

**Moneymaking Dealmakers:  
Rewarding Dynamic Managerial Capabilities or Narcissistic Displays of  
Power?**

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## **Abstract**

### **Moneymaking Dealmakers: Rewarding Dynamic Managerial Capabilities or Narcissistic Displays of Power?**

CEO pay is controversial. Critics worry that pay practices serve executives more than firms. Building upon work in the dynamic capability and corporate governance literatures, we examine how CEOs' business-centered and self-centered corporate restructuring motives might affect their pay. Looking at 949 CEOs' acquisition and divestiture strategies in the 1992-2005 time period, we discovered that 34 percent of them bought and sold assets when in office. Their compensation differed markedly from their colleagues whose tenures were marked by acquisitions or divestitures alone, or no restructuring activity. Two patterns emerged. Those who bought and sold assets in times of environmental change, arguably those with dynamic managerial capabilities, earned more than those who were inactive. Moreover, their firms outperformed the others after they left office. Entrenched CEOs, on the other hand, were also well-compensated for buying and selling assets. Unfortunately, their firms underperformed upon their departure. A follow-up study found those powerful and well-compensated CEOs to be narcissistic. Operating decisions may not always serve a firm's best interest. We need to learn more about when and how an active restructuring strategy leads a firm down a path to business success and when and how it might reveal a CEO bent on self-aggrandizement.

CEOs of American companies are very well compensated. The AFL-CIO's "Executive Paywatch" analysis (2013), for example, reports that the average S&P 500 CEO made \$12.26 million in 2012, 354 times more than an average US worker that year. This ratio is up from the 343:1 ratio we observed in 2010 and way up from the 42:1 ratio we saw in 1980. Taking a different look at the phenomenon, Bebchuk and Grinstein (2005) reported that the top five executives in U.S. publicly-traded firms made \$350 billion between 1993 and 2003. On average, these five executives took home 9.8 percent of their firms' net income in the 2001 – 2003 time period, almost double the 5 percent they took home between 1993 and 1995. Not surprisingly, conversations about CEO pay can be quite controversial. Corporations' compensation practices, the quality of the research on CEO pay, and even a scholar's proper responsibility to society when discussing these matters are all contested (Bogle, 2008, Kaplan, 2008a, 2008b; Walsh, 2008, 2009). Indeed, Murphy (1999: 2551) pointed out that the "politics of pay" is itself a worthy topic of investigation. All of that said, our enduring scholarly quest has been to discover if this money is well-spent.<sup>1</sup> If firms' shareholders are well-served by their CEOs' compensation arrangements, then perhaps politics notwithstanding, few will begrudge them their well-earned pay. On the other hand, if CEOs seem to benefit at others' expense, then we are dealing with an entirely different phenomenon.

The purpose of this research is to investigate how a firm strategy marked by asset acquisition and divestiture during a CEO's time in office affects his or her compensation. Our intuition is that these deal-making CEOs may benefit handsomely from this activity. We are particularly interested in how business-centered and self-centered motives might affect their pay. CEOs may actively restructure their firms for sound strategic benefit or perhaps for self-centered gain. Drawing from the dynamic capabilities and corporate governance literatures, we will attempt to tease apart these motives and examine how each kind of activity is compensated.

## **SELF-SERVING AND BUSINESS-SERVING CEO BEHAVIOR**

### **Consider acquisitions**

Scholars have been long alert to the possibility that CEOs may reveal self-serving ambitions during their time in office. Interestingly, what may appear to be an identical executive

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<sup>1</sup> See Bebchuk and Fried (2003; 2004; 2005; 2006), Bebchuk, Fried, and Walker (2002), Core, Guay, and Larcker (2003), Core, Guay, and Thomas (2005), Devers, Cannella, Reilly, and Yoder (2007), Finkelstein, Hambrick and Canella (2009), Gomez-Mejia, Berrone, and Franco-Santos (2010), Murphy (1999; 2002), O'Reilly and Main (2010), and Tosi, Werner, Katz, and Gomez-Mejia (2000) for comprehensive reviews of the CEO compensation literature.

decision from a distance may reveal very different CEO motives if seen up close. Consider acquisitions. On the one hand, any strategy or finance textbook will enumerate all of the sound business reasons for why a CEO might complete an acquisition. A search for new business opportunities, scale or scope economies, market power or a lower the cost of capital, for example, can all motivate an acquisition (DePamphilis, 2008; Hitt, Ireland, and Hoskisson, 2013). On the other hand, Gordon (1945) alerted us to the possibility that CEOs may be tempted to pursue acquisitions as a way to build self-aggrandizing empires. A generation after Robert Gordon shared his empire building concerns, Mueller (1969) and then Jensen (1986) warned us again that CEOs may be attracted to mergers and acquisitions, if only to increase the size of their firms and in so doing, their wealth.

To be sure, we know that CEO pay tracks firm size very closely. In their meta-analysis of CEO pay studies, Tosi, Werner, Katz, and Gomez-Mejia (2000) found that firm size accounted for 40 percent of the variance in total CEO pay; firm performance only accounted for 5 percent. Murphy (1999: 2439), one of the preeminent scholars working in this area, referred to the link between pay and size as “the best-documented stylized fact regarding CEO pay.” While there may be sound reasons to handsomely compensate CEOs who lead large firms (Henderson and Frederickson, 1996; Nalebuff and Stiglitz, 1983; Rosen, 1982, 1992; Smith and Watts, 1992),<sup>2</sup> research reviews suggest that Gordon (1945) was prescient. Looking at two sides of the same coin, Haleblian, Devers, McNamara, Carpenter, and Davison (2009: 475) surveyed the merger and acquisition literature and concluded that “a growing body of recent evidence suggests that managers’ desire for increased compensation elicits strong, self-interested motivations to acquire.” And then looking just at the research on executive compensation associated with mergers and acquisitions, Bodolica and Spraggon (2009: 159) suggested that “managerial self-interest is the primary motivation for the conduct of acquisitions, even if they destroy shareholder value.”

The allure of empire notwithstanding, there may be limits to self-interested growth. The fact that the empire building logic is so well-known itself may constrain this activity. Corporate

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<sup>2</sup> It may take greater skill (Smith and Watts, 1992) and cognitive capability (Henderson and Frederickson, 1996) to lead a large firm. Firms may need to offer significant amounts of money to attract high quality managers to assume these responsibilities (Rosen, 1982). Additionally, a CEO’s large compensation package may be a kind of prize in a tournament that rewards those who persevere to acquire the skill needed to lead such firms (Nalebuff and Stiglitz, 1983; Rosen, 1992).

governance observers are very alert to this possibility. Bebchuk and Grinstein (2005:300), for example, referred to this kind of control as an “outrage constraint.” Moreover, we now know that a growth strategy leaves one vulnerable to doing deals that may ultimately squander copious amounts of shareholder wealth (Moeller, Schlingemann, and Stulz, 2005) and in so doing, leave a CEO vulnerable to dismissal (Lehn and Zhao, 2006). A manifest empire building strategy may not be without risk. There may be other paths to high compensation. Pairing a divestiture strategy with an acquisition strategy may be quite lucrative. Indeed, it might even gather more nods of approval than looks of skepticism.

### **Consider divestitures**

Descriptively, we know that firms do indeed buy and sell assets with some regularity. Villalonga and McGahan (2005: 1192), for example, showed us that at least for very large firms in the 1990s, firms seemed to divest their assets as often as they bought new ones. That fact should surprise no one. After all, there are a host of valid business reasons for firms to shrink (Brauer, 2006; Lee and Madhavan, 2010). They range from the noneconomic to the economic. The divestment of business operations in apartheid South Africa, for example, is a classic example of what might be called a noneconomic motive for restructuring (Wright and Ferris, 1997), even if the economic benefit of such activity may not be readily apparent (Teoh, Welch, and Wazzan, 1999). The economic rationales for divestiture are well known. The changing nature of global competition (Jensen, 1993), changes in anti-trust policy (Shleifer and Vishny, 1991), improved capital market efficiency (Donaldson, 1994) and a resultant management ideology focused on exploiting core competencies (Prahalad and Hamel, 1990) rather than H-form capabilities (Williamson, 1975), fueled a return to focus over the past quarter century (Comment and Jarrell, 1995). Doing so may also improve a firm’s ability to govern itself (Seward and Walsh, 1994, 1996; Woo, Willard, and Daellenbach, 1992). In the end, firms may narrow their scope to survive if not thrive in a new business environment. Sometimes firms must simply rid themselves of obsolete resources (Capron and Mitchell, 2012), or even promising resources that cannot be integrated with their current lines of business (Chesbrough, 2003).

A recent meta-analysis suggests that divestitures do improve a parent firm’s performance (Lee and Madhavan, 2010) and if well-managed, the divested entity as well (Moschieri, 2011). Boards of directors might be inclined to reward CEOs who pursue such seemingly “selfless” strategic ambitions. Indeed, two studies of the divestiture – compensation link suggest that this

may be so. Seward and Walsh (1996) looked at the governance changes associated with 76 corporate spin-offs. They found that even though the assets under the CEOs' control shrunk by an average of 22 percent, these same CEOs received a 7 percent pay raise for completing the spin-off. More recently, Haynes, Thompson, and Wright (2007) found that CEOs' cash compensation increased following divestitures if there was some evidence of strong corporate governance. This early evidence suggests that shrinking the size of a firm might also benefit CEOs.

While divestitures appear to embody a wholly business-centric logic (notwithstanding the modest increase in pay that may attend the shrinking of a firm's assets), self-interest might still shadow these divestiture decisions – if they are paired with acquisitions.<sup>3</sup> After all, restructuring deals allow for a renegotiation of a compensation contract in a way that normal day-to-day decisions do not (Bliss and Rosen, 2001; Harford and Li, 2007). And so, just as CEOs who acquire assets may reveal firm-centric and self-centric motives, CEOs who buy and sell assets may too reveal these same kinds of business-serving and self-serving motives. We will consider each in turn.

## **COMPENSATING DYNAMIC MANAGERIAL CAPABILITIES**

Business environments change -- technologies change, markets change, regulations change, competitors change. Teece, Pisano, and Shuen (1997) pointed out that while some firms thrive in times of change, others do not. They developed the idea of “dynamic capabilities” to capture a firm's ability to both sense a need for change and to reconfigure their assets to meet it. Teece and his colleagues defined the construct to be “the capacity of an organization to purposefully create, extend, or modify its resource base” (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece, and Winter (2007: 4). These purposive acts implicate the work of the firm's leaders, of course.

Writing to those leaders in the pages of the *Harvard Business Review*, Eisenhardt and Brown (1999: 73-74) coined the term “patching” to refer to “the strategic process by which corporate executives routinely remap businesses to changing market opportunities.” Observing that “dynamic capabilities are related to the gain and release of resources,” Eisenhardt and

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<sup>3</sup> While the robust cross-sectional CEO pay / firm size results reviewed above suggest that CEOs will forfeit a good deal of income if they shrink the size of their firms, these results may not reflect the everyday realities of leading a business. After all, CEOs may be very reluctant to downsize their firms if they will be punished for it. That said, there may be limits to such compensation. The logic that fuels those cross-sectional pay / size results (captured in Footnote 2) may not allow persistent decreases in firm size to be handsomely compensated.

Martin (2000:1108) later observed that a firm's ability to mix an acquisition and divestiture strategy could be a valuable dynamic capability. Four years later, Karim and Mitchell (2004) illustrated the point with an examination of Johnson and Johnson's successful acquisition, reconfiguration, and divestiture strategy in the 1975 – 1997 time period.<sup>4</sup> We imagine that the architect of an acquisition and divestiture strategy might be quite prized for his or her confident and proactive leadership style, a style that might reveal a quest for dynamic capability. After all, as Capron, Mitchell, and Swaminathan (2001: 836) observed, “business acquisition and asset divestiture are often parts of healthy and successful business processes.”

Adner and Helfat (2003) considered the executives who lead this kind healthy patching process. They observed that “guidance from the top of organizations may have a critical impact on how well firms cope with changing circumstances” (p. 1013). Coining the term “dynamic managerial capabilities,” they formally defined them as “the capabilities with which managers build, integrate, and reconfigure organizational resources and competences” (p. 1012). Reconfiguration, of course, directly implicates acquisition and divestiture activity.<sup>5</sup> It is quite reasonable then to imagine that these valuable dynamic managerial capabilities will be well compensated. We posit that CEOs who buy and sell assets in times of change will be compensated for having the ability, the dynamic managerial capability, to do so. Therefore,

Hypothesis 1: CEOs who acquire and divest assets in times of environmental change will earn more than those who engage in no such restructuring activity.

