FLORIDA STATE UNIVERSITY

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RETENTION OF ACQUIRED BOARD MEMBERS AND IMPLICATIONS FOR POST-ACQUISITION PERFORMANCE: A RESOURCE DEPENDENCE PERSPECTIVE

By

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TABLE OF CONTENTS

List of Tables vi

List of Figures vii

ABSTRACT viii

1. OVERVIEW OF RESEARCH STUDY 1

Resource Dependence 2
Mergers and Acquisitions 3
Contributions/Implications of Research 5
Overview of Research Methodology 6
Overview of Dissertation 7

2. LITERATURE REVIEW 8

Overview of Chapter 8
Resource Dependence Theory 8
Types of Directors 8
Director Interlocks 13
Board Size 15
Board Prestige 16
Summary 17
Merger and Acquisition Integration 18
Strategic and Organizational Fit 19
Resource Reconfiguration and Redeployment 23
Top Management Team Retention, Learning, and Communication 24
Speed of Integration 28
Boards of Directors 29
Summary 30

3. THEORY AND HYPOTHESES 32

Conceptual Foundations of Resource Dependence Theory 32
Acquisition Characteristics and Director Retention 35
Acquisition Relatedness and Director Retention 35
Board Size and Director Retention 37
Power Imbalance, Mutual Dependence and Director Retention 38
Director Characteristics and Director Retention 41
Director Interlocks and Director Retention 41
Director Firm and Industry Experience and Retention 43
Director Expertise and Retention 44
Director Retention and Performance 47

4. METHODS 51

Sample and Data Sources 51
Measures 52

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Independent Variables 52
Dependent Variables 56
Controls 57
Sample Size Analysis 61
Statistical Analysis 61

5. RESULTS 65

Descriptive Statistics 65
Results of Hypothesis Testing 69
Mediation 72
Moderation 73
Post-hoc and Additional Analyses 74
Summary 76

6. DISCUSSION AND CONCLUSION 77

Discussion of Research Findings 77
Acquisition Characteristics 77
Acquisition Relatedness 77
Relative Board Size 78
Power Imbalance 78
Mutual Dependence 79
Director Characteristics 79
Director Interlocks 79
Firm Experience 80
Industry Experience 80
Business Expertise 81
Specialized Expertise 81
Community Influentials 81
Retention to Performance 82
Contributions to Theory, Methodology, and Practice 83
Theoretical Contributions 83
Methodological Contributions 84
Practical Contributions 86
Limitations and Future Research 86
Conclusion 87

REFERENCES 88

BIOGRAPHICAL SKETCH 103

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LIST OF TABLES

Table 1.	Director Resource Profiles	11
Table 2.	Merger and Acquisition Director Resource Profiles	45
Table 3.	Constructs, Measures, and Data Sources	59
Table 4.	Means, Standard Deviations and Results of One-Way ANOVA	66
Table 5.	Descriptive Statistics and Correlations	67
Table 6.	Goodness of Fit Indices	69
Table 7.	Standardized Path Coefficients and t-tests	73
Table 8.	Squared Multiple Correlations	73
Table 9.	Results of Regression Analysis - Retention	75
Table 10.	Results of Regression Analysis - Performance	76

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LIST OF FIGURES

Figure 1. Conceptual Model of Director Retention and Post-Acquisition Performance 5

Figure 2. Model of Hypotheses and Expected Directions of the Relationships 50

Figure 3. Measurement Model with Controls 64

Figure 4. Path Model with Standardized Path Coefficients 71

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ABSTRACT

Building on resource dependence theory, this dissertation seeks to explain why target firm directors are retained from the target organization and if this retention has an effect on post-acquisition performance. Both acquisition level characteristics and director level characteristics were assessed in a sample of 173 acquisitions to examine director retention. Findings indicate that power imbalance, relative board size, acquisition relatedness, and director interlocks influence target director retention. No support for a link between director retention and performance was found.

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CHAPTER 1
OVERVIEW

Recently, researchers have called for a greater understanding of how boards of directors may impact the performance of a firm from a resource dependence perspective and a control perspective (Daily, Dalton, & Cannella, 2003; Hillman & Dalziel, 2003; Zahra & Pearce, 1989). One underrepresented area of research has been examining boards of directors in the context of an acquisition (Haleblian. Devers, McNamara, Carpenter, & Davison, 2009). This dissertation focuses on the resource providing function of target firm directors to determine whether or not they are retained after an acquisition, and, in turn, whether director retention from a resource providing perspective impacts firm performance.

In order to advance our understanding of the link between directors and firm performance, research from a resource dependence perspective has begun to take a more fine-grained approach to examining the characteristics of directors (Hillman, Cannella, & Paetzold, 2000; Kroll, Walters, & Wright, 2008; Lester, Hillman, Zardkoohi, & Cannella, 2008). In particular, this line of research has begun to examine director experiences, particularly those experiences of directors in acquiring firms (Kroll et al., 2008; McDonald, Westphal, & Graebner, 2008). Directors of acquiring organizations with relevant acquisition experience have been found to have a positive influence on acquisition performance (Kroll et al., 2008; McDonald et al., 2008).

Extant research, however, has examined only the characteristics and experiences of the acquiring organization directors, and has not examined the characteristics and experiences of directors of the acquired organization. A recent review of the acquisition literature highlighted that research on membership and behavior of the acquired board is underdeveloped (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). In particular, current research has not yet examined the drivers of acquired directors' retention and whether this retention benefits the outcomes of the acquisition. This dissertation aims to contribute to both researchers' and practitioners' understanding of directors' roles in acquisitions by focusing on those directors of an acquired organization. Specifically, this dissertation aims to answer two questions:

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1) *What resource dependence factors influence the retention of directors from a target organization?*
2) *Do directors retained from the acquired organization contribute to post-acquisition performance?*

Resource Dependence

Building from prior literature, this dissertation explores acquired director retention from a resource dependence perspective. Pfeffer and Salancik (1978) address how directors provide advice and counsel to an organization's CEO. It is through this advice and counsel that directors contribute to organizational performance (Hillman & Dalziel, 2003; Westphal, 1999). From a resource dependence perspective, directors provide access to resources, both tangible and intangible, that assist managers in running their organizations (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978). The resource-based view of the firm stresses the importance of tangible and intangible resources to an organization (Barney, 1991), however the means by which organizations come by these resources is often overlooked. Resource dependence theory addresses how organizations can access necessary resources for organizational survival. One important mechanism for accessing resources from this perspective is the board of directors.

Directors have been classified into four primary categories (Hillman et al., 2000) based on the types of resources they may provide. The first category is insiders. Insiders provide information to other directors about the firm, including the general strategy, the competitive environment, and specific financial or legal knowledge (Hillman et al., 2000). The second category is business experts. Business experts include individuals who are current or former officers of other for-profit firms or directors at other for-profit firms. These individuals bring expertise on competition, decision making, and problem solving in organizational settings. The third category is made up of support specialists. Support specialists provide specialized expertise on "law, banking, insurance, and public relations" (Hillman et al., 2000: 240). Finally, community influentials are directors that are representatives from the community. For example, political leaders, clergy members, and leaders of community organizations are classified in this category. These individuals bring perspectives and issues to the boardroom that are not necessarily directly related to the daily functioning of the business, but are instead from indirect stakeholders that are potentially influenced by the decisions and actions of the organization. According to the

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resource dependence perspective, these four types of directors (insiders, business experts, support specialists, and community influentials) bring skills, knowledge, and access to other types of resources to an organization.

Resources that directors provide to a target organization may also be of value to an acquiring organization. The acquiring firm's need to access these resources may lead to the retention of directors at an acquired organization. By retaining these directors, access to necessary resources to reduce uncertainty and costs may be able to contribute to the post-acquisition performance at the newly combined organization. Gaining an understanding of the post-acquisition performance implications of director retention is expected to shed additional light on the moderators that influence acquisition performance (King, Dalton, Daily, & Covin, 2004).

Mergers and Acquisitions

Mergers and acquisitions (M&A) persistently occur in the current business landscape. During the 1980s, there were approximately 55,000 mergers and acquisitions valued at $1.3 trillion (Hitt, Harrison, & Ireland, 2001). Comparatively, in 2006 alone, M&A activity totaled approximately $3.79 trillion (Thomson Financial, 2007). These figures depict the economic importance and pervasiveness of M&A as a corporate strategic move.

Managers pursue mergers or acquisitions for a variety of reasons including gaining access to resources (Capron, Dussauge, & Mitchell, 1998; Haspeslagh & Jemison, 1991; Pfeffer & Salancik, 1978), building market power (Kim & Singal, 1993; Lubatkin, 1983), and spreading economic risks across multiple business units (Hoskisson & Hitt, 1990). Despite the widespread occurrence of M&A and the varied reasons they occur, many have not produced the positive financial benefits expected of them (e.g., King et al., 2004). In a study by McKinsey & Co. (2000) approximately 60% of acquisitions failed to return greater yields than the annual cost of capital required to finance the acquisition. This study also found that only 23 percent of acquisitions were considered successful; and 34 percent were later sold for a loss. These figures aid in demonstrating the difficulty that many organizations have in creating value through merging and integrating two firms. The challenge for both managers and scholars is to

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identify the integration contingencies and processes that can lead to post-acquisition success.

Research in strategic management has begun to examine M&A integration contingencies and processes and has identified several overarching themes (Puranam & Srikanth, 2007). Early research identified general contingencies such as strategic and organizational fit (e.g., Jemison & Sitkin, 1986) and modes of acculturation (e.g., Nahavandi & Malekzadeh, 1988). More recent research has identified resource reconfiguration (e.g., Capron et al., 1998), speed of integration (e.g., Schweizer, 2005) top management team retention (e.g., Cannella & Hambrick, 1993; Graebner, 2004), and knowledge transfer (e.g., Finkelstein & Haleblian, 2002; Ranft & Lord, 2002) as important factors in acquisition value creation.

Despite the progress made in identifying these important integration contingencies and processes, the role boards of directors' play in post-acquisition integration is often overlooked in the strategic management literature. This is a significant gap in research as directors play key roles in helping shape the strategic direction of a firm (Carpenter & Westphal, 2001; Judge & Zeithaml, 1992) and in providing resources necessary for the organization (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Provan, Beyer, & Kruytbosch, 1980). The primary research questions addressed in this dissertation are what resource dependence factors impact the retention of acquired directors, and how director retention impacts post-acquisition performance. By theoretically constructing the arguments for director retention from a resource dependence perspective and empirically examining these questions, this dissertation begins to address the gap in the literature and contributes to the body of knowledge regarding the role of directors in post-acquisition integration.

A recent example helps illustrate how directors are retained and can influence post-acquisition performance. In 2004, J.P. Morgan Chase & Co. merged with Bank One Corporation, two very related companies. Prior to the acquisition, each firm had 13 members serving on its board. The combined company had sixteen members on the board, eight from J.P. Morgan's board, and eight from Bank One's board. Of the eight directors retained from Bank One, six were business experts, one was a support specialist, and one was an insider. As of May 2008, shareholder value for the combined firm had

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increased by over 30 percent. The value created to shareholders may be, in part, a result of retaining directors that provided access to valuable resources and advice. Therefore, examining director retention and ultimately whether retained directors contribute to post-acquisition performance can help scholars and managers better understand organizational performance post-acquisition. Figure 1 depicts the conceptual model of the proposed relationships.

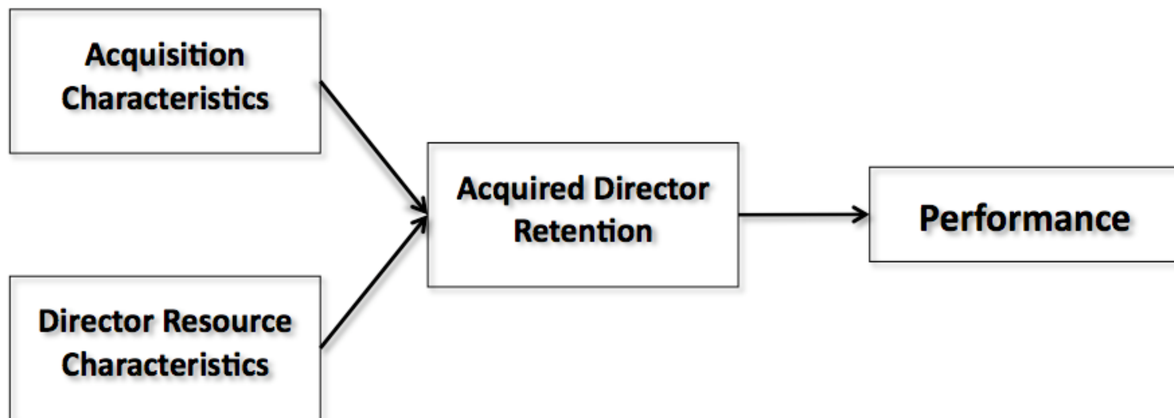

Figure 1: Conceptual Model of Director Retention and Post-Acquisition Performance

Contributions/Implications of Research

This dissertation seeks to take an initial step in addressing the gap in the literature with regards to boards of directors in acquisitions (Haleblian et al., 2009). Specifically this dissertation seeks to contribute to the understanding of the retention of acquired directors in an acquisition context. By building upon resource dependence theory, this study strives to identify those resource providing characteristics of directors at an acquired organization and the influence of these characteristics on director selection and retention by the acquiring organization. By exploring the influence of resource providing characteristics on director retention, this dissertation contributes to the corporate governance literature and helps provide a better understanding of the utility of acquired directors to an organization.

In addition to identifying which factors contribute to the retention of acquired directors, the implications of retention on post-acquisition performance is also examined.

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By identifying whether the retention of acquired directors influences post-acquisition performance, this dissertation contributes to the literature on acquisition integration.

This dissertation adds to the growing research on resource dependence by applying it to an acquisition integration framework. Pfeffer and Salancik (1978) outlined how M&A and boards of directors can both be used independently as means to reduce uncertainty an organization faces by reducing dependencies. However the provision of advice, counsel, and resources by directors and the resources provided by the M&A has received little attention especially with regards to directors of the target organization.

Director retention has received only limited study in the context of mergers and acquisitions. The limited extant literature is relatively atheoretical or has not examined post-acquisition performance implications of retained acquired directors. This research has focused exclusively on the US banking industry (Becher & Campbell, 2005) or on stock-for-stock mergers (Davidson, Sakr, & Ning, 2004). In this context, these studies have examined the loss of board seats by directors (Becher & Campbell, 2005), the effects on acquisition premiums paid, and other characteristics such as board size and director ownership. This dissertation extends these ideas outside of the financial services industry and examines a broader array of merger and acquisition deals. This dissertation also extends prior research by identifying a theoretical rationale for retaining directors and examining post-acquisition performance implications that can occur as a result of this retention.

Calls for a greater understanding of how boards of directors can influence firm performance from both a control perspective and a resource providing function are common (e.g., Daily et al., 2003; Hillman & Dalziel, 2003; Zahra & Pearce, 1989). This dissertation focuses on the resource providing function of directors, particularly the role of acquired directors. By examining acquired directors and their influence on firm performance, a greater understanding of the resource providing function of directors may be achieved.

Overview of Research Methodology

The data used to test the model and hypotheses developed in this dissertation include U.S. mergers and acquisitions that occurred from 2003-2004, excluding the financial services sector, in which both the target and acquirer were publicly traded. The

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financial services sector is not included given the regulation of the industry (Carow, Heron, & Saxton, 2004) and the contractual nature of financial assets (Hannan & Wolken, 1989). Publicly traded acquirers and targets were used to allow for complete and meaningful information to be gathered about both the target and acquirer boards of directors. The end year of 2004 was chosen in order to allow for a time lag measure of performance post-acquisition and provides a 3-year window for post-acquisition data collection. The year 2003 was chosen as a starting year to minimize possible issues arising from the effects of the September 11, 2001 events. Data were collected from a variety of sources including Thomson's Securities Data Company (SDC), LexisNexis, COMPUSTAT and the U.S. Securities and Exchange Commission (SEC) filings. Multivariate statistical techniques include ANOVA and path analysis. The final sample has 173 acquisitions, and of those acquisitions there were 52 (30.1% of the sample) cases of director retention.

Overview of Dissertation

The remainder of this dissertation is structured as follows. Chapter 2 provides a general literature review on research covering resource dependence theory and merger and acquisition integration. In Chapter 3 a theoretical model and hypotheses are developed. Chapter 4 describes the methodology used including the variables and sample statistical analysis. Chapter 5 provides descriptive statistics and the results of the hypothesis testing, and Chapter 6 provides a discussion of the results and implications for both theory and practice.

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CHAPTER 2

LITERATURE REVIEW

Overview of Chapter

This dissertation builds from a resource dependence perspective and examines the retention of board of director members in the context of mergers and acquisitions. In this chapter, a foundational review of resource dependence theory is provided followed by a review of relevant research on acquisition integration.

Resource Dependence Theory

Access to the appropriate resources for reducing uncertainty and managing interdependencies facing a firm is the crux of resource dependence theory (e.g., Pfeffer & Salancik, 1978). According to resource dependence theory, organizations are unable to create all their own resources or handle all functions that would allow them to be completely independent (Aldrich & Pfeffer, 1976). Therefore, organizations must develop ways to manage their reliance on other organizations (Aldrich & Pfeffer, 1976), or individuals (e.g., Selznick, 1957) for resources and services.

Resource dependence theory suggests that one way in which organizations can do this is through their boards of directors. In one of the earliest empirical studies of boards from a resource dependence perspective, Pfeffer (1973) examined the role of hospital boards of directors and found that when hospitals required financial support from the environment, the board served as a fundraising unit. However, when hospitals were less reliant on external financing, the board was used more for administrative purposes. This study highlights how organizations utilize their boards to match the environment in which they operate, consistent with resource dependence theory.

From this early research into the resource providing role of the board of directors, research examining boards of directors from a resource dependence perspective has evolved in the literature to identify the important elements of effective board functioning. In general, four key areas have received significant attention: types of directors, director interlocks, board size and board prestige. Each of these is reviewed in the following paragraphs.

Types of Directors

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Organizations can shape the board in such a way as to increase its alignment with and ability to coopt exchange partners in its business environment through the types of directors appointed on the board. In particular, firms can use outside directors to coopt their external environments. Selznick (1957: 13) defined cooptation as "the process of absorbing new elements into the leadership or policy-determining structure of an organization as a means of averting threats to its stability or existence." Outside directors act as links to the external environment of an organization, which in turn can help reduce the uncertainty an organization faces (Pfeffer, 1972; Pfeffer & Salancik, 1978). Similarly, Peng (2004) found that outside directors provided improved firm performance (sales growth) during highly uncertain institutional transitions in China.

Whereas an outside director creates a link to an organization's external environment and provides information or access to resources that can reduce the uncertainty faced by a firm, inside directors can provide information to the board regarding an organization's day-to-day operations (Baysinger & Hoskisson, 1990; Walsh & Seward, 1990). This exchange of internal information can lead to a reduction in uncertainty that, in turn, can lead to an appreciable enhancement in firm performance (Pfeffer & Salancik, 1978; Zahra & Pearce, 1989).

In a study of 80 non-financial firms, Pfeffer (1972) examined the effects of inside and outside directors. He found that the number of outside directors was related to the need for external capital as well as the existence of regulations pertinent to the organization. Pfeffer also found a positive relationship between firms requiring external capital and the board members representing financial institutions and attorneys. These early findings gave credence to the role that different types of directors play in managing a firm's interdependencies within its environment.

Resource dependence theory, when applied to the board of directors, suggests that boards can provide access to critical resources such as information or financial benefits (Pfeffer & Salancik, 1978). Beyond classifying directors as insiders or outsiders, different types or characteristics of directors help provide access to different types of resources to an organization (Hillman et al., 2000). Table 1 outlines four director types identified in the literature and the nature of the resources that each type provides to an organization (Hillman et al., 2000).

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According to Hillman and colleagues' work, insiders are directors who serve as current or former officers of the organization. Insiders are expected to provide information to the board about the firm itself (Baysinger & Hoskisson, 1990). This information becomes important as other directors use it to identify ways to access resources and manage interdependencies within a firm's environment (Baysinger & Hoskisson, 1990; Zahra & Pearce, 1989). Ford (1988) found that higher levels of insider representation in an organization led to greater board participation. In addition, innovativeness of strategies was also found to be positively associated with an increased presence of insiders on the board of directors (Hill & Snell, 1988).

