

After Acquiring Innovation and Sustainability: Executive Effects

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An extensive body of research supports that firms acquire other firms in order to innovate and/or become more sustainable. Extant theory posits that power in top management teams is among many determinants of success of acquisitions. This study focuses on and empirically investigates the relationship between power in top management teams and post-acquisition performance. Our results show that expert power and prestige power in the combined top management team are positively related to post-acquisition performance in both related and unrelated acquisitions. The study concludes with implications for future research and managerial practice.

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JEL Classification: M10

I. Introduction

The research in mergers and acquisitions reveals that 70 percent of all mergers and acquisitions (M&A) produce no benefit for the shareholders (Bruner, 2005; DePamphilis, 2012; Gaughan, 2011). Some M&A failures have been dramatic. The AOL-Time Warner deal lost 93 percent of its value during the integration period as the internet service provider merged with the publishing company in an attempt to combine content with delivery. VeriSign, another internet-related services company, lost \$17 billion of its 2000 \$20 billion acquisition of Network Solutions and its stock fell 98 percent. It is not just the fallout from dot.com acquisition failures that lose money. A classic example of failure – and one where the very basic elements of business intelligence were ignored – is Quaker Oats, the food and beverage company founded in the nineteenth century. In 1994, they acquired Snapple, a quirky fruit-drinks company, for approximately \$1.9 billion, thus becoming the third largest producer of soft drinks in the United States. Less than three years later, in 1997, Quaker Oats sold its Snapple division for just \$300 million. Despite this trend, companies the world over have continued to consolidate and combine in unprecedented numbers. According to the Economic Intelligence Unit (2008), global M&A deals peaked in 2007 at \$1.76 trillion falling to \$1.57 trillion in 2008, with much of the M&A activity driven by consolidation in industries such as energy, financial services, utilities, healthcare, and media, despite the difficult financial conditions in late 2008. One explanation for

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the continued and unabated interest in M&A activity, despite the evidence to date, is that established firms can increase their innovation output through M&A by acquiring firms that can unleash innovation and synergies with the acquirers, a post-acquisition outcome that top-management teams (TMTs) strive to achieve (Boston Consulting Group, 2004; Sevilir and Tian, 2012). For M&A to lead to innovation for the acquirers, a certain degree of knowledge transfer is necessary (Birkinshaw *et al.*, 2010; Valentini and Di Guardo, 2012), and the top management teams facilitate innovation success by providing complementary resources (King *et al.*, 2003; Cassiman and Colombo, 2006) to achieve sustainable post-acquisition gains. Innovation is seen by top management teams as a significant determinant of sustainable organizational performance (O'Reilly III and Pfeffer, 2000; Hess and Kazanjian, 2006; Thoenig and Waldman, 2007; Gottfredson and Schaubert, 2008; Simons, 2008; Tappin and Cave, 2008; Spear, 2009).

The main rationale behind an acquisition is the expectation that the consolidated organization can realize operational, financial, or strategic synergies (Chatterjee, 1986; Krishnan and Park, 2002; Soofi and Zhang, 2014). However, for the acquisition to result in any meaningful synergy, it is necessary to surmount the problems of acquisition integration. This is where most firms fail. One of the main reasons cited by researchers for the failure of mergers and acquisitions is the lack of compatibility between the partners (Porter, 1987; Haspeslagh and Jemison, 1991; Datta, 1991). This compatibility is an important issue particularly at the top levels of the organization. Often, the two top management groups do not work toward common goals, resulting in large scale turnover among the acquired firm managers (Walsh, 1988). Thus, the anticipated operational or financial synergy does not materialize. For example, AT&T's major decision to restructure into three separate entities is largely based on its failure to generate synergies through its acquisitions of NCR Corporation and McCaw Cellular Communications.

The success of any acquisition to a large extent depends on the top managers. Several researchers have argued that in trying to understand the role of top management it is important to understand the power enjoyed by them in the organization (Pfeffer, 1981; Ravenscraft and Scherer, 1987). Power manifests itself in the form of behavior and has considerable influence on the decisions taken by the manager (MacMillan, 1978). It is surprising that given the vast literature in the area of top management power and in the area of mergers and acquisitions, empirical studies linking top management team power and post-acquisition performance are relatively rare. To date, one of the few studies in this area is the empirical investigation carried out by Hambrick and Cannella (1993). They looked at power in the context of relative social standing and its effects on top management team turnover among managers of the acquired entity. They did not empirically test for the effects of relative social standing on performance, but provided strong arguments that suggest that power can have an impact on post-acquisition performance. Bauer *et al.* (2016) make a fervent call for research that shows that TMT power drives innovation post-acquisition.