## **COMPENSATING DISPLAYS OF POWER**

It is much easier to assess CEOs' business-centric motives for pursuing a patching strategy of buying and selling assets than it is to assess their self-interested restructuring motives. In fact, it may be impossible to know what truly lies in the hearts and minds of CEOs who direct a strategy of acquisition and divestiture. Nevertheless, it is possible to investigate the conditions under which CEOs might be able to act on self-interested motives. We can look for the conditions that would allow, if not enable, such behavior. In short, we can examine CEO power.

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<sup>4</sup> A number of other case-based and large-scale empirical studies show us how acquisitions and divestitures can build the necessary capabilities to compete in times of change. See Agarwal and Helfat (2009) for a study of IBM and Helfat, et al. (2007) for a look at Rubbermaid and Quaker. Capron, Dussage, and Mitchell (1998), Capron, Mitchell, and Swaminathan (2001), Karim (2006, 2009) and Karim and Mitchell (2000) did the broad scale empirical work.

<sup>5</sup> To quote Karim and Mitchell (2000: 1061), “reconfiguration involves the retention, deletion and addition of resources.”

Recent work on the social psychology of power tells us that the actual experience of holding power carries with it its own implications (Flynn, Gruenfeld, Molm, and Polzer, 2011). Magee and Galinsky (2008: 366), for example, observed that “power has metamorphic consequences, leading those with power to roam in a very different psychological space than those with low power.” This psychological space seems to hold action implications. Galinsky, Gruenfeld, and Magee (2003: 462) discovered that “the possession of power can increase a tendency toward action not only in the context in which power is possessed, but also in later, unrelated contexts.” Looking at their experimental evidence, they called power “a catalyst for action.” Moreover, Anderson, and Galinsky (2006: 516) showed us that those with a sense of power take action with a more optimistic sense of the future than those without it. And as they do, they appear to act with themselves in mind (Galinsky, Magee, Inesi, and Gruenfeld, 2006). They are “quicker to detect opportunities for material rewards” (Keltner, Gruenfeld, and Anderson, 2003: 271). Powerful CEOs may be inclined to buy and sell assets because taking action – even action for personal gain – may be what powerful executives do.

Of course, some CEOs hold more power than others. A consideration of this variance implicates corporate governance. While the corporate governance literature is voluminous [see Dalton, Hitt, Certo and Dalton (2008) and Shleifer and Vishny (1997) for reviews], two teams of scholars looked directly at the conditions that foster CEO power. The first team, Gompers, Ishii, and Metrick (2003), was manifestly interested in executive power. They (2003: 107) wanted to distinguish firms that they called “dictatorships” (those led by executives who hold a great deal of power and where shareholders are limited in their ability to replace directors) from “democracies” (those led by executives who hold very limited power and where shareholders can easily replace directors). To do so, they looked at the 24 governance provisions tracked by the Investor Responsibility Research Center (IRRC) and examined whether or not firm performance varied with the presence of these provisions.<sup>6</sup> Their “governance index” was an omnibus tally of the presence or absence of the 24 provisions (p. 115). Dictatorships and democracies represented the top and bottom deciles in the index (revealed in their sample of approximately 1500 firms followed throughout the 1990s). They discovered that democracies outperformed dictatorships.

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<sup>6</sup> See Table 1 (p. 112) and Appendix 1 (pp. 145-150) in their work for a list and description of these corporate governance provisions.

Interestingly, they also found that dictator firms made more acquisitions than their democratic counterparts (p. 136).

Bebchuk, Cohen, and Ferrell (2009) picked up this work and refined it. They examined each the twenty-four governance provisions to see which of them were directly tied to performance. They found that six were linked to negative firm performance (in the 1990 – 2002 time period). These six comprise what is known as an “entrenchment index.” They limit the ability of shareholders to control the CEO. Four of them place limits on shareholders’ voting power (staggered boards, limits to shareholder amendments of the bylaws, supermajority requirements for mergers, and supermajority requirements for charter amendments); two provide the CEO with some immunity from the market for corporate control (poison pills and golden parachutes). The entrenchment index is a simple tabulation of the presence of these six provisions. Entrenched CEOs hold a great deal of power.

If CEO self-interest fuels a firm’s acquisitions and divestitures, then we expect to see the CEOs who are rewarded for this activity to be powerful, protected from shareholder control. We expect to see them entrenched.

Hypothesis 2: Entrenched CEOs who acquire and divest assets during their time in office will earn more than their non-entrenched peers.

## **METHODOLOGY**

### **Sample and Data Collection**

We obtain CEO compensation data for the years 1992 to 2005 from the ExecuComp database and the financial and returns data for the years 1986 to 2008 from the Compustat database and the CRSP daily stock file respectively.<sup>7</sup> Our tests require us to obtain financial data a year before the beginning of the CEO’s tenure and with an eye on some coming follow-up testing, three years after the end of the CEO’s tenure. We began with a sample of 3,980 CEOs.

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<sup>7</sup> Our compensation data begins in 1992 because this is the first year that the ExecuComp data are available. Our compensation data ends in 2005 because of changes in financial reporting requirements. Under FAS123R, equity-based compensation had to be expensed and reported in the financial statements based on the fair value of the awards. Companies were required to comply with FAS123R for fiscal years beginning after June 15, 2005. Under ExecuComp’s 1992 reporting format, our measure of total compensation included salary, bonus, other annual, total value of restricted stock granted, total value of stock options granted, long-term incentive payouts and all other total compensation (as defined under the variable “TDC1” in ExecuComp). Under the 2006 reporting format (which resulted from FAS123R), the measure remains but its definition has changed. Specifically, “TDC1” includes salary, bonus, non-equity incentive plan compensation, grant-date fair value stock awards, grant-date fair value of options awards, deferred compensation, and other compensation. This data compatibility issue left us with this sampling window. Collecting these financial data from before and after the CEOs’ tenures allows us to best assess the relationship between these restructuring decisions, environmental dynamism, and firm performance.

That is, 3,980 sitting CEOs were available to be studied in that 1992 – 2005 time period. We immediately deleted the 19 CEOs whose tenures ended abruptly by their death in this period. And with our focus on the entire tenure of the CEO, we needed to attend to when these CEOs began and ended their jobs. We cannot look at the CEOs working in the 1992 – 2005 period who began work prior to 1992 (N = 1,456) and similarly, those whose tenures extended past our 2005 observation window (N = 1,218). In the end, we identified 1,287 CEOs who began and ended their time in office as a CEO sometime during the 1992 – 2005 time period. We then added the entrenchment filter to this sample.

Bebchuk, Cohen, and Ferrell (2009) looked at all of the companies followed by the IRRC in the period between 1990 and 2002; Lucian Bebchuk later updated those data to 2006. These data are available for download on Professor Bebchuk’s Harvard University webpage (<http://www.law.harvard.edu/faculty/bebchuk/data.shtml>). Combining the two sets of data, our sample was reduced by 338. In the end, we will analyze the tenures of 949 CEOs.

We extract acquisition and divestiture information relating to the firms in our sample from the Securities Data Company (SDC) database. We identify the buyer and the seller for each completed deal in the *Mergers and Acquisitions* database (both U.S. and non-U.S. markets) and *New Issues* database in SDC from 1991 to 2005 and match this information to the firms in our sample.<sup>8</sup> For deals in the *Mergers and Acquisitions* database, we include the deals that are classified by SDC as mergers, acquisitions, acquisitions of majority interest, acquisitions of partial interest, acquisitions of remaining interest, acquisitions of assets, or acquisitions of certain assets. We exclude the deals classified by SDC as recapitalization, buyback, and exchange offer. The completion of the deal counts as an acquisition for the buyer and a divestiture for the seller.

<sup>9,10</sup> Further, if more than one deal involving the same buyer acquiring the same target is

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<sup>8</sup> We looked at 1991 deals because some firms have non-December fiscal year ends. For a firm with a fiscal year end of say March 31, 1992, we would need to examine the deals from April 1, 1991 to March 31, 1992. If we begin our data collection in 1992, we would only capture the deals completed by the firm in the last quarter of the fiscal year.

<sup>9</sup> In the *Merger and Acquisition* database, we define the buyer as “acquirer’s ultimate parent” and the seller as the “target’s ultimate parent.” If the buyer and seller is the same firm (e.g., a transfer of assets between subsidiaries by the parent company), then we excluded the deal from our sample.

<sup>10</sup> Our method of identifying a buyer (i.e., acquisition) and a seller (i.e., divestiture) for each deal attempts to introduce more symmetry to the identification of acquisitions and divestitures. This also means that the divestitures in our sample include, but are not limited to divestitures, spin-offs and carve-outs as identified by SDC in the *Mergers and Acquisitions* database. Note that for every deal, SDC determines if the deal fits the definition of a divestiture, spin-off or carve-out. Based on the SDC definitions, a divestiture is defined as a loss of majority control. A spin-off is a tax-free distribution of shares (regardless of percentage) to its shareholders. A carve-out is a distribution or sale of 100% of a unit, subsidiary division or other company to the public via an IPO. Our definition

announced on the same day, we consider this to be a duplicate observation.<sup>11</sup> For deals in the *New Issues* database, we include issues that are classified by SDC as a spinoff. The completion of the issues counts as an acquisition for the parent of the company after the spinoff and a divestiture for the parent before the spinoff.<sup>12,13</sup>

Comingling the information from ExecuComp, Compustat and SDC, we exclude those observations with missing data. In the end, our sample is comprised of 949 CEO-tenure observations. The one percent tails of all variables in our regression models are winsorized to minimize the effects of extreme outliers.<sup>14</sup>

## Measures

*CEO compensation.* Our research question investigates the relationship between the CEO's compensation and the acquisition and/or divestiture strategy taken by that CEO over the course of his or her time in office. As such, our unit of observation is CEO tenure and the dependent variable in our analyses is the CEO's annual compensation summed over his or her tenure, creating a measure of total compensation during his or her time in office. Previous research in this area is marked by its singular focus on annual CEO compensation (e.g., Bliss and Rosen, 2001; Grinstein and Hribar, 2004), a focus that obscures as it illuminates. Our measure of total compensation consists of salary, bonus, other annual (e.g. annual perquisites and other personal benefits), total value of restricted stock granted, total value of stock options granted (using Black-Scholes), long-term incentive payouts, and all other total compensation (e.g. severance payments, 401K contributions, signing bonuses, life insurance premiums) throughout the CEO's time in office.

*Restructuring strategy.* A total 2,575 acquisitions and 1,371 divestitures were made by a subset of the firms in our sample during the 1992 to 2005 time period (some firms made neither an acquisition nor a divestiture). The mean (median) size of these deals, expressed as a percent of

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of divestiture is broader. For example, we include the sale or distribution of shares that do not result in loss of majority control and the sale of certain assets which are not shares of the company.

<sup>11</sup> There are 6 such instances in our data. For example, we found two announcements of the Tribune Company's decision on August 17, 1995 to buy a \$12 million interest in Time Warner Inc.'s Warner Bros. Television Network.

<sup>12</sup> In the *New Issues* database, we define the buyer as the "ultimate parent of the spinoff firm" after the transaction is completed and the seller as the "spinoff parent." We exclude the deal from our sample in cases where (i) the seller remains as the parent after the spinoff and (ii) the spinoff is a standalone entity.

<sup>13</sup> Note that the definition of spinoff in the *New Issues* database differs from that in the *Mergers and Acquisitions* database. In the *New Issues* database, a spinoff is defined as a distribution of shares in a company to the public via an IPO by a parent company who owns at least 50% of the spinoff prior to the issue.

<sup>14</sup> The tenor of our results does not change when we use unadjusted values.

the firms' assets at the time of the acquisition or divestiture, was 13.92 (5.84) for the acquisitions and 7.53 (2.74) for the divestitures.

The strategy adopted by the CEO is determined by the profile of all the deals that he or she completed during his or her tenure. It is no simple task to empirically capture this phenomenon. We will present our best measurement judgment about how to do so here in the body of the paper and consider alternative approaches in the footnotes below. We look at the number of deals completed by the CEO: the number of acquisitions completed during the CEO's tenure (*Acquisition*), the number of divestitures completed during the CEO's tenure (*Divestiture*), and the product between the number of acquisitions and the number of divestitures completed during the CEO's tenure (*Mixed*).<sup>15,16</sup> *Mixed* is our main variable of interest.

