

Overconfidence and Corporate Governance Challenges: Taking Elon Musk's Twitter Acquisition as an Example

Xinyi Ma

*Business School, University of Adelaide, Adelaide, Australia
a1949203@adelaide.edu.au*

Abstract. This paper examines Elon Musk's purchase of Twitter in 2022 from the combined viewpoints of corporate governance and behavioral finance. The study examines how managerial overconfidence interacted with inadequate institutional oversight throughout the transaction using a qualitative case-study approach and verified public sources, such as US Securities and Exchange Commission (SEC) filings, Refinitiv Workspace financial data, and significant media reports. The hubris theory was supported by Musk's rash offer, scant due diligence, and personal funding, while Twitter's board demonstrated a lack of independence and risk awareness. Inconsistent communication, litigation, and post-acquisition turbulence resulted from these behavioral and governance flaws that reinforced one another. According to financial data from Refinitiv, Twitter's revenue grew from USD 2.44 billion in 2017 to USD 5.08 billion in 2021, but profitability stayed negative, indicating structural fragility prior to privatization. The real costs of unbridled executive power are brought to light by the ensuing layoffs and advertiser withdrawals. The results show that executive choices are influenced by cognitive and emotional processes in addition to contractual arrangements. By demonstrating how psychological bias can erode institutional safeguards, this instance advances research in behavioral finance and governance. Additionally, it provides boards and regulators with useful advice on how to improve governance resilience against leadership-driven risks, integrate behavioral assessment, and increase transparency.

Keywords: Behavioral finance, corporate governance, twitter acquisition, mergers and acquisitions.

1. Introduction

In 2022, Elon Musk's \$44 billion acquisition of Twitter became one of the decade's most scrutinized corporate events. The transaction not only transformed the ownership of a major social media platform but also exposed the tension between visionary leadership and the limits of governance oversight. What began as an unexpected offer soon evolved into a contest of control, illustrating how individual conviction can override governance checks and balances [1,2]. Market reactions and subsequent turmoil revealed that this episode extended far beyond a business deal—it reflected the growing importance of behavioral factors in corporate decision-making.

From a behavioral finance perspective, the case exemplifies how Chief Executive Officer (CEO) overconfidence can shape high-stakes strategy [3]. Roll proposed the hubris hypothesis, arguing that

executives often overestimate their ability to create value through acquisitions, leading to overpayment and value loss [4,5]. Malmendier and Tate further demonstrated that overconfident CEOs tend to invest excessively and pursue risky mergers even when objective signals warn against it. Musk's impulsive bid, limited due diligence, and belief in his capacity to reform Twitter illustrate these tendencies [6]. Recent evidence also suggests that behavioral distortions linked to managerial traits can significantly affect post-merger outcomes [7,8].

Yet behavioral bias alone does not explain the consequences. Twitter's governance framework failed to restrain unilateral decision-making, revealing weaknesses in oversight and accountability. The board's rapid acceptance of the offer and limited resistance to valuation risks underscored institutional fragility. These deficiencies, coupled with executive overconfidence, contributed to the chaotic aftermath—marked by layoffs, declining advertising revenue, and erosion of stakeholder trust.

This study investigates Musk's takeover of Twitter through an integrated behavioral finance and corporate governance lens. It adopts a qualitative interpretive approach using public filings, regulatory disclosures, and credible media sources to trace the link between behavioral bias and governance failure. By analyzing this high-profile case, the study offers conceptual insight into how psychological factors and institutional design jointly influence corporate control, risk, and long-term value.

2. Literature review

Strategic decision-making can be significantly impacted by management psychology, according to behavioral corporate finance. Overconfidence continues to be one of the most potent biases in influencing mergers and acquisitions out of all those that have been studied. According to Roll's hubris hypothesis, CEOs frequently overestimate their own talents because they think their own judgment can produce higher value through purchases. Excessive premiums and poor post-deal performance result from this optimism [3]. This behavioral explanation was supported by further empirical research. Malmendier and Tate discovered that even when objective indicators point to caution, overconfident CEOs frequently make excessive investments and pursue acquisitions that destroy value [4]. Additionally, Aktas et al. demonstrated how organizations' cash-holding practices are impacted by managerial overconfidence, which reflects a general propensity to overvalue internal control and underestimate risk [9]. When taken as a whole, these studies show how managerial bias can lead to excessive expansion that eventually reduces business value, distort valuation, and impair risk recognition.

