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**Chief executive officer personality and company merger and  
acquisition activity: A multimethod investigation**

**Rovenpor, Janet Linda, Ph.D.**

**City University of New York, 1991**

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A

**CHIEF EXECUTIVE OFFICER PERSONALITY AND COMPANY MERGER  
AND ACQUISITION ACTIVITY: A MULTIMETHOD INVESTIGATION**

by

**JANET LINDA ROVENPOR**

A dissertation submitted to the Graduate Faculty in Business in partial fulfillment of the requirements for the degree of Doctor of Philosophy, The City University of New York.

1991

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**Abstract****CHIEF EXECUTIVE OFFICER PERSONALITY AND COMPANY MERGER  
AND ACQUISITION ACTIVITY: A MULTIMETHOD INVESTIGATION**

by

Janet Linda Rovenpor

Advisor: Professor Abraham K. Korman

The purpose of this dissertation is to: (1) study CEO personality using a multimethod research strategy, (2) examine the role that a CEO's personality plays in encouraging companies to engage in merger and acquisition activity (MAA), and (3) test the moderating influence that two organizational variables, a company's cash reserves and fear of being a takeover target, have on the relationship between CEO personality and MAA. Strong agreement among different methods used to measure the same personality constructs - content analysis of CEO speeches, questionnaires sent to CEOs, and unobtrusive measures found in CEO biographies and annual reports - was not found. It is concluded that all three methods are valid: self-report questionnaires appear to measure a CEO's consciously-held beliefs and self-reflections on his/her personal motives while content analysis of speeches and other unobtrusive methods seem to tap unconscious aspects of personality.

Results of statistical analyses indicated that high levels of the need for power were strongly associated with high levels of MAA; high levels of the belief that "bigger is better" were moderately associated with high levels of MAA; high levels of the belief in synergy also were moderately associated with high levels of MAA. Weak relationships were found between beliefs in the benefits of acquisitions and MAA, self-confidence and MAA, desire to manage impressions and MAA, and fear of negative evaluation and MAA. Little information was obtained regarding cause and effect relationships between CEO personality and MAA. Subgroup analyses revealed that cash reserves and fear of being a takeover target did not significantly influence the relationship between CEO personality and MAA. Cash reserves, however, were strongly correlated, in a positive direction, with MAA.

The dissertation's significance lies in the development of a predominantly psychological model to explain MAA. In light of the many acquisition failures of the 1980's, a model attributing MAA to the personality of CEOs may be more descriptive of how acquisitions are made than typical financial or strategic models. It is hoped that CEOs will become more effective decision makers once they understand the role that their personalities play in formulating merger and acquisition strategies.

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## CHAPTER ONE: INTRODUCTION

### 1. OVERVIEW AND PURPOSE

The term "merger mania" became popular in the 1980's to describe the dramatic increase in the number of acquisitions occurring with purchase prices of over \$100 million. It also has been used to refer to the psychological state of mind of senior executives who may pursue acquisitions for personal and self-serving reasons. Examples of "merger mania" are easily found. By 1988, the Campeau Corporation had acquired Allied Stores and Federated Department Stores for \$3.3 billion and \$6.7 billion, respectively. The company became the largest retailer in the U. S. only to file for bankruptcy just a few years later. Robert Campeau, the CEO, has been called "eccentric," "mercurial" and "restless." He may have tried to prove himself to the world because of feelings of discrimination as one of Canada's ethnic French minorities (Byron, 1990). Not only did he eventually forfeit control over his company but he also lost most of his own personal fortune ("A Desperate Campeau," 1989; "Is Campeau," 1990).

Rupert Murdoch, chairman of the News Corporation, has been called a "global acquirer" who recently paid \$300 million for Harper & Row Publishers, \$400 million for Scott, Foresman & Company and \$3 billion for Triangle Publications. Among Murdoch's other holdings are 20th Century Fox, Metromedia television stations, and majority interests in Reuters and Pearson PLC. When asked to explain the forces driving his ambition, Murdoch said in a New York Times interview, "Part of the Australian character is wanting to take on the world. It's a hard, huge continent inhabited by a few European descendants with a sense of distance from their roots. They have a great need to prove themselves" (Meyers, 1988, p. 20).

Management researchers and Wall Street observers also have pointed to a number of psychological motivations underlying acquisition decisions. According to Ansoff, Brandenburg, Portner & Radosevich (cited in Goldberg, 1983, p. 10), some acquisitions may be made because executives desire to "manage an ever-growing set of subordinates" or to "create an image of themselves as aggressive managers who recognize a good thing when they see it." Adams and Brock (1986) have argued that some managers possess a "bigness complex" which encourages

them to increase the size, but not necessarily the efficiency, of their operations. The huge premiums paid for target companies may be the result of a manager's "overweening pride and arrogance" (Roll, 1988, p. 249) and the debt assumed to finance large transactions may be a sign of "corporate virility" ("LBOs," 1990, p. 58). Acquisitions may also be made because some managers are interested in higher salaries and bonuses which, according to Mueller (1969), increase in proportion to the size of a company rather than its profits.

Goldberg (1983, p. 12) has suggested that behind many merger motives lies a "hidden agenda" because managers do not dare disclose overtly their real personal or political objectives for an acquisition. Other merger motives may be "fake" because the motives that managers do articulate actually mask their true objectives. This dissertation attempts to uncover the underlying motivations of the CEOs of large U.S. companies when they make acquisition decisions. The purpose is to examine the specific role that a CEO's personality played in encouraging companies to pursue acquisitions during the 1980's environment of hostile takeovers, easy financing, and industry consolidation. A number of important questions which need to be answered at the outset are: "Why center on the CEO?" "How is the term 'personality' used?" and "Which phases of the acquisition decision making process are being studied?"

The CEO was selected as the focus of concern because it is usually he who selects the target company and gives final approval for the merger (Boucher as discussed in Davidson, 1981; Hitt, Ireland & Palia, 1982). The CEO is often personally involved in the negotiations held with the other company's managers, attending urgent meetings and clearing the way for an integration of the two companies. Her personality seems to play an important role in the outcome of merger negotiations. According to a study by the National Association of Accountants and the Society of Management Accountants of Canada, a CEO's "charisma," "acquisition attitude," and "salesmanship" determine a company's likelihood of completing a merger transaction ("CEO's hand," 1986).

The personality constructs that have been employed most frequently in Organizational Behavior research have been grouped into two categories by Weiss & Adler (1984). "Cognitive"

variables refer to how individuals process information and perceive the world around them. These include locus of control, cognitive complexity and dogmatism. "Motivational" variables refer to needs, motives and values which determine how, why and when individual behaviors are energized. Some familiar motivators are need for achievement, need for power and need for affiliation. Both cognitive and motivational variables are used in this dissertation to tap a few important aspects of a CEO's personality.

From the point of view of the acquiring firm's CEO, the acquisition process consists of a series of major strategic decisions. Some of these include: 1) deciding to acquire another company; 2) selecting a target company from a list of acquisition candidates; 3) agreeing upon a price and making an offer to the target firm's management; and 4) deciding whether to offer cash, stock, or a combination of both, to the target firm's shareholders. The first decision serves as the focus for this dissertation. It is an area that has received little theoretical or empirical attention. Researchers have studied the criteria managers use when selecting acquisition candidates (Stahl & Zimmerer, 1984) and have explained why managers bid the price of a target company up so high that any benefits from the transaction cancel themselves out (Dickie, Michel & Shaked, 1987). Models have also been developed to describe the hectic merger negotiation process (Jemison & Sitkin, 1986b). Few researchers, however, have focused on why CEOs pursue acquisitions in the first place. The reasons why CEOs acquire other companies are very important given the negative impact acquisition strategies often have on the R&D spending, debt load, and philanthropic donations of U. S. corporations. Once we understand why CEOs are motivated to make acquisitions, we can perhaps help them make better merger and acquisition decisions.

This dissertation is organized into eight chapters. In the remaining section of Chapter One, the reasons for focusing on personality, instead of on the many financial and strategic motives associated with acquisition strategies, are discussed. The section provides important insights into the selection of variables which comprise the dissertation's conceptual model. In Chapter Two, the dissertation's conceptual model is covered in detail and the hypotheses are presented. In

Chapter Three, the dissertation's methodology, design, and measures are reviewed. Chapters Four, Five, Six and Seven present and discuss the results of the data analysis. Chapter Eight summarizes the dissertation's findings and suggests directions for future research.

## **2. LITERATURE REVIEW**

This dissertation sets out to study the cognitive beliefs and personal motives that may encourage CEOs to undertake acquisitions. The decision to focus on aspects of a CEO's personality was made for a number of reasons (see Figure 1 on page 175). First, an emerging literature which applies concepts from psychoanalysis, cognitive psychology, and demography to business strategy provides a broad context in which to study the more specific role that CEO personality plays in acquisition strategies. Second, there is some empirical evidence that indicates that managers do not always follow rational decision making models when selecting acquisition candidates. Third, management consultants have used such managerial personality factors as egocentricity, grandiosity, and limited rationality to explain not only why acquisition strategies are pursued, but also why they often fail. Each of these groups of studies, reviewed below, provide an important rationale for this dissertation's conceptual model and hypotheses.

### **A. Literature Linking Managerial Personality to Corporate Strategy**

An emerging literature in Business Strategy, one that has studied the relationship between the personality of a company's senior executives and corporate strategy in general, is comprised of three perspectives: (a) a psychoanalytical perspective identifying types of managerial neuroses and their impact on a company's strategy, structure and culture; (b) a cognitive perspective analyzing how such cognitive biases as the "illusion of control" and "reasoning by analogy" of senior executives determine the type, and ultimate success, of a company's strategies; and (c) a managerial characteristics perspective predicting the influence that demographics (e.g., age, education, socio-economic status) and other psychological variables (e.g. locus of control) have on a company's strategy.

### The Psychoanalytical Perspective

Kets de Vries and his colleagues have hypothesized that five neurotic managerial styles exist, each of which gives rise to different strategies, structures and cultures (Kets de Vries & Miller, 1984; Kets de Vries & Miller, 1987). The relationship between these neurotic styles and strategy is of particular interest here. First, "dramatic" executives have a need for attention, activity and excitement. Because the executives are bold, daring and willing to take risks, their companies follow growth and diversification strategies. Second, "suspicious" executives are cold, distrustful and hypersensitive. Corporate strategies of imitation and product diversification emerge because such executives are more concerned with the goals and plans of others than with their own. They also are afraid of the risks associated with relying on any one single product or service.

Third, "detached" executives, withdrawn and isolated from others, do not seem to care about their company's future direction. Internal political lobbying results as middle level managers plot to get their own pet projects approved by top management. Fourth, fear of success and low self-esteem are two characteristics of "depressive" executives. Their companies tend to react sluggishly to environmental changes and to overcommit their resources to "mature" markets. Fifth, "compulsive" executives are dogmatic, domineering and strive for perfectionism. They head companies that exert tight control over costs and personnel and easily become obsessed with the pursuit of a single strategy, such as cost reduction or service quality.

Work in this area is mostly theoretical, based on case studies from the authors' consulting experiences. One empirical study, however, with a sample of 33 top managers in Canadian firms, found that companies headed by managers who possessed an internal locus of control exhibited more innovation, risk-taking, proactiveness and futurity in their strategies than companies headed by managers who had an external locus of control (Miller, Kets de Vries & Toulouse, 1982). A second study administered the Myers-Briggs type indicator questionnaire to 67 CEOs and vice presidents (Miller, Toulouse & Belanger, 1985). The researchers found that "extroverted sensing" managers tended to run expansionary, growing and risk-taking firms. "Introverted sensing"

managers seemed to breed conservative, fact-oriented firms while "introverted intuitive" managers headed creative, entrepreneurial firms.

These studies are important because they suggest that researchers must study the inner complexities of a manager's personality in order to learn about her company's most basic strategies and future endeavors. They also make a very specific prediction used later in this dissertation. Diversification strategies, accomplished through either acquisition or setting up subsidiaries, are likely to be made by executives who are dramatic, assertive and extroverted. Similarly, this dissertation will explore the contribution of a CEO's need for power, self-confidence and desire to manage impressions to his company's merger and acquisition strategies.

#### The Cognitive Perspective

Barnes (1984), Schwenk (1984), and Duhaime & Schwenk (1985) have applied concepts from cognitive psychology to the investigation of how corporate strategy is formulated. The authors believed that many individuals possess limited information and limited cognitive skills when faced with complex situations. They must rely on heuristics or "rules of thumb" to make decisions. Sometimes the use of heuristics results in serious errors of judgment. The authors have suggested that a number of cognitive biases may interfere with the stages of strategic planning and determine the types of strategies selected by a company's top management. Schwenk (1984), for example, suggested that such biases as "reasoning by analogy," and "escalating commitment," would most likely affect the goal formulation/problem identification stage of strategic planning. "Single outcome calculation" and "inferences of impossibility," would affect the generation of strategic alternatives, whereas "representativeness" and "illusion of control" would impinge upon the evaluation and selection stage.

These researchers also claimed that cognitive biases influence the types of strategies adopted by a company. The two types of strategies discussed in detail are acquisitions and divestments. "Reasoning by analogy," involves the application of metaphors to help understand a particular problem. Sometimes this bias results in an oversimplified view of reality, causing mistakes in judgment. General Cinema, for example, believed that by adding a furniture business

to their theater and bottling operations, the company would obtain the "third leg to a stool." Its managers regretted the decision later when the performance of the acquired company did not meet expectations (Duhaime & Schwenk, 1985).

The "illusion of control" occurs when individuals believe they have more control over purely randomly determined events than they really do (Langer, 1983). A manager affected by the "illusion of control" is likely to make acquisitions in unrelated businesses because he is overly confident in his ability to solve merger related problems should they arise. He may also decide to become vertically integrated by acquiring either his suppliers or distributors because he believes that his company's skills and knowledge base can be easily applied "downstream" or "upstream" (Duhaime & Schwenk, 1985)

Staw's concept, "escalating commitment to a chosen course of action," is used to explain untimely divestment decisions. Managers become so attached to a business in which they have invested considerable time and money, that they are reluctant to sell it even though it is unprofitable. When managers finally realize the folly of holding on to a failing business, they may immediately consider divesting it as the only possible course of action available to them. Hence, they suffer from yet another bias, "single outcome calculation" (Duhaime & Schwenk, 1985). Perhaps there could have been other ways of handling the failing business if management had not forced the elimination of alternatives in their haste.

Empirical studies testing the relationship between the four cognitive biases described above and acquisition/divestment decisions were not found. Research in this area may be hard to conduct because the cognitive biases are not amenable to operationalization. In order to measure "reasoning by analogy," a researcher must either observe corporate strategy planning sessions, ask managers to recollect words used during strategy discussions or analyze strategic planning documents for use of metaphors. Even then, it would be difficult to determine whether or not managers really believed in the analogies they described. Perhaps they were just using rhetoric to persuade others of the value of their plans. The "illusion of control," "escalating commitment," and

"single outcome calculation" may be equally difficult to measure outside experimental decision making laboratories.

Nevertheless, Schwenk and Duhaime's work is important to this dissertation because it suggests that cognitive biases affect corporate strategy and that a good place to begin to study this relationship is in the area of mergers and acquisitions. Acquiring another company is a complex decision which imposes considerable pressure and time constraints on managers. They must set a reasonable price for a target company, decide whether to approach the target company's management in a friendly or hostile manner, and contend with other firms who may enter the competitive bidding process. It is during such times of uncertainty that managers are likely to resort to rules of thumb to make decisions.

During an acquisition, "reasoning by analogy" may occur when CEOs conjure up the popular metaphor that suggests that "organizations are like living systems; when they are growing, they exhibit signs of health and vitality." Another powerful image that may resound in a manager's mind in the midst of an acquisition is the notion that " $1 + 1 = 3$ ." Attitudes towards organizational growth and synergy are two cognitive belief variables used in this dissertation to explain why CEOs pursue acquisitions. Finally, a CEO's self-confidence, studied here as a "proxy" variable for "illusion of control," may encourage merger and acquisition activity because it enhances a CEO's belief that the outcomes of a merger are within her control and influence.

#### The Managerial Characteristics Perspective

Gupta (1984) and Hambrick & Mason (1984) have suggested that both psychological variables (cognitions and values) and demographic variables (age, education and socioeconomic status) of top managers determine a company's strategies (innovation, acquisition, product diversification). These variables also have an important impact on corporate profitability. The management team, not the CEO alone, is the focus of their attention.

Hambrick & Mason (1984) chose to center primarily on demographic characteristics, instead of psychological ones. Their theoretical work has generated numerous hypotheses; a few are reviewed here. Younger managers, for example, are more inclined to take risks than older

managers. Companies headed by young managers, therefore, will pursue unrelated diversification, product innovation and financial leverage strategies. Managers who have spent many years serving only one organization are likely to have limited experiences and poor exposure to new management ideas. Their companies will be disinclined to explore new terrains through product innovation and unrelated diversification. Executives coming from low socioeconomic groups may attempt to achieve recognition by pursuing "aggressive" and "flamboyant" strategies. They may run companies that follow strategies of acquisition and unrelated diversification.

Gupta (1984) attempted to answer the question, "Do General Managers matter?" Instead of focusing on just the relationship between managerial characteristics and strategy, he examined whether or not senior executives are more effective in some situations than others, due to their unique combination of traits. He hypothesized, for example, that corporate-level executives have a greater impact on their company's effectiveness when strategies of vertical integration, not diversification, are pursued. This is because the activities of a vertically integrated firm need to be carefully coordinated and controlled. Senior executives are the only ones equipped to do this because they are most familiar with their employees, standard operating procedures and corporate culture. Similar hypotheses were suggested regarding a top manager's industry specialization and interpersonal orientation.

Few empirical studies have emerged from the Managerial Characteristics literature perspective. One study, conducted by Gupta & Govindarajan (1984), is not reviewed here because the findings relate to general managers of strategic business units and not of the corporation. The implications of the authors' theoretical work for this dissertation are that cognitions, risk propensity and tolerance for ambiguity are a few important managerial characteristics that should be studied as they relate to corporate strategy. The literature also lends support to the notion that leadership, and not primarily such factors as the economy or industry conditions, are important in determining a company's future. Finally, it is once again

suggested that managers who are risk takers and pursue notoriety are the ones who will be making acquisitions.

### **B. Failure to Implement Rational Decision Making Models**

The normative Business Strategy literature has advised managers to use quantitative models when choosing acquisition candidates. The weighted multiple criteria model requires a manager to evaluate each acquisition candidate according to a number of criteria (e.g. relative purchase price, price earnings ratio, or market share). He or she should assign weights to each criteria reflecting varying degrees of importance. The candidate receiving the highest score is the one that should be selected and acquired. The Capital Asset Pricing Model (CAPM) proposed that the assets of a portfolio be unrelated or, ideally, negatively related in order to reduce the risk of investment. It, too, has been recommended as a strategic planning tool for acquisition decisions (Mullins, 1982).

There is some evidence, limited to a series of simulated acquisition decision making exercises, that indicates that managers may not follow either of these quantitative decision making models when implementing acquisition strategies. Managers may be unaware of the existence of such models or have made a conscious decision not to use them. In either case, the findings reviewed below suggest that rational models are normative, depicting the desired situation, and not descriptive of how acquisition decisions are made in reality.

In one acquisition decision making exercise with 42 executives who had been involved in an acquisition within 18 months prior to the research, Stahl (1989) made some important findings. First, executives did not use weighted multiple criteria models. Some attached zero weight to a criterion while others attached almost exclusive weight to it. Market share emerged as the most important criterion. This suggests that managers use simple methods to find acquisitions, perhaps because limited rationality prevents them from making the complex calculations required. Second, there were significant differences between what executives said were important criteria to consider in an acquisition and what their actual decisions indicated. According to Stahl (1989),

this may be one reason why acquisitions fail. If executives cannot articulate what is important, they will not be able to properly direct staff involved in the search for an acquisition.

In a second acquisition decision making exercise, with 158 senior executives belonging to the North American Society for Corporate Planning, Stahl (1989) found that the CAPM was not used as a decision making tool in the acquisition process. Executives relied on just a few criteria in processing information about an acquisition candidate, especially its rate of return. Again it seems that executives use simple models when deciding to acquire another company. Alternatively, perhaps their decisions use criteria which are just not incorporated into either weighted multiple criteria or CAPM models.

In a third acquisition decision making exercise, this time with 113 senior executives belonging to the North American Society for Corporate Planning, Stahl (1989) found that a target firm's profitability was only marginally more important than marketing fit and operating fit. Marketing fit was defined as "the extent to which different products utilize common distribution channels, the same promotion techniques, and/or the same sales force and are bought by the same customers;" operating fit resulted from "purchasing and warehouse economies, joint utilization of plant and equipment, and overlaps in technology and engineering design" (Stahl, 1989, p. 59). A few similar variables are studied in this dissertation. The belief in synergy, often resulting from operating and market fit, is discussed as a cognitive belief held by managers of acquiring companies. Strategic benefits of acquisitions (e.g. the achievement of economies of scale) may also encourage managers to pursue acquisitions.

Stahl's findings strongly suggest that complicated, numbers-oriented decision making models are not followed when managers formulate acquisition strategies. This is one reason why economic models, such as the CAPM, are not studied in this dissertation. It is hoped that psychological models, on the other hand, will provide a better explanation of why managers make acquisitions. Perhaps managers rely on rules of thumb, such as "by acquiring a company with a large share of the market one immediately gain an edge against competition" when choosing acquisition candidates. This dissertation suggests that managers are biased towards acquisitions

as appropriate strategies for their companies because of a belief that large organizational size is good, that synergy can be realized in a merger, and that mergers have strategic and financial benefits for companies.

A manager's personal inclinations may also need to be factored into a model describing acquisition decisions. Lamb (1987) argued that major strategic decisions (e.g. the decision to expand internationally) are influenced by a manager's own travels, interests, and personal contacts. It has also been suggested that "managerial adrenaline" and the "thrill of the chase" blind managers to the consequences of their acquisitions (Warren Buffett as cited in Jemison & Sitkin, 1986a, p. 110). Such personal motives as the need for power and the desire to manage impressions also are considered in this dissertation as possible explanations for merger and acquisition activity.

### **C. Managerial Personality Described in Case Studies of Acquisitions**

A number of case studies appearing in books and journals have examined how the personality of a manager influences his decision to acquire another company. Unfortunately, in many of instances the reader also learns that the acquisition was not successful in increasing the acquiring company's financial performance. Perhaps as many as one in three acquisitions is later divested (W. T. Grimm & Co cited in "Do Mergers," 1985, p. 88). Some recent examples are IBM's divestiture of Rolm and Exxon's divestiture of Reliance Electric. Also, many acquiring companies lose between 1% to 7% of their stock value in the year after a merger (Dobrzynski & Berger, 1987). These findings raise the question of why acquisitions continue to be popular strategies.

A Business Week article ("Do Mergers," 1985) pointed to several examples of mergers gone awry, including Mobile's acquisition of Marcor, Exxon's acquisition of Reliance Electric, Baldwin United's takeover of MGIC Investment and Wickes purchase of Gamble-Skogmo. Reasons used to explain these failures, called the "seven deadly sins" of mergers and acquisitions, were: overpaying, the synergy "trap," belief that a bull stock market will last indefinitely, failure to analyze thoroughly an acquisition, buying a company that is too large to be absorbed, differing corporate cultures and management turnover in the acquired company.

Successful acquisitions, on the other hand, were attributed to managers who buy companies in related businesses, finance their transactions with cash or stock exchanges rather than with borrowed capital, pay reasonable prices, and retain the management of the acquired company to run the business.

Lamb (1987, p. 291) claimed that "many takeovers are pursued or fought against not for rational ends, but for the ego satisfaction of the chief executive." He cited the rivalries between Donald Burr of People's Express and Frank Lorenzo of Texas Air as reasons for People Express' acquisitions of Frontier Airlines, Brit Airlines and Provincetown Boston Airways. Similar rivalries between Harold Gray of United Technology and Edward Hennessy of Allied may have been responsible for the latter's acquisition of Signal. A recent New York Times article agreed that a CEO's ego can destroy a company. The "overreaching drive," "sloppy management," and "hubris" of Walter Connolly, Jr., former chairman of the Bank of New England, drove him to pursue costly acquisitions and imprudent real estate lending. The bank's future is uncertain because of the large volume of bad loans acquired as Connolly tried to create the biggest and boldest bank in the region (Wayne, 1990).

The Ford Motor Company's 1989 acquisition of Jaguar also may have been made for dubious reasons. While it is true that Ford had aspired for a number of years to transform itself into a luxury car manufacturer (by attempting to acquire Alfa Romeo and Saab), it is also possible that Ford's CEO was attracted to Jaguar because of its prestigious image. A similar reason was used to explain Robert Campeau's attraction to Bloomingdale's as "New York's second largest tourist attraction after the Empire State Building" (Lampert, 1988, p. 42). Ford's Peterson may also have wanted to beat General Motors in the competition for Jaguar because Ford had previously lost in the battle for Hughes Aircraft. Finally, Ford may have overpaid for Jaguar, offering over half a billion dollars more than planned, for a company that has been losing money and requires an extensive factory overhaul ("Ford snares," 1989).

These examples suggest that there may indeed be a "hidden agenda" merger motive (Goldberg, 1983, p. 12). Sometimes CEOs may seek to acquire other companies just for the sake

of winning over their competitors. They may also desire to impress shareholders, investors and the general public by acquiring a well-known company with a prestigious image. Some CEOs, like Campeau and Connolly, set out to prove themselves to the world by taking extreme risks and pursuing large scale expansion. For these reasons, the need for power and desire to manage impressions are two important personal motives studied in this dissertation.

## **CHAPTER TWO: CONCEPTUAL MODEL AND HYPOTHESES**

### **1. OVERVIEW OF CONCEPTUAL MODEL**

Figure 2 on page 176 suggests that, under certain circumstances (i.e., when the acquiring firm possesses large cash reserves and is afraid of being a takeover target), both cognitive beliefs and personal motives increase the likelihood that a CEO will pursue acquisitions for his company. Cognitive beliefs refer to the implicit assumptions that managers make about the world which influence their business strategies, while personal motives include the need for power and desire to manage impressions. Merger and acquisition activity (MAA) refers to the number of completed and attempted acquisitions made by a firm and to the total dollar value of a company's merger and acquisition transactions in a particular year. In the following sections, the conceptual model is explored in detail and the dissertation's hypotheses are presented.

### **2. COGNITIVE BELIEFS**

The decision making literature has suggested that when the problems facing managers are complex, they tend to develop simplified versions of reality which enable them to pursue goals with some degree of clarity, meaning and purpose. Since they spend a great deal of time at corporate headquarters, insulated to some degree from the rest of the world, managers may not always be in direct contact with all the factors relevant to the making of production, marketing and financial decisions. Information is costly and hard to process accurately. Managers therefore may rely on simple "rules of thumb" to make vital choices (Bazerman, 1986). Their judgments may be colored by various cognitive biases which detract ultimately from the quality of their decisions.

Porter (1980), in his guidelines for analyzing competitors, noted that managers have blind spots affecting the way they perceive their environment. They use conventional wisdom - "customers trade up" or "one must control sources of raw materials" - to make business decisions. Janis (1989) has found that the use of various cognitive, affiliative and self-serving decision rules by leaders may be responsible for many foreign policy fiascoes. His case studies included such incidents as the Bay of Pigs invasion led by President Kennedy. Janis' descriptions of the cognitive decision rules used by leaders are relevant here. The "rapid fire" rule, for

example, refers to decisions which are made quickly and without much thought. The "satisficing rule" occurs when the first alternative to a problem that is good enough to meet minimal requirements is selected. Reliance on such simple approaches to decision making can be disastrous for organizations when the decisions are important and when a crisis is mounting. At other times, they are useful for the making of routine operating decisions.

Acquisition decisions are complex, requiring CEOs to analyze thoroughly the pros and cons associated with mergers as opposed to other alternative expansion strategies, such as new business start-ups or joint ventures. CEOs must then evaluate each acquisition candidate and learn as much as possible about its businesses. Accurate information is hard to obtain. If the CEO plans to initiate a hostile takeover he has even less time to acquire and examine the data. It is likely, therefore, that CEOs use rules of thumb, conventional wisdom or cognitive decision rules when acquiring other companies. The more general phrase, "cognitive beliefs," is used to capture the notion that managers resort to simplified views of reality when facing complex and taxing situations. The cognitive beliefs that are likely to encourage CEOs to make acquisitions include the belief that organizational growth is desirable and that synergy can be realized through a merger of two companies. These beliefs are discussed in the next sections.

#### **A. Belief that "Bigger is Better"**

With regard to organizational growth, managers may vary on the extent to which they believe that "bigger is better". Some of them may think that large companies are strong and therefore immune to environmental changes, while others may feel that small companies are more competitive because they are innovative and responsive to customers. Arguments supporting each of these viewpoints are discussed below.

Whetten (1980) has hypothesized that some managers possess a "growth bias" which encourages them to add products, expand their work force and build new factories. There are at least three factors which contribute to this preoccupation with growth. The "systems" theory of organizations has influenced management thinking by likening organizations to "living entities." In this view, growth is seen as being good because it connotes a sense of "youth" and "vitality"

(Whetten, 1980). Western culture has also placed tremendous emphasis on progress while attempting to deny the possibility of decline and failure (Whetten, 1980). This suggests that management's belief in growth and expansion merely reflect larger societal values. Finally, economic theory has suggested that large companies possess better chances for survival than small companies because they can take advantage of economies of scale, protect themselves from changes in the environment, and operate like monopolies by fixing prices (Schumpeter as cited in Adams & Brock, 1986, pp. 28-29).

On the other hand, a growing number of managers are challenging the alleged relationship between size and effectiveness. Peters & Waterman are at least partially responsible for the notion that profitable companies are those that remain small in size. In their bestseller, In Search of Excellence, smallness is viewed as "the heart of the entrepreneurial pillar" and as a "requisite for continual adaptiveness" (Peters & Waterman, 1982, p. 315). It is associated with such desirable organizational characteristics as quality, excitement, autonomy and efficiency.

Recent restructuring efforts by major corporations, when levels of management are eliminated and employees are fired to reduce costs, reflect an increasing disillusionment with unchecked expansion. The recent merger wave in the advertising industry has been criticized because advertising is a personal service and the bigger a company gets, the more impersonal it becomes (Lipman, 1986). According to a recent Business Week article, many managers are finding that small companies are more innovative, flexible and responsive to customers than large companies ("Is Your Company," 1989). This new philosophy, espoused by such business leaders as Gordon Forward of Chaparral Steel and John Segall of AT&T, has been called "diseconomies of scale" or "small is beautiful" ("Small is," 1984).

Mergers and acquisitions are one of the easiest strategies available to managers for increasing organizational size. Almost by definition, a company gains access to new employees, facilities, properties, products and markets when it decides to purchase another company. Thus, it is hypothesized that managers will pursue acquisitions depending on the extent to which they believe that organizational growth is good for their companies. Unfortunately, no empirical

research testing the relationship between attitudes towards growth and the number of acquisitions actually implemented by managers is available. One study, in a related area, hypothesized that managers possessing positive attitudes towards firm growth would be more active exporters of their company's products than managers holding negative attitudes towards firm growth (Bradley, 1984).

The attitude of CEOs towards the size of a company leads to the following hypothesis:

H1: *Companies with CEOs who assume that "bigger is better" will exhibit greater merger and acquisition activity (MAA) than companies with CEOs who do not.*

### **B. Belief in Synergy**

Synergy, the second factor on which managers may differ, is the driving logic behind claims that mergers are beneficial -- that there is magic in the acquisition process whereby "1 + 1 = 3." It is a condition in which two companies are worth more together than separately due to the achievement of economies of scale, debt offsetting or reduced business cyclicalities. Here are two hypothetical examples. The first, often found in the business literature, discusses two companies that operate on an island whose primary industry is tourism. One manufactures suntan lotion and the other manufactures umbrellas. When they merge into one company, they create "synergy," by offsetting the cyclicalities of their separate businesses. The second example involves a motel owner who buys the only restaurant in a five mile radius, hoping that each business will contribute to the other. Diners may decide to stay in the motel while the motel's customers will take their meals in the restaurant.

Despite its appealing logic, synergy, in practice, is very difficult to achieve (Davis, 1985). Haugen & Langetieg (1975) found that the union of two firms did not produce economically significant changes in the distribution of rates of return to stockholders. That is, individual investors would have done just as well by purchasing the shares of the two companies when they were independent as by buying shares in the combined company. Rhoades' (1983) review of an FTC study during the 1960's, when conglomeratization was at its peak, revealed that neither technical, managerial nor administrative efficiencies were achieved as a result of the acquisitive

behavior of nine large companies. The profits of more than half of the conglomerates declined between 1960-1969; the replacement of top management occurred slowly, if at all, and most administrative functions (e.g. accounting, auditing, legal, and advertising) remained unchanged. Is synergy, then, a word found only in crossword puzzles, as one executive claimed (as reported in Lipman, 1986, p. 6)?

Given the controversy over the notion of synergy, it is likely that today's senior executives will hold diverse opinions about the possibility of realizing merger-related efficiencies. Some may believe that synergy is possible as long as management carefully evaluates the acquisition candidate's competence, style and "fit" with the acquiring company. Others may view synergy as a dangerous trap and decide to pursue strategies other than mergers and acquisitions. The following hypothesis is offered:

*H2: Companies with CEOs who assume that mergers and acquisitions result in synergy will exhibit greater MAA than companies with CEOs who do not.*

### **C. Belief in the Benefits of Mergers and Acquisitions**

Mergers and acquisitions have been described in the business literature as having a number of well-publicized benefits. Ansoff et al.'s list of merger motives (cited in Goldberg, 1983, pp. 9-10) include: "a desire to diversify, to reduce the risks of business," "a desire to limit competition or achieve monopoly profits," and "a desire to achieve a large enough size to realize an economical scale of production and/or distribution." 14 experts in Boucher's study for the Federal Trade Commission (cited in Davidson, 1981) asserted that mergers help managers:

- achieve corporate growth more rapidly than internal expansion
- avoid the risks associated with internal startups of new businesses
- increase their companies' earnings per share
- reduce their companies' dependence on a single product/service

These financial and strategic motives may underlie the acquisitive behaviors of some CEOs.

Other CEOs may focus on some of the disadvantages of acquisition strategies; i. e., that they dry up a company's financial resources, preventing managers from investing in R & D, new

factories and advanced technologies. A 1987 Harris Poll found that 69% of business executives sampled agreed with the criticism levied against takeovers that much of the country's capital is being used to purchase existing companies rather than in expanding and modernizing them ("A Study of the Attitudes," 1987).

It is suggested here that some CEOs will be inclined to believe in the benefits of mergers and acquisitions more so than others. If attitudes influence intentions and, in turn, behaviors, then it is likely that CEOs who assume that acquisitions are beneficial to their companies will pursue such strategies more frequently than those that who do not. Therefore:

*H3: Companies with CEOs who perceive mergers and acquisitions as beneficial will exhibit greater MAA than companies with CEOs who do not.*

### **3. PERSONAL MOTIVES**

Many theories of human motivation -- including psychoanalytical theory, drive theory and expectancy-valence theory -- are rooted in the principle of hedonism (Weiner, 1980). According to the principle, a person is motivated to avoid pain and seek pleasure. The absence of food, sleep and other life necessities, creates tension and discomfort, encouraging individuals to satisfy their needs by engaging in appropriate behaviors, such as eating. They are able to return to a state of equilibrium until the next need deficiency is felt. Hedonism provides an important explanation for many types of behaviors, including the observation made by Riess, Rosenfeld, Melburg & Tedeschi (1981), that individuals take credit for success and blame others for failure in order to protect their self-esteem. It may also underlie other motives such as the need for power, desire for prestige, and pursuit of materialism.

Recent manifestations of the hedonic perspective, stating that pleasure and happiness are the chief goals in life, are found in studies of decision making (Janis, 1989) and narcissism (Kets de Vries & Miller, 1985). Janis (1989) suggested that personal ambitions, greed and other self-serving motives can play a significant role in the making of vital policy decisions. An egocentric leader approaches a decision making situation by asking himself, "What's in it for me?" His own and his family's needs take precedence over the organization's needs. Once he decides on the

alternative most likely to further his own goals, he attempts to conceal his real motives by using rhetoric or by sharing some, but not all, of the rewards.

Examples of self-serving behaviors provided by Janis (1989) include (a) legislators who vote on a specific bill based on whether or not they like the person who drafted the bill, regardless of its substance and (b) executives who try to protect their positions in companies vulnerable to hostile takeovers by paying "greenmail" to the would-be acquirers. Armand Hammer of Occidental Petroleum, a CEO who scheduled annual meetings on his birthday, may have taken personal aggrandizement a little far. He was sued by shareholders for planning to use \$50 million of company money to build a museum bearing his name to house his large art collection (Grover, 1990). Until his recent death at the age of 91, he personally ran his company.

Self-serving motives may also explain why CEOs make acquisitions. They may be interested in the larger salaries that are often obtained as a company increases in size or they may seek the public exposure and fame that accompanies the announcement of a major merger transaction. Psychic gratification may also come from the ability to dominate a larger number of employees and to eliminate sources of competition. This has been called the "managerial self-interest" explanation of acquisition activity (Roll, 1988).

Narcissism, involving excessive admiration of oneself, was used by Kets de Vries & Miller (1985) to describe three different types of leaders. Reactive narcissistic leaders are concerned only with themselves, ignore the needs of others and exploit people in order to get ahead. Their grandiose tendencies encourage them to undertake risky projects that are often destined for failure. Self-deceptive leaders are hypersensitive to criticism, extremely insecure and possess a strong need to be loved. They strive to perform well in order to gain the respect of others but are secretly haunted by feelings of inadequacy. Constructive leaders are highly confident in their abilities. They also enjoy being admired but are realistic about their capabilities and limitations. They are a positive force in their organizations because they have the ability to inspire and motivate others.

This dissertation utilizes many of the dysfunctional narcissistic characteristics of leaders described by Kets de Vries & Miller (1985) to explain why CEOs make acquisitions. Like the reactive narcissistic leader, a CEO's need for power and desire to exploit others may motivate him to extend his reach by acquiring other companies. A self-deceptive leader's performance anxiety and sensitivity to criticism is studied here in terms of a CEO's fear of negative evaluation. Completing an acquisition may enable a CEO not only to prove himself to the world but also to gain the approval of his peers and subordinates. The specific personal motives studied in this dissertation are reviewed in the following sections.

#### **A. Need for Power**

The need for power, for feelings of superiority, and for conquest of others has long been recognized as a basic motivator of human behavior. In psychology, Alfred Adler believed that strivings for power arise out of feelings of weakness and inferiority that begin in infancy (as discussed in Uleman, 1972, p. 161). The desire of children, and later of adults, to grow stronger and dominate others can take either socially acceptable or socially unacceptable forms, depending on how well individuals learn to control their needs. Henry Murray (as discussed in Uleman, 1972, p. 162) considered the need for dominance as both a manifest and latent need which involved controlling one's environment and influencing or directing the behavior of others by suggestion, seduction, persuasion or command.

