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# CEO social status and M&A decision making

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## Abstract

Our study demonstrates the impact of CEO ascribed and achieved social status on M&A decision making and shows the firm value consequences from acquisition deals announced by executives with various status levels. Both ascribed (measured through prestigious education) and achieved (measured through receiving awards) social status are shown to be associated with reduced M&A activity and the effect is strongest among executives who possess both status types simultaneously. However, while the influence of ascribed status is permanent, higher achieved status reduces CEO acquisitiveness only in the immediate aftermath of receiving this status boost. Furthermore, while ascribed status has no significant impact on immediate announcement returns, possessing high achieved social status results in significant value destruction around deal announcements.

**JEL Classification:** D80, G14, G34

**Keywords:** mergers and acquisitions, managerial biases, social status, nearest neighbor matching, event study

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# CEO social status and M&A decision making

## Abstract

Our study demonstrates the impact of CEO ascribed and achieved social status on M&A decision making and shows the firm value consequences from acquisition deals announced by executives with various status levels. Both ascribed (measured through prestigious education) and achieved (measured through receiving awards) social status are shown to be associated with reduced M&A activity and the effect is strongest among executives who possess both status types simultaneously. However, while the influence of ascribed status is permanent, higher achieved status reduces CEO acquisitiveness only in the immediate aftermath of receiving this status boost. Furthermore, while ascribed status has no significant impact on immediate announcement returns, possessing high achieved social status results in significant value destruction around deal announcements.

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# 1 Introduction

The behavioral finance literature has provided new explanations for takeovers that focus on the personal characteristics of company executives, including overconfidence (Malmendier and Tate, 2008), envy (Goel and Thakor, 2010), early life experiences (Bernile et al., 2017), cultural beliefs (Frijns et al., 2013) and political beliefs (Elnahas and Kim, 2017; Han, 2019), as well as demographic characteristics such as age (Yim, 2013) and gender (Huang and Kisgen, 2013). This research is important as it can help explain why firms might engage in the types of acquisitions that have been shown to destroy firm value (Moeller et al., 2005). This paper demonstrates that incentives to pursue acquisitions can also vary depending on CEO social status. We show that both the level and the nature of social status have implications for the propensity to engage in M&A deals as well as for the value created through these investments. Our overall hypothesis is that CEOs with elevated social status will be keen to reduce risky acquisitions so as not to endanger their social status position.

We are motivated in this study by findings in sociology and related fields showing that individuals' behavior can vary depending on their social status position (Foladare, 1969; Piazza and Castellucci, 2014). Despite this, examinations of status influence in a corporate finance setting are scarce. Palmer and Barber (2001) provide some initial evidence of a lower level of diversifying acquisitions among higher status executives in the 1960s. There have also been findings of higher financial risk taking among lower status individuals (DeMarzo et al., 2004; Hong et al., 2014) in their general financial decision making. Other research shows a significant impact on CEO financial behavior following winning awards which involve a boost to social status (Malmendier and Tate, 2009; Kubick and Lockhart, 2017; Shemesh, 2017), although this is largely linked in the prior literature to the propensity for overconfidence of award winners rather than instilling social status. As a wider perspective

some recent research finds that belonging to social groups built around religiosity and civic norms influences corporate behavior (Dyreg et al., 2012; Hasan et al., 2017), supporting the idea that membership of social groups matter. Thus there is preliminary evidence of a potential link between social status and CEO propensity to engage in M&As, and it is within this potential that our research is situated.

Social status can be usefully contrasted with overconfidence, with the latter being the most widely-studied CEO trait investigated to date across a wide range of financial behaviors (Malmendier and Tate, 2008; Banerjee et al., 2017; Hsieh et al., 2014; Humphery-Jenner et al., 2016). While the overconfidence literature generally argues that overconfidence acts as an impetus for risk-taking, our social status argument goes in the opposite direction for the domain of acquisitions. Holding elevated social status might lead to increased confidence in outcomes and therefore risk-taking due to having experienced a background where risks usually turned out positively or were minimized (Kish-Gephart and Campbell, 2015), but acquisitions are different to regular firm activities in the extent of unknown potentials. Particularly, acquisitions have highly uncertain outcomes that are frequently negative (Moeller et al., 2005), and can involve negative perceptions of CEO behavior due to the likelihood of, for example, job losses post-acquisition (Conyon et al., 2001). Our model developed in the next section therefore contrasts the potential gains from such uncertainty activity with the risk of status loss following failure and hypothesizes a decreased incentive to engage in acquisitions.

One issue we particularly focus on in this paper is that existing financial research addressing social status tends to employ a singular concept of ‘social status’ without distinguishing between different types of this personal attribute. However, social status is a complex construct which can originate from different sources. Two distinguishing sources are ascribed status which is assigned to individuals at birth and

does not depend on their innate abilities, and achieved social status which is attained throughout the life of an individual and is based on personal effort and exercise of volition (Foladare, 1969). Due to different underlying characteristics, ascribed and achieved social status types are likely to influence decision making through separate processes and the two routes to status are, therefore, commonly differentiated in sociological and management research (Kish-Gephart and Campbell, 2015; Piazza and Castellucci, 2014; Lin, 1999).

In order to capture the precise nature of social status influence this paper therefore is one of the first studies to distinguish between ascribed and achieved social status. The only similar examination of differentiated ascribed and achieved status in a finance context was in Lucey et al. (2012) who analyzed acquisitiveness of CEOs of large UK companies. Compared to this study we offer a number of improvements, particularly by developing a model of status influence, applying nearest neighbor matching to identify suitable comparison firms, testing a much larger dataset with comprehensive controls, a range of acquisition methods, and investigating the market impact of acquisition announcements dependent on status. We thus arrive at a more conclusive answer as to whether social status influences CEO acquisition decision making.

We explore the influence of both status types on CEO acquisitiveness separately and further consider the combined impact of possessing high inherited as well as high attained status simultaneously. For our dataset of S&P500 CEOs we use the level of university prestige to measure CEO ascribed social status, as receiving an elite education is often argued to be indicative of an upper-class origin (Karabel and Astin, 1975; Palmer and Barber, 2001), Building on the work of Malmendier and Tate (2009); Cho et al. (2016) in different areas of financial decision making, prestigious business awards are used to proxy achieved social status and we follow

a nearest-neighbor matching approach adapted from Abadie and Imbens (2011) to isolate status influence from the selection effects.

Our results show that higher social status is significantly associated with reduced M&A activity, consistent with a motivation on the part of CEOs with high social status to avoid taking risks that can harm that status. An important distinction emerging from our findings is that the influence of ascribed status is constant while the impact of achieved social status follows changes in the status position and the effect is limited to several years. In particular, possessing high ascribed status results in a 30% lower level of M&A activity compared to marginal status CEOs. Within the achieved status dimension, executives with higher status are approximately two to four times less acquisitive compared to lower status CEOs in the several years following elevation in status. Finally, the influence of status is strongest among executives who possess both status types simultaneously, with the frequency and relative deal size among CEOs with dual elevated social status being approximately 60% lower than the average among executives with lower status. Additional investigations also show that the stock price reaction to M&A announcements is particularly negative for CEOs with recently elevated social status in the form of award winning. This is consistent with prior evidence of a general underperformance of award-winning CEOs (Ammann et al., 2016).

This paper contributes firstly to the growing literature highlighting the importance of CEO personal characteristics for corporate conduct and policies (Altunbaş et al., 2018; Baxamusa and Jalal, 2016; Benmelech and Frydman, 2015; Xu and Zhang, 2018) and firm value (Chen et al., 2014). Secondly, we determine the particular importance of social status on behavior. Social status is a unique characteristic in that it is bestowed upon the decision maker by others and its maintenance is subject to hard-to-gauge social group approval, making it distinct from prior studies

which have primarily concentrated on personal characteristics traits. Social status is also one of the few CEO characteristics studied that reduces CEO risk-taking. Our study therefore represents an evolution of our understanding of the influence of CEO characteristics on their behavior. Our other key contribution is that by theorizing how dual social status paths can individually and in combination distort CEO behavior we show the benefit of building detailed behavioral hypotheses from the source literature.

The remainder of the paper is organized as follows. Section 2 analyses the prior literature to determine how social status should influence CEO M&A decision-making. Section 3 describes the data used in the study and justifies the empirical strategy. Section 4 presents and analyses our results on the impact of ascribed and achieved status on CEO acquisitiveness. The last section discusses the implications of the findings and concludes with future research directions.

## **2 Modeling social status and acquisitiveness**

Acquisitions generally provide strong financial incentives since CEO compensation tends to increase with firm size (Grinstein and Hribar, 2004) and executives are often rewarded more for good performance than they are penalized for poor market returns (Garvey and Milbourn, 2006). Recent research directly shows the compensation benefits of acquisitions for CEOs (Feito-Ruiz and Renneboog, 2017). Apart from monetary benefits, CEOs can be motivated to pursue acquisitions due to the status these activities can generate. Social status has been shown to be an intrinsically valued resource that provides powerful motivation to perform and generates direct utility independently of financial consequences (Huberman et al., 2004; Fiske and Markus, 2012).



Assuming executives with high and lower social status (within both ascribed and achieved dimensions) face similar monetary costs and benefits associated with M&A<sup>1</sup>, the difference in acquisitiveness between these two groups can be analyzed through the utility derived from social status consequences of M&A. The utility from pursuing an acquisition for a CEO with ascribed status  $i$  and achieved status  $j$  is given by the difference in the social benefits it provides and its social costs:

$$U_{i,j} = u_{i,j}(a) - c_{i,j}(a) \tag{1}$$

Where  $i=L$  for a CEO with lower ascribed status and  $i=H$  for a CEO with high ascribed status, and similarly,  $j=L$  for a CEO with lower achieved status and  $j=H$  for a CEO with high achieved social status. Social costs,  $c_{i,j}(a)$ , are associated with normative expectations surrounding acceptable M&A behavior within the business community, while social benefits from pursuing acquisitions,  $u_{i,j}(a)$ , come in the form of a potential positive shift in achieved status.

Pursuing acquisitions can provide an increase or a decrease in CEO achieved social status, both directly and through their impact on company performance. The direct impact is mainly dependent on whether the deal is successful, increasing CEO status in case of acquisition completion and decreasing it when negotiations fail. The indirect influence is a function of the perceived acquisition quality that is evident from the company's stock performance around a specific deal. Acquisition quality incorporates the market's reaction to deal characteristics, such as payment type and attitude as well as the anticipated future success of the merger. If a company underperforms following an acquisition, its CEO is less likely to experience an award-based status

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<sup>1</sup>It is possible that high status CEOs can extract higher financial benefits from acquisitions. High status, in particular achieved, can provide CEOs with more power within their companies which is likely to increase their influence on decisions regarding M&A bonuses (Grinstein and Hribar, 2004). However, we assume that status concerns dominate marginal differences between high and lower status executives in terms of monetary incentives.

increase in the following period since winners of several prominent awarding publications are at least partially based on company's past performance. Social benefits from pursuing acquisitions,  $u_{i,j}(a)$ , can, therefore, be expressed as follows:

$$u_{i,j}(a) = u_{i,j}(G(a))pq - u_{i,j}(L(a))(1 - p)q \quad (2)$$

Where  $p$  is the probability that the deal is completed and  $q$  is the quality of an acquisition.  $G(a)$  is the achieved status gain in case of deal completion and  $L(a)$  is the status loss in case negotiations fail and the acquisition does not proceed.

The marginal utility from pursuing an acquisition is given by:

$$\frac{\partial U_{i,j}}{\partial a} = u'_{i,j}(a) - c'_{i,j}(a) \quad (3)$$

Or:

$$\frac{\partial U_{i,j}}{\partial a} = u'_{i,j}(G(a))pq - u'_{i,j}(L(a))(1 - p)q - c'_{i,j}(a) \quad (4)$$

First, we consider the difference in social incentives faced by CEOs with low and high ascribed social status. CEOs with high ascribed social status are individuals who are born into elite families and are brought up surrounded by the normative expectations of possessing an upper class origin. Their high social class combined with a position of the highest company's officer provides membership within the corporate elite circle. As any social group, corporate elite circle has a specific established cultural model and a system of norms that dictate what behavior is acceptable for members. Engaging in acquisitions can conflict with accepted business practice, and pursuing this risky strategy might jeopardise CEOs' identification with the corporate elite. Executives with lower ascribed status, on the other hand, have the flexibility of deviating from accepted business practice and are more motivated to take chances:

they can attain status if their strategy is successful but have little reputational concerns in case of failure. Therefore, the marginal social cost of pursuing acquisitions is always higher for upper class CEOs, giving  $c'_{H,j}(a) > c'_{L,j}(a)$ .