Since we are interested in the repetitive act of buying and selling assets, a measure which captures the frequency of such behavior is appropriate. Nevertheless, it has its limitations. Five \$5 million deals are not the same as five \$100 million deals. We need to consider the value of the deals as an alternative restructuring measure. Thus, we also include *Acquisition Value*, measured as the total value of the acquisition deals scaled by beginning total assets and *Divestiture Value*, measured as the total value of the divestiture deals scaled by beginning total assets to control for these deal values. Assessing both the number of deals and the value of them gives us a good look at the corporate restructuring activity.<sup>17</sup>

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<sup>15</sup> The sum of the number of acquisitions and the number of divestitures is another possible measure for the mixed strategy. Our use of the interaction term is motivated by the idea that the combined type of transactions completed by the CEO during his/her tenure matters. For example, a mixed strategy of five acquisitions and five divestitures is qualitatively different from a mixed strategy of nine acquisitions and one divestiture. Nevertheless, we also operationalized the mixed strategy with an additive  $Acq + Div$  variable. Of course, we cannot have  $Acq + Div$  as a mixed variable in a regression that already has  $Acq$  and  $Div$  in the equation;  $Acq + Div$  then is just a linear combination of  $Acq$  and  $Div$ . The matrix is not invertible. And so, we ran the Table 3 model with  $Acq + Div$  as a variable (without  $Acq$  and  $Div$  in the model individually). The  $Acq + Div$  coefficient is positive and significant at the .001 level. Looking ahead, the  $(Acq + Div) \times Environment$  and  $(Acq + Div) \times Entrenchment$  effects are significant at the .10 level.

<sup>16</sup> The strategy undertaken by the CEO could be measured using an indicator variable rather than the number of completed deals (categorizing them as we will in Table 2). We decided to use the number of deals in the body of the paper because we did not want to overlook the information in the number for deals done (i.e., an indicator variable would treat a CEO who engaged in 10 acquisitions and 10 divestitures the same as a CEO who engaged one acquisition and one divestiture). That said, we ran our analysis using indicator variables and the results are similar, significant at the .10 level.

<sup>17</sup> One might wonder if the balance between the number of acquisitions and divestitures affects our results. As a robustness check, we defined *Balance* as  $Acq/Div$  if  $Acq < Div$  or  $Div/Acq$  if  $Div < Acq$ . The value 1 represents the most "balanced" portfolio, while 0 represents the least balanced one. Adding this variable as a control to all of our many equations, including those where *Mixed* was operationalized with the additive and indicator approaches, never changed the tenor of our results.

*Environmental Dynamism.* Dess and Beard (1984) defined environmental dynamism as “change that is hard to predict” (p. 56) and then used a variety of other words to describe the construct [e.g. turbulence and instability (p. 54), as well as volatility and unpredictable change (p. 58)]. The literature refers to the construct as dynamism (Azadegan, Patel, Zangouinezhad, and Linderman, 2013; Boyd, 1990, 1995; Li and Simmerly, 1998) or instability (Keats and Hitt, 1988; Pagell and Krause, 2004; Wholey and Brittain, 1989). We will call it dynamism. Following precedent, we regressed the natural log of previous 5 years’ sales (for the firm’s industry) against time. Environmental dynamism is measured as the anti-log of the standard error for the regression slope coefficient (e.g., Keats and Hitt, 1988; Boyd, 1990). When changes in the market do not follow a predictable pattern, the standard error will be large and so, dynamism is high. Assessing the environment that the CEO faced during his or her time in office, we computed the dynamism statistic for each year of the CEO’s tenure and then averaged them to capture the dynamism that he or she faced.<sup>18</sup>

*Entrenchment.* As noted above, our measure of entrenchment is the one identified by Bebchuk, Cohen, and Ferrell (2009). The entrenchment index captures the presence or absence of their six entrenchment indicators. Each year’s indicator ranges from 0 to 6. We compute the mean of the measures revealed during each year of the CEO’s time in office.

*Control variables.* We include five variables to control for the impact of firm characteristics on CEO compensation, three variables to control for the nature of the CEO’s time in office, and then controls for the fixed effects of the year of observation and industry in our models.

Attentive to the effects of firm characteristics on CEO compensation, we measure sales to control for firm size, sales growth to control for firm growth, and return on assets, change in return on assets, and stock returns to control for firm performance. We measure size as the natural logarithm of sales, *Sales*, for the year prior to the first year of the CEO tenure. *Sales growth* is the percent change in sales compounded over the tenure of the CEO. We measured return on assets, *ROA*, as operating income after depreciation (Compustat data item 178) divided by average total assets (Compustat data item 6) compounded over the tenure of the CEO, and the change in return on assets,  $\Delta ROA$ , as the change in operating income after depreciation divided

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<sup>18</sup> We also narrowed our focus to assess just environmental dynamism at the time the CEO first took office. The tenor of our results does not change when we use this measure.

by average total assets compounded over the tenure of the CEO. The variable *Stock Returns* captures the excess daily returns over the CRSP value-weighted market index over the tenure of the CEO. Of course, as returns are measured over the tenure of the CEO, the variable includes the announcement returns for all restructuring activities undertaken by the CEO. To control for annual inflation, we adjust all dollar variables to 2006 constant dollars by using the Consumer Price Index from the Bureau of Labor Statistics.<sup>19</sup>

Any study of CEO's total compensation during his or her time in office must account for the length of that time in office. Besides the obvious fact that CEOs who serve longer have a greater opportunity to make more money, tenure is itself a determinant of CEO pay (Hill and Phan, 1991). The variable *Tenure* captures this time in office.<sup>20</sup> Given that some CEOs appear in our sample twice, we include an indicator variable if a CEO held that position for the same (N=4) or different (N=5) firm for more than one continuous period. The variable *Multiple* controls for the effect of including a CEO more than once in our analyses.

Finally, we control for the year of observation and industry fixed effects with the variables *Year Indicators* and *Industry Indicators*. Following Fama and French (1997), we use 4-digit SIC codes to assign firms to 48 industries. Appendix 1 succinctly defines all of our study's variables.

## RESULTS

### Descriptive statistics

In a sample comprised of 949 CEO tenure observations, 307 (32 percent) did not make any acquisitions or divestitures, 76 (8 percent) led a divestiture-only strategy, 247 (26 percent) led an acquisition-only strategy, and 319 (34 percent) crafted a mixed acquisition and divestiture strategy. Interestingly, Bertrand and Mullainathan (2003: 1072) concluded that “the average manager might be better characterized by ‘quiet life’ models than by empire building models.” While we are exploring alternatives to empire building here, our data suggest that a little over a third of CEOs prefer a quiet life, at least as one defined by the absence of restructuring activity. The rest are busy acquiring or divesting assets, or both.

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<sup>19</sup>We use the Consumer Price Index for all urban consumers (CPI-U) compiled by the Bureau of Labor Statistics based upon a 1982 base of 100. We obtain the CPI-U series from <http://www.bls.gov/cpi/>. Multiply the 2006 dollar amounts by 116 percent to turn an average 2006 dollar into an average 2013 dollar.

<sup>20</sup>We have also run our analyses with a squared tenure term to control for any non-linear tenure effects. The results are similar.

Table 1 reports our descriptive statistics (for ease of reporting, we include the variables for all of the analyses reported here).<sup>21</sup> Looking across all 949 CEOs, the mean (standard deviation) compensation for a CEO's tenure in our sample is \$24.71 (\$32.11) million. Again, looking across all 949 CEOs, the mean (standard deviation) number of acquisitions made by a CEO during his or her tenure is 2.71 (4.73); these acquisitions, summed over the tenure of the CEO, increase the size of their firms by 13.92 (21.93) percent. The mean number of divestitures made by these CEOs is 1.44 (2.87); the divestitures, summed over the tenure of the CEO, decreased the size of their firms by 7.53 (11.44) percent. But drawn as they are from our sample of 949 CEOs, these overall statistics obscure more than they illuminate. With 395 CEOs making at least one divestiture (319 Mixed + 76 Divestiture-only CEOs) and 566 CEOs making at least one acquisition (319 Mixed + 247 Acquisition-only CEOs) the acquisitions and divestiture statistics are distorted when we divide them by 949. It may be more illuminating to profile the number and size of these acquisitions and divestitures, and even the compensation statistics, by attending to those who actually made these different restructuring decisions.

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Insert Table 1 about Here  
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Table 2 profiles these same variables but this time by CEO Type. While we cannot make too much of the raw compensation numbers, it is interesting to see that the total compensation varies so dramatically across the four different kinds of CEOs. The mean / median (standard deviation) total compensation for the "mixed" CEOs, those who made at least one acquisition and one divestiture in their time in office, is \$42.41M / \$27.95M (\$41.44M). That amount dwarfs the average compensation made by the other three kinds of CEOs, those who made one or more acquisitions \$20.05M / \$11.45M (\$24.18M), one or more divestitures \$16.99M / \$10.20M (\$23.37M), or no acquisitions or divestitures during their time in office \$11.98M / \$6.07M (\$16.86M). The nature of the restructuring activity seems to vary as well. Looking at the mean (median) profiles of this activity, we see that those who bought and sold assets during their time in office bought more assets [6.12 (4.00) vs. 2.52 (2.00)] and sold more assets [3.86 (2.00) vs.

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<sup>21</sup> Given that *Acquisition* and *Divestiture* are components of the *Mixed* variable, their correlations with the *Mixed* variable are high. We conducted a variance inflation factor (VIF) analysis to assess possible problems with multicollinearity and found that our VIFs for *Acquisition* (4.95), *Divestiture* (5.50) and *Mixed* (7.88) do not approach the threshold of 10 that might begin to give us pause (O'Brien, 2007).

1.86 (1.00)] than their peers who only bought or sold assets; moreover, each deal was marked by a smaller average size [10.33% (4.94%) vs. 18.55% (7.95%) for acquisitions and 6.85% (2.60%) vs. 10.38% (4.05%) for divestitures]. We appear to have uncovered a restructuring phenomenon worthy of continued investigation.

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Insert Table 2 about Here  
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### Acquisitions and Divestitures

Model A in Table 3 reports the results of the regression of total CEO compensation on our control variables. The *Sales* coefficient of 10.78 ( $p < 0.001$ ) is consistent with the idea that CEOs of larger firms are paid more. The significant *Sales Growth* coefficient of 4.14 ( $p < 0.001$ ) tells us that an increase in firm size is also tied to an increase in compensation. The significant result for *Stock Returns* is consistent with the idea that CEOs are to be paid for their firms' performance -- the better the performance, the higher the CEO compensation [the coefficients for *Stock Returns* is 1.74 ( $p < 0.01$ )]. And as expected, the longer the tenure of the CEO, the greater that CEO's compensation (a coefficient of 4.42 with  $p < 0.001$ ). Overall, these results are consistent with prior research (Grinstein and Hribar, 2004; Harford and Li, 2007). Interestingly, the coefficients for the two accounting measures of performance are not statistically significant. Neither the *ROA* variable nor the  $\Delta ROA$  variable are related to compensation. *Multiple*, our control for the CEOs who entered our analysis more than once, is not related to compensation either.

