

# CEO Network Centrality and Merger Performance

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# Why do we care?

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- **Why are social network concepts relevant to corporate finance researchers?**
- A first attempt to understand the structure of network connections of CEOs, executives and directors of US public/private firms (about 380,000 unique individuals).
- **Use network based measures of centrality to explain merger performance at S&P 1500 firms.**
  - straightforward empirical paper
  - we utilize network centrality measures to identify the most central CEO
  - we test whether deals initiated by them tend to create/destroy value

# Corporate Finance (view from the airplane)

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- ✿ Governance/monitoring
- ✿ Corporate contracting (M&As, security issuances/repurchases, financing, profit distribution...)
- ✿ Lots of results based on company's fundamentals
- ✿ Lots of results based on the value of signals
- ✿ Very little results deal with networks, relationship capital, etc.
  - except for some recent papers on bilateral links

# Why study M&A?

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- ✿ M&A deals are very complex corporate events and tend to result in significant losses to the acquirer.
- ✿ Acquiring firm shareholders lost a total of \$240 billion from 1998 through 2001 (Moeller et al. 2005 )
  - Bidding management may gain (extra pecuniary and non-pecuniary benefits), even if shareholders and/or society lose
- ✿ It is unclear if shareholders benefit from the bidder CEO's network centrality.

# Networks affect human behavior

- ✿ “Central” individuals within the network are able to exert **influence and power** (Padgett and Ansell 1993, Mizuchi and Potts 1998)
- ✿ “POSITIVE”
  - Social networks = information channels that lower information-gathering costs, inside AND out (Nahapiet and Ghosal, 1998)
    - Networks allow information sharing, coordination, feedback
    - “Networking” allows for inclusion of private and “soft” info (Nohria, 1992)
    - Information sent by central people better screened, filtered, making central figures “trustworthy” (Burt, 1997, 2005)
- ✿ “LESS POSITIVE”
  - Central position allows controlling flow of info
  - Central position allows rewarding/punishing other individuals by giving/withholding access to one’s network
  - Central individuals have options (to move, to switch jobs,...)

# BOARDEX database

- ✿ Collects data for Executive and Director Work/Social Connections
- ✿ Cover 8,380 listed firms in the US and 2,700 listed firms in the UK.
- ✿ By 2009: 371,000 Network “nodes” The data capture links formed through common experience in education and overlapped work history in listed, and unlisted firms.
  - Information is gathered in executive biography in annual reports or proxy statements.
- ✿ The data do not capture links formed in other ways:
  - neighbors/acquaintance
  - spouse/children/siblings
  - crowd following of celebrities (Twitter)

How  
many  
people  
do you  
know?

• Variable	Obs	Mean	Std. Dev.	Min	Max
• dc88	41487	43.72873	93.43355	1	1021
• dc89	45629	44.20307	94.00634	1	1058
• dc90	50021	44.85924	94.91298	1	1087
• dc91	54700	45.22848	94.88011	1	1115
• dc92	59244	45.65738	95.56758	1	1137
• dc93	64423	45.95502	95.60961	1	1163
• dc94	70568	46.37221	96.13982	1	1313
• dc95	77443	46.65754	96.05232	1	1364
• dc96	85069	47.22966	95.96572	1	1450
• dc97	94583	47.84333	95.51264	1	1496
• dc98	104602	48.68767	95.63691	1	1593
• dc99	116100	49.51202	95.43392	1	1628
• dc100	128181	50.58658	95.53499	1	1653
• dc101	141213	51.66737	95.63123	1	1663
• dc102	152522	52.77771	95.58341	1	1666
• dc103	163897	53.66815	95.16113	1	1701
• dc104	176300	54.46478	94.59959	1	1710
• dc105	191207	55.0067	93.71851	1	1759
• dc106	208040	55.62889	92.70984	1	1788
• dc107	229003	56.59685	91.4091	1	1811
• dc108	257321	58.24716	89.77082	1	1836
• dc109	275508	60.14198	89.87922	1	1850

# Connections between contractual parties

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## ✿ Fracassi (2009)

- Social ties beneficial for CEOs of independent firms
- Cross-connected firms have better performance, similar investment and other discretionary financial policies

## ✿ Engelberg et al. (2009)

- CEOs receive higher salaries for their ability to connect to executives or directors of other firms

## ✿ Engelberg et al. (2012)

- past social connections between borrowers and lenders result in:
  - larger loan amounts,
  - lowered loan spreads,
  - and less restrictive covenants