In addition, executives with high ascribed social status are likely to place less value on a potential achieved status increase since they already occupy a high status position within the ascribed dimension. As a result, their utility function,  $u_{H,j}(a)$ , is flatter than  $u_{L,j}(a)$  and their marginal benefit from pursuing acquisitions is always lower, giving  $u'_{H,j}(a) < u'_{L,j}(a)$ . Since  $c'_{H,j}(a) > c'_{L,j}(a)$  and  $u'_{H,j}(a) < u'_{L,j}(a)$ , the marginal net utility from pursuing an acquisition is lower for CEOs with high ascribed social status:

$$\frac{\partial U_{H,j}}{\partial a} < \frac{\partial U_{L,j}}{\partial a} \tag{5}$$

**Hypothesis 1** *CEOs with high ascribed social status have a lower level of acquisitiveness compared to CEOs with lower ascribed status.*

Within the achieved status dimension, executives with low and high achieved social status are assumed to have similar normative costs associated with deviating from acceptable M&A behavior,  $c_{i,j}(a)$ , so that  $c_{i,L}(a) = c_{i,H}(a)$ . Therefore, their net utility from pursuing an acquisition is given by the potential achieved status gain or loss:

$$U_{i,j} = u_{i,j}(a) = u_{i,j}(G(a))pq - u_{i,j}(L(a))(1-p)q \tag{6}$$

Where the marginal utility is given by:

$$\frac{\partial U_{i,j}}{\partial a} = u'_{i,j}(G(a))pq - u'_{i,j}(L(a))(1-p)q \tag{7}$$

Similar to the traditional wealth utility function, we assume that  $u_{i,j}$  is increasing and concave in  $a$ . Therefore, a positive shift in achieved social status decreases the marginal benefit of additional status attainment and increases the marginal cost of potential status loss. So,  $u'_{i,H}(G(a)) < u'_{i,L}(G(a))$  and  $u'_{i,H}(L(a)) > u'_{i,L}(L(a))$ . As a result, an increase in CEO achieved social status reduces the marginal net utility from pursuing acquisitions:

$$\frac{\partial U_{i,H}}{\partial a} < \frac{\partial U_{i,L}}{\partial a} \tag{8}$$

A similar pattern of behavior can also be predicted based on tournament incentives. Assuming CEOs value status and are competitive, the US business arena can be considered to involve an underlying tournament-like behavior with payoff in terms of social status. In a laboratory experiment of risk taking behavior in a two person tournament setting, Nieken and Sliwka (2010) find that trailing contestants tend to make riskier choices while leading players tend to favor a safer strategy when the outcomes of available strategies are uncorrelated. As a result, following a positive status shift high status CEOs can be expected to reduce risky M&A activities relative to lower status executives who have higher incentives to pursue acquisitions.

**Hypothesis 2** *A positive shift in CEO achieved social status results in reduced acquisitiveness compared to CEOs with no status change.*

Finally, we consider the difference in acquisitiveness between CEOs who possess high ascribed and high achieved social status simultaneously and all other executives. Given the relationship between the marginal net utility of CEOs with low and high ascribed social status presented in equation (5), the following relationships should hold when achieved status is fixed:  $\frac{\partial U_{H,L}}{\partial a} < \frac{\partial U_{L,L}}{\partial a}$  and  $\frac{\partial U_{H,H}}{\partial a} < \frac{\partial U_{L,H}}{\partial a}$ . Similarly,

given the relationship between the marginal net utility of CEOs with low and high achieved social status presented in equation (8), the following relationships should hold when ascribed status is fixed:  $\frac{\partial U_{L,H}}{\partial a} < \frac{\partial U_{L,L}}{\partial a}$  and  $\frac{\partial U_{H,H}}{\partial a} < \frac{\partial U_{H,L}}{\partial a}$ . As a result, the marginal utility from pursuing an acquisition is lowest for CEOs with dual high status characteristics:

$$\frac{\partial U_{H,H}}{\partial a} < \frac{\partial U_{L,H}}{\partial a} < \frac{\partial U_{L,L}}{\partial a} \quad (9)$$

$$\frac{\partial U_{H,H}}{\partial a} < \frac{\partial U_{H,L}}{\partial a} < \frac{\partial U_{L,L}}{\partial a} \quad (10)$$

**Hypothesis 3** *Following a positive shift in achieved social status, CEOs with high ascribed social status reduce their acquisitiveness more than all other CEOs.*

Our model predictions are in line with the prior evidence of a negative link between social status and corporate risk taking. Using secondary school prestige to proxy 'social status at birth' (or ascribed status), Palmer and Barber (2001) find that CEOs with elite background exhibit less risk taking with regards to M&A decisions and engage in fewer M&A transactions compared to marginal-status executives. Similarly, Koh (2011) demonstrates that CEOs with elevated achieved social status, measured through prestigious business awards, reduce their risk taking through more conservative accounting practices.

Although the balance of literature contemplates that higher social status is associated with reduced risk taking, it is worth noting that there is also research suggesting that attaining status can lead to riskier strategies. First, some literature suggests, but does not test, that higher achieved status might cultivate overconfidence (Malmendier and Tate, 2009); and overconfidence has been linked to more aggressive

corporate policies. If CEOs become overconfident following an increase in achieved social status, they are likely to overestimate the probability of a successful acquisition,  $p$ , as well as the quality of the deal,  $q$ , resulting in an increased expected benefit from pursuing acquisitions. Second, Thaler and Johnson (1990) argue that decisions are influenced not merely by the potential future outcome but by prior outcomes as well. The authors present evidence of 'the house money affect' through which gains facilitate risk seeking by individuals. Applying the Thaler and Johnson (1990) conclusions to social status concerns would imply that CEOs' utility function is convex in  $a$ , resulting in higher marginal status benefits from potential acquisitions. While these scenarios are possible, they run contrary to both theoretical models of social status influence on risk taking as well as findings from the prior empirical studies of social status.

Social status also has implications for the value created through M&A deals. Winning a prestigious business award is likely to increase CEO power within the firm (Malmendier and Tate, 2009), providing high achieved status executives with more freedom in making M&A decisions. Gong and Guo (2014) find that powerful CEOs tend to be more conservative in acquisition decisions, which is evident through their tendency to refrain from highly risky projects and preference for using a larger proportion of equity in payments. While the authors find that an increase in CEO power reduces the overall dispersion of returns, the median announcement effect is negative for executives with the higher power rank.

Companies with award-winning CEOs are likely to have a strong recent stock performance and relatively low book-to-market ratios, strengthening directors' confidence in management competence. Executives in non-winning companies with poorer track record, on the other hand, are likely to face tougher scrutiny from the board of directors before their acquisition plans are approved. As a result, CEOs with

high achieved social status might be more likely to engage in lower quality deals, triggering a more negative market response. In line with these predictions, Rau and Vermaelen (1998) document evidence of a lower post-acquisition performance among low book-to-market ('glamour') firms, compared to more cautious value companies.

Finally, Malmendier and Tate (2009) find that executives tend to underperform following an award-based increase in status, both relative to their own prior performance and compared to similar lower status CEOs. Ammann et al. (2016) further show that increases in CEO status also provide motivational benefits to their competitors, resulting in a poorer performance by award-winners relative to their non-winning counterparts. A testable hypothesis is that the general downward trend in performance of award-winners is accompanied by a negative market reception of M&A deals announced by executives with recently elevated social status:

**Hypothesis 4** *The market response is lower for M&A deals announced by CEOs with high achieved social status compared to CEOs with lower achieved social status.*

The market response to M&A announcements could also vary within the ascribed status dimension. Elite social background has been linked with greater 'prestige' power (see, for example, Chikh and Filbien (2011)), which is one of the four broad types of power identified by Finkelstein (1992). Furthermore, managers with upper-class upbringing tend to be more successful in using ingratiating behavior for further increasing their corporate power (Stern and Westphal, 2010). Higher CEO power, in turn, can reduce supervision of acquisition decisions, resulting in lower quality deals (Gong and Guo, 2014; Harford et al., 2012). For example, Harford et al. (2012) find that high CEO 'entrenchment', a form of CEO power due to governance provisions in a firm results in suboptimal avoidance of private acquisitions. In addition, powerful CEOs have been shown to be more likely to appoint directors with pre-existing net-

work ties, further reducing the effectiveness of corporate governance and increasing the number of value-destroying acquisitions (Fracassi and Tate, 2012). Based on this evidence, we propose the final testable hypothesis:

**Hypothesis 5** *The market response is lower for M&A deals announced by CEOs with high ascribed social status compared to CEOs with lower ascribed social status.*

### 3 Data and methodology

#### 3.1 Variables

Our sample consists of yearly-rebalanced S&P 500 constituents between January 1992 and December 2012 and includes all companies except utilities, financial firms, conglomerates<sup>2</sup> and companies with complex governance structures (e.g. multiple simultaneous CEOs). The usable dataset is comprised of 660 companies and includes all observations for which financial and M&A information is available. The list of companies' CEOs and data on their age, tenure and gender are extracted from *Compustat ExecuComp* database.

For the ascribed status indicator, educational background information is collected from *Marquis Who's Who*, *Thomson One Banker*, *EDGAR listings*, *Notable Names Database*, and annual reports. We use the level of university prestige to measure CEO ascribed social status and distinguish between lower and higher status CEOs based on the type of university that awarded their bachelor degree. While second-level schooling would likely to be a better indicator of ascribed status, as university

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<sup>2</sup>Utilities: SIC codes 4900 - 4999; financial firms: SIC codes 6000 - 6999; conglomerates: SIC code 9997.



prestige places can also be attained by educational achievement, this approach suffers from significant incomplete data availability.

The majority of CEOs in our sample received their education in the United States, with the United Kingdom being the most popular source of bachelor degrees among internationally educated executives. Within the United States, Ivy League<sup>3</sup> universities have historically been associated with social elitism and student with low ascribed status (even those possessing exceptional academic credentials) are considerably less likely to attend a university from this elite group (Mullen, 2009). Similarly, the Russell Group is considered to encompass the most prestigious higher education institutions within the United Kingdom (Chevalier and Conlon, 2003). Therefore, our binary ascribed status measure equals to one if a CEO holds a bachelor degree from one of the Ivy League or Russell Group universities, and zero otherwise<sup>4</sup>.

For identifying achieved status shifts, award data is hand-collected from a variety of publications that conferred prestigious CEO awards during the sample period. Similar to Malmendier and Tate (2009), an award is only included if it is prominent enough to affect CEO status and any US executive has a possibility to win it. Therefore, all awards used in this paper are national and are not subject to any constraints such as CEO age, gender or industry. Ten publications have been selected according to these criteria: *Business Week*, *Financial World*, *Forbes*, *Industry Week*, *Chief Executive*, *Electronic Business Magazine*, *Time*, *Time & CNN*, *Harvard Business Review* and *Morningstar.com*. More details on each award are provided in Appendix 1.

M&A data is gathered from *Thomson One Banker SDC* database, including

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<sup>3</sup>The members of the Ivy League are as follows: Brown University, Columbia University, Cornell University, Dartmouth College, Harvard University, Princeton University, University of Pennsylvania and Yale University.

<sup>4</sup>Since the Russell Group can be considered too broad in comparison to the Ivy League, we confirm that our results remain virtually unchanged if only Oxford and Cambridge universities are considered to be indicative of higher ascribed social status in the United Kingdom.

transaction size, financing type, attitude, target industry. Financial controls and firm-specific characteristics are obtained from Compustat. These include firm size, Tobin's Q, return on assets, cash holdings, book leverage and industry codes for all sample companies. In addition, monthly and daily stock prices are collected from *CRSP* in order to estimate companies' prior performance as well as the market's reaction to M&A deal announcements.

CEO acquisitiveness is analyzed using the frequency and relative size of M&A transactions. Following Levi et al. (2014), M&A deals are included if they take the form of a merger (SDC deal form M), an acquisition of majority interest (AM), or an acquisition of assets (AA). We require the bidding company to hold less than 51% of the target company's shares before the transaction and to acquire at least 51% of the target, providing the bidding firm with control. In addition, only transactions worth more than 5% of acquirer value are included in the main analysis in order to avoid deals that may not require active involvement of the acquirer CEO. However, robustness tests also include M&A deals worth more than 1% of acquirer value<sup>5</sup>.

Table 1 presents summary statistics for all variables used in the tests of ascribed status, and Table 2 presents the same for achieved status. In both cases a comparison is drawn between those CEOs with status and other CEOs.

For ascribed status in Table 1 we see that the fraction of high ascribed status CEOs remains between 10% and 20% throughout the sample period, with an average of 15%. It appears from the table that there is a lower frequency and value of acquisitions for high ascribed status CEOs. In terms of firm characteristics, companies with elite executives tend to have lower book leverage and slightly higher cash holdings. The table also shows that there is no significant difference in size, past

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<sup>5</sup>While 5% remains the most commonly used cut-off point, including M&A deals worth over 1% of acquirer value might capture deals that are likely to receive less board oversight and might be more influenced by CEO personal characteristics. There is also no evidence in prior literature that 5% is a valid cut-off point in practice.

returns, Tobin's Q or return on assets between companies with CEOs from varying status backgrounds. There are, however, some significant differences in terms of CEO characteristics. While average age does not appear to vary between CEOs with different status levels, upper-class executives tend to have longer tenure and are more likely to be female.

Table 2 provides summary statistics of the achieved status data, distinguishing between companies with award-winning CEOs and other sample firms. Achieved status CEOs significantly differ from non-award-winners along most firm and CEO characteristics. Companies with winning CEOs tend to be larger with an average market capitalization of \$53.5 billion compared to \$14.2 billion among non-winners. Substantially lower book-to-market ratios among award winners suggest that these companies enjoy greater market expectations compared to other sample firms. Award-winning companies tend to have higher cash holdings, lower leverage and higher market value of assets. Significantly higher past returns among winning CEOs are not surprising considering that several awards consider prior performance in the selection process. Finally, award winners tend to be younger CEOs, yet with more experience, and are more likely to be female.