The institutional framework that either limits or magnifies these biases is provided by corporate governance. Jensen and Meckling emphasized that governance procedures are intended to reduce agency conflicts and match managerial incentives with shareholder interests, viewing the company as a nexus of contracts [5]. This logic was expanded upon by Fama and Jensen, who emphasized how organized oversight is made possible by the division of ownership and control, guaranteeing the accountability of managerial discretion [6]. However, executive biases can more readily result in strategic failures when governance institutions weaken—for example, because of incompetent boards, inadequate disclosure, or knowledge asymmetry. Healy and Palepu contended that whereas opaque information settings weaken these protections, public corporate disclosure strengthens market discipline and increases accountability [7]. More recently, Aabo et al. showed how post-acquisition outcomes are influenced by the interaction between CEO personality factors and governance frameworks [8]. Their findings suggest that since psychological elements can either

strengthen or weaken institutional effectiveness, corporate governance and managerial conduct should be examined together rather than separately.

Despite these developments, there are still a number of issues with the current literature. First, the majority of research relies on large-sample econometric data, which captures average correlations but is unable to explain how governance weakness and behavioral bias co-evolve in actual decision-making processes [3,9]. Aggregate data frequently obscures the context-dependent behavioral dynamics that underlie executive overconfidence, such as impulsive risk-taking, confirmation bias, and optimism in valuation. Second, how external stakeholders view managerial activities is rarely taken into account in the research. Based on Spence's signaling theory, market views during significant corporate events can be shaped by managerial communication, procedural transparency, timing of disclosures, and signals of competence or risk. Third, very few research integrate process-oriented case analysis with behavioral insights [10].

In order to fill in these gaps, this study uses an interpretive case-study methodology to investigate Musk's acquisition of Twitter as an actual behavioral–governance interaction [11]. According to Yin, qualitative case studies enable researchers to investigate complicated phenomena within the confines of their context, exposing causal pathways that quantitative models could miss [11]. This approach works well for the Twitter case, which offers a wealth of reliable information from business disclosures, media coverage, and regulatory filings. This study advances previous research from static correlations toward a process-based understanding of how executive psychology and institutional design simultaneously affect significant company outcomes by placing the event within well-established behavioral finance and governance frameworks.

3. Methodology

This study examines the relationship between corporate governance and behavioral bias during Elon Musk's acquisition of Twitter using a qualitative and interpretive case-study methodology. When examining intricate managerial and organizational phenomena that large-sample statistical models are unable to fully represent, the case-study approach is especially useful. According to Yin, case studies enable researchers to examine current events in their actual settings, exposing decision dynamics and causal mechanisms that quantitative analyses can miss [11].

Because it clearly illustrates the behavioral–governance conflict at the heart of our study, the Twitter purchase was selected as a deliberate and illuminating scenario. The deal created a lot of verifiable evidence in the areas of strategy, management, and governance and garnered international attention. Musk's very visible actions, the board's quick decision, and the market's instant response offer a unique chance to watch how managerial overconfidence develops under close examination. As a result, the case satisfies the theoretical sample requirements for examining a severe but typical example of behavioral bias affecting governance results [3,9].

This study only uses reliable, publically accessible sources to guarantee analytical depth. Reputable media outlets, like the BBC and Reuters, record the events and represent the mood of the market in relation to the takeover [1,2]. Formal proof of offer terms, board discussions, and shareholder communications can be found in verified regulatory filings with the U.S. Securities and Exchange Commission [10]. In addition to supporting the assessment of Twitter's pre-acquisition performance, complementary data from Refinitiv Workspace, including as business financial statements and market data prior to privatization, contextualizes the behavioral and governance dynamics seen following the takeover. By combining these various sources, cross-verification of facts is made possible, single-source bias is reduced, and the findings' credibility is increased [11].