# Connections between contractual parties

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## ✿ Cai and Sevilir (2012)

- M&A value creation if bidders and targets share a link (same board member or bidder and target board members sit on a third board)

## ✿ However, Ishii and Xuan (2010) claim that between-firm *social* ties lead to:

- Low abnormal returns
- Deals more likely completed, bidder CEOs more likely compensated for completion
- Deals more likely subsequently divested for bad performance
- Losses attributed to poor decision making, lack of due diligence

# CEO-board connections

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- ✿ Hwang and Kim (2009): Boards tied to CEO
  - Award high CEO compensation
  - Low pay-performance sensitivity
  - Low performance-turnover sensitivity
- ✿ Fracassi and Tate (2012):
  - CEOs tend to appoint directors with ties to the CEO
  - CEO-director ties associated with bad acquisitions and reduction in firm value
- ✿ Chidambaran, Kedia, and Prabhala (2012)
  - Non-professional CEO-director ties increase chances of fraud

# Our focus – CEO **CENTRALITY**

- ✱ OVERALL connectedness of a CEO within the context of entire network of all business participants the CEO is linked to.
  - degree, betweenness, closeness, eigenvector
- ✱ Our advantages:
  - Both influence and information likely flows through the entire network
    - You do not need a direct link to obtain or send information
    - You do not need a direct link to influence
- ✱ But we DO control for bilateral ties

# Our main findings

- ✿ Increasing bidder CEO centrality from the 25th to the 75th percentile of the sample :
  - Increases the frequency of acquisitions on average by 25.3%.
  - Decreases the acquirer cumulative abnormal returns on average by -3.38% (returns are negative for majority of bidders)
  - Decreases total synergies on average by -3.04% (and mergers with above-median CEO centralities destroy value)
- ✿ Value-destructive tendencies partially mitigated by
  - Better governance (intense board monitoring, absence of CEO/Chair duality, higher CEO ownership)
  - CEO absence on own board or presence on other boards

# Our main findings (contd.)

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## ✿ Highly central bidder CEOs less likely

- to be targets of acquisitions as the result of original value-destroying acquisition
- to be fired as the result of original value-destroying acquisition

## ✿ Robustness:

- control for overconfidence/hubris
- control for bidder size effects
- control for bilateral ties between CEO-board
- control for bilateral ties between bidder-target
- control for alternative definition of centralities...

**Table A1: Summary Statistics for S&P 1500 CEO Centralities**

		Mean	Median
<b>Closeness</b>	16415	67.9 <sup>th</sup>	73 <sup>th</sup>
<b>Degree</b>	16415	71.6 <sup>th</sup>	78 <sup>th</sup>
<b>Betweenness</b>	16415	76.0 <sup>th</sup>	84 <sup>th</sup>
<b>Eigenvector</b>	16415	73.8 <sup>th</sup>	78 <sup>th</sup>

Powerful CEOs: (Centrality as in 2009)

	Closeness	Degree	Betweenness	Eigenvector
Steven A. Ballmer, Microsoft	97%	100%	100%	100%
Indra K. Nooyi , Pepsico	97%	100%	100%	100%
W. James McNerney, Jr. , Boeing Co	98%	100%	100%	100%
Rodney C. Sacks, Monster Beverage	1%	1%	1%	1%

## Measures highly correlated

	1	2	3	4
1- Closeness	1			
2- Degree	0.8618	1		
3- Betweenness	0.7198	0.7941	1	
4- Eigenvector	0.9057	0.7812	0.6448	1

We do not have any prior expectation as to which dimension is the “best” (but more on that later)

# M&A and Governance Data

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- ✿ SDC Platinum, 2000-2009
  - S&P 1500 bidders, public targets
- ✿ CRSP (stock prices)
- ✿ Compustat (accounting data)
- ✿ 776 deals by 464 acquirers
  
- ✿ Risk Metrics and Execucomp (governance data)
  - intense monitoring, board size, duality, age, block ownership and CEO ownership
- ✿ Bebchuk, Cohen, Ferrell (E-index)
  - [www.law.harvard.edu/faculty/bebchuk/data.shtml](http://www.law.harvard.edu/faculty/bebchuk/data.shtml)
- ✿ 3283 CEOs in 13398 firm-year observations