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Insert Tables 1 and 2 here

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### **3.2 Estimation approach**

The summary statistics in Table 1 for ascribed status suggest that there is no significant systematic firm-level difference between companies with high and lower ascribed status CEOs, making a linear regression analysis appropriate for comparing M&A

activities between these two groups. Therefore, we assess the relationship between ascribed social status and acquisitiveness using the following regression specification:

$$Y_{it} = \alpha + \beta_1 S_{it} + \beta_2 X_{it} + \varepsilon_{it} \quad (11)$$

$Y$  is the level of CEO acquisitiveness, which is measured using the frequency and value of M&A activity.  $S$  is the ascribed status indicator which equals to one if a CEO has received a bachelor degree from one of the Ivy League or Russell Group Universities, and equals to zero otherwise.  $X$  represents a set of firm and CEO control variables as detailed in Section 3.1. All financial controls are lagged by one year. Year and industry fixed effects are included to control for time trends and inter-industry variations. Standard errors are clustered at the firm level in all regressions to account for autocorrelation and heteroskedasticity.

On the other hand, the data in Table 2 indicates that high achieved status assignment is not random and award-winning companies tend to be systematically different from non-winners, meaning the same testing approach as for ascribed status is not possible. Malmendier and Tate (2009) discuss how post-award financial consequences could include mean reversion effects and note that winning companies may be unobservably different from other firms, making direct comparison of these groups problematic. To address these issues, we construct a nearest-neighbor matching estimator adapted from Abadie and Imbens (2011), and identify a sample of ‘predicted winners’ to estimate the impact of achieved status shifts on CEO acquisitiveness.

The control sample of predicted winners is constructed using a two-step procedure. Initially, a logit regression is estimated to identify determinants of CEO awards based on a range of observable firm and CEO characteristics (Appendix 2). The sample

includes firm-month observations from months in which an award is conferred. The binary dependent variable is equal to 1 if the company's CEO received an award in the respective month, and equals to zero otherwise. This award indicator is then regressed on the firms recent market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, equity returns, and controls for CEO age, tenure, and gender. All accounting variables are measured at the end of the last fiscal year that ended at least six months prior to the award month. The regression also includes year, industry (using the 48 Fama and French industries), and award type fixed effect.

The predicted values from the logit regression are then used to calculate propensity scores for all sample CEOs and construct a sample of predicted winners. In each award month, a non-winning CEO with the propensity score closest to the actual winner is chosen as the predicted winner (with replacement). Since matches are not exact, we also use a bias adjustment procedure (Abadie and Imbens, 2011). The procedure estimates the effect of matching covariates on each outcome variable in the control sample and uses the estimates to adjust for remaining variation in the match variables between award winners and predicted winners. The summary results for predicted winners in Table 2 show that predicted winners are a much closer match on firm and CEO characteristics to award winners than just using non-winners. Two exceptions to this close match are that predicted winners have a smaller market capitalization and Tobin's Q than winners, which is driven by the limitations of lack of comparable firms on these measures. However in both cases the predicted winners are a lot closer to winners than simply using non-winners.

Once predicted winners are identified, the influence of achieved status is assessed using an event study methodology. The date at which the award was made public is

used as the event date<sup>6</sup> and changes in acquisitiveness are measured from one year prior to award until four years later, where the year prior to award ends exactly six months before the award month. Only observations for which the award-winning CEO is still in office at the end of each event window are included. The average effect of a positive achieved status shift on acquisitiveness of award-winning CEOs is estimated using a difference-in-difference method which accounts for time-invariant unobservable differences between companies with high and lower status executives:

$$\tau|_{A=1} = E(\Delta Y_i(1) - \Delta Y_i(0)|A = 1) \quad (12)$$

where  $A$  is a binary treatment indicator that equals to 1 if a CEO has received an award, and equals to zero otherwise.  $\Delta Y_i(A)$  denotes the change in acquisitiveness as a function of  $A$  for observation  $i$ , relative to its value before treatment. Therefore,  $(\Delta Y_i(1)|A = 1)$  indicates the expected difference in acquisitiveness of award-winning CEOs before and after a status shift, which is calculated by averaging the observed differences among the winners sample (high status CEOs).  $E(\Delta Y_i(0)|A = 1)$  indicates the unobservable expected difference in CEO acquisitiveness had they not received an award, which is calculated by averaging the observed differences among the CEOs in the predicted winners sample (lower status CEOs). In order to correct for any remaining differences between award winners and predicted winners, we adjust for potential bias as follows. The adjustment is only needed for the unobservable  $E(\Delta Y_i(0)|A = 1)$  term and it is calculated in two steps. Initially,  $\Delta Y_i(0)$  is regressed on a set of observable determinants of award-winning,  $D_i$ , identified in Table II. Then, the bias adjusted estimate of  $E(\Delta Y_i(0)|A = 1)$  is constructed as the sum of  $\Delta Y_i(0)$  and  $\hat{c}_0(D_i) - \hat{c}_0(D_j)$ , where  $\hat{c}_0$  is a vector of the estimated

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<sup>6</sup>Either the cover date of the issue in which the award recipients were announced or the first online appearance, whichever is earliest.

regression coefficients with the same dimension as  $D_i$ . The term  $\hat{c}_0(D_i) - \hat{c}_0(D_j)$ , therefore, represents the difference in the predicted values of  $\Delta Y_i(0)$  using the vector of determinants of award winning for the  $i^{th}$  award-winning CEO and the vector of determinants of award winning for his or her corresponding match, indexed by  $j$ .

## 4 Findings and analysis

### 4.1 Ascribed status

Figures 1 and 2 plot the average number and value of investment in M&A, respectively, among high and lower ascribed status CEOs in each year of our analysis. Consistent with Hypothesis 1 both indicators of acquisitiveness are lower among high ascribed status CEOs in most years. The pattern in the average level of investment in M&A is particularly strong after 2006, with the mean among high social status executives at a level 65% beneath lower status CEOs. The period between 2002 and 2005 appears to be an exception from the overall trend: during these years, high ascribed status CEOs exhibited greater acquisitiveness compared to marginal status CEOs, nearly tripling the latter group's average M&A investment in 2003 and 2005. This period coincides with the sixth merger wave that occurred between 2003 and 2007 (Alexandridis et al., 2012), which might explain the reverse behavior of high ascribed status CEOs. Prior research suggests that social constraints associated with growth through mergers and acquisition within the corporate elite circle weaken during the merger waves and the established elite can actually facilitate the spread of the wave as the strategy is imitated throughout the business community following the initial success of marginal status CEOs (Stearns and Allan, 1996; Palmer and Barber, 2001).

Insert Figures 1 and 2 here

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The formal tests confirm the suggestions of the visual inspection and Hypothesis 1. Models 1-3 in Table 3 display the results for ascribed status related to the frequency and level of investment in M&A for acquisitions worth more than 5% of acquirer value. These show a negative link between possessing high ascribed status and acquisitiveness for value of acquisitions. Model 2 shows that high ascribed status CEOs invest approximately 32% less in mergers and acquisitions compared to lower status executives ( $p < 0.05$ )<sup>7</sup>. Scaling the value of acquisitions by book value of assets rather than market capitalization makes the relationship even stronger (Model 3,  $p < 0.01$ ). The coefficient for the frequency of acquisitions (Model 1) is, however, not significant. In unreported tests we find that a negative binomial model of this count variable does not improve significance, but that there is evidence of a stronger relationship in the second half of the study period (2007 onwards) compared to the first half. Models 4-6 of Table 3 confirm that the same pattern of results also holds when we expand the dataset out to include acquisitions worth more than 1% of acquirer value.

An issue with these tests is that the ascribed status measure relies on university prestige being an indicator of upper-class origin. However, the negative relationship observed could potentially be a result of these CEOs receiving a better education. Ivy League and Russell Group universities are considered to be among the best universities in the world and well-educated CEOs might be disinclined to pursue risky M&A deals that might destroy shareholder value (Andrade et al., 2001). In order to explore this alternative explanation, we rerun the tests with an additional ‘Top 100

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<sup>7</sup>Economic significance is calculated as coefficient for high status from Table 3 divided by mean for low status from Table 2, and is calculated in a similar manner in the rest of the paper



universities' dummy variable that distinguishes firms with well-educated CEOs who attended one the world's top 100 universities (excluding prestigious Ivy League and Russell Group institutions). The results from these tests are in Table 4 and show that both attendance at both prestigious and other world's top 100 universities is negatively related to the frequency of M&A ( $p$ -value $<0.05$ ). However, only attendance at the most prestigious Ivy League or Russell Group institutions is significantly related to the overall value of M&A investment ( $p$ -value $<0.01$ ). Receiving a degree from non-prestige top 100 universities has no impact on value of acquisitions. The results are similarly significant regardless of whether market capitalization or assets are used to assess the relative size of M&A deals.

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Insert Tables 3 and 4 here

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## 4.2 Achieved status

Attaining higher achieved social status was also argued to decrease the incentive to pursue acquisitions. Figures 3 and 4 graph average M&A frequency and average M&A investment, respectively, among winners, predicted winners and all non-winning firms. Both indicators of acquisitiveness show a similar pattern: in the year prior to award, winners and their matches start close to the average among all non-winning firms, reducing their M&A activities slightly in the award year. In the subsequent three years, however, the pattern separates, with award winners decreasing the frequency and investment in mergers and acquisitions while predicted winners exhibit a steady rise in their acquisitiveness. By the end of the third year after status increase, award-winning CEOs attempt approximately three times less

acquisitions compared to their lower status matches and reduce the total investment in M&A to almost four times below the average among predicted winners.

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Insert Figures 3 and 4 here

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This graphical evidence is formalized using the difference-in-difference approach described in Section 3.2 and support Hypothesis 2 of lower acquisitiveness by high achieved social status CEOs. Table 5 presents the differences in acquisitiveness between award winners and predicted winners from one year prior to the award until four years later. The results confirm that CEOs reduce their acquisitiveness following an increase in achieved social status compared to their own pre-award average as well as relative to executives with no status change. A significant drop in the frequency of M&A transactions among winning CEOs becomes evident six months after the award is conferred (at the end of award year), and while award winners continue to decrease the volume of acquisitions in the subsequent three years (with a slight rebound in year three), predicted winners exhibit a steady rise in the frequency of M&A. In addition, a significantly lower investment in M&A deals among award winners in the years following the award confirms that award-winning CEOs do not substitute a larger number of smaller transactions for less acquisitions of higher value but actually decrease their overall acquisitiveness, thereby reducing the risks associated with M&A.

The difference-in-difference in M&A activities between award winners and their matches remains negative for all event windows and becomes significant for both indicators of acquisitiveness one full year after award conferral. This difference is also economically meaningful: by the end of the second year after status increase, the

change in acquisitiveness among CEOs with high achieved status is approximately six times lower in terms of M&A frequency and three times lower in terms of investment in M&A, compared to the change among lower status executives ( $p$ -value $<0.01$ ). Three years after the award, the change in M&A activity among high achieved status CEOs is about two times lower in both measures of acquisitiveness, compared to the change among predicted winners ( $p$ -value $<0.01$ ). These findings for predicted winners suggest that, similar to the influence of tournament incentives on corporate policies within a company (Kini and Williams, 2012), awards can motivate competing CEOs to increase firm risk. This is also in line with recent evidence of adverse motivational effects of CEO achieved status shifts on competitors (Ammann et al., 2016).

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Insert Table 5 here

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We run further tests to check whether the effect of award winning on CEO status and their subsequent acquisitiveness differs depending on whether a CEO is a first time winner or has already won at least one award in the past. One (unlikely) possibility is that every award provides a similar increase in CEO achieved social status. If that is the case, the marginal status benefit of pursuing acquisitions should decrease with the number of awards, leading to a greater reduction in acquisitiveness following every subsequent award. Alternatively, the first award might provide the greatest shock to CEO social status and elevate the market's expectations regarding executive's future performance. As a result, subsequent awards would merely help to maintain CEO's current status position and the reduction in acquisitiveness should be the most pronounced following the first award. Table 6 shows the change in

acquisitiveness of first time winners and repeat winners. While both groups show evidence of lower frequency and investment in M&A after an award, the magnitude of the reduction is greater following the first award. By year three, the reduction in frequency and level of investment in M&A is approximately one and a half time greater among first time winners compared to repeat winners. These results suggest that the first award provides the highest shift in CEO achieved social status and increases expectations of future performance.

Prestigious CEO awards increase firm status and the relationship is likely to work both ways. Apart from awards conferred personally to companies' executives, U.S. firms have an opportunity to increase their status by appearing in prestigious annual surveys and rankings, such as *Fortune's "Most Admired Companies"* or *Business Week's "Top 50 Performers"*. Since CEOs are often viewed as an embodiment of a company, organizational achievements are likely to be attributed to individual leaders (Hayward et al., 2004; Pfarrer et al., 2010), especially considering that media coverage of prestigious surveys often includes CEO profiles for highly-ranked firms. As a result, appearing in influential company rankings is likely to increase firm as well as CEO achieved social status, and including firms that have won firm-level awards in the non-winners group might be underestimating the difference between the two groups. To check this we collect firm awards from the lists mentioned above and perform additional analysis. Our results in Table 7 show that excluding firms that have won awards from the control group increases the significance of the difference with the award-winning high achieved status group. This suggests that our main results are likely a conservative test of the impact of achieved status on firm M&A.

We perform several robustness checks to ensure that our results are not distorted by any remaining differences between award winners and their matches and are not driven by a particular choice of predicted winners. Table 8 presents the results

excluding award winners too large to match closely using the predicted winners technique, and confirms that our results are not driven by any size mismatches. In addition, the differences in acquisitiveness between high and lower achieved status CEOs still hold (and are in fact stronger) excluding observations where propensity scores between award winners and their matches differ by over 0.1 as well as by a more restrictive limit of 0.05. We also confirm in untabulated results that the results hold for different subsets of awards, particularly when we re-test including only the most influential awards as indicated by highest circulation.

