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# Deal-Making CEOs: Maybe Not As Bullish As They Seem

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Executives love to talk up new corporate acquisitions, but new research shows they may not really feel as bullish as they seem.

A study in the latest issue of the *Academy of Management Journal* found that chief executives are 28% more likely to exercise stock options and 23.5% more likely to sell company stock in quarters following an acquisition announcement, versus after quarters without one.

The sales show that CEOs often lack confidence in the long-term prospects of deals they engineer, says Cynthia E. Devers, a professor at Michigan State University's Broad Graduate School of Management and author of the study.

"They never come out and say 'I'm not really sure how it's going to work,'" says Ms. Devers. "At the same time, they're unloading their equity-based pay."

Ms. Devers worked with researchers at Michigan State, the University of Georgia and the University of Michigan-Dearborn to examine the actions of executives at 2,069 publicly traded companies from 1996 to 2007. When the market reacts positively to an acquisition announcement, CEOs are 17.4% more likely to exercise their options and 15% more likely to sell their stock, the researchers found.

Acquisitions carry rich rewards for chiefs, Ms. Devers says. CEO pay is linked to company size, so an acquisition that brings in more resources and more employees will probably also mean a bigger pay package for the boss.

Acquisitions also consolidate a CEO's power; as a business grows more complex, outsiders, such as institutional investors, analysts or even outside directors, find it harder to grasp what's going on.

"The downside risk for CEOs is pretty limited," said Ms. Devers said. She thinks boards of directors should be more skeptical when a CEO brings an acquisition proposal, especially when the chief has sold stock following a previous deal. Another solution could lie in tying executive pay to performance instead of firm size, she says. "We tell CEOs to grow the size of their firm, but then we don't pay attention to how they're doing it," she adds. "If we pay for size, we're going to get size."

Yet the risks for companies can be great. Ms. Devers, whose scholarship focuses on executive compensation and corporate governance, has previously published a paper in the *Journal of Management* noting that most large acquisitions fail to bring returns for shareholders and may erode value.