RELATIONSHIP OF CEO AND TMT PRE-MERGER POWER CHARACTERISTICS OF ACQUIRING AND TARGET FIRM WITH POST-MERGER EFFECTIVENESS

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EFFECTIVENESS

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CHAPTER I

INTRODUCTION

In the last couple of decades, mergers and acquisitions (M&A) have been a popular mechanism used by organizations to grow and expand their business and obtain the capabilities and resources that they require to compete. This is demonstrated by the volume of M&A transactions. It is estimated that in the year 2000 over $3 trillion was spent on mergers and acquisitions on a worldwide basis and yet failure rates are estimated at over fifty-five percent (Schoenberg, 2006; Homburg and Bucerius, 2006).

Larsson and Finkelstein (1999: 2) concluded that "mergers and acquisitions are clearly multi-faceted phenomena that are poorly understood through incomplete and partial application of theories from separate fields." For several decades, researchers within the fields of finance, organizational theory, economics and strategy have conducted studies in this area (Larsson and Finkelstein, 1999; Lubatkin, 1983; Zollo and Singh, 2004), but still there is a limited understanding of the elements and skills required to engage in a value-added merger and acquisition. Results to date have been disappointing. King, Dalton, Daily and Covin (2004), in their meta analysis of empirical M&A studies, summarized the last two decades of research and concluded that beyond the day of the announcement, performance of acquiring firms within M&A is zero or slightly negative. In their meta analysis, they identified variables such as diversification level, method of payment and acquisition experience, that have been most commonly examined in relationship to acquisition performance, and concluded that these variables have not provided appropriate explanation of performance. However, they found that there were variables that the researchers have not yet identified that may explain significant variance in post acquisition performance and recommended that a fruitful endeavor for subsequent research is to identify the conditions that can lead to superior performance (King et al., 2004). This research identifies some of these variables and thus will not only improve theoretical understanding merger implementation performance, but will also provide advice for managers.

The purpose of this study is to examine how the retention of target executives along with the competencies and resources that they possess can positively affect post-merger effectiveness. Since empirical research has provided evidence that a majority of mergers and acquisitions do not reach stated objectives, additional research in this area is needed and warranted (Homburg and Bucerius, 2005). The pre-merger management team and post-merger management team characteristics will be studied to increase our understanding of what facilitates a successful merger implementation. It will investigate the impact of the chief executive officer (CEO) and top management team (TMT) power dimensions (Finkelstein, 1992) of the acquiring and target firms on subsequent merger effectiveness. Specifically, it will be examining prestige and expert power that exists in the pre-acquisition firm and the retention of these power dimensions in the post-merger firm.

Throughout this dissertation the term “merger”, “acquisition” or “merger and acquisition (M&A)” will be used interchangeably to describe the same phenomena as that is a convention that has been used by previous empirical researchers and both terms tend to describe the same process and have the same underlying structure and the equivalent types of behaviors (Cartwright and Schoenberg, 2006; King et al., 2004; Lubatkin and Shrieves, 1986). This chapter will provide an overview of M&A research and then will address the theoretical base for the research, the research question, along with the dissertation objectives and the contributions of this research.

Theoretical Base for Research

The focus of analysis for the majority of empirical studies has been the acquiring firm. However, recently there has been a call to change this focus to either the target firm (Graebner and Eisenhardt, 2004) or the combined post-integration firm (Gu, 2004; Larsson and Finkelstein, 1999; Zhao, 2002). The focus of analysis for the dependent variable for this study is the post-acquisition firm. This dissertation will be comparing the performance of the combined firm to performance that may have accrued if the companies did not merge.

Zollo and Singh (2004) found that the retention of top managers from the target firm and an increased level of integration between the two merged firms are positively related to performance. Hambrick and Cannella (1993) found that providing one or more executives from the target firm with top management team status in the newly combined firm leads to better post acquisition performance and that the departure of executives from the acquired firms is related to poorer post acquisition performance. Consequently, it is believed that examining pre-merger management team characteristics with post-merger management team characteristics can isolate some of these unidentified variables alluded to by King et al. (2004).