## Table 3: Difference in CEO Centrality between Acquirers and Non-Acquirers

	Acquirers				Non-Acquirers				T-test	Wilcoxon Rank Test
Centrality	N	Mean	Median	Std.	N	Mean	Median	Std.	T-Value	Z-Value
<b>Closeness</b>	776	75.69	82.00	19.89	15639	67.54	73.00	21.75	-10.63***	-11.11***
<b>Degree</b>	776	83.66	91.00	18.42	15639	71.08	78.00	24.33	-17.52***	-15.03***
<b>Betweenness</b>	776	84.10	91.00	21.00	15639	75.70	84.00	24.58	-10.34***	-11.97***
<b>Eigenvector</b>	776	82.61	89.00	18.98	15639	73.43	78.00	21.27	-12.54***	-13.17***

Bidder CEOs are more central than other S&P 1500 CEOs!

**Table 4: Probit Model of Acquisitions**

	(2)	(3)	(4)	(5)
	Closeness	Degree	Betweenness	Eigenvector
<b>Centrality</b>	0.3156*** (0.001)	0.6755*** (0.000)	0.4168*** (0.000)	0.6162*** (0.000)
<b>Tobin's Q</b>	0.0362*** (0.000)	0.0326*** (0.000)	0.0361*** (0.000)	0.0323*** (0.000)
<b>Liquidity</b>	0.2654 (0.348)	0.1504 (0.596)	0.2648 (0.348)	0.1900 (0.502)
<b>Profitability</b>	0.3513 (0.190)	0.4491* (0.096)	0.3472 (0.196)	0.4523* (0.092)
<b>Firm Size</b>	0.2000*** (0.000)	0.1775*** (0.000)	0.1999*** (0.000)	0.1929*** (0.000)
<b>Leverage</b>	-0.7653*** (0.000)	-0.7635*** (0.000)	-0.7844*** (0.000)	-0.7360*** (0.000)
<b>Constant</b>	-3.4891*** (0.000)	-3.5908*** (0.000)	-3.5908*** (0.000)	-3.6820*** (0.000)
<b>N</b>	16,415	16,415	16,415	16,415
<b>Pseudo R<sup>2</sup></b>	7.68%	8.33%	7.87%	8.16%

# Bidder CEO Centrality and Acquisition Frequency

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- ✿ Well-connected bidder CEOs are associated with high frequency of acquisitions
  - Increase in centrality from 25<sup>th</sup> to 75<sup>th</sup> percentile rises the relative likelihood by 25%
  
- ✿ Now, what about the success of those acquisitions?

# Table 5: Cumulative Abnormal Returns Around Merger Announcement

Panel A: Acquirer		Full Sample		Low Centrality		Average Centrality			High Centrality		Low-High		
CAR (-3,+3)	N	Mean	Median	N	Mean	Median	N	Mean	Median	N	Mean	Median	Diff
Closeness	776	-1.866%***	-1.413%***	202	-0.689%	-0.839%	405	-2.234%***	-1.774%***	169	-2.392%***	-1.254%***	1.703%(b)
Degree	776	-1.866%***	-1.413%***	206	-0.514%	-1.165%	410	-2.255%***	-1.423%***	160	-2.612%***	-1.474%***	2.097%(b)
Betweenness	776	-1.866%***	-1.413%***	206	-1.294%***	-1.119%**	411	-2.038%***	-1.766%***	159	-2.165%***	-1.264%***	0.870%
Eigenvector	776	-1.866%***	-1.413%***	207	-0.476%	-0.324%	403	-2.327%***	-1.835%***	166	-2.483%***	-1.413%***	2.007%(b)
<b>Panel B: Combined</b>													
Closeness	776	0.682%**	0.330%**	202	2.254%***	1.615%***	405	0.392%	0.065%	169	-0.502%	-0.201%	2.757%(a)
Degree	776	0.682%**	0.330%**	206	2.683%***	1.610%***	410	0.265%	0.208%	160	-0.824%*	-0.482%	3.507%(a)
Betweenness	776	0.682%**	0.330%**	206	1.683%***	1.218%***	411	0.617%	0.227%	159	-0.445%	-0.201%	2.129%(a)
Eigenvector	776	0.682%**	0.330%**	207	2.109%***	1.637%***	403	0.375%	0.181%	166	-0.350%	-0.303%	2.460%(a)
<b>Panel C : Target</b>													
Closeness	776	27.394%***	21.282%***	202	22.203%***	19.275%***	405	28.589%***	22.094%***	169	30.735%***	23.693%***	-8.531%(a)
Degree	776	27.394%***	21.282%***	206	23.589%***	19.714%***	410	28.593%***	22.582%***	160	29.222%***	23.274%***	-5.633%(c)
Betweenness	776	27.394%***	21.282%***	206	23.219%***	19.904%***	411	28.165%***	21.346%***	159	30.810%***	24.072%***	-7.591%(b)
Eigenvector	776	27.394%***	21.282%***	207	21.566%***	19.000%***	403	29.492%***	22.677%***	166	29.570%***	21.865%***	-8.004%(a)

