown et al. 1996; Chevalier & Ellison 1997).

Accordingly, when hubristic CEOs, who characteristically are risk-taking, are close to retirement, they are more likely to exhibit higher degree of risk-taking in seeking to reach their aspiration level than their peers who have longer career horizons. This is because their evaluation time (i.e. retirement) is coming close and they no longer have many occasions to initiate investments. Hence:

Proposition 1-a: The shorter a hubristic CEO's career horizon, the more likely he/she will initiate a long-term risky strategy.

Hubristic CEOs' cognitive biases make them see less risk in their investments than there actually is and become risk-taking. The fact that they are approaching retirement does not diminish their risk-taking. On the contrary, it can accentuate their risk-taking as described above. Therefore, near-retirement CEOs' hubris will negatively moderate the positive relationship between CEO career horizon and strategic decision, predicted by agency theory. Hence:

Proposition 1-b: Hubris will negatively moderate the relation that the shorter a CEO career horizon, the less likely he/she will initiate a long-term risky strategy.

3.3. LOYALTY

Loyalty is grounded in a relational connection far beyond simply conducting one's duties or respecting contractual obligations (Ewin 1993; Schrag 2001; Oldenquist 1982). It develops over time. One of the important characteristics of loyalty is identification. Loyal individuals identify themselves with their object of loyalty, which can be a group of people, a society, an organization, a firm, or a set of goals (Rosanas & Velilla 2003). When individuals identify themselves with their object of loyalty, they will consider potential outcomes of their decisions in terms of whether they are good or bad for it, not for themselves (Simon 1947). Another two important characteristics of loyalty are well-wishing and self-sacrifice. Loyal individuals are concerned for the long-term interests or welfare of their object of loyalty (Schrag 2001; Elegido 2013; Stieb 2006). They are willing and have capacity to sacrifice some of their own short-term interests for the long-term welfare of it when a motivational conflict arises (Schrag 2001; Elegido 2013). Loyalty, however, does not require individuals to sacrifice everything for their object of loyalty, but to some extent and at some of the time (Corvino 2002; Schrag 2001; Ewin 1993; Rosanas & Velilla 2003; Stieb 2006; Elegido 2013).

3.3.1 CEOs' Capacity to Identify with and be Loyal to a Firm

The object of loyalty to be considered in this paper is a firm. A capacity to identify and the degree of identification with a firm are expected to be greater when individuals are highly involved in and have better knowledge of it, as well as possess a higher degree of power in its organizational structure (Schrag 2001). CEOs, thus, have a high capacity to identify themselves with a firm because their position allows them to greatly assert their influence on its missions, objectives, culture, strategy, and performance (Finkelstein et al. 2009), as well as equips them with the highest organizational authority and power. CEOs who have progressed in their career within a firm tend to develop greater identification with and loyalty to it (Schrag 2001). The relation started in a lower position and has developed along the progression in their career. Their capacities have been recognized by the firm, which has rewarded them with grants of higher power and authority (Biggart & Hamilton 1984). Their long and increasingly deeper involvement in the firm's business and organizational development has encouraged them to identify themselves with it. The positively reciprocal relationship between the firm and themselves has also fostered their loyalty to the firm.

3.3.2 Reciprocity in Loyal Relationship

Loyalty is more likely to be sustained under reciprocity (Schrag 2001). In a relation, every time two parties interact with each other, they improve their knowledge about the other and modify their belief, attitude, and thus their decision criteria for next interactions (Rosanas & Velilla 2003).

It is well known in game theory that the two game players can maximize their own long-term welfare only by making decisions for the best long-term common welfare (Kreps 1996). If one player makes a decision in favor of his/her short-term interests, the other, if he/she knows, is likely to retaliate in the next game. Then, both parties will be worse-off. In a loyal relationship, when an individual is well-wishing to a firm and sacrifice some of his/her own interests for its welfare, he/she expects that the firm will recognize his/her loyalty and also care about his/her interests. If the firm does not, his/her loyalty will wither. Loyalty is, therefore, an internal state of mind which can be changed after an interaction between two parties. It is embedded in interactions in daily organizational life (Rosanas & Velilla 2003).

The relationship of a CEO with a firm draws from his/her relationship with its board directors and owners. If CEOs perceive that their loyalty has been reciprocated by the firm, they will continue to be loyal to it. However, a dilemma arises whether they should continue to sacrifice their self-interests for the firm when they are approaching retirement. In such a situation, according to literature on intergenerational decisions, they may experience psychological distance, that is, be personally and temporally removed from the sense of connection or identification with the firm (Hernandez et al. 2006) because they foresee that they no longer identify themselves with it after retirement. And pre-retirement is the last moment they will interact with the firm, that is, the firm can no longer reciprocate their current actions.