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Insert Tables 6, 7, and 8 here

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### 4.3 Dual social status

We expected in Hypothesis 3 that CEOs who possess both high ascribed and high achieved social status simultaneously would be less acquisitive compared to all other executives. This is confirmed in Table 8 which reports the results for dual social status holders.

In these tests possessing both status types is indicated by a dummy variable that equals to one if a CEO has high ascribed and high achieved social status during the observation year. While ascribed status is constant, we need to make a choice about how long to include the impact of achieved status for a CEO. Based on the achieved status findings, a CEO is considered to possess high achieved social status if he or she received a prestigious business award during two years prior to observation year<sup>8</sup>.

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<sup>8</sup>While the main test assumes a two-year award impact on achieved status, the results remain qualitatively similar if a one, three, or five year-impact is used instead. Two-year impact is chosen for consistency with the event study findings.

Figures 5 and 6 plot the average frequency and investment in M&A, respectively, among CEOs with dual elevated social status, CEOs with only one high status characteristic (either ascribed or achieved) and executives with lower status in both dimensions in each sample year. Both acquisitiveness indicators show a higher average among CEOs with lower ascribed and lower achieved social status in most years. The only exceptions occur around the major merger waves before the crash of 2000 and before the recent financial crisis. During these periods, high status CEOs exhibit reverse M&A behavior and often exceed the average among lower status executives.

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Insert Figures 5 and 6 here

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We investigate the link between possessing dual high status characteristics and acquisitiveness using least squares regression analysis, in which we regress the frequency and investment in M&A on an indicator of a CEO having high ascribed and high achieved social status simultaneously. Table 9 presents the results, confirming a significant negative relationship between high dual social status and M&A activity ( $p$ -value $<0.01$ ). The frequency and investment in M&A among CEOs with dual elevated social status are approximately 60% lower than the average among executives with lower social status, suggesting a very substantial impact. Comparing the influence of having inherited as well as attained social status to just possessing an elite background shows that the investment in M&A is reduced by a further 25% compared to the base level among lower status executives.

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Insert Table 9 here

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#### 4.4 Market response to acquisitions

As a last set of tests we examine the stock price reaction to M&A announcements to see if the social status of the CEO might be a contributory factor towards the type of market reaction. Hypothesis 4 expected a more negative response to the acquisitions of high achieved status CEOs due to the general underperformance of these CEOs. Hypothesis 5 expected a more negative response to the acquisitions of high ascribed status CEOs due to their tendency to have boards with similar social status directors indicating an incomplete search process for the best directors and thus less than optimal governance. The assumption in both cases is that investors recognize these weaknesses and therefore react more negatively to acquisition announcements by such CEOs.

The stock price reaction to each of the 1,612 M&A announcements in our sample is evaluated using acquirer cumulative abnormal returns (CARs) over a three-day event window<sup>9</sup>  $[-1, +1]$ . CARs are calculated as the arithmetic sum of acquirer abnormal returns from day -1 to day 1, where day 0 is the announcement day. Abnormal return for each company's common stock on each day is estimated using the market model:

$$AR_{jt} = R_{jt} - (\hat{\alpha}_j + \hat{\beta}_j R_{mt}) \quad (13)$$

$R_{jt}$  is the rate of return on the common stock of  $j^{th}$  firm on day  $t$ .  $R_{mt}$  is the rate of return on the CRSP market equal-weighted index on day  $t$ . Following Edmans (2011), the parameters  $\hat{\alpha}_j$  and  $\hat{\beta}_j$  are estimated over a 255-day period ending 46 days prior to the announcement of the deal<sup>10</sup>.

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<sup>9</sup>In additional untabulated tests, we find similar results using a five-day  $[-2, +2]$  or a seven-day  $[-3, +3]$  event window.

<sup>10</sup>The results remain qualitatively similar when we use CRSP market value-weighted index, and when abnormal

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Insert Table 10 here

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Panel A in Table 10 displays average three-day announcement CARs across groups of CEOs with different status characteristics. Consistent with prior studies (Moeller et al., 2005; Harford et al., 2012), we find that in most cases the average market response is higher for the acquirers when cash is used to finance the deal. While the average announcement return for all deals is negligible, cash-financed acquisitions yield a significant positive market return of 80 basis points ( $p$ -value $<0.01$ ). Deals financed with a proportion of equity, on the other hand, experience a negative stock price reaction of 50 basis points ( $p$ -value $<0.10$ ).

Within the achieved status dimension, companies with lower status CEOs ('All non-winners') generally enjoy positive announcement returns, with the average stock price reaction of 30 basis points for all deals ( $p$ -value $<0.10$ ) and 110 basis points for cash-financed transactions ( $p$ -value $<0.01$ ). In contrast, deals announced by executives with elevated achieved social status tend to trigger a significantly negative average market reaction. This negative response is most severe for deals completed within one year from winning an award (-450 basis points,  $p$ -value $<0.01$ ) and improves monotonically as the gap between award date and the deal announcement increases. However, M&A deals made by high achieved status CEOs continue to be associated with significant value destruction for all sub-groups, as evidenced by the average announcement effect of -260 basis points ( $p$ -value $<0.01$ ) for transactions completed any time after an award. Similar to the acquisition behavior of more powerful CEOs (Gong and Guo, 2014), we find that executives with elevated

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returns are calculated using a market-adjusted returns model:  $AR_{jt} = R_{jt} - R_{mt}$



achieved social status complete relatively more deals financed with some portion of equity. Non-cash-financed acquisitions tend to have more severe value-destroying consequences, with the average announcement return ranging from -380 to -400 basis points (with  $p$ -value $<0.05$  or  $p$ -value $<0.01$ ) across all high achieved status groups.

In contrast to the strong market reaction to acquisition announcements made by CEOs with elevated achieved social status, Table 10 shows no significant supporting evidence of a negative link between ascribed status and acquirer abnormal returns around M&A announcements. While the average CARs for executives with high ascribed social status are slightly negative, the coefficients remain insignificant at the 10% level regardless of the payment method.

We utilize a two-step procedure to further test the contribution of ascribed and achieved social status to acquirer announcement abnormal returns. The first step is the calculation of acquirer three-day CARs using abnormal returns as estimated above. In the second step, these CARs are regressed on the indicators of ascribed and achieved status as well as a range of firm and deal characteristics:

$$CAR_i = \alpha + \gamma_1 ST_i + \gamma_2 X_i + \varepsilon_i \quad (14)$$

$CAR_i$  is the three-day cumulative abnormal return for deal  $i$ , where  $i$  is between 1 and 1,612.  $ST_i$  is the status indicator which is unique for ascribed social status but has five variations within the achieved status dimension. Achieved status indicator equals to one if a CEO has received an award within one year, two years, three years, five years or any time before the deal announcement (Models 1-5 in the results in Table 10, Panel B). Ascribed status measure equals to one if a CEO has received a bachelor degree from one of the Ivy League or Russell Group Universities (Model 6).  $X_i$  represents a set of firm and deal characteristics related to the market reaction to acquisition announcements. These include firm size, relative deal size, Tobin's Q,

book leverage, financing method indicators, relatedness indicator (within-industry deals), deal attitude indicator, tender offer indicator and toehold (proportion of the target firm's shares owned by the acquirer prior to the announcement). Year and industry fixed effects are included to control for time trends and inter-industry variations. Standard errors are clustered by announcement date to account for cross-sectional correlation of returns.

The results from the regression models are presented in Panel B in Table 10. All achieved status indicators (Models 1-5) have negative coefficients, with four out of five models reporting statistically significant results at 10% or better. Similar to the evidence in Panel A for the average CARs, regression coefficients show that the negative impact of achieved social status on announcement returns is strongest within the first year (Model 1) after status elevation and gradually decreases as the gap between award date and the deal announcement increases. Model 6 presents the results of regressing acquirer abnormal announcement returns on the ascribed status measure. The estimated coefficient before the ascribed status indicator is not significant, suggesting that while elite background might motivate a more cautious behavior related to the frequency and the size of M&A transactions, it does not appear to reduce the quality of deals pursued by high ascribed status CEOs.

## **5 Discussion and conclusions**

We show a significant relationship between CEO ascribed and achieved social status and the acquisitiveness of the firms they manage. Ascribed social status is proxied through educational prestige and achieved social status is measured using influential business awards. Further, the two types of social status influence CEO decision making through different underlying processes and while the impact of ascribed status

is permanent, higher achieved status reduces CEO acquisitiveness following status shifts, declines over time, and the effect is most pronounced after the first award. This exploration of the dual paths of social status influence, and their differing influences, is the main contribution of our paper.

Ascribed social position remains constant throughout the life of an individual and influences CEOs' level of acquisitiveness through the difference in social costs and benefits faced by high and lower status executives. CEOs with high inherited status face greater marginal social cost of pursuing acquisitions due to their strong identification with the corporate elite circle and reluctance to deviate from legitimated behavior. In addition, executives with high ascribed social status are likely to place less value on a potential achieved status increase since they already occupy a high status position within the ascribed dimension. As a result, the personal gain from pursuing acquisitions is higher for CEOs with lower ascribed social status. Consistent with these predictions, we find that high ascribed status CEOs invest approximately 32% less in mergers and acquisitions, compared to executives without prestigious backgrounds.

Within the achieved status dimension, we find a significantly lower frequency and investment in M&A following a positive status shift. The reduction in acquisitiveness becomes evident a year following the status increase and continues to drop for several years that follow. Further tests show that the reduction in M&A activities is most pronounced among first time winners, suggesting that the first award provides the greatest shock to CEOs' achieved social status. Since M&A is considered a risky activity, the findings are consistent with evidence of a reduced CEO risk taking following a positive status shift in areas such accounting practices and earnings management (Koh, 2011).

Furthermore, the effect of social status on CEO acquisitiveness is strongest among

executives that possess high achieved and high ascribed status simultaneously. In particular, M&A investment is reduced by a further 25% below the base level if an elite CEO has experienced a positive achieved status shift in the previous two years. The low level of acquisitiveness among executives with both high inherited and high attained social status is consistent with our perspective that these status types have different origins and influence CEO social utility from acquisitions through different mechanisms.

The analysis of the market reaction to deal announcements made by executives with various status characteristics shows that while ascribed status has no significant impact on the announcement returns, possessing high achieved social status tends to trigger a negative market response. This results in an average value destruction of 4.5% within three days around the announcement for executives with recently elevated status. The magnitude of the negative stock price reaction to all deals announced by high achieved status CEOs improves monotonically as the gap between status elevation and the deal announcement increases, but stock-financed acquisitions continue to trigger an average announcement return of -3.8% to -4% across all high achieved status groups. These results pose important governance implications and confirm the need for a more advanced corporate governance structure that could offer a more effective supervision of CEO investment decisions in order to prevent investment distortions and reduce the level of value-destroying acquisitions.

Our findings contribute to the growing body of literature that examines the influence of CEO personal attributes on their corporate decision making (Baxamusa and Jalal, 2016; Benmelech and Frydman, 2015; Yim, 2013) as well as research on firm value consequences of possessing certain cognitive or demographic characteristics (Fracassi and Tate, 2012; Levi et al., 2014). The findings are also consistent with the findings of several studies that examined the influence of status shifts on firm

performance (Malmendier and Tate, 2009; Ammann et al., 2016), by showing that social status concerns can distort CEO behavior.

This research opens a new strand of literature on social status in corporate finance, and suggests we need to look deeper into behavioral concepts that we adapt from other disciplines - the distinction between ascribed and achieved status is trivial in sociology, but novel in finance. Moreover, it would be beneficial to develop additional measures of ascribed and achieved social status using more detailed personal information on CEOs. For example, using prestige of preparatory or secondary school might be a better indicator of ascribed status (Palmer and Barber, 2001; Lucey et al., 2012), but the problem is data availability. In addition, measuring achieved status could benefit from incorporating factors such as club memberships, executive perks and corporate affiliations (Rajan and Wulf, 2006; McDonald and Westphal, 2010). It would also be instructive to examine the interaction between CEO and board members' social characteristics as well as analyze corporate governance mechanisms that can mitigate the behavioral costs associated with social status impacts (Jiraporn et al., 2016). Finally, a further strand could include assessing the differences in social status influence on corporate decisions between different cultures.