The purpose of this study is to establish a linkage between power in top management teams and post-acquisition performance. To address this issue, we will first briefly look at the literature on acquisition integration and top management team power. It is hoped that this research will shed new light on the acquisition process.

II. Theoretical Background

Researchers have not been able to arrive at a consensus regarding the determinants of acquisition performance. The issue that has not been resolved despite extensive research in this area is whether related acquisitions outperform unrelated acquisitions. There are three schools of thought in this area. One school argues that related acquisitions outperform unrelated ones because there is more scope for transfer of operational synergies in the former (Rumelt, 1974; Bettis and Hall, 1982). These researchers argue that because related firms operate in common product-markets, the managers have extensive knowledge of the business. This knowledge can be transferred or shared between business units, resulting in a competitive advantage for the organization. According to the second school of thought, unrelated acquisitions outperform related ones because the organization is able to reduce its risks and balance the growth in its portfolio by acquiring unrelated units (Michel and Shaked, 1984). By transferring financial resources across business units and at the same time giving autonomy to units, the organization is able to realize financial synergies. The third school of thought argues that the success of any acquisition depends on how well the two firms are integrated (Jemison and Sitkin, 1986; Porter, 1987; Palich *et al.*, 2000). Both related and unrelated acquisitions can succeed if the two partners are able to integrate well after the acquisition. Haspeslagh and Jemison (1991) and Markides and Williamson (1994) argue that both related and unrelated acquisitions can have a great need for strategic interdependence and therefore, can benefit from transfer and/or sharing of skills and resources.

There are several factors which determine the success of any acquisition. One of the main factors, according to a meta-analytical review by Certo *et al.* (2006), is the influence of the top management team (TMT). The TMT is not only responsible for setting the direction of the company; it is also responsible for marshaling the resources of the organization toward its objectives. Adapting to and exploiting change is essentially a creative and entrepreneurial effort and carries with it significant risks of failure (Rosenbusch *et al.*, 2011). That is, some firms are successful and some are not. In creating new growth platforms, top management teams need to reallocate and also find new sources of resources (Bogner *et al.*, 1996; Laurie *et al.*, 2006). Child (1972) argues that top managers play an important role in positioning the organization in its environment. It is this positioning that can result in a competitive advantage for the firm. Building on the strategic choice perspective of Child (1972), Hambrick and Mason (1984) proposed an upper echelons theory (refined later by Hambrick, 2007) where they argued that the demographic and psychological attributes of top managers can influence organizational outcomes. Researchers have tested this theory in different organizational settings. These include not only the influence of top management characteristics in single business enterprises but also its influence in firms diversifying through acquisitions. The key to acquisition success lies in the composition of the top management team and how these managers use their skills and resources to the advantage of the organization.

While some researchers have studied the impact of TMT composition on organizational outcomes, others have studied the impact of TMT compatibility between acquiring and acquired firms on post-acquisition performance (Bunderson, 2003; Bunderson and Sutcliffe, 2002; Carpenter *et al.*, 2004; Finkelstein and Hambrick, 1996; Pelled *et al.*, 1999). Specifically, Michel and Hambrick (1992), Wiersema and Bantel (1992), and Auh and Menguc (2006) found that the demographic characteristics of top management team can have an impact on organizational outcomes in diversified companies. Miles and Cameron (1982), in a sample of six tobacco firms, found that managerial power affects the acquisition decisions of the firm. In another study

involving the impact of managerial characteristics on resource allocation decisions in strategic business units, Gupta and Govindarajan (1986) found that general managers characterized by lower average age and shorter tenure were more inclined to increase spending for their business units. Srivastava and Lee (2008) present a synthesis of existing research on TMT demographics-performance relationship that reveals little consensus.

In the second set of studies, researchers have attempted to demonstrate that there is a link between TMT characteristics and post-acquisition performance. Datta (1991) looked at the top management teams of the acquiring and acquired firms at the time of the acquisition and concluded that if the two teams had similar managerial styles, it would result in superior postacquisition performance. Building on the theoretical arguments of Porter (1987) and Barney (1988), Haspeslagh and Jemison (1991) conducted several case studies to study the impact of TMT characteristics on post-acquisition performance. They found that acquisitions can result in positive synergies if organizations can create a climate for the transfer of skills from the acquiring firm to the acquired firm and vice versa. They argue that similar or complementary teams can have a positive impact on post-acquisition performance.