3.3.3 Moral Obligation in Loyal Relationship

A commitment is an ethical behavior that makes individuals take actions even though they are not directly affected by what happens to someone else, but they believe that it is their moral obligation to be concerned about it (Sen 1977). A commitment can also be a moral obligation to act within expectations on a person's future behavior led by his/her past behavior (Salancik 1977). This moral obligation maintains his/her behavior even in the absence of positive reinforcements and tangible rewards (Salancik 1977). In a structural relationship, when both parties have learnt that the other has always been loyal and they can always count on his/her loyalty, this is sufficient to stimulate their moral obligation to honor the other's loyalty and expectation on reciprocating loyal behavior, even in their last interaction. It is this moral obligation or commitment that drives decisions of loyal CEOs when approaching retirement.

Therefore, when loyal CEOs are approaching retirement, they are more likely to continue to place long-term interests of the firm before their own short-term benefits. Their loyalty will negatively moderate the positive relationship between CEO career horizon and strategic decision, predicted by agency theory. Hence:

Proposition 2-a: CEO loyalty will negatively moderate the relation that the shorter a CEO career horizon, the less likely he/she will initiate a long-term risky strategy.

Proposition 2-b: The higher the degree of loyalty of a near-retirement CEO, the more likely he/she will initiate a long-term risky strategy.

3.4. LIFE-GOALS ASPIRATION

Sonnenfeld (1988) observes that CEOs who are approaching retirement perceive entering into this life stage differently. For some, retirement is a great opportunity to spend time with the family, enjoy leisure time, and involve in other new activities. For others, entering retirement is psychologically challenging and not necessary desirable. Their work has constituted a significant part of their life. The CEO role provides them with more than financial rewards (Feldman 1994). It brings them a group membership, a sense of purpose, self-esteem, recognition, high social status, and personal identity (Sonnenfeld 1988). Their social status and personal identity are very much intertwined with their job. Leaving it means leaving their status and identity behind and thus equates to a personal loss for them.

CEOs who have psychological difficulty considering retirement tend to resist it by continuing to stay in the job even though they are financially independent (Sonnenfeld 1988). These CEOs have their own self-concept, drawing from their status and identity associated with the CEO role and the extent of their impact (Sonnenfeld 1988). They have their aspired self-concept, which we can call "life-goals aspiration". When the end of their career is approaching, it is self-satisfaction deriving from the gap between their achievement and their life-goals aspiration that drives their decision making. Sonnenfeld (1988) further categorizes CEOs who have psychological difficulty to retire into CEOs seeking to achieve their life-goals aspiration and CEOs seeking to prolong their current situation. The state of mind of these two types of near-retirement CEOs has different impacts on their strategic decisions.

3.4.1 Life-Goals Driven CEOs

Entering the retirement stage presents an emotional tension between "integrity and despair" (Erikson 1963). Retirement is a life-evaluation moment when individuals consider the gap between their life-goals aspiration and their actual accomplishment. If their life-goals aspiration has been attained, they will feel satisfaction, a sense of integrity, and completeness. If it has not, they will feel disappointment and despair (Erikson 1963; Sonnenfeld 1988).

It is tougher for CEOs to go through the frustration of not attaining their life goals at the end of their career (Sonnenfeld 1988). CEOs, during their career, are likely to have experienced a series of achievements, but few limitations. With high self-confidence grounded by the past successes, they may set themselves and the firm more and more challenging goals. As achieving their life goals is tied to achieving the firm's goals, when the time limit in their career or retirement is approaching and they have not yet attained the firm's goals, they may sense that working out their life goals is endangered. It is more difficult for them to accept the disappointment or falling short of their aspiration when leaving the office. This leads them to assert their command to justify their vision and to attain their life goals (Sonnenfeld 1988).

Near-retirement CEOs in this case are driven by and seek to attain their life-goals aspiration. Prospect theory suggests that individuals make a decision compared to a reference point or their aspiration level (Kahneman & Tversky 1979). If the potential outcome is below the aspiration level, they will become risk-taking in attempting to attain it (Kahneman & Tversky 1979; Sanders 2001; Holmes et al. 2011). Near-retirement CEOs in this case, according to prospect theory, will tend to be risk-taking. In addition, myopic loss aversion suggests that when an evaluation time is coming close, individuals who are below their aspiration level tend to reveal a higher degree of risk-taking (Benartzi & Thaler 1995). Therefore, when CEOs who have not yet attained their life-goals aspiration are close to retirement or their life evaluation moment, they are more likely to exhibit higher degree of risk-taking by initiating a long-term risky strategy than their peers with longer career horizon.

Given that CEOs are satisfied with their economic wealth:

Proposition 3-a: The shorter a career horizon of a CEO with state of mind below their life-goals aspiration level, the more likely he/she will initiate a long-term risky strategy.