From Musk's first share accumulation until the deal's conclusion, the analytical approach reconstructs the chronological sequence of actions and connects each step to theoretical frameworks developed in corporate governance and behavioral finance research. The hubris hypothesis, empirical data on CEO overconfidence, and governance mechanisms described in the agency and control literature are used to analyze managerial actions [6,8]. Signaling theory is used to further investigate communication and disclosure behavior to explain how stakeholders and markets perceived executive credibility and intent [12].

To strengthen the validity of interpretations, the study adheres to Yin's methodological principles of case-study rigor by maintaining a transparent chain of evidence, employing multiple sources of information, and grounding all interpretations in established theory [13]. The integration of qualitative narratives with verifiable documentation ensures that the analysis captures both the behavioral and institutional dimensions of the Twitter acquisition. The chronological and financial information derived from these sources will be visualized in subsequent sections through tables and figures that illustrate the transaction timeline, market reactions, and organizational outcomes.

4. Case description: Twitter acquisition timeline

The acquisition of Twitter by Elon Musk unfolded through a sequence of rapidly evolving events in 2022 that revealed the interplay between executive action and board oversight. The process began on April 4, when Musk disclosed a 9.2% stake in Twitter, becoming the company's largest individual shareholder; the delayed disclosure immediately drew regulatory attention and set the stage for a high-stakes contest over corporate control [14].

Only ten days later, on April 14, Musk announced an unsolicited \$44 billion offer to acquire Twitter at a substantial premium to its prevailing market price. Public statements framed the bid as a move to enhance "free speech," which investors also interpreted as a strategic signal of an imminent governance overhaul [1,15].

On April 25, Twitter's board unanimously accepted the offer after limited negotiation. The transaction details, reported by Reuters, showed financing through personal equity, bank loans, and co-investors. The speed of approval raised questions about board independence and risk oversight, as institutional checks did not materially delay the process.

Uncertainty escalated in mid-summer. On July 8, Musk moved to terminate the deal, alleging that Twitter had misrepresented the prevalence of automated "bot" accounts. Bloomberg reported that this reversal triggered immediate legal confrontation as Twitter sought to enforce the merger agreement. The episode heightened market volatility and fueled doubts about execution certainty [14].

After months of litigation and public dispute, the transaction was completed on October 27, 2022. Upon assuming control, Musk dismissed senior executives and dissolved the board, centralizing decision-making authority. The New York Times documented the closing and governance reset, including leadership changes and early policy shifts [15].

In the weeks following the takeover, organizational disruption intensified. British Broadcasting Corporation (BBC) News reported that roughly half of Twitter's workforce was laid off in November 2022, while major advertisers paused spending amid uncertainty over content moderation and policy direction. Although Twitter ceased financial reporting after privatization, Refinitiv Workspace data indicate that its total revenue had peaked in 2021 prior to the acquisition, suggesting that subsequent declines reflected market uncertainty rather than cyclical effects [13,16]. These developments illustrate how behavioral factors and governance constraints jointly shaped corporate control and stakeholder outcomes.

The sequence of major events is summarized in Table 1, and the market response is visualized in Figure 1, which plots Twitter’s daily closing price during 2022. The chart highlights sharp price movements around the stake disclosure, takeover announcement, withdrawal attempt, and final completion, revealing the market’s sensitivity to behavioral and governance signals throughout the process.