In the context of acquisitions it is important to look at the two management teams (i.e., the acquiring and acquired teams) as a combined entity and how the composition of this combined team can affect performance (Zaleznik, 1970; Jemison and Sitkin, 1986; Porter, 1987). That is, it is important to investigate not just the complementarity of the two teams and its impact on performance as prior researchers have done, but also how the combined team affects post-acquisition performance. This is because, after the acquisition, in most cases, the operations of the acquired firm are consolidated into the operations of the acquiring firm (Kitching, 1967; Porter, 1987). Decisions are taken jointly by the two sets of managers. In firms that rely on acquisitions as the major growth strategy, it is not unusual for highly skilled top managers to be rotated around the different units of the organization. These managers are now responsible for the organization as a whole. The demographic and psychological attributes of this combined team can therefore have a considerable influence on performance (Hambrick and Mason, 1984).

In acquisitions, one managerial attribute considered to be crucial is power (Zaleznik, 1970; Buono *et al.*, 1985; Pfeffer, 1992). This is due to the fact that power can have a considerable influence on post-acquisition performance. There are several reasons to support this notion. Diversification via acquisition is a major corporate strategy and hence, the top managers play a crucial role in establishing the direction of the company. Power in the TMT can influence the decisions that its members take (Hambrick, 1981; Smith *et al.*, 2006). Second, power is closely linked to the organizational culture (Buono *et al.*, 1985). Keeping employees motivated and ensuring that they work for the organization's goals is the role of the top managers. Power is necessary to mobilize the political support and resources to get things done in the organization (Pfeffer, 1992). This is crucial in turbulent situations like acquisitions where powerful teams can ensure that the organization surmounts the problems of acquisition integration (Perry, 1986). During this time, employees look up to the top managers for their leadership and guidance, which ultimately have an impact on organizational performance. Another reason power may have a positive impact on performance is derived from the fact that power accrues to a person through his/her background (French and Raven, 1959). The manager's experience, education, and status enable him/her to manage inter-organizational boundaries and also serve as a signaling mechanism to the rest of the organization.

Pfeffer (1992) argues that managerial power is a crucial determinant of performance. Buono *et al.* (1985) argue that many acquisitions fail because in an ensuing power struggle between the

two management teams, the casualties are usually the top managers of the acquired firm. Some of them may get forced out. Feeling "powerless" in the new organization, many of them may even choose to leave on their own. Jemison and Sitkin (1986) argue that one of the main reasons acquisitions fail is because the acquiring firm brings in a new management group to handle the operations of the acquired unit. Not only do these managers tend to be more bureaucratic, they often lack the skills required to handle the operations of the acquired unit. He further argues that it is important that the acquiring group recognizes the reality of power asymmetries. If the acquiring firm ensures that both the firms are equal in psychological power (which is derived from managerial expertise), it could have a positive effect on performance (Haspelslagh and Jemison, 1991). Ramos-Garza (2009) found that TMT consensus is more crucial for firms operating in complex environments than for those in simple environments.

Many researchers have argued that successful acquisitions are those which tap the skills of its top managers. This is a major requirement for collective power. Several researchers argue that one of the major determinants of post-acquisition performance is resource and skill sharing and team interactions within the organization (Cannella and Holcomb, 2005; Carpenter, 2002; Haspelslagh and Jemison, 1991). This skill sharing comes about by consolidating the management teams. The combined team may result in a unique combination of skills which may not be available to other bidding firms (Barney, 1988). This uniqueness can be harnessed for long-term competitive advantage. What is important here is not just the skills of the individual members of the team but the skills in the consolidated team. To ensure that these managerial skills are used to the benefit of the organization, it is important that there be power sharing in the top management team (Hambrick, 2007). Hence, it is important to consider the collective power in the TMT.

Power is defined by a set of networks, and it is important to study the conditions under which it can be employed (Dalton and Dalton, 2005). Power manifests itself in the form of behavior and is defined as the ability to exert one's will and influence outcomes (MacMillan, 1978; Pfeffer, 1981). Several typologies have been constructed to measure managerial power (French and Raven, 1959; Hambrick, 1981; Finkelstein, 1992). These typologies include expert power, prestige power, and hierarchical power. However, in the context of acquisitions, expert power and prestige power are considered particularly crucial (Hambrick and Cannella, 1993).