In management, the need for power has been explored by Winter (1973) and McClelland (1975). According to Winter (1987, p. 42), the need for power refers to an individual's "concern for impact and prestige which is associated with getting formal social power and also profligate impulsive actions such as aggression, drinking and taking extreme risks." McClelland further distinguished between "personalized power" and "socialized power" (Miner, 1980). The former involves satisfaction deriving from conquering others; it refers to individuals who enjoy being rude, who try to exploit others sexually, who engage in competitive sports and collect prestige items. The latter involves altruism and a concern for group goals. A manager possessing "socialized

power" motivation enjoys helping others to achieve goals not to aggrandize the self but in order to get the job done.

Additional descriptions of the need for power are found in Bower (1966) and Miner (1977). Bower (1966) distinguished between the "will to succeed" and the "will to manage." The "will to succeed" is similar to the need for power because it characterizes managers who have a strong desire for success, who work long hours to stay in control of events, and who are able to make daring and competitive strategic moves. A company's outcomes are good but not as good as they could be if the chief executive developed a "will to manage," i.e., the ability to create the management processes and systems that inspire employees, increase productivity and guide the organization towards achieving its objectives. Many of the components of Miner's (1977b) Managerial Role-Motivation theory also correspond to descriptions of the need for power. "Imposing wishes" refers to the directing and controlling of the behaviors of others, "competitive situations" involves one's desire to engage in competition with peers in order to obtain occupation-related rewards, and "assertive role," reflects one's tendency to behave in an outspoken, forceful, and traditionally "masculine," manner. Among CEOs, Berglas (1986) believed that the dictatorial manner of Armand Hammer of Occidental Petroleum and the opulent lifestyle of William McGowan of MCI epitomized what is commonly meant by the power motive.

It is hypothesized here that CEOs who thrive on making acquisitions are likely to exhibit the characteristics of the need for power. Power, in this context, refers to the need managers possess to expand their impact in the business world and to dominate over others. It includes the desire for prestige. Merger strategies satisfy these needs because they help companies increase their market share, become the largest firm in the industry and acquire additional plants, property and employees. Other strategies, such as investment in R&D and joint ventures, do not provide immediate recognition and therefore may not fulfill a CEO's power needs. Investment in R&D is not a very "visible" action; joint ventures require that a CEO share his power with an equal partner.

Evidence suggesting that the need for power is a primary motive underlying merger and acquisition activity is not hard to find. Statistical reports have revealed that a battle for control of corporate America is underway. According to McManus & Hergert (1988), approximately 12,200 companies and divisions, worth \$490 billion, changed hands between 1983 and 1986. Business Week has predicted that, if this pace continues, every publicly held company will be under new ownership by the year 2001. Certain industries, notably banking, retailing, media and advertising have undergone major consolidation in recent years with bigger, but fewer, companies emerging. In banking, for example, "expansion-minded institutions are racing to carve out as much territory as they can, any way they can" (Scherschel, 1986, p. 49).

The recent rise of hostile takeovers, when the target firm's management opposes the merger, is another manifestation of the power motive (Rhoades, 1983). Years ago, it was considered "ungentlemanly," for one company to try to coerce another company into a legal union. Today, many managers of acquiring companies seem eager to engage in corporate warfare. They like seeing their names make newspaper headlines and enjoy the drama and excitement of a public battle. Thus, mergers and acquisitions, according to its critics, help managers indulge their egos, "jeopardizing shareholders' money to inflate their own importance in the business world" (Louis, 1982, p. 84).

Lamb (1989) studied 89 CEOs for 12 years. He found that "most chief executives are competitive animals . . . . At a certain point, chief executives find it difficult to discern where they begin and their company ends. Winning becomes both a gain for the company and a personal triumph to be savored. Many takeovers are pursued or fought against not for rational ends but for the ego satisfaction of the chief executive" (Lamb, 1989, p. 291). Using anecdotal evidence, Hall (1984) also suggested that acquisitions may be an "ego trip" for senior executives. He noted that many CEOs acquire other companies merely to satisfy their whims. Bluhdorn, the former CEO of Gulf & Western, bought sugar operations in the Dominican Republic, reflecting his early career as a commodities trader; Werner of GAF Corporation acquired WNCN because he was upset when

the radio station changed from classical to rock and roll music; Colgate's David Foster, an avid golfer, collected sporting goods companies.

The following hypothesis is offered:

H4: *The stronger a CEO's need for power, the greater his company's MAA.*

### **B. Self-Confidence**

A number of terms - "illusion of control," "overconfidence in judgment," and "unrealistic optimism" - have been used to explain a very common phenomenon. Some people tend to believe that they have more control over events than they really do; they may overestimate the power of their skills to overcome obstacles and achieve desired outcomes; they seem to believe that misfortunes can only happen to other people. Langer (1983) pointed out that individuals believe they can control purely chance events (e. g., by blowing on dice gamblers think they can determine the outcome of a roll). Bazerman (1986) found that most people are overly confident when estimating uncertain quantities (e. g. Mobil Oil's sales in 1980) and placing lower and upper bounds around their estimates to assure 98% accuracy. Weinstein (1980) demonstrated that college students rated their chances to be above average for positive events in the future (e. g. living past 80 years) and below average for negative events in the future (e. g. having a heart attack).

The psychological explanation for these biases is that people often try to seek control and mastery over their environment. They desire to be competent and test their ability to "beat the odds" (Langer, 1983, p. 31). Thus, CEOs may feel extremely confident in their skills and abilities and they may desire to show mastery over the environment by acquiring one company after another. This may cause them to overlook potential risks associated with an acquisition, overestimate their personal influence should merger integration problems arise, and ignore how difficult it is to learn new businesses acquired through unrelated diversification. Such reasoning has been used to explain Chock Full O' Nuts' decision to acquire Rheingold Breweries and Ralston Purina's move to purchase Green Thumb (Duhaime & Schwenk, 1985). Executives at both companies admitted later that the acquisitions had been serious mistakes.

The constructs "illusion of control," "overconfidence in judgment," and "unrealistic optimism" are not studied here directly because they may require measures taken in assessment centers or laboratory studies. Tennen & Sharp (1983), for example, studied the "illusion of control" in an experiment by asking subjects to judge the degree of control they had over the onset of a green light. Although the green light was programmed to go on randomly, most subjects nevertheless believed that by pressing a button, the green light came on. Weinstein (1980) studied "unrealistic optimism" by asking subjects to indicate the chances that positive versus negative life events would occur to them compared to others with similar backgrounds. It does not make sense to ask managers whether they think their companies have above average chances for success and below average chances for failure compared to other companies. Literature on "impressions management" suggests that managers are motivated to portray their companies in the best light possible to protect their self-esteem and attract investors.

Because of these measurement problems, the term "self-confidence" is used to depict a CEO's desire to show competence and mastery. "Self-confidence" indicates "one's sense of self-importance, an individual's image of his/her ability to cope adequately with objects and persons in the environment" (Hermann, 1987, p. 15). It also refers here to how optimistic CEOs feel about their company's future and whether or not they believe that they can make a difference in the world. It is hypothesized that CEOs who believe they control their destinies and are able to cope in difficult situations will be more likely to acquire other companies than CEOs who do not.

*H5: Companies with CEOs who have high levels of self-confidence will exhibit greater MAA than companies with CEOs who do not.*

### **C. Desire to Manage impressions**

Interest in "impressions management" gained momentum with Erving Goffman's work, The Presentation of Self in Everyday Life (1959). He believed that researcher's should concern themselves with the fronts and faces people show their audiences. People, for example, were not honest but merely created an impression of honesty so that they could avoid being caught for a wrongdoing (as discussed in Scheibe, 1985, pp. 33-34). While Goffman focused entirely on

outward manifestations of the self, Greenwald & Breckler (1985) derived a more balanced view of man who has a public, a private, and a collective self. People were motivated to accomplish great feats, such as winning a Nobel prize or an Olympic gold medal, in order to earn the approval of others, achieve success by personal standards and fulfill a reference group's goal. Other achievements that might fulfill two or more ego needs simultaneously were: being promoted, earning a college degree, and raising children.

In the business literature, research on "impressions management" has focused largely on the causal reasoning used by companies to explain corporate performance. Executives in successful companies seemed to attribute the causes of performance to internal factors (e.g. company strategy), whereas executives in less successful companies tended to attribute the causes of performance to external factors (e.g. industry trends). These executives might have been eager to assume responsibility for successes but deny responsibility for failures in order to portray an image of competency.

Staw, McKechnie & Puffer (1983) found that negative events, as described in Letters to Shareholders in annual reports, were attributed to external factors although no differences were found between high- and low- performing companies. Even more important was the finding that company officers sold their stock after the annual report in which positive events were attributed to internal causes was published. This indicates that the officers actually possessed little faith in their companies despite their readiness to create the impression that they had contributed to their companies' successes.

Expanding on Staw et al.'s research, Salancik & Meindl (1984) claimed that attributions form the basis for political statements made by a company's top managers to attract investors and reassure stockholders. They found that managements of firms with unstable performance assumed responsibility for *both* positive and negative outcomes. They apparently took credit for positive outcomes to demonstrate that they were capable of producing results and accepted blame for negative outcomes to show that they were in control of the situation.

Following this literature, it is suggested here that CEOs may pursue acquisitions for self-enhancing reasons. While the completion of an acquisition may be personally satisfying, it also enables CEOs to create favorable images of themselves and to impress employees, peers and competitors. In our society, an aura of courage and glamor clearly surrounds CEOs who are aggressive in acquiring other companies despite the risks and difficulties. The popular literature reinforces this notion when it uses such terms as "white knights," "sleeping beauties" and "crown jewels" to describe the key figures and objects involved in acquisitions. Also, the public's fascination with mergers and acquisitions is indicated by the many films, newspaper articles, debates, T. V. interviews, and conferences devoted to the topic. Since a premium seems to be placed on people who are adventuresome and daring, CEOs may feel that they can attract attention and impress others by showing mastery as Wall Street dealmakers. This leads to another hypothesis:

*H6: The stronger a CEO's concern with managing impressions, the greater her company's MAA..*

#### **D. Fear of Negative Evaluation**

Fear of negative evaluation refers to one of several social-evaluative anxieties that individuals experience when they are expected to interact with others. It is similar to the need for approval and fear of failure. Teevan & Hartsough (as cited in Dapra, Zarrillo, Carlson & Teevan, 1985, p. 27) found, for example, that individuals who fear failure are also likely to be overly concerned with the opinions of others, submit in order to gain approval from others and wish for power while concerned with the responsibilities that go with it. Also, individuals who are troubled by their social identity, and other people's reaction to it, may be more likely to conform and less willing to dissent than individuals minimally concerned with their social identity (Froming & Carver, 1981).

It is possible that some CEOs possess a genuine fear of being negatively evaluated by others. They are increasingly pressured by their constituencies to create shareholder value, show greater sensitivity to employees, and be more accountable to the board of directors. The

likelihood of displeasing any one group is fairly high. The CEO, therefore, may try to act in socially acceptable ways and conform to the behaviors of other influential CEOs in order to avoid criticism. He may do this by making acquisitions. This would not be the first time that CEOs imitated the strategies of their peers. Lamb (1989) found that the decision to use the Boston Consulting Group's growth share matrix was sometimes made because CEOs knew other CEOs who had implemented it successfully. CEOs also belong to social clubs and often are influenced by the words and deeds of powerful role models. A group of executives who had worked under Harold Geneen of ITT, including Gray of United Technologies and Hennessy of Allied Signal, applied lessons of corporate diversification to their businesses by making acquisitions (Lamb, 1989).

Perhaps a CEO may be afraid that others will think he is not doing his job if he does not actively pursue acquisitions. Jemison & Sitkin (1986b, p. 151), in their conceptual analysis of the acquisition process, claimed that "CEOs may feel pressure from both peers and subordinates to play out the role of the decisive, risk-taking leader by overseeing an acquisition negotiation. Such pressures may be especially strong for those CEOs who have never 'made a deal' since they may sense that because so many of their fellow CEOs have, they are somehow among the uninitiated." According to Grant (1985, p. 26), some CEOs are afraid that they will be viewed as "unimaginative" and "lazy" if they are not aggressive in conquering new fields. Making acquisitions, therefore, appears to be a means for some managers to avoid the fear of being negatively evaluated by others.

*H7: Companies with CEOs who are afraid of being negatively evaluated by others will exhibit greater MAA than companies with CEOs who are not.*

#### **4. ORGANIZATIONAL VARIABLES**

The amount of a company's cash reserves and its vulnerability to a hostile takeover are important when studying acquisitions. These variables are treated as moderators because they may help explain why so many acquisitions are being made today. CEOs have always possessed

a need for power and the belief that "bigger is better." They are pursuing acquisitions now, however, because of these special conditions.

Accordingly, a company that possesses large cash reserves can provide its CEO with the financial clout he needs to implement his belief that "bigger is better" via acquisitions. A CEO may strongly believe in synergy and the strategic benefits of mergers but she will not be able to acquire other companies unless she can draw on her company's cash reserves. Similarly, the greater the fear that a company is a hostile takeover target, the more likely the CEO is to indulge his power needs and attack before he is attacked by making acquisitions.

#### **A. Cash Reserves**

Many companies seeking to expand via acquisitions in the 1980's accumulated large cash reserves during the 1970's. According to Madrick (1987), the shortage of materials and rising inflation in the early 1970's enabled companies to increase prices, with the result that IBM ended up with \$5.4 billion in cash, Exxon had \$4.7 billion, and GE \$2.3 billion. Managers wanted to spend this cash quickly, before it lost value (distributing it to shareholders was an unattractive alternative because of double taxation). Also, large sums of cash seemed to make companies attractive takeover targets. Companies with large cash reserves may, therefore, turn to mergers and acquisitions as potentially good investments.

Recently, Ford had \$7.1 billion on hand and was looking to put it all in acquisitions ("Ford's Bruce," 1987). Some of the cash seems to have been used for Ford's 1989 acquisition of Jaguar PLC costing \$2.5 billion. Pennzoil planned to use the \$3.0 billion it received from Texaco to buy another large oil company (Solomon, 1988). In fact, industry analysts were waiting excitedly to see which company Pennzoil would acquire; they calculated Pennzoil's total "war chest" to be \$17.3 billion for acquisition purposes (Hayes, 1989). Pennzoil subsequently spent a small amount of the cash to purchase an 8.8% stake in Chevron for \$2.1 billion.

The following hypotheses are offered:

H8: *The more cash reserves a company has, the stronger the positive relationship between a CEO's belief that "bigger is better" and MAA.*

H9: *The more cash reserves a company has, the stronger the positive relationship between a CEO's belief in synergy and MAA*

H10: *The more cash reserves a company has, the stronger the positive relationship between a CEO's belief in the benefits of merger and acquisition strategies and MAA.*

H11: *The more cash reserves a company has, the stronger the positive relationship between a CEO's need for power and MAA.*

H12: *The more cash reserves a company has, the stronger the positive relationship between a CEO's self-confidence and MAA.*

H13: *The more cash reserves a company has, the stronger the positive relationship between a CEO's concern with managing impressions and MAA.*

H14: *The more cash reserves a company has, the stronger the positive relationship between a CEO's fear of negative evaluation and MAA.*

#### **B. Fear of Being a Hostile Takeover Target**

Greer (1986, p. 155) argued that buying so as not to be bought is a "neglected merger motive" behind defensive acquisitions. Madrick (1987) elaborated on this motive, suggesting that a good company in a thriving industry is vulnerable to a hostile takeover. Investment bankers have recommended that if a company wants to remain independent and managers keep their jobs, "it might be better to make an acquisition now, better yet a very big acquisition, before you were taken over yourself" (Madrick, 1987, p. 194). The "buy or be bought" philosophy may have been operating in the early 1980's merger frenzy when one oil company was trying to purchase another. According to a recent Business Week article, Socal acquired Gulf Oil for \$13.4 billion and Texaco purchased Getty Oil for \$10 billion in order to halt takeover speculation in their own company's stock. Also, oil companies were under intense pressure to survive by getting bigger through acquisition even though this also meant assuming a heavy debt load ("Why Gulf," 1984, p. 77).

Many companies, therefore, fearing a takeover, try to defend themselves by acquiring other companies (Wayne, 1988), or by buying back their own stock in a leveraged buyout (Cowan,

1988). The more debt companies accumulate, the less attractive they become as takeover targets. In 1982, Martin Marietta borrowed \$900 million in order to purchase shares of the Bendix Corporation who had a few weeks earlier launched a hostile takeover bid for Martin Marietta. Not only was Martin Marietta's "Pac-Man" defense successful in thwarting Bendix's plans, but it also protected the company from future attacks. Martin Marietta's debt burden of 70% of capital made it an unattractive target (Greer, 1986). It seems that acquisitions can be purely defensive moves; some CEOs may hope to deter hostile takeovers of their own companies by expanding, adding debt, diluting stock, and diversifying into new businesses via mergers and acquisitions (Greer, 1986). CEOs, then, who run companies vulnerable to hostile takeovers, may become active acquirers in an attempt to keep their jobs and maintain their company's independence. This leads to our last set of hypotheses:

*H15: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's belief that "bigger is better" and MAA.*

*H16: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's belief in synergy and MAA.*

*H17: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's belief in the benefits of merger and acquisition strategies and MAA.*

*H18: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's need for power and MAA.*

*H19: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's self-confidence and MAA.*

*H20: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's concern with managing impressions and MAA.*

*H21: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's fear of negative evaluation and MAA.*

A complete list of the hypotheses mentioned above appears in Table 1 on pages 118-119.

## 5. LIMITATIONS OF CONCEPTUAL MODEL

The model shown in Figure 2 on page 176 applies to CEOs who plan to run (or oversee) the companies they purchase or attempt to purchase. It may or may not provide insights into the behaviors of corporate raiders, such as T. Boone Pickens and Asher Edelman. These individuals often plan to purchase companies whose shares seem undervalued by the stock market only to sell off the company in parts afterwards, raising more money than they initially spent for the entire company. The model includes several personality factors considered by the researcher to be most important in influencing acquisition decisions. There may be other beliefs or motives characteristic of CEOs that could exert secondary influences on a company's merger and acquisition activity.

The model is intended to be an explanatory model, not necessarily a predictive one. Based on a review of the literature, however, it was assumed a priori that a CEO's cognitive beliefs and personal motives encourage him to pursue acquisitions. It is difficult, however, to establish causality empirically in studies which are cross-sectional and do not manipulate or control their independent variables. An attempt to provide some information on cause and effect relationships among variables is made in Chapter 6. For now, it is important to note that the causal arrows appearing in the model are only tentative. Perhaps a CEO's need for power motivates her to make acquisitions or perhaps the actual making of an acquisition enhances a CEO's feelings of power and prestige. It is also possible that CEOs use concepts of organizational growth and synergy to justify their prior acquisition strategies and not necessarily because they plan to continue making acquisitions in the future. Similar arguments could be made to imply that a CEO's self-confidence, desire to manage impressions and fear of negative evaluation are consequences, rather than antecedents, of a company's merger and acquisition activity.

## **CHAPTER THREE: POPULATION, METHODS AND MEASURES**

### **1. THE POPULATION**

The population for this study consisted of the top 350 companies from the 1988 Fortune 500 list of largest U. S. industrial corporations and the top 150 companies from the 1988 Fortune 500 list of largest U. S. service corporations. Table 2 on pages 120-121 shows that most of the 350 U. S. industrial companies belonged to the electronics, chemicals, food, forest products, petroleum refining, and industrial/farm equipment industries. Most of the 150 U. S. service companies were from the retailing, diversified service, diversified financial, and utilities industries. These companies accounted for approximately 28% of the total number of acquisitions completed by U. S. companies in 1988 and for approximately 29% of the total number of acquisitions completed by U. S. companies in 1989. The rest were made by private investors, corporate raiders, investment bankers and other companies.

### **2. DESCRIPTION OF RESEARCH METHODS**

This dissertation employed a two-step research strategy to examine the hypothesized relationships among its independent, moderator and dependent variables. In the first step, a technique called "triangulation" was used to measure aspects of a CEO's personality. In the second step, archival data was gathered to measure a company's merger and acquisition activity, cash reserves and fear of being a takeover target.

#### **A. Research Methods to Study CEO Personality**

Triangulation is a metaphor applied to behavioral science research from navigation, civil engineering and surveying. A navigator, for example, employs triangulation to locate his ship's position in the ocean by using a sextant to measure the angle of the sun above the horizon (Budlong, 1978). The technique is based on the finding that if the measurements of one side and two angles of a triangle are known, then the other two sides and angle can be calculated using trigonometry.

In business, triangulation refers to a research technique in which two or more different methodologies are combined in a single study to investigate the same phenomenon. A leader's

effectiveness, for example, can be evaluated by administering questionnaires to subordinates, observing the leader's behavior, and reviewing the leader's performance appraisal ratings. Although this technique can be costly, time-consuming and hard to replicate, it has been recommended by Jick (1979) when the researcher's objective is to:

- gather data that is "more complete," "accurate," and "holistic"
- offset the weaknesses of one method by drawing on the strengths of another
- increase confidence in results which occurs when the same conclusions are reached using multiple methods

Triangulation seemed particularly important to this study for two reasons. First, the most common method used to study personality has been through self-report questionnaires and interviews. Webb, Campbell, Schwarz & Sechrest (1966, p. 1) criticized the overreliance on such methods because they "intrude as a foreign element into the social setting they describe, they create as well as measure attitudes, they elicit atypical roles and responses, they are limited to those who are accessible and will cooperate." Thus, it becomes crucial to study personality using additional methodologies. Second, personality is, at best, a complex and often elusive phenomenon. People sometimes lack insights into their own behaviors, are unwilling to reveal their true feelings, and are motivated to act and say things that are socially acceptable. By using a variety of methods, a researcher is likely to arrive at a more accurate and in-depth portrayal of an individual's personality than if she were to rely on any single method.

In this dissertation, triangulation was applied to the study of aspects of a CEO's personality. The methodologies used were: (a) content analysis of speeches by CEOs; (b) CEO responses to objectively scored questionnaires; and (c) unobtrusive measures found in annual reports and CEO biographies.

### Content Analysis

Content analyses of diaries, speeches and other personal documents are recommended when the individuals being studied are no longer alive or are otherwise inaccessible and in situations where testing may cause the subjects to react defensively. It is a unobtrusive method

allowing the researcher to take repeated measures over time and in a variety of contexts (Winter, in press). It has been used effectively to study the lives of presidents, political leaders, and other prominent individuals "at a distance." Winter & Stewart (1977), for example, performed a content analysis on inaugural speeches given by U. S. presidents. They developed measures of need for power, need for achievement and need for affiliation and attempted to predict the presidents' orientations towards war and peace.

Hermann (1980a) did a content analysis of press interviews to determine whether or not the personalities of 45 heads of government influenced their foreign policy behaviors. The test/retest reliability of her measures (calculated by correlating the scores derived from interviews given at two different points in time) ranged from .87 for nationalism to .46 for suspiciousness (Hermann, 1980b). An earlier study revealed good split half reliability for her variables, with correlations ranging from .57 to .80 (Hermann, 1977). A study by Simonton (1988) offers another interesting use of content analysis. Simonton coded biographical information on 39 presidents using the Gough Adjective Checklist and classified political leaders in terms of their interpersonal, charismatic, deliberate, creative and neurotic styles. He also conducted extensive validity studies showing how his personality traits correlated with comparable measures used by other researchers (Simonton, 1986).

*Focusing closer to management, Salancik & Meindl (1984) and Staw, McKechnie & Puffer (1983) used letters to stockholders in annual reports to determine whether or not CEO attributions of success and failure were related to corporate performance, while Myers & Kessler (1980) and Sussman, Ricchio & Belohlav (1983) found that some of the most common themes in corporate speeches pertained to economic, government regulation, technology and social responsibility issues.*

Content analysis, therefore, appears to be appropriate for studying CEOs of large companies who have tight constraints on their time, travel frequently, and are often unavailable for face-to-face interviews. Some of the drawbacks of the method lie in the difficulty in developing a reliable coding system and the possibility that the documents analyzed do not reflect the

subject's true, underlying traits. The first problem can be overcome by developing a simple coding system and training people to code, while the second problem is usually dealt with by supplementing scores derived from content analysis with other biographical data (Winter & Stewart, 1977).

For this dissertation, content analysis was performed on speeches delivered by CEOs to a variety of audiences on many different topics. Current thinking has suggested that executive work is "mostly talk," with CEOs relating personal stories and using different metaphors to establish their unique connection to the organization (Jonas, Fry & Srivastva, 1989). CEO speeches, therefore, were considered to be a valuable source of information on a CEO's personality. The speeches were analyzed according to a coding system which enabled a team of readers to rate CEOs in terms of whether they scored high, moderate or low on the need for power, self-confidence and other personality variables under study.

Two methods were used to collect speeches from CEOs. First, the Business Periodicals Index and the Reader's Guide to Periodical Literature were searched for speeches using a CEO name as key. Most of the speeches/interviews retrieved from the library search appeared in Vital Speeches of the Day and the Wall Street Transcripts. Second, mailings were made to the public relations departments of 500 U. S. industrial and service corporations requesting recent speeches to the general public of their CEOs. 400 companies responded; however, 100 sent only a copy of their recent annual report while another 50 replied that they were not publicly held, have been taken over, or that CEO speeches were unavailable.

These efforts resulted in the accumulation of speeches from 250 companies with more than one speech available for many CEOs. 222 speeches/interviews on special topics, 185 speeches/interviews about the company, and miscellaneous materials (quarterly reports, videos, autobiographies, etc.) were received. These documents were sorted, selected and reviewed for subject and length to determine if they were suitable for content analysis. The selection process resulted in speeches from 236 industrial and service companies.

Table 3 on page 122 compares the sales, profits and number of employees of the companies for whom codeable CEO speeches were available versus the companies for whom codeable CEO speeches were not available. The purpose was to detect whether or not there were any systematic differences in terms of size and financial performance between those companies in the sample and those not in the sample. The sales, profits and number of employees were slightly greater for the 236 companies for whom CEO speeches were available than for the 218 companies for whom CEO speeches were not available. None of the t tests performed on the means for sales, profits and number of employees, however, showed statistically significant differences between the two groups. For example, the t value in the test comparing the means of \$6,017.82 (in millions of dollars) and \$4,321.35 (in millions of dollars) for sales was associated with a probability of .177. It seems then, based on the criteria used, that the two groups are from the same population.

#### Questionnaires

Self-administered questionnaires have been used frequently in management to study such personality constructs as locus of control and self-esteem. They are convenient because they can be administered to large samples with relative ease and their standardized formats ensure that the subjects receive equal treatment. They may, however, provide only a superficial exploration of personality traits because the researcher usually cannot probe or ask subjects follow-up questions. They may also arouse subject reactivity (e.g., respondents may try to outguess the researcher's intentions or respond to questionnaire items in socially acceptable ways).

Questionnaires mailed to CEOs were used in this dissertation to study personality as a parallel method to the content analysis of speeches. Two questionnaire mailings were made. In April 1988, questionnaires were sent to the business addresses of CEOs of 470 companies (the remaining 30 of the 500 companies had been taken over or had gone private and were excluded from the mailing). The addresses were obtained from Business Week's list of the top 1000 U. S. corporations. In May 1988, a follow-up mailing was made to the home addresses of CEOs (where

available). These addresses were taken from Who's Who in America, Who's Who in Finance and Industry and Standard & Poor's Register of Corporations - Directors and Executives. In both mailings, the CEOs were sent a cover letter explaining the purpose of the research and informing them that the questionnaires were numbered but that their responses would be confidential.

131 completed questionnaires were received, giving a response rate of 28%. This is better than the response rate of 20.5% obtained by Gaedeke & Tootelian (1976). These researchers believed that 20.5% is about what can be expected from a mail survey because the Fortune 500 is an "endangered species." A more recent study, by Hitt et al. (1982) obtained a response rate of 26% from their mailing of questionnaires to the CEOs of Fortune 1000 companies.

Table 4 on page 123 compares the sales, profits and number of employees for companies whose CEO responded to the questionnaire and for companies whose CEO did not respond to the questionnaire. The purpose was to detect whether or not there were any systematic differences in terms of size and financial performance between those companies in the sample and those not in the sample. The sales, profits and number of employees were slightly lower for companies whose CEOs responded to the questionnaire than for companies whose CEOs did not respond to the questionnaire. T tests, however, failed to show that the two groups were significantly different from one another. For example, the t value in the test comparing the means of 33,330 and 41,092 for number of employees was .58 with a probability of .559. It seems then that the two groups belong to the same population.

#### Other Unobtrusive Measures

Unobtrusive measures are used sometimes, along with more traditional methods such as self-reports, to provide clues to an individual's personality. Jick (1979), in his study of a merger between two hospitals, for example, operationalized employee stress during a period of rumored organizational merger by observing the number and length of visits employees paid to the company library. Employees read news reports and memos about the possible merger to try to reduce their anxiety. He also measured stress through questionnaires and interviews.

According to Webb & Weick (1979, p. 652), unobtrusive measures represent a "playful stance toward the world of data collection," allowing for greater imagination and variety than more conventional modes of inquiry. They are valuable because they can help researchers (a) eliminate rival explanations for their findings which may arise when the administering of a questionnaire itself creates attitudes and elicits roleplaying; (b) reduce their dependence on language since questionnaires may be measuring the attitudes of individuals with better reading skills or greater verbal fluency (c) study the attitudes and behaviors of individuals who refuse to answer questionnaires (d) study past behaviors and change patterns more effectively since there is no longer a need to rely on the memory of individuals (Webb et al., 1966)

Two unobtrusive measures of a CEO's personality were used in this dissertation: length of CEO biographies and size of CEO photographs. They both were intended to portray the degree to which a CEO desires to feel important and seek attention from others. Because individuals can have considerable input into the content of their biographies appearing in Who's Who in America and Who's Who in Finance and Industry, it was felt that valuable information about a CEO's personality could be obtained from these sources. These forums provide CEOs with an opportunity to say "Hey, look at me and what I've done with my life. Look at how hard I've worked. Look at all the awards I've won..." The biography of TRW's CEO listed his Excellence in Management Award and National Human Relations Award. Dow Jones' CEO was a member of the prestigious River Club of New York and Brunswick's CEO provided the following slogan: "To meet with any success, one must have the sense of urgency to get things done." A CEO's need for power and desire to impress others was measured by using information available in these biographies.

Annual reports include strong statements about a company and are distributed to thousands of investors, stockholders and librarians. They are carefully prepared by a company's public relations department and receive both input and final approval from the CEO. Given the chance to become a familiar face in offices and households throughout the country, a CEO may be motivated to include an appealing photograph of himself in the report. A large photograph

featuring the CEO, or a photograph in which the CEO appears with a well-known individual, may reflect a CEO's interest in self-aggrandizement. A small photograph of the CEO or the absence of any photograph of the CEO in the report, on the other hand, may suggest such characteristics as humility or diffidence. A recent NY Times article noted a growing trend for CEOs to sit for corporate portraits despite the amount of time and money required (Glueck,1989). The author suggested that board room photographs, paintings, and in some cases, sculptures, may represent a company's efforts to immortalize their CEOs. The phenomenon is also likely to be more common among CEOs with a strong desire for impact and prestige.

### **B. Research Methods to Study MAA and Other Organizational Variables**

Published archival data sources were used to access information on a company's merger and acquisition activity, cash reserves and fear of being a takeover target. Data on the number and transaction value of acquisitions completed by companies were gathered primarily from The Mergers and Acquisitions magazine. This source reports all acquisitions with purchase prices of \$1 million and over on a year to year basis. It includes information on different types of acquisitions, i.e., acquisition of an interest in another company, acquisition of a business unit from a company and acquisition of an entire company. Details of each transaction, including price paid and terms of the deal, also appear. Data on the number of attempted acquisitions which were not completed came from reading entries for each company in the Dow Jones Index to the Wall Street Journal. Attempted acquisitions included planned takeovers which were stopped by the Justice Department because of their antitrust implications, bids for target firms which were topped by competing acquirers, rumored negotiations between two companies about a possible merger, and merger discussions that were terminated by one of the interested parties.

Data on a company's cash reserves and fear of being a takeover target also appear in published sources which are available to the public. Information on a company's cash reserves is typically found in financial summaries appearing in corporate annual reports and in Moody's Industrial Manual. Such information is also available from Standard & Poor's Compustat Services. Data on a company's adoption of antitakeover charter and bylaw amendments were used to

provide information on a company's fear of being a takeover target. The Investor Responsibility Research Center, located in Washington, D. C., publishes directories listing the antitakeover measures adopted by 1,500 publicly held U. S. corporations. The directories are constantly updated to provide the most recent information on particular companies or particular takeover defenses.

### **3. MEASUREMENT OF CEO PERSONALITY**

Triangulation recommends that at least two different methods, and if possible more, be combined in a single study to examine similar phenomenon. Table 5 on page 124, listing the specific measures to study CEO personality, shows that this requirement was met for five of the seven personality constructs under investigation. In particular, content analysis, questionnaires and other unobtrusive methods provided three different measures for the need for power. Both content analysis and questionnaires provided measures for beliefs that "bigger is better," beliefs in synergy, and self-confidence while both questionnaires and other unobtrusive methods provided measures for the desire to manage impressions. Beliefs that acquisitions are beneficial and fear of negative evaluation, however, were measured only via questionnaires. It was not possible to find indicators of these two constructs in the available CEO speeches or to develop adequate unobtrusive measures to operationalize them.

#### **A. The Content Analysis of Speeches**

Readers were trained to be judges. They learned how to perform the content analysis of CEO speeches by reading the coding manual that appears in Appendix A on page 179, by working on practice exercises, and by asking the researcher questions about the system. Once they were familiar with the manual and its definitions and instructions, the judges worked independently and read all of the speeches in their packages (one judge read the entire set of 236 speeches while the other two judges read 113 speeches each). The names of the CEOs and their companies were removed from the speeches to avoid the possibility that a judge's familiarity with a particular CEO would influence his judgments. The judges were then assigned the task of

scoring the speeches in terms of high (3), moderate (2) and low (1), in response to written descriptions for each category.

A few examples demonstrate how the coding system works. A strong belief in synergy is suggested by a remark to the effect that: "Synergy is a good descriptive term . . . it is that special ingredient that two partners bring to an alliance. It may be a foreign presence or access to a market, or it may be technology, capital, or an opportunity to rationalize production assets or rationalize R&D expense . . . The fact that the two units together will do better than either one individually is what synergy is all about." A weak belief in synergy, on the other hand, is indicated by a statement similar to the following: "When our people tell me about synergism today in a deal - I usually cover my wallet . . . The fact is, we couldn't make our conglomerate work for the shareholder. Our cash users and cash generators didn't balance, our cycles and counter cycles didn't balance. We frankly had cultural problems." The first statement receives a score of "3" while the latter receives a score of "1."

In cases where there was a discrepancy of two points between the judges (e.g. one person gave a score of 1 and another a score of 3 for the same variable in a speech), the judges were asked to point out evidence in the text supporting their choice of a score. If the two judges still could not agree on an appropriate score, a third judge was asked to read the speech and code it for the variable in question. The third person's score was used if it agreed with one of the scores provided by an original judge. This procedure was used nine times. If the third person's score did not agree with one of the scores provided by an original judge, then the speech was not coded for that variable and the variable was treated as "missing." This happened only twice.

Interjudge reliability was calculated by correlating the scores available from pairs of judges. The correlation coefficients ranged from  $r = .81$  for belief that "bigger is better", and  $r = .87$  for belief in synergy, to  $r = .82$  for need for power and  $r = .79$  for self-confidence. These results indicate that there was a high level of agreement between the judges and that the coding system is an adequate device for scoring CEO speeches.

## **B. The Questionnaire**

As part of a pretest study, a seven page questionnaire was sent to 50 top executives of U.S. corporations. Only two questionnaires were returned. The poor initial response rate suggested that a questionnaire sent to CEOs must be short and concise. After several revisions, the length of the questionnaire was reduced to one page (two sides) and the response format simplified to make it easier for CEOs to complete. The cover letter was personally addressed to each executive and was accompanied by a stamped return envelope. As an inducement, the researcher promised to send a copy of the study's findings, upon request, to executives who returned the questionnaire. A copy of the final version of the questionnaire sent to CEOs appears in Appendix B on pages 212-213.

### Description of Questionnaire Items

Items in Section 1 of the questionnaire, comprising the Business Philosophy scale, were written by the researcher herself. A library search had uncovered only one relevant existing questionnaire pertaining to attitudes towards organizational growth (Bradley, 1984). It was discarded, however, because many of the items seemed inappropriate. Situations reflected by the item "I seldom have sufficient cash to operate my business as I would like" could occur in growing or shrinking companies. The statement "I feel dissatisfied at how my business is operating" has nothing to do with the size of a company. In addition, questionnaires measuring the belief in synergy and the benefits of acquisitions did not seem to exist.

The belief that "bigger is better" refers to a CEO's attitude that large size is a desirable organizational characteristic. It was measured by items 1, 4, 7, and 11 of the Business Philosophy scale. Belief in synergy, reflecting a CEO's conviction that two companies are better off together than separately, was measured by items 3, 6, and 13. The belief that acquisitions have financial and strategic benefits for companies was measured by items 2, 8, 10, and 12. Scoring was reversed for items 7, 11, 12 and 13. High scores, therefore, reflected positive views towards organizational growth, synergy and the benefits of acquisitions.

Item 5 dealing with joint ventures and item 9 dealing with R&D expenditures were included to broaden the scope of the business strategies covered in the questionnaire though they were excluded from all analyses. The researcher tried to avoid biasing the CEOs who might have thought that mergers and acquisitions were the only strategies being studied.

Items in Section 2 of the questionnaire, forming the Personal Philosophy scale, were modified from items originally appearing in Miner's Sentence Completion Scale (1977), Rotter's Locus of Control Scale (1966), Lennox & Wolfe's Self-Monitoring Scale (1984), and Watson & Friend's Fear Of Negative Evaluation Scale (1969). "Need for power," or "the tendency of individuals to impose their wishes on others, to seek out competitive situations and to aspire for prestige and recognition," was measured by items 14, 17, 19, 22, 23, 25 and 27. "Self-confidence," characteristic of as "an individual who desires to be in control of her destiny, to actively determine her future, and to use her skills and abilities to achieve desired outcomes" was measured by items 29 and 30.

The "desire to manage impressions" refers to the "need to draw attention to oneself, the ability to change behaviors to meet different situational demands and the desire to portray an image that will impress others." It was measured by items 15, 20, 26 and 28. "Fear of negative evaluation," characterizes "individuals who are concerned excessively with the opinions of others and who are afraid of appearing incompetent. They possess a strong desire to fit in and to behave in ways that are socially acceptable." This variable was measured by items 16, 18, 21 and 24.

The response category "true," was assigned the value "1." "False," was represented by the value "2." The scores for items 14, 15, 18, 19, 20, 22, 23, 24, 29 and 30 were reversed so that a high score meant that individuals had a strong need for power, high levels of self-confidence, a strong desire to manage impressions and a great fear of negative evaluation.