It should be said that we included the *Year indicator* and *Industry indicator* variables in every reported equation to control for differences in compensation practices across years and industries (although for ease of interpretation, we do not report these results in the tables). While not one of the *Year indicator* variables is statistically significant, three *Industry indicator* variables are consistently positive and significant in all of the models. The CEOs of the 26 firms we followed in the "Beer," "Smoke" and "Financial" industries command a compensation premium relative to their peers in other industries.<sup>22</sup>

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<sup>22</sup> Following Fama and French's (1997) logic, the 5 firms we tracked in beer industry come from any of the following SIC codes: 2082 (Malt Beverages), 2083 (Malt), 2084 (Wines, Brandy and Spirits), and 2085 (Distilled and Blended Liquors). The 2 firms we looked at in smoke industry come from any of the following SIC codes: 2111 (Cigarettes), 2121 (Cigars), 2131 (Chewing and Smoking Tobacco and Snuff) and 2141 (Tobacco Stemming and

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Insert Table 3 about Here  
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Models B, C and D in Table 3 report the results of including each of the acquisition and divestiture variables in the regression (along with what turn out to be the unremarkable *Environment* and *Entrenchment* variables). Given our focus on the compensation tied to a mixed acquisition and divestiture strategy, we are broadly interested in how that compensation differs from those who pursue an acquisition-only or divestiture-only strategy or no restructuring at all. Nevertheless, past work suggests that we might find a positive relationship between acquisition or divestiture activity and CEO compensation. We do see some familiar effects here. The numbers of acquisitions and divestitures are positively related to total CEO compensation in Model B. Model C tells us that CEOs are also compensated for large acquisition values. Looking at the change in variance explained between Models A and B (7.5%) and then Models A and C (2.1%), we observe that CEOs' compensation appears to be more sensitive to the act of acquiring and divesting assets than it is the magnitude of those restructured assets. Interestingly, Model D reveals some complexity. CEOs are compensated for making acquisitions and making large acquisitions but the story for divestitures is more complex. They are rewarded for the fact of divestitures but if they are large, they lose money. Adding in the *Mixed* variable in Model E clears things up a bit. Generally speaking, those CEOs who buy and sell assets during their time in office are the ones who are handsomely compensated (the coefficient is .20, with  $p < .001$ ). Those who make acquisitions alone receive no excess compensation; the effect for making divestitures while still positive, drops in statistical significance from .001 to .10 (the *Value* effects remain as they were in Model D). The *Mixed* variable matters.

### **Hypothesis Testing**

Model F tests the logic of Hypotheses 1 and 2. We find support for both. Hypothesis 1 predicts that CEOs who acquire and divest assets in periods of environmental change will earn a

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Redrying). And the 19 firms we followed in the financial industry come from any of these SIC codes: 6211 (Security Brokers, Dealers and Flotation Companies), 6221 (Commodity Contracts Brokers and Dealers), 6231 (Security and Commodity Exchanges), 6282 (Investment Advice), 6289 (Services Allied with the Exchange of Securities or Commodities), 6712 (Office of Bank Holding Companies), 6719 (Offices of Holding Companies), 6722 (Management Investment Offices), 6726 (Unit Investment Trusts, Face-amount Certificate Offices, and Closed-end Management Investment Offices), 6732 (Educational, Religious, and Charitable Trusts), 6733 (Other Trusts), 6792 (Oil Royalty Traders), 6794 (Patent Owners and Lessors), 6798 (Real Estate Investment Trusts), and 6799 (Other Investors). Our results are robust to the exclusion of these firms.

compensation premium relative to those who do not. The *Mixed* variable itself is no longer statistically significant but its interactions with our two theoretical variables of interest are. The coefficient for the *Environment X Mixed* interaction term is 1.86, with  $p < .05$ . A one standard deviation increase in *Environment* increases compensation by \$1.10 million (in 2013 dollars) for the average CEO in the mixed strategy group. Those with dynamic managerial capabilities appear to be rewarded for their skill. On the other hand, we learned that there is a different kind of CEO in this sample too. Hypothesis 2 predicts that entrenched CEOs who acquire and divest assets during their time in office will earn more money than their non-entrenched peers. The coefficient for the *Entrenchment X Mixed* interaction term is .10, with  $p < .01$ . Powerful CEOs who buy and sell assets while in office are also generously rewarded for their activity. A one standard deviation increase in *Entrenchment* increases compensation by \$1.48 million for the average CEO in the mixed strategy group (again, expressed in 2013 dollars). While this latter group of CEOs may enjoy their “quiet life” (Bertrand and Mullainathan, 2003), they do not enjoy the excess compensation that their more active colleagues do.<sup>23</sup>

Finding support for Hypothesis 2, we then disaggregated the entrenchment index to explore which specific governance provisions account for the *Entrenchment X Mixed* effect. The results in Table 4 tell us that CEOs who work in firms with staggered boards and poison pills are the ones to earn excess compensation for this kind of active restructuring activity.<sup>24</sup> The coefficients for the interaction of *Mixed* and staggered boards (.53) and again *Mixed* and poison pills (.24) are both positive and significant at the .01 level. Entrenched CEOs, those protected by

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<sup>23</sup> For completeness, we also added the interaction terms to assess the effects for the *Environment X Entrenchment* and the three higher order interactions that included the *Acquisition*, *Divestiture* and *Mixed* variables. While the *Environment X Entrenchment X Acquisition* effect was significant at the .10 level, the other interactions, including the *Environment X Entrenchment X Mixed* effect, did not reach statistical significance. The *Entrenchment X Mixed* effect, however, was still significant at the .01 level; the *Environment X Mixed* effect was significant at the .10 level.

<sup>24</sup> “A poison pill is any financial device that is triggered by a particular action of an acquirer and results in the assumption of unwanted financial obligations by an acquirer, dilution of an acquirer’s equity holdings, or loss of the acquirer’s voting rights” (Ryngaert, 1988: 380). They were early on identified as a managerial entrenchment device (Malatesta and Walkling, 1988; Ryngaert, 1988). Bebchuk and Cohen (2005: 411-412) succinctly defined a staggered board: “U.S. companies can have either a unitary board or a staggered board. In firms with a unitary board, all directors stand for election each year. In firms with a staggered board, directors are grouped into classes, with one class of directors standing for election at each annual meeting of shareholders. Typically, a staggered board has three classes of directors, which in most states of incorporation is the largest number of classes permitted by state corporate law. ... Staggered boards make winning control via a stand-alone proxy contest more difficult by requiring a rival team to win two elections to gain control.”

these CEO-friendly governance provisions, are able to gather this excess compensation for buying and selling assets.

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Insert Table 4 about Here  
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### **An Alternative Economic Logic**

Coming to Hypothesis 2 from an empire building logic as we did, we implicitly assumed that any support we found for the hypothesis would represent the agency costs that we see in the publicly-held firms (Berle and Means, 1932; Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983). While it is tempting to view this excess compensation as an embodiment of self-interested gain, such a conclusion is premature. Sound economic reasoning might still explain this excess wealth. While we controlled for firm performance during the CEOs' tenure in our assessment of Hypothesis 2, it may be that this mixed acquisition and divestiture strategy yields performance gains after the CEOs depart. If powerful CEOs extract excess compensation by engaging in a mixed strategy of buying and selling assets during their tenure, we need to be alert to the possibility that their firms might benefit from this strategy after they leave office. If so, the support we discovered for Hypothesis 2 could be seen as economically justified and thus, not a sign of self-interest. As such, we will investigate the relationship between this activity and subsequent firm performance.

We define future performance as return on assets (measured as operating income after depreciation divided by average total assets) and measure it for the first year (*FROA1*), second year (*FROA2*), and third year (*FROA3*) after the end of the CEO's tenure. We focus on an earnings construct that measures the recurring operating performance of the company by abstracting away the effects of financial leverage, discontinued operations, non-recurring items and extraordinary items. We adopt an accounting measure rather than a market-based measure as a metric of firm performance because the accounting measure is abstracted from the impact that the change in CEO may have on the firm's stock price. Of course, measures of accounting performance are highly correlated with stock market returns over long windows (Easton, Harris, and Ohlson, 1992). Looking at the performance of the firm in each of the first, second and third years after a CEO leaves office, a significant positive coefficient on the *Entrenchment X Mixed* variable would provide evidence that the excess compensation received by the CEO during his or her tenure is economically justified. Table 5 captures the results of this analysis.

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Insert Table 5 about Here  
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To begin, the relationship between the control variables and future performance tells a predictable story. Generally speaking, past performance predicts future performance. *ROA* and *Stock Returns* are associated with performance in the first and even second year after a CEO departs, with some idiosyncratic differences in the third year as well. Firm size (*Sales*) and growth (*Sales Growth*) are also generally linked to future performance. Perhaps surprisingly, the *Multiple* variable reveals a positive one-year effect. The *Tenure* variable is even more interesting. While it is associated with higher CEO compensation in Table 3, it has a negative effect on future firm performance in each of the subsequent three years. Firms appear to suffer after their longstanding CEOs depart. Comparing these results with what we see in Table 3, we see that CEOs earn extra compensation for making large acquisitions and lose money for making large divestitures. Table 5 puts those results in a broader context. The fact of these acquisitions and divestitures bear little or no relationship to the firms' subsequent performance.

Our theoretical variable of interest here is the *Entrenchment X Mixed* interaction. Imagining that there could be positive subsequent performance implications for such activity, Table 5 tells us that there is no such relationship between buying and selling assets during an entrenched CEO's tenure and the firm's subsequent performance. Indeed, there is a negative relationship in the first year after the CEO leaves office (the *Entrenchment X Mixed* coefficient is -0.0066, with  $p < .10$ ). Contrariwise, those CEOs who reveal dynamic managerial capabilities appear to leave their firms better off in that first year after they leave office (the coefficient for *Environment X Mixed* is 0.0003, with  $p < .10$ ). As such, the extra compensation given to entrenched CEOs for pursuing a mixed strategy does not appear to be economically justified in this regard.<sup>25</sup> With the possibility that self-interest might fuel this entrenchment effect, we will

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<sup>25</sup> Taking a different approach to an assessment of future performance, we reran the analyses in Table 3 using analysts' expectations of future firm performance as independent variables. Some might imagine that *ex ante*, CEOs are paid more because future performance is expected to be exemplary. We used three different measures to assess this idea, the forecast of: (1) future EPS, (2) long-term growth rate, and (3) the expected implied return on assets from these forecasts. In untabulated results, the coefficient on the *Mixed* variable in Model E and the coefficients on the *Environment × Mixed* and *Entrenchment × Mixed* variables remain positive and statistically significant. CEOs can extract excess compensation by engaging in this mixed strategy even after controlling for their firms' expected future performance.

explore this kind of logic more directly. We will examine the role that CEO narcissism might play in the phenomenon.

## **NARCISSISTIC DISPLAYS OF POWER?**

Corporate governance scholars have long sought to uncover and limit the “self-interested maximizing behavior of individuals,” specifically CEOs’ self-interested maximizing behavior (Jensen and Meckling, 1976: 356). Our results tell us powerful CEOs may have the opportunity and means to garner excess compensation for buying and selling assets but without more direct evidence, we can only speculate about these wealthy CEOs’ motives. It would be reckless to assert that self-interest fuels this restructuring activity absent evidence. Fortunately, recent advances in the archival assessment of CEO narcissism give us the opportunity to look closely at a CEO’s motives (Chatterjee and Hambrick, 2007, 2011; Gerstner, König, Enders, and Hambrick, 2013).

Narcissists are defined by their manifest self-interest. First identified by psychoanalysts at the turn of the 20th century (Ellis, 1927), narcissism today is seen as a personality trait that varies in degree across individuals (Emmons, 1987; Raskin and Terry, 1988) and in its extreme form, is considered to be a personality disorder by the American Psychiatric Association (2013).<sup>26</sup> As a personality trait, Emmons’ (1987) four-fold factor structure is seen as definitive (Exploitativeness / Entitlement; Leadership / Authority; Superiority / Arrogance; and Self-absorption / Self-admiration). Chatterjee and Hambrick (2007) used it to orient their archival assessment of CEO narcissism, and the one we will follow here.

Morf and Rhodewalt (2001: 188, 189) best captured the importance of this trait to our findings, “the narcissists’ self-system is in a chronically vigilant state to detect opportunities for self-enhancement. . . . All they need is a stage, where they try to win applause.” The kind of power that entrenchment begets would certainly be welcomed by narcissists (Carroll, 1987) and may enable such CEOs to feed their cravings for self-enhancement.<sup>27</sup> If narcissists are impulsive (Vazire and Funder, 2006) and take action for action’s sake (Kets de Vries, 1994), then Maccoby (2000: 74) may have been prescient. He observed “that a narcissist finds it easier than other personality types to buy and sell companies.” There may be no more welcomed “applause” for a

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<sup>26</sup> See Campbell, Hoffman, Campbell, and Marchisio (2011) for a comprehensive review of work on narcissism by those interested in personality and organization.

<sup>27</sup> Glad (2002:25) looked through history at tyrants who exhibited malignant narcissistic disorders and concluded that “the achievement of absolute power can act as a kind of narcotic.” While she looked at extreme cases, her work does tell us to beware narcissists with unchecked power.

self-absorbed CEO than pay increases attendant to his or her deal-making. If the pursuit of self-enhancement lies behind the excess compensation that the entrenched CEOs receive for buying and selling assets, then we expect these CEOs to be more narcissistic than their non-entrenched peers who are not so compensated for their restructuring activities. Formally stated:

Hypothesis 3: Entrenched CEOs who are rewarded for acquiring and divesting assets during their time in office will be more narcissistic than their non-entrenched peers who buy and sell assets but are not so compensated for their work.