Expert power. Expert power is derived from the core functional expertise of a manager and reflects the manager's ability to cope with environmental uncertainties (French and Raven, 1959; Hambrick, 1981; Yetton and Bottger, 1982). The full array of strategic decisions within the organization is based on the expert power that accrues within the top management team (Hambrick, 1981; Finkelstein, 1992). Zaleznik (1970) argues that expertise is an important source of power because affirmation of a manager's position in the organization comes from the lower levels. Mintzberg (1984) attempted to link power configurations with organizational life cycles. He argues that a managerial team characterized by a meritocracy power configuration (i.e., where power is derived through professional expertise) is likely to steer the organization towards success.

A team that has considerable diversity in functional backgrounds among its top managers is a valuable asset to the consolidated organization for several reasons (Cannella *et al.*, 2008; Bunderson, 2003; Porter, 1987; Ravenscraft and Scherer, 1987). These managers are better able to cope with organizational uncertainties and get things done because they bring different skills and expertise to the team (Pfeffer, 1992). Consequently, a greater number of alternatives are generated before arriving at decisions. Functional heterogeneity among the members makes the organization more innovative, enhances the search for knowledge, and promotes cooperation among the members (Dutton and Duncan, 1987). Zaleznik (1970) argues that in acquisitions, the conflict of

interests can be severe. Therefore, a team that has capable managers can have considerable power. Furthermore, he states that if power is vested in the TMT and not just in one or two individuals, it can serve as a guard against blind spots. This benefits the combined organization. It is the combined capacity of the members of top management teams that influences long-term success (Carpenter *et al.*, 2004).

A second reason that greater expert power benefits the combined organization is because it reduces TMT turnover among acquired firm managers (Walsh, 1988; Cannella and Shen, 2001; Cho, 2006; Simsek, 2007). It is important to retain the acquired firm managers because of their knowledge of the business. Wagner *et al.* (1984) argue that if every member is moderately dissimilar from other members in the group, there will be less differentiation and conflict than if they are similar. On the other hand, in a homogeneous TMT, there is a lot of competition for scarce resources, accelerating the departure of some of its managers. Therefore, a TMT that has considerable expert power (reflected in its functional heterogeneity) is likely to lead to superior post-acquisition performance.

Hypothesis 1: *There is a positive relationship between expert power among the TMT members and post-acquisition performance.*

Prestige Power. Prestige power is derived from a manager's ability to absorb uncertainty from the institutional environment (D'Aveni, 1990; Finkelstein, 1992; Certo, 2003; Jackson and Hambrick, 2003; Brockmann *et al.*, 2004). Possession of prestige or high social status enables a manager to confer legitimacy to the organization. This legitimacy often engenders trust from the members of the organization and/or from its external stakeholders. This trust and respect within the organization can be a valuable resource to an organization, particularly in times of uncertainty.

Hambrick and Cannella (1993) and McDonald *et al.* (2008) argue that possession of prestige power among top managers has several advantages. First, through enhanced social status it creates identification with the organization as a whole. Second, prestigious executives often are highly regarded in the business community, which leads to board positions in other organizations (Carpenter and Westphal, 2001). The learning that comes from this place of privilege and prestige can contribute to the organization's success (Westphal *et al.*, 2006; Westphal, 1999).

The trend to redefining organizational boundaries started with the merger wave of the 1980s (Hirschhorn and Gilmore, 1992). To cope with such acquisition activity, the organization needs managers who can manage inter-organizational boundaries and relationships. In such situations, possession of prestige power among top managers can have an important signaling effect to the employees of the organization. Krackhardt (1992) argued that strong external ties are desirable because they aid in the development of trust and reciprocity, what he referred to as *philos*. *Philos* enable firms to effectively deal with uncertainties (Hansen, 1999; Cohen and Prusak, 2001). Also, lower level employees tend to trust these highly networked top managers as able managers who can contain conflicts within the organization. It also signals that they would be able to manage inter-organizational boundaries by being able to network with directors and top managers of other organizations. The above arguments suggest that the prestige power of the TMT will be positively related to post-acquisition performance.