Table 1. Twitter acquisition timeline

Date	Event	Key Participants	Governance Notes	Primary Source
Apr 4 2022	Musk disclosed 9.2% ownership in Twitter (late SEC filing).	Elon Musk	Late disclosure raised transparency concerns.	[1]
Apr 14 2022	Musk announced a \$44 billion offer at a substantial premium.	Musk; Twitter Board	Offer made without extensive due diligence; signaled rapid governance change.	[1,15]
Apr 25 2022	Board accepted the offer unanimously.	Twitter Board	Board independence and risk oversight questioned.	[1]
Jul 8 2022	Musk moved to terminate the agreement citing “bot” accounts.	Musk; Twitter Board	Litigation initiated to enforce the merger agreement; heightened deal risk.	Bloomberg [14]
Oct 27 2022	Transaction closed; board dissolved; control transferred.	Musk; Twitter	Centralization of decision authority; governance reset.	New York Times [15]
Nov 2022	Workforce layoffs and advertiser pullbacks reported.	New Management	Organizational disruption and revenue pressure after privatization.	BBC [16]

Notes: Sources correspond to items in the reference list ([3,13,14,16]). All event dates and outcomes are verified through publicly available news and financial records.

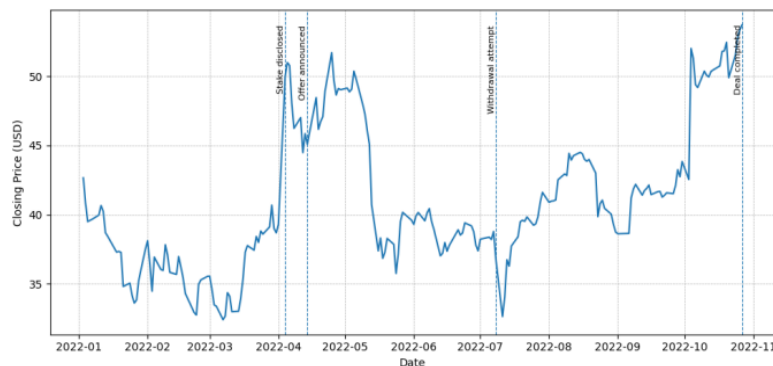


Figure 1. Twitter stock price movements around key events (2022) (picture credit: original)

Notes: Figure 1 plots Twitter Inc daily closing prices from January to October 2022. Vertical dashed lines mark the April 4 stake disclosure, April 14 offer, July 8 termination attempt, and October 27 completion. Source: Refinitiv Workspace. Stock price data cover the period from January 2022 to October 27, 2022, the date of the transaction completion.

The evidence presented in Table 1 and Figure 1 shows that Musk’s takeover of Twitter reflected a consistent behavioral pattern shaped by managerial overconfidence and weak governance oversight. Across the stages of proposal, negotiation, withdrawal, and eventual restructuring, both psychological motives and institutional constraints interacted to influence corporate control and stakeholder reactions. This case therefore provides the empirical foundation for the following analysis, which explores how managerial behavior and governance quality jointly affect decision outcomes after the acquisition.

5. Analysis and discussion

Refinitiv Workspace financial statements indicate that Twitter's total revenue rose from approximately USD 2.44 billion in 2017 to USD 5.08 billion in 2021, while net income remained negative throughout the period (–USD 2.14 billion in 2021). Although Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) increased from USD 435 million to USD 818 million, the firm's debt-to-equity ratio also climbed from 29.1 percent to 58.2 percent. This pattern of expanding scale but persistent losses reflects a fragile financial structure masked by top-line growth. The imbalance between expansion and profitability provides the backdrop for behavioral overconfidence and weak internal discipline, leaving the company increasingly vulnerable to leadership-driven strategic decisions [13].

5.1. Behavioral bias and executive overconfidence

Musk's acquisition behavior aligns with the characteristics of executive overconfidence described in behavioral finance research. The hubris hypothesis proposed by Roll argues that overconfident executives often overestimate their ability to generate value and underestimate acquisition risks. Malmendier and Tate found that such executives frequently pursue high-profile transactions financed through debt or personal equity, motivated by conviction rather than fundamentals. Musk's personal financing commitments, rapid announcement of a USD 44 billion offer, and limited due diligence all exemplify this bias.