The second category, business experts, consists of officers at another large, for-profit organization, or directors of other for-profit organizations (Hillman et al., 2000). Business experts bring expertise and experience of strategic decision-making and resource sourcing to an organization (Baysinger & Zardkoohi, 1986; Hillman et al., 2000; Judge & Zeithaml, 1992). They also act as a sounding board for ideas of the top managers of the company (Baysinger & Hoskisson, 1990; Zahra & Pearce, 1989). By having experience at other organizations, they may bring strategic alternatives or guidance that can help hone strategies of the top managers (Hill & Snell, 1988; Judge & Zeithaml, 1992). They may also provide links to interdependences in the competitive environment of the organization. Hillman and colleagues (2000) found that in the deregulation of the airline industry, that board structures changed to reflect the changes that airline companies were facing. Specifically, it was found that after deregulation, more directors were selected from the business expert category (Hillman et al., 2000). This was a change from the board structure prior to deregulation, as they contained a higher level of support specialists.

Support specialists are individuals who provide expertise in specific areas including law, financial institutions and public relations firms, and make up the third category presented by Hillman, Cannella, and Paetzold (2000). These individuals provide links to specific resources required by the organization that come outside of the firm's product markets. Support specialists also facilitate access to resources such as financial capital (Mizruchi & Stearns, 1994; Stearns & Mizruchi, 1993). By having a director from a financial institution on the board, it may signal to banks and financial institutions that

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capital is required and the presence of the director from a financial institution signals that this exchange relationship can be managed effectively (Hillman et al., 2000).

TABLE 1
Director Resource Profiles

Director Category	Areas of Resources Provided	Types of Directors in Category
Insiders	Expertise on the firm itself as well as general strategy and direction Specific knowledge in areas such as finance and law	Current and former officers of the firm
Business Experts	Expertise on competition, decision-making and problem solving for large firms Serve as a sounding board for ideas Provide alternative viewpoints on internal and external problems Channels of communication between firms Legitimacy	Current and former senior officers at other large, for-profit firms Directors of other large, for-profit firms
Support Specialists	Provide specialized expertise in law, banking, insurance, real estate, and public relations Provide channels of communication to large and powerful suppliers or government agencies Ease access to vital resources such as financial capital and legal support Legitimacy	Lawyers Bankers Insurance company representatives Public relations experts
Community Influentials	Provide non-business perspectives on issues, problems, and ideas Expertise about and influence with powerful community groups Representation of interests outside competitive product or supply markets Legitimacy	Political Leaders University faculty Members of clergy Leaders of social or community organizations

Table from Hillman, Cannella, & Paetzold, 2000: 240.

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Empirical support that firms requiring financial capital will have financial representation on their board was found in a study by Stearns and Mizruchi (1993). They found a positive relationship between short-term financing and the presence of market bankers serving as directors. They also found a positive relationship between a firm's long-term bonds and money market and investment bankers on the board. In addition, they found that insurance executives were associated with long-term private debt. Mizruchi and Stearns (1994) found that firms that had financial representatives on the board were more likely to borrow money, at lower costs, than firms without such representatives.

The last category of directors outlined by Hillman and colleagues (2000) is community influentials. These are individuals who provide links to the community and stakeholders who are not directly affiliated with the organization, but rather may be impacted by the decisions and strategies made by the organization (Hillman, 2005; Hillman et al., 2000; Lester et al., 2008). Having community influentials such as political leaders or university officials on a board can help generate strategic alternatives that would not have been recognized otherwise. Community influentials create unique links to the local community in which the organization operates, beyond competitor firms and suppliers.

A notable study of community influentials on a board focused on the placement of ex-politicians on a board of directors to minimize the uncertainty of government actions and policies (Hillman, 2005). This study found that firms from heavily regulated environments had more directors with a political background (Hillman, 2005). Having these former politicians on the board was argued to be a factor in better firm performance in these firms. Luoma & Goodstein (1999) also found that variations in legal environments, industry regulations, and firm size led to increased adoption of stakeholder-oriented boards.

Directors across these four categories can provide a broad range of connections and expertise. Often information asymmetries between the board and the CEO may exist such as when directors may not be fully aware of problems facing the organization (Westphal, 1999). A CEO seeking advice from the board in these situations reduces the asymmetries in information and thus involves the board more fully in the operations

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(Westphal, 1999). This advice-seeking can access the knowledge possessed by outside directors and increase the number of strategic options that can be considered by management (Pfeffer & Salancik, 1978). Directors can provide additional strategic options to management based on their connections and experiences on other boards as well. Their interlocks can be a direct connection to manage interdependencies and a key source of information on strategies and other experiences encountered at the firms on which the director serves.

Director Interlocks

An organization can manage resource interdependencies, gain access to information and reduce uncertainty it faces in its external environment via interlocking directors on the board (Zahra & Pearce, 1989). Board interlocks occur when "a person affiliated with one organization sits on the board of directors of another organization" (Mizruchi, 1996: 271). Interlocks may be considered an organization's attempt to coopt sources of environmental uncertainty (Mizruchi, 1996; Selznick, 1957). Co-optation occurs when organizations absorb potentially disruptive constituencies onto the board (Mizruchi, 1996; Selznick, 1957). For example, a firm may select a member of a bank to which the organization is heavily indebted to serve on the board (Mizruchi, 1996). Interlocks for co-optation purposes may contribute to improved performance, and empirical evidence posits that this may be the case (Baysinger & Butler, 1985; Hillman, 2005; Stearns & Mizruchi, 1993).

Interlocks also aid in enhancing the reputation of a firm (Selznick, 1957). Mizruchi summarized it as:

> When investors decide whether to invest in a company, they consider the firm's strength and the quality of its management. By appointing individuals with ties to other important organizations, the firm signals to potential investors that it is a legitimate enterprise worthy of support. The quest for legitimacy is thus a further source for interlocking. In this formulation, firms are seeking not so much an alliance with another firm, as the prestige that an association with such a firm may convey. (1996: 276)

This legitimacy may be necessary for securing resources that the organization requires to match it to its external environment. For example, legitimacy gained from the interlocked members of the board may enhance an organization's ability to garner

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financial resources from banks (Mizruchi, 1996). In addition to garnering financial resources from banks, director interlocks can provide a source of legitimacy in the case of IPO (initial public offering) organizations, which increases the amount of capital an IPO can raise when it does go public (Certo, 2003; Certo, Daily, & Dalton, 2001). Directors with more interlocks may provide signals that they are expert decision-makers (Certo et al., 2001; Fama & Jensen, 1983). In the case of IPO firms, it was found that there was a link between the legitimacy provided by directors with greater interlocks and bringing more money to the IPO firm (Certo et al., 2001).

In addition to providing legitimacy, board interlocks can also be a means for garnering information from the environment and regarding competitors (Haunschild & Beckman, 1998; Mizruchi, 1996). Interlocks may provide information with regards to possible influences on an organization's operations (Boyd, 1990; Lang & Lockhart, 1990; Schoorman, Bazerman, & Atkin, 1981), and can also lead to reducing competitive uncertainty (Pfeffer & Salancik, 1978; Zajac, 1988). This information can create an awareness of the organization's environment necessary for it to compete and survive (Useem, 1984). In a study of the deregulation of the airline industry, Lang and Lockhart (1990) found that as the environment uncertainty increased for the airlines, indirect board interlocking occurred. In addition, Boyd (1990) found that in conditions of increased competitive uncertainty, directors had higher levels of interlocks.

Interlocks then are a means by which organizations can manage their relationship with their environment by reducing uncertainty (Pennings, 1980; Pfeffer & Salancik, 1978; Zajac 1988) in part by increasing legitimacy (Certo, 2003; Certo et al., 2001) and increasing the flow of information regarding competitors (Lang & Lockhart, 1990; Mizruchi, 1996; Schoorman et al., 1981). In addition to these benefits of director interlocks, board members that serve on multiple boards also allow CEOs to gain access to information of corporate strategies at other firms (Westphal & Fredrickson, 2001), as well as contribute to an organization's strategic decision-making process (Carpenter & Westphal, 2001), and improve environmental scanning (Useem, 1986). All of these factors allow the board to provide a means of reducing environmental uncertainty that an organization faces through the sharing of information (Pfeffer & Salancik, 1978; Zajac, 1988).

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Director interlocks also provide the benefit of allowing a firm to learn about the efficacy, viability, and appropriateness of strategic change and implementation without having to use their home firm to first test the strategy (Gulati & Westphal, 1999). Therefore interlocks allow executives to garner information to reduce the uncertainty regarding potential strategic plans they may choose to adopt (Pfeffer & Salancik, 1978).

Board Size

Board size, as suggested by resource dependence theory, should relate positively to firm effectiveness, because more directors implies broader scope of access to resources, and ultimately better firm performance (Pfeffer & Salancik, 1978). Pfeffer (1972) found support for this assumption. He found that the number of members on a firm's board is related to the need for a firm to access capital. This was further supported in Pfeffer's (1973) study on hospital boards. He found that hospitals requiring fundraising and links to the local environment for fundraising had larger boards, whereas those hospitals not requiring such fundraising initiatives had smaller boards. Provan (1980) found similar results when examining 46 not-for-profit organizations and fundraising.

In addition to examining access to financial resources, studies examining board size and financial performance have found that size does influence organizational performance. In a sample of 119 firms, Pearce and Zahra (1992) found a positive relationship between board size and return on equity (ROE) and earnings-per-share. Daily and Dalton (1993) found similar results compared to return on assets (ROA), ROE, and price-to-earnings (P/E) ratios. Dalton, Daily, Johnson, and Ellstrand (1999) found a positive relationship between board size and firm performance in their meta-analysis covering 27 studies. This relationship was found to be stronger for smaller firms.

In an examination of bankrupt firms, Chaganti, Mahajan, and Sharma (1985) found that firms filing for bankruptcy had smaller boards as compared to non-bankrupt firms. Similarly, Daily and Dalton (1994) found that firms that declared bankruptcy had a higher proportion of affiliated directors. These studies show that smaller boards may not be effective in organizations that are struggling as a result of having fewer channels available to access resources that are required for the firm to survive.

However, larger boards are not necessarily always better. For example, Core, Holthausen, and Larcker (1999) found that smaller boards may be more effective than

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larger boards in keeping executive compensation packages lower. Singh and Harianto (1989) found similar results in their study. Smaller boards are better able to coordinate activities and may be able to take a more active role in the oversight of the organization. Boyd (1990) found that organizations had smaller boards in more uncertain environments, but the number of interlocks increased. This relationship was augmented in stronger performing firms.

Judge and Zeithaml (1992) found that larger boards had members who were often less involved than smaller boards. They found that larger boards hindered the ability to have discussions and a shirking of duties occurred. Goodstein, Gautam, and Boeker (1994) found similar results examining strategic change. They found that larger boards may hinder decisions due to the difficulty in coordinating the number of directors.

A study that examined board composition from a resource dependence standpoint found that in IPO firms, outside directors are best suited to provide resources to the top management team rather than to monitor management (Kroll, Walters, & Le, 2007). The authors suggest that a preponderance of inside, original top managers should be on the board because they have a better understanding of the entrepreneurial vision in these types of firms.

Board size may also reduce or increase the chances of litigation against an organization (Kassinis & Vafeas, 2002). In a sample of 209 firms with an equivalent number of matched pairs, the likelihood of facing a lawsuit increased with board size. However, the chances of facing a lawsuit decreased with an increase of outside directors. Thus board size has been used as a proxy for the variance or breadth of director experience. So by examining director characteristics, such as outsider directors, more meaningful results may be found.

Board Prestige

Resource dependence stresses the importance of firm prestige for uncertainty reduction and organizational survival because the board provides confirmation that the organization is legitimate (Pfeffer & Salancik, 1978). A firm's prestige is influenced by the prestige of its directors and managers. "Prestigious or legitimate persons or organizations represented on the focal organization's board provide confirmation to the rest of the world of the value and worth of the organization" (Pfeffer & Salancik, 1978:

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145). While this has received limited study, prestige is influential on organizational effectiveness. Support for board prestige was found by Provan's (1980) study on 46 nonprofit organizations. Provan's study found that the ability for nonprofits to raise funds was influenced by the prestige of the directors.

More recently, Certo (2003) theorized how board prestige can signal legitimacy to potential investors in IPOs. He suggests that having prestigious members on the board signals that the organization is legitimate. This signal of legitimacy increases an IPO's ability to raise capital despite concerns that investors may have as a result of liabilities of newness.

Summary

The roles and duties that directors provide are valuable to an organization's top management. Directors provide access to resources and provide expertise that can help in reducing uncertainty and aid in providing strategic alternatives to managers. By providing links to the external environment of the organization, directors can mitigate uncertainties surrounding transactions or facilitate the access to resources that are necessary for the organization to survive.

Boards have been shown to change as a result of changes in the external environment (Hillman et al., 2000). An acquisition can affect the external environment of the acquiring company by adding new competitors, uncertainties, and information requirements. Therefore, the board should change as a result of the acquisition to better align the organization with its altered external environment.

To date, prior research has not examined how a board changes in response to an acquisition. One key element of a new board's composition post-acquisition is the retention of the acquired firm's directors on the new board. The construction of the new board is a key element of post-acquisition integration, yet it has received limited attention in the literature. The next section provides an overview of relevant literature examining merger and acquisition integration. These two literature streams, resource dependence theory and merger and acquisition integration, will be integrated to develop a theoretical model and testable hypotheses in chapter 3.

Merger and Acquisition Integration

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Acquisition integration has been identified as critical to realizing synergies and creating value in mergers and acquisitions (Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986; Larsson & Finkelstein, 1999). It is through the acquisition integration process that the reconfiguration of resources, skills and knowledge are expected to create value (Haspeslagh & Jemison, 1991).

Early research examined mergers and acquisitions from strategic and organizational fit perspectives. From these perspectives, success of mergers and acquisitions is dependent upon the strategic fit of the target with that of the acquirer. Strategic fit addresses how well the target firm complements or augments the acquiring firm's strategy or resource profile (Hitt et al., 2001; Jemison & Sitkin, 1986). Research on organizational fit examines the similarities and differences between an acquirer and target on such factors as organizational culture, administrative practices, and personnel characteristics (Datta, 1991; Hitt et al., 2001; Jemison & Sitkin, 1986). Focusing on organizational fit, and particularly organizational culture in acquisitions, research examining acculturation addresses the non-tangible facets of integration. This includes the extent to merge organizations based on the similarities of organizational cultures, transitional teams, and the impact on organizational learning (Barkema, Bell, & Pennings, 1996; Larsson & Lubatkin, 2001; Mirvis & Marks, 1992; Nahavandi & Malekzadeh, 1988). While this early research highlighted the importance of post-acquisition integration issues, specific integration processes and phenomena were not explained.

Recent literature on acquisition integration has examined the integration processes more directly. One such process is the exchange of resources between an acquirer and acquired firms (Capron, 1999; Saxton & Dollinger, 2004). Specifically, resource transfer, or resource reconfiguration, addresses the transfer of resources to or from the target and the implications on organizational performance (e.g., Capron & Pistre, 2002). The redeployment of resources allows for acquirers to take advantage of strategic fit between the two organizations. The exchange of resources specific to the acquirer or target facilitates their combined utilization and helps a firm remain competitive or change strategic focus (Capron et al., 1998).

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A second integration process issue that has been examined is the impact on the retention of top managers from takeover targets. Top managers have been identified as an important factor in creating value in acquisitions in part because of managers' specialized knowledge of the acquired organization (Cannella & Hambrick, 1993). The ability to transfer knowledge in a merger or acquisition has been identified as an important step for successful acquisition outcomes (Finkelstein & Haleblian, 2002), and top managers, as well as key employees, have been identified as a critical source to this process (Graebner, 2004; Ranft & Lord, 2000).

Finally, the speed with which an acquired firm should be integrated has been examined. The strategic goals and the nature of the resources (e.g., knowledge based, innovation, marketing, regulatory approval) acquired have been shown to influence the speed to which resources will be exchanged and an organization will be integrated with the acquiring firm (Ranft & Lord, 2002; Schweizer, 2005).

In the following sections, research on strategic and organizational fit is briefly reviewed, followed by a review of resource reconfiguration and redeployment, the role and retention of acquired top management teams, and the speed of acquisition integration.

Strategic and Organizational Fit

Strategic and organizational fit have been identified as important factors in the success of mergers or acquisitions. Strategic fit is the degree to which the target firm augments or complements the parent firm's resource profile or strategy and in turn can make observable contributions to the financial and non-financial goals of the parent (Jemison & Sitkin, 1986; Rappaport, 1979; Salter & Weinhold, 1979). Organizational fit is the match between administrative practices, cultures, and personnel characteristics of the target and acquiring firms, and may directly affect how the firms are integrated with respect to day-to-day operations once an acquisition has been made (Datta, 1991; Jemison & Sitkin, 1986; Pitts, 1976).

Strategic fit is typically applied to the pre-acquisition stage in identifying suitable targets for acquisition, whereas organizational fit is typically applied to the post-acquisition stage (Barkema & Shijven, 2008). "The argument is that, although strategic fit is a necessary condition for synergy realization, it merely creates synergistic potential

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that can only be realized through effective integration of the firm" (Barkema & Schijven, 2008: 2).

Strategic fit has been measured in several ways. Rumelt's (1974) various measures of relatedness have been one such way. Rumelt's measures were a categorization of how diversified an organization is, ranging from single business to conglomerate with related-linked, related-constrained, dominant business, and unrelated diversified in between. Another such method for measuring strategic fit has been through classifying acquisitions as horizontal, vertical, product, or conglomerate (Lubatkin, 1983). The relatedness of acquisitions has been used to assess acquisition performance. For example, Singh and Montgomery (1987) found that related acquisitions had higher dollar gains than unrelated acquisitions, and the benefits typically accrued to the target, and more so to a target more related to the acquirer.

In an examination of related and unrelated diversification, Markides and Williamson (1996) proposed that firm performance should be enhanced when firms gain access to rare, inimitable, valuable, and imperfectly tradable resources. Firms also should have a superior organizational structure that is efficient to other modes of transaction. They suggest that in order to build a long-term competitive advantage, competencies must be accumulated, allowing the firm to build new strategic assets more quickly. Markides and Williamson (1996) found that firms with these characteristics benefited more from related diversification moves.

Organizational fit is also expected to have important financial implications to a firm. Organizational fit includes the alignment between an acquirer's and target's culture and top management, and this alignment should in turn make it easier to implement an acquisition and realize the expected synergies through effective resource sharing and transfer. Krishnan, Miller, and Judge (1997) studied organizational fit by examining top management teams and organizational culture. They proposed that similarity in top managers' functional backgrounds may lead to clashes between the acquirer and target, whereas complementary functional backgrounds did positively impact firm performance. They also found that similarities in functional backgrounds led to higher turnover rates of managers. These findings held for both related and unrelated acquisitions. This study also

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had implications for organizational learning, as the authors suggest that organizational learning occurs as a result of blending top management teams.

Datta (1991) found that differences in top management styles could have a negative impact on performance in acquisitions. Datta examined management style differences as well as reward and evaluation system differences. Datta found that differences in management styles between the acquirer and target can lead to conflicts and confrontations as the acquiring firm managers may impose their own style on the acquired firm during the integration period and thus negatively influence post-acquisition performance. Reward and evaluation systems do not have the same effect on acquisition performance (Datta, 1991).

Mismatches in organizational cultures have been identified as a possible source for the failure of mergers and acquisitions (Cartwright & Cooper, 1993). In their seminal work, Nahavandi and Malekzadeh (1988) presented a framework for the differences in organizational cultures between target firms and acquiring firms and the degree to which these cultures should be integrated. This process, termed acculturation, is defined as "changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions" (Berry, 1980: 215). This definition is extended by Nahavandi and Malekzadeh to the context of mergers and acquisitions. Nahavandi and Malekzadeh (1988) outline a framework for integration of target firms based on the congruence or incongruence of organizational cultures. The more similar the organizations are, the more they can be integrated and acculturated without causing too much disruption. However, the more divergent they are, the more autonomous the target firm should be in order to decrease any possible disruptions within the organization and the processes. Mirvis and Marks (1992) echo many of the concerns with the integration of cultures. If integration is required to achieve synergies, integrating those functional areas that are more similar should be done first and quickly. However, if extension of product lines is of interest, then only staff functions may be integrated and the remainder of the target should be left relatively untouched.

Because acquisitions may fail as a result of incompatible organizational cultures (Cartwright & Cooper, 1993), methods to try and minimize the disparity in cultures can be taken. Larsson and Lubatkin (2001) found that integration of cultures may benefit

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from the implementation of social controls. Depending on the level of autonomy of the acquired organization, voluntary involvement in activities such as training, retreats, transitional teams, senior management involvement, and celebrations may help the acculturation process and reduce possible clashes (Larsson & Lubatkin, 2001).