Hypothesis 2: *There is a positive relationship between prestige power among the TMT members and post-acquisition performance.*

Although possession of expert power among top managers is expected to result in better performance in both related and unrelated acquisitions, the impact of these differences may differ across the type of acquisition. Related acquisitions entail acquiring businesses that build on, draw strength from, and/or strengthen some core competence (Rumelt, 1974). This usually involves the two management teams working together. Functional heterogeneity among top managers facilitates transfer of skills in related acquisitions because a common core of unity may be present (Lubatkin, 1987; Singh and Montgomery, 1987). Also, it is possible for the merged firm to increase its bargaining power over buyers and suppliers. For these reasons, both financial and operational synergies can be realized in related acquisitions (Kitching, 1967; Porter, 1985; Chatterjee, 1990; Pehrsson, 2006). This suggests that the combined expert power in the TMT may have a considerable impact on performance in related acquisitions. In contrast, the likelihood of realizing operational synergies is limited in unrelated acquisitions. This is because the two firms operate in different industries. Buono and Bowditch (1989) observe that as the goal in unrelated acquisitions is financial synergies, the firm may be organized as a decentralized conglomerate. Therefore, the two top management teams may interact only on a limited basis. Thus the combined expert power in the TMT may not be as beneficial to the organization as it would in related acquisitions.

Hypothesis 3: *The strength of the impact of expert power on post-acquisition performance will be greater for firms pursuing a related acquisition strategy than for firms pursuing an unrelated acquisition strategy.*

III. Methodology

The sample of acquired firms and their acquirers for acquisitions completed between 1986 and 1987 was obtained from the *Journal of Mergers and Acquisitions*. All acquirers who were subsequently acquired and all foreign companies were excluded from the sample. We chose the years 1986 and 1987 because the *Brooking Report* on takeovers suggests that these two years offer a tranquil period after the hyper-inflation period of 7 years that preceded them, thus minimizing the potential impact of macroeconomic factors on the takeover phenomenon (Bhagat *et al.*, 1990). In particular, Jensen (1988) points to 1986 and 1987 as the period that is unadulterated by the global acquisitions that cut across international boundaries, which have become so common in today's world, and hence can provide extra insights into the dynamics of predominantly domestic mergers and acquisitions. Finally, the fourth merger wave (1985-1989) deserves more analysis to tease out lessons that are potentially useful for future mergers and acquisitions because it is difficult to collect and analyze "in-progress" (2013-2015) mergers and acquisitions due to difficulties in attributing power dynamics to the target and bidding firms (Ravenscraft, 1987). The TMT was defined for the parts of the two firms brought together during the acquisition. Data on TMT members for the acquiring and acquired firms were obtained from the *Dun & Bradstreet Reference Book of Corporate Managements*. Consistent with the approach adopted by earlier researchers, the top management team was defined as all managers who occupied the rank of senior vice president and above (Michel and Hambrick, 1992) in the two firms at the time of the acquisition. The selection criteria included the chief executive officer, the president, the chief operating officer, the chief financial officer, and senior vice presidents. The *Dun & Bradstreet Reference Book of Corporate Managements* provides information on top managers for the acquiring firm and on top managers of all its subsidiaries. In most cases, the acquired unit is treated

as a subsidiary of the acquiring firm. Firms for which the data on TMT were not available were excluded from the sample. The final sample used in the study consisted of 72 firms.

In measuring power, both objective and subjective measures have been used in prior research. However, one of the main problems associated with measuring power using subjective indicators is that it reflects only the perceptual notions of managerial power (Finkelstein, 1992). It may not be an indication of true power. Therefore, in this study, power was measured using objective indicators.

A. Independent Variables

Expert Power. One way of measuring expert power is to examine the functional expertise of top managers. In a top management team, if the managers have expertise in different functions, the team would be functionally heterogeneous, and therefore, the team would have greater expert power (Finkelstein, 1992). To measure expert power, a variation of the Herfindal-Hirschman index was used (Scherer, 1970; Michel and Hambrick, 1992). The equation used was $H = \sum Si^2$. In this equation, H is the homogeneity and Si is the percentage of managers with dominant functional track. Hitt and Tyler (1991) suggest that although top executives often have experience in multiple functions, they usually have a dominant experience in one major function. The functional background of the TMT members for the combined organization was assessed by categorizing the manager as belonging to one of the seven major functional areas if s/he had spent more than half of the career in a particular function. The functional areas considered in this study were production/operations, R&D/engineering, finance/accounting, general management/general administration, marketing, legal, and personnel/labor relations. H can have a value from 0 to 1, where a high value indicates that a top management team is homogeneous (i.e., low expert power) and a low value indicates that a team is heterogeneous (i.e., high expert power). The information required for categorizing functional areas was available in *Dun & Bradstreet Reference Book of Corporate Managements* using data for the year of the acquisition.