# Bidder CEO Centrality and Acquisition Returns

- ✿ As bidder CEO centrality increases
  - gains to bidder shareholders decline
  - total acquisition synergies (weighted average of bidder and target CAR) decline
    - for acquisitions involving bidders with the highest CEO centrality, the total synergies are **NEGATIVE!**
  - gains to target shareholders increase
- ✿ Of course, acquisition returns have many determinants...

# Table 6: Acquirer's CEO centrality and Acquirer CARs

	(2)	(3)	(4)	(5)
	Closeness	Degree	Betweenness	Eigenvector
<b>Centrality</b>	-0.0763*** (0.000)	-0.0682*** (0.000)	-0.0458*** (0.003)	-0.0798*** (0.000)
<b>Size</b>	0.0034 (0.131)	0.0036 (0.130)	0.0014 (0.534)	0.0029 (0.189)
<b>Profitability</b>	0.1484*** (0.002)	0.1499*** (0.002)	0.1567*** (0.001)	0.1494*** (0.002)
<b>Tobin's Q</b>	-0.0027* (0.072)	-0.0029* (0.051)	-0.0033** (0.027)	-0.0025* (0.097)
<b>Leverage</b>	0.0628*** (0.003)	0.0585*** (0.007)	0.0646*** (0.003)	0.0620*** (0.004)
<b>Liquidity</b>	0.0504 (0.319)	0.0477 (0.348)	0.0430 (0.398)	0.0471 (0.351)
<b>Deal Value</b>	-0.0343*** (0.000)	-0.0345*** (0.000)	-0.0356*** (0.000)	-0.0339*** (0.000)
<b>Same Industry</b>	-0.0004 (0.950)	0.0013 (0.844)	0.0029 (0.649)	-0.0001 (0.982)
<b>Stock Deal</b>	-0.0194*** (0.008)	-0.0173** (0.018)	-0.0170** (0.021)	-0.0182** (0.012)
<b>Industry Effects</b>	YES	YES	YES	YES
<b>Year Effects</b>	YES	YES	YES	YES
<b>N</b>	776	776	776	776
<b>Adjusted R<sup>2</sup></b>	9.52%	8.79%	8.35%	9.50%

# Bidder CEO Centrality and Acquisition Returns

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- ✿ As bidder CEO centrality increases, gains to bidder shareholders decline
  - Increase in centrality from 25<sup>th</sup> to 75<sup>th</sup> percentile changes the bidder returns by -3.4%
  
- ✿ Let's look at total synergies...

# Table 7: Acquirer's CEO centrality and Combined CARs

	(1)	(2)	(3)	(4)
	Closeness	Degree	Betweenness	Eigenvector
<b>Centrality</b>	-0.0696*** (0.000)	-0.0641*** (0.000)	-0.0400*** (0.007)	-0.0696*** (0.000)
<b>Combined Size</b>	0.0022 (0.312)	0.0019 (0.383)	0.0002 (0.908)	0.0017 (0.411)
<b>Combined Profitability</b>	0.0000 (0.414)	0.0000 (0.436)	0.0000 (0.396)	0.0000 (0.375)
<b>Combined Tobin's Q</b>	-0.0022 (0.162)	-0.0025 (0.107)	-0.0029* (0.061)	-0.0020 (0.194)
<b>Combined Leverage</b>	0.0456** (0.037)	0.0420* (0.057)	0.0470** (0.033)	0.0440** (0.045)
<b>Combined Liquidity</b>	0.1178*** (0.005)	0.1174*** (0.006)	0.1206*** (0.005)	0.1159*** (0.006)
<b>Same Industry</b>	0.0042 (0.495)	0.0059 (0.341)	0.0070 (0.256)	0.0045 (0.469)
<b>Deal Value</b>	0.0335** (0.012)	0.0313** (0.020)	0.0320** (0.018)	0.0349*** (0.009)
<b>Stock Deal</b>	-0.0183*** (0.009)	-0.0160** (0.023)	-0.0161** (0.023)	-0.0173** (0.014)
<b>Industry Effects</b>	YES	YES	YES	YES
<b>Year Effects</b>	YES	YES	YES	YES
<b>N</b>	776	776	776	776
<b>Adjusted R<sup>2</sup></b>	6.76%	6.25%	5.57%	6.54%