#### Intercorrelations Among Personality Constructs

A Pearson correlation analysis was conducted to determine whether or not the three cognitive belief variables were interrelated (see Table 6 on page 125). The correlation between

the belief that "bigger is better" and the belief in synergy was not significantly different from zero ( $r = .11$ ,  $P = .11$ ). The correlation between the belief that "bigger is better" and the belief in the benefits of acquisitions also was not significant ( $r = .04$ ,  $P = .32$ ). The belief in synergy was significantly correlated ( $r = .50$ ,  $P = .00$ ) with the belief in the benefits of acquisitions. This was expected because synergy can be considered a benefit of a merger. It was felt, however, that beliefs in synergy should be treated separately because of the amount of attention it has received from academicians and practitioners alike. Moreover, the value of the correlation coefficient ( $r = .50$ ) was not considered high enough to result in the redundancy of the two variables. Multicollinearity is usually indicated by a correlation coefficient of .80 or .90 measuring the degree of association between two predictor variables (see discussion in Dillon & Goldstein, 1984).

A Pearson correlation analysis was conducted to determine whether or not the four personal motives variables were interrelated (see Table 7 on page 126). The need for power was significantly correlated with self-confidence ( $r = .30$ ,  $P = .00$ ) and fear of negative evaluation ( $r = .25$ ,  $P = .00$ ). Self-confidence was significantly correlated with the desire to manage impressions ( $r = .24$ ,  $P = .00$ ). These results indicate that, as one would suspect, a few of the four personal motives in this study are somewhat interrelated. The correlation coefficients, however, were not high enough to suggest that the variables should be treated as measures of the same phenomenon.

#### Factor Analyses of the Questionnaire

A factor analysis was performed on the 11 items comprising the Business Philosophy scale using the principle components method to extract factors and the varimax algorithm to rotate axes. The criterion used for factor extraction was an eigenvalue greater than one. A factor loading was considered significant if it was greater than the absolute value of .40 and if it exceeded all other factor loadings in its row by at least a .10 difference.

Table 8 on page 127 shows the factor loadings for the four factors that emerged from the analysis. Two of the three "belief in synergy" items (numbered 3 and 13) loaded significantly onto Factor I. Two of the four "belief in the benefits of acquisitions" items (numbered 2 and 12) also

loaded significantly onto Factor I. It is not surprising that beliefs in synergy are similar to beliefs in the benefits of acquisitions. Synergy can be considered a positive and desired outcome which occurs when two companies merge successfully. Synergy is, therefore, a benefit of a merger along with other benefits. Interestingly enough, items 2 and 12 both dealing with the financial outcomes of acquisitions - i.e., with whether or not mergers improve a company's bottom line or limit spending on new products, services and factories - loaded onto the same factor. Factor I, therefore, seems to address the financial and synergistic benefits associated with merger and acquisition strategies.

Item 4 pertaining to the better survival rates of large versus small companies, item 6 dealing with the synergy obtained when companies with different business cycles merge, and item 8 suggesting that conglomerate mergers reduce the risks of relying on a narrow product/service offering, loaded significantly onto Factor II. All three items seem to be related to diversification. The chances of survival for large companies are considered good because large companies are often more diversified than small companies; if one product becomes obsolete then another product can replace it. This explains why items 4 and 6 are related. Also, companies that are able to decrease the negative impact of business cycles on earnings do so by becoming a diversified conglomerate to ensure that an adequate mix of different products and services is offered. This explains why items 6 and 8 are related.

The two items dealing with the disadvantages of organizational growth - items 7 and 11 - loaded significantly onto Factor III. Thus, items suggesting that large organizational size is associated with bureaucratic procedures, alienated employees, depersonalized relationships, and poor top management access to information, comprised the same factor. No reason, other than random error, is provided to explain why item 1, regarding the economies of scale that are achieved by large companies, loaded onto factor IV by itself.

A factor analysis was performed on the 17 items comprising the Personal Philosophy scale using the principle components method to extract factors and the varimax algorithm to rotate axes. Again, the criterion used for factor extraction was an eigenvalue greater than one. A factor

loading was considered significant if it was greater than the absolute value of .40 and if it exceeded all other factor loadings in its row by at least a .10 difference.

Table 9 on page 128 shows the factor loadings for the seven factors that emerged from the analysis. The belief that need for power is a multidimensional construct was supported because items measuring imposing wishes, competitive situations and a desire for prestige, loaded onto different factors. Items 17 and 25 measuring a CEO's desire for prestige loaded significantly onto Factor I. Items 14 and 23 measuring "imposing wishes" loaded significantly onto Factor II; but so did items 18 and 21 measuring fear of negative evaluation. It is possible that CEOs are trying to compensate for their inner fears of being criticized or blamed for inappropriate behaviors by aggressively telling others what to do and forcing others to agree with their views. This may explain the similarity between the need for power items and the fear of negative evaluation items. Item 27 regarding the belief that unrecognized accomplishments are still satisfying did not load onto any of the factors dealing with the need for power.

Items 15, 20 and 28, measuring the desire to manage impressions, loaded significantly onto Factor IV. Item 26 should also have loaded highly onto this factor but it did not. No reason, other than random error, can be found to explain why item 26 loaded onto Factor V instead of Factor IV. Clearly, item 26 stating that "When I feel that the image I am portraying isn't working, I can readily change it to something that will" is conceptually similar to item 18 stating that "I have the ability to control the way I come across to people." Nevertheless, these results are fairly good since 3 out of the 4 items measuring the desire to manage impressions loaded onto the same factor.

Poor results were found for the items measuring fear of negative evaluation and for the items measuring self-confidence. Two of the fear of negative evaluation items loaded onto Factor II while the other two items loaded onto Factor V and Factor VI, respectively. Items 29 and 30 measuring self-confidence also did not load significantly on the same factor. Item 30 was particularly problematic because it loaded .29 on Factor IV, .37 on Factor III, -.40 on Factor VII and .49 on Factor VI. It probably should be eliminated from future tests of the questionnaire.

Results of the factor analyses performed on the Business Philosophy scale and on the Personal Philosophy scale are difficult to interpret for a number of reasons. First, the results are likely to be sample specific. Schwab (1980) mentioned that there should be a minimum ratio of 10 subjects for every one item factored to ameliorate the problem of sample specific results. In this study, the ratio was only 4:1 which is clearly far below the recommended ratio of 10:1.

Second, many of the items, especially those comprising the Business Philosophy scale, were written de novo by the researcher based on conceptual definitions and related literature. Existing questionnaires on relevant topics were not found. Validating a new scale is a time-consuming effort; it was necessary to administer the questionnaire before formal testing could be completed because of its importance in measuring constructs that could be used as both predictors of the study's dependent variables and as alternatives to scores derived from the content analysis of speeches and other unobtrusive measures. Unfortunately, though, this meant that the questionnaire might not demonstrate traditional levels of psychometric adequacy.

Third, the researcher was under a constraint to make the questionnaire short and easy for CEOs to complete. This meant that only a few items could be selected to measure constructs that are multidimensional. The construct referred to here as "the desire to manage impression," for example, is ordinary operationalized using not 4 but 32 items, with 6 items measuring the "ability to modify self-presentation" dimension, 6 items measuring the "sensitivity to expressive behavior of others" dimension, 7 items measuring the "cross-situational variability" dimension, and 13 items measuring the "attention to social comparison information" dimension (see the revised Self-Monitoring scale in Lennox & Wolfe, 1984).

Fourth, items that were found to load significantly on the same factors by the researchers who developed the instruments, did not show the same patterns in this study. For example, item 20 stating that "I have the ability to control the way I come across to people" and item 26 stating "When I feel that the image I am portraying isn't working, I can readily change it to something that will" loaded onto different factors in this study but onto the same factor in Lennox & Wolfe's (1984) study. Item 16 stating that "I rarely worry about seeming foolish to others" and item 21 stating that

"The opinions that other people have of me cause me little concern" loaded onto different factors in this study but onto the same factor in Watson & Friend's (1969) study.

It is concluded here that based on the pattern of responses of 131 CEOs to the questionnaire, the questionnaire did not demonstrate satisfactory construct validity for fear of negative evaluation and self-confidence. Some evidence was found to indicate that the belief that "bigger is better," the belief in synergy, the belief in the benefits of acquisitions, need for power and desire to manage impressions possess adequate, but not excellent, construct validities. A challenge for future researchers is to develop a concise questionnaire which also has proven validities and reliabilities.

#### Use of Conceptually Derived Versus Empirically Derived Measures of CEO Personality

Results of the factor analyses performed on the questionnaire raise a question regarding whether the conceptually derived or the empirically derived measures of CEO personality should be used in subsequent analyses studying the relationship between CEO personality and company merger and acquisition activity. Table 5 on page 124 shows the questionnaire items that formed the conceptually derived measures of the belief that "bigger is better," the belief in synergy, the belief that acquisitions are beneficial, the need for power, self-confidence, the desire to manage impressions and fear of negative evaluation.

Tables 8 and 9 on pages 127 and 128 suggest some alternatives to the conceptually derived measures of CEO personality. Based on the factor analyses, the empirically derived measures could include: (1) the synergistic and financial benefits of mergers, consisting of questionnaire items 2, 3, 12 and 13; (2) the need for power, a three-dimensional construct, formed by questionnaire items 14, 17, 18, 21, 22, 23, 25 and 29; and (3) the desire to manage impressions, a two-dimensional construct, comprised of questionnaire items 15, 16, 20 26, and 28.

In the researcher's opinion, the factor analyses did not provide interpretable, empirically derived measures for the belief that "bigger is better," the belief that acquisitions are beneficial, self-confidence and fear of negative evaluation. It did not seem advisable, for example, to focus

only on the negative outcomes of large organizational size as suggested by questionnaire items 7 and 11. The belief that "bigger is better" is a broader construct pertaining to notions about organizational survival and efficiency. Questionnaire items 24, 27, and 30, the only items that were not included in the factors dealing with the need for power and the desire to manage impressions, did not show any similarity to one another or to available definitions of self-confidence and fear of negative evaluation.

The decision to use the conceptually derived measures of CEO personality instead of the empirically derived measures of CEO personality in most subsequent analyses studying the relationship between CEO personality and company merger and acquisition activity was based on three reasons. First, the unfavorable ratio of subjects to questionnaire items and the lack of agreement between factor loadings in this study and between factor loadings reported in other, more extensive studies, suggest that the study's limited sample size, and not the questionnaire per se, may be responsible for the inconsistent factor analysis results. Had the purpose of the study been to develop a psychometrically adequate questionnaire and had the questionnaire been administered to a large and heterogeneous sample, results of the factor analysis might have been better.

Second, a Pearson correlation analysis performed between the scores calculated using the conceptually derived measures and between the scores calculated using the empirically derived measures showed a high degree of multicollinearity (see Table 10 on page 129). For instance, the conceptually derived measure of the belief in synergy was correlated  $r = .81$  ( $P = .00$ ) with the empirically derived measure of the belief in synergy. The conceptually derived measure of the desire to manage impressions was correlated  $r = .90$  ( $P = .00$ ) with the empirically derived measure of the desire to manage impressions. This finding indicates that it does not really matter which measure is used; both should yield similar results.

Third, the assumption that the conceptually derived and the empirically derived measures of CEO personality are redundant and yield similar results was further tested in Chapter 5. Both measures were correlated separately with the study's dependent variable, i. e., merger and

acquisition activity. Results showed low correlations in both instances and that few differences were found when the conceptually derived measures versus the empirically derived measures were used (see Chapter 5 for more details).

#### Reliability Analyses of the Questionnaire

The questionnaire's internal consistency was examined using two different reliability estimates. Cronbach's alpha, used with nondichotomous responses to questionnaire items, was calculated for the Business Philosophy scale. Kuder and Richardson's KR-20 formula, used to compute reliability estimates for dichotomous responses to questionnaire items, was calculated for the Personal Philosophy scale. Table 11 on page 130 shows that Cronbach's alpha was .55 for the Business Philosophy scale and that the KR-20 reliability estimate was .58 for the Personal Philosophy scale. It also displays the reliability estimates for the various subscales embedded in the questionnaire. For example, the belief in synergy subscale had a Cronbach's alpha of .47 while the need for power subscale had a KR-20 reliability estimate of .48.

These results suggest that the scales and subscales in the questionnaire are only marginally reliable instruments. Nevertheless, results were adversely affected by: (1) the skewed distribution of some of the questionnaire items; (2) the short length of the questionnaire; and (3) the lack of semantic overlap among questionnaire items. These three problems are discussed below.

Cook, Hepworth, Wall & Warr (1981) reported that internal consistency is influenced by the variance of item scores so that very skewed item responses yield lower coefficients. Tables 12 and 13 on pages 131 and 132 show that the distribution for many of the items in the questionnaire, particularly in the Personal Philosophy scale, was skewed. Item 14 measuring the need for power, for example, had a mean of 1.99 and a standard deviation of .09. This indicates that most CEOs received a score of 2 for this item (meaning "true" in this case) and that there was very little spread around the mean. Items 23, 27 and 29 in the Personal Philosophy scale revealed a similar skewness. The scale's internal consistency, therefore, was adversely affected by limited variance of item scores.

Cook et al. (1981) also reported that longer scales yield higher reliability estimates than shorter scales. Because of the mandate for the questionnaire to be short and easy for CEOs to complete, the Business Philosophy consisted of only 11 items measuring three theoretically distinct constructs while the Personal Philosophy scale consisted of 17 items measuring four theoretically distinct constructs. Standardized questionnaires are usually longer than this and therefore are associated with higher internal reliability coefficients.

Not only was the questionnaire short, but it also was parsimonious. Instead of asking the same question in many different ways to measure a single attitude or trait, it asked one question to measure one dimension of a personality construct. McClelland (1984, p. 71), arguing that the typically high reliabilities found for self-report questionnaires were spurious and inflated by response sets, claimed that: "Subjects know they are supposed to answer the same question in the same way when it is asked again and to avoid varying the response because it might make them look inconsistent or confused in the eyes of others or themselves." A high reliability estimate for internal consistency may, therefore, not be a measure of how good a questionnaire is but of how motivated respondents are to demonstrate that they are honest and consistent. Also, many questionnaires are constructed so that there is a great deal of semantic overlap among items, making it impossible for respondents to discriminate what is being asked. As McClelland (1984, p. 71) remarked, respondents are "answering the same question, semantically speaking, over and over again and it is the psychologist who is fooled into thinking he has established response consistency, when the subject cannot tell one stimulus from another." It is felt here that the questionnaire used in this study may possess more realistic reliabilities of internal consistency than the questionnaires discussed by McClelland because it measured a diverse set of constructs with relatively distinct items.

Given the skewness of items scores, the short length of the questionnaire, and the lack of semantic overlap among questionnaire items, it is felt that the alpha coefficients of reliability of .54 for the Business Philosophy scale and KR-20 reliability of .58 for the Personal Philosophy scale were fairly adequate. It is noted that many popular questionnaires have similarly low reliabilities.

Steers & Braunstein's Manifest Needs Questionnaire, for example, is similar to the questionnaire in this study because it also purports to measure motives and it is short, containing 20 items. Across 12 different samples, however, the Manifest Needs Questionnaire showed median reliability estimates of .40 for need for achievement, .09 for need for affiliation, .42 for need for autonomy and .60 for need for dominance (Dreher & Mai-Dalton, 1983).

Tables 12 and 13 on pages 131 and 132 show additional statistics pertaining to the questionnaire items. The information is useful in determining which items should remain as is and which items should be changed or excluded from the questionnaire in future studies. The weakest items appear to be the ones measuring the belief that "bigger is better." The four items, numbered 1, 4, 7, and 11, were not highly correlated with the construct's subscale scores or with the total Business Philosophy scale scores. This suggests that these items may require modification. Item 27 in the need for power subscale is correlated only .03 with the need for power subscale and .03 with the total Personal Philosophy scale. Perhaps it should be excluded from revised versions of the questionnaire. A similar conclusion can be reached about item 24 measuring fear of negative evaluation.

### **C. Unobtrusive Measures**

#### Length of CEO Biographies

Length of CEO biographies was treated as an unobtrusive measure of the need for power and desire to manage impressions. It was believed that CEOs with a high need for power and a strong desire to manage impressions would have longer biographies than CEOs with a low need for power and a weak desire to manage impressions. Armand Hammer of Occidental Petroleum, for example, has been noted for his high need for power because until his death he operated his company as if it were his own "personal fiefdom" and seemed to enjoy firing the company's most senior executives on a frequent basis (as reported in Berglas, 1986, pp. 51-52). As mentioned before, Hammer scheduled annual stockholder meetings on his birthday and was sued for building a museum, bearing his name, with company money. Hammer's biography appearing in

Who's Who In Finance and Industry contains 85 lines; the average length of CEO biographies for the CEOs in this sample was only 14 lines.

The number of lines appearing in each CEO's biography as published in Who's Who in America (45th edition) and in Who's Who in Finance and Industry (25th edition) were counted separately. This provided two measures. A third measure was created by combining the number of lines appearing in both directories. The number of lines appearing in a CEO's biography may be affected by the CEO's age. Older CEOs have held more jobs than younger CEOs and their biographies, therefore, would be longer. Data on each CEO's age was collected so that its' effects could be eliminated later on in the analysis.

#### Size of CEO Photographs in Annual Reports

The size of a CEO's photograph in his company's annual report was used as another unobtrusive measure of the need for power and desire to manage impressions. Consider the photograph of F. Ross Johnson appearing in RJR Nabisco's 1987 annual report as it has been reproduced in Figure 3 on page 177. The full-paged photograph features a smiling Johnson on top of a tower displaying his gold bracelet. The image portrayed certainly supports claims that Johnson represents "true greed" and suffers from a "corporate royalty complex" (as reported in Lampert, 1990, p. 4 and p. 6). Johnson reportedly kept two personal maids on RJR Nabisco's payroll, enrolled in country clubs at the company's expense, and arranged to have his dog fly in a separate airplane because of the dog's tendency to bite others (Burrough & Helyar, 1990, "Butlers and Crystal," 1990). Other photographs that portray images of power are J. Peter Grace's (CEO of W. R. Grace) and William Bourke's (CEO of Reynolds Metals) impressive photographs taken with President Reagan (see Figures 4 and 5 on page 178).

A good measure of the size of a CEO's photograph should take into consideration the number of CEO photographs appearing in the annual report, the number of people appearing alongside the CEO, and the length of the annual report itself. Location of the photographs in the annual report was not considered important because photographs were commonly placed either

in the beginning (near the letter to the shareholder) or at the end (near the list of members of board of directors).

Two procedures were used to measure size of CEO photographs:

(1) If the photographs in the annual report featured only the CEO, the area of each photograph was calculated and then added together. It did not matter if the CEO appeared in one or several photographs. The combined area of all the CEO photographs was then taken as a percentage of the total area in the annual report (area of each page multiplied by the number of pages).

(2) If the CEO appeared alongside others in the photograph(s), the area of the first photograph was calculated and divided by the number of people appearing in the photograph. The area of the second photograph, the area of the third photograph, and so forth, were calculated in the same way. Then the areas of each photograph were added together. The combined area of all the CEO photographs (without the space occupied by extraneous individuals) was also taken as a percentage of the total area in the annual report.

Both the area measures and the percentage measures, calculated by the two procedures described above, were used to reflect size of CEO photographs. They indicate the total amount of space that the CEO's physical image (and his alone) occupies in his or her company's annual report.

#### **4. MEASUREMENT OF A COMPANY'S CASH RESERVES AND FEAR OF BEING A TAKEOVER TARGET**

The measures for the moderator variables in this study - cash reserves and fear of being a takeover target - were found in published sources. Cash reserves were measured by summing balance sheet items such as cash and short term investments listed in a company's 1988 and 1989 annual reports. Some companies have implemented a new accounting procedure, "Statement of Financial Accounting Standards Number 95." They now report cash and cash equivalents for the beginning and end of each year in a "Consolidated Statement of Cash Flows." This was used when available.

Fear of being a takeover target was indicated by the number of antitakeover provisions adopted by a company prior to its 1988 acquisition activities as published by the Investor Responsibility Research Center (Rosenbaum, 1989). Information in the directory, which is current through mid-June 1989, came from proxy statements, annual reports, 10-K reports, and other SEC documents submitted by companies. The compilers of the directory also sent companies copies of their profiles which they could revise and send back. It was possible to compile data for each company only through December 1987 since the date when each antitakeover provision was adopted was mentioned in the directory.

Two measures were used. The first measure represented the number of corporate provisions commonly used to prevent or make a hostile takeover more difficult. These included classified boards, fair price requirements, supermajority to approve a merger, antigreenmail provisions, etc. The second measure indicated the number of corporate provisions adopted by a company to define shareholder/ management relations. They were not necessarily designed to prevent hostile takeovers but they pose substantial obstacles to raiders and protect the interests of a company's managers and employees. These included golden parachutes, silver parachutes, pension parachutes, employment contracts, etc.

##### **5. MEASUREMENT OF A COMPANY'S MAA**

The dependent variable - merger and acquisition activity - was measuring by: (a) counting the number of attempted acquisitions made by each company in 1988 and 1989, (b) counting the number of completed acquisitions made by each company in 1988 and 1989 and (c) calculating the total dollar value of the acquisition transactions made by each company in 1988 and 1989. Both the number of attempted acquisitions and the number of completed acquisitions made by a company were added together to create one measure.

For purposes of illustration, let's say that a hypothetical company, named Home Products, acquired Tiles Plus, Ltd. in 1988 for \$5 million, acquired the Orchard Fruits Bottling Company in 1989 for \$150 million and acquired Pots & Pans International in 1989 for \$45 million. It was also reported that the company terminated negotiations to acquire Maryland Furniture in June 1989.

This information can be used to create five measures: (a) the number of attempted and completed acquisitions in 1988 is 1 (b) the total dollar value of the acquisition transactions in 1988 is \$5 million (c) the number of attempted and completed acquisitions in 1989 is 3 (d) the total dollar value of the acquisition transactions in 1989 is \$195 million (e) the number of completed and attempted acquisitions in 1988-1989 is 4 (f) the total dollar value of the acquisition transactions in 1988-1989 is \$200 million.

The primary data source for the number of attempted acquisitions was the Dow Jones Index of the Wall Street Journal. A typical entry for a company might read something like: "Procter & Gamble signed an agreement in June to purchase Camp Ltd. for \$263.6 million but Camp sold out to a West German company instead." The primary data source for the number of completed acquisitions and the dollar value of the acquisition transactions was the Mergers and Acquisitions magazine. Information in the magazine was verified for accuracy by: (a) reading each company's "Notes to Financial Statements" in their 1988 and 1989 annual reports where acquisitions are often mentioned (b) referring to each company's activities as described in the 1988 and 1989 Dow Jones Indices of the Wall Street Journal. These steps added important new information not found in the primary data source. Often, terms of the deal, especially the price paid by the acquirer, were not disclosed to the media. In these cases, total dollar value of the transactions was treated as a missing variable.

## **CHAPTER 4: RESULTS OF TRIANGULATION**

### **1. OVERVIEW OF METHODS OF ANALYSIS**

The purpose of this chapter is two-fold. First, it examines the degree of agreement among the different research methods used in this dissertation to measure the same personality constructs. Pearson correlation analyses were performed on the same personality constructs as they were measured by: (a) content analysis of speeches and questionnaires, (b) content analysis of speeches and other unobtrusive measures, (c) questionnaires and other unobtrusive measures, and (d) other unobtrusive measures.

Second, the chapter assesses the convergent and discriminant validities of the different research methods used to measure the same personality constructs. This was accomplished using Campbell & Fiske's (1959) multitrait multimethod matrix. Results of both analyses are reported and discussed in the following sections.

### **2. PEARSON CORRELATION ANALYSES: AGREEMENT AMONG DIFFERENT METHODS MEASURING THE SAME PERSONALITY CONSTRUCTS**

Pearson correlation analyses were performed on the same CEO personality constructs as they were measured by different pairs of research methods. First, the correlations between the scores given to CEOs for the belief that "bigger is better" as derived from the content analysis of speeches and the scores given to CEOs for the belief that "bigger is better" as derived from their questionnaire responses was examined. The correlation between the scores given to CEOs for the belief in synergy as derived from the content analysis of speeches and the scores given to CEOs for the belief in synergy as derived from their questionnaire responses was examined. In a similar fashion, the scores for need for power and self-confidence as measured by content analysis of speeches were correlated against the scores for need for power and self-confidence as measured by questionnaires for all CEOs in the sample.

Second, correlation analyses were performed between the sizes of CEO photographs obtained from company annual reports and between (1) the need for power and self-confidence as measured via content analysis of speeches and (2) the need for power, self-confidence, desire

to manage impressions and fear of negative evaluation measured via questionnaires. The lengths of CEO biographies appearing in the Who's Who directories also were correlated separately against: (1) the need for power and self-confidence measured via content analysis of speeches and (2) the need for power, self-confidence, desire to manage impressions and fear of negative evaluation measured via questionnaires.

. Third, the correlation between sizes of CEO photographs and lengths of CEO biographies was examined. All possible analyses were performed for the same constructs measured by different methods in an attempt to evaluate the success of triangulation used to study CEO personality. All analyses were conducted using SPSS on the IBM/XT personal computer. The results of the Pearson's correlation analyses are presented and reviewed below.

#### **A. CEO Personality: Agreement Between Speech Scores And Questionnaire Scores**

Both speeches and questionnaires were available for 98 CEOs in the sample. All efforts were made to maximize the sample size by library searches for speeches and mail requests to CEOs accompanied by questionnaires.

Table 14 on page 133 compares the sales, profits and number of employees for companies for whom both CEO speeches and questionnaires were obtained versus companies for whom only speeches, only questionnaires or neither speeches nor questionnaires were obtained. At first glance, it seems that the 98 companies in the sample had slightly lower sales, less profits and fewer employees than the 356 companies not in the sample. The means for sales, profits and number of employees for the two groups, however, were not statistically different from one another based on the t-tests performed on the data. The t value of  $-.58$ , for example, was found when the means of \$230.81 (in millions of dollars) and \$260.80 (in millions of dollars) for profits were compared for the groups. This t value had a high two-tailed probability value of  $.565$ . It seems, then, based on the criteria used here to explore systematic differences between companies, that both samples come from the same population.

Table 15 on page 134 shows that there is little agreement between speech scores and questionnaire scores for the same CEO personality variables. The only significant result is the

correlation between the belief in synergy as it was measured by content analysis of speeches and as it was measured by questionnaires ( $r = .21$ ,  $P = .05$ ). The correlation between need for power measured by content analysis of speeches and questionnaires is positive ( $r = .13$ ) but not significant ( $P = .11$ ). Similarly, no relationship seems to exist between content analysis of speeches and questionnaires when used to measure the belief that "bigger is better" ( $r = .07$ ,  $P = .28$ ) and self-confidence ( $r = -.07$ ,  $P = .27$ ).

These results suggest that what CEOs reveal about themselves when they address the public has little to do with the way they respond to questionnaires in the privacy of their homes or offices. The reasons for the lack of correspondence, however, are not readily apparent. First, it is possible that a CEO is simply showing inconsistency when he delivers a speech with a message that does not seem to match his responses to a questionnaire. Second, it is even more possible that different situations evoke different responses, all of which may be genuine reflections of the CEO's personality at the time. CEOs are complex individuals and may hold conflicting viewpoints which they air at different times, depending on their audience, their mood and recent news reports. Third, it seems most possible that speeches and questionnaires measure different aspects of a CEO's need for power, self-confidence and belief that "bigger is better."

David McClelland (1984) has long argued that self-reports and projective measures generally tap theoretically distinct aspects of personality. To him, it comes as no surprise that information about motives obtained from questionnaires does not agree with information about motives obtained by coding subject-generated narratives (e.g. stories written about pictures). The first method is measuring an individual's conscious motivation while the second method is measuring an individual's unconscious motivation. Agreement is impossible because people often act in self-defensive ways, disguising their true, forbidden desires (measured by such instruments as the TAT) in socially acceptable behaviors (measured by self-reports). Thus, it is possible that the CEOs in this study show a low need for power in their questionnaire responses because they are masking their subconscious power strivings, but demonstrate a high need for power in their

speeches because they are unable to prevent their power strivings from being expressed in the words and images that they normally use.

#### **B. CEO Personality: Agreement Between Speech Scores And Other Unobtrusive Measures**

The need for power as measured by judges performing the content analysis of CEO speeches was significantly correlated with the number of lines appearing in two major biographic sources, Who's Who in America (WWA) and Who's Who in Finance and Industry (WWF&I) (see Table 16 on page 135). The correlation coefficients were  $r = .12$  ( $P = .04$ ) and  $r = .14$  ( $P = .03$ ), respectively. The need for power was also correlated with the combined number of lines appearing in both directories ( $r = .12$ ,  $P = .05$ ). It, however, was not correlated at all with the size of CEO photographs. Other speech scores for the belief that "bigger is better" and the belief in synergy were not significantly correlated with either the number of lines appearing in the Who's Who directories or the size of CEO photographs.

The possibility exists that the number of lines appearing in CEO biographies is influenced by the age of the CEO. Older CEOs are likely to have held more jobs than younger CEOs. Length of CEO biographies, therefore, may be a function of the age of the CEO and not necessarily his need for power. To test the possible confounding effects of age on the relationship between need for power and length of biographies, the ages of CEOs were correlated with number of lines in their biographies. The correlation coefficients were  $.33$  ( $P = .00$ ) for the relationship between age and number of lines in WWA and  $.30$  ( $P = .00$ ) for the relationship between age and number of lines in WWF&I.

These results indicate that age may influence length of CEO biographies; the correlations, however, are not as high as expected. Nevertheless, the effects of age probably should be held constant when correlating need for power with number of lines appearing in the biographies. Consequently, part correlation analyses were performed on the data. A part correlation coefficient represents the correlation between  $Y$  and  $X_1$  when the linear effects of  $X_2$  and other independent variables have been removed from  $X_1$ .

The strength of the relationship between need for power and number of lines appearing in WWA decreased slightly - from  $r = .12$  to  $r = .09$  - when the linear effects of age were removed from length of WWA biographies. Similarly, the strength of the relationship between need for power and number of lines appearing in WWF&I decreased from  $r = .14$  to  $r = .11$ . For each biographic source, however, the two correlation coefficients were not significantly different from one another based on a Z test of significant differences. One can conclude, therefore, that age does not have an important impact on the relationship between need for power and length of CEO biographies. The original results showing correlations of  $r = .12$  for the relationship between need for power and number of lines in WWA and  $r = .14$  for the relationship between need for power and number of lines in WWF&I, therefore, stand.

The results reported above show that there is only a moderate relationship between the need for power measured via content analysis and between the need for power measured via length of CEO biographies. The correlation coefficients between the two different need for power measures were significantly different from zero at the  $\alpha$  is less than .05 level but the actual values of the correlation coefficients were fairly low. Consequently, it seems best to treat the two measures separately, as independent variables. There is no relationship between the need for power measured via content analysis and the size of CEO photographs. Perhaps, size of CEO photographs is measuring something else. This possibility is explored later in this chapter.

### **C. CEO Personality: Agreement Between Questionnaire Scores And Other Unobtrusive Measures**

Table 17 on page 136 reports on the relationships between the need for power and desire to manage impressions as measured by the questionnaire and between length of CEO biographies and size of CEO photographs. Need for power was highly correlated with the number of lines appearing in all of the biographic directories, but was not correlated with size of CEO photographs. The need for power, for example, was correlated ( $r = .28$ ,  $P = .00$ ) with number of lines in Who's Who in America (WWA) and was not correlated ( $r = .09$ ,  $P = .16$ ) with the area of CEO photographs in annual reports. These results are similar to the ones obtained by correlating

need for power as measured in speeches with number of lines in Who's Who in America (WWA) ( $r = .12$ ,  $P = .04$ ) and with the area of CEO photographs ( $r = -.02$ ,  $P = .39$ ).

The desire to manage impressions was significantly correlated with all of the unobtrusive measures. On the average, the correlation coefficients measuring the relationships between the desire to manage impressions and length of CEO biographies were slightly lower than the correlation coefficients measuring the relationships between need for power and length of CEO biographies. For instance, the desire to manage impressions was correlated ( $r = .17$ ,  $P = .04$ ) with number of lines in WWA whereas need for power was correlated ( $r = .28$ ,  $P = .00$ ) with number of lines in WWA. Such comparisons suggest that length of CEO biographies may be a better indicator of the need for power than the desire to manage impressions.

Another interesting finding is that the desire to manage impressions, but not the need for power, was correlated with size of CEO photographs. The desire to manage impressions was correlated  $r = .23$  ( $P = .00$ ) with the areas of CEO photographs in annual reports and  $r = .16$  ( $P = .04$ ) with the percentages of annual reports devoted to CEO photographs. Size of CEO photographs can, therefore, be used effectively to measure desire to manage impressions but not need for power. This makes sense if one agrees with claims that annual reports are simply public relations documents created mainly to portray favorable images of companies to stockholders and investors. CEOs interested in impressing others are likely to select larger photographs of themselves for inclusion in annual reports than CEOs not interested in impressing others.

Once again, the effects of age were removed from the correlations between the need for power and desire to manage impressions and between number of lines appearing in CEO biographies. The part correlations coefficients showed little improvement over the original zero order correlation coefficients. The correlation between need for power and number of lines appearing in WWA decreased from  $r = .28$  to  $r = .23$  when the linear effects of age were removed from length of WWA biographies. The correlation between need for power and number of lines in Who's Who in Finance and Industry (WWF&I) decreased from  $r = .23$  to  $r = .18$ . The zero order correlation coefficients and the part correlation coefficients were not significantly different from

one another based on a Z test of significant differences. The correlations between the desire to manage impressions and between the number of lines in WWA as well as between the number of lines in WWF&I did not change when the linear effects of age were removed.

#### **D. CEO Personality: Agreement Among Unobtrusive Measures**

Significant results were not obtained when length of CEO biographies were correlated with size of CEO photographs (see Table 18 on page 137). The near zero correlations between these variables indicate that they are completely independent of one another.

#### **E. Discussion Of Results**

Strong agreement among the different methods used to study the same CEO personality variables was not found. Correlation coefficients for pairs of variables measured by different methods ranged from  $r = .01$  to  $r = .28$ . Some, not all, of these correlation coefficients reached significance levels of  $\alpha = .05$  or less. On the other hand, all methods agreed, at least moderately, with the findings of at least one other method. For example, the speech scores for need for power were not related to the questionnaire scores for need for power or to photograph sizes. They were, however, significantly related to the number of lines in CEO biographies. The researcher was not able to conclude, therefore, that a certain method was extraneous or not appropriate to the study of a CEO's personality.

Each method seems to have its advantages and disadvantages. Standardized questionnaires are useful because they have proven validities and reliabilities. They probably do not, however, allow the researcher to measure an individual's unconscious needs and motives. Content analysis of speeches is an unobtrusive method which may enable the researcher to study more covert aspects of an individual's personality. Speech material, unlike answers generated by questionnaires, is not influenced by a specific question that is asked. Nor is the CEO aware at the time of delivery that his speech will be used to study his personality. The method has been questioned, however, because CEOs sometimes hire speechwriters to prepare the text of a speech. Nevertheless, the words come out of a CEO's mouth and he assigns his name to the manuscript. Unobtrusive measures are also important because CEOs are probably not aware

that they are expressing their need for power or desire to manage impressions when they modify the content of their biographies appearing in the Who's Who directories or when they select photographs of themselves for inclusion in company annual reports.

McClelland (1984, p. 192) suggested that the lack of agreement between different methods is an "advantage" because they provide "several independent determinants of behavior which could be put into a multivariate formula." Following this advice, it is concluded that the three methods used in this dissertation may be tapping different aspects of a CEO's personality. Empirically, all methods appear to have potential value in describing a CEO's beliefs and motives; conceptually, strong arguments can be made for or against each method. Therefore, the measures of the belief that "bigger is better," the belief in synergy, the belief in the benefits of acquisitions, the need for power, self-confidence, the desire to manage impressions and the fear of negative evaluation derived from content analysis of speeches, CEO responses to questionnaires, and other unobtrusive methods, are treated as independent variables. They are studied in Chapters 5 and 6 in terms of their individual contributions to explaining corporate merger and acquisition activity.

### **3. MULTITRAIT MULTIMETHOD MATRIX: ANALYSIS OF CONVERGENT AND DISCRIMINANT VALIDITIES**

A multitrait multimethod matrix was developed to assess the degree of convergent and discriminant validities of the study's personality constructs as they were measured by content analysis of speeches and questionnaires. The multitrait multimethod matrix, appearing in Table 19 on page 138, consists of: a validity diagonal indicated by the set of seven bold-faced values; two heterotrait-heteromethod triangles, each of which is enclosed by a broken line; and two heterotrait-monomethod triangles, each of which is enclosed by a solid line.

According to Campbell & Fiske (1959), evidence for convergent validity is found when entries in the validity diagonal are large and significantly different from zero. Table 19 shows that this requirement was almost satisfied in only one of the four possible cases. The value of  $r = .21$  representing the correlation between the belief in synergy as it was measured by the content

analysis of speeches and by the questionnaire, while certainly not large, is significantly different from zero. The remaining values,  $r = .07$ ,  $r = .13$  and  $r = -.07$ , were small and not significantly different from zero.

According to Campbell & Fiske (1959), evidence for discriminant validity is found when three criteria are satisfied. The first criterion requires that each value in the validity diagonal be higher than the values lying in its column and row in the heterotrait-heteromethod triangles. Table 19 shows that this does not occur for the belief that "bigger is better," the need for power or self-confidence. It does occur, however, for the belief in synergy variable in seven out of the eight necessary comparisons. Looking at the values lying in the belief in synergy's row,  $r = .21$  is greater than  $r = .17$ ,  $r = .15$ , and  $r = .02$ . Looking at the values lying in the belief in synergy's column,  $r = .21$  is greater than  $r = .13$ ,  $r = -.20$ ,  $r = -.02$ ,  $r = -.21$ , and  $r = -.05$ . The value of  $r = .21$ , however, is less than  $r = .23$ .

The second criterion for discriminant validity is that each value in the validity diagonal be higher than its corresponding values in each of the heterotrait-monomethod triangles. Table 19 shows that this does not occur for the belief that "bigger is better", the need for power, or self-confidence. It occurs for the belief in synergy in only five out of the nine possible comparisons. The value of  $r = .21$  is greater than  $r = .11$ ,  $r = .00$ ,  $r = -.03$ ,  $r = .01$  and  $r = .12$ . The value of  $r = .21$ , however, is not greater than  $r = .50$ ,  $r = .61$ ,  $r = .27$ , or  $r = .32$ .