Prestige Power. To measure prestige power, the approach advocated by Finkelstein (1992) was adopted. It was measured as the number of corporate boards a top manager served on. The prestige score for the firm was arrived at by summing the scores for individual members in a top management team, and then dividing this number by the size of the top management team. The higher the score, the higher the prestige power for that group.

B. Control Variables

Relative Size. Several researchers have argued that the relative sizes of the acquiring and acquired firm can influence organizational performance. More specifically, greater the ratio, poorer the performance (Kusewitt, 1985). The data on relative size were calculated for the year of the acquisition from *Moody's Industrial Manual*.

TMT turnover in the acquired firm. There is considerable evidence in the literature linking TMT turnover in the acquired firm with poor performance. Many acquisitions are characterized by TMT turnover which results in the acquiring firm losing valuable expertise (Walsh, 1988 and 1989). Even if the acquisition is in a related area, the acquiring firm may still lack the unique skills necessary to deal with the operations of the acquired firm. Not only will the managers of the acquiring firm have to deal with the operations of the acquired firm, they are also responsible for integrating the two firms. This may result in their not having the time and resources to deal with the operations of the acquiring firm. All this can have a negative impact on post-acquisition

performance. TMT turnover in the acquired firm was measured as follows. The names of the TMT in the acquired firm were obtained for two time periods: (1) the TMT members during the time of the acquisition; and (2) the TMT members three years after the acquisition. TMT turnover was measured as the proportion of change between the two time periods 1 and 2, similar to the approach adopted by Walsh (1988). This information was collected from the *Dun & Bradstreet Reference Book of Corporate Managements*. The data on TMT members for the acquiring and acquired firms in the sample were also obtained from the SEC company annual reports and filings.

Prior Performance. The prior performance of the acquiring firm can also have an impact on its subsequent performance (Hambrick and Schechter, 1983; Tushman and Romanelli, 1985). When firms perform poorly, they may seek to engage in acquisitive activity to improve their performance. They may want to acquire a successful firm with the hope of generating synergies through consolidation of activities. Data on the acquiring firms' prior performance, measured as the return on assets averaged for a period of three years before the acquisition, were collected from *Moody's Industrial Manual*.

Industry Performance. The performance of the firm relative to its industry can have a significant impact on post-acquisition performance. One of the reasons for the success of some acquisitions is the fact that they operate in industries characterized by high growth conditions (Christensen and Montgomery, 1981). Data on industry performance at the 2-digit SIC level, measured as the three year average ROA prior to the acquisition, were collected from *Fortune* (Industry Medians and Totals).

Acquisition Type. Based on Rumelt's (1974) two major categories of related and unrelated, Harrison *et al.* (1991) classified two merging firms as being related to each other if they belonged to the same dominant 2-digit SIC category prior to the acquisition. A similar procedure was adopted in this research by classifying firms based on their 2-digit SIC categories. That is, if the two firms belonged to the same dominant 2-digit SIC groups at the time of the acquisition, they were classified as related, and unrelated otherwise.

C. Dependent Variable

Post-Acquisition Performance. The post-acquisition performance of the consolidated organization was chosen as the dependent variable. It was measured as the return on assets (ROA) averaged for a period of three years immediately following the acquisition. This time period is sufficient to realize most of the effects associated with synergy. Prior research supports the use of accounting measures of performance such as the ROA because managers use this measure very frequently in decision making (Bromiley, 1986). These data were collected from *Moody's Industrial Manual*.

IV. Results

Ordinary least squares multiple regression analysis was used to test the hypotheses. The descriptive statistics and inter-correlations for all the variables are presented in Table 1. Using the approach suggested by Belsey *et al.* (1980), the data were tested for multicollinearity. An examination of the condition indexes revealed no significant multicollinearity among the variables.

Table 1: Descriptive Statistics and Pearson Correlations (N=72)

Variables	Mean	S.D.	1	2	3	4	5	6	7
1. Post-Acquisition Performance	3.13	4.7	1.0						
2. Prior Performance	5.12	4.77	0.49****	1.0					
3. Relative Size	38.59	99.73	0.06	-0.00	1.0				
4. Industry Profitability	5.28	2.49	0.08	-0.04	-0.10	1.0			
5. TMT Turnover	0.43	0.25	-0.26	-0.03	-0.04	-0.20	1.0		
6. Expert Power	0.74	0.06	0.35***	0.29**	-0.05	-0.06	-0.21*	1.0	
7. Prestige Power	1.18	0.56	0.43***	0.26*	0.19	-0.07	-0.26*		1.0
**** p<0.001 *** p<0.005 ** p<0.01 * p<0.1									

The results of the regression analyses are reported in Table 2. Model 1 shows the impact of control variables on the dependent variable. The control variables together explained 30% of the variance in the dependent variable and the overall model was highly significant (p<.0001).