# Bidder CEO Centrality and Combined Returns

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- ✿ As bidder CEO centrality increases, total takeover synergies decline
  - Increase in centrality from 25<sup>th</sup> to 75<sup>th</sup> percentile changes the combined returns by -3.04%

# Robustness Checks

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- ✿ Bidder Size Effect (Moeller et al., 2004)
  - included size dummies, quadratic size terms
- ✿ Overconfidence/hubris (Roll 1986, Malmendier and Tate, 2008)
  - controlled for Overconfidence (Malmendier and Tate, 2008)
- ✿ Strength of ties forming Centrality
  - alternative definitions
    - links valid only if lasted 3+ years
    - relationships based on education, etc.

# Robustness Checks (contd.)

- ✿ Connections to own board members
  - Incidence of CEO-board links nearly identical between high- and low-centrality subsamples
  - links added as another regressor
- ✿ Bidder-Target bilateral social connections (Ishii and Xuan, 2010)
  - connections added as another regressor
    - insignificant negative impact on abnormal returns
- ✿ Raw vs. “abnormal” centrality
  - utilized residuals from regression of Centrality on: size, growth opportunities (Tobin’s Q), profitability, and optimism (Malmendier and Tate, 2008)

# Governance and Acquisition Tendencies

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- ✿ Can (negative) merger outcomes initiated by well-connected CEOs be mitigated by governance?
- ✿ We control for (significant results in RED)
  - intensive board monitoring
  - absence of CEO/Chairman duality
  - small board size
  - CEO age
  - Low E-index
  - Block ownership
  - CEO ownership

# CEO Board Presence

## ✱ CEO sits on outside boards

- (note the presence/absence is NOT performance or salary related!)
- CEO gains valuable information (Perry and Peyer, 2005)
  - the (negative) effect of centrality should DIMINISH
- CEO draws salary, perks (i.e. pecuniary and non-pecuniary benefits, 58% of CEOs sit on boards of larger firms) – less reasons to pursue entrenchment
  - the (negative) effect of centrality should DIMINISH

## ✱ CEO sits on own board

- the ability to exert power over board members and/or affect board agenda and decisions increases
  - the (negative) effect of centrality should be more PRONOUNCED

## Table 10: Impact of CEO Board Presence on Acquisition Abnormal Returns

Panel A: CEO on Own Board

	Acquirer Abnormal Returns		Combined Abnormal Returns	
	CEO on own board	CEO not on own board	CEO on own board	CEO not on own board
<b>Closeness</b>	-0.073***	-0.085*	-0.072***	-0.055
<b>Degree</b>	-0.075***	-0.054	-0.074**	-0.032
<b>Betweenness</b>	-0.044***	-0.071*	-0.041**	-0.049
<b>Eigenvector</b>	-0.079***	-0.086*	-0.074***	-0.056
<b>N</b>	593	183	593	183

Panel B: CEO on Outside Board

	Acquirer Abnormal Returns		Combined Abnormal Returns	
	NOT on outside board	CEO on outside board	NOT on outside board	CEO on outside board
<b>Closeness</b>	-0.104***	0.044	-0.084***	-0.058
<b>Degree</b>	-0.094***	0.154**	-0.078***	0.042
<b>Betweenness</b>	-0.057***	0.090	-0.045***	0.0079
<b>Eigenvector</b>	-0.104***	0.038	-0.083***	-0.020
<b>N</b>	502	274	502	274

# Bidder CEO Centrality and the Market for Corporate Control

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- ✿ Disciplining takeovers: taking over a company that is being poorly managed
- ✿ Mitchell and Lehn (1991): Do Bad Bidders Become Good Targets?
  - A: Yes, they DO!
  - The size of bidder abnormal return affects (NEGATIVELY!) the likelihood of the bidder being subsequently acquired
- ✿ If well-connected bidder CEOs can exert entrenchment power, they should be able to insulate themselves from the market for corporate control
  - The size of bidder abnormal return should NOT affect the likelihood of the bidder being subsequently acquired for highly-central CEOs