The importance of acculturation and organizational fit, however, is the ability to achieve the potential of the strategic fit, allowing for resource exchange and redeployment, identified in the acquisition (Larsson & Finkelstein, 1999). Haspeslagh and Jemison (1991) outline four primary types of acquisition integration based on the degree of strategic interdependence between the two firms and the need for autonomy of the acquired firm. These four types of integration are absorption, preservation, symbiotic, and holding company.

Absorption acquisitions have high strategic interdependence between the target and acquirer, and the need for autonomy between the two is very low. In this case, resource exchange between the two organizations is expected to be necessary and high. Conversely, preservation acquisitions are characterized by low strategic interdependence and high autonomy. Here, resource exchange is limited and the parent firm observes and learns from the acquired firm for a period of time before resource exchange is pursued. Symbiotic acquisitions have both high strategic interdependence and a high need for autonomy. These acquisitions are challenging in that resource exchange is pursued while at the same time the acquired firm needs autonomy to preserve critical resources (Ranft, 2006). Finally, a holding company acquisition requires little integration, thus low strategic interdependence and little need for autonomy between the acquirer and the target are characteristic.

Each of these acquisition integration types focuses on necessary resources for acquisition success. Acquisitions that are high in strategic interdependence require resource exchange between firms. In other words, there is a high degree of strategic fit between the two firms. Early research focused on the strategic and organizational fit, but more recent work has examined the processes and factors necessary to achieve the potential benefits of the merger or acquisition. These processes and factors are discussed next.

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Resource Reconfiguration and Redeployment

Financial resources, managerial resources, production resources and other resources possessed by the organization can influence synergy realization in an acquisition (Larsson & Finkelstein, 1999). When surplus resources exist, a firm may choose to diversify in a related or unrelated manner depending on the nature of the resources (Chatterjee & Wernerfelt, 1991). For example, excess tangible resources, knowledge-based resources, and external financial resources have been shown to lead to more related diversification, whereas internal financial resources lead to more unrelated diversification acts (Chatterjee & Wernerfelt, 1991). The idea behind resource reconfiguration is that there is more than one use for a resource and alternative uses do exist. Acquisitions, which represent a diversification move, are one way to use these resources in a productive manner.

In order for an organization to experience superior performance, the resources should be rare, inimitable, valuable, and imperfectly tradable (Markides & Williamson, 1996). By sharing resources and capabilities across organizational business units, organizations can combine their resource bundles to create new ones. This requires an organizational structure that allows for divisions within a firm to share resources (Markides & Williamson, 1996). Therefore, proper integration of an acquired firm can allow for the sharing of resources for the creation of new ones.

Resources that can be shared and combined include knowledge and capabilities of the target firm with those of the acquiring firm (Puranam & Srikanth, 2007). One of the dangers in integrating an organization is a loss of productivity in the scientists of the corporation (Paruchuri, Nerkar, & Hambrick, 2006). However, the intent of the acquisition will influence the amount the target is integrated, and also limit the loss of productivity. When acquiring to exploit the innovative capability of an organization at the target firm, a loss of productivity of the scientists can be found (Puranam & Srikanth, 2007). When acquiring to continue innovation however, autonomy should remain high at the target.

Resources can be redeployed from either the target or acquiring firm. Resource redeployment is defined as the "extent to which a target or acquiring firm uses the other firm's resources… which may involve physical transfer of resources to new locations or

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sharing resources without physical transfer" (Capron, 1999: 988). Capron, Dussauge, and Mitchell (1998) found that firms often redeploy resources in horizontal acquisitions. This redeployment of resources allows organizations to evolve to match changes in the business environment. Overall, acquisitions provide the organization with a means of reconfiguring the resource structure in an organization, and asset divestiture may be a consequence of this reconfiguration (Capron, Mitchell, & Swaminathan, 2001). However, the divestiture of resources following an acquisition can be risky as it can have a negative impact on acquisition performance (Capron, 1999).

While acquisitions allow firms to reconfigure their resources, the direction of the transfer can impact acquisition performance (Capron & Pistre, 2002). Capron and Pistre found that acquirers' tended to earn abnormal returns when resources were transferred to the target. There was no evidence of abnormal returns when resources were transferred to the acquirer. The authors suggest that this is the case as competing bidders can all see the value in the target, and therefore are able to bid away the gains from the acquisition (see also Barney, 1988). However, when transferring resources to the target, only the bidding firm has intimate knowledge of how its resources would work with the target firm.

Similarly, Saxton and Dollinger (2004) examined the picking and deployment of resources in acquisitions and on the satisfaction of the acquisition as perceived by the acquiring firm. Specifically reputation of the target plays a factor in acquisition perceptions. Reputation, an intangible asset, is difficult to value by the market. In turn, the positive perceptions of target reputation increased the perceptions of acquisition satisfaction. The deployment of resources was mixed in the findings for the perceptions of acquisition outcomes in this study. Saxton and Dollinger (2004) found that retention of the top management team was the only consistent, positive result with acquisition satisfaction. This finding highlights the importance of top managers at the acquired firm, and perhaps the value and benefits they provide to the combined organization.

Top Management Team Retention, Learning, and Communication

Mergers and acquisitions affect individuals at all levels of an organization, especially at the target. This is particularly true at the top management team (TMT) level of the acquired firm. Roughly two-thirds of acquired executives leave within five years

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after the acquisition has occurred (Walsh, 1988). This departure rate is amplified when the acquiring firm is a foreign multinational (Krug & Hegarty, 1997).

There are two perspectives that are used to explain why top managers experience such turnover in merger and acquisition research. The first, the market for corporate control, suggests that the top management team is not fulfilling its contractual obligations to maximize shareholder wealth, thus leading to competition among management teams for shareholder votes (Jarrell & Bradley, 1980). The parent company expects to earn better returns by removing the inefficient management and put the assets of the acquired firm to more effective use (Lowenstein, 1983). The market for corporate control suggest that the acquiring firm should "prune managerial deadwood" in the acquired firm to realize improved performance (Walsh & Ellwood, 1991).

However, evidence suggests that the market for corporate control is not sufficient in explaining top management team turnover (Walsh & Ellwood, 1991). As a result, the theory of relative standing has been used to supplement the market for corporate control arguments for executive turnover (Frank, 1985; Hambrick & Cannella, 1993; Ranft & Lord, 2000, 2002). The theory of relative standing does provide an explanation as to why acquired executives do turn over; but it does not make the link to the outcomes the firm may experience as a result. The underlying assumption of the theory of relative standing is that an individual's status has changed relative to that of others (e.g. the acquiring firm's executives), and this loss of status can lead to the departure of the acquired executives.

Empirical evidence has supported the tenets of the market for corporate control with regard to the target organization's prior performance: The poorer the target's prior performance, the higher the rate of turnover at the executive level (Hambrick & Cannella, 1993; Ranft & Lord, 2000). Within these studies, prior performance, relative size, amount of autonomy granted, and status were all assessed. When all of these factors are low for the acquired firm as well as the management, there is a high turnover among the target top managers, lending support to relative standing arguments.

However, top managers may be an integral resource for the acquiring organization. The resource based and knowledge-based perspectives suggest that retention of top managers is necessary for acquisition success based on these managers'

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knowledge of the acquired organization (Cannella & Hambrick, 1993). These managers should be retained at least through the integration phase to achieve positive performance outcomes (Bergh, 2001; Ranft & Lord, 2002). From a resource based perspective, the top managers of an acquired firm are considered to be a valuable component of the acquired firm's resources (Castanias & Helfat, 1991). In turn, the retention of these executives may have an impact on post-acquisition performance (Cannella & Hambrick, 1993). Research has shown that the top management team may possess tacit knowledge that can improve strategic decision-making (Amason, 1996). Also, top managers aid in the transfer of knowledge within a firm (Graebner, 2004) and may also be considered intangible assets that can directly contribute to a firm's performance (Michalisin, Karau, & Tangpon, 2004, 2007).

Acquired top managers whose skills and expertise complement those of the acquiring firm's top managers have been linked to positive effects on post-acquisition performance and have facilitated the integration of the acquired firm into the acquiring firm (Krishnan, et al., 1997). While the reasons for TMT turnover were not examined, Krishnan et al. (1997) did suggest that perceived redundancy in skills may increase the likelihood of executive departures from a relative standing perspective. Intentions to depart can even impact knowledge transfer and social capital within the organization (Randel & Ranft, 2007), which could affect acquisition outcomes. Saxton and Dollinger (2004) found that retention of target managers increased perceptions of acquisition satisfaction. This is, in part, because the retention of managers enabled the facilitation of learning in the acquisition.

Learning and knowledge transfer can contribute to the success or failure of an acquisition. For example, in a study of 96 organizations, Finkelstein and Haleblian (2002) found that related acquisitions were positively related to acquisition performance indicating a positive transfer of industry knowledge, whereas a second acquisition tended to underperform especially when the acquirer and target were from different industries (negative knowledge transfer). This indicates that the skills obtained from the first acquisition are often misapplied on a second acquisition. Negative knowledge transfer can occur as a result of taking knowledge from the first acquisition and trying to apply that to a second acquisition (Haleblian & Finkelstein, 1999). However, as the

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organization undertakes more acquisitions, over time the organization should be able to identify the differences across acquisitions and not misapply the knowledge gained in previous acquisitions.

Knowledge transfer can be defined as "the acquisition and utilization of new sets of knowledge-based resources" (Ranft & Lord, 2002: 420). In their study, Ranft and Lord (2002) discuss how the integration of tacit and socially complex resources is a complex undertaking. Findings suggest that retention of key employees, appropriate levels of autonomy, and rich communication help in integrating knowledge from a target. Ranft and Lord also suggested barriers to knowledge transfer, such as differences in common strategy, history, and culture. Extending this line of research, Ranft (2006) examined 75 high-tech acquisitions and found that target firm autonomy was key in preserving tacit knowledge. However this autonomy makes it difficult to integrate and use the knowledge of the acquisition to indentify and create synergies between the acquirer and target organizations. In order to benefit from the acquisition, rich communication (face-to-face) and the retention of key employees are critical in transferring tacit knowledge.

Acquisitions also have been examined from a learning standpoint. In a study of greenfields (internal development) and acquisition, Vermeulen and Barkema (2001) found that organizations undertaking international expansion via greenfields can lead to progressing simplicity, and that undertaking an acquisition can lead to new knowledge acquisitions. Greenfields can be viewed as a form of exploitation of an organization's strategy, which in turn can reduce the variety in a firm's knowledge base. However, undertaking too many acquisitions can dilute the organization's routines, thus greenfields can be beneficial in honing the routines to allow for better exploitation. Following similar lines, Bingham and Eisenhardt (2007) found that learning leads to the creation of expertise as opposed to simply refining routines when expanding internationally.

From an organizational learning perspective, acquisition can create capabilities specific to managing the acquisition process (Zollo & Singh, 2004). It is proposed that previous acquisition experience will lead to increased performance in following acquisitions, and higher codification of the previous experience will also lead to higher performance in future acquisitions. They found that knowledge codification influenced acquisition performance, but experience accumulation did not.

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Organizational learning can take place before the acquisition. In a study of prior alliance experience and acquisition performance, Porrini (2004) found that previous alliance experience did lead to better post-acquisition performance, especially between firms that shared R&D, technology transfer, manufacturing, and marketing alliances. Therefore, prior alliance experience between the two organizations aids in integration and synergy realization.

Learning does not just take place at the acquiring organization. Organizations can also learn through the experiences of the organizations that they are acquiring (Barkema & Schijven, 2008). Vicarious learning allows organizations to explore strategic options without necessarily incurring any costs trying these strategies out on their own (Barkema & Schijven, 2008). In an examination of director interlocks, Haunschild (1994) found that organizations use their interlock partners to find out how much to pay for a target when there is uncertainty surrounding the value of the organization. Extending this research, Beckman and Haunschild (2002) found that using the experiences of directors and their interlocks can help the focal organization learn to acquire more successfully. They found that the premium paid was lower and abnormal returns were higher if the acquisition experiences of the directors were more heterogeneous. These findings suggest that learning can occur vicariously.

While the integration of acquisitions can be an opportunity for organizations to learn and transfer knowledge, the speed with which these organizations are integrated can influence the ability to transfer tacit knowledge (Ranft & Lord, 2002). Therefore, the speed of the integration can be important to organizational learning from acquisitions.

Speed of Integration

The speed of the integration is suggested to be beneficial or detrimental to an organization depending on the characteristics of the acquisition (e.g., Homburg & Bucerius, 2006; Ranft & Lord, 2002). For example, Ranft and Lord (2002) found that slower integration may be preferable when there is a high level of tacit knowledge. By integrating the target organization more slowly, the acquiring organization can take the time to learn and potentially use this tacit knowledge to achieve synergies. Schweizer (2005), in an examination of the pharmaceutical industry, suggested a hybrid approach to acquisition integration. Specifically, he suggested that taking the short- and long-term

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motives into account is essential. For example, if the motive is to have continued innovation by the target, a slower integration process is necessary in order to not disturb the exploration process, but more quickly integrate when the core competencies can be found in the acquirer, such as marketing and regulatory approval.

Slower integration can also be beneficial when establishing links across operating units (Birkinshaw, Bresman, & Harkanson, 2000). By allowing the operating units to integrate first, they can achieve acceptable performance before taking the next step to integrate across the units. By integrating too quickly, responsibilities may be unclear and essential employees could resign. Also, the integration of human capital is by nature very slow and difficult (Birkinshaw et al., 2000), but incredibly important to a successful integration. By integrating at a slower pace, retention of key employees occurs, and the success of operating units also is ensured. This can lead to greater knowledge transfer and combination, and in turn identify synergies from the combination of organizations.

In a recent study on the speed of integration, Homburg and Bucerius (2006) examined how speed can be both beneficial and detrimental to integration of a target. Speed can be an important factor in acquisition integration in order to reduce customer uncertainty. They found that speed was most beneficial when external relatedness was low and internal relatedness (organizational fit) was high. Speed of integration is detrimental in the opposite conditions. How quickly an organization can play an important role in preventing the loss of key employees (Birkinshaw et al., 2000), knowledge transfer (Ranft & Lord, 2002), and the retention of innovation capabilities (Schweizer, 2005) can all contribute to organizational learning and effective integration of the acquired organization, ultimately bettering the outcomes of the acquisition.

Boards of Directors

Missing from much of the research on acquisition integration is the recognition of the contribution of the board of directors to post-acquisition outcomes. Studies that have examined directors in an acquisition context have either examined directors from an agency theory perspective or examined the acquiring directors' experiences. The studies that have examined directors in acquisitions have focused on monitoring management by the directors (Wright, Kroll, & Elenkov, 2002), potential compensation motives of the directors (Certo, Dalton, Dalton, & Lester, 2008; Deutsch, Keil, & Lammanen, 2007), or

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experiences of the acquiring firm's directors (e.g., McDonald et al., 2008; Walters, Kroll, & Wright, 2007).

Monitoring the decisions of executives of an organization is one of the functions of the board of directors (Jensen & Meckling, 1976). Executives acting in self-serving behaviors may use acquisitions to expand their compensation (Tosi, Werner, Katz, & Gomez-Mejiz, 2000). However, under conditions of vigilant monitoring by directors, compensation of executives was effectively controlled (Wright et al., 2002).

Directors may, however, also choose to expand for increases in their own compensation (Certo et al., 2008; Deutsch et al., 2007). These findings suggest that directors may also act in their own self-interest and a dual-agency model of corporate governance may be needed (Deutsch et al., 2007).

When directors are acting in the interests of the shareholders they represent, high board of director vigilance in an acquiring firm can also increase returns to shareholders post-acquisition (Walters et al., 2007). This is due to better monitoring of the CEO and ensuring that actions taken are in the best interests of the shareholders. In conjunction with board vigilance, shareholders also benefit when directors have relevant experience in the target firm's industry or have prior acquisition experience (Kroll et al., 2008). Directors with experience in the target firm's industry or with acquisitions may be better advisors to the top managers and can provide useful knowledge on aspects such as barriers to entry in the industry and competition, or provide information on integrating an acquisition.

Specialized acquisition experience (e.g., related or unrelated acquisitions) possessed by members of the board of directors can influence the performance of an acquisition (McDonald et al., 2008). Through their past experiences at other firms with regards to specific types of acquisitions, boards of directors are able to demonstrate another factor for when they are effective. Thus director experiences have an influential impact on the performance of acquisitions.

Summary

As can be seen in the literature review on acquisition integration above, the role that directors play has received limited attention. However, the studies that have examined directors in acquisitions have found that directors perceived as being more

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vigilant (Walters et al., 2007), who possess experience in the industry of the target firm, or have prior acquisition experience (Kroll et al., 2008) can contribute to shareholder wealth gains. However, these studies have not examined director retention from the target organization, nor have they examined how these retained directors contribute to post-acquisition success. The next chapter builds from resource dependence theory to develop a model and hypotheses of target director retention from both the acquisition level and the director level, and how retention impact post-acquisition performance.

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CHAPTER 3

THEORY AND HYPOTHESES

In this chapter a model of acquired firm director retention and acquisition performance is developed using resource dependence theory. First, the conceptual foundation of resource dependence is provided. Second, building from this resource dependence perspective, director characteristics and characteristics of acquisitions are examined to predict acquired director retention. Director characteristics include director interlocks, industry and firm experience, business expertise, support specialists, and community influentials. Characteristics of an acquisition include the relatedness of the acquirer and target, relative board size, and the power imbalance and mutual dependence of the acquirer and target. Each of these characteristics is expected to influence acquired director retention based on resource dependence theory. The effect of acquired-director retention on post-acquisition performance is also investigated. Figure 2 at the end of this chapter outlines the constructs and relationships developed in this chapter.

Conceptual Foundations of Resource Dependence Theory

The "resource dependence model focuses on the decisions and power and influence relationships that affect organizational actions and strategies that seek to manage the environment" (Aldrich & Pfeffer, 1976: 101). Grounded in the power and dependence literature (e.g., Emerson, 1962; Thompson, 1967), early resource dependence theory focused on the survival of the firm and its ability to obtain critical resources from the environment (Aldrich & Pfeffer, 1976; Pfeffer & Salancik, 1978; Singh, House, & Tucker, 1986). More recently, studies using resource dependence theory have gone beyond the organization's survival and examined the impact that directors have on firm performance (e.g., Boyd, 1990; Hillman, 2005; Hillman & Dalziel, 2003)

From a resource dependence perspective, organizations are interdependent with their environment and are not autonomous entities. Rather, organizations are constructed of interdependent parts that form a whole, which in turn are interdependent with a larger environment (Thompson, 1967). Organizations choose their domain (e.g., industry), and the domain determines the resource dependencies faced by the focal organization for survival (Thompson, 1967). Task environments include elements that may be relevant to reaching the goals an organization puts in place. Specifically, the task environment of an

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organization includes other organizations with which the focal organization directly interacts. These other organizations include suppliers, buyers, and other constituencies that interact directly with the focal organization and have an impact on the organization being able to achieving its goals. As organizations become more complex, they face multiple task environments and the number of interdependencies increases (Thompson, 1967).

An organization becomes more or less dependent on its environment based on the need for resources (Emerson, 1962). An organization, or organizations on which a focal firm relies for necessary resources, garners power based on how dependent that firm is on the other organizations (Emerson, 1962). An organization that holds power over the focal firm for tangible resources, however, may also be dependent on that firm in other ways such as to confer status and legitimacy. This type of interdependency is referred to as mutual dependence between the two organizations (Emerson, 1962). Mutual dependence is defined as "the existence of bilateral dependencies in the dyad, regardless of whether the two actors' dependencies are balanced or imbalanced" (Casciaro & Piskorski, 2005: 170).

Pfeffer and Salancik (1978) extended early work by Emerson and Thompson by addressing how resources needed by organizations create dependencies on the environment in which the organization operates, and examining ways in which organizations can manage their dependencies. An organization can gain power relative to another based on its ability to provide another organization with resources that it requires. This may be some form of raw material that cannot be acquired via another means or distribution channels. However, power is not a zero-sum game (Thompson, 1967). One organization may hold power over the other in certain contexts, but the power balance can be reversed in other contexts. In other words, organizations may be mutually dependent on one another. When mutual dependence between two organizations is high, both organizations can be subject to harm if they experience some form of setback (Casciaro & Piskorski, 2005).

In general, the three basic elements of resource dependence theory are the relative power between organizations (Casciaro & Piskorski, 2005), mutual dependence between organizations (Casciaro & Piskorski, 2005), and access to resources such as financial

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capital, knowledge, skills, and other resources (Hillman et al., 2000; Pfeffer, 1972; Pfeffer & Salancik, 1978). A key concern of resource dependence, then, is how organizations access necessary resources given their power imbalances and mutual dependencies with their environments.

