

The Acquisitive Nature of Extraverted CEOs

Research that recently appeared in *Administrative Science Quarterly* shows that CEOs who are more extraverted – extraversion is one of the big five personality traits that is thought to be composed of ambition and sociability and is associated with other traits such as being sociable, gregarious, assertive, talkative, and active – are more likely to engage in mergers and acquisitions and these mergers and acquisitions are also likely to be more frequent and larger.

Key Takeaways:

- More extraverted CEOs are more likely to engage in mergers and acquisitions than less extraverted CEOs.
- More extraverted CEOs are more likely to engage in larger mergers and acquisitions than less extraverted CEOs.
- Some of these effects can be explained because extraverted CEOs are more likely to participate on a larger number of external boards than are less extraverted CEOs.

Researchers analyzed data from 87,632 quarterly earnings conference calls for S&P 1500 companies that occurred between 2002 and 2013. This analysis resulted in extraversion scores for 2,381 CEOs and 1,710 relevant mergers and acquisitions that were worth at least 5% of the acquirer's value. Researchers found that CEO extraversion is positively related to that firm's

likelihood of making deals, the frequency of such deals, and the size of the deals. Further, the researchers found that a substantial portion of these relationships seemed to work through the increased network that more extraverted CEOs have, as judged by the number of external boards that they participate.

The research team also found more complex relationships among the comparisons. For instance, they found that the relationship between CEO extraversion and a firm's mergers and acquisition activities is stronger in less competitive industries and when senior management is more entrenched, meaning that there are more anti-takeover provisions in the organization.

Their analysis statistically controlled for aspects of the environment (like industry and year), the firm (like size and ROA), and the CEO (like age, tenure, gender and ownership). The authors suggest that future research is needed to ensure that earnings calls are the best way to evaluate CEO personality traits, to examine how personality traits of the executive team and the board affect such relationships, and to see how such events affect shareholder performance.

Source: Malhotra, S, Reus, T.H., Zhu, PC, & Roelofsen, E.M. (2018). The acquisitive nature of extraverted CEOs. *Administrative Science Quarterly*, Vol 63(2): 370-408.