**Table 10: Impact of Acquirer's CEO Centrality on Probability of the Bidder Being Subsequently Acquired**

	(1)	(2)	(3)	(4)
	Closeness	Degree	Betweenness	Eigenvector
<b>Centrality</b>	0.6777 (0.174)	0.3231 (0.511)	0.5380 (0.168)	0.3462 (0.488)
<b>CAR</b>	-6.6713** (0.042)	-7.4001* (0.066)	-6.5628 (0.121)	-7.4226* (0.059)
<b>Centrality * CAR</b>	10.4878** (0.030)	9.9764** (0.049)	8.2805* (0.092)	9.7070** (0.048)
<b>Size</b>	-0.1521*** (0.009)	-0.1393** (0.021)	-0.1388** (0.016)	-0.1419** (0.013)
<b>Profitability</b>	-2.7693** (0.021)	-2.5605** (0.030)	-2.6226** (0.027)	-2.9475** (0.015)
<b>Tobin's Q</b>	-0.0096 (0.601)	-0.0087 (0.636)	-0.0097 (0.598)	-0.0086 (0.636)
<b>Leverage</b>	0.1183 (0.842)	0.0876 (0.883)	0.0992 (0.866)	0.0428 (0.942)
<b>Relative Target Size</b>	-1.2930** (0.014)	-1.4130*** (0.009)	-1.2432** (0.018)	-1.2286** (0.018)
<b>Constant</b>	0.7087 (0.195)	0.8259 (0.129)	0.5938 (0.290)	0.8153 (0.178)
<b>N</b>	222	222	222	222
<b>Pseudo R<sup>2</sup></b>	7.63%	7.57%	7.55%	7.07%



# Bidder CEO Centrality and the Managerial Labor Market

- ✿ (Forced) managerial turnover often linked to bad performance (Warner et al., 1988, Weisbach, 1988)
- ✿ Lehn and Zhao (2006): Are Bad Bidders Fired?
  - A: Yes, they ARE!
  - The size of bidder abnormal return affects (NEGATIVELY!) the likelihood of forced bidder CEO turnover
- ✿ If well-connected bidder CEOs can exert entrenchment power, they should be able to insulate themselves from the managerial labor market
  - The size of bidder abnormal return should NOT affect the likelihood of forced bidder CEO turnover

**Table 11: CEO Turnover Analysis**

	(1) Closeness	(2) Degree	(3) Betweenness	(4) Eigenvector
<b>High Centrality</b>	0.7728*** (0.001)	0.7430*** (0.001)	0.5501** (0.013)	0.3393 (0.110)
<b>CAR</b>	-2.8711 (0.127)	-2.8672 (0.113)	-3.2880** (0.046)	-1.0079 (0.530)
<b>High Centrality*CAR</b>	5.1205** (0.032)	5.3253** (0.024)	6.2890*** (0.006)	1.9051 (0.376)
<b>Pre-ROA</b>	-2.3213* (0.100)	-2.4639* (0.082)	-1.7254 (0.209)	-1.8517 (0.172)
<b>Post-ROA</b>	-0.7048 (0.183)	-0.5805 (0.266)	-0.6171 (0.251)	-0.6392 (0.227)
<b>Age</b>	-0.0038 (0.791)	-0.0036 (0.805)	-0.0031 (0.830)	0.0003 (0.981)
<b>Tenure</b>	0.0257 (0.139)	0.0234 (0.176)	0.0189 (0.273)	0.0214 (0.208)
<b>Stock Deal</b>	-0.2546 (0.261)	-0.2138 (0.340)	-0.2101 (0.346)	-0.1632 (0.457)
<b>Relative Target Size</b>	-0.2617 (0.631)	-0.1479 (0.788)	-0.2044 (0.710)	-0.1871 (0.725)
<b>Constant</b>	-0.4263 (0.577)	-0.4308 (0.575)	-0.3814 (0.614)	-0.4644 (0.540)
<b>N</b>	173	173	173	173
<b>Pseudo R<sup>2</sup></b>	8.59%	8.45%	7.47%	4.04%

# What happened to the fired CEOs?

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- ✿ We are still working on that, but
- ✿ Liu (2010): terminated well-connected CEOs are more likely to find another well-paid, similarly reputable job, regardless the reason of their previous dismissal.
  - That is, yet another reason not to be afraid of the managerial labor market