The decision sequence—from the initial stake disclosure to the offer, the attempted withdrawal, and eventual completion—reveals cognitive inconsistency typical of overconfident leadership. Each reversal of intention created uncertainty and credibility erosion. The market reactions in Figure 1, which show sharp price fluctuations surrounding Musk's key announcements, illustrate how psychological factors at the managerial level can transmit to investor sentiment almost instantaneously.

5.2. Governance weakness and institutional oversight

The transaction also exposed structural weaknesses in Twitter's governance framework. According to agency theory, boards are expected to constrain managerial dominance through independent oversight. However, the board's unanimous acceptance of Musk's unsolicited bid after limited negotiation suggested a lack of independence and risk evaluation. As Jensen and Meckling emphasized, weak monitoring allows managerial preferences to supersede shareholder interests.

Inadequate disclosure further amplified this governance failure. Healy and Palepu highlighted that insufficient transparency distorts market perception and reduces accountability. In Twitter's case, valuation assumptions and financing risks were only partially disclosed, preventing external stakeholders from assessing the transaction's implications. The board's passive compliance rather than active challenge exemplifies how governance institutions can accommodate, rather than counterbalance, overconfident leadership during critical decisions.

5.3. Consequences and market interpretation

The behavioral and institutional dynamics culminated in pronounced organizational and market consequences. Bloomberg reported Musk's attempt to terminate the deal in July 2022, triggering immediate litigation and signaling managerial inconsistency [14]. The New York Times documented the completion of the transaction on October 27 2022, followed by the dismissal of senior

executives and the dissolution of the board [15]. Subsequent reports from BBC News and Reuters described large-scale layoffs and advertiser withdrawals in November 2022, reflecting declining confidence in the company's new governance structure [3,16].

Although post-acquisition financial reporting ceased after privatization, Refinitiv data show that the company's pre-acquisition growth had not translated into sustained profitability [13]. The ensuing operational contraction, declining advertising activity, and reputational volatility illustrate the tangible costs of unchecked managerial discretion. Governance mechanisms failed to moderate behavioral intensity, producing value erosion and stakeholder disengagement.

5.4. Behavioral–governance interaction framework

The interaction between behavioral bias and governance weakness in the Twitter case is summarized in Table 2, which links managerial traits, institutional limitations, and observable consequences.

Table 2. Behavioral–governance interaction framework

Behavioral Bias	Governance Weakness	Observed Consequence
CEO overconfidence in valuation and control	Board independence erosion; limited challenge to executive assumptions	Overpayment risk; underestimation of integration difficulty
Over-optimism about managerial capacity and speed of reform	Concentration of authority; weak internal oversight	Rapid restructuring; executive turnover; organizational instability
Misjudgment of market and stakeholder sentiment	Limited disclosure and stakeholder communication	Investor skepticism; advertiser withdrawal; reputational decline
Confirmation bias in strategic communication	Absence of balanced deliberation and risk assessment	One-sided messaging; loss of trust; governance fragility

Notes: This framework synthesizes the interaction between behavioral bias and governance mechanisms observed in the Twitter acquisition. It integrates theoretical insights from Roll, Malmendier and Tate, Jensen and Meckling, Fama and Jensen, and Healy and Palepu to explain how psychological and institutional dimensions jointly influence corporate outcomes.

5.5. Theoretical implications

The case demonstrates that behavioral and governance dimensions are interdependent and mutually reinforcing. Overconfidence amplified risk-taking and strategic rigidity, while weak governance failed to constrain these tendencies. Together they created a feedback loop that destabilized organizational control and market trust.

Integrating behavioral finance with corporate governance analysis shows that psychological factors can shape firm outcomes as strongly as structural mechanisms. Effective governance design therefore requires incorporating behavioral diagnostics into oversight systems to mitigate the risks posed by dominant or overconfident leaders. The Twitter case highlights how cognitive bias and institutional design jointly determine corporate accountability, control, and long-term sustainability.

6. Conclusion

This study examined Elon Musk's acquisition of Twitter through an integrated behavioral finance and corporate governance perspective. The case revealed how psychological bias and institutional weakness can converge to influence one of the most visible corporate events of the decade. The findings show that Musk's overconfidence, manifested through impulsive decision-making and limited due diligence, interacted with Twitter's fragile governance structure to produce outcomes that neither behavioral nor structural explanations alone can fully capture.

