How Do CEOs React to an Unsuccessful Takeover?

It is common for CEOs to be dismissed after a takeover attempt, whether the takeover is successful or not. Research to appear in the *Journal of Management* focuses on changes in behavior of CEOs who keep their jobs after an unsuccessful takeover attempt. The authors reason that a takeover attempt signals that the market views a CEOs performance as poor. CEOs who keep their jobs afterward will feel pressure to make a change, but little previous research has looked at the types of changes they will make. The study found that CEOs with short and long tenure will make fewer investments in R&D and more capital expenditures, and mid-tenure CEOs will do the opposite.

Key Takeaways:

- Failed hostile takeovers signal problems to CEOs who keep their jobs afterward, and they respond with strategic changes.
- Tenure is a swing factor. CEOs with average lengths of tenure are thought to be most bold and risk-seeking.
- CEOs with short or long tenure play it safe – they respond with more capital expenditures and less investment in R&D, compared to CEOs with moderate tenure.

The researchers reasoned that CEOs who are early in their careers are reluctant to take on risk, preferring to avoid visible failures that will impact their future. Late-tenure CEOs are more tied to the status quo, and concerned about protecting their legacy, so they were expected to likewise avoid riskier strategic change. On the other hand, mid-tenure CEOs will be emboldened to take risk, based on the confidence that comes from their past successes, and the desire to build a distinctive legacy. The researchers compared 71 targets of failed takeover attempts to a group of otherwise similar companies that had not been takeover targets. They examined investments in projects with high uncertainty (R&D) or lower uncertainty (capital expenditures). As expected, mid-tenure CEOs who had survived a failed takeover bid sought riskier R&D projects and avoided safer capital investments, while early- and late-tenure CEOs showed an opposite, more risk-avoiding pattern.

The authors noted that future research will be needed to learn about other CEO reactions to a failed takeover attempt, or how CEOs react to other challenges. Studying the performance implications of keeping a CEO after a takeover attempt was also left to future research efforts.

Source: Heyden, M. L., Kavadis, N., & Neuman, Q. (2014). External corporate governance and strategic investment behaviors of target CEOs. Journal of Management, 0149206314563400.