Two primary means of accessing resources and managing dependencies have received significant attention in the literature. First, Pfeffer and Salancik (1978) discuss how mergers and acquisitions can be used by an organization to manage their dependencies. By undertaking an acquisition, an organization may be able to reduce the uncertainties in an exchange relationship and gain direct access to the resources possessed by the target organization, which in turn can reduce the associated transaction costs involved between the two parties (Pfeffer & Salancik, 1978).

Second, the role of directors has been examined as a key way to access necessary resources and interact within the firm's environment (Hillman et al., 2000; Pfeffer & Salancik, 1978). Directors have been shown to aid in accessing financial resources (Pfeffer, 1972) and in reducing interdependencies and uncertainty (Hillman, 2005) from a resource dependence perspective. Lacking in the literature, however, is an examination of the relationship of these two factors, mergers and acquisitions and the board of directors, or how these two factors may work in tandem to manage resource dependencies. Specifically, examining how acquired directors may be important for accessing resources and managing dependencies of an acquired organization, and how these directors may also be important for the newly combined firm, has not received empirical attention to date. Following resource dependence logic, the acquisition represents a way of managing the dependencies of the organization. However, the organization being acquired also has its own dependencies that may need to be managed. As directors serve as a link to an organization's environment, the retention of directors adds an additional layer of managing an organization's dependency on the environment. This dissertation extends beyond examining either the acquisition or the directors as a means of managing dependencies to identify the potential additive benefits of retaining directors within a merger and acquisition.

A target firm's directors may influence post-acquisition performance because of their resource providing functions as well as their links to the external environment of the

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acquired firm. As discussed by Pfeffer and Salancik (1978), an organization can indirectly manage its interdependence with its environment through its board of directors and interlocking directorates, co-opting, joint ventures or alliances. Also, cartels and associations may also provide additional indirect links to the environment by reducing the uncertainty in the environment. While cartels and associations may restrict an organization's discretion, they also may be beneficial as they establish "predictable and certain exchanges" (Pfeffer & Salancik, 1978: 183).

The focus of this dissertation is the mechanisms identified by Pfeffer and Salancik (1978) – acquisitions and boards of directors. In particular this study begins to identify resource dependence influences on acquired director retention, and how this retention impacts post-acquisition performance. While mergers and acquisitions may represent one way for an organization to manage its dependencies on the environment, they often do not meet the expected gains of the acquiring organization. Research has yet to consider both of these mechanisms, acquisitions and directors, from a resource dependence perspective. In this study, resource dependence based influences on acquired director retention are examined. In addition the influence of retention of on performance is examined. Specific hypotheses about acquisition characteristics, director characteristics, director retention and firm performance are developed in the following sections.

Acquisition Characteristics and Director Retention

Acquisition Relatedness and Director Retention

Organizations operate in an external environment and cannot produce all the necessary resources internally to avoid transacting in the environment (Thompson, 1967). One way an organization can more efficiently manage its external dependencies is via the board of directors. Resource dependence theory proposes that directors are one mechanism to reduce the uncertainty that a firm faces and to gain access to the resources necessary for survival (Hillman & Dalziel, 2003; Pfeffer, 1972; Pfeffer & Salancik, 1978). As such, it is suggested that corporate boards are structured in such a way as to reflect an organization's external dependencies (Boyd, 1990; Pfeffer & Salancik, 1978). Therefore, if an organization's environment changes significantly, a strategic change in the composition of the board of directors is expected as a result of the change in the resources needed by the combined organization (Hillman et al., 2000; Pfeffer, 1972).

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The existence of outside directors on corporate boards creates links to the external environment of an organization. These links may reduce the uncertainty an organization faces (Pfeffer & Salancik, 1978) by providing an organization with information, knowledge, or advice on pursuing strategies. The access to these resources can help reduce the transaction costs of an organization and in turn improve firm performance (Hillman et al., 2000; Pfeffer & Salancik, 1978).

When an organization undertakes an acquisition, the external environment of the acquiring organization may change, depending on the acquisition type. The degree to which the external environment of the organization changes, however, may depend on the relatedness of the acquisition (Amburgey & Miner, 1992; Pfeffer & Salancik, 1978). Horizontal acquisitions, for example, may not change the operating environment of the firm as both the target and acquiring organizations operate within the same industry.

Organizations that acquire related businesses typically do so to seek synergies from the combination of the two firms (e.g., Harrison, Hitt, Hoskisson, & Ireland, 1991; Hitt et al., 2000; Jemison & Sitkin, 1986; Singh & Montgomery, 1987) or to reduce the uncertainty that may result from the unpredictable actions of competitors (Pfeffer & Salancik, 1978). In related acquisitions, the acquiring firm identifies areas in which the target firm can be integrated in such a way to achieve efficiencies in operations either through economies of scale and scope or in the transfer of skills and knowledge (Ansoff, 1965; Capron & Pistre, 2002; Harrison et al., 1991; Harrison, Hitt, Hoskisson, & Ireland, 2001; Ranft & Lord, 2002). In related acquisitions, the external environment may not change significantly enough to require the composition of the board to change as the resource requirements for the acquiring organization may not change.

In unrelated acquisitions, however, acquiring organizations enter into new markets and environments that may be unfamiliar to the managers and directors of the acquiring firm. The managers of the acquiring firm may not possess the requisite knowledge of the target's business and market (Hitt et al., 2001) or have an understanding of the resources that are required for the target organization. Thus retaining a director with the acquired firm who may provide access to necessary resources may be beneficial. As evidenced by Hillman et al. (2000) and Pfeffer (1972), changes to the environment in which an organization operates should lead to changes in

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the board of directors to better match the organization with its environment. As the environment of the acquisition target differs from the acquiring firm, retention of directors at the target firm may be necessary to align the board of directors with the combined firm's environment. Therefore it is hypothesized:

Hypothesis 1: The relatedness of the acquirer and target is negatively related to acquired director retention.

Board Size and Director Retention

The size of the acquiring firm's board may also influence the need to retain directors from the target firm. From a resource dependence perspective, larger boards are associated with better performance resulting from the organization's ability to garner a wider variety of necessary resources from the environment (Goodstein et al., 1994). Pfeffer and Salancik (1978) also note that larger boards should occur in organizations with greater interdependencies (e.g., suppliers, customers, competition) and uncertainties in the external environment. In a test of this idea, Pfeffer (1972) found that larger boards were associated with organizations that needed greater access to financial capital. Provan (1980) found similar results when examining fundraising activities by not-for-profit organizations. In addition larger boards have been found to be of benefit to IPO firms, as more directors may mean increased access to resources (Certo et al., 2001). In a meta-analytic review of board size, it was found that larger boards also have an impact on an organization's performance (Dalton, Daily, Johnson, & Ellstrand, 1999). It is suggested that this is the case because of the access to resources, knowledge, and the provision of advice and counsel (Dalton et al., 1999). Thus a target with a large board may operate in an environment that is more complex, characterized by a higher degree of uncertainty, or more reliant on external resources. Therefore retention of directors may be crucial to successfully managing the interdependencies facing the organization.

However, larger boards at the acquiring firm increase the likelihood that acquired directors are redundant. These larger boards may already possess the requisite access to resources, skills, and information needed by the newly merged organization. The directors of the target firm may not be able to provide additional resources to the combined organization beyond what the organization already had access to, especially if

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the board of the target organization is smaller. Therefore retention is less likely to occur when the board of directors of the acquiring firm is relatively large.

Hypothesis 2: The relative size of the acquiring firm's board to the target firm's board is negatively associated with the retention of acquired directors.

Power Imbalance, Mutual Dependence and Director Retention

At the foundation of resource dependence theory is the concept of power. Power is associated with who has control over a resource (Pfeffer & Salancik, 1978). Asymmetries in power occur when the transaction between two organizations is not equally important to both organizations (Pfeffer & Salancik, 1978). Casciaro and Piskorski (2005) expanded this conceptualization of power into power imbalance and mutual dependence. Power imbalance is "the difference between two actors' dependencies, or the ratio of the power of the more powerful actor to that of the less powerful actor" (Casciaro & Piskorski, 2005: 170). Mutual dependence is the presence of bilateral dependencies between two organizations (Casciaro & Piskorski, 2005).

Pfeffer and Salancik (1978) first addressed power imbalance and mutual dependence as a single construct. Recently, Casciaro and Piskorski (2005) broke those two dimensions into separate constructs to aid researchers in testing resource dependence theory. While these authors addressed the construct validity of power imbalance and mutual dependence as separate constructs, they also stated that they should not be viewed in isolation. For example, Casciaro and Piskorski (2005) found that mutual dependence positively influenced the propensity to acquire, but that power imbalance negatively influenced the undertaking of acquisitions.

Casciaro and Piskorski (2005) describe the interplay between power imbalance and mutual dependence on an organization's decision to absorb the resource constraints that it faces. Constraint absorption allows for a dependent organization to control resources that create a dependency (Casciaro & Piskorski, 2005), and mergers and acquisitions can be used to completely absorb a resource constraint (Pfeffer & Salancik, 1978). A resource constraint facing an organization could include limited access to a raw material or access to distribution channels. These constraints can increase costs to the dependent organization, and also hinder its ability to gain full access to the resources required.

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High power imbalance between resource exchange partners results from a partner that can use alternative exchange partners to gain access to necessary resources (Casciaro & Piskorski, 2005). Thus a powerful partner has little incentive to acquire a less powerful partner to gain access to its resources. The managers of the more powerful partner may choose to pursue other means of transactions, such as long-term contracts that would reduce the uncertainty in the transaction (Galbraith & Stiles, 1984). However, organizations that are mutually dependent on one another may benefit from an acquisition by reducing uncertainty that may occur as a result of unexpected or unforeseen events that can influence the exchange relationship.

When considering mergers and acquisitions and the retention of directors of the target firm, power imbalance and mutual dependence may influence the need to retain acquired directors. This study assumes, following resource dependent logic, that because the merger and acquisition has already occurred the organization has acquired to manage a dependency (Finkelstein, 1997; Galbraith & Stiles, 1984; Pfeffer, 1972). This does not mean that a power imbalance does not exist between the acquirer and target. If a power imbalance exists between the acquiring and target organizations, such that the acquirer is more powerful, resources possessed by the target firm may not be as valuable to the acquiring organization. The power imbalance that exists between the two organizations may allow the acquiring organization to exert influence over the target, and in turn the target's directors may be viewed as unnecessary to the combined organization. Thus, in cases in which there is a greater differential in power between an acquiring firm and target firm, such that the acquirer is more powerful, the likelihood of a director from the target being retained should also be reduced.

Hypothesis 3: Greater power imbalance between an acquiring and target firm, such that the acquiring firm is more powerful than the target, is negatively associated with acquired director retention.

The mutual dependence between two organizations has an influence on their exchange relationships, with the implication that both organizations are reliant upon one another for survival. There is a bilateral dependency between the two organizations. Provan and his colleagues (1980) provided an example of mutual dependence within the United Way organization. The United Way organization consists of partner agencies that

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provide good will services to a community. These agencies rely on the United Way for its namesake and allocation of funds, while the United Way itself requires its agencies to continue to provide valuable human services to the communities in which they operate in order to continue the flow of funds into the United Way. This creates a mutual dependence between the United Way organization and its agencies as a result of fundraising requirements and fund allocations (Provan et al., 1980).

Joint ventures are another example of how two organizations can be mutually dependent on one another (Pfeffer & Nowak, 1976). Joint ventures are the creation of a new firm by two or more partner firms. Like interlocking directorates and M&A, joint ventures, in one form, exist to manage an interorganizational dependence to reduce uncertainty in transactions (Pfeffer & Nowak, 1976). These joint ventures create a mutual dependence between the firms involved in such an entity as any change in commitment from either party can impair or damage both parties in the relationship. Alliances act similarly as they can create high levels of mutual dependence between the firms involved in the alliance (Jong & Woolthius, 2008). As with joint ventures, the benefits from such partnerships can lead to mutually beneficial outcomes, such as new innovations (Jong & Woolthius, 2008).

However, when mutual dependence is not present, or is low, the two organizations may be able to identify other exchange partners capable of providing similar resources more readily (Casciaro & Piskorski, 2005). However, in conditions of higher mutual dependence, both organizations may be harmed as a result of greater uncertainties or worse exchange conditions as the exchange may be more critical to both organizations' survival and fewer exchange partners exist to garner similar resources (Casciaro & Piskorski, 2005). Relationships between firms can be of such a nature that the coordination of activities leads to the creation of value between the organizations and these organizations are highly dependent on one another (Holm, Eriksson, & Johanson, 1999).

As suggested by Casciaro and Piskorski (2005), the uncertainty and costs that can result from recurrent negotiations would lead to the necessity of finding long-term solutions for exchange. These include the use of long-term contracts, joint ventures, alliances, or mergers and acquisitions to ensure that the exchange between the two

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organizations is not impeded or additional costs are not accrued from seeking other exchange partners.

In mutual dependent relationships, the two organizations are dependent upon one another. This dependence may influence the retention of the target firm's directors. By retaining directors, the acquirer recognizes the importance of the target organization. In addition, this retention may symbolize and recognize the importance of the exchange relationship between both organizations. Therefore, the more mutually dependent the acquirer and target are, the greater the likelihood that directors from the target will be retained.

Hypothesis 4: Greater mutual dependence between the acquirer and target is positively associated with acquired director retention.

To this point the focus has been on a firm level of analysis and resource interdependence. The resource dependence literature also highlights characteristics of individual directors that influence their ability to help identify critical resources and manage resource interdependencies. The next section builds on this literature.

Director Characteristics and Director Retention

Director Interlocks and Director Retention

Uncertainty from a firm's environment can result in a lack of information to perform organizational tasks effectively. This uncertainty can make it difficult to decipher which resources are necessary and how to obtain those resources to perform these tasks (Galbraith, 1973). Uncertainty about resources and access to necessary resources is a primary challenge to organizations, yet this challenge can be addressed by gaining more information that can reduce uncertainty (Reus, Ranft, Lamont & Adams, 2009). From a resource dependence perspective, directors help reduce uncertainty by gaining information through their interlocks (Boyd, 1990; Burt, 1980; Mizruchi, 1996; Pfeffer & Salancik, 1978). Interlocks are information channels created when a director serves on more than one corporate board. Interlocks provide information about resources (Hillman, 2005; Useem, 1986), provide knowledge about strategies (Carpenter & Westphal, 2001; Gulati & Westphal, 1999; Westphal & Fredrickson, 2001), increase legitimacy (Selznick, 1957), and reduce firm dependence on other organizations (Palmer, 1983).

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Board interlocks act as a means of reducing the uncertainty in the environment an organization faces through the sharing of information (Zajac, 1988). Interlocks can provide valuable information on how much to pay for an acquisition (Beckman & Haunschild, 2002), information regarding firms looking to acquire or be acquired (Haunschild, 1993), and other tacit knowledge that can be beneficial to firm managers (Beckman & Haunschild, 2002). Interlocks may also provide access to information that is pertinent to the firm, information about competitors, markets, and technology that is necessary for the organization to compete in its industry and may also provide links to other organizations that possess resources necessary to the organization.

Interlocks can also increase an organization's legitimacy and build reputation (Selznick, 1957). As discussed in Chapter 2, boards of directors who are tied with "important" organizations send signals to investors that the organization is legitimate (Mizruchi, 1996: 276). Legitimacy created by such interlocks can help bring resources needed by an organization more readily and potentially at a lower cost (Mizruchi, 1996).

Directors who have more interlocks have a broader array of information about other firms' strategies, information about the competition, and also have the provision of resources required by the organization (Boyd, 1990; Pfeffer & Salancik, 1978; Westphal & Fredrickson, 2001). These interlocks can provide a director with additional avenues for environmental scanning that may allow for the identification of alternative strategic choices for an organization (Useem, 1986). Director interlocks can also be used as a source of getting information on a particular strategy without first testing the strategy in the home firm. An acquisition may be used as a means for strategic refocusing, and a director with several interlocks may have experience with different refocusing techniques. These interlocks can prove valuable to managers of an acquiring firm. Therefore, directors with more interlocks may be considered to be of higher value to an organization.

In an acquisition context, an acquired director who serves on several boards may be a viable candidate to be retained by an acquiring firm as he or she may provide a broader array of information and knowledge about strategies, be able to provide access to resources and help increase the firm's legitimacy. It is therefore hypothesized:

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Hypothesis 5: The number of acquired director interlocks is positively associated with acquired director retention.

Director Firm and Industry Experience and Retention

In addition to serving on multiple boards, directors garner experience and expertise over time in their primary firms and their industry. In a recent study that assessed directors' experience in an acquisition context, directors that possessed experience in the target's industry, and directors that possessed acquisition experience, contributed to higher gains to shareholders (Kroll et al., 2008). Therefore, the experiences of a director are an important factor to consider in general, and the experiences of a target firm's directors may be relevant to the acquiring organization in particular.

For example, a director with experience of doing business within the acquired firm's industry may possess a better understanding of the industry's barriers to entry, threats of substitutes, power of suppliers and buyers, or the intensity of rivalry (Kroll et al., 2008; McDonald et al., 2008) and in turn may contribute to a firm's competitive advantage. In addition, individuals garner knowledge from their experiences (Beckman, 2006), and this knowledge can be derived from a firm's strategy or industry (King & Zeithaml, 2003). From a resource dependence perspective, these directors have greater understanding of the resources necessary (McDonald et al., 2008) and may bring good will and ties to key industry players and access to information within the industry (Kor & Misangyi, 2008). Because an acquired firm continues to rely on its industry environment and must garner resources within that environment, the understanding gained through experience of which resources are critical and how to access those resources may make a director with such experience an attractive candidate for retention on the newly merged firm's board.

In addition, directors of the target firm may have unique organizational experience that increases their expertise about the resource needs and interdependencies specific to the organization. As such, they may be better positioned to provide guidance to the acquiring organization in continuing to obtain needed resources in the acquired unit. The understanding of the operations of the target organization that comes through experience is therefore important to the acquiring firm, making directors with experience in the target firm more attractive to retain as well.

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Taken together, directors with industry experience and/or firm experience can provide valuable insight to corporate managers with regards to resources, competition, or firm-specific knowledge. From a resource dependence perspective, these directors can provide the acquiring firm with knowledge of strategic importance with regards to the target firm's industry, or firm-specific knowledge. Retention of directors with this type of relevant experience may make them valuable to an acquiring organization, and thus more likely to be retained by the acquiring organization. Therefore it is hypothesized:

Hypothesis 6: Target director firm and/or industry experience is positively associated with acquired director retention.

Director Expertise and Retention

In addition to industry and firm level knowledge that comes from experience, specialized training and unique expertise of directors can also facilitate the ability to manage important resource interdependencies. Hillman et al. (2000) created a classification of directors' training and expertise from a resource dependence perspective. Four types of directors were identified that were particularly critical in identifying and obtaining resources and managing a firms interdependencies in its environment. Chapter 2 outlines each of these director types in detail and a modified version of these director types is shown in Table 2 below.

The first category (business experts) gains generalized experience in other firms rather than the focal firm in which they serve as a director. Their outside business experience is considered to be critical to strategic decision making and understanding of firm operations (Baysinger & Zardkoohi, 1986). In supporting the management team of the focal firm, business experts provide their expertise and insight regarding alternatives and an understanding of how other organizations deal with similar situations. These directors may also provide expertise about the general market or competitive environment that the organization faces (Johnson et al., 1996; Kroll et al., 2008). As Hillman et al. (2000) notes, "this category of directors is best suited to meet the need of expertise in and linkages to critical interdependence in the competitive environment" (241). Therefore these types of directors in an acquired firm may prove valuable to an acquiring organization, given their strategic and organizational expertise.

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Hypothesis 7: Target directors with business expertise in other publicly held, for-profit firms will be positively associated with director retention.

TABLE 2
Merger and Acquisition Director Resource Profiles[1]

Director Category	Areas of Resources Provided	Types of Directors in Category
Business Experts	Expertise on competition, decision-making and problem- solving for large firms Serve as a sounding board for ideas Provide alternative viewpoints on internal and external problems Channels of communication between firms Legitimacy	Current and former senior officers at other large, for-profit firms Directors of other large, for-profit firms
Support Specialists	Provide specialized expertise in law, banking, insurance, real estate, and public relations Provide channels of communication to large and power suppliers or government agencies Ease access to vital resources such as financial capital and legal support Legitimacy	Lawyers Bankers Insurance company representatives Public relations experts
Community Influentials	Provide non-business perspectives on issues, problems, and ideas Expertise about and influence with powerful community groups Representation of interests outside competitive product or supply markets Legitimacy	Political Leaders University faculty Members of clergy Leaders of social or community organizations

Table adapted from Hillman, Cannella, & Paetzold, 2000: 240.