Table 2: Results of Multiple Regression Analyses (N=72)

Variable	Dependent Variable = Post-Acquisition Performance			Dependent Variable = Post-Acquisition Performance Residuals	
	Model 1	Model 2	Model 3	Model 4	Model 5
Intercept	1.77 (0.00)	-10.0 (0.00)	-1.57 (0.00)	-9.97 (0.00)	-2.38 (0.00)
Prior Performance	0.48**** (0.48)	0.42**** (0.43)	0.41**** (0.41)		
Relative Size	0.00 (0.06)	0.00 (0.07)	0.00 (0.01)		
Industry Profitability	0.12 (.06)	0.15 (0.08)	0.17 (0.09)		
TMT Turnover	-4.28* (-0.23)	-3.47 (-0.18)	-2.8 (-0.15)		
Expert Power		15.5* (0.19)		13.45** (0.20)	
Prestige Power			2.43*** (0.19)		2.00*** (0.29)
**** p<0.001 *** p<0.005 ** p<0.01 * p<0.1					

Model 2 in Table 2 shows the impact of expert power on performance. The overall model is highly significant ($F=6.8$; $p<.0001$), and it explains about 34% of the total variance in the dependent variable. The value for expert power is significant ($p<.10$), supporting Hypothesis 1, which predicts that expert power has a positive impact on performance. Hypothesis 2, which predicts that prestige power is positively related to post-acquisition performance, was also supported, and this relationship was highly significant ($p<.0001$) as revealed in Model 3. The control variables and prestige power together explained about 38% of the variance in performance.

Since the control variables (especially prior performance and TMT turnover) explained a large portion of the variance in post-acquisition performance, further tests were conducted by partialing out the effects of these variables and using the residuals for further analyses. The dependent variable was measured as the residuals from a regression of the control variables on post-acquisition performance consistent with prior researchers (MacMillan *et al.*, 1982). An analysis of residuals revealed that they were normally distributed and that the regression results were not influenced by outliers. Results in Table 2 (models 4 and 5) reveal that both expert power and prestige power were significantly and positively related to post-acquisition performance residuals ($p<0.05$ and $p<.01$ respectively), supporting Hypotheses 1 and 2.

To test Hypothesis 3, which predicts that the strength of the impact of expert power varies across acquisition type, *t*-tests were conducted. There were 43 related and 29 unrelated acquisitions in the sample. Results reveal that the group means for neither the performance term nor the expert power term were statistically significant. This confirms the arguments advanced by several researchers that related acquisitions do not outperform unrelated acquisitions (Porter, 1987; Haspeslagh and Jemison, 1991).

V. Discussion

The literature reveals that most acquisitions end in failure due to lack of compatibility among top managers. The results of this study show that in providing an explanation for post-acquisition performance it is important to consider the composition of the combined team. The power of this combined team can have a positive impact on post-acquisition performance. Our results reveal that both expert power and prestige power were positively related to performance, reinforcing the notion that the diversity in the functional backgrounds of top managers and the influence that they exert can be harnessed for acquisition success and in turn to long term competitive advantage.

There are several reasons supporting the notion that managerial power affects post-acquisition performance. Not only does the top team directly influence post-acquisition performance, it also has an indirect effect on performance through reduced TMT turnover. TMTs with high expert power (reflected in their functional heterogeneity) are more innovative and consider a greater number of alternatives before arriving at decisions. The managers in such teams bring a wide range of skills and expertise. When organizations deal with the problems of acquisition integration, all functional activities need to be adequately addressed. TMTs that combine functions as diverse as marketing, operations, R&D, legal, general administration, finance, and personnel relations are better able to handle integration problems. A consequence of effective post-acquisition integration is a positive impact on performance.

TMTs characterized by high prestige power can have a positive impact on performance through the prestige and status of their members. By serving on a number of corporate boards, these managers are able to network well with managers of other organizations. They are better able to manage interdependencies and deal with environmental uncertainties. It is also possible that

these board positions exist in firms that may be major suppliers or customers to the acquiring firm. Fostering good relationships with such companies can have a positive impact on acquisition success and organizational performance. Gulati (2007) defines this relationship-capital as *network resources* and Möller *et al.* (2005) call this relationship-capital as *strategic business nets*; these are resources that accrue to a firm from its ties with external constituents including – but not limited to – partners, suppliers, and customers, and thus exist outside a firm's boundaries.