The theoretical base for this dissertation will be the resource based view of a firm (Barney, 1991; Wernerfelt, 1984) and this theory will be complemented with top management team research.

Resource-based View of a Firm

"Acquisitions represent an investment intended to create economic value, especially through the development of synergies" (Harrison, Hitt, Hoskisson and Ireland, 1991; 175). Within the strategy literature, one reason given for M&A activity is to acquire resources and/or competencies (Ahuja and Katila, 2001; Hayward, 2002) that can allow the organization to create and sustain a competitive advantage (Barney, 1991; Wernerfelt, 1984). These competencies and resources are often embedded within the people. Some organizations are already outperforming the industry and they engage in a M&A to continue their competitive advantage. Other organizations engage in this activity to obtain a resource and/or competency that will allow them to move up to or exceed the industry average (Markovitch, Steckel and Yeung, 2005).

The acquisition of resources is not the only reason why an executive may undertake a merger. Since executives are compensated for higher levels of responsibility and complexity (Gomez-Mejia, Tosi and Hinkin, 1987), research also provides support that executives may undertake a M&A attributable to hubris (Hayward and Hambrick, 1997; Hiller and Hambrick, 2005; Roll, 1986; Trautwein, 1990), expansion of their sphere of influence (Amihud and Lev, 1981; Baumol, 1962) or maximization of personal wealth (Berkovitch and Narayanan, 1993; Kroll, Wright, Toombs and Leavell, 1997; Trautwein, 1990). However, this dissertation is attempting to identify synergistic mergers (Harrison et al., 1991) that have been undertaken to improve productivity and to obtain scarce resources and competencies (Barney, 1991) as Harrison et al (1991) concluded that the examination of resources rather than strategy types will better explain post acquisition firm performance.

Top Management Team Characteristics

This study addresses the question of how corporate elites affect corporate strategy in the area of mergers and acquisitions. Previous research has found a relationship between demographic characteristics such as education, functional background, age, power and strategy preferences to organizational outcomes (Finkelstein, 1992; Hambrick and Mason, 1984; Westphal and Zajac, 1995; Wiersema and Bantel, 1992). There is empirical support that the functional background of the top management team and the CEO, coupled with their strategic preferences and experiences, can affect acquisition activities (Finkelstein, 1992; Jensen and Zajac, 2004; Palmer and Barber, 2001; Song, 1982; Wiersema and Bantel, 1992). For example prior researchers have found that finance executives will diversify the firm's portfolio of businesses more than non-finance executives (Jensen and Zajac, 2004; Finkelstein, 1992; Palmer and Barber, 2001; Song, 1982).

Dissertation Objectives

Even though the M&A failure rate is high, mergers are still occurring at a significant pace. This suggests that executives believe there is value in continuing to engage in mergers and acquisitions. In mergers that were deemed to be successful, researchers have determined that value creation occurs after the acquisition (Haspeslagh and Jemison, 1991). However, very little research within M&A literature has concentrated on the impact of CEO and TMT power characteristics of the acquiring and target firms on subsequent merger firm effectiveness (Krishnan and Park, 2003). The purpose of this study is to examine pre-merger management team power characteristics of both the acquiring and target firms with the retention of power in the post-merger firm to determine if the M&A was able to obtain the resources and competencies the acquiring firm was striving to obtain. It also investigates the moderating role of organizational slack on this relationship as Gary (2005) found that even when synergy opportunities exist, that the absence of slack will destroy value due to insufficient attention to merger implementation issues. Another purpose is to examine the relationship between power retention in the post-merger firm and merger effectiveness.

A model of this process is shown in Figure 1. The potential contributions of this study include an appreciation of what drives an effective acquisition and includes: [1] an expanded understanding of CEO and TMT power characteristics on merger effectiveness; and [2] knowledge on the interaction effect of slack on post-merger power retention.

Contributions

This research makes two distinct contributions. The first being the contribution to the field of academic scholarship and second, the contribution to management practitioners.