Refinitiv Workspace's financial data showed that Twitter had already experienced profitability issues before the acquisition, with steady losses and increasing leverage despite robust revenue growth. These circumstances made it possible for management conviction to quickly take precedence over formal oversight. Once the deal started, behavioral impulses took precedence over collective judgment due to the lack of independent challenge and insufficient disclosure, which resulted in inconsistent communication, litigation, and chaos following the acquisition.

The Twitter case serves as an example of how corporate control is influenced by the mental and emotional dynamics of persons in positions of authority in addition to contracts and organizational structures. The distinction between domination and leadership becomes hazy when governance structures are unable to control such processes. This supports the claim that good governance necessitates institutional resilience and behavioral awareness in addition to compliance.

Theoretically, by showing that managerial psychology and board design need to be examined jointly, this work adds to the expanding junction between behavioral finance and corporate governance. In practical terms, it emphasizes the necessity for boards, regulators, and investors to retain diversity of opinion in decision-making, improve disclosure transparency, and fortify behavioral diagnostics. Despite concentrating on a single scenario, the analysis's conclusions apply to more general governance situations in which institutional fragility and individual influence coexist. In order to gain a deeper understanding of how structural and behavioral dynamics work together to produce business results, future study may develop this approach using multi-case or quantitative evidence.

References

- [1] Jin, H. & Oguh, C. (2022) How Elon Musk Funded \$44 Billion Twitter Deal. Reuters, 12, 16-32.
- [2] Clayton, J. & Hoskins, P. (2022) Elon Musk Takes Control of Twitter in \$44 bn Deal. BBC News.
- [3] Roll, R. (1986) The Hubris Hypothesis of Corporate Takeovers. *The Journal of Business*, 59, 197-216.
- [4] Malmendier, U. & Tate, G. (2005) CEO Overconfidence and Corporate Investment. *The Journal of Finance*, 60, 2661-2700.
- [5] Jensen, M.C. & Meckling, W.H. (1976) Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3, 305-360.
- [6] Fama, E.F. & Jensen, M.C. (1983) Separation of Ownership and Control. *Journal of Law and Economics*, 26, 301-325.
- [7] Healy, P.M. & Palepu, K.G. (2001) Information Asymmetry, Corporate Disclosure, and the Capital Markets: A Review of the Empirical Disclosure Literature. *Journal of Accounting & Economics*, 31, 405-440.
- [8] Aabo, T., Hanousek, J., Pantzalis, C. & Park, J.C. (2023) CEO Personality Traits and Corporate Value Implication of Acquisitions. *Journal of Empirical Finance*, 73, 86-106.
- [9] Aktas, N., Louca, C. & Petmezas, D. (2019) CEO Overconfidence and the Value of Corporate Cash Holdings. *Journal of Corporate Finance*, 54, 85-106.
- [10] U.S. Securities and Exchange Commission (SEC) (2022) Form 8-K: Twitter Inc, 12, 46-55.
- [11] Refinitiv Workspace (2023) Twitter Inc (TWTR.N^J22) - Company Overview and Financial Statements, 12 20197-20201.
- [12] Spence, M. (1973) Job Market Signaling. *The Quarterly Journal of Economics*, 87, 355-374.
- [13] Yin, R.K. (2009) *Case Study Research: Design and Methods*. 4th Edition, Sage Publications, Thousand Oaks, CA, 12, 217-221.
- [14] Bloomberg (2022) Twitter Must Give Musk More Data on Bots in Battle over Deal, 36, 154-166.
- [15] New York Times (2022) Elon Musk Completes \$44 Billion Deal to Buy Twitter, 112, 2117-2120.
- [16] Clayton, J. & Liang, A. (2022) Twitter Staff Say Layoffs Have Started after Elon Musk Takeover. BBC News, 13, 62-70.