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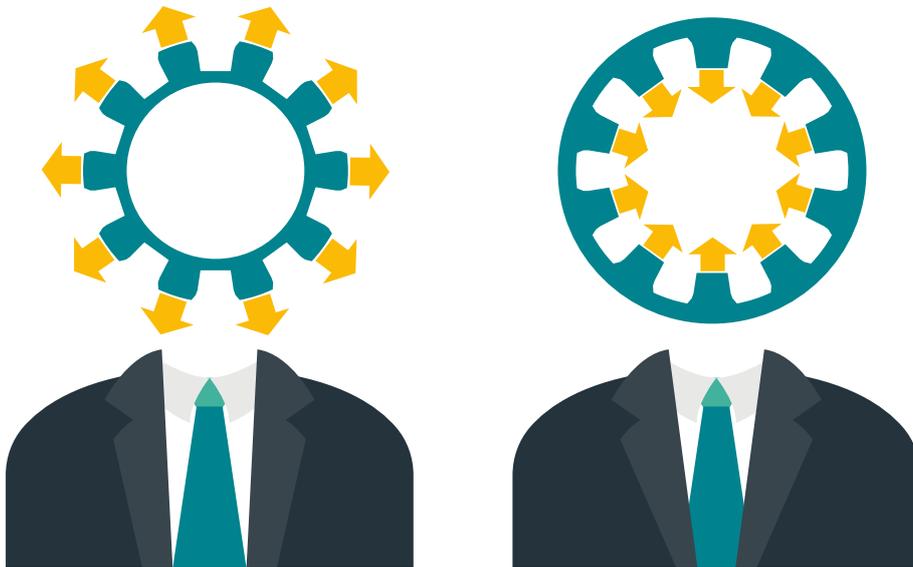
By Laura Straeter



CEO extraversion and M&A behaviour

Chris Murray talks with **Taco Reus**

In the past, through laudatory articles in the business press and scores of books dedicated to the accomplishments and “wisdom” of CEOs, the image of them having nearly full power over the actions and results of their companies began to emerge – and much of the attention was focused specifically on the CEO’s personality: how they behaved and communicated.



While corporate scandals have somewhat tempered the public’s belief in the superhuman CEO, the question is still very relevant today: how much does a CEO’s personality impact a firm’s behaviour? Taco Reus, endowed professor in global strategy at RSM, in collaboration with fellow RSM professor Erik Roelofsen, Shavin Malhotra of the University of Waterloo, and PengCheng

Zhu of the University of San Diego, sought to answer this question by exploring how a specific personality trait – extraversion – would impact a firm’s M&A activity. The results reveal a close link between CEO extraversion and M&A behaviour but not in all situations.

Prof. Reus explains that the team focused on M&A because M&A decisions are ‘consequential strategic de-

isions,’ and are also very uncertain – most mergers and acquisitions tend to reduce rather than add value to a company. ‘There’s so much uncertainty about whether acquisitions are a good or bad thing, that subjectivity and personality really become important in these decisions,’ he says.

Given the uncertainty involved, Prof. Reus says, the positively confident nature of extraversion seemed to make it the most ‘directly relevant’ of the “big five” personality traits recognized by psychologists (the others being openness, conscientiousness, agreeableness and neuroticism). ‘It’s well established in the psychology literature that extraversion is a very relevant personality dimension; it had already been related to leadership effectiveness,’ he says.

Extraversion misunderstood

Extraversion is not always well understood, says Prof. Reus. ‘Some people might think when you talk about all these extraverted people, they just want to party, and do crazy things,’ he says ‘but the literature really distinguishes between what would be called “impulsivity” from what we consider “extraversion”.’

Extraversion, he explains, actually consists of two elements: socializing to have fun or “to get along” – what psychologists call *affiliation* – and socializing to achieve something or “to get ahead” – what they call *agency*. As Prof. Reus explains: ‘Getting along is probably what most people think of when you talk about extraversion, but it has this other component that

is more about being assertive, being urgent, and being ambitious as well. This agency element may be what is particularly important in consequential strategic decisions.'

Another important facet of extraversion, and one that distinguishes this personality trait from others such as narcissism and hubris, is the focus on the *group*, he says. Whether they are getting along or getting ahead, the group and not just the self is what interests extraverts, Prof. Reus says.

For instance, 'Extraverted people tend to talk more, but that doesn't mean necessarily that they don't want to listen to anybody else; they often take a dominant role in the group, but that means hearing other voices as well,' he says. 'They are confident themselves, but they also want to instil confidence in the group as a whole, the confidence to make the consequential decisions, and do them together.'