Academic Contribution

This research will add to the literature by expanding our understanding of the effect of executive power and organizational slack on M&A performance. It investigates the various types of power that exist within the pre-acquisition firms and how these types of power can be retained. It also examines the relationship between retained power in the post-merger firm with post-merger effectiveness and provides some empirical support on which types of power are the most important to obtain. This research will also test the importance of organizational slack and will identify implementation issues that acquiring organization should avoid to capitalize on the synergies they are expecting to obtain. As researchers understand these characteristics and expand their theoretical base by incorporating more sophisticated models, they will be better able to predict and explain behavior and this will subsequently provide a platform upon which additional research can be directed. It will answer these important questions: 1) Why are some mergers more successful than others? and 2) What top management factors power characteristics influence the effectiveness of a merger or acquisition?

Contributions to Practitioners

This study will provide managers of the acquiring firm with tools and processes that optimize the retention of competencies that they were attempting to acquire. It will identify the types of power that exist in the pre-acquisition firms and provide direction as to the types of power that should be retained to increase post-merger performance and provide the firm with a strategic competitive advantage within their industry. This research will also test the importance of organizational slack and will identify implementation issues that acquiring organization should avoid to capitalize on the synergies they are expecting to obtain. Armed with this information, the acquiring firm managers will be better equiped to engage in a successful acquisition.

Dissertation Overview

Chapter two provides a review of the merger and acquisition literature as it relates to top management team influences and acquisition processes and concludes with a statement of the dissertation hypotheses. Chapter three discusses the methodology and research design that will be utilized to test these hypotheses. Chapter four provides an overview of the results and Chapter five integrates the results from this study with the M&A literature and provides a statement of limitations and ideas for future research.

CHAPTER II

REVIEW OF LITERATURE

Since Dewing's (1921) and Livermore's (1935) pioneer discussions of mergers and acquisitions (M&A), social science scholars have sought to determine what actions and behaviors will enhance the outcomes of M&A activities (Datta, Rajagopalan and Rasheed, 1991; Dess, Gupta, Hennart and Hill, 1995). Kitching (1967) is credited with providing one of the first empirical reviews within the merger and acquisition research stream. To understand mergers and acquisitions he conducted interviews and determined that one reason M&A fail is because of disturbed reporting relationships within the post-acquisition firm. Since these early beginnings, many academics have explored this phenomenon using multiple theoretical lenses (King et al., 2004; Larsson and Finkelstein, 1999). The motive for the merger for economic researchers has included concepts such as economies of scale and market power (Jensen, 1988; Matsuaka, 1993; Steiner, 1975) and more recently they are examining industry effects and deregulation to obtain additional understanding on why mergers and acquisitions occur in waves (Andrade, Mitchell and Stafford, 2001). Finance researchers have focused on wealth creation or reduction (Cartwright and Schoenberg, 2005) and as a consequence have most often utilized stock market measures with the assumption that investors will integrate all important factors when they reevaluate the stock price (Datta, Iskandar-Datta and Raman, 2001; Kaplan and Weisbach, 1992; Mandelker, 1974; Travlos, 1987). Strategic management researchers have studied M&A and have attempted to understand it on the bases of diversification and synergy (Jemison and Sitkin, 1986; Kusewitt, 1985; Lubatkin, 1983; Seth, 1990; Singh and Mongomery, 1987). As an example, strategy researchers have examined the link between degree and type of relatedness between the acquiring and target firm to assess if these variables have power to predict the outcome of a merger (Kusewitt, 1985; Lubatkin, 1983). Organizational theorists have focused on organizational integration as the independent variable (Pablo, 1994; Shrivastava, 1986) and human resource management researchers have taken on a more micro view and have attempted to understand merger success or failure on the basis of employee resistance (Hambrick and Cannella, 1993; Hayes, 1979; Marks, 1982; Marks and Mirvis, 1985).

Larsson and Finkelstein (1999) developed a model to help bridge the gap between the various disciplines by taking learning from each of these research streams and incorporating this knowledge into a more integrated framework (See Figure 2). They developed and tested a model that incorporated employee resistance, organizational integration and combination potential (relatedness) to determine how these constructs may interact. The authors concluded that organizational integration was the strongest predictor of M&A success and yet ironically, they found that 40% of the companies studied did not appropriately manage the integration process.