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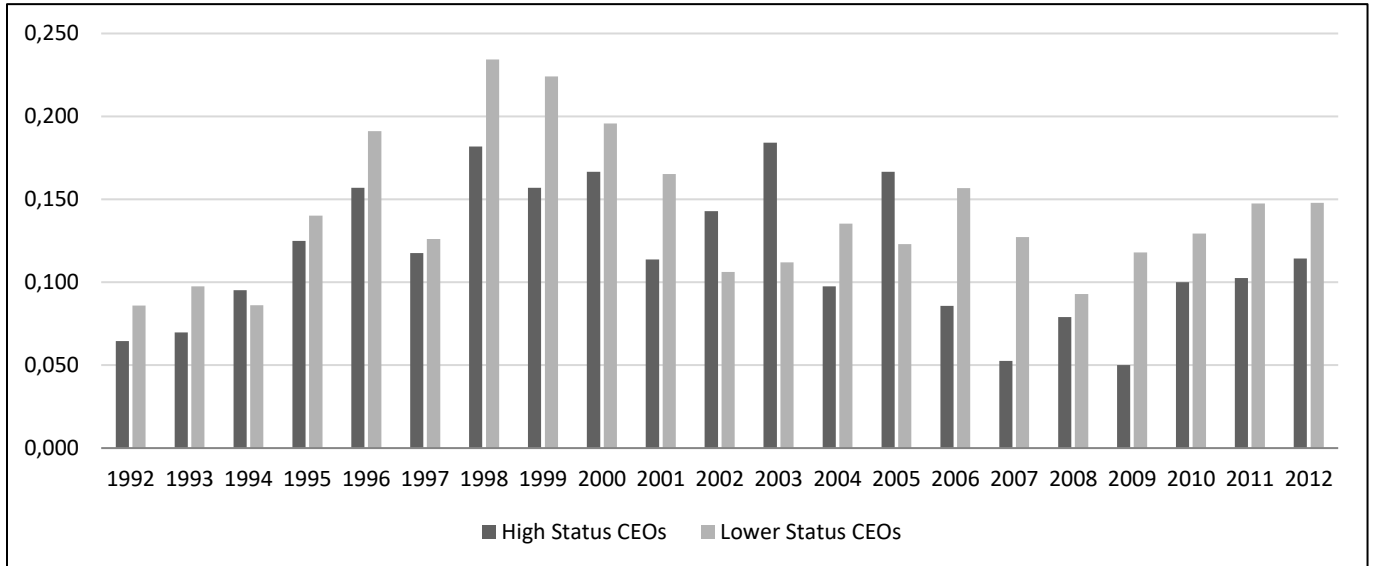
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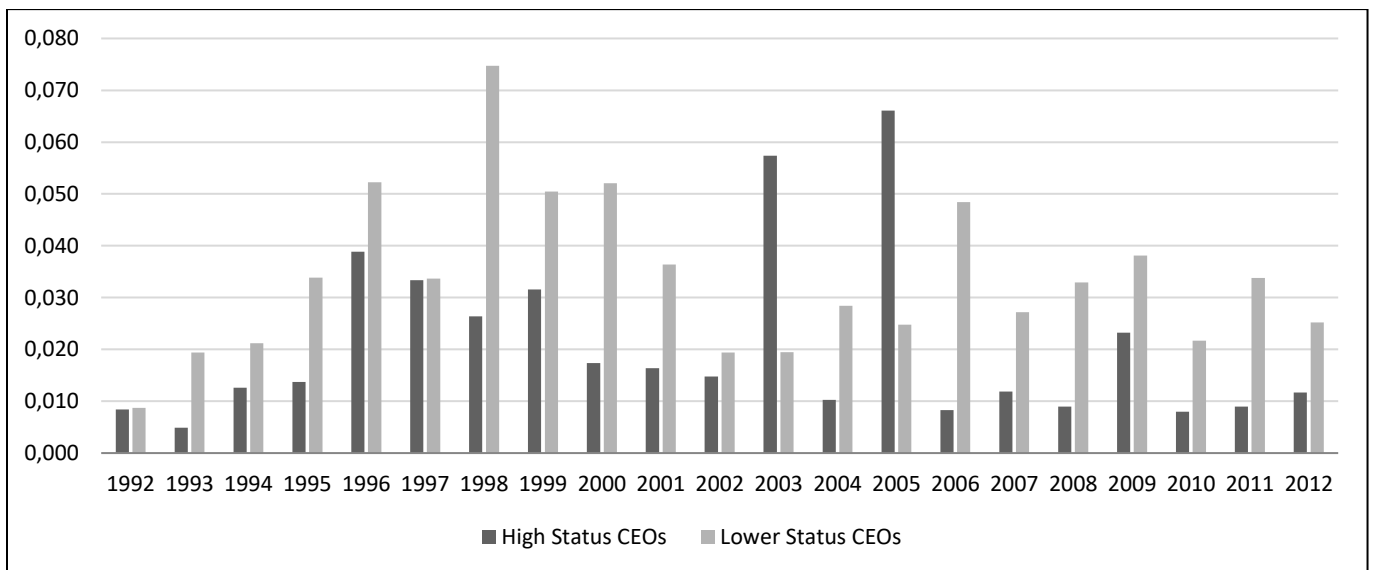
**FIGURE 1 – ASCRIBED STATUS: NUMBER OF ACQUISITIONS**

The figure displays year-by-year average number of acquisitions for CEOs with high and lower ascribed status. For each subgroup, the average number of acquisitions is calculated as the number of acquisitions divided by the number of CEOs in that subgroup in a given year. All M&A deals are required to be worth more than 5% of acquirer’s value and involve a purchase of at least 51% of target’s shares.



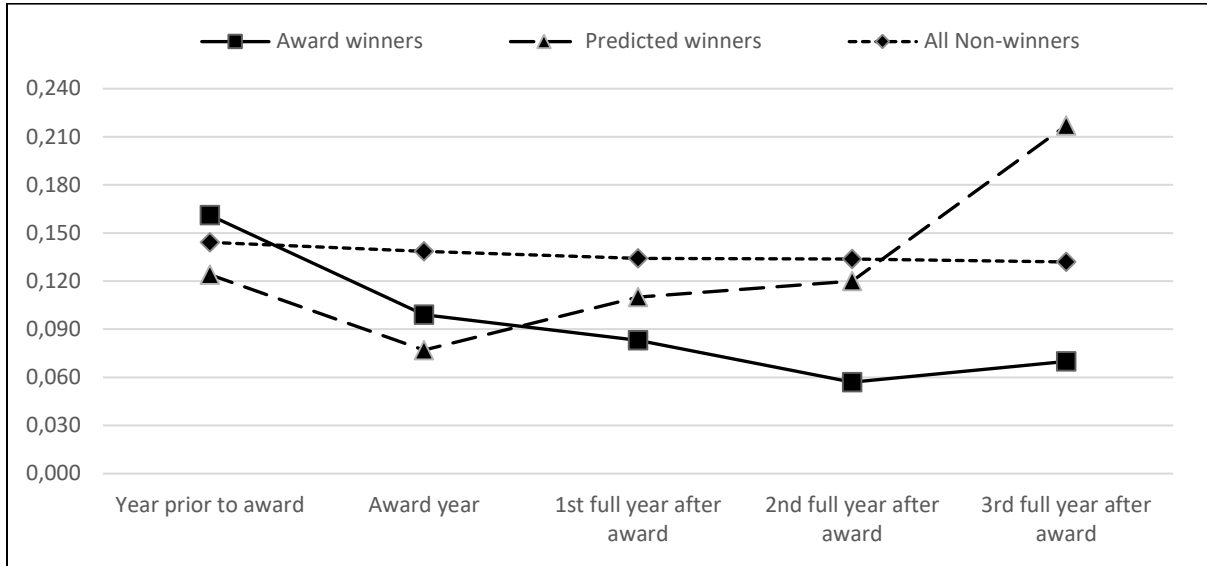
**FIGURE 2 – ASCRIBED STATUS: VALUE OF ACQUISITIONS**

The figure displays year-by-year average percentage value invested in M&A for CEOs with high and lower ascribed status. For each subgroup, the average value invested in M&A is calculated as the total value divided by the number of CEOs in that subgroup in a given year. All M&A deal value is scaled by company’s market capitalization two months prior to the transaction. All M&A deals are required to be worth more than 5% of acquirer’s value and involve a purchase of at least 51% of target’s shares.



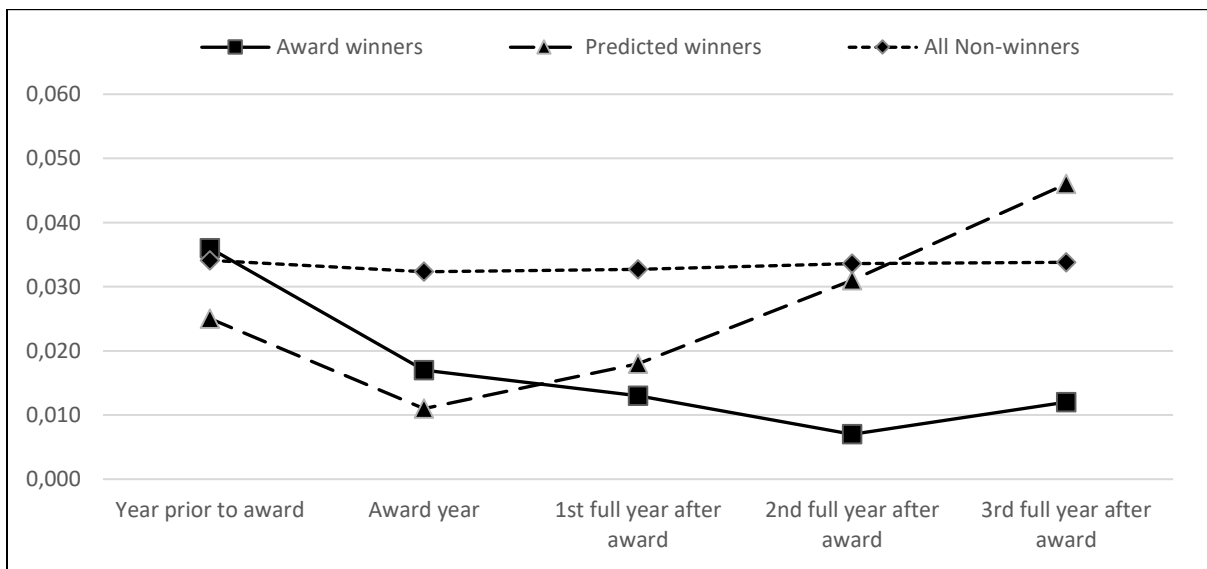
**FIGURE 3 – ACHIEVED STATUS: NUMBER OF ACQUISITIONS**

The figure displays the frequency of M&A transactions worth more than 5% of acquirer's value between award winners and predicted winners. Predicted winners sample is constructed using a nearest-neighbour propensity score match controlling for market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, returns from 3<sup>rd</sup> to 2<sup>nd</sup>, 6<sup>th</sup> to 4<sup>th</sup>, 12<sup>th</sup> to 7<sup>th</sup>, and 36<sup>th</sup> to 13<sup>th</sup> months before the award month, CEO age, CEO tenure, CEO gender, as well as year, industry and award fixed effects. Year prior to award ends exactly six months before the award month.



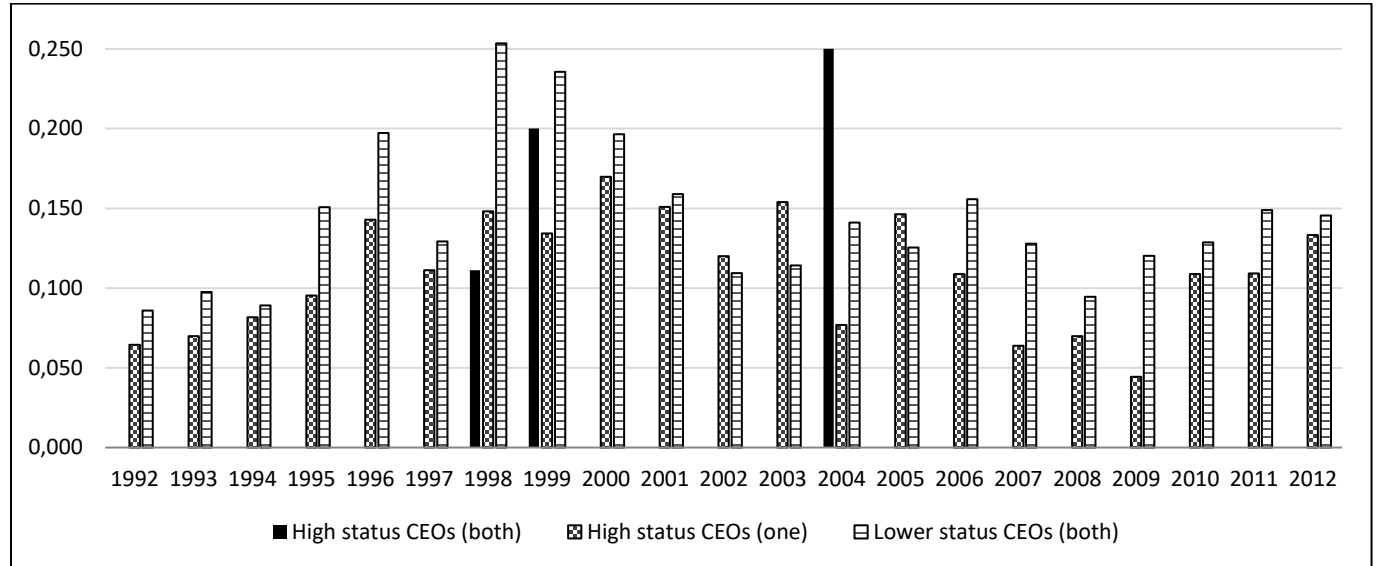
**FIGURE 4 – ACHIEVED STATUS: VALUE OF ACQUISITIONS**

The figure displays the percentage value invested in M&A worth more than 5% of acquirer's value between award winners and predicted winners. Each deal is scaled by firm's market capitalization two months prior to the transaction. Predicted winners sample is constructed using a nearest-neighbour propensity score match controlling for market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, returns from 3<sup>rd</sup> to 2<sup>nd</sup>, 6<sup>th</sup> to 4<sup>th</sup>, 12<sup>th</sup> to 7<sup>th</sup>, and 36<sup>th</sup> to 13<sup>th</sup> months before the award month, CEO age, CEO tenure, CEO gender, as well as year, industry and award fixed effects. Year prior to award ends exactly six months before the award month.