The second director category (support specialists) includes directors who also are in a unique position to provide valuable resources, connections and expertise to acquiring

[1] Insider directors are not included in the table above. Because insider directors have both firm and industry experience, they are included in the development of hypothesis 6.

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organizations. As Hillman et al. (2000) describe, these are directors "who provide expertise and linkages in specific, identifiable areas that support the firm's strategies but do not form the foundation on which the strategy is built" (241). These directors may lack general management expertise, but can provide specific expertise about environmental contingencies and aid the competitive strategy of the organization. These directors provide links to support organizations, such as law firms, public relations firms, and other support organizations outside of the focal firm's product markets. It is also these types of directors that provide access to financial capital (Mizruchi & Stearns, 1993) and garner commitments from other organizations (Pfeffer & Salancik, 1976). These directors may be of particular importance to the target organization. For example, a firm operating in an environment with legal regulation may have an attorney with specific legal knowledge regarding these laws serving on their board (Hillman, 2005). This individual would ensure that the organization is not in violation of any laws, or the strategies being considered would not violate any laws.

An organization that acquires a firm that has these types of specialists on the board may be inclined to retain these experts. These directors may be important to the ongoing operations of the firm being acquired as a result of the resources and expertise they provide to the organization. These services may also prove to be a necessity to the acquiring organization in order to assist in the understanding of that organization, the links they provide, and the other resources provided by the support specialists. Therefore, these directors will be more likely to be retained because of the unique resources they provide to the organization.

Hypothesis 8: Target directors with specialized expertise (e.g., lawyer, banker, insurance) will be positively related with director retention.

The final director type identified by Hillman et al. (2000) is labeled community influentials. These directors have experience and links "relevant to the firm's environment beyond competitor firms and suppliers" (241). The resources that these directors provide result from their connections to community organizations that may impact the organization or be impacted by the organization. These types of directors provide resources from the knowledge, experience, and links to community groups and organizations (Baron, 1995). By having these types of individuals on the board,

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organizations can coopt these possibly influential community constituencies to avert threats to the organization's survivability (Pfeffer & Salancik, 1978; Selznick, 1957). These directors may also possess links to government agencies or regulating bodies that have policies that may impact the focal organization (Hillman, 2005; Lester et al., 2008). These directors bring expertise about how strategies may affect the community groups, or if the strategies violate government regulation then the directors help the firm avert any threats that may be costly to the organization. Retaining directors such as these may be beneficial to an acquiring firm as the acquirer may be unaware of the possible threats beyond competitors. These directors provide the links to these community constituencies and knowledge about these community groups to ensure that the strategies that the acquiring firm may wish to implement within the acquired organization do not inadvertently conflict with the interests of these groups and in turn hinder the acquisition success. Therefore directors with such resource characteristics are more likely to be retained.

Hypothesis 9: Target directors with community influence (e.g., political leaders, clergy member, community leaders) will be positively associated with director retention.

Director Retention and Performance

Directors act as "boundary spanners" that make information available to executives (Zahra & Pearce, 1989: 297). In addition to their roles of environmental scanning, directors represent the firm in the community, and aid in securing valuable resources (Hillman & Dalziel, 2003; Pfeffer & Salancik, 1978; Zahra & Pearce, 1989). In serving on an organization's board, directors are charged with providing and extracting resources that are vital to a firm's performance (Zahra & Pearce, 1989).

From a resource dependence perspective, the provision of resources by the board of directors is linked to firm performance (Hillman & Dalziel, 2003). "Directors absorb environmental uncertainty by providing information, thus enhancing company performance" (Zahra & Pearce, 297). In addition to the provision of information, directors can reduce uncertainty and transaction costs associated with transactions external to the organization. Pfeffer and Salancik (1979) note that transacting with other organizations can be unreliable and uncertain. The uncertainty and lack of reliability in

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the transactions can lead to increases in transaction costs (Bazerman & Schoorman, 1983; Williamson, 1981). By retaining directors, the acquiring organization can reduce the potential unreliability, uncertainty, and problems that may occur when transacting with other organizations for the needed resources of the newly acquired target (Pfeffer & Salancik, 1978). While the transaction costs can lead managers to decide to acquire an organization (Villalonga & McGahan, 2005; Williamson, 1975), the target organization still transacts with other organizations for the resources they require. As boards of directors are posited to reduce transaction costs by providing more certain transactions between other organizations and the focal organization (Hillman & Dalziel, 2003), the survival of the focal firm is more likely to be ensured (Pfeffer & Salancik, 1978; Singh et al., 1986). Organizations gain control, or access to resources, by increasing their links to the environment (Boyd, 1990). By increasing these links to the environment, then information, resources, and other external resources can be accessed and in turn affect a firm's performance (Boyd, 1990).

As directors bring access to resources, knowledge and skills to an organization, retention of directors should also contribute to the effectiveness of the combined board. The retained directors would bring specific knowledge about the acquired organization, knowledge of the industry, knowledge of the constraints of the target organization, and provide resources to the acquiring organization. Their part in the provision of resources and skills should improve the performance of the combined organization as they have reduced the uncertainty, unreliability, or lack of information with regards to the target organization.

Pfeffer (1972) and Provan (1980) found that more outsider directors led to increased fundraising for the non-profit organizations they represented. Directors of organizations are expected to provide performance benefits to organizations because of their access to knowledge, expertise, and resources that can assist organizations and reduce associated costs of transacting with other organizations (Pfeffer & Salancik, 1978). In an examination of director interlocks, it was found that in a crisis economical environment that these interlocks provided information to an organization and had a positive impact on firm performance (Phan, Lee, & Lau, 2003). In addition, Peng (2004) found that resource rich outside directors (e.g., institutional directors) contribute more to

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firm performance than independent directors who were not resource rich. The resources that these directors bring may include "intangible reputation and legitimacy as well as tangible contracts and projects" (Peng, 2004: 466). In addition, Hillman (2005) found that in regulated industries having politicians on the board leads to greater performance for the organization. These findings are attributed to the creation of links to the source of interdependency and uncertainty, which "reduce uncertainty and gain access, information, legitimacy, and/or resources compared with those firms without such ties on the board" (Hillman, 2005: 477). When links to the environment are not present, it has been found that firms may suffer from financial strains and a lack of critical resources and overall suffer from poor performance (Nicholson & Kiel, 2007).

As proposed by resource dependence theory, boards of directors represent a means by which organizations can create links to their external environment, thus improving the overall performance of the organization by giving it access to the resources critical for its survival and reducing the transaction costs associated with these resources. Because the environment of an acquiring organization changes as a result of an acquisition, the board of directors should be reflective of that change (Hillman et al., 2000). When directors are retained from a target organization, it may be an attempt by the acquiring organization to align the newly combined organization with its changing environment. By retaining these directors, access to both tangible and intangible resources should contribute to the overall performance of the combined organization. Therefore retention of directors should lead to improved organizational performance post-acquisition.

Hypothesis 10: Retained directors will be positively associated with post-acquisition organizational performance.

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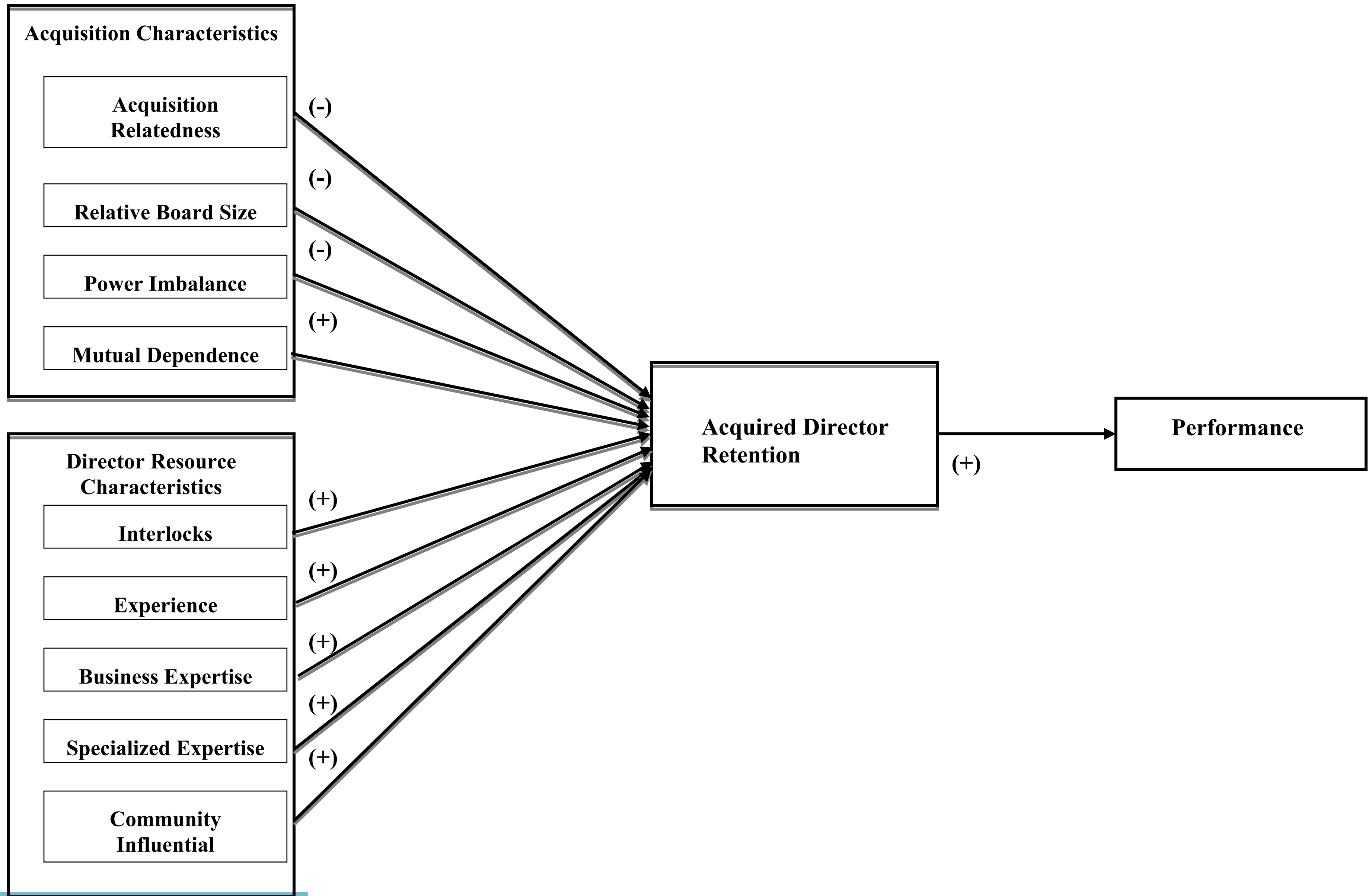

Figure 2: Model of Hypotheses and Expected Direction of the Relationships

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CHAPTER 4
METHODS

In this chapter the research methodology used to test the model and hypotheses developed in Chapter 3 is discussed. The characteristics of the sample and operationalization of the variables are defined and the statistical method used to analyze the data also is reviewed.

Sample and Data Sources

The cross-sectional sample used to test the hypotheses was drawn from U.S. publicly held firms acquiring other U.S. publicly held firms during 2003-2004. By studying publicly held firms, information regarding the members of the board of directors can be collected for both the acquiring and target firms, and the financial indicators required to carry out the statistical analysis can also be collected. By starting in 2003, adverse ramifications that occurred subsequent to the September 11, 2001 terrorist attacks may be partially avoided. The year 2004 was chosen as the end date of the sample in order to utilize a lagged measure of firm performance. Financial services firms (one-digit SIC = 6) were removed due to the regulated nature of this industry and the "contractual nature of financial assets" (Carow et al., 2004: 569).

The data for this study were collected from four sources. The first data source used was Thomson's SDC database. This database was used to identify publicly held companies acquiring other publicly held companies. Information provided in the SDC database includes identification of the acquirer and target, announcement dates and completion dates of the acquisitions. The initial data pull from the SDC database yielded 17,914 acquisitions. Of these, 16,131 cases were removed because either the acquirer or target was not publicly traded or a subsidiary was acquired. Another 84 cases were removed as the status of the acquisition was listed as withdrawn, or not completed, 603 cases were removed as they were acquisitions that occurred in the financial sector and 778 cases were eliminated as they were either for stock repurchasing or were foreign acquisitions. This left 318 firms remaining. SEC filings, such as quarterly (10-Q) and annual reports (10-K), DEF 14A filings, and other filings (e.g., 8-K) were sought to identify directors in both the acquiring and target firms. If the relevant director information was not present in these filings, then company websites were referred to for

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information. LexisNexis was also used to try and identify information regarding the directors. Of these 318 firms, an additional 145 cases were removed as a result of lack of information regarding directors for either the acquirer or target. The final sample size for this study was 173.

The U.S. Securities and Exchange Commission's Edgar company filings database was used to collect data on the directors and top managers. The primary filings used were the DEF 14A filings, which contain information about directors and top managers of the firm. Information on the number of other boards on which a director is a member, the length of service on the board, and the current organization of employment of directors is located in this filing. This filing was used to identify directors retained by comparing the director membership of the acquiring firm prior to the acquisition completion and the director membership after the completion of the acquisition.

The third data source used was the LexisNexis database. This database supplemented the information from the SEC filings on the top managers and directors of the organization. LexisNexis was also used to access the information on the all of the SIC codes in which the organizations operate.

The final database used was COMPUSTAT, which provides information on more than 24,000 publicly held firms, specifically financial information related to income statements and balance sheets for these corporations.

Measures

Independent Variables

Acquisition relatedness. To measure acquisition relatedness, a continuous measure of relatedness was used (Haleblian & Finkelstein, 1999). Haleblian and Finkelstein (1999) developed a continuous measure of relatedness that uses the top six SIC codes of both the acquirer and the target. These SIC codes were identified in the LexisNexis database. If there were fewer then six SIC codes, then all SIC codes were used for the organization. These SIC codes were then compared between the acquirer and target organizations. This measure was calculated as follows: If the primary SIC code for both the acquirer and target match at the two-digit level, a 2 was assigned. If they share three-digits, a 4 was assigned and if they share all 4, a 6 was assigned. If they shared SIC codes in any of the non-primary SIC codes, the weights were as follows: For a two-digit

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match, a 1 was assigned; for a three-digit match, a 2 was assigned; and for a four-digit match, a 3 was assigned. These values were then summed to create the continuous measure of acquisition relatedness.

Relative board size. Relative board size is the ratio of the number of directors on the acquiring organization's board to the number of directors who serve on the target organization's board. Data required for this measure were obtained from the SEC DEF 14A filings for both the acquirer and the target.

Power imbalance. Casciaro and Piskorski's (2005) measure for power imbalance based on interindustry flows and industry concentration was adapted for this study. The measure of interindustry flows is the amount of financial capital flowing from one industry into another. The limitation to this measure of power imbalance for this study is that power imbalance cannot be assessed in related acquisitions as the measure used by Casciaro and Piskorski (2005) measures only industry flows and does not assess power imbalance at the firm level. As a result of this shortcoming, Casciaro and Piskorski's measure of power imbalance was adapted to reflect the differences in power at the firm level. In addition, researchers have called for the need to identify measures to assess power imbalance at the firm level (Finkelstein, 1997).

Building off of the same conceptual foundation of power imbalance as that used by Casciaro and Piskorski, industry concentration (as measured by the four largest firms in the industry at the four-digit SIC code level divided by total sales in the industry) was used. Industry concentration has been used as a proxy for the number of possible alternative exchange partners in an industry. For example, a value for industry concentration that is low (e.g., 0.20) would indicate that there are more possible partners to transact with in the industry as compared with an industry with a higher concentration (e.g., 0.80), which would be more indicative of an oligopoly. The higher the concentration of an industry, the fewer options exist for exchange.

To assess power imbalance between two organizations, firm sales was multiplied by the industry concentration in which the firm operates. This operation was performed for both the acquiring and target organizations. In order to assess the power imbalance the value for the target was subtracted from the acquirer. The equation for assessing power imbalance is: $PI_{A \leftrightarrow T} = (SALES_A \times INDC_A) - (SALES_T \times INDC_T)$

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$PI_{A \leftrightarrow T}$ represents the degree of power imbalance between the acquirer and the target. $SALES_A$ is the total firm sales of the acquiring organization. $INDC_A$ represents the industry concentration of the acquiring industry. $SALES_T$ is the total firm sales of the target organization. $INDC_T$ represents the industry concentration of the target industry.

To demonstrate this equation, if the acquiring firm has sales of $100 million and the target firm has sales of $40 million and they both operate in the same industry with a concentration of 0.3 (representative of a monopolistic industry) a linear equation that represents the trends as expected would be as follows: PI = (100 x .3) – (40 x .3) = 18. The imbalance in this equation clearly favors the acquiring organization. Assume now that the target organization operates in a highly concentrated industry, for example one in which the industry concentration is 0.8. Now the equation appears as follows: PI = (100 x .3) – (40 x .8) = -2. While the power imbalance is smaller, it is skewed toward the target firm. Even though the sales for the target organization are lower, the industry concentration reduces the set of alternatives that the acquirer can choose from and thus changes the degree of imbalance.

Mutual Dependence. As with power imbalance, a firm level proxy for mutual dependence was needed. The presence of alliances and joint ventures represents a sharing of and investment in resources, such as finances or human capital (Das & Teng, 2000). In addition, joint ventures and alliances tend to be characterized by high levels of mutual dependence based on resource allocations (Jong & Woolthius, 2008; Pfeffer & Nowak, 1976). Given this sharing of resources and mutual investments, the presence of an alliance or joint venture between an acquirer and target was used as a proxy for mutual dependence. The SDC database was used to identify alliances and joint ventures. The presence of a joint venture or alliance between a target and an acquirer was coded as 1, and 0 if no such relationship existed (Porrini, 2004).

Interlocks. To measure the number of director interlocks, the DEF 14A SEC filing was used to count the total number of boards on which the individual director actively served during the time period of the study. The number of interlocks per director were then summed for all members of the target firm's board and divided by the total number of directors on the focal board (Wu, 2008).

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Firm experience. For outside directors, firm experience was measured by calculating how long each director served on the board of the target firm. For inside directors, the number of years as a top manager of the firm was used. These values were then summed across all members of the target firm's board of directors and divided by the number of directors on the board. This data was obtained from the DEF 14A SEC filings.

Industry experience. To measure industry experience, the number of years each director has had in a 3-digit primary SIC code match to that of the target firm was used (Kroll et al., 2008). To avoid confounding the measure with the measure of *firm experience*, the measure totals years of experience of a director in the industry, not including the years served as either a top manager or director of the target firm. These values were then summed across all the directors on the board and divided by the total directors on the target firm's board. The data were obtained from the DEF 14A filings in the SEC Edgars database and LexisNexis.

Merger and Acquisition Director Resource Profiles. Business expertise, specialized expertise, and community influentials were used to classify all the directors on the target firm's board (see Table 2 found in Chapter 3). All directors from the target firm's board were classified into one of the three categories of director resource profiles. All directors were placed into their respective categories based on the information found regarding the director in the DEF 14A SEC filings. The author coded these directors into their respective categories. In the event that the author was not certain about which category a director should be placed, another coder was queried regarding how the director should be classified. In cases of disagreement between the author and the coder with respect to the questionable directors, the author and coder worked together to come to a consensus on how the director should be coded. In all 47 cases questioned, the author and coder were able to come to a consensus as to the appropriate classification.

Business expertise. In Chapter 3, Table 2, column 3 provides the criteria for categorizing these directors (Hillman et al., 2000). This measure is a ratio of directors with business expertise to the total number of directors serving on the board.

Specialized expertise. A director is considered to be a support specialist when he or she is a non-executive individual with expertise in law, banking, insurance, real estate,

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or public relations. Table 2 in Chapter 3 provides the criteria for the categorization of these types of directors. As with b*usiness expertise*, this variable is a measure of directors who are considered to be support specialists to the total number of directors serving on the board.

Community influential. A director is considered to be a community influential when he or she is not aligned with a for-profit corporation. Table 2 in Chapter 3 provides the criteria for classifying these types of directors. This measure is a ratio of directors considered to be community influentials to the total number of directors serving on the board.

Dependent Variables

Retention. Retention was measured as the percentage of acquired directors retained in the acquisition. The number of directors retained at the target was divided by the total number of directors at the target organization. The data for this measure was found in the SEC DEF 14A filings.