Even though the phenomenon of mergers and acquisitions has been studied for over half a century, King et al. (2004) in their meta analysis concluded that none of the four most commonly researched variables were sufficient in explaining post-acquisition performance. The four factors that had been studied sufficiently to be included in their meta analysis were 1) level of diversification, 2) relatedness, 3) method of payment and 4) acquisition experience. Their study indicated that post-implementation performance is influenced by unspecified variables and they put in a call for researchers to develop more comprehensive research models that will have greater power in explaining and understanding this phenomenon. Many academics have encouraged additional research on studying factors that influence M&A success (e.g.: Homburg and Bucerius, 2005; Larsson and Finkelstein, 1999; Ranft and Lord, 2002). To identify these unspecified variables alluded to by King et al. (2004); this dissertation examines integration processes of large mergers of similar sized firms that are competing within the same industry where the market has deemed the merger to be synergistic. A M&A is considered to be synergistic if the market had a positive reaction to the M&A announcement (Markelevich, 2003; Seth, 1990; Seth, Song and Pettit, 2002).

The purpose of this study is to examine pre-merger management team power characteristics of both the acquiring and target firms with the retention of power in the post-merger firm to determine if the M&A was able to increase the power retention in the resulting firm. It also investigates the moderating role of organizational slack on this relationship as Gary (2005) found that even when synergy opportunities exist, the absence of slack will destroy value due to insufficient attention to merger implementation issues. Another purpose is to examine the relationship between power retention in the post-merger firm with merger effectiveness.

The general research model (Figure 1) guides the literature review and subsequent hypotheses development. The discussion is divided into seven sections. The first section addresses the importance of knowledge transfer within a M&A and how the acquisition of new competencies can provide the organization with a sustainable competitive advantage. The second section introduces the history and importance of merger and acquisition integration and how integration processes affect the outcome of the merger. The third section discusses the link between TMT characteristics and merger effectiveness. This third section is broken into three subsections based on the focus of the research. The first sub-section examines research where the focus is on the acquiring firm, the second where the focus is on the target firm and the final sub-section addresses research where the focus is on the post acquisition firm. The fourth section investigates CEO and TMT power and concludes with an examination of research of these variables within the area of mergers and acquisitions. Within the context of M&A's, the fifth section discusses research conducted on the contextual variable of organizational slack. The sixth section focuses on merger effectiveness outcomes and the final section introduces the hypotheses.

M&A Knowledge Transfer

To sustain a competitive advantage (Barney, 1991; Wernerfelt, 1984) within their industries, many organizations, that rely on intellectual capital, compete on their ability to utilize knowledge (Nonaka, 1994; Westphal and Shaw, 2005). Researchers have found that as human capital is leveraged, performance increases (Hitt, Bierman, Shimizu, and Kochhar, 2001). The more competitive firms not only have the ability to generate and store information (Grant, 1996), but they integrate this information to create new knowledge and skills (Ranft and Lord, 2002; Spender, 1996; Teece, Pisano and Shuen, 1997). In their examination of multinational corporations, Kogut and Zander (1993) concluded that firms prosper based on their ability to transfer critical knowledge from one group within their corporation to another. This knowledge is embedded in the people and it is also embedded within the organization's network of relationships and routines (Beckman and Haunschild, 2002; Burt, 1992; Hansen, 1999).

Organizations can attempt to develop these competencies on their own or they can attempt to acquire them through merger or acquisition activities. The major problem in attempting to develop these skills internally is that these types of skills are embedded in the people and the network of relationships and may take years to develop. Barney (1991) found that organizations that have these competencies have a resource that is "sticky" and difficult to imitate (Barney, 1991). With the competition that exists, organizations may not have the time to develop these skills (Haspeslagh and Jemison, 1991) because even if they are successful in accomplishing this task, they may still be behind their competition, as their competitors, to retain their competitive advantage, may have enhanced their skills and competencies. Consequently some organizations have attempted to obtain these key resources and competencies from other organizations through M&As (Gulati, 1995; Singh and Montgomery, 1987). This may be one of the reasons why Callahan (2004) found that in high technology industries, organizations that did not engage in acquisition activities were left behind in terms of growth and profitability. Contrary to previous research findings, she found a strong positive relationship between acquisition activity and firm growth in gross profit. In addition, she discovered that a firm would be less likely to survive if they failed to engage in mergers and acquisitions.