## METHODOLOGY

### Sample and Measures

*Fully entrenched and not.* Table 5 tells us that those CEOs protected by either staggered boards or poison pills are the ones to receive excess compensation for buying and selling assets during their time in office. Of course, with our unit of analysis being the entire tenure of the CEO's time in office, some CEOs were protected with staggered boards and poison pills throughout their time in office (202 and 179, respectively), some were protected for only some of their years in office (6 and 43, respectively), and some were never protected (111 and 97, respectively). We created two pools of CEOs to assess Hypothesis 3. We looked at the 129 CEOs who were protected by both a staggered board and a poison pill during their entire time in office and compared them to the 51 CEOs who had no such protection at any time. Again, we predicted that the former group would be more narcissistic than the latter.<sup>28</sup>

*CEO Narcissism.* We broadly honored the measurement precedent set by Chatterjee and Hambrick (2007, 2011) and Gerstner, König, Enders, and Hambrick (2013). Following Donald Hambrick and his colleagues' lead, we collected unobtrusive measures of three indicators of CEO narcissism. First, we assessed the *prominence of the CEO's photograph* in the company's annual report in the second and third year of his or her tenure.<sup>29</sup> Hambrick and his colleagues assessed narcissism with a 4-point scale, tracking whether the CEO's picture occupied more or less than half a page and whether or not he or she was pictured with fellow executives. Of course, they also observed when they were not pictured at all. If you follow this logic and attend

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<sup>28</sup> Looking at those who were protected by both a poison pill and a staggered board is fully consistent with the prevailing view about the power of these two entrenchment practices: "Prior to the development and adoption of the poison pill defense, staggered boards were considered only a mild takeover defense because they did not impede the acquisition of a control block. The introduction and acceptance of the poison pill, however, transformed the market for control, considerably enhancing the antitakeover power of staggered boards" (Bebchuk and Cohen, 2005: 412).

<sup>29</sup> 151 CEOs satisfied this criterion. After analyzing the stability of the scores, we added the data from nine CEOs with two pictures who served less than three years and nine more where we could only find one photo. See Footnote 30 for a description of this stability analysis.

to all possible combinations, you would use a 5-point scale. Hambrick did not attend to the size of the picture when the CEO was pictured with other executives. We did. In the end, our 5-point scale captured the following distinctions: 5 points if the photo was of the CEO alone and greater than or equal to half a page; 4 points if the photo was of the CEO alone and less than half a page; 3 points if the photo was of the CEO and other executives and was greater than or equal to half a page; 2 points if the photo was of the CEO and other executives and was less than half a page; and 1 point if the CEO was not pictured in the annual report (or their company did not publish one). We collected annual reports from Mergent Online and the companies' web sites. We searched for 342 photographs and found 329. Consistent with Footnote 29, the measure reflects the average of the two years' photo scores. Appendix 2 illustrates the coding scheme.

We then calculated the *prominence of the CEO in his or her company's press releases*. Collecting press release data from the CEOs' second and third years on the job, Hambrick and his colleagues approached this measurement task differently in each of their three studies. Chatterjee and Hambrick (2007) first counted the number of CEO mentions and divided them by either the total number of words (in thousands) or the total number of press releases. Chatterjee and Hambrick (2011) then shifted gears and counted the number of CEO mentions and divided them by the number of mentions to other executives in the firm. And finally, Gerstner, König, Enders, and Hambrick (2013) counted the number of CEO mentions and divided them by the number of mentions made to the firm's second highest paid executive. Obviously, no clear standard has yet to emerge. If the idea is "to remind external constituencies who is running the firm" (Chatterjee and Hambrick, 2007: 364), we thought it best to capture the percentage of the company's press releases that mention the CEO by name. Reminding those constituencies who is the boss in each of say ten press releases, for example, may say more about a CEO's self-absorption than reminding those constituencies ten times in just one of those ten releases. We also broke with "Hambrick tradition" and collected every one of the press releases issued by these 180 companies in each year of their CEOs' tenure (and not just in years two and three). We averaged the annual indicators across the years of service. In the end, we analyzed 22,637 press releases. We collected them from Factiva.

We also assessed the CEO's relative compensation or what is now known as the *CEO pay slice*. Here too we broke with the measurement tradition established by Hambrick and his colleagues. Using ExecuComp data, they computed the CEO's cash (salary and bonus) and non-

cash pay (deferred income, stock grants and stock options (using the Black-Scholes valuation procedure) in CEO's second and third year on the job, and compared their pay to the second highest paid executive in each of their three studies (and also to the next four highest paid executives in their 2007 study). We did not disaggregate the CEOs' pay into these two components (only to immediately re-aggregate them in the analyses); moreover, we could not find a direct measure of deferred income in ExecuComp. Nevertheless, we did include measures of other annual compensation (e.g., perks), long term incentive payouts, and what ExecuComp calls "all other" compensation (e.g., severance pay, 401K contributions, a signing bonus, and insurance payments). In all, we followed the precedent set by Bebchuk, Cremers, and Peyer (2011) in their study of the "CEO pay slice." We computed the total pay that the firm's top five executives received in each year of the CEO's tenure, computed the fraction claimed by the CEO, and averaged these fractions across the years of service. In so doing, we gathered compensation data on 4,970 executive firm years.

## **RESULTS**

Table 6 presents the descriptive statistics and correlations for our three narcissism measures and our (0, 1) entrenchment assessment. While the mean level of CEO prominence in photographs pictured in the annual reports is 3.08 (with a standard deviation of 1.10), the frequency counts may be more revealing. Looking at the most recent photograph available for each CEO, and using our 5, 4, 3, 2, 1 coding scheme, we see that there were 10, 74, 19, 43, and 23 CEOs pictured in this fashion.<sup>30</sup> Looking at the content of the press releases, we see that on average, 20.4 percent of the press releases issued over a CEO's tenure mention him or her by name (with a standard deviation of 17.2 percent). The CEOs in our sample took home 41.7 percent of the top five executives' total pay (with a standard deviation of 9.4 percent) during their time in office.

We used multivariate regression analysis to assess the relationship between these three narcissism measures and CEO entrenchment, again with the fully entrenched CEOs protected by a staggered board and poison pill throughout their time in office and the non-entrenched CEOs

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<sup>30</sup> We were as interested as Chatterjee and Hambrick (2007) to learn how stable these assessments are over time. Looking for year-to-year changes in the photo analytic scores, we found that 91 of the 151 CEOs with the data available to assess such change revealed no year-to-year change at all; of the remainder, 31 moved one increment (say from a 3 to a 4 or from a 4 to a 3), 17 moved two increments, 11 moved three, and one person moved four increments. 81 percent of the CEOs either did not change the broad composition of their pictures or changed them by only one increment. The measure is generally stable.

having so such protection when they served. This analysis allowed us to examine the relationship between CEO entrenchment and the three narcissism measures jointly and, at the same time, obtain estimates of the relationships between CEO entrenchment and each of the narcissism measures individually (Dwyer, 1983). The overall equation was statistically significant, with Wilks' Lambda = 0.94,  $F(3, 165) = 3.72$ ,  $p < 0.05$ ; CEO entrenchment was related to the three narcissism dimensions as a set. Each narcissism dimension also exhibited a significant relationship with CEO entrenchment. For the photo analytic score, the coefficient estimate was 0.40 with a standard error of 0.19 ( $p < .05$ ); the score was significantly higher for entrenched CEOs than for non-entrenched CEOs (with means of 3.20 and 2.80, respectively). Looking at references to the CEO in the press releases, the coefficient estimate and standard error were 0.06 and 0.03, respectively ( $p < .05$ ); entrenched CEOs referred to themselves in 22.17 percent of their companies' press releases, while their non-entrenched colleagues referred to themselves in just 15.84 percent of the releases. Finally, looking at the pay slice that the CEO received, the coefficient estimate was .03, with a standard error of .02, a trend that reached significance at the .05 level. Entrenched CEOs claimed a higher share of their top management teams' total compensation than that claimed by non-entrenched CEOs, with proportions of 42.65 and 39.46 percent, respectively. In all, we find support for H3. Entrenched CEOs who are rewarded for acquiring and divesting assets during their time in office are more narcissistic than their non-entrenched peers who buy and sell assets but do not receive such excess compensation.<sup>31</sup>

## **DISCUSSION**

The magnitude and growth of CEO compensation has become quite controversial in recent years. A managerialist perspective tells us to beware CEOs feathering their nests at their

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<sup>31</sup> In their three studies of CEO narcissism, Hambrick and his colleagues collapsed their dimensions of narcissism into a single index prior to analysis. Although this approach is parsimonious, it obscures the relationships between CEO entrenchment and each of the individual narcissism dimensions. In contrast, the multivariate regression analysis conducted here provides an estimate of the overall relationship between CEO entrenchment and the narcissism dimensions without collapsing the dimensions into a single score. It also detects whether or not the relationships differ for the individual narcissism dimensions. Replicating Chatterjee and Hambrick's (2007) measurement approach (using both approaches to their study of the press releases and their two disaggregated pay measures, as well as their more abbreviated photo analytic coding scheme), we ran four multivariate regressions. Their measures of narcissism distinguished between the two groups of CEOs each time (with three of the Wilks' Lambdas reaching significance at the .05 level and one at the .10 level). The univariate relationships are complex. None of their photo analysis effects reached significance; each of the other three variables reached significance in two of the four equations but in varying patterns across the regressions. These analyses are available upon request.

shareholders' expense.<sup>32</sup> Historically, scholars interested in CEO self-aggrandizement tended to pursue evidence of a compromised governance system (see Bebchuk, Fried, and Walker (2002) for a review). We have only recently considered the possibility that CEOs might make operating decisions for their own idiosyncratic reasons, if not benefit (Bertrand and Schoar, 2003; Wowak and Hambrick, 2010). Our goal here has been to examine the possibility that a strategy of acquiring and divesting assets may be quite lucrative for such a CEO.

Looking at the tenure of 949 CEOs in the 1995 – 2005 time period, we learned that 34 percent of them bought and sold assets during their time in office. But of course not every CEO is likely to be motivated by self-interest. Our understanding of dynamic capability tells us that there are sound strategic reasons to acquire and divest assets. As such, we investigated the possibility that both business-serving and self-serving motives might lie behind such an active restructuring strategy. We discovered that both appear to be in play.

The CEOs who bought and sold assets in times marked by environmental dynamism were compensated for such activity. Shedding light on executives' "orchestration skills," this result begins to unveil the microfoundations of a firm's dynamic capabilities (Teece, 2007: 1341) and affirms Adner and Helfat's (2003) intuition that dynamic managerial capabilities matter. On the other hand, we also learned that powerful CEOs, those protected from the discipline of corporate control by staggered board or poison pills, also received excess compensation for buying and selling assets. Checking to see if the economic benefits for such a strategy appear after they leave office, we learned on the contrary, that these firms appear to be financially hampered in that first year after that entrenched CEO leaves office. Interestingly, the CEOs who bought and sold assets in dynamic business environments left their firms better off in that year immediately after leaving office.

While the CEOs who displayed these dynamic managerial capabilities were likely motivated by business-centric motives, it would be premature to call a powerful CEO self-serving simply because he or she was compensated for buying and selling assets. One needs additional evidence of motive before drawing such a conclusion. Accordingly, we capitalized on recent advances in the unobtrusive measurement of narcissism to determine if such well-compensated and entrenched CEOs were more narcissistic than their less powerful peers who

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<sup>32</sup> Lucian Bebchuk and his colleagues, for example, mount a strong critique of CEO compensation excess (Bebchuk, Cremers, and Peyer, 2011; Bebchuk, Fried, and Walker, 2002; Bebchuk and Fried, 2003, 2004, 2005, 2006; Bebchuk and Grinstein, 2005).

bought and sold assets but were not so rewarded. We learned that such CEOs are in fact, marked by self-absorption and self-interest. Their photographs in the annual reports were on average larger and more self-focused than their less powerful and less powerfully rewarded peers, they referred to themselves more often in the firms' press releases, and they claimed more of the pay granted to the top five executives in their firms.