The third and last criterion for discriminant validity is that the same pattern of trait interrelationship be shown in all of the heterotrait triangles of both the monomethod and heteromethod blocks. This can be assessed by performing rank order correlation analyses (a) between different traits measured by speeches and between different traits measured by questionnaires (b) between different traits measured by speeches and questionnaires and between different traits measured by questionnaires and speeches. Table 20 on page 139 shows that the Spearman rank order correlation was  $r_s = .26$  ( $P = .30$ ) for analysis (a) and  $r_s = .54$  ( $P = .15$ ) for analysis (b). These low correlation coefficients indicate that there was little agreement between speeches and questionnaires in terms of how they measured different traits. The pattern

of trait relationships was not the same; therefore, the third criterion for discriminant validity was not satisfied.

A multitrait multimethod matrix was not set up for traits measured by either (a) the content analysis of speeches and unobtrusive measures or (b) questionnaires and unobtrusive measures for the following reasons. First, unobtrusive measures were developed for only 2 of the 7 personality constructs studied in this dissertation. The matrix would be very incomplete since unobtrusive measures were developed for the need for power and desire to manage impressions but not for the belief that "bigger is better," the belief in synergy, the belief in the benefits of acquisitions, self-confidence and fear of negative evaluation. Second, due to the exploratory use of unobtrusive measures, it was not established a priori whether length of CEO biographies and size of CEO photographs measured the need for power, the desire to manage impressions or both. Since the unobtrusive measures could be measuring more than one trait, it was not possible to perform a formal analysis of convergent and discriminant validities.

Nevertheless, preliminary evidence for the convergent and discriminant validities of the unobtrusive measures is found in Tables 16 and 17 on pages 135 and 136. Table 16 shows that the measures for length of CEO biographies were more highly correlated with the need for power (measured by content analysis of speeches) than for the belief that bigger is better, the belief in synergy and self-confidence (measured by content analysis of speeches). Table 17 shows that the measures for length of CEO biographies were more highly correlated with the need for power and desire to manage impressions (as measured by questionnaires) than with self-confidence and fear of negative evaluation (measured by questionnaires). These results indicate that measures of length of CEO biographies to some extent converge with the need for power and the desire to manage impressions as they were measured by the different methods. The measures are also able to discriminate among other similar variables since they were unrelated to self-confidence and fear of negative evaluation measured by different methods.

The measures for size of CEO photographs were not correlated with the belief that "bigger is better," the belief in synergy, the belief in the benefits of acquisitions, self-confidence or need

for power as measured by speeches. This suggests that size of CEO photographs may be measuring a personality construct not studied using the content analysis of speeches method. From the questionnaire data, it was learned that measures for size of CEO photographs were more highly correlated with the desire to manage impressions than with the need for power, self-confidence, and fear of negative evaluation. There is some evidence, therefore, that size of CEO photographs measures the desire to manage impressions.

It is concluded here that little evidence for convergent or discriminant validity based on the multitrait multimethod matrix was found for the content analysis of speeches and questionnaire methods used to measure the same personality constructs. It is possible that the content analysis of speeches or the questionnaire, or both methods, are not adequately measuring the personality constructs they were intended to measure. It is also possible that the multitrait multimethod matrix is not a very useful procedure. McClelland (1984) has developed a conceptual argument for why the search for convergence among different measures of the same phenomenon is futile and not even important. To quote McClelland (1984, p. 191):

Campbell and Fiske were right in observing that consistencies are greatest within the same methods but wrong in arguing that theory requires that there be consistencies across methods of measurement. The point can be made simply in connection with the results reported by Burwen and Campbell (1957) on attitudes toward the father and general authority figures. They obtained conscious attitudes toward the father from interviews, correlated them with ideas about authority figures expressed in a Thematic Apperception Test (TAT), found no relationship and concluded that there is no evidence for a consistent, generalized attitude toward authority. Wonder of wonders! The reason Murray had developed the TAT in the first place was precisely because he wanted to get behind conscious attitudes toward the father to more unconscious schemas. If these two sources of information were highly correlated, there would obviously be no need for a TAT.... The fact is that many American psychologists have never really accepted the

notion of the unconscious. They continually use conscious self-reports as means of "validating" measures obtained in other ways, when there is absolutely no basis in fact or theory for proceeding in this way.

Campbell & Fiske's multitrait multimethod matrix also has been criticized on empirical grounds. Schwab (1980) noted that the requirements that correlations among different measures of the same personality traits be significantly different from zero and sufficiently large provides only limited evidence for construct validity; the first is a function of sample size and the second is easily misinterpreted. Spector (1987) criticized the matrix for not being able to detect the source or type of method variance while Widaman (1985, p. 2) argued that the matrix is "evaluated on the observed correlations among measures so that differences among variables in their level of reliability will distort both correlations among measures and summary measures derived from the correlations."

This last criticism suggests that correlation coefficients are associated with some degree of error due to the poor reliability of one or both of the individual measures being correlated. In this study, it is possible that self-confidence, for example, is easily affected by situational cues; levels of self-confidence may change suddenly, depending on the individual's mood, a meeting with the company's directors or a report about declining profits. The need for power, on the other hand, may be more stable personality construct which, as Adler (see Uleman, 1972) claimed, has roots in infancy. Such variations in the degree of reliability among personality constructs may have had an effect on the correlations upon which the multitrait multimethod matrix is based, especially when measures are collected at only one point in time.

## **CHAPTER 5: RESULTS: THE RELATIONSHIP BETWEEN CEO PERSONALITY AND MERGER AND ACQUISITION ACTIVITY**

### **1. METHODS OF ANALYSIS**

A number of statistical procedures, including correlation analyses, multiple regression analyses and analyses of variance, were used to study the data available from the Fortune 500 companies in the sample. All procedures were performed using SPSS on the IBM/XT personal computer. The analyses were designed to test the relationships among variables hypothesized in this dissertation to explain a company's merger and acquisition activity.

This chapter reports findings regarding direct relationships between independent variables (CEO personality) and dependent variables (merger and acquisition activity). Since the different methods used to measure CEO personality were relatively independent of one another, results are reported separately for each method. The next chapter attempts to substantiate the causal assumption made in this dissertation that CEO personality stimulates company merger and acquisition activity and not vice versa.

### **2. SPEECH DATA**

Results of the Pearson correlation analyses performed between CEO personality as measured via content analysis of speeches and between a company's merger and acquisition activity are reported in Table 21 on page 140. They support many of the dissertation's hypotheses. The belief that "bigger is better" was significantly correlated with all of the measures of merger and acquisition activity except for the total dollar value of acquisition transactions in 1989. It was significantly correlated with the number of completed and attempted acquisitions in 1988 ( $r = .20$ ,  $P = .00$ ), with the number of completed and attempted acquisitions in 1989 ( $r = .21$ ,  $P = .00$ ), with the number of completed and attempted acquisitions in 1988-1989 ( $r = .23$ ,  $P = .00$ ), with the total dollar value of acquisition transactions in 1988 ( $r = .18$ ,  $P = .01$ ), and with the total dollar value of acquisition transactions in 1988-1989 ( $r = .15$ ,  $P = .05$ ). This suggests that the stronger a CEO's belief that large organizational size is a desirable characteristic, the greater the number of acquisitions made by his company and the larger the dollar value of acquisition

transactions completed by his company. Hypothesis 1, therefore, was corroborated for the most part.

CEO beliefs that mergers create synergy were significantly correlated in the positive direction with the number of completed and attempted acquisitions in 1988 ( $r = .18$ ,  $P = .01$ ), with the number of completed and attempted acquisitions in 1989 ( $r = .14$ ,  $P = .05$ ), and with the number of completed and attempted acquisitions in 1988-1989 combined ( $r = .17$ ,  $P = .02$ ). They were not significantly correlated with the various measures of total dollar value of acquisition transactions. This indicates that strong beliefs in synergy are related to large numbers of acquisitions but not necessarily to large amounts of money paid for acquisitions. Hypothesis 2, therefore, was partially supported. Hypothesis 3 was not tested here because information on whether or not CEOs believed in the financial and strategic benefits of acquisitions was not obtained from their speeches.

Need for power was significantly correlated with all of the measures of merger and acquisition activity. Correlation coefficients ranged from  $r = .15$  to  $r = .32$  with levels of significance between  $\alpha = .02$  to  $\alpha = .00$ . One can conclude, therefore, that hypothesis 4 was supported. It appears that the greater a CEO's need for power, the greater her company's merger and acquisition activity.

Self-confidence was significantly correlated with the number of completed and attempted acquisitions in 1988 ( $r = .23$ ,  $P = .00$ ), with the number of completed and attempted acquisitions in 1989 ( $r = .24$ ,  $P = .00$ ), and with the number of completed and attempted acquisitions in 1988-1989 combined ( $r = .26$ ,  $P = .00$ ). It also was correlated with the dollar value of acquisition transactions in 1989 ( $r = .14$ ,  $P = .04$ ) and with the total dollar value of acquisition transactions in 1988-1989 combined ( $r = .18$ ,  $P = .02$ ). Hypothesis 5, therefore, received substantial support. High levels of self-confidence exhibited by CEOs are associated with large numbers of acquisitions and large amounts of money paid for acquisitions. Hypotheses 6 and 7 were not tested here because measures of the desire to manage impressions and fear of negative evaluation were not available from CEO speeches.

Stepwise multiple regression was performed on the data using the number of completed and attempted acquisitions in 1988-1989 combined and the total dollar value of the acquisition transactions in 1988-1989 combined as dependent variables. Regression through the origin was found to be an appropriate model to characterize the data. It reflects the possibility that companies with zero acquisitions also have CEOs who scored zero on the belief that "bigger is better", the belief in synergy, need for power, and self-confidence. Full linear regression was performed using each belief or motive as the independent variable and merger and acquisition activity as the dependent variable. For each separate linear regression equation, the researcher used a t-test to determine whether or not the constant term was significantly different from zero. Without exception, the t values for the constant terms were low with P values higher than the .05 level. Thus, the constant term was not significantly different from zero, indicating the appropriateness of drawing the regression line through the coordinates (0,0) and producing a residual mean squares that is less than the residual mean squares for the full regression (see Casella, 1983 for more details on the procedure).

The relationship among variables was best represented by a simple linear regression through the origin equation between the need for power and the number of completed and attempted acquisitions in 1988-1989 combined:  $Y = 1.84 X_1$  (where: Y is the number of acquisitions made in 1988-1989 and  $X_1$  is the need for power). Since the t value for  $b_1$  was 10.86 (significant at the .00 level), the null hypothesis that "there is no linear relationship between need for power and number of completed and attempted acquisitions" can be rejected. The coefficient of determination was .45 for the need for power. This means that 45% of the variation in the number of completed and attempted acquisitions was explained by the need for power. It seems that a good percentage of the variation observed in the number of acquisitions can be explained by the need for power.<sup>1</sup> The other variables, beliefs that "bigger is better," beliefs in

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<sup>1</sup> The coefficient of determination usually is higher in the regression through the origin model compared to the full regression model (which includes a constant term) because it represents dispersion around zero instead of dispersion around the mean of Y. Thus, the coefficients of determination in the two models are not comparable (see Casella, 1983).

synergy and self-confidence, did not contribute significantly to explaining the variation in the dependent variable (see Table 22 on page 141).

When the dependent variable was the total dollar value of acquisition transactions in 1988-1989, the following regression through the origin equation was derived:  $Y = 218.09X_1$  (where:  $Y$  is the dollar value of acquisitions in 1988-1989 and  $X_1$  is the need for power). The  $t$  value for  $b_1$  was 5.40 (significant at the .00 level). One can, therefore, reject the null hypothesis stating that there is no linear relationship between the need for power and the dollar value of acquisition transactions in 1988-1989. The coefficient of determination was .23 for the need for power. This means that 23% of the variation in the dollar value of acquisition transactions was explained by the need for power. It seems that a moderately high percentage of the variation observed in the dollar value of acquisition transactions can be explained by the need for power (see Table 23 on page 142).

### **3. QUESTIONNAIRE DATA**

Results of the Pearson correlation analyses performed on CEO personality measured via questionnaires and a company's merger and acquisition activity are summarized in Tables 24 and 25 on pages 143 and 144. Table 24 displays the results found when the conceptually derived measures of CEO personality were used while Table 25 displays the results found when the empirically derived measures of CEO personality were used. They show the existence of generally weak relationships between independent and dependent variables. They also show that the pattern of results are similar when using either conceptually derived or empirically derived measures of CEO personality. For example, the conceptually derived measure of the belief in synergy was correlated  $r = .22$  ( $P = .03$ ) with the dollar value of completed acquisition transactions in 1988-89 while the empirically derived measure of the belief in synergy was correlated  $r = .24$  ( $P = .02$ ) with the dollar value of completed acquisition transactions in 1988-89. The conceptually derived measure of the need for power was correlated  $r = .17$  ( $P = .07$ ) with the dollar value of completed acquisition transactions in 1988-89 while the empirically derived

measure of the need for power was correlated  $r = .13$  ( $P = .12$ ) with the dollar value of completed acquisition transactions in 1988-89.

These findings confirm the assumption made in Chapter 3 that the conceptually derived and empirically derived measures of CEO personality are redundant. Given this redundancy and the problems encountered during factor analyses of the questionnaire, subsequent tables showing correlations between independent and dependent variables rely on conceptually derived measures of CEO personality and not on empirically derived measures of CEO personality.

Table 24 shows that beliefs that "bigger is better" were not at all correlated with either the number of completed and attempted acquisitions made by companies or with the total dollar value of the transactions completed by companies. Hypothesis 1, therefore, was not supported when using questionnaire data. Beliefs in synergy were correlated  $r = .18$  ( $P = .04$ ) with the total dollar value of acquisition transactions in 1989, and  $r = .22$  ( $P = .03$ ) with the total dollar value of acquisition transactions in 1988-1989. They were not, however, correlated with the number of completed and attempted acquisitions made by companies in 1988, 1989 or 1988-1989 or with the total dollar value of acquisition transactions in 1988. Hypothesis 2 received only partial support when using questionnaire data. Beliefs in the benefits of acquisitions were not correlated with any of the variables measuring a company's merger and acquisition activity. No support was found for hypothesis 3.

Many of the correlations between need for power and merger and acquisition activity are positive, as hypothesized, but the significance levels do not consistently show high probabilities of rejecting the null hypothesis. Although the need for power was significantly correlated with the number of completed and attempted acquisitions in 1989 ( $r = .16$ ,  $P = .04$ ) and with the number of completed and attempted acquisitions in 1988-89 ( $r = .15$ ,  $P = .05$ ), it was correlated with borderline levels of significance with the dollar value of acquisition transactions in 1989 ( $r = .16$ ,  $P = .06$ ) and with the total dollar value of acquisition transactions in 1988-1989 ( $r = .17$ ,  $P = .07$ ). The need for power was not significantly correlated with the number of completed and attempted

acquisitions in 1988 or with the dollar value of acquisition transactions in 1988. Hypothesis 4, therefore, received minimal support.

There is some evidence from the questionnaire data that self-confidence may be associated with merger and acquisition activity but in the opposite direction to what was hypothesized in this dissertation. Self-confidence was negatively correlated with the number of completed and attempted acquisitions in 1988 ( $r = -.20$ ,  $P = .02$ ) and with the number of completed and attempted acquisitions in 1988-1989 ( $r = -.16$ ,  $P = .04$ ). These findings are more suggestive than definitive of a relationship, since zero correlations were found for the remaining four measures of merger and acquisition activity. Hypothesis 5 received no support. The desire to manage impressions was not significantly correlated with merger and acquisition activity. No support was found for hypothesis 6.

Two of the correlations between fear of negative evaluation and between merger and acquisition activity were significant or approached significance. The signs of the correlation coefficients, however, indicate negative relationships between the variables. This is opposite to what was hypothesized. For example, fear of negative evaluation was correlated ( $r = -.15$ ,  $P = .05$ ) with number of completed and attempted acquisitions in 1988 and ( $r = -.13$ ,  $P = .08$ ) with number of completed and attempted acquisitions in 1988-1989 combined. No support was found for hypothesis 7. If anything, these findings suggest that the greater a CEO's fear of negative evaluation, the fewer the number of completed and attempted acquisitions made by his company. Perhaps CEOs hesitate to make acquisitions because they are afraid that their endeavors will fail and that they will be criticized for their actions.

Stepwise multiple regression was performed on the data using number of completed and attempted acquisitions in 1988-1989 combined and total dollar value of acquisition transactions in 1988-1989 combined as dependent variables.<sup>2</sup> Regression through the origin was found to be an appropriate model to characterize the data. It reflects the possibility that companies with zero

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<sup>2</sup> All regression equations show the result of scaling each independent variable so that the lowest data value corresponds to  $x = 0$ .

acquisitions also have CEOs who scored zero on the belief that "bigger is better", the belief in synergy, belief in the benefits of acquisitions, need for power, self-confidence, desire to manage impressions and fear of negative evaluation. Again, t-tests showed that the constant terms in the full linear regression equations were not significantly different from zero. The regression through the origin also produced a residual mean squares that is less than the residual mean squares for the full regression.

The following regression through the origin equation best represented the relationship between CEO personality variables and the number of completed and attempted acquisitions in 1988-1989:  $Y = 1.37X_1 - 1.47X_2$  (where: Y is the number of completed and attempted acquisitions made in 1988-1989;  $X_1$  is need for power and  $X_2$  is self-confidence). The t value for  $b_1$  was 5.54 (significant at the .00 level); the t value for  $b_2$  was -2.14 (significant at the .03 level). The coefficient of determination was .51 ( $F = .00$ ). This means that 51% of the variation in the number of completed and attempted acquisitions was explained by the need for power and self-confidence. It seems that a good percentage of variation observed in the number of acquisitions can be explained by these two variables (see Table 26 on page 145). It is also important to note that higher levels of self-confidence are associated with lower levels of merger and acquisition activity. This inverse relationship is opposite to what was hypothesized.

When the dependent variable was the total dollar value of acquisition transactions for 1988-1989, the following regression through the origin equation was derived:  $Y = 54.74X_1$  (where: Y is the dollar value of acquisition transactions in 1988-1989 and  $X_1$  is belief in synergy). The t value for  $b_1$  was 3.30. (significant at the .002 level). One can reject, therefore, the null hypothesis stating that "there is no linear relationship between the belief in synergy and the dollar value of acquisition transactions in 1988-1989." The coefficient of determination was .13 for the belief in synergy. This means that only 13% of the variation in the dollar value of acquisition transactions was explained by the belief in synergy. While these results were statistically significant, it seems that other variables need to be included in a predictive model to explain the remaining percentage of variation observed in the dependent variable (see Table 27 on page 146).

In an effort to perform all possible statistical analyses that might find significant results using the questionnaire data, analyses of variance were conducted on the data for all of the personality variables measured by the questionnaire. For these purposes, the data on the number of acquisitions completed and attempted by companies were collapsed into two categories. "0" meant that a company did not make, or attempt to make, any acquisitions in either 1988 or 1989. "1" meant that a company made, or attempted to make, at least one, and possibly several, acquisitions during 1988 or 1989. The only significant group comparisons were found for beliefs that "bigger is better" and beliefs that acquisitions are beneficial.

The mean for beliefs that "bigger is better" for group 0 was 10.5 and the mean for beliefs that "bigger is better" for group 1 was 11.6. The F probability value of .039 indicates that there was a significant difference between the two groups (see Table 28 on page 147). Some support, therefore, was found for hypothesis 1. The mean for beliefs that acquisitions are beneficial for group 0 was 10.8 and the mean for beliefs that "bigger is better" for group 1 was 12.1. The F probability value of .047 indicates that there was a significant difference between the two groups (see Table 29 on page 148). Some support, therefore, was found for hypothesis 3.

#### 4. UNOBTRUSIVE DATA

Table 30 on page 149 shows the correlations between length of CEO biographies and size of CEO photographs and between merger and acquisition activity. Results of triangulation reported in the previous chapter indicated that length of CEO biographies may be an unobtrusive measure of the need for power. Numbers of lines in Who's Who in America (WWA), Who's Who in Finance and Industry (WWF&I), and in both directories combined, were significantly correlated with the number of completed and attempted acquisitions in 1988 and the number of completed and attempted acquisitions in 1988-1989. For example, the number of lines in WWA was correlated  $r = .16$  ( $P = .01$ ) with the number of completed and attempted acquisitions in 1988. The number of lines in WWF&I was correlated  $r = .14$  ( $P = .02$ ) with the number of completed and attempted acquisitions in 1988-1989. These measures of length of CEO biographies were not,

however, significantly correlated with the number of completed and attempted acquisitions in 1989 or with the various measures of the dollar value of acquisition transactions. These findings lend some support to the hypothesis that a CEO's need for power is positively related to his *company's merger and acquisition activity*.

Stepwise multiple regression through the origin was performed using length of CEO biographies as the independent variable and merger and acquisition activity as the dependent variable (see Tables 31 and 32 on pages 150 and 151). The following two equations were derived:  $Y = .23X_1$  (where: Y is the number of completed and attempted acquisitions in 1988-1989 and  $X_1$  is the number of lines appearing in WWF&I) and  $Y = 10.87X_1$  (where: Y is the dollar value of acquisition transactions in 1988-1989 and  $X_1$  is the number of lines appearing in WWA and WWF&I combined). The number of lines in WWF&I explained 36% of the variation occurring in the number of completed and attempted acquisitions in 1988-1989 while the number of lines in WWF&I and WWA combined explained 13% of the variation occurring in the dollar value of acquisition transactions in 1988-1989.

Size of CEO photographs was not correlated with merger and acquisition activity. Results of triangulation reported in the previous chapter indicate that this variable may be an unobtrusive measure of the desire to manage impressions. The lack of correlation between CEO photographs and merger and acquisition activity corresponds to the lack of correlation found between the desire to manage impressions (as it was measured in questionnaires) and between merger and acquisition activity. It seems, then, that a CEO's desire to impress others does not explain why his company pursues acquisitions.

Stepwise multiple regression through the origin was performed using size of CEO photographs as the independent variable and merger and acquisition activity as the dependent variable (see Tables 33 and 34 on pages 152 and 153). The following two equations were derived:  $Y = .024X_1$  (where: Y is the number of completed and attempted acquisitions in 1988-1989 and  $X_1$  is the area measure of size of CEO photographs) and  $Y = 6.27X_1 - 986.80 X_2$  (where: Y is the dollar value of acquisition transactions in 1988-1989;  $X_1$  is the area measure of

size of CEO photographs and  $X_2$  is the percentage measure of size of CEO photographs). The area measure of size of CEO photographs explained 21% of the variation occurring in the number of completed and attempted acquisitions in 1988-1989 while both the area and percentage measures of CEO photographs explained 11% of the variation occurring in the dollar value of acquisition transactions in 1988-1989. Thus, in contrast to the results obtained from the correlation analysis, the regression through the origin procedure indicates that size of CEO photographs, especially the area measures, may be somewhat associated with merger and acquisition activity.

## **5. DISCUSSION OF RESULTS**

Hypotheses 1, 2, 4 and 5 received substantial support from at least one of the methods used in this dissertation to measure CEO personality. In general, more significant results were obtained using speeches, rather than questionnaires, to measure a CEO's cognitive beliefs and personal motives. Also, more significant results were obtained when the number of completed and attempted acquisitions, not the total dollar value of the acquisition transactions, represented a company's merger and acquisition activity. The former measure may be more reflective of behavior than the latter.

The most significant finding that emerged from the various data analyses is the positive relationship between CEO need for power and company merger and acquisition activity. One can conclude that the stronger a CEO's need for power, the greater his company's merger and acquisition activity. This conclusion is based on the correlation analyses performed on the speech data and by the regression through the origin analyses performed on both the speech data and the questionnaire data separately.

CEO beliefs that "bigger is better" may not consistently explain the extent of a company's merger and acquisition activity since results were good for the speech data but not for the questionnaire data. They do, however, indicate at least whether or not companies will pursue or will not pursue acquisitions. Analysis of variance using the questionnaire data showed that mean scores for beliefs that "bigger is better" were significantly different for acquiring companies versus

non-acquiring companies. One reason that may explain why correlations between beliefs that "bigger is better" and merger and acquisition activity were not higher is that expansion-minded CEOs may seek other means of organizational growth besides acquisitions. Seeking international markets, building factories and starting new businesses are all ways for increasing a company's size and scope. The role that a CEO's beliefs play in determining a company's growth strategies should not be limited to just mergers and acquisitions.

CEO beliefs in synergy were often related to a company's merger and acquisition activity. From the speech data, beliefs in synergy were correlated with the number of completed and attempted acquisitions made by companies in 1988-1989. From the questionnaire data, beliefs in synergy were correlated with the dollar value of acquisition transactions in 1988-1989; regression through the origin also indicated a relationship between beliefs in synergy and dollar value of acquisition transactions in 1988-1989. More consistent results might be obtained if relationships among these variables were studied over a longer period of time. CEOs may strongly believe in the synergistic effects of mergers but they may not be able to attempt or complete acquisitions immediately because appropriate acquisition candidates have not been found or financing is not available.

Positive relationships between CEO self-confidence and merger and acquisition activity were confirmed by analyses of the speech data but negative relationships between CEO self-confidence and merger and acquisition activity were suggested by analyses of the questionnaire data. One can not conclude, therefore, that the greater a CEO's self-confidence, the greater his company's merger and acquisition activity. Rather, it may be that the greater a CEO's self-confidence, the lower his company's merger and acquisition activity. These conflicting findings suggest that the role that self-confidence plays in encouraging merger and acquisition activity is more complex than originally thought. Attribution theory suggests that CEOs may tend to take credit for company successes and deny responsibility for company failures. Perhaps, therefore, a company's history of successful past acquisitions enhances a CEO's self-confidence (he attributes these successes to his own skills and efforts) which, in turn, increases the likelihood of

future merger and acquisition activity. In this case, there would be a positive relationship between self-confidence and merger and acquisition activity. When a company has had a history of problematic or failed acquisitions, however, the CEO is likely to blame others for these failures while his own self-confidence remains high. He decides, however, not to pursue any more acquisitions since the factors for success seem to be beyond his control. In this case, there would be a *negative relationship between self-confidence and merger and acquisition activity.*

A surprising finding was the weak relationship found between beliefs in the benefits of acquisitions and merger and acquisition activity. Analysis of variance was the only statistical procedure indicating that CEOs who said that they believed in the financial and strategic benefits associated with acquisitions headed companies that made at least one, and usually multiple, acquisitions. In this case, deeds do not always follow words. Perhaps a future study utilizing acquisition data for more than just two years should be conducted. It is also possible that a CEO's beliefs cannot be immediately translated into action because other conditions, such as the ability to finance acquisition transactions, are not present.

CEO desire to manage impressions also was not related to company merger and acquisition activity. Analyses of both questionnaire data and unobtrusive data support this conclusion, suggesting that the desire to manage impressions can be excluded from further examinations of personal motives underlying acquisition decisions. In the correlation analysis of the questionnaire data, CEO fear of negative evaluation sometimes was inversely related to merger and acquisition activity. It seems possible that the greater a CEO's fear of negative evaluation, the less likely his company would pursue acquisitions. Perhaps CEOs, aware that *many acquisitions later fail, are afraid that they will be blamed for merger related problems.* They, therefore, decide to avoid acquisition strategies all together. Future studies should examine this possibility more carefully.

## **CHAPTER 6: RESULTS: CAUSE AND EFFECT RELATIONSHIPS BETWEEN CEO PERSONALITY AND MERGER AND ACQUISITION ACTIVITY**

### **1. METHODS OF ANALYSIS**

The results reported in Chapter 5 did not shed light on the direction of causality between CEO personality and merger and acquisition activity. This is due largely to the cross-sectional and nonexperimental design of this research. Thus, it is possible for one to conclude that a CEO's need for power motivates him to make acquisitions or that the act of making acquisitions contributes to a CEO's need for power. Similarly, one can argue that CEOs articulated their beliefs that synergy can be realized via mergers in their speeches and questionnaire responses in order to justify their company's prior acquisitions and not necessarily in order to prepare their companies for future acquisitions. It is also possible to view beliefs that "bigger is better," self-confidence, desire to manage impressions and fear of negative evaluation as either antecedents or consequences of merger and acquisition activity.

Two preliminary investigations were undertaken in an attempt to provide information on causality. First, it was hoped that the causal ordering of CEO personality and merger and acquisition activity would be determined by collecting data of a more longitudinal nature. Data on 1987 acquisitions could be easily gathered to supplement the merger and acquisition data already available for 1988 and 1989. By comparing the relationship between a company's prior merger and acquisition activity and CEO personality with the relationship between CEO personality and a company's subsequent merger and acquisition activity, important information on causality would be obtained. If the correlation coefficients measuring the degree of association between a company's 1987 merger and acquisition activity and between CEO personality as it was measured in 1988 were significantly lower than the correlation coefficients measuring the degree of association between CEO personality as it was measured in 1988 and a company's merger and acquisition activity in 1989, then there would be some basis on which to conclude that CEO personality causes merger and acquisition activity and not vice versa.

Second, data on CEO tenure, company size, and company age can be used sometimes in subgroup analyses to suggest whether or not CEO personality causes strategy and/or structure. Miller, Kets de Vries and their associates have argued that if personality influences strategy/structure and not vice versa, stronger relationships between variables should be found in groups of companies with long-tenured CEOs than in groups of companies with short-tenured CEOs. It is assumed that newly appointed CEOs will not have had enough time in which to influence a company's strategy or structure while CEOs who have long occupied their positions are more likely to have accumulated the experience, resources and political support necessary for the implementation of strategic or structural changes in an organization (Miller & Droge, 1986).

Miller, Kets de Vries et al. also have claimed that if the CEO influences his firm's strategy and structure and not vice versa, the CEO's influence should be greater in small organizations rather than in large organizations. It is easier for CEOs to make key decisions by themselves, to persuade other managers to agree with their views, and to tightly control operations in small compared to large organizations. Large organizations are more difficult to dominate; hence, a company's culture, policies and standard operating procedures may exert a greater influence on strategy than the CEO's personality (Miller & Droge, 1986; Miller, Kets de Vries & Toulouse, 1982).

Finally, the researchers have suggested that CEOs are likely to have a greater impact on strategy and structure in young versus old companies. Young companies are often run, at least initially, by founders with great vision but limited managerial skills. Since strategies and structures are just emerging, an experienced CEO can easily sway things in his direction and guide the company according to his views. Old companies, in contrast, have established markets, strategies and methods that take on a life of their own; it is very likely that the CEO's change initiatives will be resisted. In this case, one would expect to find little relationship between CEO personality and strategy/structure. Subgroup analyses will be used here in an effort to provide information, however tentative, on whether CEO personality influences merger and acquisition activity or whether merger and acquisition activity influences CEO personality.

## 2. CEO PERSONALITY AND ITS RELATIONSHIP TO 1987 MAA VERSUS 1989 MAA

This section reports on the results obtained when CEO personality measured in 1988 was correlated separately with 1987 merger and acquisition activity and 1989 merger and acquisition activity. It was assumed that the correlations between CEO personality in 1988 and between merger and acquisition activity in 1987 would be significantly *lower* than the correlations between CEO personality in 1988 and between merger and acquisition activity in 1989. This would suggest that CEO personality is a cause, and not a consequence, of a company's merger and acquisition activity. If, however, the opposite was found, i. e., that the correlations between CEO personality in 1988 and between merger and acquisition activity in 1987 were significantly *higher* than the correlations between CEO personality in 1988 and between merger and acquisition activity in 1989, it is possible that a company's merger and acquisition activity influences a CEO's personality. Z tests of significant differences between correlation coefficients for both years were conducted to test the null hypothesis that  $r_1$  is equal to  $r_2$ . This required a two-tailed test.

Additional data, besides those described in Chapter 3, were needed to conduct the Pearson correlation analyses described above. Information on CEO tenure reported in Business Week's 1988 special issue, "The Corporate Elite," was used to eliminate companies who had just hired a new CEO from the sample. Personality data were available only for CEOs who had held their positions in 1988 and not for CEOs who had held their positions in 1987 but left before the year's end. 73 companies were excluded from the analysis because the CEO in 1988 was new on the job and had not held the title of CEO in 1987.

For the remaining companies in the sample, the same 1989 merger and acquisition activity data collected for the original study were used here. Data on 1987 merger and acquisition activity were collected by (a) referring to relevant information provided by the 1987 almanac of the Merger and Acquisitions magazine, (b) referring to data on acquisitions that were attempted but not completed as reported in the Dow Jones 1987 index to the Wall Street Journal and (c) reading about a company's merger and acquisition activity discussed in available 1987 annual reports.

These three steps duplicated the data collection procedure used to gather the 1989 merger and acquisition activity data.

Table 35 on page 154 summarizes the results of the Pearson correlation analysis performed using speech data to measure CEO personality. The results suggest that CEO personality in 1988 was somewhat more strongly correlated with the number of completed and attempted acquisitions in 1989 than with the number of completed and attempted acquisitions in 1987. For example, the correlation coefficient of  $r = .13$  ( $P = .09$ ) measuring the degree of association between the belief in synergy and the number of completed and attempted acquisitions in 1989 appeared to be slightly higher than the correlation coefficient of  $r = .07$  ( $P = .23$ ) measuring the degree of association between the belief in synergy and the number of completed and attempted acquisitions in 1987. Similarly, the correlation coefficient of  $r = .27$  ( $P = .00$ ) measuring the degree of association between self-confidence and the number of completed and attempted acquisitions in 1989 appeared to be slightly higher than the correlation coefficient of  $r = .15$  ( $P = .02$ ) measuring the degree of association between self-confidence and the number of completed and attempted acquisitions in 1987.

This trend, however, was not repeated when the dependent variable was dollar value of acquisition transactions. Moreover, none of the pairs of correlation coefficients were significantly different from one another based on Z tests to determine significant differences among correlation coefficients. Conclusions, therefore, regarding the direction of causality between CEO personality and merger and acquisition activity can only be tentative. There is slightly more evidence suggesting that CEO personality influences subsequent company merger and acquisition activity than suggesting that CEO personality is a product of prior company merger and acquisition activity.

Table 36 on page 155 displays the results of the Pearson correlation analysis performed using questionnaire data to measure CEO personality. Regardless of the year during which companies acquired or attempted to acquire other companies, most of the relationships between CEO personality and merger and acquisition activity showed low correlations which were not

significantly different from zero. One year did not show higher correlations than another year. No information, therefore, is obtained regarding the direction of causality among variables. In fact, these results do not even suggest that a relationship between CEO personality and merger and acquisition activity exists. The one exception is the correlation between beliefs in synergy and the dollar value of completed acquisition transactions in 1989. The correlation coefficient of  $r = .23$  was significantly different from zero at the  $\alpha = .04$  level. It is possible that beliefs in synergy are somewhat more strongly related to the dollar value of acquisition transactions in 1989 compared to the dollar value of acquisition transactions in 1987; the evidence, however, is not strong.

Table 37 on page 156 summarizes the results of the Pearson correlation analysis performed using the unobtrusive data to measure CEO personality. Again, all of the correlation coefficients were low and were not significantly different from zero. No information is obtained regarding the direction of causality among independent and dependent variables.

The comparisons discussed above might have yielded better results on causality if they had not been adversely affected by two problems. First, there is considerable evidence pointing to the stability of personality traits over time. Costa, Zonderman, McCrae, Cornoni-Huntley, Locke & Barbano (1987), for example, found that mean levels of psychological well-being did not change during the course of adulthood. McClelland (1984) traced the development of such motives as the need for achievement and the need for power back to an individual's early child rearing experiences. It does not seem reasonable to assume that, all of a sudden, in 1988, CEOs developed a strong belief that "bigger is better," a high need for power or a great fear of negative evaluation. CEOs probably held many of the beliefs and motives studied here for quite a number of years; acquisitions made in 1987 may still reflect a CEO's personality but personality that was formed even early in her career. It therefore becomes necessary to measure personality not only in 1988 but in prior years in order to study how different levels of beliefs and motives affected different levels of merger and acquisition activity over time.

Second, even if the Z tests had found significant differences indicating that CEO personality was related more strongly in a positive direction, to subsequent, rather than prior, merger and

acquisition activity, conclusions regarding causality would still be tentative. One cannot rule out the possibility of other alternative explanations for the relationship between CEO personality and merger and acquisition activity. It is possible, for example, that a third variable, such as a company's newly implemented corporate mission (especially if it is one that stresses competition and domination), contributed to both a CEO's high need for power and her company's extensive merger and acquisition activity in 1989 but not in 1987.

It is also possible that traditionally acquisition-driven companies select CEOs who have a high need for power to ensure that expansionary strategies will continue to be pursued. Paramount Communications (formerly named Gulf & Western) was nicknamed "engulf and devour" because of its willingness to acquire everything from race tracks to building supply companies under Charles Bluhdorn. Martin Davis, Bluhdorn's successor, showed his own style of empire-building recently when he made a hostile bid for Time Incorporated in 1989 (Stevenson, 1989). Thus, it seems that a company's history, culture, and CEO selection policies may explain why CEOs possess certain motives and why high levels of merger and acquisition activity are found.

### **3. SUBGROUP ANALYSES TO DETERMINE THE DIRECTION OF CAUSALITY BETWEEN CEO PERSONALITY AND MAA**

Miller, Kets de Vries and their associates performed subgroup analyses using CEO tenure, company size and company age to suggest whether CEO personality influences a company's strategy and structure or vice versa. They argued that evidence suggesting that CEO personality exerts a greater influence on a company's strategy and structure than the influence that a company's promotion, selection and socialization mechanisms exerts on a CEO is found if the relationships between CEO personality and strategy/ structure are stronger in companies with long versus short-tenured CEOs, small versus large organizational size and young versus old company age. A similar approach was taken here. Data on CEO tenure, company size and company age were collected and high versus low subgroups were created. Pearson correlation analyses were performed separately for each pair of subgroups and Z tests of significant

differences were conducted to test the null hypothesis that  $r_1$  is equal to  $r_2$ . This required a two-tailed test.

#### A. CEO Tenure

Data on the number of years that each executive had held his position as CEO (CEO tenure) and on the number of years that each executive had worked in his company regardless of the position he held (company tenure) were collected from Business Week's 1988 issue of "The Corporate Elite." A percentage measure was calculated to indicate length of CEO tenure as a proportion of length of company tenure. A value of 100%, for example, indicated that the executive had spent all his years in the company as CEO while a value of 50% indicated that half of the years the executive spent in the company were as CEO.

Percentage measures were considered an improvement over the raw number of years of CEO tenure used by Miller and Kets de Vries because the former is likely to be less contaminated by other factors, such as socialization influences, than the latter. An executive who has spent only 1 out of 30 years as CEO is probably more of a product of training and socialization experiences occurring within his particular company than an executive who has spent five out of five years as CEO. Executives who spent most of their years in a company working as CEO and who did not necessarily obtain their CEO position by being promoted through the ranks will probably exert a greater influence on their company's strategies than their counterparts. They probably were hired from outside the company in the first place because of their unique personality or their special skills at turning a company around. In addition, the company's board of directors may have perceived a need to "bring in new blood."