Since each firm is unique, the combining of two firms requires a great deal of communication, consensus and compromise. For a merger to be beneficial and positioned to obtain the benefits the acquiring managers are hoping to gain, processes need to be put in place that will facilitate knowledge transfer from both the acquiring and target firms to the resultant post-merger firm.

This transfer of knowledge requires attention to both strategic fit and organizational fit (Larsson and Lubatkin, 2001; Ranft and Lord, 2002). Strategic fit (also referred to as strategic choice) is the fit between the two organizations and refers to the viability, complementary and verity of the intended merger (Hayward, 2002; Kitching, 1967; Kusewitt, 1985; Lubatkin, 1983); whereas organizational fit (often referred to as acquisition integration) is defined as the processes used by the acquiring company to "extract the gains associated with the combination of the two organizations" (Zollo and Singh, 2004: 1235). While strategic fit is a necessary condition it is not sufficient in determining acquisition performance (Datta, 1991; Jemison and Sitkin, 1986). In addition to addressing strategic fit, researchers are advocating that acquiring managers must also focus on organizational fit (Jemison and Sitkin, 1986; Larsson and Finkelstein, 1999; Shrivastava, 1986).

Merger and Acquisition Integration (Organizational Fit)

The importance of organizational integration has been addressed by such authors as Chandler (1962), Kitching (1967), and Leighton and Todd (1969) however, according to Dess et al. (1995); it is still being largely overlooked. Jemison and Sitkin's (1986) seminal article moved the focus away from examining specific issues to a more holistic view of organizational integration. Even though, researchers have found that performance was enhanced when firms concentrated on integration processes (Larsson and Finkelstein, 1999; Zollo and Singh, 2004), this area has not been studied thoroughly

(Jemison and Sitkin, 1986; Larsson and Lubatkin, 2001; Nahavandi and Malekzadeh, 1988; Ranft and Lord, 2002).

Prior to 1986, the majority of studies of fit addressed strategic choice with fewer studies addressing organizational integration (Jemison and Sitkin, 1986). The latter is complicated because it involves the meshing of people and culture from different organizations into a single unit (Nahavandi and Malekzadeh, 1988). According to Shrivastava, (1986), organizational integration is one of the most critical issues that acquiring managers must address to facilitate an effective M&A. However integration should not be considered separately but as part of the whole M&A process as the effectiveness of the resultant post-merger firm will be affected by the outcome of previous stages of the merger process (Hunt, 1990). If these stages, such as target selection and bid negotiation, were inappropriately handled, it would make the implementation much more difficult. Hunt (1990) concludes that the key to a successful merger is handling the behavioral processes in each of the stages from target selection, bidding, implementation through to the integration of the target staff into the post-merger firm.

Shrivastava (1986) identified three levels of integration that managers need to address in relation to the post acquisition firm. 1) procedural, 2) physical and, 3) managerial and sociocultural. The first two have been discussed in the literature (Hayward, 2002; Krishnan, Miller and Judge, 1997; Meyer and Lieb-Dóczy, 2003; Walsh and Ellwood, 1991; Zollo and Singh, 2004), but the third level, managerial and sociocultural, has received less attention. When addressing organizational integration, one of the more critical issues is how to blend the various cultures and subcultures of the two organizations – this is sometimes described as acculturation (Larsson and Lubatkin, 2001). It requires the ability to anticipate the types of concerns employees may have in relation to potential job loss and demotion, as well as the skill to put in place processes that can address these concerns (Jemison and Sitkin, 1986; Larsson and Lubatkin, 2001; Nahavandi and Malekzadeh, 1988; Shrivastava, 1986). Nearly two decades after Shrivastava's work, Stahl (2004) substantiated these findings when he concluded that the main reason that mergers and acquisitions fail is not because of poor strategic fit, but rather because of inadequate attention to the execution of the merger. Zollo and Singh (2004) further supported this view when they concluded that the level of effort focused on the integration processes to merge the two firms positively improved post-acquisition performance.