What do these results imply for our understanding of contemporary corporate governance practices? In their critique of CEO compensation practices, Bebchuk, Fried, and Walker (2002) spoke at length about self-serving CEOs' need for "camouflage." Such CEOs need to obscure and legitimate their moneymaking practices. Bebchuk, et al. (2002) warned us about how compensation consultants can be used toward this end. They never considered the possibility, however, that a program of acquisitions and divestitures might provide a nearly impenetrable cover for wealth extraction. The possibility that CEOs' operating decisions can themselves serve as a form of "camouflage" raises the stakes in unearthing and understanding self-serving behavior. It may very be that the pattern of results here constitute what Hambrick (2007) called an "interesting fact."<sup>33</sup> If so, he then anticipates our next steps, "I say let's get the facts out and then direct our efforts at understanding the nuances, the whys, the hows that lie behind the facts" (p. 1349). We will close by imagining such a research agenda.

### **The nuances**

A virtue of our research is that we looked at the firm's strategy from the vantage point of the CEO's entire tenure. That enabled us to see activity we would not see if we only looked at discrete restructuring events. Now that we see consequential patterns of activity, we will need to better explore how these patterns form and with what consequence. We need to disaggregate the phenomenon to learn how these decisions unfold over time and combine into different patterns of what we called a "mixed strategy." How do these acquisitions and divestitures, their size, sequencing, success, timing and emerging patterns combine to create different kinds of mixed strategies? And do these different strategies carry different implications? A 4 Acq times 4 Div mixed strategy profile may be qualitatively different from an 8 Acq times 2 Div profile. Going further, does it matter if that 4 Acq times 4 Div mixed strategy unfolds in an Acq-Acq-Acq-Acq-

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<sup>33</sup> Taken together, the results reported here seem to meet his "interesting fact" criteria: "the fact is surprising and previously undocumented; it amounts to an associational pattern rather than just a univariate tendency; the temporal order of the involved variables is clear; the outcome variable is important; the sample is large and carefully constructed (multiple samples are a bonus); all obvious covariates and endogenous relationships have been controlled for; and the effect size is big" (Hambrick, 2007: 1349).

Div-Div-Div-Div fashion or in any number of other possible permutations? Does the time between deals -- and their magnitude -- matter? What implications do these different kinds of mixed strategies hold for CEO compensation and even for the nature of the entrenchment practices that might enable them?<sup>34</sup> How do directors react to these different profiles as they unfold? Ultimately, how might CEOs bent on self-aggrandizement both entrench themselves and craft a restructuring strategy for personal benefit? There is much to learn about this complex phenomenon.

### **The whys**

We also need to know more about why some CEOs appear to pursue their own interests while in office and then why some directors reward them for it. In many ways, a move to understand self-serving managerial behavior is a move to understand the psychology of strategy. For example, what role does greed play in strategy making? Wang and Murnighan (2011) recently reviewed the intellectual history of greed and our current understanding of its place in organizational life. Of course, with its moral, cognitive and emotional characteristics, greed is a complex phenomenon. Nevertheless, some see it as defining much of the human experience (Robertson, 2001). The fact that wealthy CEOs pursue even more wealth should surprise no one. Roussanov (2010), for instance, explored the “getting ahead of the Joneses” phenomenon and found evidence to suggest that the marginal dollar earned by the wealthy is quite important to them and that this importance is rooted not so much in consumption as it is in status attainment. While CEOs certainly appear to appreciate the status of the corporate jet (Yermack, 2006) and the media accolade (Hayward and Hambrick, 1997; Malmendier and Tate, 2009), both to their firms’ apparent detriment, money itself may be the ultimate status symbol.<sup>35</sup>

We are learning that there are individual differences as we come to better understand self-aggrandizement in the C-suite. Evidence suggests that CEOs’ personalities affect their firms’ strategic choices, be they rooted in their locus of control (Miller, Kets de Vries, and Toulouse,

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<sup>34</sup> Sanders (2001), for example, found that stock options are positively related to acquisition and divestiture activity, while stock ownership is negatively related. Compensation may well be a reward and a stimulus for this restructuring activity.

<sup>35</sup> Robertson (2001: 212) quoted Ted Turner as he admitted his interest in the *Forbes* magazine list of wealthiest Americans. Speaking with ABC-TV’s John Stossel in a February 2, 1998 interview, Turner remarked: “You’re on this list, you see, and you want to move up the list. You want to be number one. ... American is about competition and rising above the competition. That’s (at) the basis of what makes our economy and society tick. ... Why sure it’s greedy.” This interview can be viewed online: [http://www.youtube.com/watch?v=F0VHiONkot8&list=PLA6D0C30BAD0DCA08&index=1&feature=plpp\\_video](http://www.youtube.com/watch?v=F0VHiONkot8&list=PLA6D0C30BAD0DCA08&index=1&feature=plpp_video)

1982) or narcissism (Chatterjee and Hambrick, 2007; Gerstner, König, Enders, and Hambrick, 2013). Our results add to our understanding of the effects of narcissism in the executive suite. Additionally, CEOs' life experiences, be they time served in the military (Malmendier, Tate, and Yan, 2011) or time spent in MBA classrooms (Bertrand and Schoar, 2003) also appear to affect their decisions. Personality and life experience shape people differently. Of course, not every CEO is marked by self-serving behavior. In fact, "only" thirty-four percent of the 949 CEOs in our sample revealed a disposition to buy and sell assets during their time in office ... and some of them clearly did so with their business' interest in mind. Nevertheless, we need to learn more about who these self-serving people are and how they might use a restructuring strategy to further their own interests.

Why do some boards enable and reward this kind of behavior ... and why do their firm's publics acquiesce to these practices? We really do not know. We do know, however, that CEO compensation setting practices are subtle. CEOs do not simply put themselves on their boards' compensation committees and write their own contracts (Daily, Johnson, Ellstrand, and Dalton, 1998). Knowing that restructuring events provide an opportunity for directors to rewrite their CEOs' compensation contracts (Bliss and Rosen, 2001; Harford and Li, 2007), we might follow Wade, Porac, and Pollock's (1997) lead and look at compensation committees' accounts for these pay adjustments (while the committees they studied used external validations, shareholder alignment statements, accounting performance, and market performance to account for pay adjustments, we may find even more justifications in this context).

And why do a firm's publics acquiesce to these rewards (if they do)? As we mentioned early on, it should be easy to portray active restructuring activity as bold leadership worthy of compensation. Indeed, the support we found for Hypothesis 1 -- and the future performance result we found in Table 5 -- tells us that there are bold leaders in our midst who appear to deserve such acclaim. CEOs are certainly capable of managing what others think of them (Westphal, Park, McDonald, and Hayward, 2012). How do the leaders with dynamic managerial capabilities explain their strategic decisions? And how do the entrenched and narcissistic CEOs explain their decisions? It would be interesting to compare the two. Palmer, Kabanoff, and Dunford's (1997) work may give us a path forward. They content analyzed 87 Australian firms' annual reports (in the 1986 – 1992 time period) to uncover the managers' accounts of their firms' downsizing decisions. They discovered nine themes, themes that clustered into what they called

three languages (strategy, process, and cost versus consideration languages). It would be interesting to see how the accounts in this context compare and then explore if the entrenched CEOs' language mimics the accounts of those CEOs who revealed dynamic managerial capability.

### **The hows**

CEOs can earn excess compensation for buying and selling assets when their firms' governance practices are compromised. Bebchuk and Cohen (2005: 414) were prescient when they suggested that staggered boards "might hurt shareholders by weakening the disciplinary threat of removal (Manne, 1965) and thereby increas(e) shirking, empire-building, and the extraction of private benefits by incumbents." Faleye (2007) showed us how staggered boards do in fact weaken the threat of removal. Our evidence reveals that this concern about the "extraction of private benefits by incumbents" is well-placed. Powerful and narcissistic CEOs earn excess compensation for their restructuring activity.

We do not yet know how a firm's entrenchment processes, strategic choices, and compensation practices co-evolve. The broad corporate governance literature offers a host of possibilities. An analysis of the composition and structure of a firm's board of directors, and how it co-evolves in a year-by-year and deal-by-deal fashion with a CEO's tenure, would be a good place to start. The Dalton, Daily, Ellstrand, and Johnson (1998) and Hermelin and Weisbach (2003) reviews tell us to not only examine whether or not the CEO serves as the board's chair but also to look at the board's size and its percentage of insiders, outsiders, and "gray" directors (those with company affiliations of some kind, as well as those who joined the board during the CEO's tenure). We might also consider how the directors' social ties (Hwang and Kim, 2009), gender (Adams and Ferreria, 2009), and their relationship with the CEO's gender (Kulich, Trojanowski, Ryan, Haslam, and Renneboog, 2011; Lee and James, 2007) affect the development of CEO power, the nature of the structuring decisions made, the awards that accrue for this activity.

In the end, we clearly need to learn more about when and how an active acquisition and divestiture strategy leads a firm down a path to business success and when and how it reveals a CEO bent on self-aggrandizement. Until we can tell the difference, a firm's shareholders, if not its many stakeholders, would do well to carefully scrutinize any CEO who embarks on an active restructuring strategy.

**TABLE 1**  
**Descriptive Statistics and Correlations<sup>a</sup>**

Variables	N	Mean	s.d.	1	2	3	4	5	6	7	8	9	10
1. Compensation	949	24.71	32.11										
2. Acquisition	949	2.71	4.73	0.59									
3. Divestiture	949	1.44	2.87	0.53	0.61								
4. Mixed	949	10.31	34.64	0.58	0.82	0.83							
5. Acquisition Value	949	0.25	0.54	0.27	0.42	0.12	0.20						
6. Divestiture Value	949	0.07	0.17	0.14	0.21	0.49	0.28	0.08					
7. Sales	949	7.34	1.61	0.41	0.26	0.44	0.34	-0.17	0.15				
8. Sales Growth	949	0.66	2.10	0.24	0.24	-0.02	0.08	0.51	-0.09	-0.32			
9. Return on assets (ROA)	949	0.64	0.95	0.31	0.17	0.07	0.09	0.14	0.04	0.01	0.24		
10. Change in return on assets ( $\Delta$ ROA)	949	0.03	0.15	0.16	0.09	-0.03	0.02	0.24	-0.07	-0.18	0.44	0.43	
11. Stock Returns	949	0.05	1.63	0.26	0.14	0.05	0.10	0.15	0.00	-0.08	0.38	0.38	0.50
12. Tenure	949	4.57	2.48	0.42	0.35	0.28	0.26	0.19	0.15	0.04	0.25	0.55	0.18
13. Multiple	949	0.01	0.10	0.01	-0.01	-0.02	-0.02	0.00	-0.04	0.00	0.01	-0.04	-0.05
14. Entrenchment Index	949	2.51	1.23	-0.07	-0.09	-0.03	-0.10	-0.02	0.06	0.03	-0.09	-0.05	-0.04
15. Environment	949	0.12	0.05	0.07	0.05	0.04	0.04	0.05	0.07	0.03	0.01	0.03	0.01
16. One-year return on assets after the end of the CEO's tenure	949	0.08	0.11	0.10	0.03	-0.02	0.00	0.03	-0.02	0.10	0.12	0.55	0.32
17. Two-year return on assets after the end of the CEO's tenure	949	0.09	0.11	0.07	0.01	-0.03	-0.01	0.01	-0.03	0.10	0.09	0.55	0.21
18. Three-year return on assets after the end of the CEO's tenure	949	0.10	0.11	0.05	-0.01	-0.05	-0.03	0.04	-0.05	0.06	0.05	0.53	0.12
19. Staggered Boards	949	0.63	0.48	-0.07	-0.08	-0.12	-0.15	0.04	-0.07	-0.06	0.03	-0.03	0.04
20. Golden Parachute	949	0.58	0.49	-0.13	-0.22	-0.16	-0.21	-0.04	-0.06	-0.04	-0.06	-0.08	0.00
21. Limits to shareholder amendments of the bylaws	949	0.20	0.40	-0.03	-0.09	0.00	-0.06	-0.07	0.03	0.04	-0.06	-0.04	-0.02
22. Supermajority requirements for charter amendments	949	0.05	0.23	-0.05	-0.02	0.06	0.01	-0.03	0.07	0.10	-0.03	-0.07	-0.04
23. Supermajority requirements for mergers	949	0.21	0.41	-0.14	-0.07	-0.11	-0.07	-0.06	-0.07	0.04	-0.06	-0.03	0.01
24. Poison Pill	949	0.53	0.50	-0.10	-0.06	-0.12	-0.14	0.05	0.04	-0.13	-0.04	0.02	0.03

<sup>a</sup> All values > |0.07| but < |0.08| are significant at  $p < 0.05$ , all values  $\geq |0.08|$  but  $\leq |0.10|$  are significant at  $p < 0.01$ , and all values > 0.10 are significant at  $p < 0.001$ .