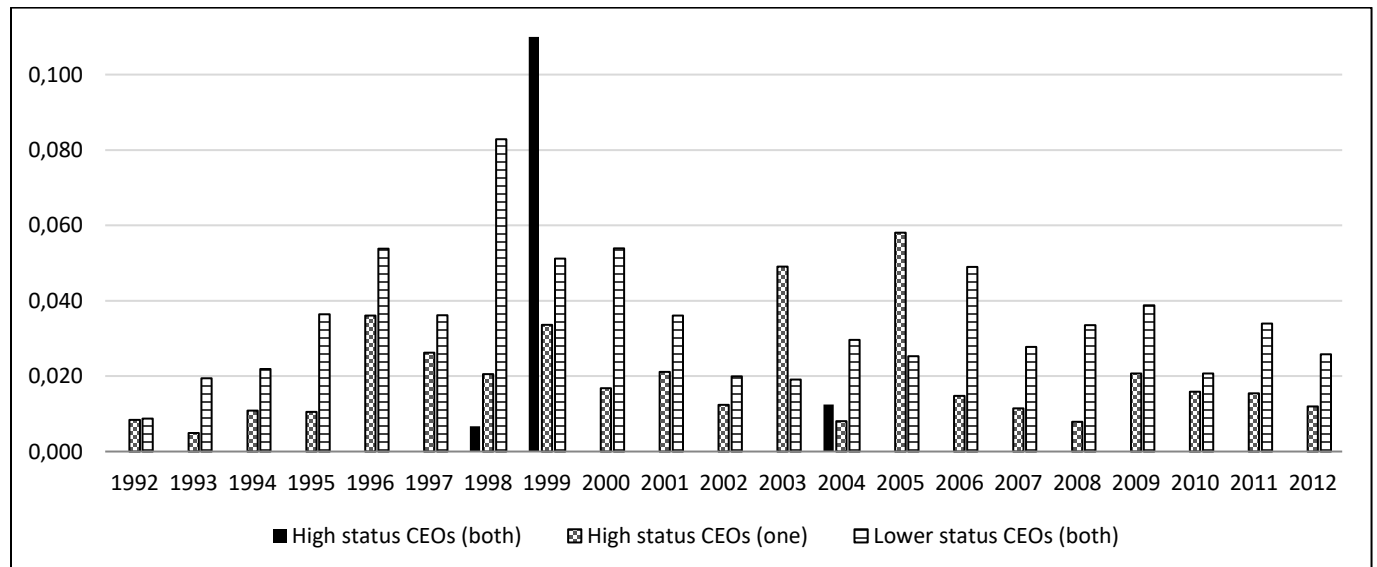
**FIGURE 5 – DUAL STATUS: NUMBER OF ACQUISITIONS**

The figure displays year-by-year average frequency of acquisitions for CEOs with high ascribed and high achieved social status, CEOs with high ascribed or high achieved social status and CEOs with lower ascribed and lower achieved social status. For each subgroup, the average number of acquisitions is calculated as the number of acquisitions divided by the number of CEOs in that subgroup in a given year. All M&A deals are required to be worth more than 5% of acquirer’s value and involve a purchase of at least 51% of target’s shares.



**FIGURE 1 – DUAL STATUS: VALUE OF ACQUISITIONS**

The figure displays year-by-year average percentage investment in M&A for CEOs with high ascribed and high achieved social status, CEOs with high ascribed or high achieved social status and CEOs with lower ascribed and lower achieved social status. For each subgroup, the average investment in M&A is calculated as the total value divided by the number of CEOs in that subgroup in a given year. All M&A deal value is scaled by company’s market capitalization two months prior to the transaction. All M&A deals are required to be worth more than 5% of acquirer’s value and involve a purchase of at least 51% of target’s shares.



**TABLE 1 - ASCRIBED STATUS SUMMARY STATISTICS**

The table provides summary statistics for ascribed status data. Sample of CEOs consists of chief executive officers from S&P 500 constituents between 1992 and 2012. Financial firms, utility companies and conglomerates are excluded from this study. The sample includes all firm-year observation for which a CEO was in office for the entire fiscal year. The measure of ascribed social status defines a CEO as having a high ascribed status when he or she received a bachelor degree from one of the Ivy League or Russell Group Universities. 5% M&A frequency is a variable indicating the number of deals worth more than 5% of acquirer's value. 5% M&A investment is a variable indicating the total value invested in acquisitions worth more than 5% of acquirer's value where each deal is scaled by firm's market capitalization two months prior to the transaction. All M&A deals are required to involve a purchase of at least 51% of target's shares. Firm size is the log form of market capitalization, calculated as share price multiplied by common shares outstanding. Past returns are the total compound returns for two years prior to observation year. Tobin's Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. Return on assets (ROA) is calculated as operating income before depreciation divided by book assets. Cash holdings represent cash and short-term investments divided by book assets. Book leverage is calculated as total debt divided by book assets. CEO age and tenure are measured in years. CEO gender is a dummy variable that equals to 1 if a CEO is a female, and equals to zero otherwise. CEO personal data is extracted from *Compustat Execucomp*, financial data is obtained from *Compustat*, performance data is collected from *CRSP*, and M&A data is gathered from *Thomson One Banker SDC* database. The column  $p(\text{High} - \text{Low})$  shows the p-values of t-tests that the differences in means between high status CEOs and lower status CEOs are zero. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

	High ascribed status				Lower ascribed status				Difference
	Obs.	Mean	Median	St. Dev	Obs.	Mean	Median	St. Dev	in means $p(\text{High} - \text{Low})$
<u>M&amp;A variables</u>									
5% M&A frequency	880	0.118	0.000	0.366	5,146	0.141	0.000	0.395	0.114
5% M&A investment	880	0.021	0.000	0.097	5,146	0.034	0.000	0.158	0.020**
<u>Firm controls</u>									
Firm size	880	9.005	8.930	1.355	5,146	8.988	8.931	1.223	0.693
Past returns	880	0.199	0.203	0.539	5,146	0.188	0.189	0.535	0.576
Tobin's Q	880	2.409	1.748	2.244	5,146	2.285	1.766	2.084	0.107
ROA	880	0.165	0.160	0.087	5,115	0.165	0.158	0.087	0.813
Cash holdings	880	0.125	0.067	0.144	5,146	0.115	0.060	0.140	0.048**
Book leverage	880	0.218	0.203	0.139	5,138	0.234	0.227	0.152	0.003***
<u>CEO controls</u>									
CEO age	880	56.086	57	7.582	5,146	56.171	57	6.332	0.723
CEO tenure	880	9.468	7	7.000	5,146	7.512	6	6.116	0.000***
CEO gender	880	0.028	0	0.166	5,146	0.018	0	0.135	0.051*

**TABLE 2 - ACHIEVED STATUS SUMMARY STATISTICS**

The table provides summary statistics for achieved status data. The sample includes all firms in all months in which a CEO award is conferred. Firm size is market capitalization (calculated as share price multiplied by common shares outstanding) which is measured two months prior to the award month and is in log form. Book-to-market ratio is calculated as stockholder's equity over market capitalization and is measured at the end of the last fiscal year that ended at least six months prior to the award month. Cash holdings represent cash and short-term investments divided by book assets. Equity leverage is calculated as total debt divided by shareholder's equity. Tobin's Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. Returns<sub>x\_y</sub> are the total compound returns from the  $y_{th}$  to the  $x_{th}$  month prior to the award month. CEO gender is a dummy variable that equals to 1 if a CEO is a female, and equals to zero otherwise. 5% M&A frequency is a variable indicating the number of deals worth more than 5% of acquirer's value. 5% M&A investment is a variable indicating the total value invested in acquisitions worth more than 5% of acquirer's value where each deal is scaled by firm's market capitalization two months prior to the transaction. All M&A deals are required to involve a purchase of at least 51% of target's shares. CEO personal data is extracted from *Compustat Execucomp*, financial data is obtained from *Compustat*, performance data is collected from *CRSP*, and M&A data is gathered from *Thomson One Banker SDC* database. The column  $p(W-A)$  shows the p-values of t-tests that the differences in means between award winners and non-winners are zero. The column  $p(W-P)$  shows the p-values of t-tests that the differences in means between award winners and predicted winners are zero. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

	CEO award winners (W)				All non-winners (A)				Predicted winners (P)				Difference in means	
	Obs.	Mean	Median	St. Dev	Obs.	Mean	Median	St. Dev	Obs.	Mean	Median	St. Dev	$p(W-A)$	$p(W-P)$
<u>M&amp;A variables</u>														
5% M&A frequency	299	0.161	0.000	0.472	58,765	0.144	0.000	0.407	299	0.124	0.000	0.340	0.487	0.228
5% M&A investment	299	0.036	0.000	0.139	58,765	0.034	0.000	0.156	299	0.025	0.000	0.129	0.861	0.294
<u>Firm controls</u>														
Firm size	299	10.132	10.012	1.240	58,765	8.604	8.602	1.081	299	9.654	9.549	1.212	0.000***	0.000***
Book-to-market	299	0.262	0.222	0.182	58,765	0.423	0.366	0.314	299	0.252	0.211	0.189	0.000***	0.495
Cash holdings	299	0.185	0.120	0.180	58,765	0.105	0.060	0.132	299	0.168	0.074	0.210	0.000***	0.242
Equity leverage	299	-0.610	0.291	12.711	58,765	0.770	0.540	8.378	299	-3.258	0.427	33.616	0.005***	0.204
Tobin's Q	299	3.908	2.648	5.547	58,765	2.108	1.693	1.512	299	3.037	2.410	2.384	0.000***	0.004***
Returns_2_3	299	0.023	0.017	0.110	58,765	0.004	0.009	0.107	299	0.038	0.047	0.107	0.002***	0.065*
Returns_4_6	299	0.034	0.046	0.133	58,765	0.008	0.018	0.152	299	0.042	0.064	0.145	0.004***	0.448
Returns_7_12	299	0.117	0.115	0.222	58,765	0.024	0.045	0.240	299	0.139	0.126	0.234	0.000***	0.204
Returns_13_36	299	0.393	0.346	0.546	58,765	0.151	0.169	0.499	299	0.336	0.316	0.673	0.000***	0.186
<u>CEO controls</u>														
CEO age	299	55.829	57	7.760	58,765	56.496	57	6.699	299	56.749	58	7.009	0.086*	0.138
CEO tenure	299	8.736	7	6.661	58,765	6.542	5	6.484	299	8.241	5	7.669	0.000***	0.413
CEO gender	299	0.023	0	0.151	58,765	0.012	0	0.110	299	0.040	0	0.197	0.077*	0.226

**TABLE 3 - CEO ASCRIBED STATUS AND ACQUISITIVENESS**

The table presents results of OLS regressions testing the effect of possessing high ascribed social status on CEO acquisitiveness. The dependent variables in models [1] and [4] are the number of deals worth more than 5% and 1% of acquirer's value, respectively, made in a given year. The dependent variables in models [2] and [5] are the total investment in M&A transactions worth more than 5% and 1% of acquirer's value made in a given year, where each deal is scaled by firm's market capitalization two months prior to the transaction. The dependent variables in models [3] and [6] are the total investment in M&A transactions worth more than 5% and 1% of acquirer's value made in a given year, where each deal is scaled by firm's book assets at the beginning of the year. All M&A deals are required to involve a purchase of at least 51% of target's shares. Ascribed status indicator equals to 1 if a CEO has received a bachelor degree from one of the Ivy League or Russell Group Universities, and equals to 0 otherwise. Firm size is the log form of market capitalization, calculated as share price multiplied by common shares outstanding. Past returns are the total compound returns for two years prior to observation year. Tobin's Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. Return on assets (ROA) is calculated as operating income before depreciation divided by book assets. Cash holdings represent cash and short-term investments divided by book assets. Book leverage is calculated as total debt divided by book assets. All fiscal controls are lagged by one year. CEO age and tenure are measured in years. CEO gender is a dummy variable that equals to 1 if a CEO is a female, and equals to zero otherwise. All regressions include year and industry fixed effect, defined based on Fama-French 48 industries. Standard errors are clustered at the firm level and reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

	5% M&A frequency and investment			1% M&A frequency and investment		
	[1] 5% M&A frequency	[2] 5% M&A investment (scaled by market cap)	[3] 5% M&A investment (scaled by assets)	[4] 1% M&A frequency	[5] 1% M&A investment (scaled by market cap)	[6] 1% M&A investment (scaled by assets)
Ascribed status	-0.024 (0.016)	-0.011** (0.005)	-0.026*** (0.009)	-0.011 (0.031)	-0.011** (0.005)	-0.028*** (0.009)
Firm size	-0.023*** (0.006)	-0.009*** (0.002)	-0.018** (0.007)	0.004 (0.011)	-0.009*** (0.002)	-0.017** (0.007)
Past returns	0.024* (0.012)	0.010** (0.005)	0.053* (0.029)	0.069*** (0.021)	0.011** (0.005)	0.056* (0.029)
Tobin's Q	0.001 (0.004)	-0.001 (0.001)	0.055*** (0.018)	-0.007 (0.005)	-0.001 (0.001)	0.058*** (0.018)
ROA	-0.010 (0.076)	0.023 (0.034)	-0.374** (0.179)	-0.053 (0.126)	0.022 (0.034)	-0.368** (0.171)
Cash holdings	-0.040 (0.059)	-0.004 (0.020)	-0.093 (0.095)	-0.232** (0.109)	-0.008 (0.021)	-0.091 (0.097)
Book leverage	-0.085* (0.049)	0.021 (0.018)	0.025 (0.038)	-0.141* (0.084)	0.020 (0.018)	0.022 (0.038)
CEO age	-0.000 (0.001)	-0.000 (0.000)	0.000 (0.001)	-0.003 (0.002)	-0.000 (0.000)	0.000 (0.001)
CEO tenure	0.001 (0.001)	0.000 (0.000)	-0.001 (0.001)	0.003 (0.002)	0.000 (0.000)	-0.001 (0.001)
CEO gender	0.055** (0.027)	0.035 (0.026)	0.029* (0.015)	-0.042 (0.042)	0.033 (0.026)	0.028* (0.016)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
No. of observations	5,987	5,987	5,987	5,987	5,987	5,987
No. of firms	616	616	616	616	616	616
Adjusted R-squared	0.131	0.062	0.111	0.228	0.073	0.129