Most studies have only examined integration at the business level. Homburg and Bucerius (2005) were among the first researchers to investigate integration at the functional level. Their research indicated that merger success is greatly enhanced when attention is given to how the various functional departments are integrated. For the acquiring organization to gain the competencies it desires, it is important to understand one's own competencies at a functional level and the complementary, idiosyncratic competencies of the target firm that one is attempting to acquire (Harrison et al., 1991; Westphal and Shaw, 2005; Westphal and Zajac, 1995). These competencies are not only embedded in the people (Becker, 1962; Grant, 1996; Hatch and Dyer, 2004; Kogut and Zander, 1992), but are also embedded in the network of relationships (Dyer and Singh, 1998; Kiessling and Richey, 2005). Consequently, unless implementation is appropriately addressed and executed the tacit knowledge and socially complex relationships the acquiring firm wants to obtain may not survive the merger process (Ranft and Lord, 2002).

Even though a number of academics have examined organizational integration (Pablo, 1994; Zollo and Singh, 2004), fewer studies have examined executive and TMT influences in relation to organizational integration (Abetti, 2006; Datta, 1991; Gadiesh, Buchanan, Daniell and Ormiston, 2002; Gadiesh, Ormiston and Rovit, 2003; Goh, 2001; Vester, 2002). This is a critical area as the characteristics of the respective pre-merger top management teams can have a great deal of impact on the resultant post-merger firm (Chatterjee, Lubatkin, Schweiger and Weber, 1992; Norburn and Birley, 1988; Wiersema and Bantel, 1992) consequently; it is discussed in depth within the next section.

Top Management Team Characteristics

Song (1982) found support for the argument that a CEO's prior background and experience is significantly associated with the level of diversification that (s)he is willing to undertake. Hambrick and Mason's (1984) seminal article is credited with encouraging academics to focus their research efforts on senior management. The focus on the CEO and the TMT is important as these individuals influence all other levels of the organization (Weber, 1996), they shape the culture of the organization (Chatterjee et al., 1992; Schein, 1985) and organizations take on the characteristics of their top managers (Hambrick, 1989; Hambrick and Mason, 1984). The choices made by senior executives are a reflection of the values and cognitions of the TMT members individually and as a team (Cyert and March, 1963).

Proxies such as functional background, age, tenure in position, education etc. have been used to tap into the cognitive base of the senior executives (Norburn and

Birley, 1988; Wiersema and Bantel, 1992) and to examine the relationship between these characteristics and a desired performance outcome. Support has been found on the linkage of the demographic influences of the top management team characteristics to profitability (Norburn and Birley, 1988), strategy (Finkelstein and Hambrick, 1990; Jensen and Zajac, 2004), competitive moves (Hambrick, Cho and Chen, 1996), innovation (Bantel and Jackson, 1989), strategic consensus (Knight, Pearce, Smith, Olian, Sims, Smith and Flood, 1999) and diversification (Wiersema and Bantel, 1992).

There is strong empirical support that the functional background of the top management team and the CEO coupled with their strategic preferences and experiences can affect acquisition activities (Finkelstein, 1992; Jensen and Zajac, 2004; Palmer and Barber, 2001; Song 1982; Wiersema and Bantel, 1992). The rest of this literature review is divided into three subsections. The first addresses research where the focus is on the acquiring firm, the second where the focus is on the target firm and the final subsection where the focus is on the post-acquisition firm.

