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When Extraversion Rhymes With Acquisition

Extravert CEOs have a big appetite for acquisitions, but does it benefit their firms?

There are two important trends in the world of business today. The first is that corporations are gradually losing ground to smaller firms boosted by new technologies, improved markets and better financing. My predecessor as editor of *Administrative Science Quarterly*, Jerry Davis, has written a **book** on these particular changes. The second trend suggests that the opposite is happening, as a small set of finance, services and industry behemoths are amassing exceptional power.

As a result, researchers are now looking more closely at the CEO personality. This is because in both the smallest and the largest firms, any departure from rational decision making is consequential. It can destroy a small firm or lead to severe ripple effects in the case of a large one.

A paper in *Administrative Science Quarterly* by Shavin Malhotra, Taco Reus, PengCheng Zhu and Erik Roelofsen examined the extraversion of CEOs and how it influences their firms' mergers and acquisitions. Extraversion is a personality trait that we understand well and often like a lot, at least at parties. Extraverts liven up the world around them because they are sociable, active and very likable. But how is this linked to management?

The weighty side of extraversion

The connection lies in the less well-known side of that personality trait. Extraverts are often agentic – a term that refers to a leader's tendency to be dominant, competitive and individualistic. In other words, agentic types may prioritise their own interests in a bid to get ahead. They may set selfish goals, yet are skilled at persuading others that their initiatives are good. Does extraversion now sound less appealing, but also more consequential for a manager?

As it is common to over-pay for acquisitions, they are a great way to test the consequences of extraversion. A CEO with the firm's best interest at heart will be very selective about acquisitions and typically focus on smaller ones that help the firm gather important technology, market access and other missing pieces. Such deals stay relatively inexpensive because small firms are often overlooked or may not even be listed in the stock market. However, small firms are also boring and won't help an extravert grow a firm fast and look good doing it.

All that glitters

So what did the authors find? Indeed, extravert CEOs perform more acquisitions, and they seek larger targets. They are especially likely to do so when they have freer hands, such as when they are in less competitive industries or when they are powerful relative to the board of directors.

Turn extravert CEOs loose, and you will see firms around them eaten up. Of course, all of this would be fine if the acquisitions turned out well. Do they? What we know is that in the short term, the stock market reacts more positively to acquisitions led by extraverts. However, let's not believe that this means a lot. First, keep in mind that investors are just another set of people to impress and extravert CEOs are good at that. Second, a better reaction to certain acquisitions does not say much because most acquisitions are not welcome. Third, an immediate reaction to an acquisition is very different from its long-term benefits.

What else is clear is that acquisitions serve extravert CEOs by drawing attention to them. Moreover, by growing the firm, they can get paid more – a larger firm typically means better pay for CEOs. We don't know yet whether that helps the firm. And somehow, I can't help but wonder whether our not knowing is something that the extravert CEO likes a lot.

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