**TABLE 4 – CEO ASCRIBED STATUS VS. CEO EDUCATION**

The table presents results of OLS regressions testing the effect of education quality on CEO acquisitiveness. The dependent variable in model [1] is the number of deals worth more than 5% of acquirer's value made in a given year. The dependent variable in model [2] is the total investment in M&A transactions worth more than 5% of acquirer's value made in a given year, where each deal is scaled by firm's market capitalization two months prior to the transaction. The dependent variable in model [3] is the total investment in M&A transactions worth more than 5% of acquirer's value made in a given year, where each deal is scaled by firm's book assets at the beginning of the year. All M&A deals are required to involve a purchase of at least 51% of target's shares. Prestigious universities is a dummy variable that equals to 1 if a CEO has received a bachelor degree from one of the Ivy League or Russell Group Universities, and equals to 0 otherwise. Top 100 universities is a dummy variable that equals to 1 if a CEO has received a bachelor degree from one of the world's top 100 universities excluding Ivy League or Russell Group, and equals to 0 otherwise. Firm size is the log form of market capitalization, calculated as share price multiplied by common shares outstanding. Past returns are the total compound returns for two years prior to observation year. Tobin's Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. Return on assets (ROA) is calculated as operating income before depreciation divided by book assets. Cash holdings represent cash and short-term investments divided by book assets. Book leverage is calculated as total debt divided by book assets. All fiscal controls are lagged by one year. CEO age and tenure are measured in years. CEO gender is a dummy variable that equals to 1 if a CEO is a female, and equals to zero otherwise. All regressions include year and industry fixed effect, defined based on Fama-French 48 industries. Standard errors are clustered at the firm level and reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

	[1] 5% M&A frequency	[2] 5% M&A investment (scaled by market cap)	[3] 5% M&A investment (scaled by assets)
Prestigious universities	-0.034** (0.045)	-0.013*** (0.009)	-0.030*** (0.002)
Top 100 universities	-0.030** (0.036)	-0.006 (0.241)	-0.013 (0.190)
Firm size	-0.022*** (0.000)	-0.009*** (0.000)	-0.018** (0.017)
Past returns	0.024* (0.055)	0.010** (0.035)	0.053* (0.067)
Tobin's Q	0.001 (0.843)	-0.001 (0.564)	0.055*** (0.003)
ROA	-0.010 (0.891)	0.023 (0.504)	-0.374** (0.037)
Cash holdings	-0.037 (0.525)	-0.003 (0.882)	-0.092 (0.334)
Book leverage	-0.085* (0.085)	0.022 (0.238)	0.025 (0.509)
CEO age	-0.000 (0.788)	-0.000 (0.640)	0.000 (0.600)
CEO tenure	0.001 (0.504)	0.000 (0.707)	-0.001 (0.157)
CEO gender	0.056** (0.037)	0.035 (0.183)	0.030* (0.051)
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
No. of observations	5987	5987	5987
No. of firms	616	616	616
Adjusted R-squared	0.132	0.062	0.111



Table 5 - CEO Achieved Status and Acquisitiveness

The table presents the differences in acquisitiveness between award winners (high achieved status) and predicted winners (lower achieved status). Predicted winners sample is constructed using a nearest-neighbor propensity score match controlling for market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, returns from 3<sup>rd</sup> to 2<sup>nd</sup>, 6<sup>th</sup> to 4<sup>th</sup>, 12<sup>th</sup> to 7<sup>th</sup>, and 36<sup>th</sup> to 13<sup>th</sup> months before the award month, CEO age, CEO tenure, CEO gender, as well as year, industry and award fixed effects. Year prior to award (year -1) ends exactly six months before the award month. Panel A shows the differences between award winners and predicted winners in the frequency of M&A transactions worth more than 5% of acquirer's value completed during the event window. Panel B displays the differences between award winners and predicted winners in the total investment in M&A transactions worth more than 5% of acquirer's value during the event window, where each deal value is scaled by company's market capitalization two months prior to the transaction. Absolute value of t- statistics are reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

**PANEL A. M&A FREQUENCES**

	Obs.	Award Winners (W)	Predicted Winners (P)	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	274	-0.066 (2.11)**	-0.044 (1.78)*	-0.022 (0.58)	-0.008 (0.20)
Event window [-1, 1]	218	-0.069 (2.16)**	0.005 (0.16)	-0.073 (1.75)*	-0.062 (1.50)
Event window [-1, 2]	175	-0.109 (2.89)***	0.023 (0.78)	-0.131 (2.74)***	-0.121 (2.53)**
Event window [-1, 3]	129	-0.109 (2.37)**	0.109 (2.19)**	-0.217 (3.29)***	-0.213 (3.28)***

**PANEL B. M&A INVESTMENT**

	Obs.	Award Winners (W)	Predicted Winners (P)	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	274	-0.019 (2.30)**	-0.014 (1.57)	-0.005 (0.47)	-0.001 (0.10)
Event window [-1, 1]	218	-0.018 (2.16)**	0.003 (0.29)	-0.021 (1.99)**	-0.017 (1.65)
Event window [-1, 2]	175	-0.030 (2.93)***	0.017 (1.42)	-0.046 (2.98)***	-0.042 (2.73)***
Event window [-1, 3]	129	-0.031 (2.31)**	0.033 (2.40)**	-0.065 (3.22)***	-0.065 (3.25)***

**TABLE 6 - CEO ACHIEVED STATUS AND ACQUISITIVENESS: FIRST TIME WINNERS VS. REPEAT WINNERS**

The table presents the differences in acquisitiveness between award winners (high achieved status) and predicted winners (lower achieved status). The left part includes first time winners only, and the right part includes winners who have already won at least one award in the past. Predicted winners sample is constructed using a nearest-neighbor propensity score match controlling for market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, returns from 3<sup>rd</sup> to 2<sup>nd</sup>, 6<sup>th</sup> to 4<sup>th</sup>, 12<sup>th</sup> to 7<sup>th</sup>, and 36<sup>th</sup> to 13<sup>th</sup> months before the award month, CEO age, CEO tenure, CEO gender, as well as year, industry and award fixed effects. Year prior to award (year -1) ends exactly six months before the award month. Panel A shows the differences between award winners and predicted winners in the frequency of M&A transactions worth more than 5% of acquirer's value completed during the event window. Panel B displays the differences between award winners and predicted winners in the total investment in M&A transactions worth more than 5% of acquirer's value during the event window, where each deal value is scaled by company's market capitalization two months prior to the transaction. Absolute value of t- statistics are reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

**PANEL A. M&A FREQUENCIES**

	First time winners			Repeat winners		
	Obs.	Difference (W - P)	Bias-adjusted difference	Obs.	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	163	-0.061 (1.18)	-0.048 (0.94)	111	0.036 (0.68)	0.052 (0.98)
Event window [-1, 1]	133	-0.090 (1.56)	-0.079 (1.37)	85	-0.047 (0.81)	-0.037 (0.63)
Event window [-1, 2]	111	-0.162 (2.67)***	-0.150 (2.50)**	64	-0.078 (1.00)	-0.069 (0.88)
Event window [-1, 3]	83	-0.253 (2.80)***	-0.247 (2.78)***	46	-0.152 (1.73)*	-0.152 (1.74)*

**PANEL B. M&A INVESTMENT**

	First time winners			Repeat winners		
	Obs.	Difference (W - P)	Bias-adjusted difference	Obs.	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	163	-0.009 (0.50)	-0.005 (0.27)	111	0.000 (0.03)	0.004 (0.36)
Event window [-1, 1]	133	-0.023 (1.48)	-0.019 (1.24)	85	-0.018 (1.47)	-0.015 (1.18)
Event window [-1, 2]	111	-0.039 (2.04)**	-0.034 (1.82)*	64	-0.060 (2.20)**	-0.056 (2.08)**
Event window [-1, 3]	83	-0.075 (2.71)***	-0.074 (2.70)***	46	-0.047 (1.74)*	-0.049 (1.83)*

**TABLE 7 - CEO ACHIEVED STATUS AND ACQUISITIVENESS: EXCLUDING AWARD-WINNING FIRMS FROM CONTROL GROUP**

The table presents the differences in acquisitiveness between award winners (high achieved status) and predicted winners (lower achieved status). Predicted winners sample is constructed using a nearest-neighbor propensity score match controlling for market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, returns from 3<sup>rd</sup> to 2<sup>nd</sup>, 6<sup>th</sup> to 4<sup>th</sup>, 12<sup>th</sup> to 7<sup>th</sup>, and 36<sup>th</sup> to 13<sup>th</sup> months before the award month, CEO age, CEO tenure, CEO gender, as well as year, industry and award fixed effects. The control group excludes companies that appear in Fortune's "Most Admired Companies" and Business Week's "Top 50 Performers" rankings during the sample period. Year prior to award (year -1) ends exactly six months before the award month. Panel A shows the differences between award winners and predicted winners in the frequency of M&A transactions worth more than 5% of acquirer's value completed during the event window. Panel B displays the differences between award winners and predicted winners in the total investment in M&A transactions worth more than 5% of acquirer's value during the event window, where each deal value is scaled by company's market capitalization two months prior to the transaction. Absolute value of t-statistics are reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

**PANEL A. M&A FREQUENCIES**

	Obs.	Award Winners (W)	Predicted Winners (P)	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	274	-0.066 (2.11)**	0.004 (0.15)	-0.069 (1.84)*	-0.051 (1.39)
Event window [-1, 1]	219	-0.064 (1.99)*	0.014 (0.52)	-0.078 (1.88)*	-0.063 (1.54)
Event window [-1, 2]	170	-0.100 (2.58)**	0.041 (1.35)	-0.141 (2.81)***	-0.123 (2.45)**
Event window [-1, 3]	115	-0.104 (2.23)**	0.165 (3.35)***	-0.270 (3.90)***	-0.252 (3.66)***

**PANEL B. M&A INVESTMENT**

	Obs.	Award Winners (W)	Predicted Winners (P)	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	274	-0.019 (2.30)**	0.005 (0.48)	-0.024 (1.90)*	-0.015 (1.23)
Event window [-1, 1]	219	-0.018 (2.12)**	0.010 (1.11)	-0.028 (2.21)**	-0.021 (1.67)*
Event window [-1, 2]	170	-0.025 (2.45)**	0.017 (1.40)	-0.041 (2.59)**	-0.037 (2.31)**
Event window [-1, 3]	115	-0.032 (2.43)**	0.040 (2.25)**	-0.072 (3.02)***	-0.073 (3.04)***

**TABLE 8 – CEO ACHIEVED STATUS: ROBUSTNESS CHECKS ON SIZE AND PROPENSITY SCORE LIMITS**

The table presents the differences in acquisitiveness between award winners (high achieved status) and predicted winners (lower achieved status). Predicted winners sample is constructed using a nearest-neighbor propensity score match controlling for market capitalization, book-to-market ratio, cash holdings, equity leverage, Tobin's Q, returns from 3<sup>rd</sup> to 2<sup>nd</sup>, 6<sup>th</sup> to 4<sup>th</sup>, 12<sup>th</sup> to 7<sup>th</sup>, and 36<sup>th</sup> to 13<sup>th</sup> months before the award month, CEO age, CEO tenure, CEO gender, as well as year, industry and award fixed effects. Year prior to award (year -1) ends exactly six months before the award month. Panel A shows the differences between award winners and predicted winners in the frequency of M&A transactions worth more than 5% of acquirer's value completed during the event window. Panel B displays the differences between award winners and predicted winners in the total investment in M&A transactions worth more than 5% of acquirer's value during the event window, where each deal value is scaled by company's market capitalization two months prior to the transaction. Absolute value of t- statistics are reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

**PANEL A. M&A FREQUENCIES**

	Size limit			PS limit (<0.1)			PS limit (<0.05)		
	Obs.	Difference (W - P)	Bias-adjusted difference	Obs.	Difference (W - P)	Bias-adjusted difference	Obs.	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	219	-0.041 -0.94	-0.032 -0.74	210	-0.029 -0.64	-0.020 -0.45	192	-0.021 -0.43	-0.009 -0.2
Event window [-1, 1]	180	-0.067 -1.44	-0.060 -1.3	170	-0.088 (1.74)*	-0.081 -1.59	154	-0.078 -1.48	-0.068 -1.29
Event window [-1, 2]	149	-0.134 (2.51)**	-0.126 (2.36)**	138	-0.167 (2.88)***	-0.158 (2.73)***	124	-0.161 (2.60)**	-0.149 (2.41)**
Event window [-1, 3]	109	-0.257 (3.41)***	-0.255 (3.44)***	105	-0.257 (3.59)***	-0.254 (3.58)***	94	-0.266 (3.44)***	-0.258 (3.37)***