Top Management Team Pre-merger Characteristics of Acquiring Firms

Empirical research has shown that CEO and TMT characteristics such as age, tenure, education and work experience have a large influence on the level of diversification (Wiersema and Bantel, 1992), accuracy of target firm evaluations (Hitt and Tyler, 1991), and the effectiveness of merger outcomes (Davis, 1968; Kitching, 1967; Weber, 1996). Wiersema and Bantel (1992) found that organizations that engaged in higher levels of diversification were characterized by CEO and TMT members that were younger, with more heterogeneity of functional education, and shorter organizational tenure. Later studies attempted to understand whether functional background of the acquiring TMT members would have an influence on the TMT's propensity to undertake diversification activities (Jensen and Zajac, 2004). These authors found that finance weighted TMTs are more likely to engage in a merger or acquisition. They also found that finance CEOs have a higher propensity to engage in merger activities than their non-financial counterparts.

Chatterjee et al. (1992) in their empirical review of TMT influences on synergistic mergers found evidence that the change in acquiring firm shareholder value is inversely related to the perceived cultural differences between the acquiring and target firms. They conclude that investors are skeptical about announced mergers where the top management teams of the two firms appear to be incompatible. These authors findings were replicated by Weber (1996), but he also found that the higher the level of commitment of the acquiring team the higher the post-merger effectiveness. He concluded by cautioning future researchers that the dynamics between the acquiring firm and target firm progresses and can change from one set of dynamics to a completely different set as the merger evolves (Weber, 1996). Hence, it is not only important to meet the expressed requirements of each of the firms at the time of announcement, but is also important to understand and meet any emerging needs (Ariño, 2003; Glaister and Buckley, 1999). The examination of TMT characteristics of both the acquiring and target firm can provide explanatory power on merger effectiveness.

Top Management Team Pre-merger Characteristics of Target Firms

The majority of studies in the M&A literature have focused on the acquiring firm with negligible focus on the target firm (Graebner, 2004; Graebner and Eisenhardt, 2004). Graebner (2004) and Graebner and Eisenhardt (2004) moved the focus to the target firm and found that success after a merger is largely dependent on the involvement of target firm managers in the implementation process. The resultant combined post-merger firm exceeded their expected value when target management took an active role in maintaining integration momentum and in mitigating target employee returns. When target executives were actively involved, in addition to creating the expected value, serendipitous value was created as well (Graebner, 2004). Graebner (2004) described serendipitous values as unexpected synergies that were implemented that were not originally identified. She found that the target managers were able to provide a better understanding of how their firm's competencies could be interrelated to the target firm's competencies and how these could be effectively integrated. In addition, the involvement of the target managers provided a much higher level of comfort for target firm employees as they were able to anticipate and resolve potential conflicts on a more timely basis thus minimizing the concerns that exist whenever M&A occur. This results in the retention of key employees and key knowledge in the resultant post-acquisition firm. Graebner and Eisenhardt (2004) recommend that acquiring managers undertake a merger as a courtship.

Top Management Team Post-merger Characteristics of Combined Firms

In the late 1980's and early 1990's a number of researchers moved the focus of research away from the acquiring firm to the post acquisition firm (Datta, 1991; Seth, 1990; Walsh, 1988). Walsh (1988) found that the turnover of target managers was higher during M&A than what one might normally expect if the firms did not merge. Krug (2003) confirmed that the rate of departure of target executives was three times higher than normal departure rates and after five years only thirty percent of target executives still remain with the post-merger organization (Krug and Aguilera, 2005). Datta (1991) found that differences in the top management team characteristics between the acquiring and target firm had a negative impact on performance of the post-merger firm. Later authors found that what is important was not organizations and top management teams that are similar, but rather teams that can complement one another (Harrison et al., 1991; Krishnan et al., 1997). To understand organizational fit and to determine if it was accomplished, the researchers need to not only examine the acquiring firm's actions, but also the post-acquisition firm. To bring about an effective implementation it is important that the top management teams are similar enough to understand one another, but diverse enough that they bring different competencies to the table. So even though Datta (1991) found that differences had a negative impact on performance, later authors found that the ideal mergers were those in which the target firm is neither too dissimilar nor too similar (Harrison et al., 1991; Westphal and Shaw, 2005)