Post-acquisition performance. Post-acquisition performance was measured as the three-year average of ROA post-acquisition (Wan & Yiu, 2009). When three years of ROA data was not available, a two-year average was used. There were 21 cases of firms not having three years' of ROA data. ROA was lagged by one year after the acquisition completion date. ROA was measured for the three years after the acquisition and averaged to assess performance and account for longer lengths of integration (Krishnan et al., 1997; Porrini, 2004; Ramaswamy, 1997). It is suggested that ROA is an appropriate measure of performance as it is difficult for managers to manipulate it (Gomez-Mejia & Palich, 1997). Studies assessing board of director effects on performance have often used ROA as the measure of performance (e.g., Wagner, Stimpert, & Fubara, 1998). It is suggested that ROA may be best suited when dealing with directors (e.g., insider vs. outsider) for a several reasons (Wagner et al., 1998). Insider directors are expect to hold a greater understanding of internal operations of an organization and understand "asset allocation strategies and attainment of related efficiencies, therefore, with movement toward a stronger ROA through the control of working assets" (Wagner et al., 1998: 671). Whereas, outside directors' greater knowledge and experiences outside of the firm is "more consistent with the formulation of environmental strategies, leading to

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strengthened ROA through the enhancement of income sources and streams" (Wagner et al., 1998: 671). This line of reasoning fits the study at hand, as the interest is focused on the retention of directors (insider and outsider) and if they contribute to organizational performance. The data for this measure were found in the COMPUSTAT database.

Controls

Relative size. Relative size was used as a control as it has been shown to influence acquisition returns (e.g., Asquith, Bruner, & Mullins, 1983; Haleblian & Finkelstein, 1999; Kroll et al., 2008). Relative size was calculated as a ratio of the target firm's assets to the acquiring firm's assets (e.g., Haleblian & Finkelstein, 1999; Kroll et al., 2008).

Prior performance. The prior performance of the target organization was measured as the 3-year average ROA prior to the acquisition (Park, 2003). This measure was used as a control because it may influence target director retention (Li & Aguilera, 2008). An organization that is performing well prior to the acquisition may symbolize that the board is providing access to resources and knowledge that influence the success of the organization (Pfeffer, 1972). Poorly performing firms may be acquired as a result of the market for corporate control (Manne, 1965). While the directors may be upholding their fiduciary responsibility to shareholders by agreeing to be acquired, they may not be adequately managing the organization's resource needs and interdependencies (Pfeffer & Salancik, 1978).

Acquiring director acquisition experience. The presence of directors on the acquiring firm's board with acquisition experience may influence the performance of the acquisition (Kroll et al., 2008). To qualify as having acquisition experience, the director must have served on the board of another firm, or served as a top manager of another firm, that undertook an acquisition (representing at least 10% of the acquiring firm's size) within five years prior to the focal acquisition (Kroll et al., 2008). A five-year window was chosen because "the benefits of prior experience may not increase monotonically" (Haleblian, Kim, & Rajagopalan, 2006: 361) and using a longer time frame for experience has not resulted in significantly different results (Laamanen & Keil, 2008). This measure was calculated as the total number of directors on the acquiring firm's board with acquisition experience (Kroll et al., 2008). Experience of acquiring directors

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has been found to positively influence performance of the acquisition (Kroll et al., 2008). The data for the director's employment and other directorships were obtained from the SEC DEF 14A filings. The SDC database was used to find acquisitions undertaken by the organizations on which the director has served.

Acquiring director industry experience. The presence of directors with experience in the target firm's industry may influence retention. These directors would have an understanding of the barriers to entry, competition, and other industry factors that may exert influence on the organization. Directors with industry experience may moderate the relationship between target firm's directors with industry experience and reduce the likelihood of retention. Directors with industry experience must have served on a board, or as a top manager of a firm in the industry within the previous five years in the target's primary 3-digit SIC industry (Kroll et al., 2008). This measure was calculated as the total number of directors on the acquiring firm's board with this type of experience (Kroll et al., 2008). The data for the director's employment and other directorships were obtained from the SEC DEF 14A filings, which were used to identify the firms in which the director has served, and LexisNexis was used to identify the SIC codes of the industries in which the director had experience.

Acquirer slack. The debt-to-equity ratio was used as the measure of organizational slack at the acquiring firm (Haleblian & Finkelstein, 1999; Iyer & Miller, 2008; Wan & Yiu, 2009). The amount of financial slack can influence the financing of the acquisition by reducing the interest rates on loans, or by requiring less debt to be taken on by the acquiring organization (Haleblian & Finkelstein, 1999). With less slack an acquiring organization may not make an unprofitable acquisition (Haleblian & Finkelstein, 1999). The presence of financial slack may influence the performance outcome of the acquisition. The data for this measure were found in the COMPUSTAT database.

Outsider directors. Outsider directors were measured as the percentage of non-affiliated, independent directors on the board of directors divided by the total number of directors of the acquiring organization. Agency theory states that the presence of outside directors on the board contributes to monitoring managerial decisions (Baysinger & Butler, 1985; Kroll et al., 2008; Wright et al., 2002). The presence of independent

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directors on acquiring firm boards has been found to influence shareholder returns (Wright et al., 2002). Therefore, the percentage of outside directors on the acquiring board may influence post-acquisition performance. The data for this measure were found in the SEC DEF 14A filings.

Acquired top management team retention. The retention and integration of top managers from the acquired organization into the top management team of the acquiring organization has been demonstrated to create value in acquisitions (e.g., Graebner, 2004). This number of total top managers retained and integrated into the combined organization's top management team was obtained from the SEC DEF 14A. The retention and integrating of target top management team members into the combined organization may influence the retention of directors. The retention of top managers from the target may be complementary to retention of directors, making it unnecessary to retain directors from the target organization.

An overview of the measures used can be found in Table 3.

TABLE 3
Constructs, Measures, and Data Sources

Construct/Variable	Measure	Data Source(s)	Measurement Support
Acquisition Characteristics			
Acquisition relatedness	A continuous measure of relatedness. Top 6 SIC codes for both the acquirer and target are compared. Values are attributed based on similarities across these SIC codes.	LexisNexis COMPUSTAT	Haleblian & Finkelstein, 1999; Kroll et al., 2008
Relative board size	Ratio of total number of directors on acquiring board to total number of directors on target's board.	SEC DEF 14A filings	Davidson et al., 2004
Power imbalance	$PI_{A\leftrightarrow T} = (SALES_A \times INDC_A) - (SALES_T \times INDC_T)$	COMPUSTAT	Casciaro & Piskorski, 2005
Mutual dependence	The presence of an alliance or joint venture. Coded 1 for yes and 0 if no.	SDC	Porrini, 2004
Director Characteristics			
Interlocks	A measure of average interlocks for the target directors.	SEC DEF 14A filings	Wu, 2008
Firm experience	A ratio of years experience serving on the board or as top managers of the firm to the total number of directors.	SEC DEF 14A filings LexisNexis	Kesner, 1988; Rutherford & Buchholtz, 2007
Industry experience	A ratio of years experience serving on the board or as top managers of the firm or another firm in the industry to the total number of directors. 3-digit SIC.	SEC DEF 14A filings LexisNexis	Kroll et al., 2008

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TABLE 3 - Continued
Constructs, Measures, and Data Sources

Construct/Variable	Measure	Data Source(s)	Measurement Support
Business expertise	A ratio of directors with business expertise (former or current officers of large, for-profit firms) to total directors on the acquiring firm board.	SEC DEF 14A filings	Hillman et al., 2000
Support specialist	A ratio of directors who are support specialists (representatives from insurance, legal, or other professional service firms) to total directors on the acquiring firm board.	SEC DEF 14A filings	Hillman et al., 2000
Community influential	A ratio of directors who are community influentials (representatives from the community, university, clergy) to total directors on the acquiring firm board.	SEC DEF 14A filings	Hillman et al., 2000
Dependent Variables			
Retention	Percentage of directors retained from target organization.	SEC DEF 14A filings	Davidson et al., 2004
Post-acquisition performance	Measured as the return-on-assets for a three year average after the acquisition is listed as completed.	COMPUSTAT	Krishnan et al., 1997; Ramaswamy, 1997; Harrison & Godfrey, 1997
Control Variables			
Relative size	Ratio of a target firm's assets to the acquiring firm's assets	COMPUSTAT	Haleblian & Finkelstein, 1999 Kroll et al., 2008
Prior performance	3-year average ROA of the target organization. Calculated for the 3 years prior to acquisition.	COMPUSTAT	Park, 2003
Acquiring director acquisition experience	Total number of directors with acquisition experience in a five-year window.	SEC DEF 14A filings SDC	Kroll et al., 2008
Acquiring director industry experience	Total number of directors with industry (3-digit SIC code) experience in a five-year window.	SEC DEF 14A filings	Kroll et al., 2008
Acquirer slack	Debt/Equity	COMPUSTAT	Haleblian & Finkelstein, 1999
Outsider directors	Percentage of non-affiliated, independent directors to total directors on acquiring organization's board.	SEC DEF 14A filings	Baysinger & Butler, 1985; Kroll et al., 2008; Wright et al., 2002
Top management team retention	A measure of top managers from the acquired organization integrated into the top management team of the acquiring organization.	SEC DEF 14A filings LexisNexis	Graebner, 2004; Krug, 2003

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Sample Size Analysis

Selecting an appropriate sample size for a study depends on the desired power, alpha level, number of predictors, and expected effect sizes (Cohen, 1992; Tabachnik & Fidell, 2006). With a sufficient sample size, statistical power to find an effect of the hypothesis testing is possible.

In most organizational research, the alpha (α), or the significance level, is set at 0.05 (Cohen, 1992; Ferguson & Ketchen, 1999). At an α of 0.05, the risk of committing a Type I error (rejecting the null hypothesis when it is true) is 1 in 20. Type II error is a failure to reject the null hypothesis when it is not true. The accepted, minimum level of power ($1 - \beta$) in social sciences is 0.80 (Cohen, 1992). The number of predictors, including control variables used in this study, is 19. Green (1991) provided a table for selecting a sample size based on the number of predictors, an α of 0.05 and a β of 0.20, with a medium expected effect size (Green, 1991: 503). Based on the table provided by Green (1991) for 20 predictors, a minimum sample size of 159 is suggested. This study has a sample size of 173, exceeding the minimum suggested sample size per Green (1991).

Statistical Analysis

ANOVA was used to examine the characteristics of the sample, particularly differences in those acquisitions that retained directors from the target and those that did not retain directors. The study employed a path analysis statistical technique to test the hypotheses. Path analysis is an appropriate statistical technique for the model to be tested as it allows for single-item, observed (manifest) variables to be tested. Path analysis uses ordinary least squares regression for assessing the path coefficients, but it allows for simultaneous estimation of multiple dependent variables (Billings & Wroten, 1978). Path analysis is used to determine whether the theoretical model accounts for the relationships in the data (Hatcher, 1994). Path analysis provides information on the goodness-of-fit of the model to the data, as well as significance tests for the causal paths diagrammed in the model (Hatcher, 1994). The independent variables are allowed to covary, which indicates that there is no hypothesis made with regards to any causal influence among them (Hatcher, 1994).

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The assumptions of path analysis include normally distributed data, linear relationships between the exogenous and endogenous variables, an absence of multicollinearity ($r \geq .80$), and minimum number of observations (at least 5 observations per variable was suggested) (Hatcher, 1994). Path analysis is relatively robust to violations of normality in the distribution of the data, and has been shown to allow for the use of dichotomous variables (Boyle, 1970).

AMOS was used to test the path model. Baron and Kenny's (1986) approach to testing mediation was also used. The path analysis output provides goodness-of-fit information including a chi-squared test, Tucker-Lewis Index (TLI), and comparative fit index (CFI) (Hu & Bentler, 1999). By examining these fit statistics, an assessment of whether the model is a good representation of fit to the data can be made. However, the fit indices do not provide specific information on how the variables relate. A squared multiple correlation (R-squared) measure is provided for all endogenous variables to account for the percent of variance that is accounted for by their direct antecedents.

To assess the influence of each exogenous variable on the endogenous variables, the path coefficients are examined. In the case of this dissertation, the standardized regression coefficients are used because the units of each variable differ (Billings & Wroten, 1978). Each path coefficient has an associated t-statistic to assess significance. If the t-test exceeds 1.96, then the path is considered to be significant at the $p < .05$ level. If the t-test is greater than 2.58, the significance level is at $p < .01$, and for t-tests greater than 3.30, the significance is at $p < .001$.

Mediation was assessed following the four-step procedure outlined by Baron and Kenny (1986). The first step of this approach is to assess whether the independent variables significantly relate to the mediator. The second step is to assess whether the mediator significantly influences the dependent variable. The third step assesses the relationship between the independent variables and the dependent variable. The final step includes the full model and assesses whether the relationship between the independent variables and dependent variable becomes insignificant. If the relationship does become insignificant, then full mediation is present. If the path is still significant, then partial mediation may be present.

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Moderation was assessed by creating an interaction term of the independent variable (*industry experience*) and the moderating variable (*acquiring director industry experience*). The independent variable, moderating variable, and interaction term were included in the model and the significance of the path between the interaction term and the endogenous variable (*acquired director retention*) was assessed. If the path is significant, then moderation is present (e.g., Manolis, Gassenheimer, & Winsor, 2004).

A benefit of path analysis is the ability to test nested models (Billings & Wroten, 1978). To test alternative, or nested, models theoretical rationale should be present when creating direct or indirect links to other variables in the model. For example, there may be an indirect influence on post-acquisition performance and acquisition relatedness. Alternative models can be tested to assess whether the presence of a path from acquisition relatedness to post-acquisition performance improves the fit of the model, and in turn improve the explanatory power of the model.

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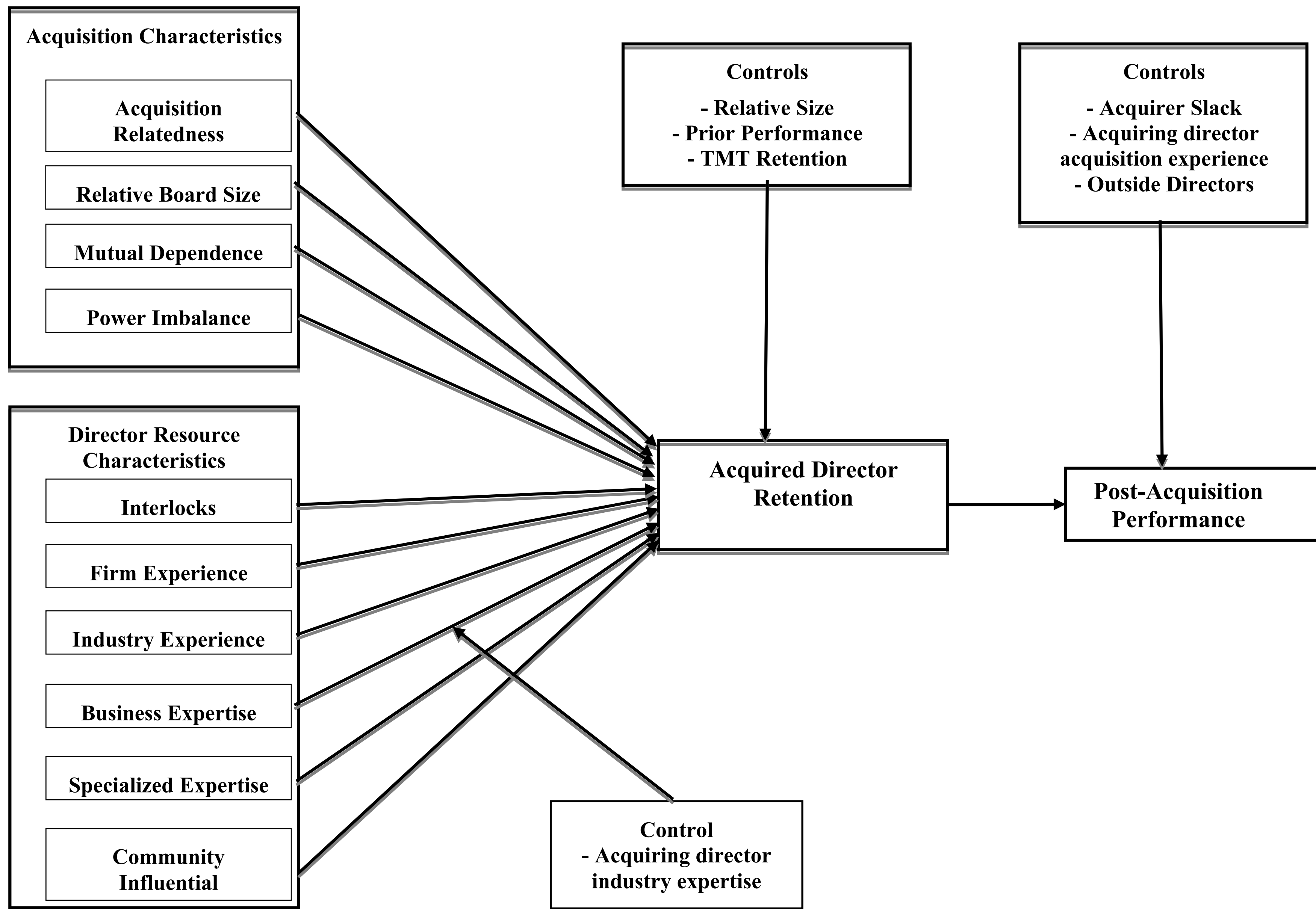

Figure 3: Measurement Model with Controls

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CHAPTER 5

RESULTS

This chapter presents the results of the data analysis for the study. This section first provides the descriptive statistics, correlations and results of the one-way ANOVA of the variables in the study. This is followed by the results of the path analysis model and hypothesis testing. Finally, results of additional analyses are presented.

Descriptive Statistics

Table 5 provides the means, standard deviations (s.d.) and correlations of the variables included in the analysis. The average director retention across all the cases in the dataset is 9%. Fifty-two of the 173 acquisitions (30.1%) experienced director retention. Within the 52 cases of director retention, the average percentage of directors retained was 29%.

Examining the overall bivariate correlations, several were significant at the $p < 0.01$ level. Specifically, *acquiring director acquisition experience* and *acquiring director industry experience* were correlated with *acquirer slack* at the $p < 0.01$ level ($r = 0.23$ and $r = 0.20$ respectively). *Acquiring director industry experience*, *relative board size*, *power imbalance*, and *firm experience* were are correlated with *acquiring director acquisition experience* at the $p < 0.01$ ($r = 0.26$, $r = 0.51$, $r = 0.29$, and $r = 0.23$ respectively). *Acquiring director industry experience* was also highly correlated at the $p < 0.01$ with *acquisition relatedness* and *firm experience* ($r = 0.38$ and $r = -0.21$ respectively). *Industry experience* and *prior performance* were correlated with an r of 0.21 at the $p < 0.01$ level. *Relative board size* and *firm experience* were also correlated at the $p < 0.01$ level with an r of 0.28. *Interlocks* and *community influentials* were correlated at the $p < 0.01$ and an r of 0.22. With an r of -0.27 ($p < 0.01$) *firm experience* and *industry experience* were highly correlated. With a correlation of -0.88 ($p < 0.01$), *business expertise* and *specialized expertise* were highly correlated. Finally, *specialized expertise* and *community influentials* were highly correlated with a correlation of -0.30 at the $p < 0.01$ level.

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TABLE 4
Means, Standard Deviations and Results of One-Way ANOVA

Variable	No Retention[1]	Retention[2]	F
Acquisition Relatedness	4.86 (2.93)	5.33 (2.75)	0.96
Relative Board Size	1.33 (0.40)	1.01 (0.23)	29.23***
Power Imbalance	4.23 (12.19)	0.90 (2.95)	3.76†
Mutual Dependence	0.19 (0.39)	0.25 (0.44)	0.79
Interlocks	0.95 (0.64)	1.22 (0.68)	6.31*
Firm Experience	7.89 (4.21)	6.16 (1.87)	8.04**
Industry Experience	2.54 (3.06)	2.5 (2.85)	0.01
Business Expertise	0.62 (0.16)	0.57 (0.24)	3.04†
Specialized Expertise	0.33 (0.17)	0.40 (0.24)	4.61*
Community Influential	0.05 (0.09)	0.04 (0.10)	0.69
Relative Size	0.22 (0.46)	1.02 (5.15)	2.88†
Prior Performance	-0.17 (0.67)	-0.13 (0.24)	0.14
Acquiring Director Acquisition Experience	5.60 (3.90)	4.29 (3.22)	4.52*
Acquiring Director Industry Experience	6.38 (3.97)	6.12 (3.51)	0.17
Acquirer Slack	1.12 (1.67)	1.06 (1.01)	0.06
Outside Directors	0.75 (0.12)	0.75 (0.15)	0.01
TMT Retention	0.08 (0.28)	0.73 (1.09)	37.64***
Post-Acquisition Performance	-0.03 (0.28)	-0.01 (0.15)	0.17

[1] N = 121; [2] N = 52; † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
Standard deviations in parentheses.

