Performance of Established Small and Medium-Sized Enterprises: Investigating the Roles of CEOs' Regulatory Focus and Empathy

Objectives

Numerous scholars study how characteristics of chief executive officers (CEOs) affect firm behavior and performance (for example, Baron et al. 2012; Kammerlander et al. in press). These effects are salient in small and medium-sized enterprises (SMEs) given the managerial discretion of their CEOs (Finkelstein and Hambrick 1990). This research focuses on an understudied CEO's personality trait – his/her regulatory focus. As the mechanism connecting regulatory focus and firm performance has not been analyzed yet, I aim to investigate the role of empathy in the relationship between a CEO's regulatory focus and firm performance.

Theoretical Background

Regulatory focus refers to an individual's motivational sets comprising two distinct dimensions: prevention and promotion focus (Higgins 1997). Prevention-focused individuals strive to meet their obligations and avoid failures, whereas promotion-focused individuals are driven to maximize achievements. Interestingly, a CEO's prevention focus negatively relates to firm performance (Wallace et al. 2010), while a CEO's promotion focus positively relates to firm performance. In this regard, a promotion focus enhances cognitive empathy (but not affective empathy) through heightened self-awareness highlighting the inadequacy of self-related contents (Keller and Pfattheicher 2013; Sassenrath 2011; Stephenson and Wicklund 1983), and marketing research found a positive effect of salespersons' cognitive and affective empathy on sales effectiveness (Plank and Reid 2010; Tobolski and Kerr 1952; Verbeke 1997). Cognitive empathy (perspective-taking) is considered as intellectual understanding of someone else's internal state (Barrett-Lennard 1981) such as the needs of a customer. In

contrast, affective empathy (empathic concern) is described as emotional responding to another person's state (Coke et al. 1978).

Method

Based on prior work, I hypothesize that a CEO's promotion focus enhances his/her cognitive empathy (H1), that a CEO's cognitive and affective empathy positively affects firm performance (H2 and H3), and that a CEO's cognitive empathy mediates the positive relationship between his/her promotion focus and firm performance (H4). To test my hypotheses, I calculated multivariate ordinary least squares regressions, relying on 134 survey responses provided by CEOs of Swiss established SMEs in June 2014.

Results

Consistent with H1, a promotion focus enhances cognitive empathy. Interestingly, cognitive empathy does not affect firm performance, rejecting H2. However, affective empathy positively affects firm performance, which is in line with H3. Since the effect of cognitive empathy on firm performance is insignificant, cognitive empathy does not mediate the positive relationship between promotion focus and firm performance. H4 is thus rejected for this sample. Furthermore, explorative regression analyses reveal that a prevention focus does not enhance cognitive and affective empathy. Moreover, firm performance is lowest when CEOs have high degrees of prevention focus and cognitive empathy, uncovering a potential dark side of empathy.

Implications

CEOs being promotion-focused and showing affective empathy have beneficial effects on SME performance. Thus, owners of SMEs are advised to pay particular attention to hiring external CEOs and to handing over their firms to successors who have high degrees of promotion focus and affective empathy. Avenues for future research, though, lie in studying

whether a CEO's cognitive empathy negatively moderates the relationship between his/her prevention focus and firm performance.

Value

Investigating the role of empathy in the relationship between regulatory focus and firm performance, this research contributes to entrepreneurship research, regulatory focus and empathy theory, and practice, highlighting a potential dark side of empathy.