Evidently, there is also an indirect relationship between managerial power and performance. A team characterized by high functional heterogeneity is less likely to lead to turnover. Acquired firm managers are valuable assets, and if they believe that they would continue to enjoy some power after the acquisition, they would be motivated to stay on in the organization and contribute to its success. This reduced turnover among acquired managers is positively associated to post-acquisition performance (Walsh, 1988). The above arguments are also in accord with the observations of Cannella and Hambrick (1993) that acquired managers are an intrinsic component of the acquired firm's resource base and that the loss of their experience cannot be recovered easily.

The above arguments are readily evidenced in two well publicized acquisitions, one of which was a failure and the other a success. In 1998, the German automaker Daimler-Benz acquired the American automaker Chrysler for \$36 billion only to sell 80.1% of its equity in Chrysler for only \$7.4 billion nine years later to a private venture capital firm. In 2005, the consumer goods giant Procter and Gamble (P&G) acquired Gillette for \$57 billion, making the combined company the world's largest consumer products firm. The Daimler-Chrysler merger was characterized by significant missteps in the post-acquisition process that failed to capture synergies between the firms. While touted as a merger of equals, autocratic leadership from Daimler left little autonomy for the combined TMT at Chrysler. "You had two companies from different countries with different languages and different management styles come together yet there were no synergies. It was simply an exercise in empire-building by Juergen Schrempp, the then Daimler CEO" (Woods, 2007). In stark contrast, the P&G/Gillette merger ensured a smooth post-acquisition integration by empowering the combined TMT to realize synergies estimated in the 18-month long pre-merger due-diligence (Berner, 2005). Expertise power in the combined TMT was harnessed to realize almost all of the estimated synergies. Despite the age of the data in our study, our theory stands the test of time as evidenced from the Chrysler/Daimler debacle and the P&G/Gillette success.

The results of our study support the argument that both related and unrelated acquisitions can result in superior performance. This is because, irrespective of the type of acquisition, related or otherwise, the acquiring firm would be interested in retaining managers with high expertise (Haspeslagh and Jemison, 1991; Hambrick and Cannella, 1993). Possession of expert power is associated with knowledge of and skill in using that power in acquisition integration (Pfeffer, 1981). Also, expert power, reflected in the functional heterogeneity of top managers, is unique to a firm and not to the industry type (Haspeslagh and Jemison, 1991; Cannella and Hambrick, 1993). In addition to the uniqueness of skills, there is also the issue of culture and how to motivate the remaining employees. Even if the acquiring firm managers were familiar with the acquired business, they would retain the acquired firm managers for their ability to keep the rest of the employees motivated. These results reinforce the importance of examining the influence of functional heterogeneity in any decision making process.

VI. Future Research

One of the major contributions of this study is the investigation of managerial power to provide an adequate explanation to post-acquisition performance. It measures power distribution in the new TMT after the acquisition and its impact on subsequent post-acquisition performance. Power is a complex phenomenon and empirical studies investigating its role in acquisitions are relatively rare. This is one of the few studies in this area with a research focus on the combined TMT and a prolonged time frame that extends into three years after acquisition. Several interesting issues emerge out of this study for future research. First, we suffer from the same limitation as in Cannella *et al.* (2008) in our TMT expert power measured via functional diversity. Because we did not have data on the time spent in each function, we equally weighted each function with the proportion of the total number of functional areas an executive had experience in. In this respect, our measure is coarser than that used by Bunderson and Sutcliffe (2002). Hence, future research should replicate the results of our study using both objective and subjective measures of power. Second, this study only measured the possession of power among top managers and not its application. An area for future research is the investigation of the effects of the actual exercise of power on post-acquisition performance. Third, it is also important to consider the impact of psychological attributes, which are important sources of power. Finally, the profile of power configurations is not static, and therefore longitudinal studies are required to study its impact on performance. For practitioners, the implications of our findings are clear in that expert power (functional heterogeneity) as well as prestige power (network resources) positively contribute to post-acquisition performance in both related and unrelated acquisitions. Thus, complementary (and internal) knowledge resources and external network resources must be retained during acquisitions to ensure post-acquisition success.

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