Companies in the sample were split into high and low CEO tenure subgroups. The median value of 21.5% was used to create the two subgroups. In the high CEO tenure subgroup, the CEO had spent more than 21.5% of his time working at his company as CEO; in the low CEO tenure subgroup, the CEO had spend 21.5% or less of his time working at his company as CEO. It was expected that the correlations between CEO personality and merger and acquisition activity would be stronger, in a positive direction, in the high CEO tenure subgroup compared to the

correlations between CEO personality and merger and acquisition activity in the low CEO tenure subgroup. Confirmation of this hypothesis would tentatively suggest that CEO personality influences a company's merger and acquisition activity. If, however, the correlations between CEO personality and merger and acquisition activity were higher in the low CEO tenure subgroup versus the high CEO tenure subgroup, one could tentatively conclude that other factors, such as acculturation processes occurring in organizations, may account for both CEO personality and company merger and acquisition activity.

Table 38 on page 157 shows the correlations between CEO personality (measured via the content analysis of speeches) and merger and acquisition activity for the high CEO tenure versus the low CEO tenure subgroup. In four out of the eight possible comparisons, the relationships between CEO personality and merger and acquisition activity seemed, at first glance, to be higher for the high CEO tenure subgroup than for the low CEO tenure subgroup. For example, the correlation coefficient of  $r = .30$  ( $P = .00$ ) measuring the degree of association between the belief that "bigger is better" and the total number of completed and attempted acquisitions in 1988 -1989 in the high CEO tenure subgroup seemed much higher mathematically than the correlation coefficient of  $r = .16$  ( $P = .06$ ) measuring the degree of association between the belief that "bigger is better" and the total number of completed and attempted acquisitions in 1988-1989 in the low CEO tenure subgroup.

However, the correlation coefficient of  $r = .28$  ( $P = .00$ ) measuring the degree of association between self-confidence and the total number of completed and attempted acquisitions in 1988-1989 in the low CEO tenure subgroup seemed slightly higher than the correlation coefficient of  $r = .24$  ( $P = .24$ ) measuring the degree of association between self-confidence and the total number of completed and attempted acquisitions in 1988-1989 in the high CEO tenure subgroup. None of the correlation coefficients were significantly different from one another at an  $\alpha = .05$  or less level based on Z tests to detect significant differences among correlation coefficients.

Table 39 on page 158 displays the correlations between CEO personality (measured via questionnaires) and merger and acquisition activity for the high CEO tenure versus the low CEO

tenure subgroup. Two interesting, though not highly significant, differences between the two subgroups were found. Regarding the relationship between the belief that "bigger is better" and the dollar value of completed acquisition transactions in 1988-89, the correlation coefficients of  $r = -.25$  ( $P = .08$ ) for the high CEO tenure subgroup and  $r = .18$  ( $P = .13$ ) for the low CEO tenure subgroup were different from one another at the  $\alpha = .07$  level. One can conclude very tentatively that the longer a manager holds the position of CEO, the more likely that his strong beliefs that "bigger is better" will lead to less amounts of money spent on acquisitions.

Regarding the relationship between the desire to manage impressions and the dollar value of acquisition transactions in 1988-89, the correlation coefficients of  $r = .36$  ( $P = .02$ ) for the high CEO tenure subgroup and  $r = -.05$  ( $P = .39$ ) for the low CEO tenure subgroup were different from one another at the  $\alpha = .088$  level. This finding tentatively indicates that a CEO's desire to manage impressions may have an impact on a company's merger and acquisition activity when the CEO has spent most of his tenure in the organization in the top managerial position. Evidence for this is not strong, however, because the differences between the subgroups were not significant at an acceptable  $\alpha$  level.

Results found when performing Pearson correlation analyses on CEO personality (measured via unobtrusive measures) and merger and acquisition activity for high versus low CEO tenure subgroups are summarized in Table 40 on page 159. Significant differences between the two subgroups were found for the relationships between (a) the number of lines in Who's Who in America and the total dollar value of acquisition transactions in 1988-1989 (b) the number of lines in Who's Who in Finance and Industry and the total dollar value of acquisition transactions in 1988-1989 and (c) the number of lines in Who's Who in America and Who's Who in Finance and Industry combined and the total dollar value of acquisition transactions in 1988-1989. Assuming that length of CEO biography is an unobtrusive measure of the need for power, it appears that a CEO's strong need for power leads to greater company spending on acquisitions when the CEO has spent most of his tenure in the company as CEO.

Results of the subgroup analysis based on CEO tenure were only minimally successful in providing information on cause and effect relationships between CEO personality and merger and acquisition activity. It seems that one personality variable, the need for power, may be the driving force behind a company's merger and acquisition activity but only when the need for power is measured via unobtrusive data and only when the dependent variable is the dollar value of completed acquisition transactions in 1988-89.

Weak evidence was obtained to indicate that the relationship between beliefs that "bigger is better" and the dollar value of completed acquisition transactions in 1988-89 were stronger, in a negative direction, in the high compared to the low CEO tenure subgroup. The relationship between the desire to manage impressions and the dollar value of completed acquisition transactions in 1988-89 was also slightly stronger, in a positive direction, in the high CEO tenure subgroup compared to the low CEO tenure subgroup.

Conclusions cannot be made regarding the other personality variables being studied here because no significant differences were found between high versus low CEO tenure subgroups. Moreover, the pattern of correlations was not always higher in the high CEO tenure subgroup compared with the pattern of correlations in the low CEO tenure subgroup. Therefore, it is not possible to determine whether the belief in synergy, the belief that acquisitions have benefits, self-confidence and fear of negative evaluation are causes or consequences merger and acquisition activity.

### B. Company Size

Company size was measured using the number of employees in each company as reported in Fortune Magazine's 1988 issue of the "Fortune 500." Most of the companies in the sample were very large, much larger than the companies in the studies conducted by Miller & Droge (1986) and Miller, Kets de Vries & Toulouse (1982). In this study, average company size was 39,889 employees compared to 298 employees in Miller and Droge's (1986) study and 2,750 employees in Miller, Kets de Vries and Toulouse's (1982) study. Consequently, it was decided to separate companies into the largest one-third subgroup and the smallest one-third subgroup.

Companies in the large company size subgroup had over 34,400 employees while companies in the small company size subgroup had less than 14,918 employees.

Table 41 on page 160 shows the correlations between CEO personality (measured via the content analysis of speeches) and merger and acquisition activity for the large company size versus the small company size subgroups. Sometimes the correlation coefficients seemed higher in the small company size subgroup and sometimes they seemed higher in the large company size subgroup. For instance, the correlation coefficient of  $r = .38$  ( $P = .02$ ) studying the relationship between beliefs in synergy and dollar value of acquisition transactions in the small company size subgroup was higher mathematically than the the correlation coefficient of  $r = .02$  ( $P = .47$ ) studying the relationship between beliefs in synergy and dollar value of acquisition transactions in the large company size subgroup.

At the same time, the correlation coefficient of  $r = .34$  ( $P = .00$ ) studying the relationship between the need for power and number of completed and attempted acquisitions in the large company size subgroup was higher mathematically than the the correlation coefficient of  $r = .26$  ( $P = .02$ ) studying the relationship between the need for power and number of completed and attempted acquisitions in the small company size subgroup. Z tests revealed, however, that these pairs of correlation coefficients were not significantly different from one another at acceptable  $\alpha$  levels. No evidence was found to suggest that the personalities of CEOs in small companies exert a greater influence on merger and acquisition activity than the personalities of CEOs in large companies.

Table 42 on page 161 shows the correlations between CEO personality (measured via questionnaires) and merger and acquisition activity for the large company size versus the small company size subgroups. The only significant difference between large and small companies was found for the relationship between beliefs in synergy and the number of completed and attempted acquisitions. The correlation coefficient of  $r = .62$  ( $P = .00$ ) measuring the degree of association between beliefs in synergy and the number of completed and attempted acquisitions in the large company size subgroup and the correlation coefficient of  $r = .06$  ( $P = .38$ ) measuring the degree

of association between beliefs in synergy and the number of completed and attempted acquisitions in the small company size subgroup were significantly different from one another at the  $\alpha = .05$  level. Opposite to what was expected, it seems that a CEO's strong beliefs in synergy are related to high levels of company spending on acquisitions when companies are large rather than small. It is possible that organizational variables (e.g. policies, budgets), and not a CEO's belief in synergy, determine the dollar value of completed acquisition transactions made by a company. A CEO may, in turn, be motivated to develop a belief in synergy in order to justify the amounts of money his company has spent on acquisitions.

Table 43 on page 162 shows the correlations between CEO personality (measured via unobtrusive data) and merger and acquisition activity for the large company size versus the small company size subgroups. None of the correlation coefficients in the table were significantly different from zero. None of the pairs of correlation coefficients in the subgroup comparisons were significantly different from one another based on the Z tests.

Results of the subgroup analysis based on company size did not shed light on the nature of cause and effect relationships between CEO personality and merger and acquisition activity. Only one out of the 32 possible between group comparisons showed a significant difference among correlation coefficients. The relationship between the belief in synergy (measured via questionnaires) and the dollar value of completed acquisition transactions was significantly stronger, in the positive direction, in large compared to small companies. In this case, it seems that a CEO's personality does not influence her company's merger and acquisition activity.

Difficulties encountered when forming large versus small company subgroups may have hindered the success of the subgroup analyses based on company size. The attempt to trichotomize the data into the largest one-third and smallest one-third company size subgroups may have been artificial. Almost by definition, all of the companies in the sample are large since they belong to the Fortune 500 group of the largest U. S. industrial or service corporations. Although "large" and "small" are relative terms, one would think that a small company would have a few hundred, or at the most, one thousand employees. Descriptive statistics revealed that the

small company size subgroup studied here had a mean of 8,696 employees. In addition, small sample sizes in each of the subgroups may have detracted from the ability of the Z test to find significant differences among correlation coefficients.

### C. Company Age

Company age was measured by gathering information from Ward's Business Directory on the date when companies were founded. By subtracting the date when companies were founded from the target year 1988, company age was easily calculated. Most of the companies in the sample were quite old, averaging 66.4 years. They were, therefore, much older than the companies in Miller & Droge's (1986) study, where average company age was 23 years (company age was not reported in the Miller, Kets de Vries & Toulouse 1982 study). Consequently, it was decided to separate companies into the oldest one-third subgroup and the youngest one-third subgroup. Companies in the old company age subgroup were founded over 90 years from the target date while companies in the young company age subgroup were founded less than 50 years from the target date.

Table 44 on page 163 shows the correlations between CEO personality (measured via the content analysis of speeches) and merger and acquisition activity for the old company age versus the young company age subgroups. Contrary to what was expected, many of the correlation coefficients seemed higher in the old company age subgroup compared to the correlation coefficients in the young company age subgroup. For instance, the correlation coefficient of  $r = .45$  ( $P = .00$ ) studying the relationship between the need for power and number of completed and attempted acquisitions in the old company age subgroup was higher mathematically than the correlation coefficient of  $r = .22$  ( $P = .04$ ) studying the relationship between the need for power and number of completed and attempted acquisitions in the young company age subgroup. None of the pairs of correlation coefficients were, however, significantly different from one another based on the Z tests. Conclusions, therefore, cannot be made regarding whether or not CEO personality exerts a greater influence on a company's merger and acquisition activity in younger versus older companies.

Table 45 on page 164 shows the correlations between CEO personality (measured via questionnaires) and merger and acquisition activity for the old company age versus the young company age subgroups. The only significant difference between old and young companies was found for the relationship between self-confidence and the number of completed and attempted acquisitions. The correlation coefficient of  $r = -.42$  ( $P = .02$ ) measuring the degree of association between self-confidence and the number of completed and attempted acquisitions in the old company age subgroup and the correlation coefficient of  $r = .15$  ( $P = .20$ ) measuring the degree of association between self-confidence and the number of completed and attempted acquisitions in the young company age subgroup were significantly different from one another at the  $\alpha = .03$  level.

As expected, CEO self-confidence is more strongly related, in a positive direction, to the number of completed and attempted acquisitions in young rather than old companies. This is a most interesting finding because it implies that CEOs are more confident in their abilities to execute plans and to have a greater impact on company strategy when companies are young and, therefore, may have fewer policies, looser structure, and less rigidity than old companies. In this case, it seems that CEO personality influences merger and acquisition activity and not vice versa. In old companies, self-confidence is negatively related to the number of completed and attempted acquisitions. This suggests that other factors, besides a CEO's self-confidence, affect a company's merger and acquisition strategies. It is possible, for example, that older companies have greater experience with failed acquisitions than younger companies and therefore have decided to engage in less merger and acquisition activity. A CEO in such a company may be highly self-confident but her company's policy against acquisitions prevents her from making acquisitions.

Table 46 on page 165 shows the correlations between CEO personality (measured via unobtrusive data) and merger and acquisition activity for the old company age versus the young company age subgroups. None of the pairs of correlation coefficients were significantly different from one another based on the Z tests. Nothing can be learned about the relationship between

the need for power and merger and acquisition activity or the relationship between the desire to manage impressions and merger and acquisition activity, depending on company age, from these results.

Results of the subgroup analysis based on company age provided little information on cause and effect relationships between CEO personality and merger and acquisition activity. Only one out of the 32 possible between group comparisons showed a significant difference among correlation coefficients. The relationship between self-confidence (measured via questionnaires) and the number of completed and attempted acquisitions was significantly stronger, in a positive direction, in young compared to old companies. In this case, it seems that a CEO's personality can influence his company's merger and acquisition activity.

Difficulties encountered when forming old versus young company subgroups may have hindered the success of the subgroup analyses based on company age. As in the case of company size, the attempt to trichotomize the data into the oldest one-third and youngest one-third company age subgroups may have been artificial. Most of the companies in the sample can be considered old and well established since they belong to the Fortune 500 group of the largest U. S. industrial or service corporations. One might expect that a "young" company be less than 10 years old. Descriptive statistics revealed, however, that the young company age subgroup studied here had a mean of 21.3 years. Also, small sample sizes in each of the subgroups may have detracted from the ability of the Z test to find significant differences among correlation coefficients.

## **CHAPTER 7: RESULTS: THE IMPACT OF ORGANIZATIONAL VARIABLES ON THE RELATIONSHIP BETWEEN CEO PERSONALITY AND MERGER AND ACQUISITION ACTIVITY**

### **1. METHOD OF ANALYSIS**

This chapter studies the impact that a company's cash reserves and fear of being a takeover target have on the relationship between CEO personality and merger and acquisition activity. The companies in the sample were divided into subgroups to create companies with large versus small cash reserves and companies with a great versus a slight fear of being a takeover target. Pearson correlation analyses were performed separately for each subgroup, using number of completed and attempted acquisitions in 1988-1989 and dollar value of acquisition transactions for 1988-1989 as dependent variables.

### **2. FORMATION OF SUBGROUPS**

Table 47 on page 166 displays descriptive statistics for cash reserves and fear of being a takeover target. They were used to divide the sample into subgroups. The first was created by dividing the sample into companies with large cash reserves and companies with small cash reserves. The median statistic of \$229 million for average cash reserves in 1988-1989 was used to do this. Companies with cash reserves above (or equal to) \$229 million were placed into the large cash reserves subgroup while companies with cash reserves below \$229 million were placed into the small cash reserves subgroup. The median was used instead of the mean so that the size of each subgroup would be about equal. Subgroups were not formed using individual measures of cash reserves for 1988 and 1989 separately because they merely duplicated the results found when using the aggregate measure of cash reserves for 1988-1989 combined.

The second subgrouping was created by dividing the sample into companies with a great fear of being a takeover target and companies with a slight fear of being a takeover target. Fear of being a takeover target was measured by counting the number of corporate provisions, such as classified boards, commonly used by a company to prevent a hostile takeover. The median statistic of 3 was used to form the two groups. Companies who adopted 3 or more antitakeover

provisions were placed into the great fear of being a takeover target subgroup while companies who adopted less than 3 antitakeover provisions were placed into the slight fear of being a takeover target subgroup. In this case, the median of 3 was close in value to the mean of 3.5.

Pearson correlation analyses were performed separately for each pair of subgroups for cash reserves and fear of being a takeover target. Z tests of significant differences between correlation coefficients were conducted to test the null hypothesis that  $r_1$  is greater than  $r_2$ . This required a one-tailed test. Results are reported separately for each method used to measure CEO personality.

### **3. CASH RESERVES**

#### A. Speech Data

The results summarized in Table 48 on page 167 show that few significant differences were found between companies with large cash reserves and companies with small cash reserves. The Z test for significant differences among correlation coefficients is a rigorous test. In some cases, it may be useful to examine the direction that the relationships among variables show for each subgroup.

As hypothesized, the correlations between beliefs that "bigger is better" and merger and acquisition activity were higher (in the positive direction) for companies with large cash reserves versus companies with small cash reserves. The correlation coefficients, however, were significantly different from one another based on Z tests to detect significant differences among correlation coefficients only for the relationship between beliefs that "bigger is better" and dollar value of acquisition transactions but not for the relationship between beliefs that "bigger is better" and number of completed and attempted acquisitions. The correlation coefficient of  $r = .23$  ( $P = .04$ ) for the high cash reserves subgroup was significantly different from the correlation coefficient of  $r = -.12$  ( $P = .20$ ) for the low cash reserves group at the  $\alpha = .04$  level. Some evidence was found to support hypothesis 8.

The correlations between beliefs in synergy and number of completed and attempted acquisitions for both subgroups were fairly similar. A correlation coefficient of  $r = .16$  ( $P = .11$ )

was calculated for the large cash reserves subgroup compared to  $r = .14$  ( $P = .13$ ) for the small cash reserves subgroup. While the value of .16 seems slightly larger than the value of .14, the Z test failed to find a statistically significant difference between them. Similarly, the correlation coefficient of  $r = .07$  ( $P = .31$ ) measuring the degree of association between beliefs in synergy and dollar value of acquisition transactions in the high cash reserves group was higher than the corresponding correlation coefficient of  $r = -.20$  ( $P = .10$ ) in the low cash reserves group. No significant differences, however, were found when the Z test was used. Minimal support, therefore, was found for hypothesis 9.

The correlation between the need for power and the number of completed and attempted acquisitions was higher for companies with large cash reserves than companies with small cash reserves ( $r = .33$ ,  $P = .00$  compared to  $r = .29$ ,  $P = .00$ ). The correlation between need for power and dollar value of acquisition transactions was also quite a bit higher for companies with large cash reserves than for companies with small cash reserves ( $r = .28$ ,  $P = .01$  compared to  $r = .06$ ,  $P = .34$ ). Both these results are in line with hypothesis 11; however, neither pair of correlation coefficients were significantly different from one another based on the Z test. Support for hypothesis 11 is not strong. Nevertheless, results of the subgroup comparisons provide more evidence to support the hypothesis than to disconfirm it.

The correlations between self-confidence and merger and acquisition activity did not differ for companies in the large cash reserves group and for companies in the small cash reserves group based on the Z tests performed on the correlation coefficients. Moreover, the correlation coefficient of  $r = .31$  ( $P = .00$ ) measuring the degree of association between self-confidence and number of completed and attempted acquisitions in the low cash reserves subgroup was higher than the correlation coefficient of  $r = .26$  ( $P = .01$ ) measuring the degree of association between self-confidence and number of completed and attempted acquisitions in the high cash reserves subgroup. This is opposite to what was hypothesized. No support whatsoever was found for hypothesis 12.

## B. Questionnaire Data

Results reported in Table 49 on page 168 show that there were no significant differences between companies with large cash reserves and companies with small cash reserves based on Z tests testing the null hypothesis that  $r_1$  is greater than  $r_2$ . The only interesting finding pertained to the correlations between beliefs that "bigger is better" and merger and acquisition activity. These were positive for companies with small cash reserves but near zero for companies with large cash reserves. For instance, the correlation coefficient of  $r = .31$  ( $P = .01$ ) measuring the degree of association between beliefs that "bigger is better" and number of completed and attempted acquisitions in the small cash reserves group seemed larger than the coefficient of  $r = -.11$  ( $P = .24$ ) measuring the degree of association between beliefs that "bigger is better" and number of completed and attempted acquisitions in the large cash reserves subgroup. This result suggests that  $r_2$  is greater than  $r_1$ . Perhaps CEOs are more likely to acquire companies based on their beliefs that large organizational size is desirable when their companies have small cash reserves than when their companies have large cash reserves. Since this is opposite to what was hypothesized, hypothesis 8 was not supported.

The correlations between need for power and merger and acquisition activity were consistently higher for companies with large cash reserves than for companies with small cash reserves. For example, the correlation coefficient of  $r = .27$  ( $P = .07$ ) for the relationship between the need for power and the dollar value of acquisition transactions in the high cash reserves subgroup seemed higher than the correlation coefficient of  $r = .01$  ( $P = .49$ ) for the relationship between the need for power and dollar value of acquisition transactions in the low cash reserves subgroup. The correlation coefficients, however, were not significantly different from one another. Hypothesis 11, therefore, was not strongly supported.

Companies with large cash reserves versus companies with small cash reserves did not differ from one another in terms of the relationships between beliefs in synergy, beliefs that mergers are beneficial, self-confidence, desire to manage impressions and fear of negative evaluation and between merger and acquisition activity. Many of the correlation coefficients had

values that were near zero, indicating that there is no relationship between the particular personality variable and merger and acquisition activity across both subgroups. For example, the correlation coefficient of  $r = -.08$  ( $P = .29$ ) measuring the degree of association between beliefs that mergers are beneficial and number of completed and attempted acquisitions in the high cash reserves subgroup was similar in value to the correlation coefficient of  $r = -.04$  ( $P = .40$ ) measuring the degree of association between beliefs that mergers are beneficial and number of completed and attempted acquisitions in the low cash reserves subgroup. In a few cases, stronger and more positive relationships were found in the low cash reserves subgroup than in the high cash reserves subgroup. The finding that the correlation coefficient of  $r = .44$  ( $P = .01$ ) for the the belief in synergy and dollar value of acquisition transactions in the low cash reserves subgroup was higher, though not significantly different, from the correlation coefficient of  $r = .38$  ( $P = .02$ ) for the belief in synergy and dollar value of acquisition transactions in the high cash reserves subgroup was opposite to what was hypothesized. No support was found for hypotheses 9, 10, 12, 13 and 14.

### C. Unobtrusive Data

Pearson correlation analyses between length of CEO biographies and between merger and acquisition activity were performed separately for companies with large cash reserves versus companies with small cash reserves. Pearson correlation analyses between size of CEO photographs and between merger and acquisition activity were also performed separately for the two subgroups. Results are reported in Table 50 on page 169.

In Chapter 4, length of CEO biographies was found to be a fairly good unobtrusive measure of the need for power. The results displayed in Table 50 on page 169, however, somewhat conflict with the results reported in Tables 48 and 49 (pages 167 and 168). Before, the correlations between need for power (measured by both speeches and questionnaires) were higher for companies with large cash reserves than for companies with small cash reserves. Now, the correlations between need for power (measured by length of CEO biographies) are higher for companies with small cash reserves and lower for companies with large cash reserves. The

number of lines in Who's Who in America (WWA), for example, was correlated ( $r = .26$ ,  $P = .02$ ) with the dollar value of acquisition transactions for companies with small cash reserves and ( $r = .01$ ,  $P = .48$ ) for companies with large cash reserves. Similar trends are noted for the relationships between number of lines in WWF&I and MAA and between number of lines in WWA and WWF&I combined and MAA. None of the pairs of correlation coefficients, however, were significantly different from one another at the  $\alpha = .05$  level based on the Z tests.

Given these weak and mixed findings, it seems wise to downplay the importance of the relationship between length of CEO biographies and merger and acquisition activity depending on a company's cash reserves. Future studies should verify what exactly lengths of CEO biographies measure and how they relate to merger and acquisition activity.

Significant results were not found for the correlations between size of CEO photographs and merger and acquisition activity for companies with larger versus small cash reserves. All correlation coefficients were near zero, indicating little relationship between the two variables. This corresponds to the lack of a relationship found in the questionnaire data between the desire to manage impressions and between merger and acquisition activity for the two cash reserves subgroups.

#### D. Discussion of Results

The treatment of cash reserves as a moderator variable influencing the relationship between CEO personality and merger and acquisition activity is not justified by the results of the subgroup analyses performed above. Partial correlation analyses performed on the data also failed to provide evidence that cash reserves moderates the relationship between CEO personality and merger and acquisition activity. A partial correlation coefficient represents the correlation between an independent variable ( $X_1$ ) and a dependent variable ( $Y_1$ ) when the linear effects of another independent variable(s) have been removed from both  $X_1$  and  $Y_1$ .

Despite these findings, cash reserves do have a strong *direct* relationship with company merger and acquisition activity. Cash reserves in 1988 were correlated ( $r = .31$ ,  $P = .00$ ,  $N = 221$ ) with the number of completed and attempted acquisitions in 1988; cash reserves in 1989 were

correlated ( $r = .47$ ,  $P = .00$ ,  $N = 212$ ) with the number of completed and attempted acquisitions in 1989. Similarly, cash reserves in 1988 were correlated ( $r = .54$ ,  $P = .00$ ,  $N = 180$ ) with the dollar value of acquisition transactions in 1988; cash reserves in 1989 were correlated ( $r = .38$ ,  $P = .00$ ,  $N = 163$ ) with the dollar value of acquisition transactions in 1989. Cash reserves should be treated as an independent, not moderator, variable. Other company data, such as the credit worthiness of a company which determines its ability to borrow money from banks, can be used alongside the cash reserves variable.

#### **4. FEAR OF BEING A TAKEOVER TARGET**

##### A. Speech Data

The results reported in Table 51 on page 170 do not provide strong evidence that fear of being a takeover target moderates the relationship between CEO personality and merger and acquisition activity. No support was found for hypothesis 15, stating that the greater the fear of being a takeover target, the more strongly a CEO's belief that "bigger is better" will be related to merger and acquisition activity. The correlation coefficients in the low fear of being a takeover subgroup and the correlation coefficients in the high fear of being a takeover subgroup were not significantly different from one another. Results did not agree even with the direction that the relationships were expected to take; the correlation coefficients measuring the degree of association between the belief that "bigger is better" and number of completed and attempted acquisitions in 1988-89 were the same for both subgroups ( $r = .22$ ,  $P = .01$ ) and not higher in the high versus the low fear of being a takeover target subgroup.

The correlation coefficients of  $r = .26$  ( $P = .02$ ) and  $r = .00$  ( $P = .49$ ) in the high fear of being a takeover target (for the relationship between beliefs in synergy and MAA) and of  $r = .06$  ( $P = .30$ ) and  $r = .05$  ( $P = .35$ ) in the low fear of being a takeover target group (for the relationship between beliefs in synergy and MAA) were not significantly different from one another. No support was found for hypothesis 16.

Results testing hypothesis 18 were mixed. Neither pairs of correlation coefficients calculated for the two subgroups studying the relationship between need for power and merger

and acquisition activity were significantly different from one another. The correlation between need for power and number of acquisitions, however, was higher for companies with a low fear of being a takeover target than for companies with a high being a takeover target. This is opposite to what was suggested by hypothesis 18. The correlation between need for power and value of acquisition transactions was higher for companies in the high fear of being a takeover target subgroup than for companies in the low fear of being a takeover target. This agrees with the predictions made by hypothesis 18. Even so, conclusions regarding the direction of the relationships between variables cannot be made since the correlation coefficients were not significantly different from one another.

The correlation coefficients in the high fear of being a takeover target subgroup for the relationship between self-confidence and MAA and in the low fear of being a takeover target subgroup for the relationship between self-confidence and MAA were not significantly different. Hypothesis 19 was not supported.

#### B. Questionnaire Data

The one statistically significant difference between high versus low fear of being a takeover target subgroups occurred for the relationship between beliefs in synergy and dollar value of acquisition transactions in 1988-89 (see Table 52 on page 171). The correlation coefficients of  $r = .31$  ( $P = .04$ ) and  $r = -.07$  ( $P = .33$ ) were significantly different from one another at the  $\alpha = .05$  level. Some support for hypothesis 16 was found.

The only other interesting findings pertained to the need for power and desire to manage impressions. The correlation coefficients measuring the degree of association between the need for power and the number of completed and attempted acquisitions in 1988-89 of  $r = .29$  ( $P = .02$ ) in the high fear of being a takeover target subgroup and  $r = .04$  ( $P = .39$ ) in the low fear of being a takeover target subgroup were significantly different from one another at the  $\alpha = .09$  level. This result, while not significant at the conventional  $\alpha = .05$  level, nevertheless tends to confirm rather than disconfirm hypothesis 18.

Similarly, the correlation coefficients measuring the degree of association between the desire to manage impressions and the dollar value of completed acquisition transactions in 1988-89 of  $r = .11$  ( $P = .26$ ) in the high fear of being a takeover target subgroup and  $r = -.25$  ( $P = .05$ ) in the low fear of being a takeover target subgroup were significantly different from one another at the  $\alpha = .066$  level. Once again, this result is not significant at the conventional  $\alpha = .05$  level. It does, however, tend to provide some tentative support for hypothesis 20. Hypotheses 15, 17, 19 and 21 were not at all supported by the data analyses.

### C. Unobtrusive Data

Table 53 on page 172 shows that there were no significant differences between companies with a high fear of being a takeover target and companies with a low fear of being a takeover target when correlating length of CEO biographies with merger and acquisition activity or when correlating size of CEO photographs with merger and acquisition activity.

The correlations between number of lines in WWA, number of lines in WWF&I and number of lines in WWA and WWF&I combined, and between dollar value of transactions seemed greater in the high fear of being a takeover target subgroup than in the low fear of being a takeover target subgroup. For example, the correlation coefficient of  $r = .14$  ( $P = .14$ ) for the relationship between number of lines in WWA and the dollar value of acquisition transactions in 1988-89 in the high fear of being a takeover target subgroup seemed higher than the correlation coefficient of  $r = -.10$  ( $P = .19$ ) for the relationship between number of lines in WWA and the dollar value of acquisition transactions in 1988-89 in the low fear of being a takeover target subgroup. These results, however, were not repeated when the dependent variable was the number of completed and attempted acquisitions. Furthermore, none of the pairs of correlation coefficients were significantly different from one another at conventional  $\alpha$  levels. No support was found for hypothesis 18 based on the unobtrusive data used to measure CEO personality.

### D. Discussion of Results

Conclusions regarding the impact that fear of being a takeover target has on the relationship between CEO personality and merger and acquisition activity are very tentative. In

general, Z tests for significant differences among correlation coefficients did not show that companies greatly afraid of being a takeover target were different from companies slightly afraid of being a takeover target. Partial correlation analyses performed on the data also did not provide strong evidence that fear of being a takeover target moderates the relationship between CEO personality and merger and acquisition activity. Sometimes, however, the pattern of the relationships across subgroups agreed with the predictions made by the hypotheses. One positive result was found for beliefs in synergy and dollar value of acquisition transactions. One can conclude that the greater the fear of being a takeover target, the more strongly a CEO's belief in synergy will be related to the dollar value of acquisition transactions completed by her company.

Fear of being a takeover target, at least as it is measured here, may not be useful in explaining merger and acquisition activity as either a moderator or independent variable. As we have seen, results are rather negative for its status as a moderator variable. Its contribution as an independent variable is also dubious. Fear of being a takeover target, measured by the number of corporate provisions used by a company to prevent a hostile takeover, was correlated  $r = .00$  ( $N = 245$ ,  $P = .49$ ) with number of acquisitions in 1988-89 and  $r = .00$  ( $N = 161$ ,  $P = .48$ ) with dollar value of acquisition transactions in 1988-89.

On the other hand, fear of being a takeover target, measured by the number of corporate provisions designed to pose obstacles to corporate raiders, was inversely related to MAA. It was correlated ( $r = -.14$ ,  $N = 245$ ,  $P = .01$ ), for example, with the number of completed and attempted acquisitions in 1988-89. It seems that the managers of these companies are more interested in protecting themselves and their employees by creating golden parachutes and pension parachutes than in fighting to keep their companies independent by making defensive acquisitions. Perhaps they hold a fatalistic view regarding the inevitability of mergers and acquisitions; if their company is going to be taken over, they might as well benefit as much as possible from the takeover. The "flight or fight" instinct may also explain why managers may first decide to protect their own interests and only later devise aggressive strategies to protect their companies. Thus, the greater the number of corporate governance features adopted by a

company to protect its employees (from the loss of income, from law suits and other negative impacts of hostile takeovers), the fewer the number of completed and attempted acquisitions made by a company. Future studies are needed to account for this unexpected finding.

## **CHAPTER 8: CEO PERSONALITY AND MERGER AND ACQUISITION ACTIVITY: THEORETICAL AND EMPIRICAL IMPLICATIONS**

This dissertation has attempted to: (1) use a multimethod approach to study a number of important cognitive beliefs and personal motives held by the CEOs of large U. S. corporations, (2) examine the role that these cognitive beliefs and personal motives play in encouraging CEOs to acquire other companies, and (3) study the moderating effects that two organizational variables, a company's cash reserves and fear of being a takeover target, have on the relationship between CEO personality and merger and acquisition activity. In this chapter, the theoretical and empirical implications of the dissertation are discussed and areas for future research are identified.

### **1. MAJOR FINDINGS REGARDING CEO PERSONALITY**

Triangulation was used in this dissertation to study CEO personality. CEO beliefs and motives as expressed in speeches were unrelated to CEO beliefs and motives reflected in responses to questionnaires. Fortunately, the signs of the correlation coefficients calculating the strengths of relationships among pairs of personality variables were not negative (this would have indicated that what a CEO says in public is opposite to what he says in private). One can only conclude that little relationship seems to exist between a CEO's public and private persona. It is difficult to discern which is the "true" persona since both the delivery of speeches and the answering of questionnaires can be influenced by situational cues. The content of a CEO's speech may vary depending on the people in the audience and the response to questionnaire items may reflect a CEO's desire to provide socially acceptable answers. It is also possible that the content analysis of speeches is tapping a CEO's unconscious motivations, whereas the self-report questionnaires are measuring a CEO's conscious motivations.

Unobtrusive data found in CEO biographies and corporate annual reports agreed moderately with measures of personality derived from speeches and questionnaires. For example, the number of lines appearing in Who's Who in America and Who's Who in Finance and Industry were significantly correlated with the need for power as measured by speeches and by questionnaires. The advantage of such unobtrusive measures is that they are readily found in

published archival sources and eliminate problems associated with participant response bias. Nevertheless, future studies should be conducted to determine why unobtrusive measures do not correlate more strongly with speech scores and questionnaire scores measuring the same variables.

Perhaps the unobtrusive measures used here require some refinement. It is possible, for example, that a CEO with a strong desire to manage impressions will not choose a large photograph of himself for inclusion in an annual report because his company had a tough year. The CEO may be motivated to downplay his role in the company's troubles by choosing a small photograph of himself even though under normal circumstances he enjoys projecting a "larger than life" image of himself. He may also be showing stockholders that he is trying to save money by not publishing the usual glossy annual report. In this case, it may be necessary to study CEO photographs for more than one year.

In addition, a coding system could be developed to study the content, as well as the length, of CEO biographies. It is possible that those CEOs who decide to list their awards, club memberships and life slogans have a higher need for power than CEOs who do not include such information in their biographies. It may also be possible to code data on a CEO's hobbies (e.g., sky-diving versus reading) and type of high-school attended (e.g., elite versus nonelite) to measure the need for power. Different people could read the CEO biographies and rate them in terms of the degree to which they reflect a CEO's need for power and/or desire to manage impressions.

Expectations that perfect agreement among alternative measures of the same phenomenon can be achieved are probably unrealistic. Perhaps such convergence should not even be a researcher's goal. McClelland (1984, p. 189) has criticized psychologists for searching for consistency in personality in "the wrong way in the wrong place." The aim is not to find agreement among different methods but to use different methods to measure different types of personality variables. According to McClelland (1984), needs and motives, given their unconscious nature, should be studied via projective measures. Schemas, as representations of

the world internalized purposefully by an individual, can be measured via self-report questionnaires, while traits should be amenable to observations of habitual ways of thinking or acting. These measures probably would not agree with one another because individuals often do not act in ways that they say they do or they attempt to disguise their true forbidden desires in proper social behavior. McClelland's argument is compelling since personality is complex and many studies have documented the lack of relationship between intentions and actions.

## **2. MAJOR FINDINGS REGARDING COMPANY MAA**

A number of the dissertation's hypotheses were corroborated by the data analyses testing the relationship between CEO personality and company merger and acquisition activity (see Table 54 on pages 173-174 ). Merger and acquisition activity was moderately associated with beliefs that "bigger is better" and beliefs in synergy. It was somewhat associated with beliefs in the benefits of acquisitions. There is some evidence, therefore, to suggest that high levels of the belief that "bigger is better," the belief in synergy, and the belief that acquisitions are beneficial are associated with high levels of merger and acquisition activity. Possible explanations for why these relationships were not stronger include: (1) the existence of other growth strategies besides mergers and acquisitions which may be related to a CEO's beliefs that "bigger is better" and (2) the possibility that CEOs believed in synergy and in other benefits of acquisitions but could not find suitable merger partners or obtain necessary financial backing for acquisition transactions.

Merger and acquisition activity was significantly associated with a CEO's need for power across all methods used to measure CEO personality and across all analyses performed on the data. One can conclude that high levels of the need for power are associated with high levels of merger and acquisition activity.

The relationship between self-confidence and merger and acquisition activity is unclear. From the speech data, high levels of self-confidence were associated with high levels of merger and acquisition activity. From the questionnaire data, high levels of self-confidence were associated with low levels of merger and acquisition activity. It is possible that these conflicting results are a product of methodological artefact: it may be necessary to conduct additional studies

to determine which method - the content analysis of speeches or questionnaires - more accurately depicts a CEO's self-confidence. It is also possible that different situations explain why CEO self-confidence is sometimes positively related to merger and acquisition activity and sometimes negatively related to merger and acquisition activity. A company's history of successful versus unsuccessful acquisitions, for example, may be important. Because individuals tend to attribute positive outcomes to their own efforts and deny responsibility for negative outcomes, a company's history of successful acquisitions may enhance a CEO's self-confidence and encourage merger and acquisition activity. In contrast, a company's history of unsuccessful acquisitions may have little impact on a CEO's self-confidence (because he attributes acquisition failures to circumstances beyond his control) while at the same time discouraging his company's merger and acquisition activity.

Merger and acquisition activity was not at all related to a CEO's desire to manage impressions. This was an unexpected finding which may suggest that either the hypotheses are invalid or that the relationship between the desire to manage impressions and merger and acquisition activity is more complex than originally believed. Some tentative evidence, for example, was found to suggest that length of CEO tenure as a percentage of total company tenure may be an important moderator variable. High levels of the desire to manage impressions were associated with large dollar values of acquisition transactions when the CEO had spent most of his years at the company as CEO.

Merger and acquisition activity was weakly associated with fear of negative evaluation but in a direction opposite to what was hypothesized in this dissertation. It is possible that CEOs greatly afraid of being negatively evaluated by others will hesitate to make acquisitions, which are considered risky strategies, because they are unwilling to take the chance that they will be blamed if their acquisitions fail.

Attempts made in this dissertation to establish the direction of causality between CEO personality and merger and acquisition activity were only minimally successful. A preliminary investigation only tentatively suggested that a few personality variables studied here, especially a

CEO's need for power, self-confidence, and desire to manage impressions, may sometimes precede instead of follow a company's merger and acquisition activity. A study of a more longitudinal nature, or one that employs an experimental design, may be needed to examine cause and effect relationships more rigorously.