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TABLE 5
Descriptive Statistics and Correlations

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. Performance	-0.02	0.25	1.00																		
2. Retention	0.09	0.16	0.43	1.00																	
3. Acquirer Slack	1.10	1.50	0.09	-0.03	1.00																
4. Outside Director	0.75	0.13	0.01	0.08	-0.02	1.00															
5. Acquiring Dir. Acq. Exp.	5.20	3.75	0.19^{*}	-0.09	0.23^{**}	0.05	1.00														
6. Acquiring Dir. Ind. Exp.	6.30	3.83	0.12	-0.07	0.20^{**}	-0.09	0.26^{**}	1.00													
7. Relative Size	0.46	2.85	-0.10	0.25^{**}	-0.02	0.04	-0.11	0.01	1.00												
8. Prior Performance	-0.16	0.57	0.12	0.04	0.03	0.08	0.00	-0.02	-0.01	1.00											
9. TMT Retention	0.28	0.70	-0.03	0.57^{**}	-0.04	-0.01	0.05	$-0.13^{\dagger}$	0.10	0.03	1.00										
10. Acquisition Relatedness	5.00	2.88	$0.14^{\dagger}$	0.07	0.08	0.07	0.01	0.38^{**}	0.02	0.04	-0.09	1.00									
11. Relative Board Size	1.23	0.38	0.18^{*}	-0.31^{**}	0.16^{*}	0.01	0.51^{**}	0.08	-0.09	0.01	-0.10	-0.09	1.00								
12. Power Imbalance	3.23	10.42	0.10	$-0.14^{\dagger}$	0.07	0.02	0.29^{**}	$0.14^{\dagger}$	-0.06	0.01	-0.02	0.07	0.19^{*}	1.00							
13. Mutual Dependence	0.21	0.41	-0.09	0.03	-0.01	-0.07	-0.10	-0.08	$0.14^{\dagger}$	$-0.13^{\dagger}$	-0.02	-0.06	0.03	0.10	1.00						
14. Interlocks	1.03	0.66	-0.07	0.16^{*}	0.06	0.07	0.16^{*}	-0.12	0.03	-0.04	0.05	0.06	-0.10	0.02	-0.01	1.00					
15. Firm Experience	7.37	3.75	0.06	-0.11	0.01	-0.04	0.23^{**}	-0.21^{**}	0.01	-0.08	-0.12	$-0.14^{\dagger}$	0.28^{**}	$0.13^{\dagger}$	-0.02	0.02	1.00				
16. Industry Experience	2.53	2.99	0.03	-0.05	0.09	-0.01	-0.01	-0.01	-0.01	0.21**	0.06	0.08	0.13†	-0.07	0.02	0.01	-0.27^{**}	1.00			
17. Business Expertise	0.61	0.19	0.10	-0.06	-0.10	0.02	-0.08	-0.03	0.02	0.02	-0.08	0.05	0.11	-0.05	0.02	-0.13	0.05	0.07	1.00		
18. Specialized Expertise	0.35	0.19	-0.06	0.06	0.11	-0.06	0.02	0.03	0.00	-0.06	0.09	-0.08	-0.11	0.02	-0.02	0.02	-0.12	-0.11	-0.88^{**}	1.00	
19. Community Influential	0.05	0.09	-0.08	-0.00	-0.01	0.11	0.12	0.00	-0.04	0.09	-0.02	0.07	-0.01	0.06	-0.01	0.22^{**}	0.16^{*}	0.08	-0.18^{*}	-0.30^{**}	1.00

N = 173; † = $p < 0.10$; * = $p < 0.05$; ** = $p < 0.01$

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These correlations do raise some concern with regard to potential multicollinearity issues. Therefore an ordinary least squares regression model was used to assess the variance inflation factors (VIF). Most VIFs were below 3; the exceptions were Business Expertise, Specialized Expertise, and Community Influential. Business Expertise and Specialized Expertise are highly correlated (-0.88), and the 3 variables experienced high variance inflation factor scores as a result of the nature of their measures (all directors are classified into one of each of these variables). To counteract possible multicollinearity issues, all models were run with a combination of any 2 of the 3 variables to assess if multicollinearity affects the analysis. With each combination of variables in the OLS regression model, the VIF scores were less than 5, well below the recommended scores of 10 (Chatterjee & Price, 1991; Jaccard & Turrisi, 2003). As stated, all models are analyzed with all three of the variables included and any combination of the 2 variables to address potential multicollinearity problems within the analysis.

In addition to the correlations, a one-way ANOVA was used to assess the differences between the variables of those acquisitions that retained directors and that did not retain directors. Table 4 presents the results of the one-way ANOVA. The variables that differed between groups were *relative board size* ($F = 29.23$, $p < 0.001$), *power imbalance* ($F = 3.76$, $p < 0.10$), *interlocks* ($F = 6.31$, $p < 0.05$), *firm experience* ($F = 8.04$, $p < 0.01$), *business expertise* ($F = 3.04$, $p < 0.10$), *specialized expertise* ($F = 4.61$, $p < 0.05$), *relative size* ($F = 2.88$, $p < 0.10$), *acquiring director acquisition experience* ($F = 4.52$, $p < 0.05$), and *top management team retention* ($F = 37.64$, $p < 0.001$).

The results of the ANOVA indicate that directors tend to be retained in mergers of equals. For example, *relative size* and *relative board size* indicate that retention tends to occur in similarly sized organization. In addition to the retention of directors in these mergers of equals, top managers are more likely to be combined into the combined firm's top management team. Lending further to the idea of mergers of equals and director retention, the *power imbalance* between the acquirer and target firms was skewed in favor of the target organization as compared with a much greater level of *power imbalance* favoring the acquiring firm in the non-retention group.

Interlocks also appear to influence director retention. The directors in the retained group had a significant difference in means compared to the directors in the group that did

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not retain directors. The firm experience of directors in the retained group was less than that of the non-retained group. However, specialized expertise appears to be important with regards to retaining directors as opposed to general business expertise.

Finally, another notable difference between the acquisitions in which directors were retained and not retained was *acquiring director acquisition experience*. The acquiring directors' acquisition experience is lower in the group that retained directors. This may indicate that directors who have acquisition experience may think that retaining directors from a target organization is not necessary.

Results of Hypothesis Testing

Path analysis was used to test the measurement model proposed in Figure 3 in Chapter 4 of this dissertation. Figure 4 presents the standardized path coefficients and significance of the paths and Table 7 summarizes these relationships. AMOS was used to analyze the path model. Table 6 presents the goodness of fit indices for the proposed model. The proposed model chi-square (21.43, df = 18) was not significant, indicating that the model provides an adequate fit to the data. Additional goodness-of-fit indices, NFI (normed fit index), TLI, and CFI (comparative fit index) were all above the recommended level of 0.95 and are closer to 1, indicating the date fit the model well (Hu & Bentler, 1999). The root mean squared error of approximation (RMSEA) was also below the 0.06 (at 0.033) threshold as suggested to be ideal for good fit (Hu & Bentler). Thus, the fit indices suggest that the hypothesized model is a good fit for the data.

TABLE 6
Goodness-of-Fit Indices

Model	χ^2	df	P	NFI	TLI	CFI	RMSEA
Proposed Model	21.43	18	0.26	0.985	0.972	0.998	0.033

Before examining the results of the hypotheses tests, the controls were assessed. *Relative size* and *TMT Retention* were both positively and significantly related to director retention (standardized path coefficient, or $\gamma = 0.15$ $p < 0.01$ and $\gamma = 0.56$, $p < 0.01$ respectively). As with the results of the ANOVA, *relative size* is influential in director

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retention. In addition, the retention of top managers appears to occur in these mergers of equals.

Acquiring director acquisition experience was positively and significantly related to post-acquisition performance ($\gamma = 0.18$, $p < 0.05$). As per the findings of Kroll and colleagues (2008), the director's acquisition experiences do have an impact on post-acquisition performance. This was the only relationship to performance that was significant in the model.

As the fit indices indicate the model is a good fit for the data, the hypothesized relationships can be examined. The first four hypotheses address characteristics of the acquisition and the effects on director retention. Hypothesis 1 predicted that the relatedness of the acquisition would be negatively related to director retention. The results indicate that the opposite may actually be true. The relatedness of the acquisition is actually moderately and positively associated with director retention ($\gamma = 0.13$, $p < 0.05$).

Hypothesis 2 proposed that the relative size of the boards of directors would be negatively associated with director retention, such that acquirers' with larger boards relative to the target's board would reduce the chances for director retention. The results support this hypothesis ($\gamma = -0.18$, $p < 0.01$). Hypothesis 3 predicted that the power imbalance between the target and acquirer would be negatively associated with target director retention. The standardized path coefficient was -0.10 and significant at the $p < 0.10$ level, moderately supporting this hypothesis. Hypothesis 4 predicted that the presence of mutual dependence would be related to director retention. The results of the analysis do not lend support to this hypothesis ($\gamma = 0.06$, not significant).

In sum, two of the four hypothesized relationships regarding acquisition characteristics, relative board size and power imbalance were supported. The relatedness of the acquisition was found to be in the opposite direction of the hypothesis, thus not supporting the hypothesis. Finally, mutual dependence did not have a statistically significant influence on director retention.

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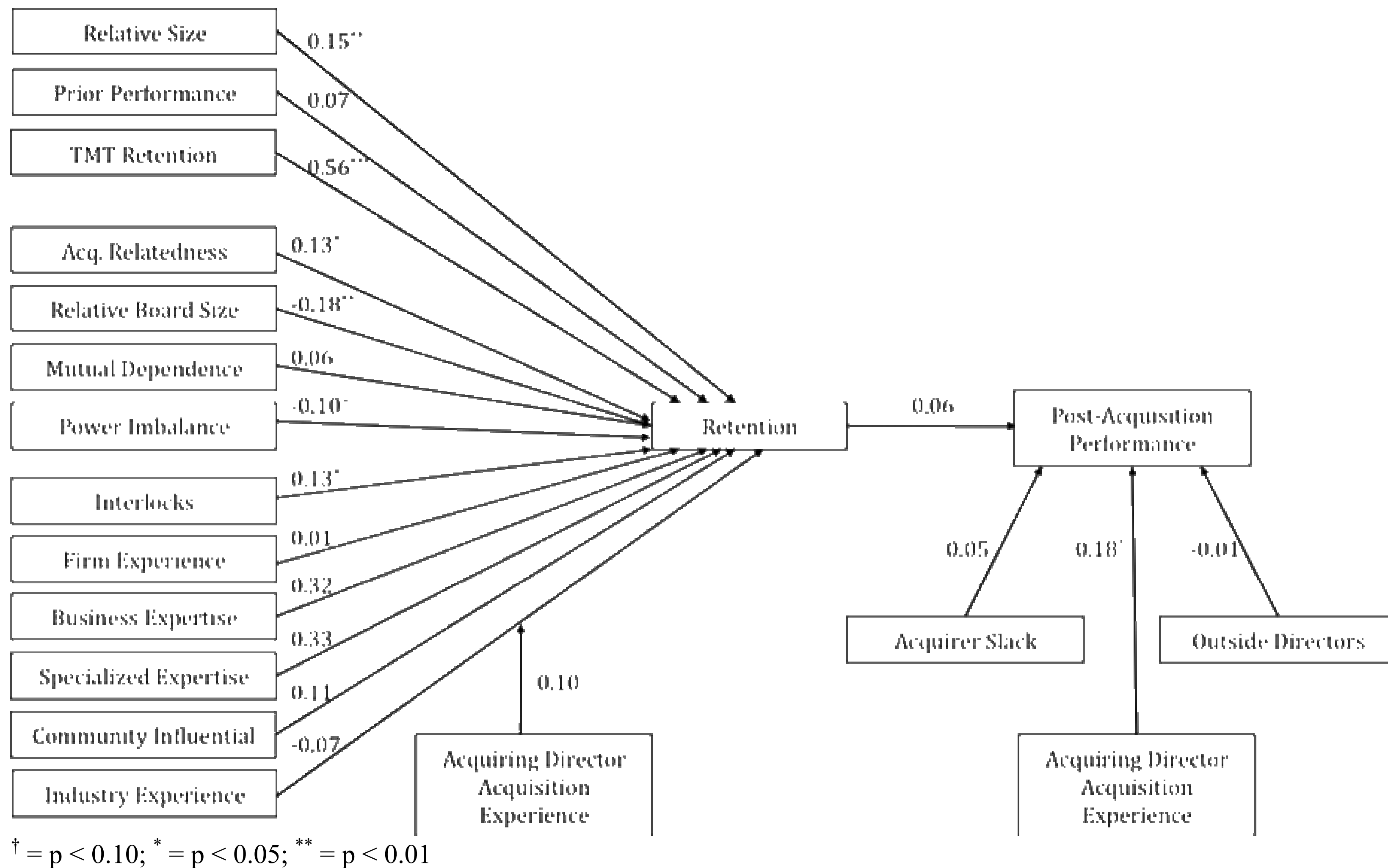

† = $p < 0.10$; * = $p < 0.05$; ** = $p < 0.01$

Figure 4: Path Model with Standardized Path Coefficients[2]

[2] The results remained relatively stable with regards to the model chi-square and significances of the paths with any combination of business expertise, specialized expertise, and community influential.

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The next series of hypotheses predicted relationships between the director resource providing characteristics and target director retention. The first of these hypotheses (hypothesis 5) predicted that the greater the number of director interlocks of the target firm directors would be positively associated with acquired director retention. This hypothesis was supported with the standardized path coefficient being 0.13 and significant at the $p < 0.05$ level.

Hypothesis 6 predicted that firm and industry experience would be positively associated with target director retention. Neither firm nor industry experiences were associated with director retention (γ of 0.14 and -0.07, p = n.s., respectively). Therefore hypothesis 6 was not supported. Hypothesis 7 predicted that target director retention would be positively associated with director business expertise. The results of the analysis did not provide support for this hypothesis ($\gamma = 0.32$, p = n.s.). Hypothesis 8 proposed that specialized expertise would be positively associated with target director retention. This hypothesis was also not supported by the analysis ($\gamma = 0.33$, p = n.s.). Finally, hypothesis 9 proposed that community influentials would be positively associated with target director retention. The results of the analysis did not support this hypothesis either ($\gamma = 0.11$, p = n.s.).

As mentioned earlier, multicollinearity was of moderate concern among the measures for business expertise, specialized expertise, and community influentials. Therefore the path models were all assessed with all possible pairings of any combination of the two variables. These additional analyses did not change the lack of support found for any of the three variables for their proposed relationships.

In sum, only board interlocks were a significant director level influence on retention.

The final hypothesis proposed was the relationship between director retention and post-acquisition performance. Specifically it was hypothesized that target director retention should contribute to post-acquisition performance. This hypothesis was not supported ($\beta = 0.06$, p = n.s.).

Table 8 presents the results of the model squared multiple correlations to both the dependent variables in the study. The variance explained for Retention is 0.47. The variance explained for Post-Acquisition Performance was quite low at only 0.04.

Mediation. While no mediation was hypothesized, the model as depicted presents a mediated relationship. Therefore mediation was assessed for the model following Baron and

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Kenny's (1986) approach (see Chapter 4 for the method). Since the relationship between Retention and Performance was not significant, mediation was not present for this model.

TABLE 7
Standardized Path Coefficients and t-tests

Variable	Standardized Path Coefficient	t-value
To Retention		
Relative Size	0.15**	2.69
Prior Performance	0.07	1.20
TMT Retention	0.56**	9.64
Acq. Dir. Industry Exp.	0.00	-0.03
Tar. Dir. Ind. Exp. X Acq. Dir. Ind. Exp.	0.10	1.17
Acquisition Relatedness	0.13*	1.99
Relative Board Size	-0.18**	-2.83
Mutual Dependence	0.06	1.01
Power Imbalance	-0.10†	-1.75
Interlocks	0.13*	2.19
Firm Experience	0.14	1.55
Industry Experience	-0.07	-1.04
Business Expertise	0.32	0.34
Specialized Expertise	0.33	0.33
Community Influential	0.11	0.23
To Performance		
Acquirer Slack	0.05	0.60
Outside Directors	-0.01	-0.10
Acquiring Director Acquisition Experience	0.18*	2.34
Retention	0.06	0.82

† $p < 0.10$; * = $p < 0.05$; ** = $p < 0.01$

TABLE 8
Squared Multiple Correlations

Dependent Variable	R^2
Retention	0.47
Post-Acquisition Performance	0.04

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Moderation. The control variable of the industry experience of the acquiring directors was proposed to potentially moderate the target director industry experience to retention relationship. This relationship was first assessed by modeling the Target Director Industry Experience variable without the Acquiring Director Industry Experience variable present in the path model. The relationship between Target Director Industry Experience and Retention was not significant ($\gamma = 0.10$, p = n.s.). Then an interaction term was added to the model. This interaction was created by both mean centering the two interaction terms and without mean centering the interaction terms. Neither changed the path from Acquiring Director Industry Experience and neither was significant (see Table 6). Therefore moderation was not present.

Post-Hoc and Additional Analyses

Additional analyses were conducted to assess the robustness of the results. In order to do this, a regression model was used to assess director retention using the same controls and independent variables as in the path model. These results can be found in Table 9. All the relationships were consistent with the findings of the path analysis. As mentioned previously, all potential combinations of *business expertise*, *specialized expertise*, and *community influential* were used to assess if multicollinearity was an issue. The results did not vary in any of the combinations. The results of the regression analysis support the findings of the path analysis and lend further support to the findings of the model and of the hypotheses tests.

In addition to regression model with the dependent variable as retention, the sample was split into two groups and the dependent variable used was performance. The results of this regression analysis can be found in Table 10. The first model assessed the independent variables on performance in *the group of acquisitions that did not retain directors*. Relative size was negatively and significantly related to performance ($b = -0.26$, $p < 0.001$). This indicates that the more similarly sized the organizations were, the worse the performance outcomes were in firms that did not retain directors from the target organization. The relatedness of the acquisition, however, was positively and moderately significant ($b = 0.02$, $p < 0.10$). This supports Singh and Montgomery's (1987) assertions that related acquisitions perform better.

Examining the same variables in relationship to performance in the group that retained directors from the target organization yielded a different story. The percentage of outside directors was negatively and with moderate significance related to performance ($b = -0.22$, $p < 0.10$). This finding indicates that a greater percentage of outsiders on the board yields lower post-

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acquisition performance outcomes. The prior performance of the target was positively related to post-acquisition performance of the combined organization ($b = 0.19$, $p < 0.05$). This finding indicates that the better performing the target organization is, the better the post-acquisition outcomes are for the combined organization. The relatedness of the acquisition also was positively related to post-acquisition performance ($b = 0.03$, $p < 0.001$). This again supports the finding that related acquisitions tend to perform better because the resources can be combined more effectively (Singh & Montgomery, 1987). The relative board size between the organizations also was positively associated with post-acquisition performance ($b = 0.23$, $p < 0.05$). This finding may be indicative that the directors were able to discuss the details

TABLE 9
Result of Regression Analysis - Retention

Variable	Model 1	Model 2
Relative Size	0.01^{**}	0.01^{**}
Prior Performance	0.01	0.02
TMT Retention	0.13^{***}	0.12^{***}
Acq. Relatedness		$0.01^{\dagger}$
Relative Board Size		-0.08^{**}
Power Imbalance		$-0.002^{\dagger}$
Mutual Dependence		0.02
Interlocks		$0.03^{\dagger}$
Firm Experience		0.001
Industry Experience		-0.004
Business Expertise		0.29
Specialized Expertise		0.30
Community Influential		0.24
R^2	0.37	0.46
F-value	32.57^{***}	10.37^{***}

N = 173 † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
Dependent Variable = Retention

of the resources of the target organization for effective integration. This finding coupled with the positive relationship between performance and target director firm experience ($b = 0.03$, $p < 0.05$) supports the notion that target directors with greater firm experience can effectively articulate how the resources of the two organizations may be effectively integrated. And the

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similarity in sizes between the boards give leverage to the voices of the target directors in the acquisition.

Finally, the power imbalance between the acquirer and target was positively and significantly related to performance ($b = 0.01$, $p < 0.05$). This finding indicates that if the acquirer is more powerful than the target then better performance expectations may be realized. This may indicate that power skewed in favor of the acquirer allows for the acquirer to take control in the acquisition to better effectively utilize the resources of the target.