**PANEL B. M&A INVESTMENT**

	Size limit			PS limit (<0.1)			PS limit (<0.05)		
	Obs.	Difference (W - P)	Bias-adjusted difference	Obs.	Difference (W - P)	Bias-adjusted difference	Obs.	Difference (W - P)	Bias-adjusted difference
Event window [-1, 0]	219	-0.007 -0.51	-0.005 -0.39	210	-0.005 -0.38	-0.002 -0.16	192	-0.007 -0.46	-0.003 -0.22
Event window [-1, 1]	180	-0.023 (1.81)*	-0.022 (1.77)*	170	-0.027 (2.04)**	-0.024 (1.84)*	154	-0.027 (1.86)*	-0.024 -1.63
Event window [-1, 2]	149	-0.045 (2.70)***	-0.042 (2.57)**	138	-0.060 (3.08)***	-0.056 (2.93)**	124	-0.062 (2.91)***	-0.058 (2.72)***
Event window [-1, 3]	109	-0.077 (3.28)***	-0.078 (3.35)***	105	-0.080 (3.33)***	-0.079 (3.31)***	94	-0.087 (3.26)***	-0.085 (3.20)***

**TABLE 9 – DUAL STATUS AND CEO ACQUISITIVENESS**

The table presents results of OLS regressions testing the effect of possessing ascribed and achieved social status on CEO acquisitiveness. The dependent variable in model 1 is the number of deals worth more than 5% of acquirer's value made in a given year. The dependent variable in model 2 is the total investment in M&A transactions worth more than 5% of acquirer's value made in a given year, where each deal is scaled by firm's market capitalization two months prior to the transaction. The dependent variable in model 3 is the total investment in M&A transactions worth more than 5% of acquirer's value made in a given year, where each deal is scaled by firm's book assets at the beginning of the year. All M&A deals are required to involve a purchase of at least 51% of target's shares. Ascribed and achieved status is a dummy variable that equals to one if a CEO possess both ascribed and achieved social status during the observation year. Ascribed status is indicated by receiving a bachelor degree from one of the Ivy League or Russell Group Universities. Achieved status is indicated by receiving a prestigious CEO award within two years prior to observation year. Firm size is the log form of market capitalization, calculated as share price multiplied by common shares outstanding. Past returns are the total compound returns for two years prior to observation year. Tobin's Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. Return on assets (ROA) is calculated as operating income before depreciation divided by book assets. Cash holdings represent cash and short-term investments divided by book assets. Book leverage is calculated as total debt divided by book assets. All fiscal controls are lagged by one year. CEO age and tenure are measured in years. CEO gender is a dummy variable that equals to 1 if a CEO is a female, and equals to zero otherwise. All regressions include year and industry fixed effect, defined based on Fama-French 48 industries. Standard errors are clustered at the firm level and reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

	(1) 5% M&A frequency	(2) 5% M&A investment (scaled by market cap)	(3) 5% M&A investment (scaled by assets)
Ascribed and achieved status	-0.084*** (0.027)	-0.020*** (0.005)	-0.060*** (0.019)
Firm size	-0.022*** (0.006)	-0.009*** (0.002)	-0.017** (0.007)
Past returns	0.024* (0.012)	0.010** (0.005)	0.054* (0.029)
Tobin's Q	0.001 (0.004)	-0.001 (0.001)	0.055*** (0.018)
ROA	-0.009 (0.076)	0.023 (0.034)	-0.373** (0.180)
Cash holdings	-0.037 (0.059)	-0.004 (0.020)	-0.092 (0.095)
Book leverage	-0.083* (0.049)	0.022 (0.018)	0.027 (0.038)
CEO age	-0.000 (0.001)	-0.000 (0.000)	0.000 (0.001)
CEO tenure	0.001 (0.001)	0.000 (0.000)	-0.001 (0.001)
CEO gender	0.056** (0.027)	0.034 (0.026)	0.030* (0.016)
Industry fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
No. of observations	5987	5987	5987
No. of firms	616	616	616
Adjusted R-squared	0.131	0.061	0.111

**TABLE 10 – MARKET RESPONSE TO ACQUISITIONS**

The table presents the announcement returns to M&A deals completed by CEOs with varying levels of achieved and ascribed social status. Panel A displays average acquirer’s cumulative abnormal returns across groups of CEOs with different status characteristics. Cumulative abnormal returns (CARs) are calculated over the three-day event window [-1, +1] using a market model with the CRSP equal-weighted index as the proxy for market returns. Cash deals are financed with any combination of cash and debt. Stock deals are financed with any proportion of equity. The dependent variable in Panel B is the acquirer’s cumulative abnormal return from the day before to the day after the announcement of the deal. Ascribed status indicator equals to 1 if a CEO has received a bachelor degree from one of the Ivy League or Russell Group Universities, and 0 otherwise. Firm size is the log form of acquirer market capitalization two months prior to the transaction. Relative deal size is the transaction value scaled by acquirer’s market capitalization two months prior to the transaction. Tobin’s Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. Book leverage is calculated as total debt divided by book assets. Cash financing equals to 1 if only cash is used to pay for the acquisition, and 0 otherwise. Equity financing equals to 1 if only equity is used to pay for the acquisition, and 0 otherwise. Relatedness equals to 1 for deals in which the acquirer and target firms are in the same macro industry, and 0 otherwise. Hostile equals to 1 if SDC regards the deal as hostile, and 0 otherwise. Tender offer equals to 1 if SDC regards the deal as a tender offer, and 0 otherwise. Toehold is the proportion of the target firm’s shares owned by the acquirer before the deal announcement. All regressions include year and industry fixed effect, defined based on Fama-French 48 industries. Standard errors are clustered by event date to account for cross-sectional correlation of returns, and are reported in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

**PANEL A. AVERAGE CAR**

	Average CAR [-1, +1]			Proportion of stock-financed deals
	All deals	Cash deals	Stock deals	
Full sample	0.000 (n=1612)	0.008*** (n=665)	-0.005* (n=947)	58.7%
All non-award-winners	0.003* (n=1298)	0.011*** (n=540)	-0.003 (n=758)	58.4%
Award winners:				
- M&A deal within 1 year after award	-0.045*** (n=23)	-0.065 (n=5)	-0.040** (n=18)	78.3%
- M&A deal within 2 year after award	-0.039*** (n=42)	-0.037* (n=13)	-0.039*** (n=29)	69.0%
- M&A deal within 3 year after award	-0.036*** (n=45)	-0.029* (n=16)	-0.039*** (n=29)	64.4%
- M&A deal within 5 year after award	-0.032*** (n=61)	-0.019 (n=19)	-0.038*** (n=42)	68.9%
- M&A deal any time after award	-0.026*** (n=81)	-0.008 (n=32)	-0.038*** (n=49)	60.5%
High ascribed status CEOs	-0.003 (n=154)	-0.008 (n=62)	0.000 (n=92)	59.7%

PANEL B. OLS REGRESSIONS

	CAR [-1, +1]					
	[1]	[2]	[3]	[4]	[5]	[6]
Award winners:						
- M&A deal within 1 year after award	-0.023*					
	(0.013)					
- M&A deal within 2 year after award		-0.022**				
		(0.010)				
- M&A deal within 3 year after award			-0.019*			
			(0.010)			
- M&A deal within 5 year after award				-0.017**		
				(0.009)		
- M&A deal any time after award					-0.011	
					(0.008)	
High ascribed status						-0.002
						(0.006)
Firm size	-0.011***	-0.011***	-0.011***	-0.011***	-0.011***	-0.013***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Relative deal size	-0.027***	-0.027***	-0.027***	-0.027***	-0.027***	-0.026***
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)	(0.007)
Tobin's Q	0.001	0.001	0.001	0.001	0.001	0.001
	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)
Book leverage	-0.001	-0.001	-0.001	-0.001	-0.001	-0.009
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)	(0.016)
Cash financing	0.007*	0.006*	0.007*	0.006*	0.007*	0.008*
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Equity financing	-0.017**	-0.017**	-0.017**	-0.017**	-0.017**	-0.018**
	(0.007)	(0.007)	(0.007)	(0.007)	(0.007)	(0.008)
Relatedness	0.007*	0.007*	0.007*	0.007*	0.007*	0.004
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Hostile	0.016*	0.016*	0.016*	0.017*	0.016*	0.016
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)	(0.010)
Tender offer	-0.010**	-0.010*	-0.010*	-0.010*	-0.010*	-0.012**
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.006)
Toehold	-0.023	-0.024	-0.024	-0.023	-0.023	-0.021
	(0.026)	(0.026)	(0.026)	(0.026)	(0.026)	(0.029)
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
No. of observations	1530	1530	1530	1530	1530	1273
Adjusted R-squared	0.083	0.084	0.084	0.084	0.083	0.073

## APPENDIX 1: ACHIEVED STATUS - CEO AND COMPANY AWARDS

Publication Title	Award Title	Award Details
<u>CEO Awards</u>		
Business Week	Top Managers of the Year	Annual award with winners chosen by <i>Business Week's</i> editorial staff. The award was conferred to about 15 winners between 1992 and 1995, 25 winners between 1996 and 2002, roughly 15 winners between 2003 and 2005, and 12 winners in 2009. Awards were given between 1988 and 2009.
Financial World	CEOs of the Year	Annual award with winners chosen by <i>Financial World's</i> editorial staff. CEOs of the Year were classified into "Gold", "Silver" and "Bronze" winners. Due to a relatively large number of Bronze winners, only Gold (one winner per year) and Silver (about ten winners per year except in 1995 and 1996 when the number increased to around 70) are considered as indicators of high status. Awards were conferred between 1975 and 1997.
Forbes	Best Performing CEOs	Annual award with winners chosen by <i>Forbes'</i> editorial staff. The list includes five winners in 2001 and ten winners per year thereafter. Awards have been conferred from 2001 to 2012.
Forbes	World's Most Powerful People	Annual award with winners chosen by <i>Forbes'</i> editorial staff. The award is given to about 70 winners each year (one winner for every 100 million people on Earth). Awards have been conferred from 2009 to 2012.
Industry Week	CEO of the Year	Annual award based on a CEO survey. There were three winners in 1994, five winners in 1995 and one winner per year thereafter.
Chief Executive	CEO of the Year	Annual award with one winner chosen by a panel of CEOs since 1987.
Electronic Business Magazine	CEO of the Year	Annual award with winners chosen by <i>Electronic Business Magazine's</i> editorial staff. One winner per year was chosen between 1997 and 2006.
Morningstar.com	CEO of the Year	Annual award with one winner chosen by editorial staff since 1999.
Time	Person of the Year	Annual award with one winner chosen by editorial staff. Only one sample CEO has received this award between 1992 and 2012..
Time & CNN	25 Most Influential Global Executives	A one-time list of 25 most influential executives published in 2002.
Harvard Business Review	Best-Performing CEOs in the World	A one-time list of 50 world's best performing CEOs published in 2010.
<u>Company Awards</u>		
Fortune	America's Most Admired Companies	Annual award with ten winners per year until 2005, 20 winners between 2006 and 2008, and 50 winners between 2009 and 2012.
Business Week	Top 50 Performers	Annual award with 50 winners each year.



## APPENDIX 2: DETERMINANTS OF AWARD WINNERS

The table presents results of a logit regression of an indicator of award winning on observable firm and CEO characteristics used to predict winning an award. The sample includes firm-month observations from months in which an award is conferred. The binary dependent variable is equal to 1 if the company's CEO received an award in the respective month, and equals to zero otherwise. Market capitalization (calculated as share price multiplied by common shares outstanding) is measured two months prior to the award month and is in log form. Book-to-market ratio is calculated as stockholder's equity over market capitalization. Cash holdings represent cash and short-term investments divided by book assets. Equity leverage is calculated as total debt divided by shareholder's equity. Tobin's Q is calculated as total assets plus market value of equity minus book value of equity, divided by total assets. All accounting variables are measured at the end of the last fiscal year that ended at least six months prior to the award month. Returns<sub>x\_y</sub> are the total compound returns from the y<sup>th</sup> to the x<sup>th</sup> month prior to the award month. CEO age and tenure are measured in years. CEO gender is a dummy variable that equals to 1 if a CEO is a female, and equals to zero otherwise. The 48 Fama and French industries are used as industry indicators. Award fixed effects consist of dummy variables that are equal to 1 in months in which a particular award is given, and equal to 0 in all other months. Coefficients are presented as odds ratios. Absolute value of z statistics in parentheses. Superscripts \*, \*\*, and \*\*\* denote significance at the 10%, 5%, and 1% level, respectively.

Market capitalization	2.532*** (14.916)
Book-to-market ratio	0.474*** (2.735)
Cash holdings	7.932*** (3.992)
Equity leverage	0.989*** (2.743)
Tobin's Q	1.028* (1.687)
Returns_2_3	2.934* (1.654)
Returns_4_6	5.443*** (3.452)
Returns_7_12	4.018*** (4.467)
Returns_13_36	1.609*** (3.353)
CEO age	0.979** (1.996)
CEO tenure	1.045*** (4.613)
CEO gender	2.443** (2.098)
Year fixed effects	yes
Industry fixed effects	yes
Award fixed effects	yes
Pseudo R <sup>2</sup>	0.40
Observations	77,740