Little evidence was found to support the dissertation's hypotheses that cash reserves and fear of being a takeover target moderated the relationship between CEO personality and merger and acquisition activity. Cash reserves, however, were positively related to MAA as an independent variable. It may be important to study other possible moderator variables including stock market conditions, the legal environment, the lending policies of financial institutions, and a company's merger and acquisition history.

### **3. DIRECTIONS FOR FUTURE RESEARCH**

Some possible extensions to the dissertation's research include examining the influence that other demographic and psychological characteristics of CEOs, not studied here, have on a company's merger and acquisition decisions. Hambrick & Mason (1984), for example, have hypothesized that older CEOs are less likely to follow unrelated diversification strategies than younger CEOs because they are more conservative, less influenced by business fads, and less concerned with leaving a mark on their companies. Hambrick & Mason's hypothesis is relevant to this research because it suggests that older CEOs will make fewer acquisitions in unrelated businesses than younger CEOs.<sup>3</sup> Other personality traits - propensity towards risk taking and perceived environmental uncertainty - also may provide insights into why CEOs make acquisitions. For instance, a CEO who perceives a great deal of uncertainty regarding sources of raw materials may decide to acquire his company's suppliers in an attempt to guarantee exclusive

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<sup>3</sup> A preliminary investigation using the data available in this study showed that the Pearson correlation coefficients, measuring the degree of association between CEO age and the various measures of merger and acquisition activity, ranged from  $-.07$  ( $P = .16$ ) to  $.12$  ( $P = .04$ ). This result indicates that older CEOs make more acquisitions than younger CEOs. Although this is opposite to what one would hypothesize, it may be necessary to examine whether or not the acquisitions were in businesses related or unrelated to the businesses of the acquiring company.

access to needed organizational inputs. Similarly, uncertainties regarding demand for a company's products may encourage CEOs to acquire their customers.

It may be worthwhile to study additional organizational and environmental factors that can create either favorable or unfavorable conditions for merger and acquisition activity. A company's past acquisition successes, for example, may encourage CEOs to continue with a strategy that seems to be working well. A greater number of acquisitions are also likely to occur when the stock market is booming, when inflation is low and when an industry is being deregulated. In some of these cases, a longitudinal study may be necessary. Oxandale (1987), for example, studied how differences in antitrust interpretation and enforcement over four presidential administrations affected merger patterns in the apparel, food, petroleum and chemical industries. These variables should be studied as either independent or moderator variables to explain merger and acquisition activity.

Other acquirers, besides CEOs, could comprise an interesting sample for future studies on mergers and acquisitions. Financial entrepreneurs, like T. Boone Pickens and Carl Icahn, for example, are motivated to purchase large amounts of stock in companies whose assets seem undervalued by the stock market. They seldom intend to manage the firms they seek to acquire. Instead, they hope to acquire a company inexpensively, break it up and sell its parts, earning more than they paid originally for the entire company. The role of investment bankers has assumed increasing importance in recent merger and acquisition activity. Sometimes large investment houses, notably First Boston, Bear Stearns, Morgan Stanley, and Merrill Lynch, form joint ventures with other companies by acquiring substantial equity investments in target firms. At other times, they play an important role in influencing CEOs to initiate a hostile takeover because they are interested in the huge fees that often result from successful deals. Some combination of avarice and business acumen seem to underlie the motivations of these investors.

Another interesting study could focus on the personalities of the CEOs and on the organizational attributes of acquired companies. How highly do the CEOs of an acquired company rank on the belief that "bigger is better" or on the need for power? Do the CEOs of an

acquired company have a lower self-confidence or a weaker desire to manage impressions than the CEOs of an acquiring company? Again, the personality of the CEO may play a crucial role in whether or not a company succumbs to a hostile takeover attempt. It has been suggested for, example, that James Lee of Gulf Oil did not attempt to defend his company from T. Boone Pickens' raid by either making a defensive acquisition or by trying to acquire Pickens' company in retaliation because of his "gentlemanly" nature ("How Jimmy," 1984). It may also be important to study an acquired company's cash flow, corporate culture, profitability, etc.

Future research should be expanded to study other merger related decisions besides the initial decision to acquire another company. The selection process whereby an acquisition candidate is chosen by a top management team should be studied more carefully. If, as Stahl (1989) has found, managers do not use weighted multiple criteria models or the CAPM technique to identify acquisition candidates, which models do they use? Are acquisition candidates selected purely on the basis of a manager's personal preferences? Hall (1984) suggested this when he reported that the chairman of W. R. Grace bought a restaurant chain in the 1960's because during a business trip he had visited one of the chain's coffee shops and immensely enjoyed his breakfast.

It is also possible that the sheer quantity of data available on acquisition candidates causes information overload. Experiments have shown that during these times, concrete data have a greater impact on decisions than statistical data because the former are more vivid and easily remembered than the latter. Students choose courses based on live comments from other students instead of quantitative data derived from student evaluation forms; physicians are more likely to believe in new treatments reported in medical journals if they have already used the treatment successfully with a patient; consumers will not buy an automobile if their neighbor has had difficulties with it even though the model received top ratings in Consumer Reports (discussed in Hogarth, 1980).

This cognitive bias may help explain why some CEOs rely heavily on the advice of staff and investment bankers to make important decisions, without analyzing the situation themselves.

Janis (1989) has found that top-level executives in government and business often turn to one or two key members on their staff to supply a "nutshell briefing." They rely solely on one channel of information which is usually biased in favor of one particular course of action. Agee (CEO of Bendix) may have suffered from a biased presentation of facts when he accepted the advice of Cunningham (head of corporate planning) to attempt a hostile takeover of Martin Marietta. Rumors have it that Cunningham (who was also romantically involved with Agee) merely "whispered in Agee's ear" ("Stupid Cupid," 1982, p. 72).

Another important decision CEOs face during the acquisition process is deciding how much to pay for a target firm. Often a bidding contest determines the final purchase price of a company. An interested party's initial tender offer is followed by slightly higher bids made by rivaling firms. The winner of the round may end up paying premiums of sometimes 50-100% above the target's market price before the bidding began ("Diversification Blues," 1987). Literature in social psychology may help explain why managers sometimes pay more for acquisitions than they had originally intended. The intense rivalry and competition during the bidding process can cause managers to misperceive the strengths of their rivals and develop "in group - out group" feelings of mistrust. Acquiring a company becomes a way of appearing "powerful" and "competent" in the eyes of one's adversary while the price paid for a company becomes a secondary concern. Future research should focus on the social dynamics at work during the merger negotiation process.

These, then, are some areas for future research. It is important to keep studying how acquisition decisions are made by senior executives so that we can then go on to develop models recommending how acquisition decisions should be made. The goal is to help managers make wiser decisions and become more effective strategic planners. Acquisitions have created problems for managers in the past. The debt assumed to finance acquisition transactions can often be crippling. More than half of the top executives leave their companies during the first three years after a takeover. As a result, many acquisitions are divested, destroying successful companies because the new management did not know how to run its businesses. There is hope

that CEOs will become better decision makers once they understand the role that their personalities play in formulating strategy.

**TABLE 1: A LIST OF THE DISSERTATION'S HYPOTHESES****Cognitive Beliefs**

H1: Companies with CEOs who assume that "bigger is better" will exhibit greater merger and acquisition activity (MAA) than companies with CEOs who do not.

H2: Companies with CEOs who assume that mergers and acquisitions result in synergy will exhibit greater MAA than companies with CEOs who do not.

H3: Companies with CEOs who perceive mergers and acquisitions as beneficial will exhibit greater MAA than companies with CEOs who do not.

**Personal Motives**

H4: The stronger a CEO's need for power, the greater his company's MAA.

H5: Companies with CEOs who have high levels of self-confidence will exhibit greater MAA than companies with CEOs who do not.

H6: The stronger a CEO's concern with managing impressions, the greater her company's MAA.

H7: Companies with CEOs who are afraid of being negatively evaluated by others will exhibit greater MAA than companies with CEOs who are not.

**Cash Reserves**

H8: The more cash reserves a company has, the stronger the positive relationship between a CEO's belief that "bigger is better" and MAA.

H9: The more cash reserves a company has, the stronger the positive relationship between a CEO's belief in synergy and MAA.

H10: The more cash reserves a company has, the stronger the positive relationship between a CEO's belief in the benefits of merger and acquisition strategies and MAA.

H11: The more cash reserves a company has, the stronger the positive relationship between a CEO's need for power and MAA.

H12: The more cash reserves a company has, the stronger the positive relationship between a CEO's self-confidence and MAA.

H13: The more cash reserves a company has, the stronger the positive relationship between a CEO's concern with managing impressions and MAA.

H14: The more cash reserves a company has, the stronger the positive relationship between a CEO's fear of negative evaluation and MAA.

**TABLE 1: A LIST OF THE DISSERTATION'S HYPOTHESES**  
(Continued)

**Fear of Being a Takeover Target**

H15: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's belief that "bigger is better" and MAA.

H16: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's belief in synergy and MAA.

H17: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's belief in the benefits of merger and acquisition strategies and MAA.

H18: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's need for power will be related to MAA.

H19: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's self-confidence and MAA.

H20: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's concern with managing impressions and MAA.

H21: The greater the fear that a company is a takeover target, the stronger the positive relationship between a CEO's fear of negative evaluation and MAA.

**TABLE 2: CLASSIFICATION OF SAMPLE FORTUNE 500 COMPANIES BY INDUSTRY**

	<b>Type of Industry</b>	<b>Number of Companies</b>	<b>Percentage of Companies</b>
<b>Industrial Group</b>	Electronics	37	7.4
	Chemicals	33	6.6
	Food	32	6.4
	Forest Products	27	5.4
	Petroleum Refining	25	5.0
	Industrial & Farm Equipment	23	4.6
	Computers	17	3.4
	Publishing/Printing	16	3.2
	Aerospace	15	3.0
	Metals	15	3.0
	Pharmaceuticals	15	3.0
	Building Materials	12	2.4
	Metal Products	12	2.4
	Motor Vehicles & Parts	11	2.2
	Scientific & Photographic Equipment	11	2.2
	Beverages	8	1.6
	Mining/Crude Oil Production	7	1.4
	Rubber Products	7	1.4
	Textiles	7	1.4
	Soaps, Cosmetics	6	1.2
	Apparel	5	1.0
	Tobacco	3	.6
	Furniture	2	.4
	Toys, Sporting Goods	2	.4
	Transportation Equipment	2	.4

**TABLE 2: CLASSIFICATION OF SAMPLE FORTUNE 500 COMPANIES BY INDUSTRY (Continued)**

<b>Service Group</b>	Diversified Service	32	6.4
	Retailing	32	6.4
	Diversified Financial	26	5.2
	Utilities	21	4.2
	Commercial Banking	19	3.8
	Transportation	14	2.8
	Life Insurance	4	.8
	Savings Institutions	2	.4
	<b>Total</b>	<b>500 Companies</b>	<b>100%</b>

**TABLE 3: DESCRIPTIVE STATISTICS: COMPANIES WITH AVAILABLE CEO SPEECHES  
VERSUS COMPANIES WITH NO AVAILABLE CEO SPEECHES**

**Companies with Available CEO Speeches (N=236)**

	<b>Sales (\$ Millions)</b>	<b>Profits (\$ Millions)</b>	<b>Employees (Number of)</b>
<b>Mean</b>	6,017.82	266.76	40,621
<b>Standard Deviation</b>	10,672.94	631.66	70,162
<b>Maximum</b>	101,781.90	4,840.00	813,400
<b>Minimum</b>	687.30	-4,407.00	993

**Companies with No Available CEO Speeches (N=218)**

	<b>Sales (\$ Millions)</b>	<b>Profits (\$ Millions)</b>	<b>Employees (Number of)</b>
<b>Mean</b>	4,321.35	241.10	37,062
<b>Standard Deviation</b>	8,772.06	565.62	56,768
<b>Maximum</b>	71,643.40	5,258.00	500,327
<b>Minimum</b>	708.00	-1,140.20	860

**TABLE 4: DESCRIPTIVE STATISTICS: COMPANIES WITH RETURNED CEO QUESTIONNAIRES  
VERSUS COMPANIES WITH NO RETURNED CEO QUESTIONNAIRES**

<b>Companies with Returned CEO Questionnaires (N=131)</b>			
	<b>Sales (\$ Millions)</b>	<b>Profits (\$ Millions)</b>	<b>Employees (Number of)</b>
<b>Mean</b>	4,460.85	208.72	33,330
<b>Standard Deviation</b>	4,759.57	391.64	37,087
<b>Maximum</b>	30,468.00	1,786.00	210,900
<b>Minimum</b>	708.00	-1,140.20	860
<b>Companies with No Returned CEO Questionnaires (N=325)</b>			
	<b>Sales (\$ Millions)</b>	<b>Profits (\$ Millions)</b>	<b>Employees (Number of)</b>
<b>Mean</b>	5,723.89	272.47	41,092
<b>Standard Deviation</b>	11,190.97	664.67	71,800
<b>Maximum</b>	101,781.90	5,258.00	813,400
<b>Minimum</b>	687.30	-4,407.00	993

**TABLE 5 : MEASUREMENT OF CEO PERSONALITY CONSTRUCTS**

	<b>Content Analysis</b>	<b>Questionnaire Items</b>	<b>Other Unobtrusive Measures</b>
<b>Cognitive Beliefs</b>			
"Bigger is Better"	High Moderate Low	1 ,4, 7, 11	NA
Mergers create synergy	High Moderate Low	3 ,6, 13	NA
Acquisitions are beneficial	NA	2, 8, 10, 12	NA
<b>Personal Motives</b>			
Need for power	High Moderate Low	14, 17, 19, 22, 23, 25, 27	Size of CEO photographs in annual reports
Self-confidence	High Moderate Low	29, 30	NA
Desire to manage impressions	NA	15, 20, 26, 28	# of lines appearing in Who's Who biographies
Fear of negative evaluation	NA	16, 18, 21, 24	NA

NA = Not Available

TABLE 6: PEARSON CORRELATIONS AMONG COGNITIVE BELIEF VARIABLES

	<b>Belief that Bigger is Better</b>	<b>Belief in Synergy</b>	<b>Belief that Acquisitions are Beneficial</b>
<b>Belief that Bigger is Better</b>	1		
<b>Belief in Synergy</b>	.11 (126) P = .11	1	
<b>Belief that Acquisitions are Beneficial</b>	.04 (128) P = .32	.50 (127) P = .00	1

**TABLE 7: PEARSON CORRELATIONS AMONG PERSONAL MOTIVE VARIABLES**

	<b>Need for Power</b>	<b>Self-Confidence</b>	<b>Desire to Manage Impressions</b>	<b>Fear of Negative Evaluation</b>
<b>Need for Power</b>	1			
<b>Self Confidence</b>	.30 ( 121 ) P = .00	1		
<b>Desire to Manage Impressions</b>	.13 ( 120 ) P = .08	.24 ( 121 ) P = .00	1	
<b>Fear of Negative Evaluation</b>	.25 ( 121 ) P = .00	-.06 ( 122 ) P = .24	.01 ( 121 ) P = .46	1

**TABLE 8: FACTOR ANALYSIS OF BUSINESS PHILOSOPHY SCALE**

Abbreviated Description of Items	Factors			
	I	II	III	IV
2. A merger usually has a positive impact on a company's bottom line.	<u>.72</u>	-.01	-.12	.28
3. Synergy is frequently realized when two companies merge.	<u>.71</u>	.20	-.09	.17
12. Mergers are generally a waste of corporate assets.	<u>.64</u>	.14	-.01	-.34
13. It is difficult to achieve synergy in a merger.	<u>.81</u>	-.09	.14	-.03
4. The large the company, the more favorable its chances for survival.	-.09	<u>.56</u>	.03	.23
6. Companies minimize impact of business cycles by acquiring a firm whose products have a different cyclicity.	.06	<u>.67</u>	.00	.07
8. Conglomerate mergers are good because they reduce a company's dependence on a single product/service.	.19	<u>.64</u>	-.05	-.27
7. As organizations grow, employees feel increasingly alienated because of bureaucratic procedures.	-.03	.00	<u>.74</u>	.08
11. As organizations grow in size, less and less information reaches the top management group.	.08	.07	<u>.72</u>	-.15
1. Large companies operate more efficiently than small companies due to economies of scale.	.15	.10	-.03	<u>.86</u>
Eigenvalue	2.46	1.34	1.18	1.09
Percentage of Explained Variance	22.4	12.1	10.8	9.9

**TABLE 9: FACTOR ANALYSIS OF PERSONAL PHILOSOPHY SCALE**

Abbreviated Description of Items	Factors						
	I	II	III	IV	V	VI	VII
17. Reading about my company's successes is not of interest to me.	<u>.83</u>	-.05	.11	-.08	.05	-.09	-.07
25. Gaining prestige in the business community is not important to me.	<u>.57</u>	.09	.11	.25	-.19	.10	.20
14. When people ask me for advice I give it freely.	.21	<u>.74</u>	.14	.07	-.11	-.01	-.14
18. I pay attention to the reactions of others to my behavior.	.10	<u>.62</u>	-.18	-.04	.01	-.15	.27
21. The opinions that other people have of me cause me little concern.	.39	<u>.50</u>	-.18	.02	.34	.10	.24
23. I am good at getting people to agree with me.	.48	<u>.58</u>	.21	-.04	.02	.09	-.12
22. I feel that getting ahead is a goal all of us should value.	.12	.21	<u>.66</u>	-.18	.20	.05	.19
29. When I make plans, I am almost certain I can make them work.	.10	-.10	<u>.68</u>	.13	.01	-.05	.03
15. At parties and social gatherings, I often find myself the center of attention.	-.26	-.05	.31	<u>.53</u>	-.14	.19	.19
20. I can control the way I come across to people.	.08	-.10	.23	<u>.66</u>	.15	.06	.23
28. I have never been good at games like charades or improvisational acting.	.10	.16	.11	<u>.68</u>	.22	-.22	-.18
16. I rarely worry about seeming foolish to others.	.26	.30	.33	.06	<u>-.53</u>	.12	-.03
26. When I feel that the image I am portraying isn't working, I can change it.	.05	.07	.05	.24	<u>.76</u>	.03	-.04
24. I keep up with changes in clothing fashions by watching what others wear.	.20	.09	.15	.16	-.26	<u>-.77</u>	.02
27. I believe that accomplishments that go unrecognized are still satisfying.	.14	.00	.05	.06	-.24	<u>.48</u>	.18
30. Getting people to perform depends on ability; luck has little to do with it.	.22	.08	.37	.29	-.10	.49	-.40
Eigenvalue	2.45	1.73	1.36	1.30	1.17	1.11	1.05
Percentage of Explained Variance	14.4	10.2	8.0	7.6	6.9	6.5	6.2

**TABLE 10: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN CONCEPTUALLY DERIVED PERSONALITY VARIABLES AND BETWEEN EMPIRICALLY DERIVED PERSONALITY VARIABLES**

	<b>Conceptually Derived Variables</b>		
	<u>Belief in Synergy</u> (items 3, 6, 13)	<u>Need for Power</u> (items 14, 17, 19, 22, 23, 25, 27)	<u>Desire to Manage Impressions</u> (items 15, 20, 26, 28)
<b>Empirically Derived Variables</b>			
<u>Belief in Synergy</u> (items 2, 3, 12, 13)	.81 ( 127 ) P = .00		
<u>Need for Power</u> (items 14, 17, 18, 21, 22, 23, 25, 29)		.79 ( 121 ) P = .00	
<u>Desire to Manage Impressions</u> (items 15, 16, 20, 26, 28)			.90 ( 123 ) P = .00

**TABLE 11: RELIABILITY ANALYSES OF THE QUESTIONNAIRE**

	<b>Cronbach's Alpha</b>
<b>Business Philosophy Scale (11 items)</b>	.55
Belief that "Bigger is Better" Subscale (4 items)	.13
Belief in Synergy Subscale (3 items)	.47
Belief that Acquisitions are Beneficial Subscale (4 items)	.52
	<b>Kuder Richardson's KR-20</b>
<b>Personal Philosophy Scale (17 items)</b>	.58
Need for Power Subscale (7 items)	.48
Self-Confidence Subscale (2 items)	.25
Desire to Manage Impressions Subscale (4 items)	.41
Fear of Negative Evaluation Subscale (4 items)	.40

**TABLE 12: BUSINESS PHILOSOPHY SCALE: MEANS, STANDARD DEVIATIONS AND CORRELATIONS OF ITEMS TO SUBSCALE SCORE AND TOTAL SCORE**

<b>Variable</b>	<b>Item</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>r with variable</b>	<b>r with total</b>
<b>Belief that Bigger is Better</b>	1	3.10	1.08	.02	.16
	4	3.34	1.14	.03	.11
	7	2.37	1.00	.09	-.03
	11	2.51	1.04	.10	-.00
<b>Belief in Synergy</b>	3	2.94	1.15	.44	.48
	6	3.62	1.00	.14	.20
	13	2.50	1.08	.33	.38
<b>Belief that Acquisitions are Beneficial</b>	2	2.71	1.08	.30	.41
	8	2.42	1.03	.26	.26
	10	2.98	1.17	.33	.22
	12	3.79	1.08	.35	.36

**TABLE 13: PERSONAL PHILOSOPHY SCALE: MEANS, STANDARD DEVIATIONS AND CORRELATIONS OF ITEMS TO SUBSCALE SCORE AND TOTAL SCORE**

<b>Variable</b>	<b>Item</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>r with variable</b>	<b>r with total</b>
<b>Need for Power</b>	14	1.99	.09	.23	.17
	17	1.89	.31	.29	.24
	19	1.30	.46	.17	.17
	22	1.77	.42	.24	.24
	23	1.96	.20	.40	.42
	25	1.71	.45	.30	.38
	27	1.01	.09	.03	.03
<b>Self-Confidence</b>	29	1.91	.28	.14	.20
	30	1.70	.46	.14	.18
<b>Desire to Manage Impressions</b>	15	1.40	.49	.15	.08
	20	1.81	.39	.29	.16
	26	1.24	.43	.17	.14
	28	1.43	.50	.28	.26
<b>Fear of Negative Evaluation</b>	16	1.42	.50	.22	.02
	18	1.65	.48	.37	.22
	21	1.79	.41	.27	.37
	24	1.19	.39	.07	.11

**TABLE 14: DESCRIPTIVE STATISTICS: COMPANIES WITH BOTH CEO SPEECHES AND QUESTIONNAIRES VERSUS COMPANIES WITHOUT BOTH CEO SPEECHES AND QUESTIONNAIRES**

**Companies with CEO Speeches And Questionnaires (N=98)**

	<b>Sales</b> (\$ Millions)	<b>Profits</b> (\$ Millions)	<b>Employees</b> (Number of)
<b>Mean</b>	4,550.83	230.81	33,429
<b>Standard Deviation</b>	4,846.78	380.99	37,870
<b>Maximum</b>	30,468.00	1,786.00	210,900
<b>Minimum</b>	715.30	-894.80	2412

**Companies without Both CEO Speeches and Questionnaires (N=356)**

	<b>Sales</b> (\$ Millions)	<b>Profits</b> (\$ Millions)	<b>Employees</b> (Number of)
<b>Mean</b>	5,594.36	260.80	40,376
<b>Standard Deviation</b>	10,802.37	647.56	69,34
<b>Maximum</b>	101,781.90	5,258.00	813,400
<b>Minimum</b>	687.30	-4,407.00	860

**TABLE 15: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES MEASURED BY SPEECHES AND BY QUESTIONNAIRES**

	SPEECH DATA			
	Belief that Bigger is Better	Belief in Synergy	Need for Power	Self- Confidence
QUESTIONNAIRE DATA				
Belief that Bigger is Better	.07 ( 83 ) P = .28			
Belief in Synergy		.21 ( 64 ) P = .05		
Need for Power			.13 ( 90 ) P = .11	
Self- Confidence				-.07 ( 92 ) P = .27

**TABLE 16: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES MEASURED BY SPEECHES AND BY OTHER UNOBTRUSIVE METHODS**

	UNOBTRUSIVE DATA				
	No. of Lines WWA	No. of Lines in WWF&I	No. of Lines in WWA and WWF&I	Area of CEO Photos	% of CEO in Photos
<b>SPEECH DATA</b>					
<b>Belief that Bigger is Better</b>	.07 ( 186 ) P = .16	.07 ( 185 ) P = .19	.06 ( 172 ) P = .20	-.05 ( 201 ) P = .22	-.05 ( 201 ) P = .23
<b>Belief in Synergy</b>	-.01 ( 139 ) P = .47	.02 ( 137 ) P = .41	.00 ( 128 ) P = .49	-.07 ( 149 ) P = .20	-.07 ( 149 ) P = .19
<b>Need for Power</b>	.12 ( 200 ) P = .04	.14 ( 197 ) P = .03	.12 ( 183 ) P = .05	-.02 ( 218 ) P = .39	-.04 ( 218 ) P = .28
<b>Self- Confidence</b>	.03 ( 209 ) P = .32	.06 ( 206 ) P = .19	.04 ( 192 ) P = .32	.04 ( 228 ) P = .29	.05 ( 228 ) P = .24

**TABLE 17: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES MEASURED BY QUESTIONNAIRES AND BY OTHER UNOBTRUSIVE METHODS**

	UNOBTRUSIVE DATA				
	No. of Lines in WWA	No. of Lines in WWF&I	No. of Lines in WWA and WWF&I	Area of CEO Photos	% of CEO Photos
<b>QUESTIONNAIRE DATA</b>					
<b>Need for Power</b>	.28 ( 106 ) P = .00	.23 ( 99 ) P = .01	.22 ( 94 ) P = .02	.09 ( 119 ) P = .16	-.03 ( 119 ) P = .36
<b>Self- Confidence</b>	.03 ( 108 ) P = .37	.01 ( 100 ) P = .46	.02 ( 96 ) P = .42	.02 ( 118 ) P = .42	.05 ( 118 ) P = .29
<b>Desire to Manage Impressions</b>	.17 ( 107 ) P = .04	.18 ( 99 ) P = .03	.25 ( 95 ) P = .00	.23 ( 117 ) P = .00	.16 ( 117 ) P = .04
<b>Fear of Negative Evaluation</b>	-.07 ( 108 ) P = .24	-.04 ( 100 ) P = .35	-.08 ( 96 ) P = .21	.02 ( 119 ) P = .43	.00 ( 119 ) P = .48

**TABLE 18: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES MEASURED BY DIFFERENT UNOBTRUSIVE METHODS**

<b>UNOBTRUSIVE DATA</b>			
<b>UNOBTRUSIVE DATA</b>	<b>No. of Lines in WWA</b>	<b>No. of Lines in WWF&amp;I</b>	<b>No. of Lines in WWA and WWF&amp;I</b>
<b>Area of CEO Photos</b>	.06 (227) P = .18	.06 (221) P = .20	.06 (207) P = .19
<b>% of CEO Photos</b>	.01 (227) P = .42	.02 (221) P = .39	.02 (207) P = .36

TABLE 19: THE MULTITRAIT MULTIMETHOD MATRIX: CONVERGENT AND DISCRIMINANT VALIDITIES

TRAITS	METHOD 1: SPEECHES							METHOD 2: QUESTIONNAIRES						
	Bigger is Better	Belief in Synergy	Benefits of Mergers	Need for Power	Self-Confidence	Manage Impressions	Fear Negative Evaluation	Bigger is Better	Belief in Synergy	Benefits of Mergers	Need for Power	Self-Confidence	Manage Impressions	Fear Negative Evaluation
METHOD 1: Bigger is Better SPEECHES														
Belief in Synergy	.61													
Benefits of Mergers	NA	NA												
Need For Power	.40	.27	NA											
Self-Confidence	.52	.32	NA	.51										
Manage Impressions	NA	NA	NA	NA	NA									
Fear Negat. Evaluation	NA	NA	NA	NA	NA	NA								
METHOD 2: Bigger is Better QUESTIONNAIRES														
Bigger is Better	.07	.13	NA	.12	.11	NA	NA							
Belief in Synergy	.17	.21	NA	.15	.02	NA	NA							
Benefits of Mergers	.03	-.20	NA	.07	.06	NA	NA							
Need For Power	-.18	-.02	NA	.13	-.07	NA	NA							
Self-Confidence	-.15	-.21	NA	-.04	-.07	NA	NA							
Manage Impressions	-.04	-.05	NA	-.05	.08	NA	NA							
Fear Negat. Evaluation	.05	.23	NA	-.04	-.15	NA	NA							
								.11						
								.04	.50					
								.01	.00	.03				
								-.10	-.03	.03	.30			
								.03	.01	-.06	.13	.24		
								-.18	.12	-.07	.25	-.06	.01	

NA = Not Available

**TABLE 20: ASSESSMENT OF CAMPBELL AND FISKE'S THIRD CRITERION FOR DISCRIMINANT VALIDITY**

**1. CORRELATIONS BETWEEN DIFFERENT TRAITS MEASURED BY THE SAME METHODS**

<b>Column A</b>		<b>Column B</b>	
"Bigger is Better" (S) and Synergy (S)	.61	"Bigger is Better" (Q) and Synergy (Q)	.11
"Bigger is Better" (S) and Power (S)	.40	"Bigger is Better" (Q) and Power (Q)	.01
"Bigger is Better" (S) and Self-Confidence (S)	.52	"Bigger is Better" (Q) and Self-Confidence (Q)	-.10
Synergy (S) and Power (S)	.27	Synergy (Q) and Power (Q)	.00
Synergy (S) and Self-Confidence (S)	.32	Synergy (Q) and Self-Confidence (Q)	-.03
Power (S) and Self-Confidence (S)	.51	Power (Q) and Self-Confidence (Q)	.30

Spearman Rank Order Correlation Between Column A and B:  $r_s = .26$ ,  $P = .30$

**2. CORRELATIONS BETWEEN DIFFERENT TRAITS MEASURED BY DIFFERENT METHODS**

<b>Column A</b>		<b>Column B</b>	
"Bigger is Better" (S) and Synergy (Q)	.17	"Bigger is Better" (Q) and Synergy (S)	.13
"Bigger is Better" (S) and Power (Q)	-.18	"Bigger is Better" (Q) and Power (S)	.12
"Bigger is Better" (S) and Self-Confidence (Q)	-.15	"Bigger is Better" (Q) and Self-Confidence (S)	.11
Synergy (S) and Power (Q)	-.02	Synergy (Q) and Power (S)	.15
Synergy (S) and Self-Confidence (Q)	-.21	Synergy (Q) and Self-Confidence (S)	.02
Power (S) and Self-Confidence (Q)	-.04	Power (Q) and Self-Confidence (S)	-.07

Spearman Rank Order Correlation Between Column A and B:  $r_s = .54$ ,  $P = .15$

S = Speech    Q = Questionnaire

**TABLE 21: SPEECH DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA**

	Number Of Completed And Attempted Acquisitions			\$ Value Of Completed Acquisition Transactions		
	1988	1989	1988-89	1988	1989	1988-89
<b>Belief that Bigger is Better</b>	.20 ( 201 ) P = .00	.21 ( 201 ) P = .00	.23 ( 198 ) P = .00	.18 ( 162 ) P = .01	.08 ( 142 ) P = .17	.15 ( 123 ) P = .05
<b>Belief in Synergy</b>	.18 ( 147 ) P = .01	.14 ( 147 ) P = .05	.17 ( 145 ) P = .02	.10 ( 123 ) P = .13	.01 ( 111 ) P = .45	.04 ( 98 ) P = .36
<b>Need for Power</b>	.28 ( 218 ) P = .00	.31 ( 215 ) P = .00	.32 ( 213 ) P = .00	.15 ( 175 ) P = .02	.17 ( 156 ) P = .02	.21 ( 136 ) P = .01
<b>Self-Confidence</b>	.23 ( 227 ) P = .00	.24 ( 225 ) P = .00	.26 ( 222 ) P = .00	.09 ( 184 ) P = .13	.14 ( 163 ) P = .04	.18 ( 141 ) P = .02

**TABLE 22: SPEECH DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN WITH NUMBER OF COMPLETED AND ATTEMPTED ACQUISITIONS AS THE DEPENDENT VARIABLE**

**Variable Entered on Step Number 1: Need for Power**

**Summary Statistics for the Equation**

Multiple R: .67  
R Square: .45

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	1	2305.10	2305.10	117.82	.000
Residual	143	2797.68	19.56		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Need for Power	1.84	.67	10.86	.00

**Statistics for Variables Not in the Equation**

	Beta	T	Significant T
"Bigger is Better"	.17	.95	.34
Synergy	.28	1.62	.11
Self-Confidence	.17	.85	.39

**TABLE 23: SPEECH DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN WITH DOLLAR VALUE OF COMPLETED ACQUISITION TRANSACTIONS AS THE DEPENDENT VARIABLE**

**Variable Entered on Step Number 1: Need For Power**

**Summary Statistics for the Equation**

Multiple R: .48  
R Square: .23

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	1	22130785.35	22130785.35	29.14	.000
Residual	97	73657120.41	759351.76		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Need For Power	218.09	.48	5.40	.00

**Statistics for Variables Not in the Equation**

	Beta	T	Significant T
"Bigger is Better"	.10	.39	.70
Synergy	.24	.94	.35
Self-Confidence	.14	.48	.63

**TABLE 24: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES (CONCEPTUALLY DERIVED) AND MAA**

	Number Of Completed And Attempted Acquisitions			\$ Value Of Completed Acquisition Transactions		
	1988	1989	1988-89	1988	1989	1988-89
<b>Belief that Bigger is Better</b>	.05 ( 120 ) P = .30	.07 ( 120 ) P = .21	.06 ( 118 ) P = .25	.01 ( 94 ) P = .45	.05 ( 93 ) P = .33	.06 ( 78 ) P = .30
<b>Belief in Synergy</b>	-.09 ( 120 ) P = .16	.08 ( 120 ) P = .18	.01 ( 118 ) P = .47	.04 ( 93 ) P = .36	.18 ( 94 ) P = .04	.22 ( 78 ) P = .03
<b>Belief that Acquisitions are Beneficial</b>	-.10 ( 121 ) P = .15	.04 ( 121 ) P = .32	-.03 ( 119 ) P = .38	.06 ( 95 ) P = .28	.03 ( 94 ) P = .39	.04 ( 79 ) P = .37
<b>Need for Power</b>	.10 ( 118 ) P = .14	.16 ( 117 ) P = .04	.15 ( 116 ) P = .05	-.01 ( 92 ) P = .45	.16 ( 90 ) P = .06	.17 ( 76 ) P = .07
<b>Self-Confidence</b>	-.20 ( 117 ) P = .02	-.09 ( 116 ) P = .16	-.16 ( 115 ) P = .04	-.03 ( 90 ) P = .37	.08 ( 89 ) P = .24	.10 ( 74 ) P = .19
<b>Desire to Manage Impressions</b>	-.01 ( 116 ) P = .46	-.01 ( 115 ) P = .46	-.00 ( 114 ) P = .50	-.05 ( 90 ) P = .33	.07 ( 89 ) P = .26	.05 ( 75 ) P = .32
<b>Fear of Negative Evaluation</b>	-.15 ( 118 ) P = .05	-.09 ( 117 ) P = .17	-.13 ( 116 ) P = .08	-.04 ( 92 ) P = .35	.08 ( 91 ) P = .22	.06 ( 76 ) P = .29

**TABLE 25: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES (EMPIRICALLY DERIVED) AND MAA**

	Number Of Completed And Attempted Acquisitions			\$ Value Of Completed Acquisition Transactions		
	1988	1989	1988-89	1988	1989	1988-89
<b>Belief in Synergy</b>	-.01 ( 119 ) P = .45	.11 ( 119 ) P = .11	.07 ( 117 ) P = .23	.19 ( 93 ) P = .03	.19 ( 93 ) P = .04	.24 ( 78 ) P = .02
<b>Need for Power</b>	-.04 ( 115 ) P = .32	.11 ( 114 ) P = .12	.04 ( 113 ) P = .33	-.07 ( 90 ) P = .26	.14 ( 88 ) P = .09	.13 ( 74 ) P = .12
<b>Desire to Manage Impressions</b>	-.06 ( 116 ) P = .25	-.08 ( 115 ) P = .20	.07 ( 114 ) P = .23	-.04 ( 90 ) P = .36	.10 ( 89 ) P = .19	.08 ( 75 ) P = .25



**TABLE 27: QUESTIONNAIRE DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN WITH DOLLAR VALUE OF COMPLETED ACQUISITION TRANSACTIONS AS THE DEPENDENT VARIABLE**

**Variable Entered on Step Number 1: Belief in Synergy**

**Summary Statistics for the Equation**

Multiple R: .36  
R Square: .13

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	1	9373211.55	9373211.55	10.87	.002
Residual	73	62956431.57	862416.87		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Belief in Synergy	54.74	.360	3.30	.002

**Statistics for Variables Not in the Equation**

	Beta	T	Significant T
"Bigger is Better"	-.10	-.37	.71
Benefits of Acquisitions	-.34	-1.06	.29
Need for Power	.03	.13	.90
Self-Confidence	.03	.14	.89
Desire to Manage Impressions	.01	.05	.96
Fear of Negative Evaluation	-.01	-.06	.95

**TABLE 28: ANALYSIS OF VARIANCE: BELIEFS THAT "BIGGER IS BETTER " BY THE TOTAL NUMBER OF COMPLETED AND ATTEMPTED ACQUISITIONS IN 1988-89**

<b>Source</b>	<b>D. F.</b>	<b>Sum of Squares</b>	<b>Mean Squares</b>	<b>F ratio</b>	<b>F Prob.</b>
Between Groups	1	20.82	20.82	4.35	.039
Within Groups	116	554.78	4.78		
Total	117	575.59			

**TABLE 29: ANALYSIS OF VARIANCE: BELIEFS THAT ACQUISITIONS ARE BENEFICIAL BY THE TOTAL NUMBER OF COMPLETED AND ATTEMPTED ACQUISITIONS IN 1988-89**

<b>Source</b>	<b>D. F.</b>	<b>Sum of Squares</b>	<b>Mean Squares</b>	<b>F ratio</b>	<b>F Prob.</b>
Between Groups	1	32.74	32.74	4.02	.047
Within Groups	117	951.83	8.14		
Total	118	984.57			