Linguistic clues

One of the challenges of studying extraversion in the past was measuring CEO extraversion. RSM colleague, Prof. Roelofsen, was instrumental in applying a novel technique to gauge CEO personality through linguistic algorithms, Prof. Reus says. The team used linguistic algorithms developed in previous studies to analyse recordings of CEO quarterly calls to analysts, thus identifying the extraverted versus non-extraverted CEOs. For example, one of the linguistic cues for extraversion is the number of words used as well as the number of times plural first person (we, us) is used – as opposed

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to the narcissist criteria that includes the number of times the first person singular (I) is used.

'It is very difficult to get CEOs to fill in questionnaires, or to observe them over time,' he says. 'You can of course look at videos, and in a limited sense you can capture personality, but we were able to do it through a more large-scale technique. I feel this was an opportunity that we really were fortunate to have.'

Once the extraversion trait of the more than 2,800 S&P 1500 CEOs in the sample were identified, the team then used data from other sources to compare M&A activity to extraversion. The results showed that extraverted CEOs were more likely to engage in more and in bigger M&A deals than non-extraverted CEOs.

Prof. Reus says that extraverted CEOs, 'Are more prone to make these types of consequential strategic decisions. They want to do big things, and bring everybody on board as well – more so than less extraverted CEOs who might take a more cautious approach. Only if it's really necessary will they do these things.'

One important way that extraverted CEOs became involved in M&As, the research showed, was through partici-

pation on boards of directors. As Prof. Reus explains, 'Extraversion is often related to having a larger network. It turns out that actually extraverted people don't necessarily have more friends, but their so-called *instrumental networks* are larger.'

An instrumental network, he says, is a network with a purpose. Participation on boards of directors is a prime example of an instrumental network for CEOs. Through these boards, Prof. Reus says, CEOs get access from other board members (who are in many cases other CEOs or retired CEOs) to early and first-hand information about M&A opportunities.

Does personality matter?

While the research demonstrates the link between extraversion and M&A activity – and by extension the link between CEO personality and strategic firm behaviour – it also revealed that personality does not always dominate, Prof. Reus says.

For example, if a company cannot survive without an acquisition, it doesn't matter whether the less extraverted CEO of that company is uncomfortable with M&A: he or she has no choice. This is an example, Prof. Reus says, of what researchers call *situation-* ▶

“In highly competitive industries, less extraverted CEOs will also acquire, not because they want to do it, but because the industry tells them to do it..”

al strength. ‘Situational strength means that the situation really defines what is important, and what to do, and dominates over whatever the CEO would like to do,’ he says.

Situational strength in terms of M&A activity occurs in highly competitive industries, where CEOs have less discretion in what actions to take. As Prof. Reus explains, ‘In highly competitive industries, less extraverted CEOs will also acquire, not because they want to do it, but because the industry tells them to do it, and the analysts or the investors want them to do it; they are pushed to do it.’

Another element, according to Prof. Reus, that can influence the power of a CEO’s personality, but this time in a positive direction, is managerial entrenchment – in other words, the strength of the CEO’s position in the company. If for whatever reason, the CEO is well entrenched in the company – if the CEO of the company is also the company founder, for example – then that CEO’s personality will have a greater impact on the company’s actions, he says.

If the CEO’s hold on power is weak, on the other hand, then other forces, including the preferences of the board of directors, will be able to influence

firm behaviour. ‘You can think of it as governance strength, Prof. Reus says. ‘The more governance there is surrounding a CEO, the less they will be able to move on their own terms.’

In practical terms, this conditional result tells us something about a decades-old discussion in the management literature about whether one individual – the CEO – can or cannot influence the strategic direction of a very large corporation. The research indicates that it depends on situational strength: in weak situations, CEOs can have this unique impact, but in strong situations it’s the industry or the governance of the firm that constrains the impact.

It’s important to note that this study focuses on M&A decisions, Prof. Reus says. Less extraverted or introverted CEOs may prefer and be more effective in other types of strategic decisions or processes. ‘When a firm has to make really large consequential decisions, and you need to bring the whole company into the fold, that’s where the extraverted CEO really thrives,’ he says. ‘But the less extraverted CEO might be doing really well in a more stable and longer-term approach, and with all kinds of other strategic decisions.’ In any case, CEOs and other leaders

will do well to remember that, as this research demonstrates, CEO personality can impact strategic decisions and firm behaviour, he says. ‘Their personality matters in the decisions that they make, or how they approach decisions,’ Prof. Reus says. ‘That, I think, is a very useful thing for CEOs to understand.’ ■

The paper, *The Acquisitive Nature of Extraverted CEOs*, is written by Shavin Malhotra, Taco H. Reus, PengCheng Zhu and Erik M. Roelofsen. Article first published online, May 24, 2017, *Administrative Science Quarterly*. DOI: <https://doi.org/10.1177/0001839217712240>

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