The fact that they are more risk-taking when approaching retirement will also negatively moderate the positive relationship between CEO career horizon and strategic decision, predicted by agency theory. Hence:

Given that CEOs are satisfied with their economic wealth:

Proposition 3-b: A CEO's state of mind below his/her life-goals aspiration level will negatively moderate the relation that the shorter a CEO career horizon, the less likely he/she will initiate a long-term risky strategy.

Proposition 3-c: The higher degree of a near-retirement CEO's state of mind below his/her life-goals aspiration level, the more likely he/she will initiate a long-term risky strategy.

3.4.2 Current-Situation Prolonging CEOs

Some CEOs have achieved their life goals before the last stage of their career. When they look back to their life achievements, they feel satisfaction and completeness. However, certain may still be attached to their work and CEO role because these have always represented a significant part of their life. Retiring for them means a personal loss (Osborne 2012) as described above. It is psychologically challenging to deal with it.

The continuity theory of aging (Atchley 1989) suggests that once middle-life and old people have established a strong sense of self and a relatively stable lifestyle, they prefer to preserve existing structures when they make decisions concerning their life adaptation by adopting "continuity" concept (Kim & Feldman 2000). This helps explain why certain near-retirement CEOs prefer to stay longer in the position (as oppose to early retirement or retirement at an conventional age) even though their wealth and life-goals aspiration have been attained.

The work and CEO position have helped them fulfill their aspired self-concept or life-goals aspiration. They are satisfied with and attach to the high social status and the identity that the work and CEO position have provided. They will want to prolong and protect these social status and identity, which are intertwined with the firm's performance and status. They, thus, will run the firm and make strategic decisions with an objective of protecting them. Turner (1987) suggests that individuals who highly identify himself/herself with a group derive their self-image largely from the group membership. When the group is under threat, they are less likely to dissociate themselves from the group as it means denying their own self. They, on the contrary, are more likely to adopt group-level strategies to protect the group and hence their identity.

In business competitive arena, firms aiming to maintain their performance and status (e.g. a market leader) need to invest to compete with competitors, to prevent new entries (Porter 1980), and to constantly build long-term competitive resources and capabilities (Rumelt 1991; Hansen & Wernerfelt 1989). Otherwise, they will fall behind their competitors and lose their status. Firms, therefore, have a minimum level of long-term strategic investments to maintain depending on the degree of business competition, the characteristics of their product markets, their current resources and capabilities, as well as their current status, among others. Near-retirement CEOs aiming to protect the firm status in the industry, hence, are more likely to take necessary risks to grow the firm and increase its performance. Their readiness to take such risks will negatively moderate the positive relationship between CEO career horizon and strategic decision, predicted by agency theory.

Given that CEOs are satisfied with their economic wealth and life-goals achievement:

Proposition 4: A CEO's attachment to the social status and the identity will negatively moderate the relation that the shorter a CEO career horizon, the less likely he/she will initiate a long-term risky strategy.

4. DISCUSSION

This paper advances the present knowledge on the motivation behind near-retirement CEOs' strategic decisions by taking their psychological characteristics into consideration in complement to economic rationale. Literatures in psychology, sociology, and career development suggest that individuals' decision making and behavior along their life course are driven by personal factors modified to a certain degree by environments from their life experience. Building on these literatures, we argue that near-retirement CEOs as individuals possess their own psychological characteristics, which are reflected on their personalities and impact their decision making and behavior. Moreover, near-retirement CEOs, at the highest organizational position and at the last stage of their career, are more likely than others to be satisfied with their economic wealth and, thus, focus more on psychological needs. It is therefore crucial to take their psychological characteristics into account in the analytical framework of their motivation behind their strategic decisions.

This paper makes four contributions. We firstly contribute to the CEO career horizon and decision making literature by raising the essentiality of near-retirement CEOs' psychological characteristics on their motivation behind strategic decision, which in turn offers a new perspective to study the relationship between CEO career horizon and their strategic decisions in complement to the prevalent economic rationale perspective. We also propose the incorporation of three particular psychological characteristics of near-retirement CEOs into consideration – hubris, loyalty and life-goals aspiration, developing a more realistic and integrative analytical framework.

Our second contribution is to extend the knowledge on CEO hubris literature by suggesting how it is impacted by CEO career horizon. CEO hubris has been studied in several contexts, such as the size of premium paid for acquisitions (Hayward & Hambrick 1997), pioneering products introduction (Simon & Houghton 2003), "high and new" technology investments initiation (Li & Tang 2010), and entrepreneurship (Hayward et al. 2006). This paper introduces the impact of a new context – that of CEO pre-retirement - by suggesting how CEO hubris on their long-term risk taking develops when they are approaching retirement. It also contributes to the CEO career horizon literature by informing that hubristic CEOs are more likely to initiate a long-term strategy (at even a higher degree when approaching retirement) rather than being risk-averse as predicted by agency theory.