**TABLE 30: UNOBTRUSIVE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA**

	Number of Completed and Attempted Acquisitions			\$ Value of Completed Acquisition Transactions		
	1988	1989	1988-89	1988	1989	1988-89
<b>Number of Lines in WWA</b>	.16 ( 227 ) P = .01	.09 ( 226 ) P = .09	.13 ( 222 ) P = .03	.10 ( 182 ) P = .10	-.07 ( 165 ) P = .20	.07 ( 141 ) P = .20
<b>Number of Lines in WWF&amp;I</b>	.16 ( 220 ) P = .01	.10 ( 220 ) P = .06	.14 ( 216 ) P = .02	.11 ( 176 ) P = .08	-.07 ( 160 ) P = .19	.07 ( 139 ) P = .21
<b>Number of Lines in WWA and WWF&amp;I</b>	.15 ( 205 ) P = .02	.08 ( 206 ) P = .14	.12 ( 202 ) P = .04	.10 ( 162 ) P = .10	-.08 ( 147 ) P = .16	.06 ( 126 ) P = .27
<b>Area of CEO Photos</b>	.00 ( 247 ) P = .49	-.01 ( 246 ) P = .41	-.01 ( 242 ) P = .42	-.05 ( 201 ) P = .25	.01 ( 184 ) P = .43	.02 ( 159 ) P = .40
<b>% Area of CEO Photos</b>	-.07 ( 247 ) P = .15	-.07 ( 246 ) P = .11	-.08 ( 242 ) P = .10	-.10 ( 201 ) P = .08	-.04 ( 184 ) P = .30	-.05 ( 159 ) P = .25

**TABLE 31: UNOBTRUSIVE DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN  
WITH THE NUMBER OF COMPLETED AND ATTEMPTED ACQUISITIONS  
AS THE DEPENDENT VARIABLE**

Variable Entered on Step Number 1: Number of Lines in WWF&I

**Summary Statistics for the Equation**

Multiple R: .60  
R Square: .36

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	1	2585.49	2585.49	113.65	.000
Residual	201	4572.59	22.75		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Number of Lines in WWF&I	.23	.60	10.66	.00

**Statistics for Variables Not in the Equation**

	Beta	T	Significant T
Number of Lines in WWA	-.81	-1.36	.17
Number of Lines in WWA and WWF&I	-.33	-.28	.78

**TABLE 32: UNOBTRUSIVE DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN WITH THE DOLLAR VALUE OF COMPLETED ACQUISITION TRANSACTIONS AS THE DEPENDENT VARIABLE**

**Variable Entered on Step Number 1: Number of Lines in WWA AND WWF&I**

**Summary Statistics for the Equation**

Multiple R: .36  
R Square: .13

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	1	16175068.64	16175068.64	18.90	.000
Residual	125	106980810.19	855846.48		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Number of Lines in WWA and WWF&I	10.87	.36	4.35	.00

**Statistics for Variables Not in the Equation**

	Beta	T	Significant T
Number of Lines in WWA	-1.53	-.85	.40
Number of Lines in WWF&I	-.59	-.34	.73

**TABLE 33: UNOBTRUSIVE DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN WITH THE NUMBER OF COMPLETED AND ATTEMPTED ACQUISITIONS AS THE DEPENDENT VARIABLE**

Variable Entered on Step Number 1: Area Measure of Size of CEO Photographs

**Summary Statistics for the Equation**

Multiple R: .46  
R Square: .21

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	1	1827.90	1827.90	65.29	.000
Residual	241	6747.61	28.00		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Area Measure of CEO Photographs	.024	.46	8.08	.00

**Statistics for Variables Not in the Equation**

	Beta	T	Significant T
Percentage Measure of CEO Photographs	-.34	-1.91	.06

**TABLE 34: UNOBTRUSIVE DATA: STEPWISE MULTIPLE REGRESSION THROUGH THE ORIGIN WITH THE DOLLAR VALUE OF COMPLETED ACQUISITION TRANSACTIONS AS THE DEPENDENT VARIABLE**

**Variable Entered on Steps 1 and 2:** Area Measure of Size of CEO Photographs  
Percentage Measure of Size of CEO Photographs

**Summary Statistics for the Equation**

Multiple R: .33  
R Square: .11

**Analysis of Variance Table**

	DF	Sum of Squares	Mean Square	F	Significant F
Regression	2	16739466.06	8369733.03	9.48	.000
Residual	157	138671523.90	883258.11		

**Statistics for Variables in the Equation**

Variable	B	Beta	T	Significant T
Area Measure of CEO Photographs	6.27	.74	3.11	.002
Percentage Measure of CEO Photographs	-986.80	-.47	-1.99	.05

**TABLE 35: SPEECH DATA: A COMPARISON OF PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND 1987 MAA AND PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND 1989 MAA**

	<b>Number of Acquisitions 1987<sup>A</sup></b>	<b>Number of Acquisitions 1989<sup>A</sup></b>	<b>\$ Value of Transactions 1987<sup>B</sup></b>	<b>\$ Value of Transactions 1989<sup>B</sup></b>
<b>Belief that Bigger is Better</b>	.21 ( 159 ) P = .00	.23 ( 156 ) P = .00	.06 ( 105 ) P = .28	.01 ( 110 ) P = .44
<b>Belief in Synergy</b>	.07 ( 114 ) P = .23	.13 ( 111 ) P = .09	.00 ( 73 ) P = .50	-.05 ( 85 ) P = .33
<b>Need for Power</b>	.28 ( 166 ) P = .00	.30 ( 163 ) P = .00	.11 ( 109 ) P = .13	.14 ( 117 ) P = .06
<b>Self- Confidence</b>	.15 ( 175 ) P = .02	.27 ( 172 ) P = .00	-.03 ( 116 ) P = .36	.10 ( 123 ) P = .14

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 36: QUESTIONNAIRE DATA: A COMPARISON OF PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND 1987 MAA AND PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND 1989 MAA**

	Number of Acquisitions 1987 <sup>A</sup>	Number of Acquisitions 1989 <sup>A</sup>	\$ Value of Transactions 1987 <sup>B</sup>	\$ Value of Transactions 1989 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.06 ( 84 ) P = .28	.03 ( 83 ) P = .40	-.03 ( 60 ) P = .42	.10 ( 63 ) P = .22
<b>Belief in Synergy</b>	-.02 ( 84 ) P = .42	.09 ( 83 ) P = .21	.05 ( 60 ) P = .35	.23 ( 63 ) P = .04
<b>Belief that Acquisitions are Beneficial</b>	.10 ( 84 ) P = .18	.11 ( 83 ) P = .17	.13 ( 60 ) P = .17	.18 ( 63 ) P = .08
<b>Need for Power</b>	.10 ( 80 ) P = .18	.13 ( 79 ) P = .12	.01 ( 57 ) P = .48	.05 ( 59 ) P = .36
<b>Self- Confidence</b>	-.08 ( 80 ) P = .25	-.14 ( 79 ) P = .10	-.03 ( 57 ) P = .42	-.07 ( 59 ) P = .29
<b>Desire to Manage Impressions</b>	-.03 ( 79 ) P = .40	.04 ( 78 ) P = .36	-.07 ( 56 ) P = .31	.04 ( 69 ) P = .38
<b>Fear of Negative Evaluation</b>	-.19 ( 80 ) P = .05	-.15 ( 79 ) P = .09	-.13 ( 57 ) P = .16	.02 ( 60 ) P = .43

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 37: UNOBTRUSIVE DATA: A COMPARISON OF PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND 1987 MAA AND PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND 1989 MAA**

	<b>Number of Acquisitions 1987<sup>A</sup></b>	<b>Number of Acquisitions 1989<sup>A</sup></b>	<b>\$ Value of Transactions 1987<sup>B</sup></b>	<b>\$ Value of Transactions 1989<sup>B</sup></b>
<b>Number of Lines in WWA</b>	.11 ( 179 ) P = .08	.07 ( 177 ) P = .18	.03 ( 117 ) P = .36	-.06 ( 127 ) P = .27
<b>Number of Lines in WWF&amp;I</b>	.10 ( 186 ) P = .08	.08 ( 183 ) P = .13	.02 ( 121 ) P = .41	-.05 ( 133 ) P = .27
<b>Number of Lines in WWA and WWF&amp;I</b>	.09 ( 175 ) P = .12	.06 ( 173 ) P = .21	.01 ( 114 ) P = .45	-.07 ( 123 ) P = .23
<b>Area of CEO Photograph</b>	.01 ( 188 ) P = .46	-.02 ( 185 ) P = .40	-.10 ( 123 ) P = .15	.01 ( 136 ) P = .46
<b>Area % of CEO Photograph</b>	-.06 ( 188 ) P = .20	-.09 ( 185 ) P = .11	-.11 ( 123 ) P = .11	-.05 ( 136 ) P = .30

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 38: SPEECH DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA  
DEPENDING ON LENGTH OF CEO TENURE AS A PERCENTAGE OF  
COMPANY TENURE**

	CEO TENURE GT 21.5		CEO TENURE LE 21.5	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.30 ( 97 ) P = .00	.09 ( 63 ) P = .25	.16 ( 97 ) P = .06	.15 ( 56 ) P = .13
<b>Belief in Synergy</b>	.14 ( 65 ) P = .13	-.05 ( 48 ) P = .36	.18 ( 78 ) P = .06	.09 ( 47 ) P = .26
<b>Need for Power</b>	.35 ( 106 ) P = .00	.25 ( 69 ) P = .02	.29 ( 104 ) P = .00	.17 ( 63 ) P = .09
<b>Self- Confidence</b>	.24 ( 110 ) P = .01	.21 ( 71 ) P = .04	.28 ( 108 ) P = .00	.12 ( 66 ) P = .17

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 39: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON LENGTH OF CEO TENURE AS A PERCENTAGE OF COMPANY TENURE**

	CEO TENURE GT 21.5		CEO TENURE LE 21.5	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	-.03 ( 49 ) P = .41	-.25 ( 33 ) P = .08	.13 ( 68 ) P = .14	.18 ( 44 ) P = .13
<b>Belief in Synergy</b>	-.06 ( 48 ) P = .33	.13 ( 32 ) P = .24	.05 ( 69 ) P = .34	.26 ( 45 ) P = .05
<b>Belief that Acquisitions are Beneficial</b>	.12 ( 49 ) P = .20	.15 ( 33 ) P = .21	-.13 ( 69 ) P = .14	.01 ( 45 ) P = .47
<b>Need for Power</b>	.05 ( 47 ) P = .38	.06 ( 31 ) P = .38	.24 ( 68 ) P = .02	.22 ( 44 ) P = .08
<b>Self- Confidence</b>	-.31 ( 46 ) P = .02	.15 ( 30 ) P = .21	-.04 ( 68 ) P = .37	.10 ( 43 ) P = .27
<b>Desire to Manage Impressions</b>	-.05 ( 46 ) P = .37	.36 ( 31 ) P = .02	.03 ( 67 ) P = .42	-.05 ( 43 ) P = .39
<b>Fear of Negative Evaluation</b>	-.26 ( 47 ) P = .04	.01 ( 31 ) P = .48	-.03 ( 68 ) P = .39	.09 ( 44 ) P = .28

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 40: UNOBTRUSIVE DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON LENGTH OF CEO TENURE AS A PERCENTAGE OF COMPANY TENURE**

	CEO TENURE GT 21.5		CEO TENURE LE 21.5	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
Number of Lines in WWA	.16 ( 109 ) P = .05	.37 <sup>C</sup> ( 70 ) P = .00	.11 ( 108 ) P = .12	-.25 <sup>C</sup> ( 66 ) P = .02
Number of Lines in WWF&I	.13 ( 108 ) P = .09	.39 <sup>D</sup> ( 71 ) P = .00	.18 ( 104 ) P = .03	-.23 <sup>D</sup> ( 65 ) P = .04
Number of Lines in WWA and WWF&I	.13 ( 102 ) P = .09	.38 <sup>E</sup> ( 65 ) P = .00	.14 ( 96 ) P = .09	-.29 <sup>E</sup> ( 58 ) P = .01
Area of CEO Photograph	.05 ( 119 ) P = .30	-.02 ( 81 ) P = .42	-.08 ( 121 ) P = .18	.06 ( 76 ) P = .31
Area % of CEO Photograph	-.04 ( 119 ) P = .35	-.09 ( 81 ) P = .21	-.13 ( 121 ) P = .08	-.03 ( 76 ) P = .38

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

<sup>C</sup> Based on a two-tailed test with Z critical equal to 3.67, the difference between the two correlation coefficients was significant at the  $\alpha = .00$  level.

<sup>D</sup> Based on a two-tailed test with Z critical equal to 3.62, the difference between the two correlation coefficients was significant at the  $\alpha = .00$  level.

<sup>E</sup> Based on a two-tailed test with Z critical equal to 3.80, the difference between the two correlation coefficients was significant at the  $\alpha = .00$  level.

**TABLE 41: SPEECH DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON COMPANY SIZE**

	COMPANY SIZE GT 34,400		COMPANY SIZE LT 14,918	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.29 ( 64 ) P = .01	.15 ( 32 ) P = .20	.19 ( 60 ) P = .07	.29 ( 43 ) P = .03
<b>Belief in Synergy</b>	.32 ( 41 ) P = .02	.02 ( 23 ) P = .47	.29 ( 43 ) P = .03	.38 ( 32 ) P = .02
<b>Need for Power</b>	.34 ( 65 ) P = .00	.23 ( 33 ) P = .10	.26 ( 69 ) P = .02	.21 ( 50 ) P = .07
<b>Self- Confidence</b>	.27 ( 70 ) P = .01	.05 ( 36 ) P = .39	.24 ( 71 ) P = .02	.18 ( 51 ) P = .11

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 42: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON COMPANY SIZE**

	COMPANY SIZE GT 34,400		COMPANY SIZE LT 14,918	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	-.11 ( 31 ) P = .28	.11 ( 16 ) P = .34	.27 ( 40 ) P = .05	-.21 ( 30 ) P = .13
<b>Belief in Synergy</b>	.08 ( 32 ) P = .34	.62 <sup>C</sup> ( 17 ) P = .00	-.03 ( 39 ) P = .43	.06 <sup>C</sup> ( 29 ) P = .38
<b>Belief that Acquisitions are Beneficial</b>	.03 ( 32 ) P = .43	.11 ( 17 ) P = .34	.01 ( 40 ) P = .47	.05 ( 30 ) P = .39
<b>Need for Power</b>	.34 ( 32 ) P = .03	.38 ( 16 ) P = .07	.01 ( 39 ) P = .48	.05 ( 29 ) P = .40
<b>Self- Confidence</b>	-.03 ( 32 ) P = .44	.13 ( 16 ) P = .31	-.17 ( 37 ) P = .16	.05 ( 27 ) P = .40
<b>Desire to Manage Impressions</b>	.06 ( 32 ) P = .37	-.05 ( 16 ) P = .43	.05 ( 37 ) P = .39	.30 ( 28 ) P = .06
<b>Fear of Negative Evaluation</b>	-.25 ( 31 ) P = .08	.08 ( 16 ) P = .39	-.18 ( 38 ) P = .15	.06 ( 28 ) P = .38

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

<sup>C</sup> Based on a two-tailed test with Z critical equal to 2.00, the difference between the two correlation coefficients was significant at the  $\alpha = .05$  level.

**TABLE 43: UNOBTRUSIVE DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON COMPANY SIZE**

	COMPANY SIZE GT 34,400		COMPANY SIZE LT 14,918	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
Number of Lines in WWA	.08 ( 74 ) P = .26	-.02 ( 38 ) P = .45	.12 ( 68 ) P = .16	.20 ( 49 ) P = .09
Number of Lines in WWF&I	.08 ( 74 ) P = .25	-.04 ( 38 ) P = .42	.10 ( 68 ) P = .21	.19 ( 49 ) P = .10
Number of Lines in WWA and WWF&I	.06 ( 71 ) P = .31	-.05 ( 35 ) P = .40	.12 ( 62 ) P = .18	.19 ( 44 ) P = .12
Area of CEO Photograph	-.01 ( 75 ) P = .48	.18 ( 40 ) P = .13	-.04 ( 80 ) P = .35	-.08 ( 59 ) P = .29
Area % of CEO Photograph	-.11 ( 75 ) P = .18	.01 ( 40 ) P = .48	-.07 ( 80 ) P = .27	-.10 ( 59 ) P = .22

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 44: SPEECH DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON COMPANY AGE**

	COMPANY AGE GT 90		COMPANY AGE LT 50	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.31 ( 47 ) P = .02	.17 ( 21 ) P = .23	.23 ( 60 ) P = .04	.01 ( 40 ) P = .47
<b>Belief in Synergy</b>	.23 ( 36 ) P = .09	-.08 ( 16 ) P = .39	.18 ( 45 ) P = .11	-.06 ( 35 ) P = .37
<b>Need for Power</b>	.45 ( 51 ) P = .00	.10 ( 24 ) P = .32	.22 ( 66 ) P = .04	.12 ( 46 ) P = .21
<b>Self- Confidence</b>	.28 ( 56 ) P = .02	-.01 ( 27 ) P = .48	.24 ( 71 ) P = .02	.32 ( 46 ) P = .02

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 45: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON COMPANY AGE**

	COMPANY AGE GT 90		COMPANY AGE LT 50	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.06 ( 26 ) P = .38	.10 ( 17 ) P = .36	.05 ( 38 ) P = .37	-.28 ( 28 ) P = .07
<b>Belief in Synergy</b>	.01 ( 26 ) P = .48	.47 ( 17 ) P = .03	.02 ( 38 ) P = .46	.01 ( 28 ) P = .48
<b>Belief that Acquisitions are Beneficial</b>	.03 ( 27 ) P = .44	.05 ( 18 ) P = .42	-.15 ( 38 ) P = .18	.02 ( 28 ) P = .46
<b>Need for Power</b>	.48 ( 27 ) P = .01	.35 ( 17 ) P = .09	.07 ( 38 ) P = .35	.08 ( 28 ) P = .34
<b>Self- Confidence</b>	-.42 <sup>C</sup> ( 26 ) P = .02	.13 ( 16 ) P = .32	.15 <sup>C</sup> ( 36 ) P = .20	.16 ( 26 ) P = .22
<b>Desire to Manage Impressions</b>	.13 ( 25 ) P = .26	-.03 ( 15 ) P = .46	.02 ( 37 ) P = .45	.16 ( 27 ) P = .22
<b>Fear of Negative Evaluation</b>	-.08 ( 26 ) P = .35	.21 ( 16 ) P = .21	-.21 ( 38 ) P = .10	-.05 ( 28 ) P = .39

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

<sup>C</sup> Based on a two-tailed test with Z critical equal to 2.17, the difference between the two correlation coefficients was significant at the  $\alpha = .03$  level.

**TABLE 46: UNOBTRUSIVE DATA: PEARSON CORRELATIONS BETWEEN CEO PERSONALITY AND MAA DEPENDING ON COMPANY AGE**

	COMPANY AGE GT 90		COMPANY AGE LT 50	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
Number of Lines in WWA	.26 ( 54 ) P = .03	-.24 ( 29 ) P = .10	.20 ( 66 ) P = .06	.06 ( 43 ) P = .34
Number of Lines in WWF&I	.26 ( 54 ) P = .03	-.30 ( 27 ) P = .07	.24 ( 63 ) P = .03	.10 ( 42 ) P = .25
Number of Lines in WWA and WWF&I	.26 ( 52 ) P = .03	-.35 ( 26 ) P = .04	.19 ( 57 ) P = .07	.08 ( 37 ) P = .32
Area of CEO Photograph	-.10 ( 60 ) P = .22	.06 ( 32 ) P = .37	-.04 ( 73 ) P = .37	-.14 ( 49 ) P = .17
Area % of CEO Photograph	-.19 ( 60 ) P = .07	-.05 ( 32 ) P = .39	-.07 ( 80 ) P = .27	-.17 ( 49 ) P = .13

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 47: DESCRIPTIVE STATISTICS FOR CASH RESERVES AND  
FEAR OF BEING A TAKEOVER TARGET**

	<b>Cash Reserves (in millions of dollars)</b>	<b>Fear of Being a Takeover Target (# of antitakeover provisions)</b>
<b>Mean</b>	\$ 751.60	3.5
<b>Standard Deviation</b>	\$ 2320.50	2.01
<b>Median</b>	\$ 229.00	3.0
<b>Minimum</b>	\$ 0.00	0.0
<b>Maximum</b>	\$24,951.00	8.0

**TABLE 48: SPEECH DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA DEPENDING ON A COMPANY'S CASH RESERVES**

	CASH RESERVES GE \$229 MILLION		CASH RESERVES LT \$229 MILLION	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.24 ( 85 ) P = .01	.23 <sup>C</sup> ( 61 ) P = .04	.20 ( 82 ) P = .03	-.12 <sup>C</sup> ( 48 ) P = .20
<b>Belief in Synergy</b>	.16 ( 58 ) P = .11	.07 ( 46 ) P = .31	.14 ( 67 ) P = .13	-.20 ( 42 ) P = .10
<b>Need for Power</b>	.33 ( 87 ) P = .00	.28 ( 62 ) P = .01	.29 ( 92 ) P = .00	.06 ( 58 ) P = .34
<b>Self- Confidence</b>	.26 ( 93 ) P = .01	.18 ( 66 ) P = .07	.31 ( 94 ) P = .00	.18 ( 58 ) P = .08

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

<sup>C</sup> Based on a one-tailed test with Z critical equal to 1.78, the difference between the two correlation coefficients was significant at the  $\alpha = .04$  level.

**TABLE 49: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA DEPENDING ON A COMPANY'S CASH RESERVES**

	CASH RESERVES GE \$229 MILLION		CASH RESERVES LT \$229 MILLION	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	-.11 ( 43 ) P = .24	.01 ( 32 ) P = .49	.31 ( 52 ) P = .01	.26 ( 33 ) P = .07
<b>Belief in Synergy</b>	-.00 ( 43 ) P = .49	.38 ( 32 ) P = .02	.04 ( 52 ) P = .40	.44 ( 33 ) P = .01
<b>Belief that Acquisitions are Beneficial</b>	-.08 ( 44 ) P = .29	-.00 ( 33 ) P = .49	-.04 ( 52 ) P = .40	.25 ( 33 ) P = .08
<b>Need for Power</b>	.21 ( 43 ) P = .09	.27 ( 32 ) P = .07	.13 ( 51 ) P = .18	.01 ( 32 ) P = .49
<b>Self- Confidence</b>	-.18 ( 43 ) P = .13	.20 ( 31 ) P = .14	-.12 ( 51 ) P = .20	-.05 ( 32 ) P = .40
<b>Desire to Manage Impressions</b>	-.07 ( 42 ) P = .31	.09 ( 31 ) P = .32	.01 ( 51 ) P = .46	-.06 ( 33 ) P = .36
<b>Fear of Negative Evaluation</b>	-.15 ( 43 ) P = .17	.13 ( 31 ) P = .25	-.10 ( 52 ) P = .25	-.03 ( 33 ) P = .44

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 50: UNOBTRUSIVE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA DEPENDING ON A COMPANY'S CASH RESERVES**

	CASH RESERVES GE \$229 MILLION		CASH RESERVES LT \$229 MILLION	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
Number of Lines in WWA	.05 ( 89 ) P = .33	.01 ( 64 ) P = .48	.22 ( 96 ) P = .02	.26 ( 58 ) P = .02
Number of Lines in WWF&I	.09 ( 89 ) P = .21	.00 ( 65 ) P = .49	.19 ( 94 ) P = .03	.27 ( 58 ) P = .02
Number of Lines in WWA and WWF&I	.05 ( 83 ) P = .32	-.01 ( 60 ) P = .48	.20 ( 87 ) P = .03	.29 ( 51 ) P = .02
Area of CEO Photograph	-.06 ( 102 ) P = .28	.03 ( 74 ) P = .38	.06 ( 105 ) P = .27	-.04 ( 68 ) P = .38
Area % of CEO Photograph	-.10 ( 102 ) P = .16	-.04 ( 74 ) P = .38	-.05 ( 105 ) P = .29	-.11 ( 68 ) P = .19

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 51: SPEECH DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA DEPENDING ON A COMPANY'S FEAR OF BEING A TAKEOVER TARGET**

	FEAR OF BEING A TAKEOVER TARGET GT 3		FEAR OF BEING A TAKEOVER TARGET LE 3	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.22 ( 97 ) P = .01	.16 ( 65 ) P = .10	.22 ( 96 ) P = .01	.10 ( 55 ) P = .24
<b>Belief in Synergy</b>	.26 ( 62 ) P = .02	.00 ( 46 ) P = .49	.06 ( 79 ) P = .30	.05 ( 50 ) P = .35
<b>Need for Power</b>	.26 ( 99 ) P = .01	.26 ( 67 ) P = .02	.38 ( 109 ) P = .00	.17 ( 66 ) P = .09
<b>Self- Confidence</b>	.25 ( 103 ) P = .01	.21 ( 69 ) P = .04	.27 ( 114 ) P = .00	.13 ( 69 ) P = .14

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

**TABLE 52: QUESTIONNAIRE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA DEPENDING ON A COMPANY'S FEAR OF BEING A TAKEOVER TARGET**

	FEAR OF BEING A TAKEOVER TARGET GT 3		FEAR OF BEING A TAKEOVER TARGET LE 3	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
<b>Belief that Bigger is Better</b>	.09 ( 53 ) P = .26	-.02 ( 34 ) P = .47	.03 ( 65 ) P = .42	.16 ( 44 ) P = .15
<b>Belief in Synergy</b>	.03 ( 53 ) P = .43	.31 <sup>C</sup> ( 34 ) P = .04	-.02 ( 65 ) P = .43	-.07 <sup>C</sup> ( 44 ) P = .33
<b>Belief that Acquisitions are Beneficial</b>	-.12 ( 54 ) P = .20	.01 ( 35 ) P = .48	.03 ( 65 ) P = .40	.12 ( 44 ) P = .23
<b>Need for Power</b>	.29 ( 52 ) P = .02	.27 ( 34 ) P = .06	.04 ( 64 ) P = .39	-.00 ( 42 ) P = .50
<b>Self- Confidence</b>	-.13 ( 52 ) P = .18	.14 ( 33 ) P = .22	-.19 ( 63 ) P = .07	-.01 ( 41 ) P = .49
<b>Desire to Manage Impressions</b>	.06 ( 50 ) P = .35	.11 ( 33 ) P = .26	-.07 ( 64 ) P = .30	-.25 ( 42 ) P = .05
<b>Fear of Negative Evaluation</b>	-.08 ( 53 ) P = .29	.14 ( 34 ) P = .21	-.17 ( 63 ) P = .10	-.04 ( 42 ) P = .40

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

<sup>C</sup> Based on a one-tailed test with Z critical equal to 1.63, the difference between the two correlation coefficients was significant at the  $\alpha = .05$  level.

**TABLE 53: UNOBTRUSIVE DATA: PEARSON CORRELATIONS BETWEEN PERSONALITY VARIABLES AND MAA DEPENDING ON A COMPANY'S FEAR OF BEING A TAKEOVER TARGET**

	FEAR OF BEING A TAKEOVER TARGET GT 3		FEAR OF BEING A TAKEOVER TARGET LE 3	
	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>	Number of Acquisitions 1988-89 <sup>A</sup>	\$ Value of Transactions 1988-89 <sup>B</sup>
Number of Lines in WWA	.11 ( 101 ) P = .14	.14 ( 66 ) P = .14	.17 ( 116 ) P = .04	-.10 ( 72 ) P = .19
Number of Lines in WWF&I	.13 ( 99 ) P = .10	.14 ( 660 ) P = .13	.16 ( 113 ) P = .04	-.09 ( 71 ) P = .22
Number of Lines in WWA and WWF&I	.10 ( 91 ) P = .17	.12 ( 58 ) P = .18	.16 ( 107 ) P = .06	-.12 ( 66 ) P = .18
Area of CEO Photograph	.10 ( 112 ) P = .15	.05 ( 76 ) P = .32	-.10 ( 128 ) P = .14	.01 ( 82 ) P = .47
Area % of CEO Photograph	.02 ( 112 ) P = .43	-.03 ( 76 ) P = .40	-.15 ( 128 ) P = .05	-.07 ( 82 ) P = .27

<sup>A</sup> Includes number of completed and attempted acquisitions

<sup>B</sup> Includes only dollar value for completed acquisition transactions

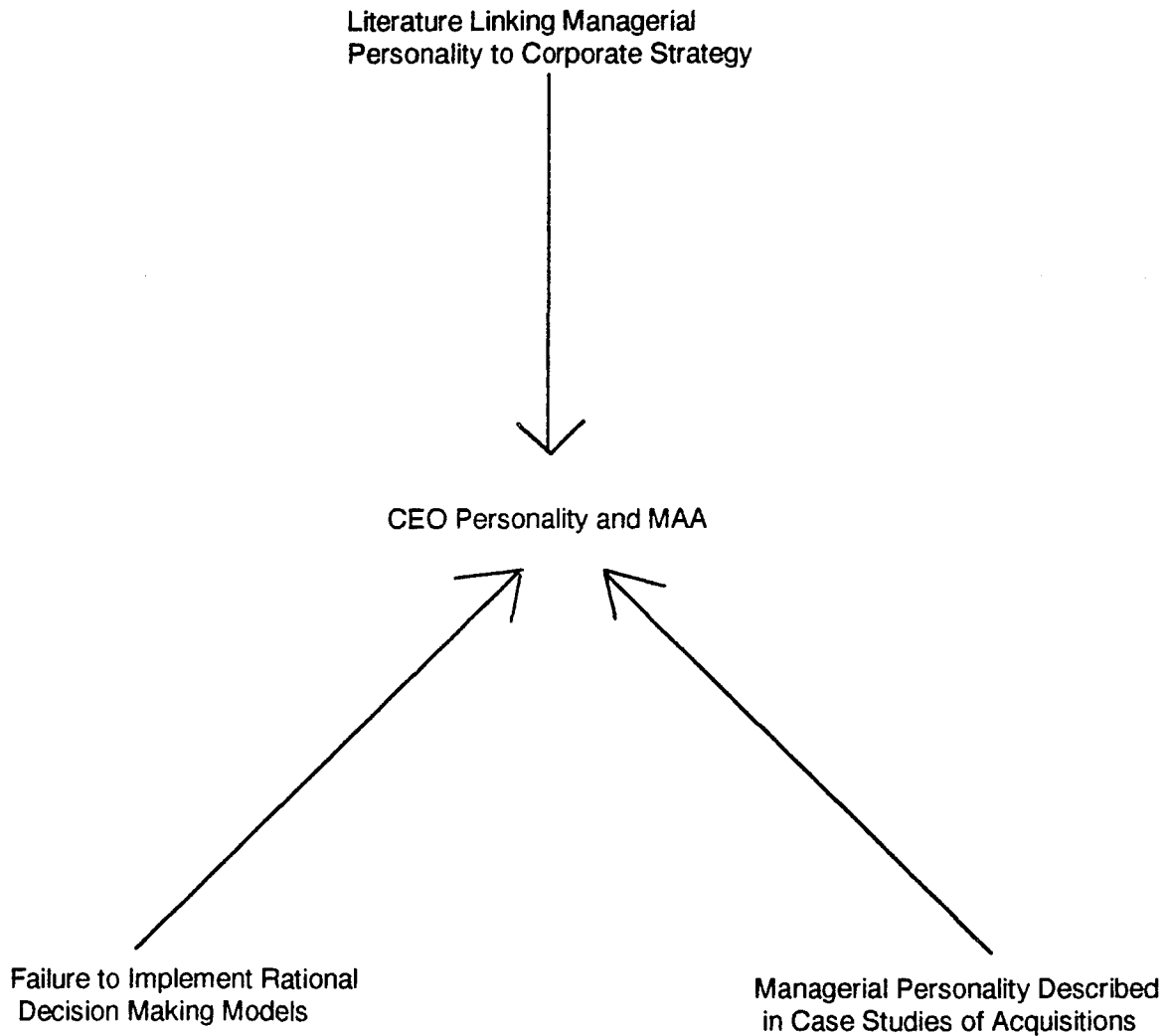
TABLE 54: SUMMARY OF RESEARCH FINDINGS BY HYPOTHESIS

ABBREVIATED DESCRIPTION OF HYPOTHESES	RESEARCH METHODOLOGY		
	Content Analysis of Speeches	Questionnaire	Unobtrusive Measures
H1: The stronger the belief that "bigger is better," the greater the MAA.	Strong Support	Moderate Support	Not Tested
H2: The stronger the belief in synergy, the greater the MAA.	Moderate Support	Moderate Support	Not Tested
H3: The stronger the belief that acquisitions are beneficial, the greater the MAA.	Not Tested	Weak Support	Not Tested
H4: The stronger the need for power, the greater the MAA.	Strong Support	Moderate Support	Moderate Support
H5: The higher the self-confidence, the greater the MAA.	Strong Support	No Support	Not Tested
H6: The stronger the desire to manage impressions, the greater the MAA.	Not Tested	No Support	No Support
H7: The higher the fear of negative evaluation, the greater the MAA.	Not Tested	No Support	Not Tested
<b>The more cash reserves a company has. . . .</b>			
H8: the stronger the positive relationship between the belief that "bigger is better" and MAA.	Moderate Support	No Support	Not Tested
H9: the stronger the positive relationship between the belief in synergy and MAA.	No Support	No Support	Not Tested
H10: the stronger the positive relationship between the belief that acquisitions are beneficial and MAA.	Not Tested	No Support	Not Tested
H11: the stronger the positive relationship between the need for power and MAA.	No Support	No Support	No Support

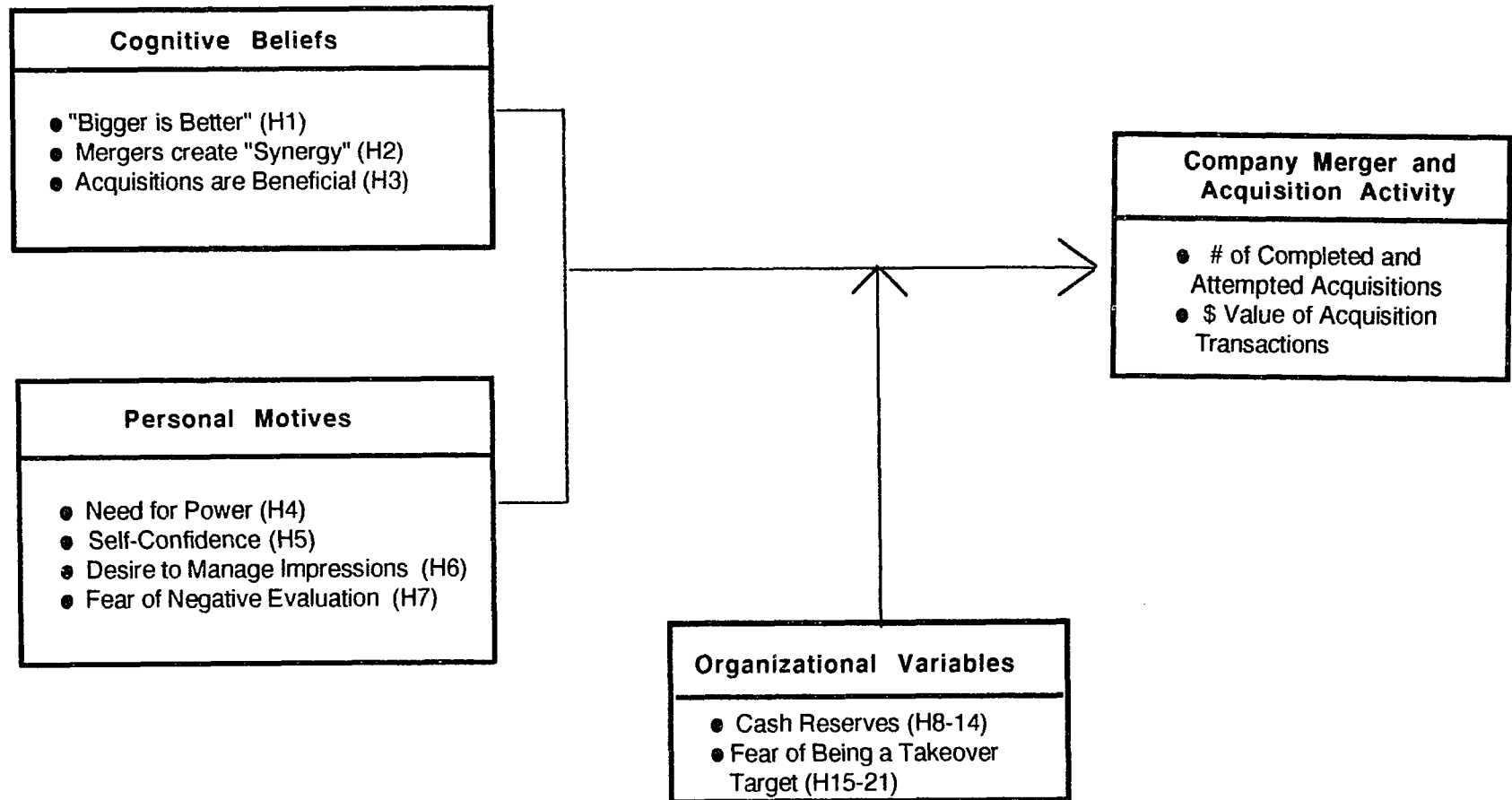
**TABLE 54: SUMMARY OF RESEARCH FINDINGS BY HYPOTHESIS (Continued)**

<b>ABBREVIATED DESCRIPTION OF HYPOTHESES</b>	<b>RESEARCH METHODOLOGY</b>		
	<b>Content Analysis of Speeches</b>	<b>Questionnaire</b>	<b>Unobtrusive Measures</b>
<b>The more cash reserves a company has. . . .</b>			
H12: the stronger the positive relationship between self-confidence and MAA.	No Support	No Support	Not Tested
H13: the stronger the positive relationship between the desire to manage impressions and MAA.	Not Tested	No Support	No Support
H14: the stronger the positive relationship between the fear of negative evaluation and MAA.	Not Tested	No Support	Not Tested
<b>The greater the fear that a company is a takeover target . . . .</b>			
H15: the stronger the positive relationship between the belief that "bigger is better" and MAA.	No Support	No Support	Not Tested
H16: the stronger the positive relationship between the belief in synergy and MAA.	No Support	Moderate Support	Not Tested
H17: the stronger the positive relationship between the belief that acquisitions are beneficial and MAA.	Not Tested	No Support	Not Tested
H18: the stronger the positive relationship between the need for power and MAA.	No Support	No Support	No Support
H19: the stronger the positive relationship between self-confidence and MAA.	No Support	No Support	Not Tested
H20: the stronger the positive relationship between the desire to manage impressions and MAA.	Not Tested	Weak Support	No Support
H21: the stronger the positive relationship between the fear of negative evaluation and MAA.	Not Tested	No Support	Not Tested

**FIGURE 1: REASONS FOR FOCUSING ON CEO PERSONALITY AS A DETERMINANT OF MERGER AND ACQUISITION ACTIVITY (MAA)**



**FIGURE 2: CEO PERSONALITY AND ITS IMPACT ON COMPANY MERGER AND ACQUISITION ACTIVITY**



**FIGURE 3: F. ROSS JOHNSON'S PHOTOGRAPH IN R. J. R. NABISCO'S 1987 ANNUAL REPORT**



**FIGURE 4: J. P. GRACE'S PHOTOGRAPH IN W. R. GRACE'S 1988 ANNUAL REPORT**



**FIGURE 5: WILLIAM BOURKE'S PHOTOGRAPH IN REYNOLDS METALS' 1988 ANNUAL REPORT**



## APPENDIX A: MANUAL FOR SCORING CEO SPEECHES

The speeches you will be reading were delivered by the CEOs of large U. S. corporations to different audiences. The CEO may have addressed shareholders at an annual meeting, potential investors at a security analysts' gathering or college students at a graduation ceremony. The speeches cover a broad range of topics, from company events to industry conditions to environmental issues.