**TABLE 1**  
**Descriptive Statistics and Correlations<sup>a</sup>**

Variables	11	12	13	14	15	16	17	18	19	20	21	22	23
12. Tenure	0.16												
13. Multiple	0.02	-0.06											
14. Entrenchment Index	-0.02	0.03	0.03										
15. Environment	0.04	-0.05	-0.02	-0.03									
16. One-year return on assets after the end of the CEO's tenure	0.32	0.03	0.05	-0.04	0.07								
17. Two-year return on assets after the end of the CEO's tenure	0.25	0.01	0.00	-0.06	0.07	0.84							
18. Three-year return on assets after the end of the CEO's tenure	0.17	-0.01	0.03	-0.05	0.07	0.65	0.79						
19. Staggered Boards	0.02	-0.06	-0.01	0.62	-0.03	-0.03	-0.03	-0.06					
20. Golden Parachute	-0.04	-0.11	0.04	0.49	0.02	-0.01	-0.02	-0.01	0.18				
21. Limits to shareholder amendments of the bylaws	-0.05	-0.06	-0.04	0.49	-0.13	-0.11	-0.11	-0.08	0.22	0.07			
22. Supermajority requirements for charter amendments	-0.06	0.01	-0.04	0.31	-0.10	-0.09	-0.07	-0.08	0.11	-0.06	0.24		
23. Supermajority requirements for mergers	-0.01	-0.05	0.00	0.42	-0.06	0.01	0.05	0.04	0.14	0.06	0.11	0.14	
24. Poison Pill	-0.02	0.04	0.05	0.55	0.06	0.04	0.00	0.00	0.26	0.26	0.04	-0.02	0.08

<sup>a</sup> All values > |0.07| but < |0.08| are significant at  $p < 0.05$ , all values  $\geq |0.08|$  but  $\leq |0.10|$  are significant at  $p \leq 0.01$ , and all values > 0.10 are significant at  $p < 0.001$ .

**Table 2**  
**Corporate Restructuring and Compensation:**  
**Descriptive Statistics by CEO Type**

	<b>Organic (N = 307)</b>			<b>Divestiture-only (N = 76)</b>			<b>Acquisition-only (N = 247)</b>			<b>Mixed (N = 319)</b>		
	<i>Mean</i>	<i>Median</i>	<i>Std Dev</i>	<i>Mean</i>	<i>Median</i>	<i>Std Dev</i>	<i>Mean</i>	<i>Median</i>	<i>Std Dev</i>	<i>Mean</i>	<i>Median</i>	<i>Std Dev</i>
CEO Tenure	3.51	3.00	2.21	3.57	3.00	2.04	4.53	4.00	2.18	5.85	6.00	2.46
Compensation (\$M)	11.98	6.07	16.86	16.99	10.20	23.37	20.05	11.45	24.18	42.41	27.95	41.44
Number of Acquisitions	---	---	---	---	---	---	2.52	2.00	2.23	6.12	4.00	6.51
Size of Each Acquisition (%)	---	---	---	---	---	---	18.55	7.95	27.07	10.33	4.94	16.08
Number of Divestitures	---	---	---	1.86	1.00	1.36	---	---	---	3.86	2.00	3.82
Size of Each Divestiture (%)	---	---	---	10.38	4.05	15.51	---	---	---	6.85	2.60	10.14

**TABLE 3**  
**Regression Analysis for the Effects of Corporate Restructuring Activity on Total CEO Compensation<sup>a</sup>**

Variables	Model A			Model B			Model C			Model D			Model E			Model F		
Intercept	-66.13	(9.84)	****	-44.86	(9.24)	****	-67.77	(9.69)	****	-47.31	(9.18)	****	-48.36	(9.11)	****	-46.22	(9.25)	****
<i>Controls</i>																		
Sales	10.78	(0.54)	****	7.29	(0.57)	****	10.69	(0.53)	****	7.36	(0.57)	****	7.66	(0.57)	****	7.67	(0.57)	****
Sales Growth	4.14	(0.44)	****	3.05	(0.43)	****	2.78	(0.49)	****	2.48	(0.45)	****	2.59	(0.45)	****	2.71	(0.45)	****
Return on assets (ROA)	-0.06	(1.11)		1.20	(1.03)		0.14	(1.09)		1.36	(1.02)		1.39	(1.01)		1.39	(1.01)	
Change in return on assets ( $\Delta$ ROA)	5.08	(6.38)		5.01	(5.86)		3.80	(6.26)		2.92	(5.82)		2.89	(5.78)		3.26	(5.77)	
Stock Returns	1.74	(0.58)	***	1.47	(0.53)	***	1.91	(0.57)	***	1.62	(0.53)	***	1.52	(0.53)	***	1.38	(0.53)	***
Tenure	4.42	(0.40)	****	2.90	(0.39)	****	4.24	(0.40)	****	2.99	(0.38)	****	3.17	(0.38)	****	3.13	(0.39)	****
Multiple	7.88	(5.47)		8.31	(5.03)	*	7.67	(5.36)		7.49	(4.98)		8.12	(4.95)	*	8.26	(4.93)	*
<i>Main Effects</i>																		
Environment	-4.59	(16.58)		-8.48	(15.23)		-5.01	(16.23)		-7.63	(15.08)		-6.36	(14.98)		-12.55	(18.55)	
Entrenchment	-0.84	(1.37)		-0.30	(0.57)		-1.00	(0.61)		-0.26	(0.57)		-0.10	(0.56)		-0.79	(0.75)	
Acquisition				1.59	(0.20)	****				1.27	(0.22)	****	0.46	(0.31)		-0.91	(0.83)	
Divestiture				1.68	(0.34)	****				2.35	(0.38)	****	0.94	(0.53)	*	1.41	(1.38)	
Mixed													0.20	(0.05)	****	0.23	(0.15)	
Acquisition Value							10.19	(1.60)	****	4.82	(1.61)	***	5.99	(1.63)	****	5.95	(1.64)	****
Divestiture Value							1.13	(4.51)		-16.97	(4.75)	****	-13.23	(4.82)	***	-10.79	(4.88)	**
<i>Interaction Effects</i>																		
Environment $\times$ Acquisition																1.77	(4.63)	
Environment $\times$ Divestiture																-5.99	(8.21)	
Environment $\times$ Mixed																1.86	(0.94)	**
Entrenchment $\times$ Acquisition																-0.33	(0.20)	*
Entrenchment $\times$ Divestiture																0.01	(0.34)	
Entrenchment $\times$ Mixed																0.10	(0.04)	***
Adjusted R <sup>2</sup>	0.52			0.60			0.54			0.60			0.61			0.61		

<sup>a</sup> N = 949. Standard errors are in parentheses. All models include indicator variables to control for year and industry effects. The industry classification replicates Fama and French (1997).

\*p < 0.10

\*\*p < 0.05

\*\*\* p < 0.01

\*\*\*\*p < 0.001

Two-tailed tests

**TABLE 4**  
**Regression Analysis for the Effects of Corporate Restructuring Activity on Total CEO Compensation<sup>a</sup>**

Variables	Model A: Governance = Staggered Boards			Model B: Governance = Golden Parachute			Model C: Governance = Limits to shareholder amendments of the bylaws			Model D: Governance = Supermajority requirements for charter amendments			Model E: Governance = Supermajority requirements for mergers			Model F: Governance = Poison Pills		
Intercept	-40.35	(15.14)	***	-34.60	(15.16)	***	-25.52	(15.39)		-30.02	(15.78)		-28.22	(16.06)		-38.67	(14.71)	***
<i>Controls</i>																		
Sales	6.63	(1.18)	***	5.91	(1.19)	***	4.91	(1.19)	**	5.42	(1.23)	***	5.55	(1.24)	***	6.98	(1.16)	***
Sales Growth	0.33	(1.81)		-1.08	(2.03)		-1.01	(1.84)		0.01	(1.92)		0.08	(1.92)		0.67	(1.93)	
Return on assets (ROA)	1.05	(1.22)		0.79	(1.24)		1.41	(1.24)		0.95	(1.28)		1.01	(1.29)		0.93	(1.19)	
Change in return on assets ( $\Delta$ ROA)	3.95	(6.88)		7.86	(6.92)		5.94	(6.95)		7.34	(7.21)		7.60	(7.27)		6.67	(6.66)	
Stock Returns	0.53	(0.49)		0.78	(0.54)		0.62	(0.49)		0.33	(0.51)		0.27	(0.52)		0.11	(0.51)	
Tenure	2.94	(0.66)	**	3.25	(0.68)	***	2.80	(0.66)	**	2.79	(0.69)	***	2.94	(0.70)	***	2.70	(0.65)	***
Multiple	6.86	(7.80)		1.84	(7.85)		-2.35	(7.85)		-3.11	(8.80)		-1.32	(8.21)		-2.91	(7.60)	
<i>Main effects</i>																		
Acquisition	1.39	(0.43)	**	0.08	(0.55)		1.87	(0.39)	***	1.84	(0.39)	***	1.90	(0.40)	***	0.54	(0.49)	
Divestiture	4.74	(0.60)	***	3.76	(0.69)	***	4.92	(0.60)	***	4.51	(0.60)	***	4.15	(0.59)	***	6.11	(0.59)	***
Mixed	0.05	(0.02)	**	0.15	(0.04)	***	0.06	(0.02)	**	0.05	(0.02)	**	0.04	(0.02)	*	0.02	(0.02)	
Acquisition Value	27.17	(4.52)	***	3.88	(1.27)	**	2.93	(1.26)	*	3.45	(1.31)	**	3.53	(1.32)	**	10.95	(3.14)	***
Divestiture Value	-14.42	(4.30)	***	-9.34	(6.93)		-6.44	(2.93)	*	-6.51	(3.03)	*	-6.97	(3.04)	*	-93.40	(15.95)	***
Governance	7.12	(3.27)	*	1.31	(3.06)		-1.72	(4.16)		-3.11	(8.80)		-1.89	(4.22)		0.04	(3.04)	
<i>Interaction effects</i>																		
Acquisition $\times$ Governance	-0.58	(0.86)		2.93	(0.83)	***	-1.02	(1.71)		-2.34	(3.29)		-1.59	(1.48)		0.12	(0.88)	
Divestiture $\times$ Governance	-5.22	(1.12)	***	-2.39	(1.24)		-1.03	(1.97)		-0.31	(4.61)		0.54	(3.58)		-6.17	(1.06)	***
Mixed $\times$ Governance	0.53	(0.18)	**	-0.11	(0.06)		0.66	(0.38)		-0.47	(0.87)		0.14	(0.31)		0.24	(0.08)	**
Acquisition value $\times$ Governance	-25.01	(4.64)	***	4.67	(4.62)		53.19	(9.80)	***	-3.36	(49.74)		-5.28	(10.97)		-14.69	(5.88)	*
Divestiture value $\times$ Governance	13.69	(5.64)	*	5.65	(8.64)		-14.10	(20.80)		19.55	(76.87)		-21.53	(45.90)		92.49	(16.43)	***
Adjusted R <sup>2</sup>	0.75			0.74			0.74			0.72			0.72			0.76		

<sup>a</sup>n = 949. We combine our data in Table 3 with the entrenchment index as in Bebchuk et al. (2009). Standard errors are in parentheses. The model includes indicator variables to control for year and industry effects. The industry classification replicates Fama and French (1997).