Intergenerational decision making challenges CEOs who are approaching retirement whether they will make strategic decisions for their own short-term interests or for long-term interests of others. We suggests, as the third contribution, that in the case of loyal CEOs, their loyal relationship with the firm will stimulate their moral obligation or commitment to place long-term interests of the firm before their own even when they are about to leave it for retirement. This suggestion counterbalances contention by agency theory that near-retirement CEOs are more likely to put their own interests forward when making strategic decisions because they want to maximize their wealth before leaving the office.

Finally, this paper expands the current knowledge on CEO career horizon by suggesting how a non-economic related aspiration can impact near-retirement CEOs' strategic decision making. Near-retirement CEOs who are satisfied with their economic wealth and then driven by their life-goals aspiration, which is closely tied to their job, are more likely to engage in a long-term strategy in seeking to attain it rather than being risk-averse as predicted by agency theory. In addition, certain CEOs who are satisfied with both their economic wealth and their life-goals achievement can still be attached to their social status and identity that their job has provided. They are more likely to initiate a long-term strategy to maintain the firm's long-term performance and status, and prevent them to fall behind their competitors, which in turn helps sustain their own social status and identity.

4.1. Limitations and Further Research

In this paper, we focus on near-retirement CEOs' psychological characteristics. It is, however, certain that factors such as environmental (e.g. industry, formal and informal institutions in different countries) (Hambrick & Finkelstein 1987; Hambrick & Abrahamson 1995; Crossland & Hambrick 2007; Crossland & Hambrick 2011) or organizational (e.g.

board vigilance and firm resource availability) (Finkelstein et al. 2009; Malmendier & Tate 2005) also have impacts (Hambrick & Mason 1984) on near-retirement CEO's strategic decisions. The impacts from psychological characteristics on their decision making can be accentuated or alleviated depending on the degree and direction of environmental and organizational factors. Future research should incorporate these factors in order to better understand near-retirement CEOs' strategic decision making under diverse contexts.

Another avenue for future research is to investigate how near-retirement CEOs' psychological characteristics impact their decisions for their short-term preference, which is not covered in this paper. Few studies have examined the impacts of CEO career horizon on their short-term preference, such as income-increasing accruals management (Davidson et al. 2007; Kalyta 2009) and the method of payment for acquisitions (cash vs. equity) (Gao 2010). All of them examine the relationship through economic rationale perspective. It is therefore important both theoretically and practically to comprehend how near-retirement CEOs' human side or psychological characteristics affect their decisions for short-term preference.

This paper proposes incorporating three psychological characteristics of near-retirement CEOs. We do not claim that they represent all near-retirement CEOs' psychological characteristics that could impact their strategic decisions. They are important and provide alternative explanations to the current economic rationale perspective. However, other psychological characteristics may also affect their strategic decisions. We encourage future research to advance knowledge on this topic for better understanding the impact of near-retirement CEOs' human aspects on their strategic decisions.

In addition, these three characteristics are not mutually exclusive. For instance, hubristic CEOs can be loyal to the firm and attached to the social status and identity that the firm provides. Although combined effects on strategic decision seem to go in the same direction, which characteristic dominates near-retirement CEOs' motivation in the case of motivational conflicts is important for corporate governance in practice. Future research could also advance this issue.

4.2. PRACTICAL IMPLICATIONS

This paper provides practical implications for boards of directors. Many older CEOs with long experience are still active and motivated to run a firm and initiate new strategies. Their human and social capitals associated with their long experience are valuable for firms. The present knowledge that near-retirement CEOs tend to be conservative and risk-averse leads firms to impose mechanisms to mitigate this undesirable behavior or, in an extreme case, to replace them by a younger CEO. Imposing these mechanisms at wrong places, on the contrary, can be counterproductive and/or costly. This paper suggests that boards of directors should pay attention to their near-retirement CEO's psychological characteristics in adopting governance mechanisms. Some psychological characteristics can lead CEOs to engage in long-term risky strategy to pursue high firm performance. Governance mechanisms in these cases, consequently, should be different from those adopted by firms run by near-retirement CEOs driven by economic rationale. By better understanding a particular CEO and adopting an appropriate governance mechanism, boards and near-retirement CEOs can together lead the firm to achieve long-term business goals.

4.3. CONCLUSION

This paper stressed on the essentiality of incorporating near-retirement CEOs' psychological characteristics into the analytical framework of their strategic decision motivation. How CEOs make strategic decisions when nearing retirement is theoretically and practically important. If firms manage well, they will be able to leverage from their CEO's high human and social capitals. If they do not, their long-term and sustainable competitive capabilities and performance are at stake. Near-retirement CEOs' psychological characteristics, therefore, should be examined in depth in order to better understand their strategic decision making.

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