The task before you is to arrive at an understanding of a few of a CEO's personality traits by making inferences about how he feels and what he says from reading his speech. The tone, the use of metaphors and the choice of words may be just as important as the speech's content. For example, Ivan Boesky revealed his narcissistic tendencies and lack of concern for others in his comment to students at the University of California at Berkeley: "Greed is all right by the way. I want you to know that. I think greed is healthy. You can be greedy and still feel good about yourself."

You will be scoring the speeches for four factors: beliefs that CEOs may hold regarding the desirability of large organizational size, the possibility that synergy is realized when two companies merge, and need for power and self-confidence. The following sections in this manual contain the definitions, instructions and practice exercises that will help you become an expert coder.

### Definitions

Belief that "Bigger is Better" - refers to a CEO's attitude that large size is a desirable organizational characteristic. Large companies are thought to have better survival rates than small companies; they can take advantage of economies of scale and protect themselves from changes in the environment. A CEO, therefore, may feel that his primary function is to oversee his company's growth and expansion.

**Belief in Synergy** - refers to a CEO's conviction that two companies are better off together than separate. It is a magical process whereby "1 + 1 = 3." By acquiring companies in different industries, a firm should be able to achieve stable earnings growth: if one business slips at a given point in the business cycle, another will be on the rise.

**Need for Power** - refers to individuals who attempt to impose their wishes on others, enjoy being in competitive situations and possess a desire for prestige and recognition. A CEO with a need for power may be aggressive and argumentative. He may take extreme risks and try to exploit others.

**Self-Confidence** - refers to individuals who strongly believe in their abilities to make things happen and control their environment. It indicates a CEO's sense of self-importance and optimism about the influence he or she has over future events.

### **Materials**

- the 10 speeches in your package
- the coding system describing each factor and defining high, moderate and low categories
- a yellow "Hi-Liter" marking pen
- a scoring worksheet

### **Instructions**

Speeches follow a few conventions. An understanding of these will help you locate the key passages that will provide the information necessary to score the speeches. Often, the first one or two paragraphs contain small talk and other introductory remarks. These are not important for coding. The last paragraph is also usually not important since it includes a summary or closing remarks. The factors "bigger is better" and synergy appear most frequently in paragraphs where the CEO is describing his company's strategy and achievements. Read carefully the

sections pertaining to restructuring, downsizing and acquisitions. Need for power and self-confidence may be found anywhere in the text of a speech.

Throughout, remember to base your impressions only upon what the CEO is saying about himself and his company, not what he says others are saying. For example, the sentence "Somebody said recently that restructuring is like walking into a pet shop, opening all the bird cages and letting the birds fly out" should not be analyzed since it reflects someone else's choice of words, not the CEO's.

You will notice that the names of the CEOs and their companies have been removed from the speeches to protect their anonymity. This way your knowledge of a particular CEO will not influence your scoring decisions.

### **Procedure**

1. Study the coding system on pages 183 - 186 until you understand the meanings of high, moderate and low for each factor. The examples provided for each category are reference points for you to use when you score the speeches. The following numeric assignments should be used:

3 - CEO scores highly on the factor

2 - CEO scores moderately on the factor

1 - CEO scores low on the factor

0 - CEO cannot be rated on the factor (lack of evidence, unable to draw a conclusion)

2. Select one speech from your package and read it once or twice until you are familiar with its content. If you like, use a yellow "Hi-Liter" pen to mark the sentence(s) that you feel contains important information for the different factors. Write the name of each factor besides each highlighted passage.

3. Now you can begin the actual coding. Look at all the sentences you have highlighted to represent a CEO's belief that "bigger is better." Decide whether or not the CEO scores high, moderate or low for this factor. Refer to the coding system to help make your judgment.
4. Repeat step 3 for the remaining three factors.
5. Complete the scoring worksheet by writing the numeric scores you have assigned for each factor in the appropriate boxes. Do not forget to write the speech number that appears in the upper right hand corner of the first page of each speech in the first box.
6. When you have finished coding one speech, go to the next. Repeat steps 2, 3, and 4 until you have coded all the speeches in your package.

#### **Example of a Coded Speech**

The speech that appears on pages 187 -190 has already been coded. Please read it carefully. It illustrates both the procedure to follow when scoring the speeches as well as the numeric scores assigned to each factor in this particular case. An explanation for the scores given to this speech appears immediately following the text on page 191.

#### **Practice Exercise**

In this manual, you will also find a copy of a speech similar to one you might find in your actual package (see pages 192-200). Please score it using the procedure outlined above. You can check your answers to this practice exercise on pages 201 - 210.

## THE CODING SYSTEM

Belief that "Bigger is better" is indicated by a CEO's comments that:

- a growing company is a sign of health and vitality
- large organizational size is desirable and good
- large companies have better chances for survival and are more profitable than small companies

**High (3)** - bigger is definitely better. Large companies are more profitable, competitive and efficient than small companies.

"We will pour resources into businesses so that they may be aggressively better and better, larger and larger, more modern."

"We have invested ample resources in strategies that will expand substantially the scope and size of our enterprise."

**Moderate (2)** - Bigger may be better if growth is properly managed. Growth has both advantages and disadvantages.

"I think the greatest compliment that has been paid to me about the company came from one of my business associates. He said that \_\_\_\_\_ was the biggest small company he had ever seen. By that he meant that we were able to achieve outstanding growth without losing the qualities of a small company. We were able to grow, while maintaining the values of a small company."

**Low (1)** - Bigger is not better. As companies grow in size, procedures become more bureaucratic, employees become alienated, and work relationships depersonalized. In fact, small companies are more flexible, innovative and "close to customers."

"I suggest here that the focus of strategic planning should focus on the premise that value is not a reflection of size but of earnings quality."

"As most organizations become more successful, they grow. And there are inherent dangers in this growth. Increasing size and complexity are accompanied by an ever-present temptation to devote increasing amounts of time and energy to internal policies and procedures at the expense of the basic purpose of the organization."

"Our strategies are intended to make our company leaner, stronger and more focused . . . We have discontinued products, dropped services, withdrawn from markets, reduced employment."

**Belief in Synergy.** Synergy reflects the notion that "1 + 1 = 3." A company that manufactures suntan lotion (sold in the summer) buys a company making umbrellas (sold in the winter) to create synergy. There are three types of synergy:

1. Technical economies occur when a firm uses its resources more efficiently by combining the production lines of two merged companies.
2. Pecuniary economies result when a firm's increased size enables it to function like a monopoly and set prices.
3. Diversification economies help a company achieve a less risky portfolio; if earnings from one business go down, earnings from another are expected to go up.

When talking about mergers and acquisitions, CEOs may express the belief that any one of these synergies can be realized by the strategy.

**High (3)** - A CEO who always believes synergy is possible.

"Synergy is a good descriptive term . . . it is that special ingredient that two partners bring to an alliance. It may be a foreign presence or access to a market, or it may be technology, capital, or an opportunity to rationalize production assets or rationalize R&D expense . . . The fact that the two units together will do better than either one individually is what synergy is all about."

**Moderate (2)** - A CEO who believes in synergy sometimes, under the right circumstances.

"Consolidation *can* be a very healthy development if a company improves its strategic position. In our merger with \_\_\_\_\_ we improved our market position and regained a long-term advantage by combining the outstanding research programs of two very large and innovative companies."

**Low (1)** - A CEO who doesn't believe in synergy at all.

"When our people tell me about synergism today in a deal - I usually cover my wallet . . . The fact is, we couldn't make our conglomerate work for the shareholder. Our cash users and cash generators didn't balance, our cycles and countercycles didn't balance. We frankly had cultural problems . . . ."

**Need for Power** is indicated when the CEO:

- views aggression and competition as goals within themselves
- sees life as a "zero sum" game in which you are either a winner or loser
- uses images of warfare to describe company strategies
- mentions strong, forceful actions to exploit others and gain the upper hand
- shows concern for impressing others and getting fame or notoriety

**High (3)**

"We have been adventuresome, but not reckless, in extending our reach and expanding our product offerings. We have gained great ground in fulfilling our Founder's dream of making the world our field."

"Managing risk today is a continuous play game. There are no time-outs for injury or anything else. Corporate casualties are swept off the field while the game goes on. There will be no two-minute warnings. And no final gun. There will, however, be severe penalties for any company that goes on the field without a well-thought-out game plan."

"We have told ourselves that we will make this one of the most admired companies in the world -- and we mean it."

**Moderate (2)**

"A small dose of fresh concern about America's competitiveness is not a bad thing but too much of it fosters an 'us versus them' mentality that is foolish in today's international environment. America is tied to a world economy and there is no way we can 'win' if we mean that everyone else has to 'lose.'"

"We're learning to leverage our strengths. To apply our leading technology sooner. To push for still more improvements in productivity and quality."

**Low (1)**

"Today, the propensity of companies for going head-to-head, when we should be going arm-in-arm is hurting us in the global arena."

"Power cannot be hoarded at the top of the organization with its leaders... It must be pushed to every level ... By delegating responsibility *and* decision-making to the person closest to the job ... The way I see it, leadership doesn't begin with power but rather, with a compelling vision or goal of excellence."

Need for power **should not** be coded when:

CEO uses images of warfare when addressing issues of global competition, Soviet foreign policy, cultural discrepancies between men and women, etc. In these instances, the CEO is not discussing his own feelings, motives, or plans to dominate over others or to forge ahead of competitors. Here are some examples which should not be coded:

"The Soviets are trying to win the 'Global Competition of Ideas.' They know that if they win this war, they will have won the war of public diplomacy -- and with great strategic benefit."

"Male executives tend to use the language of sports -- whether because of experience or wistful thinking. They talk about a "game plan" . . . or they use military terminology, speaking of "missions," "strategies" and "tactics."

**Self-confidence** is exhibited by a CEO who:

- expresses high praise for himself and his company
- appears optimistic about his company's and the world's future
- feels he is able to control his own and his company's destiny
- believes that his and his employees' skills and knowledge can help the company successfully overcome obstacles

**High (3)** - a CEO who is very confident and optimistic.

"We look to the future to be an exceptional one."

"It has been a banner year . . . We have met with unqualified success."

"We are results oriented people. If we keep the same orientation when dealing with public issues . . . if we're firm -- if we're focused -- if we're committed -- then we really can make a better world."

**Moderate (2)** - CEO seems to have a dose of realism. He is neither overconfident nor underconfident.

"We are well versed in humility -- although not always as humble as we should be."

"The passage of a year has sure improved my comfort level. Not that I am totally comfortable about the company today -- I'll never be that satisfied, nor will a very competitive world market ever permit it."

**Low (1)** - a CEO who is not confident but rather pessimistic about the future.

"In a highly competitive world, self-satisfaction is dangerous, complacency is ill-advised."

"There is some suggestion that maybe we have less control over our destiny than we should. I have to say that I think there's some merit in that."

**Self-Confidence should not be coded when:**

A CEO is talking about the self-confidence of people or entities besides himself and his company. Sometimes, for instance, CEOs address the lack of self-confidence among American businesses in general or the lack of optimism exhibited by the U. S. government. Here is an example which should not be coded:

"Professor Kennedy believes that America's relative economic and military power in the world has begun a kind of inevitable decline. If Professor Kennedy correct? I hope not, but it does seem clear that America, after 30 years of unprecedented power and prosperity has entered a new era - an era in which we are forced to vigorously compete in a world marketplace. It also seems that in recent years we have lost some of our competitive edge - and our self-confidence."

## EXAMPLE OF A CODED SPEECH

Low self-confidence: science, knowledge cannot help us to predict the future.

YOU should know my credentials as I stand before this distinguished and experienced group of strategic planners. Given the experiences of [redacted] [redacted] in the past few years with respect to the science of strategic planning, I am approaching agnosticism. (The future is unknown and unknowable.) And speaking more broadly of industry all around us, I lie somewhere between bemused and regretful that all of our efforts in the pursuit and logic of planning have not been able to preclude the individual and collective failures of management judgment worldwide. Not just in [redacted] — I mean about business collectively, the relative soundness of certain businesses or industries and the whims of exogenous fortune.

We at [redacted] have been through all of the strategic planning methodologies and fads of the past 20 years, and I have been among the most slavish of practitioners. The theories of GE and the B school and Wharton and Stanford, and consultants too numerous to mention or advertise in this chamber — bottoms up and tops down. Like Tevye we have prepared for so many weddings and so many feasts — largely unrealized.

I would gladly trade all of that effort in hindsight for just three numbers in foresight. The price of oil in 1974, 1979, and 1986 — or the prime rate in those three years — or the dollar exchange rate in those three years. These numbers, accurately estimated and acted on, would have easily paid for all that strategic planning — except that we always felt good doing it. We always felt good in the practice and completion of a strategic planning exercise. How could anything that produced that euphoria and sense of accomplishment be bad for you?

Well, it wasn't bad for us, this annual ritual. It was a good discipline. It just never led us to all the right answers.

Now, today I have been asked to tell you about what's been going on at [redacted] over the past year or so and what we have been doing to start on the road back from a couple of crises that shook our company to its foundation — indeed they shook the foundation itself. And so I will. And let's see, along the way, what roles strategic planning does or doesn't play.

The big events of 1986 for us were: (1) we defeated a takeover attempt; (2) we restructured the assets of a \$9 billion corporation; and (3) we recapitalized twice in 11 months.

Our major restructuring is over. That is, the negative side — the breaking up and selling off of businesses. Three of the 50 largest financial deals of 1986 were [redacted]. Our positive restructuring and rebuilding have just begun.

Somebody said recently that restructuring is like walking into a pet shop, opening all the bird cages and letting the birds fly out. I don't know. That suggests chaos and mess to me — still, to the birds, I suppose it suggests freedom of a sort they may not be prepared for. Some will survive, some won't.

It should be clear that insofar as there have been serious excesses, even illegalities, in the recent takeover wars, to the same extent there have been excesses in restructuring and takeover defense. Strategic planners don't deal with, and ought not to deal with, excesses and aberrations. I should think the first rule of strategic planning should be to cut through the baloney and drama and emotion and get at value creation in an ordered universe.

Low self-confidence: CEO does not believe planning leads to success. Events are beyond a person's control; management judgment has failed.

Low self-confidence: planning makes one feel good but does not provide answers.

A lot of the story is already familiar: the tragedy of the share value dropping to about 50 percent of book, the buy-in and the takeover attempt 12 months after. I won't rehash all the details. With your permission I will use our example to try to illustrate some broad propositions about value and business organizations that may be useful to think about now that some of our best companies still look like chips on a gaming table.

To do that, let me back up a little to the sixties, when the hottest new business strategy was conglomeration. All those daring guys on the flying trapeze scooped up another company with every swing.

Stockholders wanted a steady increase in earnings per share, and they usually got one every time management folded-in the earnings of a newly acquired company.

Then there was synergy, the idea that you could make two and two equal five by putting a lot of disparate businesses under the same umbrella. They could share markets, technology, and high-powered staff help they could not afford on their own. Or so it was said.

When our people tell me about synergism today in a deal — I usually cover my wallet.

On top of that, people looked at conglomerates as a way to beat the business cycle. With a large portfolio of businesses following different cycles, the argument went that you could expect a steady growth curve even if individual businesses were on an earnings roller coaster — or the cash cows could be used to feed the cash users. The turkeys — the eagles.

But with radical changes in the world economy and in the perception of savvy investors, many conglomerates have found it hard to cope.

Investors who wanted a diversified portfolio found that owning a conglomerate was less efficient than owning stock in several companies. And the conglomerates found that with a collection of turkeys and eagles under the same corporate umbrella, the market tended to undervalue the whole lot.

They also found that with more competitors, slower growth, more choices, and less regulation, the need is not for diversity — which tends to dilute your financial resources — but for focus, so that every business in the portfolio gets the support it deserves in the drive to be or to stay a leader.

And it is now a truism that the business that can't distinguish itself from the pack, either by virtue of market share, technology, cost effectiveness, geographical dispersion, or some combination of these virtues may not be around for long.

So the lesson all of us learned is that getting from here to there is less a matter of adding on than of starting with the right questions:

—What is it that we do well?

—Do we have the technology and marketing base to guarantee the future for the businesses?

—What do we do better than anybody else?

—Is the business one in which we have or could have a protected advantage? Or is it something we can never do really well, either because we lack the particular know-how required or lack the resources to fund its growth and development?

Or how about the global questions for those of us who have had a close relationship with the metals or petrochemical (basic) industries? What constitutes a permanent structural change in an industry? Those are boundary conditions, which most of us used to throw out as unthinkable. I suggest here that the focus of your strategic thinking should center on the premise that *value matters most*, and that value is not a reflection of size but of earnings quality.

Growth is good, but unless you balance growth with return on equity what you're growing is a highly attractive target.

There's nothing inherently wrong with size. There's no denying that a ten billion dollar company has more leverage in the financial markets than a two billion dollar company. I am not about to knock that. Borrowing capability makes it a lot easier to support and grow new ventures.

Low for belief in synergy:  
It's a waste of money.

Low for belief in synergy:  
it is no longer a good idea to acquire companies with different business cycles because the world economy has changed, competition has increased, and industries have been deregulated.

Moderate for belief that "bigger is better." Size alone does not guarantee survival. Growth needs to be carefully managed.

But it doesn't change the fact that survival and growth depend not on size, but on how hard those assets are working to add shareholder value.

So a lot of CEOs, me included, are scornful of the fast-buck artists posing as shareholder protectors. (I deplore the cashing in of equity in American industry with debt that can cripple our ability to grow). But, and it's a pregnant but — there's a sense in which the company that finds itself a takeover target may have been asking for it.

If the full value of your company is reflected in your share price, you're reasonably safe. If it's not, you might be shark-bait, as we learned the hard way at [redacted] [redacted]. And the longer you stay with a business or businesses that don't pull their weight, the more attractive you become.

So we are very deeply committed these days to getting value to our shareholders, as most companies are. We made an unprecedented start with our defeat of the [redacted] hostile takeover attempt. And that takeover attempt was a pivotal event, the one that like the hangman's noose really focused our attention on the central issue — our shareholders or theirs. And a closely related one — our employees or theirs. The package we put together is still talked about as a landmark in returning value to shareholders. It's the first time an all cash — any or all — offer for shares has been defeated.

But it meant that we had to go deep in debt, buy back a lot of equity, and sell our battery products and home and automotive consumer businesses, which most everybody who wrote about the takeover regarded as [redacted]'s crown jewels.

Did we like parting with a billion dollar battery products business that was a leader in its field? I would be lying if I said it was something we'd have done without a gun to our heads.

But if your mission is getting value to shareholders, a good case can be made that it was the right thing to do even before the gun is drawn. In fact, I'm inclined to think that all strategic planning should be done as if somebody had a gun to your head. To force the tough choices.

Why did selling our consumer businesses make sense from a strategic standpoint — apart from our wish to see [redacted] shareholders, and not somebody else's, benefit from the sale? Part of the reason goes back to my comments about conglomerates.

In any discussion of conglomerates, you should not normally have mentioned [redacted] along with such companies as Litton Industries or Gulf & Western — companies that exemplified the strategy. In fact, we were one of the original conglomerates when the carbon, calcium carbide, Eveready and Linde businesses were put together in 1917 and spawned the petrochemical industry that started in West Virginia in 1923. It's also true that we became diversified enough to cause confusion. It was hard to measure our performance against peer companies, and hard to explain our strategies to people who wanted to know what [redacted] would look like five or ten years in the future.

The fact is, we couldn't make our conglomerate work for the shareholder. Our cash users and cash generators didn't balance, our cycles and counter-cycles didn't balance. We frankly had cultural problems — probably not the cause, but the result, of living with the first two for a period of years.

Don't misinterpret that I'm putting the knock on all conglomerates. GE and a few others have done pretty well over the years. But ours wasn't working.

Now, after the fact, I can tell you that it might have been time to sell battery products precisely because it was a good business and there wasn't much we could do to make it better. There was no way to add value, except through acquisitions which we didn't think we could afford, at least not in any truly significant way. But I'm not sure, as I said before, that left to our own devices we would have sold it off.

The battery business at the time we sold it, and for the price it fetched, was probably worth as much to us as it would ever be.

Need for power is indicated by such words as "hangman's noose" and "defeat." It is scored high because CEO indicates that he fought hard for his shareholders and employees. He is proud of the offer he made to his shareholders which seems to have impressed many observers.

Low need for power: Management has a gun to its head and is being forced by others or by circumstances to make tough decisions.

Low belief in synergy: diversification economies never materialized.

Let me finish with some comments about corporate mission and you decide whether it is fundamental to strategic planning.

Our overall mission statement is not unique. New for us, but not unique. I imagine it's not very different from yours — it says that we will see that shareholders get more value from our assets over the long term than anyone else could produce from those same assets using all the available management buttons.

That's a start and it's important. But in fact, it's the same

shareholder value banner waved by the corporate raiders.

Second, it calls for corporate management to create the conditions that will allow the various businesses to make it on their own. We say it this way in our new corporate mission statement, and I quote, "that one of the fundamental jobs of corporate management is to provide the 'enabling environment' in which each business can be or become a leader in its field."

That's probably unique, maybe not, but we think it's an important distinction, one that sets our mission apart from a lot of others with the same broad objective. We also see it as critical in helping all the players understand who does what. Their job is to be the best — ours to provide the enabling environment. I don't think you'll see or hear one corporate mission statement in a hundred speak of "an enabling environment."

It is not the job of [redacted] corporate management to run our businesses. Nor is it our job to plan their strategies, or open markets, or chart the new business directions that promise future growth and new sources of sustainable, high-quality earnings.

The way we see it, those are jobs for the three business groups and their leaders.

Our new corporate mission statement adds another, a third, vital dimension to the job. We are asking — demanding — that each business also be the best at what it does.

What a business in our portfolio may not be is an also-ran.

It's a mission based on renewal and revitalization, not on milking and harvesting. (I don't want to play in a milking and harvesting game.)

The way I put it is that an objective investor should be able to look at any given business in our portfolio and say, "Yes, in the markets it serves — in its own environment — this business is clearly a leader."

With the individual businesses in the [redacted] portfolio doing all that for themselves, you might well ask why they need the corporation? Good question. The same one, in fact, that we ask ourselves in dividing up responsibilities.

If the corporation can't contribute in some meaningful way, if it can't help individual businesses to be the best, the greatest contribution we can make to those businesses is to get out of the way.

Before I put myself out of a job, I have got to tell you, we *do* see some critical functions at the corporate level.

One mandatory role is to provide the organization with visible leadership. We have a lot of ground to cover with a lot of constituencies.

More than ever, people want to know what we stand for, what our values and priorities are, whether the past couple of years have hurt our spirit or left us determined to turn things around. And there are people inside the corporation as well as outside who are asking those questions.

So leadership matters and we have to provide it.

It's also our responsibility at the corporate level to see that [redacted] has an organization that works. One where people feel they can make a difference, where good ideas can surface, where the make-work common to most large organizations is eliminated so that people can do the things that matter: simplicity and focus and reward.

Low need for power: management has a "facilitator" role and will not dictate what each business should do.

Low need for power: management will not impose wishes on leaders of business groups; it doesn't seem to want to interfere in the particulars of running a business.

High need for power is indicated by use of strong, forceful language. If a business does not live up to the CEO's standards, it most likely will be divested. Losers ("also-rans") will not be tolerated.

Low need for power: managers try to empower others and to create a cooperative environment

### Scores for "Strategic Planning" Speech

<u>Factor</u>	<u>Score</u>	<u>Explanation</u>
Bigger is Better	2	CEO believes growth is good but not the most important goal for a company. It doesn't ensure survival; it needs to be carefully managed.
Synergy	1	Synergy is a waste of money. The notion that you can reduce the cyclical effects of one business by acquiring a company with a different business cycle is nonsense.
Need for Power	2	While the CEO doesn't seem eager for personal power (he'd rather just provide an "enabling" environment), he'd still like to see the company's businesses become "leaders." He wants a strong, united company guided by his vision and he will not tolerate "also-rans."
Self-Confidence	1	CEO says he's an agnostic with regard to strategic planning's ability to predict the future. Management judgment has failed worldwide. MBA theories have not led to success.

I am honored to have been asked to be part of your distinguished panel again this year. Being invited back after speaking only two years ago is a special distinction--it either means you found my last talk worthwhile, or you're willing to give me a second chance.

Today I'm going to talk about 1,000 days in the life of a company---  
██████--and also 1,000 days in my own life. I call it an odyssey of trauma, decision and action.

Our odyssey didn't last as long as the mythical one but it had many similarities. My crew and I started out with a rescue objective, our plan of attack was not fully defined and we faced formidable challenges. After some initial skirmishes, we came up with a grand scheme---but no Trojan Horse---and then ultimately came home with the prize. In our case that was a return to record profitability, a prize even more beautiful than the fabled Helen---and longer lasting!

The journey began the first week in June 1985 when I returned to ██████ after 10 years away in Canada, including the last four in which I helped rescue another company.

When you first walk in the door of a troubled company, you ask yourself, "Have I made the right decision? Do I really need this again?" Then as the situations unfold, you find the early days are a nightmare. To do the job on a patient that's been labeled "terminal"

requires many talents: you have to be a surgeon, chef and orchestra conductor.

### **The First 100 Days: Trauma and Decision**

The initial diagnosis is simple. The patient is dying, quite rapidly. It's time to be a surgeon and surgery has to begin at once. That means cutting manpower but keeping quality. In terms of businesses it means defining what they are, keeping the quality and getting rid of the dogs. That involves three simple steps: fix it, sell it or shoot it.

With surgery over, you take off the green gown and put on the chef's hat---and a vital point to remember is that in any company there's room for only one chef. The chef's job is to find the right ingredients and the proper people to cook up a strategy that will make things happen. ██████ needed a new management team, one that would have credibility both inside and outside the Company. In putting the team together you keep in mind that "Corporations do not make great people but people do make corporations great."

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But you can't just save your way to prosperity. You have to build and rebuild. We started building a gold business with the construction of the [REDACTED] mine in Nevada and enhanced our gold position through a major stake in [REDACTED] Minerals. We started rebuilding [REDACTED] Coal, the third largest coal producer in the United States, which was highly profitable but had been stripped of cash for five years to support other losing operations and a horrendous Corporate debt burden. And, most importantly, we began rebuilding the management teams to manage [REDACTED] core businesses properly and gave them the flexibility of decentralization. So, in those second 200 days we had one "big bang" and lots of little ones.

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Now we were at the 300+ day mark. It was time for a celebration---on the job for one year and the patient hasn't died! He's far from completely healed but he's bleeding much less. And that chef's hat feels just right because now you're really cooking up the strategy for future growth.

- Aluminum. You start negotiations with your partners to buy the outstanding 50% of [REDACTED]. The rationale: two halves equal more than 100%. It gives you the flexibility to grow the business that is impossible in a partnership.
- Gold. You determine that this will be a core business for [REDACTED]'s future and you start building it.

- Coal. It's a good revenue-generating business so you start rebuilding and re-equipping it for the future.
- Molybdenum. The market has changed, perhaps permanently, so you continue to downsize and look for other ways to adapt to the new needs of the market.

And all the while you maximize cash through operating economies and an asset redeployment program. You sell all assets where you don't have a competitive advantage and you apply the proceeds to reduce high cost debt. At the same time you stay on the lookout for acquisitions that may fit your new strategy.

That's quite a menu the chef cooked up. The ingredients are coming together but he's not quite ready to abandon the kitchen and be a full-time orchestra conductor.

With the completion in late 1986 of the [REDACTED] purchase from [REDACTED] for \$435 million and the success of the [REDACTED] mine, market perception of [REDACTED] begins to change. The investment community sees [REDACTED] as not quite a darling, but no longer a dog. The new team is making things happen.

Early in 1987 aluminum prices start a slow climb because of inventory imbalance. And gold prices climb because of a not-so-perfect world. The Australian mining company stock market starts to soar to a point where it makes more sense to consider selling [REDACTED]'s holdings in

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On my return we decide to take advantage of the opportunity in Australia. A team is dispatched to Sydney to sell [REDACTED]'s interests in [REDACTED]. The job is completed in two weeks and the team returns with \$168 million, which is applied to debt reduction.

With the beginning of a rise in [REDACTED]'s stock price in January, another opportunity comes. One January Saturday morning Gary Swensen of First Boston calls. He has a state fund that would like to invest in [REDACTED], potentially 5 million shares. I tell Gary I have a commitment to [REDACTED] shareholders not to issue equity for less than \$20 per share and we are then trading in the \$17 to 17-1/2 range. Gary is persistent. He calls back the next Monday to say he has another buyer for an additional 5 million shares. My answer is the same but we agree to start working on a registration for SEC filing to be acted on when the price is right.

The price became right in March. We filed. The red herring went out and we found a tremendous appetite for [REDACTED]. We had become a darling at \$21 a share and sold 20 million shares, which netted the

Company \$405 million. It was one of the largest mining company offerings in the history of the New York Stock Exchange.

While this was going on, ██████'s gold company was beginning to exhibit the quantity and quality that I felt was necessary in order to have public participation. The Board granted approval to start the SEC registration procedure for a new company, ██████ Gold Inc. The procedure was to begin immediately after the parent ██████ Inc. offering was sold. We selected Merrill Lynch to lead the offering for the new company---to start as soon as it could meet the criterion of having a market value of \$1 billion at the time of issue. If that could be done, ██████ would sell a maximum of 13 percent of the new entity, which would include all of our gold properties, interests, exploration properties and the management team. We filed with the SEC in June.

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Two years gone and a happy second anniversary. The surgeon is on R&R and the chef is in charge while the conductor is studying his score and waiting to become a full time performer.

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The conductor is now a full-time performer, leading what has been called "The Opportunistic Symphony." Gold is going great guns and the ██████ mine's reserves and production are expanded three times. A second Nevada mine is announced and ██████ moves forward toward its goal of becoming a world class producer. The Company sells its Dutch North sea petroleum holdings---at a very good price---because they produce taxable foreign source earnings that don't use our U.S. tax loss carryforwards. Instead we plow back the gain into \$100 million worth of U.S. gas reserves which do.

There's still some minor surgery. Some non-core holdings in silver and zinc go, along with a marginal trading operation. A major opportunity comes along to acquire the 15% stake in ██████ held by Chevron---and we seize the opportunity. We also take an opportunity to get back into Australia by acquiring the majority of ██████ a promising base and precious metals company. To meet changing market needs we reorganize the molybdenum and coal businesses into

wholly owned subsidiaries with the ability to react quickly to opportunities that will benefit them and the entire Corporation.

Meanwhile, core operations---particularly [REDACTED]---are really shining. Why? Improved market conditions are a major factor but just as important is new management, new strategies and the flexibility to implement them quickly to take advantage of changing conditions.

The result of all this? Record second quarter and half year 1988 earnings and cash flow and clear evidence that this will be [REDACTED]'s best year ever, a truly outstanding one for the Company and its shareholders.

Which brings us to today. The 1,000 days and more are history. What have we accomplished since June 1985? We've saved a dying patient and breathed new life into him. We've created a new [REDACTED]. We're moving ahead to prosper in the competitive world of energy, minerals and manufacturing.

The trauma is over. Life goes on---better than ever.

On behalf of the surgeon, the chef and the conductor, I thank you.

Introduction:  
not important

I am honored to have been asked to be part of your distinguished panel again this year. Being invited back after speaking only two years ago is a special distinction--it either means you found my last talk worthwhile, or you're willing to give me a second chance.

Today I'm going to talk about 1,000 days in the life of a company---  
██████---and also 1,000 days in my own life. I call it an odyssey of trauma, decision and action.

Our odyssey didn't last as long as the mythical one but it had many similarities. My crew and I started out with a rescue objective, our plan of attack was not fully defined and we faced formidable challenges. After some initial skirmishes, we came up with a grand scheme---but no Trojan Horse---and then ultimately came home with the prize. In our case that was a return to record profitability, a prize even more beautiful than the fabled Helen---and longer lasting!

High need for power: images of warfare describe how CEO and his management team devised a war strategy and victoriously returned home with the spoils of victory.

The journey began the first week in June 1985 when I returned to  
██████ after 10 years away in Canada, including the last four in which I helped rescue another company.

When you first walk in the door of a troubled company, you ask yourself, "Have I made the right decision? Do I really need this again?" Then as the situations unfold, you find the early days are a nightmare. To do the job on a patient that's been labeled "terminal"

requires many talents: you have to be a surgeon, chef and orchestra conductor.

High self-confidence: CEO believes he can bring company back to life through effort and skills. He believes he can play the role of a surgeon, chef, and conductor.

### **The First 100 Days: Trauma and Decision**

The initial diagnosis is simple. The patient is dying, quite rapidly. It's time to be a surgeon and surgery has to begin at once. That means cutting manpower but keeping quality. In terms of businesses it means defining what they are, keeping the quality and getting rid of the dogs. That involves three simple steps: fix it, sell it or shoot it.

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High need for power: there can be only one chef and that is the CEO himself.

High self-confidence

Still in the first 100 days, you change roles again and become the orchestra conductor. Now you bring all the people together, give them your understanding of what must be done, and then orchestrate their efforts to get it done. You communicate with the people inside and you hold the hands of the people outside---the investment community, your bankers, your Board of Directors. To all of them you convey a viable strategy for survival, growth and then prosperity.

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Moderate for "bigger is better;" Growth is good if a company is selective. Company needs to close down unprofitable businesses (e.g. copper) and concentrate on new businesses (e.g. gold) by building or rebuilding.

Other teams were dispatched to package and sell other businesses that were bleeding severely and draining cash. These included phosphates and lead. At the same time we closed down and walked away from nickel, copper mining and copper refining. We created a survival strategy for potash and tungsten, downsized our molybdenum business and pulled away from development properties that didn't need developing. We prepared our shareholders and the investment community for a \$350 million writedown of assets.

Prosperity is achieved by building and rebuilding; not by divesting and standing still.

But you can't just save your way to prosperity. You have to build and rebuild. We started building a gold business with the construction of the [REDACTED] mine in Nevada and enhanced our gold position through a major stake in [REDACTED] Minerals. We started rebuilding [REDACTED] Coal, the third largest coal producer in the United States, which was highly profitable but had been stripped of cash for five years to support other losing operations and a horrendous Corporate debt burden. And, most importantly, we began rebuilding the management teams to manage [REDACTED] core businesses properly and gave them the flexibility of decentralization. So, in those second 200 days we had one "big bang" and lots of little ones.

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Moderate for synergy: by acquiring the rest of -----, the company will reap benefits above and beyond what each half could provide separately. The description, however, is not very explicit.

- Aluminum. You start negotiations with your partners to buy the outstanding 50% of [REDACTED]. The rationale: two halves equal more than 100%. It gives you the flexibility to grow the business that is impossible in a partnership.
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High self-confidence; the future looks good.

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On behalf of the surgeon, the chef and the conductor, I thank you.

### Scores for "1000 Days Odyssey" Speech

<u>Factor</u>	<u>Score</u>	<u>Explanation</u>
Bigger is Better	2	CEO plans to build and expand but also to divest of unprofitable businesses. He does not seem to believe in large organizational size at all costs.
Synergy	2	While CEO never mentions the word "synergy", the belief that its effects are possible is indicated by his remarks about the acquisition of _____. 2 halves equal more than 100%.
Need for Power	3	CEO uses many images of warfare to describe company strategies. He says there can be only <u>one</u> chef to develop a company's plans and that is the CEO himself.
Self-Confidence	3	CEO says he has the skills of an expert surgeon, chef and conductor. Life is becoming better and better; the CEO is conducting the "Opportunistic Symphony."



## APPENDIX B: COPY OF QUESTIONNAIRE SENT TO CEOs

**Section I:** Listed below are statements that may characterize the business philosophy that helps you run your company. Please use this scale to indicate the extent to which you **AGREE** or **DISAGREE** with each statement.

	1	2	3	4	5
	Strongly Disagree	Slightly Disagree	Neither Agree Nor Disagree	Slightly Agree	Strongly Agree
1. Large companies operate more efficiently than small companies because they often can take advantage of economies of scale.					_____
2. A merger usually has a positive impact on a company's "bottom line;" it generally increases the acquirer's earnings per share.					_____
3. "Synergy," the process whereby "2 plus 2 equals 5," is frequently realized when two companies merge.					_____
4. The larger the company, the more favorable its chances for survival.					_____
5. Joint ventures are usually an effective means of collaboration between two companies.					_____
6. Companies can minimize the impact of business cycles on earnings by acquiring a firm in an unrelated business whose products have a different cyclicalty from that of their core products.					_____
7. As organizations grow in size, employees feel increasingly alienated because of bureaucratic procedures and depersonalized relationships.					_____
8. Conglomerate mergers are good because they reduce a company's dependence on a single product/service.					_____
9. R & D expenditures are risky because new products and technologies quickly become obsolete.					_____
10. In general, mergers help managers avoid the risks and costs involved in internal startups of new businesses.					_____
11. As organizations grow in size, less and less information reaches the top management group.					_____
12. Mergers are generally a waste of corporate assets and prevent managers from creating new products, services and factories.					_____
13. It is difficult to achieve synergy in a merger because different people, cultures and operating systems impede the smooth integration of two companies.					_____

**Section II:** The statements below concern the beliefs, aspirations and norms of behavior that may comprise your personal philosophy of life. If a statement is TRUE or MOSTLY TRUE as applied to you, circle the letter T. If a statement is FALSE or NOT USUALLY TRUE as applied to you, circle the letter F.

It is important that you answer as frankly and as honestly as you can.

- |   |   |   |
|---|---|---|
| 14. When people ask me for advice, I give it freely.  | T | F |
| 15. At parties and social gatherings, I often find myself the center of attention.                            | T | F |
| 16. I rarely worry about seeming foolish to others.   | T | F |
| 17. Reading about my company's successes in the newspaper is not of interest to me.                           | T | F |
| 18. I try to pay attention to the reactions of others to my behavior in order to avoid being out of place.    | T | F |
| 19. I would find running for political office exciting and challenging.                                       | T | F |
| 20. I have the ability to control the way I come across to people.  | T | F |
| 21. The opinions that other people have of me cause me little concern.  | T | F |
| 22. I feel that getting ahead is a goal all of us should value.   | T | F |
| 23. I am good at getting people to agree with me.   | T | F |
| 24. I usually keep up with changes in clothing fashions by watching what others wear.                         | T | F |
| 25. Gaining prestige in the business community is not important to me.  | T | F |
| 26. When I feel that the image I am portraying isn't working, I can readily change it to something that will. | T | F |
| 27. I believe that accomplishments that go unrecognized are still satisfying.                                 | T | F |
| 28. I have never been good at games like charades or improvisational acting.                                  | T | F |
| 29. When I make plans, I am almost certain that I can make them work.   | T | F |
| 30. Getting people to perform depends on ability; luck has little to do with it.                              | T | F |

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