\*p < 0.05  
\*\* p < 0.01  
\*\*\*p < 0.001  
Two-tailed tests

**TABLE 5**

**Regression Analysis for the Effects of Corporate Restructuring Activity on Future Performance <sup>a</sup>**

Variables	Model A: Return on assets in the first year after the end of the CEO's tenure (FROA1)			Model B: Return on assets in the second year after the end of the CEO's tenure (FROA2)			Model C: Return on assets in the third year after the end of the CEO's tenure (FROA3)		
Intercept	0.0371	(0.0363)		0.0097	(0.0381)		0.0076	(0.0370)	
<i>Controls</i>									
Sales	0.0109	(0.0023)	****	0.0092	(0.0024)	****	0.0047	(0.0023)	**
Sales Growth	0.0768	(0.0040)	****	0.0898	(0.0042)	****	0.0948	(0.0040)	****
Return on assets (ROA)	0.0513	(0.0227)	**	-0.0511	(0.0238)	**	-0.1272	(0.0231)	****
Change in return on assets (ΔROA)	0.0016	(0.0018)		0.0025	(0.0019)		0.0014	(0.0018)	
Stock Returns	0.0069	(0.0021)	***	0.0058	(0.0022)	**	0.0021	(0.0021)	
Tenure	-0.0185	(0.0015)	****	-0.0223	(0.0016)	****	-0.0223	(0.0016)	****
Multiple	0.0386	(0.0193)	**	-0.0051	(0.0203)		0.0185	(0.0197)	
<i>Main effects</i>									
Environment	0.0800	(0.0728)		0.0802	(0.0764)		0.0940	(0.0743)	
Entrenchment	-0.0034	(0.0030)		-0.0031	(0.0031)		-0.0005	(0.0030)	
Acquisition	0.0010	(0.0033)		0.0016	(0.0034)		0.0022	(0.0033)	
Divestiture	-0.0095	(0.0054)	*	-0.0064	(0.0057)		0.0012	(0.0055)	
Mixed	0.0004	(0.0006)		0.0001	(0.0006)		-0.0005	(0.0006)	
Acquisition Value	-0.0020	(0.0064)		0.0002	(0.0067)		0.0114	(0.0065)	*
Divestiture Value	0.0198	(0.0191)		0.0115	(0.0201)		-0.0255	(0.0195)	
<i>Interaction effects</i>									
Environment×Acquisition	-0.0226	(0.0181)		-0.0206	(0.0190)		-0.0215	(0.0185)	
Environment×Divestiture	0.0112	(0.0322)		0.0123	(0.0338)		-0.0218	(0.0329)	
Environment×Mixed	0.0066	(0.0037)	*	0.0039	(0.0039)		0.0039	(0.0037)	
Entrenchment×Acquisition	0.0007	(0.0008)		0.0003	(0.0008)		-0.0002	(0.0008)	
Entrenchment×Divestiture	0.0006	(0.0013)		0.0006	(0.0014)		0.0009	(0.0014)	
Entrenchment×Mixed	-0.0003	(0.0002)	*	-0.0001	(0.0002)		0.0000	(0.0002)	
Adjusted R <sup>2</sup>	0.47			0.47			0.46		

<sup>a</sup> N = 949. Standard errors are in parentheses. All models include indicator variables to control for year and industry effects. The industry classification replicates Fama and French (1997).

\*p < 0.10

\*\*p < 0.05

\*\*\* p < 0.01

\*\*\*\*p < 0.001

Two-tailed tests

**TABLE 6**  
**Descriptive Statistics for the Narcissism Analysis**

*Panel A: Mean and Standard Deviation*

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Std</b>
CEO prominence in press releases	169	20.37	17.20
Prominence of CEO in photograph	169	3.08	1.10
CEO Pay Slice	169	41.74	9.36

*Panel B: Correlation*

	Prominence of CEO in photograph	CEO Pay Slice	CEO Entrenchment
CEO prominence in press releases	0.091 (0.238)	0.138 (0.074)	0.166 (0.031)
Prominence of CEO in photograph		0.237 (0.002)	0.164 (0.033)
CEO Pay Slice			0.154 (0.045)

Panel B reports Pearson correlations; p-values are in parentheses.

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## APPENDIX 1 Variable Definitions

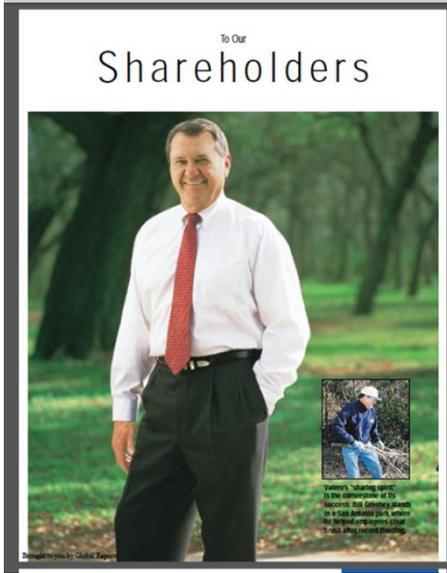
<b>Variable</b>	<b>Definition</b>
<i>Compensation</i>	Total compensation for the entire tenure of the CEO and consists of salary, bonus, other annual (e.g. annual perquisites and other personal benefits), total value of restricted stock granted, total value of stock options granted (using Black-Scholes), long-term incentive payouts and all other total compensation (e.g. severance payments, 401K contributions, signing bonuses, life insurance premiums).
<i>Acquisition</i>	Total number of acquisitions during the CEO tenure if there is at least one acquisition. It is set to zero otherwise.
<i>Divestiture</i>	Total number of divestitures during the CEO tenure if there is at least one divestiture. It is set to zero otherwise.
<i>Mixed</i>	Total number of acquisitions multiplied by the total number of divestitures during the CEO tenure which is given by $Acq * Div$ .
<i>Acquisition Value</i>	Sum of the value of all acquisition deals in year t divided by total assets (Compustat data item 6) in year t-1 over the CEO's tenure.
<i>Divestiture Value</i>	Sum of the value of all divestiture deals in year t divided by total assets (Compustat data item 6) in year t-1 over the CEO's tenure.
<i>Environmental Dynamism</i>	Following Keats and Hitt (1988), we regressed the natural log of previous 5 years' sales (for the firm's industry) against time. Environmental dynamism is measured as the anti-log of the standard error for the regression slope coefficient. Assessing the environment that the CEO faced during his or her time in office, we computed this statistic for each year of the CEO's tenure and then averaged them to capture the dynamism that he or she faced in office.
<i>Entrenchment Index</i>	We compute the mean of the annual entrenchment indices for each year an individual serves as a CEO. Following Bebchuk, Cohen, and Ferrell (2009), the values of entrenchment index range from 0 to 6.
<i>Staggered Boards</i>	One of the six components of the entrenchment index, this is a board in which directors are divided into separate classes (typically three) with each class being elected to overlapping terms. Its presence or absence is noted for each year of the CEO's tenure and either combined with the other five to form the entrenchment index for that year (seen in Tables 3 and 5) or averaged across the years of the CEO's tenure to form a measure of its own (as seen in Table 4).
<i>Golden Parachute</i>	One of the six components of the entrenchment index, this is a severance agreement that provides benefits to management/board members in the event of firing, demotion, or resignation following a change in control. Its presence or absence is noted for each year of the CEO's tenure and either combined with the other five to form the entrenchment index for that year (seen in Tables 3 and 5) or averaged across the years of the CEO's tenure to form a measure of its own (as seen in Table 4).
<i>Limits to shareholder amendments of the bylaws</i>	One of the six components of the entrenchment index, this is a provision limiting shareholders' ability, through a majority vote, to amend the corporation's bylaws. Its presence or absence is noted for each year of the CEO's tenure and either combined with the other five to form the entrenchment index for that year (seen in Tables 3 and 5) or averaged across the years of the CEO's tenure to form a measure of its own (as seen in Table 4).
<i>Supermajority requirements for charter amendments</i>	One of the six components of the entrenchment index, this is a provision limiting shareholders' ability, through majority vote, to amend their corporation's charter. Its presence or absence is noted for each year of the CEO's tenure and either combined with the other five to form the entrenchment index for that year (seen in Tables 3 and 5) or averaged across the years of the CEO's tenure to form a measure of its own (as seen in Table 4).
<i>Supermajority requirements for mergers</i>	One of the six components of the entrenchment index, this is a requirement that requires more than a majority of shareholders to approve a merger. Its presence or absence is noted for each year of the CEO's tenure and either combined with the other five to form

	the entrenchment index for that year (seen in Tables 3 and 5) or averaged across the years of the CEO's tenure to form a measure of its own (as seen in Table 4).
<i>Poison Pill</i>	One of the six components of the entrenchment index, this is a shareholder right that is triggered in the event of an unauthorized change in control that typically renders the target company financially unattractive or dilutes the voting power of the acquirer. Its presence or absence is noted for each year of the CEO's tenure and either combined with the other five to form the entrenchment index for that year (seen in Tables 3 and 5) or averaged across the years of the CEO's tenure to form a measure of its own (as seen in Table 4).
<i>Sales</i>	Natural logarithm of sales (Compustat data item 12) for the year before the first year of the CEO tenure.
<i>Return on assets (ROA)</i>	Return on assets (ROA) compounded over the tenure of the CEO. ROA is measured as operating income after depreciation (Compustat data item 178) divided by average total assets (Compustat data item 6).
<i>Change in return on assets (<math>\Delta ROA</math>)</i>	Change in operating income after depreciation in year t (Compustat data item 178) divided by average total assets (Compustat data item 6) compounded over the tenure of the CEO.
<i>Sales Growth</i>	Change in sales in year t (Compustat data item 12) divided by sales in year t-1, compounded over the tenure of the CEO.
<i>Stock Returns</i>	Returns are measured computing the raw buy-hold returns, including dividends and other distributions, and subtracting the CRSP value-weighted market index over the tenure of the CEO.
<i>Tenure</i>	Number of continuous years that an executive served as a firm's CEO.
<i>Multiple</i>	Indicator variable set to 1 if the CEO is in the CEO position for a firm in our sample for more than one continuous period. It is set to 0 otherwise.
<i>Year Indicators</i>	Indicator variable set to 1 for the year that the CEO begins his tenure and set to 0 otherwise.
<i>Industry Indicators</i>	Indicator variable set to 1 if the firm is in a particular industry and set to 0 otherwise.
<i>FROA1</i>	Return on assets one year after the final year of CEO tenure. Return on assets is measured as operating income after depreciation (Compustat data item 178) divided by average total assets (Compustat data item 6).
<i>FROA2</i>	Return on assets for the second year after the final year of CEO tenure. Return on assets is measured as operating income after depreciation (Compustat data item 178) divided by average total assets (Compustat data item 6).
<i>FROA3</i>	Return on assets for the third year after the final year of CEO tenure. Return on assets is measured as operating income after depreciation (Compustat data item 178) divided by average total assets (Compustat data item 6).
<i>CEO Photograph</i>	Assessing the photos in the CEO's second and third year in office (see Footnote 29 for anomalies), we assigned 5 points if the photo was of the CEO alone and greater than or equal to half a page; 4 points if the photo was of the CEO alone and less than half a page; 3 points if the photo was of the CEO and other executives and was greater than or equal to half a page; 2 points if the photo was of the CEO and other executives and was less than half a page; and 1 point if the CEO was not pictured in the annual report (or their company did not publish one). The score reflects the average of the collected measures.
<i>CEO Press Release</i>	The percent of a company's press releases that mentioned the CEO by name throughout his or her time in office. The percentage was computed for each year and then averaged across years of service.
<i>CEO Pay Slice</i>	The percent of the total pay that the CEO received of that granted to the firm's top five executives. The percentage was computed for each year and then averaged across years of service.

# APPENDIX 2

## An Illustration of the Photo-analysis Coding Scheme

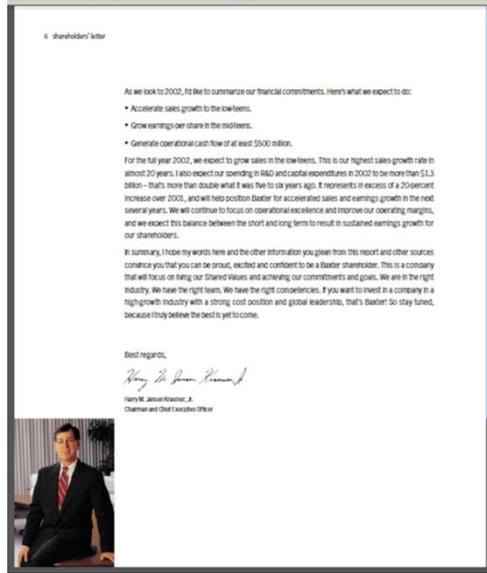
5: Valero Energy (1999)



3: Morgan Stanley (1998)



4: Baxter (2001)



2: COMSAT (1995)



1: International Gaming Technology (2003)