TABLE 10
Result of Regression Analysis – Performance

Variable	No Retention[1]	Retention[2]
Acquirer Slack	0.02	-0.01
Outside Director	0.06	$-0.22^{\dagger}$
Acquiring Director Acq. Exp.	0.01	-0.001
Relative Size	-0.26^{***}	-0.003
Prior Performance	0.03	0.19^{*}
TMT Retention	-0.03	-0.01
Acquisition Relatedness	$0.02^{\dagger}$	0.03^{***}
Relative Board Size	0.09	0.23^{*}
Mutual Dependence	-0.05	-0.01
Power Imbalance	0.00	0.01^{*}
Interlocks	-0.03	-0.03
Firm Experience	0.002	0.03^{*}
Industry Experience	-0.002	0.003
Business Expertise	0.93	-0.82
Specialized Expertise	0.91	-0.76
Community Influential	0.40	-0.83
R^2	0.37	0.62
F-value	32.57^{***}	3.54^{***}

[1]N = 121, [2]N = 52 † $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$
Dependent Variable = Performance

Summary

This chapter presents the empirical results regarding the retention of acquired directors and how this retention may impact post-acquisition performance. As predicted by the theoretical model in Chapter 3, both characteristics of the acquisition and characteristics of the directors

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contributed to target director retention. In particular, the relatedness of the acquisition, relative board size, power imbalance, and interlocks were all found to contribute to director retention, although the relatedness of the acquisition was in a direction counter to that of the hypothesized relationship. A discussion of these empirical results can be found in Chapter 6.

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CHAPTER 6

DISCUSSION AND CONCLUSION

This dissertation sought to answer two primary research questions: What resource dependence factors influence the retention of directors from a target organization and do directors retained from the acquired organization contribute to post-acquisition performance. While resource dependence theory has focused on either mergers and acquisitions or directors as means to garner access to critical resources for survival (e.g., Pfeffer & Salancik, 1978), research has not yet examined both simultaneously. This dissertation takes a preliminary step to assess both of these factors in gaining access to resources, and to answer the calls to examine directors from a membership perspective (Haleblian et al., 2009). Acquisitions, from a resource dependence perspective, are used to reduce uncertainty in the environment of the acquiring firm. This uncertainty can arise from competition or from the transactions with other firms.

Boards of directors can help reduce uncertainties by providing access to critical resources to the firm. Directors can provide links to suppliers, customers, the community, and other influential organizations to reduce the uncertainty of the environment and provide access to resources for the firm. While resource dependence literature has focused on either the acquisition or on directors, this study examines both characteristics of the acquisition and characteristics of the board to determine why directors would be retained.

This chapter is separated into three sections. In the first section, the findings of the analysis are discussed. The next section addresses the contributions to theory and practice. Finally, the limitations of the study are discussed and future research ideas are presented.

Discussion of Research Findings

This study is the first to empirically examine acquired director retention from a resource dependence perspective. The hypotheses proposed were tested in 173 acquisitions, of which 53 cases experienced director retention. This study demonstrates that there are resource dependent effects influencing director retention from a target organization. In particular, the relatedness of the acquisition, relative board size, power imbalance, and interlocks were shown to lead to director retention.

Acquisition Characteristics

Acquisition Relatedness. It was proposed in Chapter 3 that the relatedness of the acquisition would be negatively associated with director retention from the target organization.

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The empirical evidence found in Chapter 5, however, is contrary to the expectations of the hypothesis. This suggests that there may be other motives for retaining directors in a related acquisition.

One potential explanation may follow that of TMT complementarity literature (e.g., Krishnan et al., 1997). Perhaps directors, in a related acquisition, are retained because they complement the skills or access to resources of those of the acquiring organization. There may be other influences for retaining these directors as well. In related acquisitions, the acquirer may pursue to acquire a target to either increase power in the market place (Pfeffer & Salancik, 1978; Finkelstein, 1997) or exploit synergies to create value (Harrison et al., 1991). This exploitation of synergies may include using similar suppliers or customers of the target organization. If these synergies do come from these sources, then retaining directors linked to either of these groups may be more likely and add further insight to the results found. Future research should look more closely at the characteristics of individual directors to further extend our understanding of why directors in related acquisitions are more likely to be retained.

Relative Board Size. The empirical results of this study support the hypothesis that acquirers with larger boards relative to the target's board will be less likely to retain target directors. As pointed out in Chapter 3, larger boards may be associated with greater access to resources (Goodstein et al., 1994). The results here suggest that this may be the case when comparing board sizes between the acquirer and target. An acquirer with a larger board may increase the likelihood of redundancy of the target directors with regards to the ability to appropriate or gain access to resources.

Power Imbalance. The empirical evidence supported the hypothesis regarding the retention of target directors and power imbalance. The retention of directors is more likely to occur when power imbalance is more in favor of the target organization as indicated by the findings. Conversely, when power imbalance was in favor of the acquiring organization, retention of directors is less likely to occur. These findings suggest that powerful acquirers do exert their influence over the target organization and the access to resources of the target is not as important to the acquiring organization.

The measure of power imbalance used here was an attempt to get to a firm-level assessment of power. Prior research in resource dependence literature as used industry-level proxies to assess power (Casciaro & Piskorski, 2005; Finkelstein, 1997; Pfeffer, 1972).

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However, this method makes it difficult to assess power between organizations in the same industry. Future research, however, should also examine these industry-level measures of power to add robustness to the findings here in this study.

Mutual Dependence. It was hypothesized that the mutual dependence between organizations would be associated with target director retention. The results of this study do not lend support to this hypothesis. One reason for this outcome is that once a firm is acquired the two organizations are no longer mutually dependent. As a result of the removal of the mutual dependence, this relationship would not be found to be significant.

Alternatively, it may be the nature of the measure used to assess mutual dependence did not capture dynamics in an acquisition context. The measure used in this study focused on alliances and joint ventures. Pfeffer and Salancik (1978) and other scholars (e.g., Finkelstein, 1997) have suggested that beyond alliances and joint ventures, other types of relationships could lead to dependence. Long-term contracts and high levels of transactions between two organizations can increase the mutual dependence between organizations. To determine the presence of long-term contracts or what the percentage of total cash outflows are between two organizations are difficult to find information on, however (Finkelstein, 1997). Future research should survey managers of organizations to identify other potential measures of mutual dependence to further our understanding of what it may mean to a firm, and how they would distinguish mutual dependence.

Director Characteristics

Director Interlocks. Director interlocks were hypothesized to be positively related to target director retention. The results of the data analysis found support for this hypothesis. Director interlocks provide a means to gain access to information regarding resources (e.g., Hillman, 2005) and knowledge on strategies (Carpenter & Westphal, 2001). In addition, interlocks can aid in reducing a firm's dependence on other organizations (Palmer, 1983). As interlocks can assist members in navigating the uncertainties and complexities of their environment through the information that can be gathered (Zajac, 1988), acquiring organizations may view directors with many interlocks to be a valuable addition to the combined board because of the addition of information that can be provided by these directors.

While this finding supports a resource dependence argument for director retention, it is only exploratory in nature. Further research on interlocks and director retention should examine

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the nature of the interlocks. What other industries the directors are linked to may help further our understanding of why interlocks influence director retention by examining the nature of those interlocks.

Certo and colleagues (2001) used the number of director interlocks as a proxy for prestige on their research on IPO organizations. They found that prestige helped legitimize the IPO and improve the IPO's ability to raise money when going public. This same proxy could apply here as well. It may be that directors with more interlocks may carry a level of prestige given their network of relationships. This prestige may then make these directors more attractive to retain. Future research may want to explore other proxies for prestige and assess whether it influences director retention.

Firm Experience. Firm experience was hypothesized to be positively associated with acquired director retention. The empirical evidence does not support this hypothesis. However, the results of the one-way ANOVA do show that there is a greater level of firm experience of directors in the acquisitions that did retain directors from the acquired organization. The results of the path analysis, however, did not demonstrate an association between firm experience and retention.

This association may not have been borne out in the results due to the sample size. The t-value associated with the path coefficient was very close to being marginally significant. Additional data may help with identifying the effect of firm experience on retention.

Industry Experience. As with firm experience, industry experience was predicted to lead to director retention. Industry experience of directors can provide managers of the combined organization with information regarding barriers to entry, power of suppliers and buyers, intensity of rivalry, and the threats of substitutes (e.g., Kroll et al., 2008). In addition to this information, directors with industry experience may also bring ties to key industry players (Kor & Misangyi, 2008).

The results of the path analysis, however, do not support the link between industry experience and director retention. The results of the one-way ANOVA do demonstrate that industry experience is higher among those acquisitions in which director retention did occur. As with firm experience, the t-value of industry experience was on close to moderate significance. Additional data collection may help identify whether a true effect is present between director retention and industry experience.

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Business Expertise. From a resource dependence perspective, directors with business expertise should be able to bring strategic decision-making skills and a solid understanding of firm operations (Baysinger & Zardkoohi, 1986). The results of the analysis did not support the relationship between business expertise and director retention. This may be a result of the presence of business expertise on the acquiring firm's board. This type of expertise may not be unique enough to warrant the retention of directors from the acquiring organization as the acquiring board may have similar, if not greater, levels of business expertise on their board. Further inquiry into assessing business expertise should be done to garner whether or not business expertise does lead to director retention. A comparison of the acquirer's board to the target's board should be performed to identify whether business experts are retained to augment a board if it is found to be in need of additional expertise.

Specialized Expertise. Specialized expertise was hypothesized to be associated with director retention. The results found no support for this hypothesis. These directors with specialized expertise are positioned to provide access to valuable resources, connections and expertise to a firm. Individuals considered to fall into the grouping tend to be employed by law firms, public relations firms and other organizations outside of the product markets of the organization on which they serve as a director. As with business expertise, it may be that these directors do not provide a unique set of skills that would warrant retention of directors. Instead of retaining these types of directors, perhaps the acquiring firms may choose to secure the services of these types of directors on the open market instead. It is also possible that these types of directors are kept on retainer, but not added to the combined board so their services are still being provided, but without adding to the size of the board. Further inquiry should be done to examine how these types of directors are handled after an acquisition.

Community Influentials. In Chapter 3 it was hypothesized that community influentials would be associated with director retention because of their unique ties to the communities that they represent. However, the results do not support this assertion. These directors' services may not be considered unique enough to warrant retention. The access to the communities that these directors represent may not be enough to warrant retention of the directors. Future research should explore conditions of when these types of directors are retained. Lester and colleagues (2008) examined former government officials on boards of directors and their human and social capital that they provide as to the attractiveness of having these former government employees

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on the board. Hillman (2005) also found that politicians were more likely to be found on boards of organizations in highly regulated industries. Examining these finer-grained details with regards to this type of director may yield more information as to why these findings were not significant.

Retention to Performance

It was proposed in Chapter 3 that the retention of directors would be positively associated with post-acquisition performance. This relationship was not supported by the results of the data analysis. There may be several reasons for this finding. First, it may be the nature of the measure used for performance. While ROA has been suggested to be a good measure for research examining directors (see Chapter 4 for a discussion on the usage of ROA), cumulative abnormal returns (CARs) are often used for event study research, which includes research on mergers and acquisitions. Market-based measures may be better at assessing the value of retaining directors as they capture the value of intangibles and represent the future expectations of the firm (Hillman, 2005).

Another possible explanation for the lack of significant results between retention and performance may be the measure of retention. Perhaps a finer-grained analysis of the types of directors retained would yield different results. By examining the specific characteristics of the directors retained, clues about the types of directors that help improve performance may be identified. For example, Hillman (2005) found that former politicians on the board of directors led to better market-based performance, especially in firms operating in more regulated environments. Taking a finer-grained approach to the characteristics of the directors that are retained should be undertaken to help further our understanding of the benefits of retaining directors.

The regression results of the acquisitions that retained directors and the effect on performance yielded an interesting result that may also explain why no relationship to performance was found. Power imbalance was found to be positively related to performance in the group of acquisitions that retained target directors. However, in the path model, power imbalance skewed in favor of the target led to director retention. This finding may indicate that power imbalance may actually negatively influence acquisition outcomes if it is too much in favor of the target, whereas if the acquirer has more power, then it has control over the

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acquisition. This idea should be explored further to identify if power imbalance is actually a positive influence on acquisition outcomes.

Contributions to Theory, Methodology, and Practice

This dissertation offers contributions to theory, methodology and practicing managers. This section addresses these contributions in the following order: theoretical contributions, methodological contributions, and practical contributions.

Theoretical Contributions

One of the primary contributions of this study is the extension and testing of the resource dependence perspective. This study examined the influence of resource dependence factors on target director retention in acquisitions. Support for resource dependence came from findings associated with the characteristics of the acquisition. Support was also found for director interlocks, indicating that the relationships to other firms a director are also important to an acquiring organization. Support was found for relative board size, power imbalance, and interlocks, all concepts from the resource dependence perspective, which can now be better understood from these findings. For example, interlocking directorates have been demonstrated to be an important part of information gathering and resource access for the companies on which boards the directors serve (Mizruchi, 1996; Pfeffer & Salancik, 1978). In addition, interlocks have also been used as a proxy for prestige (Certo et al., 2001). The findings of this study confirm that these interlocks are indeed important in determining whether directors are retained from a target firm in an acquisition. This finding suggests that emphasis on the access to information and other resources may be regarded as highly valuable, especially compared to other types of experiences (e.g., industry-specific and firm-specific experiences).

Another contribution of this study to resource dependence theory is with regards to director retention in acquisitions. Resource dependence research has either examined the acquisition as a means to manage resources or examined how directors manage resources (Finkelstein, 1997; Hillman, 2005; Lester et al., 2008; Pfeffer & Salancik, 1978). No study to date has examined both aspects of managing access to resources critical to the organization. By identifying that directors are retained in an acquisition, and that the provision of resources does explain some part of this retention, researchers may be able to further explore the impact of director retention and use even finer-grained measures to assess the types of resources that may be important to these acquiring organizations leading to the decisions to retain these directors.

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This dissertation also contributes to the theory that power is an important factor in determining the actions that are taken in organizational dyads. Casciaro and Piskorski (2005) found that the lower the power imbalance was between two industries, the more likely acquisitions would occur across these industries. This study contributes to this line of reasoning by demonstrating that power can play a role in acquisition itself, specifically with regards to the retention of directors. While the acquired organization may be typically considered the less powerful actor, the organization is still not without some level of influence.

However, power imbalance may also have countervailing influences on acquisition performance. While it may contribute to retention of target directors, it appears that it can have a negative effect on acquisition outcomes. These findings suggest that the concept of power should be further explored to understand how it may influence other organizational outcomes. One such way is to assess power across all acquisitions to see if this factors into overall acquisition outcomes. Power may also play a role in alliances, joint ventures, and other long-term relationships and can potentially influence to performance of these relationships.

Methodological Contribution

This study may be the first to empirically attempt to operationalize power at the firm level of analysis. While other studies have typically used industry level proxies for power (Casciaro & Piskorski, 2005; Finkelstein, 1997; Pfeffer, 1972), the challenge to researchers has been to assess power at the firm level. This study takes the first attempt to do so. Further testing and analysis should be performed to lend support to the robustness of the measure of power imbalance in this study. However, the results of the empirical analysis are encouraging with regards to the soundness of the measure.

Another methodological contribution of this paper is the use of path analysis. The benefit of path analysis is the ability to model complex relationships with observed variables. For example, mediation is complicated to test using OLS regression. Path analysis simplifies the ability to test mediated models as multiple dependent variables can be tested simultaneously within a model. In addition, path analysis allows for testing nested or competing models. This feature of path analysis can help researchers assess different theoretical perspectives to evaluate which perspective may have more explanatory power given a particular sample set. As path analysis provides goodness-of-fit indicators, these tests can be used to determine which proposed model is best suited to match the sample of interest in a study.

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Practical Contributions

This study has important implications to practitioners as well. While no conclusive evidence can be demonstrated with regards to the link between director retention and performance, what cannot be observed is whether or not these acquisitions would have performed at a lower level if these directors had not been retained. It may be that if these directors had not been retained, the performance of the combine firms post-acquisition could have been worse.

This study also suggests that power may play a role in determining the retention of directors. This power imbalance between the two organizations could symbolize the importance of the resources of the target and in turn lead to the retention of directors. Managers pursuing acquisitions may wish to assess the characteristics of the other firm and determine whether director retention is necessary to help facilitate the coming together of the two organizations.

Limitations and Future Research

This study must also be viewed in light of its limitations. This section will highlight some limitations of the study and also pose suggested areas of future research in the area of director retention in acquisitions. While limitations do exist, this study takes an initial step to help unlock our understanding of why directors are retained in an acquisition. However, this study examines director retention only from a resource dependence perspective. There could be agency theoretic influences that lead to the retention of directors as well. For example, the share ownership of the directors could influence the retention of these directors. It has also been shown that directors may turn down acquisitions because of the threat of losing their board seats (Harford, 2003). Perhaps retaining directors is one of the methods used by acquiring organizations to get the deal to go through. Future research may want to consider such motivations for director retention.

Other theoretical perspectives should be examined to assess the impact on director retention and post-acquisition performance. For example, the resource based view states that resources that are rare, inimitable, non-substitutable, and valuable lead to competitive advantage (Barney, 1991). Directors provide links to the external environment, but they also bring tacit knowledge to the organization. Taking this perspective and applying it to directors may help with finding support for the retention to performance link. Directors may possess tacit knowledge that makes them important to retain from an acquirer's perspective and in turn influence post-acquisition performance.

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From a resource based perspective, the turnover of top managers has been shown to lead to a loss of knowledge resources (Canella & Hambrick, 1993; Haleblian et al., 2009). The loss of these resources (tacit knowledge of capabilities and competitive positions in an industry) may allow rivals to take advantage of these discarded resources (Haleblian et al., 2009), in this case directors not retained by the acquiring organization. Future research may want to examine what becomes of these directors after they have lost their seats on the board. These directors may be offered seats on boards of competitors in the industry as a result of their tacit knowledge and experiences (Haleblian et al., 2009). By acquiring these directors, competitors may gain additional advantages in the industry and make it a challenge for the director's previous company to perform as expected in the acquisition. Future research should look into what happens to directors who are not retained after the acquisition is completed. Research may also want to look closely at those directors who do get picked up by other firms in the industry and see if performance does improve for those organizations.

Another limitation is that the nature of the director interlocks, specific skills, and backgrounds were not deeply explored, but rather approached from a high-level perspective. While this approach was chosen to get a preliminary understanding of whether the resources are important and lead to director retention, it does not really express which resources are better than others, or perceived to be more important than others. For example, it may be that directors who are also CEOs of suppliers get retained. This link could demonstrate that retaining supplier CEOs leads to more beneficial, long-term exchange relationships to the newly combined firm. Future research should explore these types of relationships further. In addition, future research should examine more carefully the networks created from the interlocks and the specific resources that the directors provide access to in order to help improve our understanding of what resources are considered to be more valuable.

Hillman and Dalziel (2003) created a concept of board capital. This concept of board capital takes a comprehensive approach to examining director networks, backgrounds, resource provisions, and expertise. A measure of board capital is being constructed (Haynes & Hillman, working paper). Given the lack of findings with regards to board expertise and experiences in this study, this measure of board capital being developed may lead to different outcomes with regards to target director retention.

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There may be other factors that influence retention. For example, in an examination of downsizing firms, institutional pressures can lead to organizations to downsize even in industries that are performing well (e.g., Guthrie & Datta, 2008). This same rationale could also apply to acquisitions and director retention. There may be institutional pressures that lead firms in similar industries to retain directors. Future research should examine if such institutional influences do influence director retention.

Another limitation is the nature of the data itself. While secondary sources can be used to garner proxies of measures, they are limited in what they can tell researchers about a phenomenon. In the case of director retention, a more inductive approach should be performed to determine what other influences are involved in the retention of directors. Perhaps it is a result of negotiations, or having a friend on the acquiring firm's board. By interviewing or surveying directors we can identify additional factors for why directors are retained or not retained.

Conclusion

This dissertation takes an initial step to explain why directors from an acquired organization are retained after an acquisition. The findings do support some resource dependence characteristics for explaining retention. Specifically, power imbalance, relative board size and director interlocks were all found to be influential in the retention of directors.

Based on the results of this study, it is hoped that further research will help further our understanding of why directors are retained in an acquisition context. While no support was found for post-acquisition performance gains from retaining directors, further exploration into this area may help decipher the benefits of retaining directors. As approximately 30% of the acquisitions in this study did retain directors, there must be some advantages that result from this retention. As stated, it is hoped that further research will be performed to help unlock why these directors are retained and if any benefits are accrued to the acquirer as a result of this retention.

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BIOGRAPHICAL SKETCH

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