Death of an independent director leads CEOs to make fewer acquisitions

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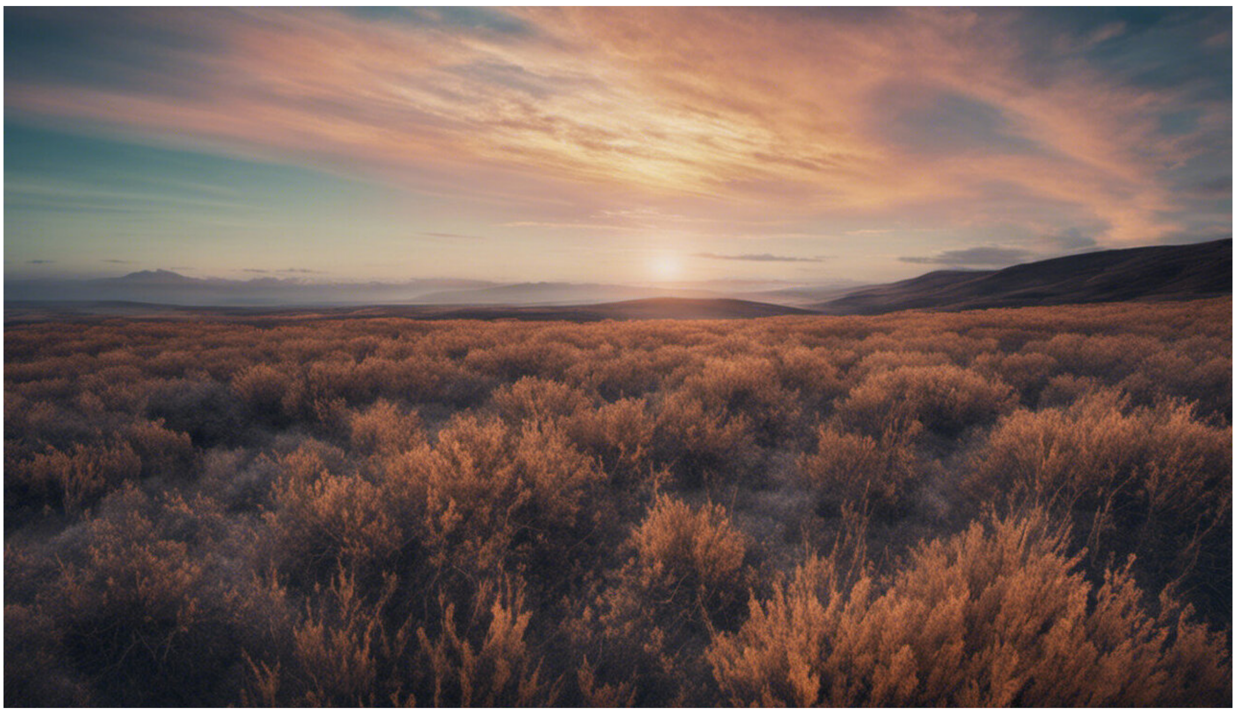

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CEOs who have experienced an independent director's death engage in fewer acquisitions after the director's death, according to a new paper by strategic management experts at Rice University's Jones Graduate School of Business.

One likely explanation for the authors' findings is that the death of an independent director may heighten CEOs' mortality awareness, lead the CEOs to pursue a quieter life and weaken their propensities for undertaking decisions (such as acquisitions) that can increase their compensation and social status. The dynamic was more pronounced when the death was sudden, the researchers found.

"Independent Director Death and CEO Acquisitiveness: Build an Empire or Pursue a Quiet Life?" was co-authored by Robert Hoskisson, the George R. Brown Professor of Management; Yan "Anthea" Zhang, the Fayez Sarofim Vanguard Professor of Management; and Wei Shi, a doctoral candidate in strategic management at the Jones School, who will join the faculty at Indiana University in the summer. The paper will be published in the *Strategic Management Journal*.

"Findings of this study shed light on how the death of CEOs' social peers may influence the CEOs' motivations in strategic decisions," the authors wrote. "Strategic leadership research has demonstrated that corporate leaders' social peers can influence their strategic decisions. Yet existing research has focused on learning and information exchange between CEOs and their social peers. This study expands strategic leadership research by demonstrating that the death of social peers can also influence CEOs' strategic decisions, possibly through increasing their mortality awareness."

For their study, the team looked at a sample of large U.S. public firms and interviews with corporate CEOs and executive search consultants. The researchers examined a sample of nearly 300 independent-director deaths between 2002 and 2012. The sample excluded the deaths of executive directors and independent board chairs; such deaths can prompt direct organizational disruptions, which can result in fewer acquisitions in the post-death period. The researchers then classified independent-director deaths into non-sudden deaths and sudden deaths, including heart attacks, strokes, accidents and causes that were unreported but described as unexpected, unanticipated or sudden.

The team found that firms that experienced an independent director's death had nearly 4 percent fewer acquisitions from the pre-death period to the post-death period than did firms that did not experience an independent director's death. And the value of those acquisitions was 18 percent lower than the value of the acquisitions made by firms that did not experience an independent director's death.

The researchers found that post-traumatic growth theory suggests reasons for this change in behavior. The mortality of others actually prompts re-evaluation of established ideals. Rather than heightening interest in extrinsic goals like wealth and status, these meditations may shift a person's focus to inner concerns, such as autonomy, relatedness and self-growth. According to this theory, a CEO will scale back on seeking acquisitions after the death of a close peer.

CEOs who witnessed an independent director's death, the researchers discovered, launched fewer acquisition efforts in the period after the death of an independent director on the firm's board. The director's death, it seemed, really did heighten the surviving CEO's sense of mortality.

The researchers also found that CEOs who served as an outside director on boards where an independent director died did few acquisitions at their home firms after this loss. Given that these CEOs' home firms did not experience an independent director's death, such a finding indicates that the decrease in CEOs' acquisitiveness in the post-director death period is less likely to be driven by the decrease in a board's human and social capital caused by an independent director's death. All the findings imply that corporate leaders seemed to attach more value to a quieter life and less value to aggressive pursuits, such as acquisitions that promise more compensation and status, after their social peers passed away.

More information: Wei Shi et al. Independent Director Death and CEO Acquisitiveness: Build an Empire or Pursue a Quiet Life?, *Strategic Management Journal* (2016). DOI: 10.1002/smj.2514

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