# What have we learned?

- ✿ Bidder CEO centrality affects M&A outcomes
- ✿ Better connected CEOs are associated with
  - more frequent acquisitions
  - but value losses to bidder shareholders
  - more likely negative total synergies
- ✿ Some evidence that stricter governance and/or CEO presence on outside boards mitigates this behavior
- ✿ But bidder CEOs can insulate themselves from the market disciplining effects
  - market for corporate control
  - managerial labor market

# Where do we go next?

## ✿ El-Khatib, Fogel, Jandik (2012): **CEO Network Centrality**

### ✿ What determines CEO centrality?

- Career path
  - Education (e.g. Ivy League network)
  - Prior employment/experience
  - Sitting on boards
  - First full CEO salary (documents the overall success up to now)
- Personal characteristics
  - Age
  - CEO overconfidence (Malmendier and Tate, 2008)
  - CEO optimism (Otto, 2012 – based on overstating earnings)

### ✿ Does centrality lead to positive/negative firm performance?

# Preliminary findings

- ✿ CEO network centrality positively related to:
  - attending an elite university,
  - having professional experience in a publicly listed or S&P 1500 firm, serving on S&P 1500 boards,
  - being overall successful in the career path
- ✿ CEO network centrality negatively related to:
  - being overconfident or optimistic significantly
- ✿ Higher CEO network centrality is associated with
  - higher firm valuation(?)
  - better firm accounting performance(?)
  - higher CEO compensation(?)

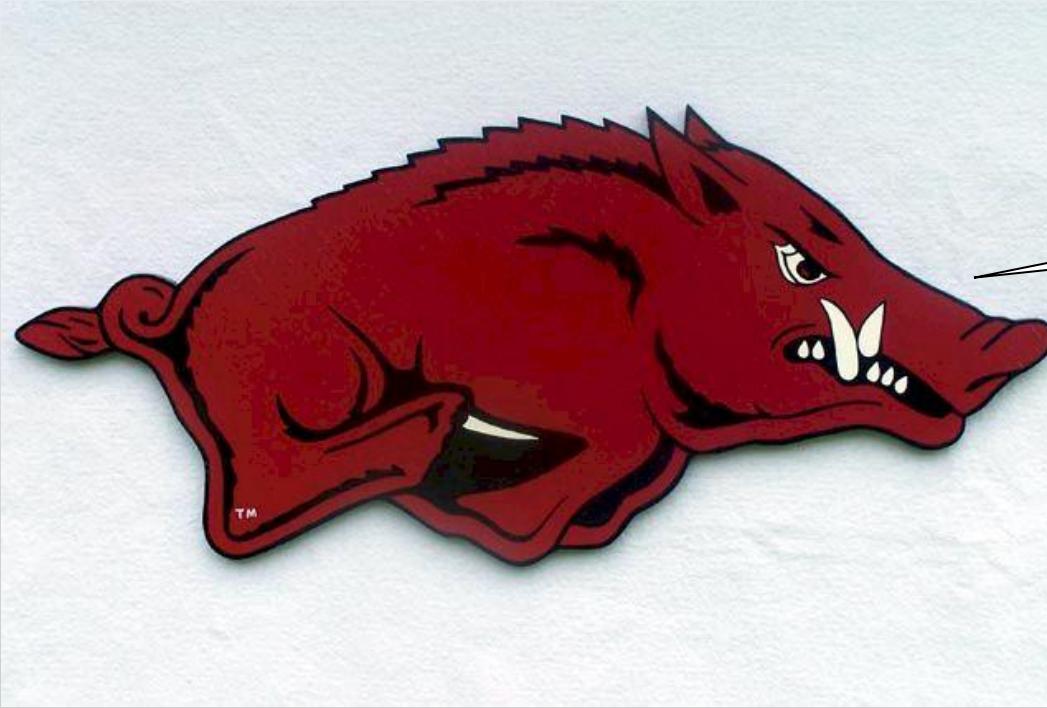
# Where do we go next? (part 2)

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## ✿ Fogel, Jandik, McCumber (2012): **CFO Network Centrality and Private Debt**

- Better connected CFOs negotiate deals
  - with less covenants
  - with less restrictive covenants
  - with lower loan spreads
- CFO centrality helps the most when the information asymmetry is likely higher
  - e.g., in smaller firms

And that's...



**THE END!!!**