Researchers are using the post-acquisition firm to determine the type of actions that may be beneficial to enhance the successful outcome of a merger. As an example, Capron (1999) found that following a related acquisition, long-term performance is increased if the acquiring firm's assets are divested rather than the target firm assets. He also found that to obtain the improved revenue enhancing opportunities it is important that the acquiring firm's resources should be redeployed to the target and the target firm resources need to be redeployed to the acquiring firm. Within the field of human resource management, researchers have determined that the successful execution of the post-acquisition merger is dependent on the socialization processes that have been put in place among employees across the two firms (Larsson and Lubatkin, 2001). These socialization processes address such questions as: Has the role of individuals from both the acquiring and target firm been ironed out yet? Are the employees of each firm getting together to know each other better? What will be the resultant culture? Is it the culture of the acquiring firm or is it a mixture of each firm?

Top Management Team Power Characteristics

The majority of researchers investigating the influence of senior management on merger effectiveness have attempted to explain it through the use of individual TMT characteristics. Even though individual TMT measures such as age, tenure as CEO, tenure in the organization and education provide some explanation (Wiersema and Bantel, 1992), composite measures have a larger ability to capture the construct of interest (Bagozzi and Phillips, 1982; Boyd and Finkelstein, 2001; Chakravarthy, 1986). Hitt and Tyler (1991) in their study were unable to find a statistically significant relationship when they attempted to examine the relationship between TMT age and their dependent variable of target evaluations. They had similar results when they examined the relationship between the single TMT variable of “work experience” and target firm evaluations. However, when they created a new variable that combined both age and work experience, they were able to detect a statistically significant relationship. This brings additional credence to the importance of having variables that are derived from more than one measure.

Finkelstein (1992) introduced and tested for reliability and validity four different composite measures of power. These measures were ownership power, structural power, prestige power, and expert power. The first two are formal bases of power which are bestowed upon the individuals in light of their position within the organization or by the level of ownership in the organization. Whereas, the latter two are informal sources of power that are based on others perceptions of their ability to lead. Previous research has shown that there is a direct positive relationship between CEO's and TMT's power and diversification activities (Finkelstein, 1992; Zajac and Westphal, 1996). Hence a better understanding of the power dimensions and the impact they may have on merger performance would seem prudent. The next few paragraphs define power and then provide explanations for each of these four power constructs.

Power is defined as "the capacity of individual actors to exert their will" (Finkelstein, 1992: 506) or the "ability to bring about a preferred or intended effect" (Bigley and Wiersema, 2002: 707). The benefits of power constructs are that they are multi-dimensional and combine several elements of TMT characteristics and thus they provide a better understanding than those that are based on a single variable (Geletkanycz, Boyd, and Finkelstein, 2001; Tosi, Werner, Katz, and Gomez-Mejia, 2000). The use of these power constructs may have the potential to uncover some of the unidentified variables that King et al. (2004) encouraged researchers to investigate.

Structural power is the power that has been bestowed upon the CEO and the top management team on the basis of their position in the organization (Brass, 1984; Hambrick, 1981). The CEO is generally regarded as the most powerful actor within the organization (Daily and Johnson, 1997; Jensen and Zajac, 2004). However, this power can become even greater if this individual holds other titles in the organization (Davidson, Worrell and Nemec, 1998; Zajac and Westphal, 1994). When the CEO holds the top two positions within the corporation, such as CEO and president and/or chief operating officer (COO), he/she has more formal authority to conduct business without having to obtain agreement and/or support from other senior executives (Bigley and

Wiersema, 2002; Daily and Johnson, 1997). Power is even greater if the CEO is also the chairman of the board of directors, as this provides him/her with power over other board members as well as additional power over the other officers and executives of the corporation (Bigley and Wiersema, 2002; Davidson et al., 1998). Finally, the CEO is perceived to have the highest level of structural power when he/she holds all three titles - CEO, president and chairman of the board, as he/she is shielded from many of the monitoring activities within the corporation (Bigley and Wiersema, 2002; Davidson et al., 1998).

Ownership power is based on the percentage of the company that is owned by individuals within the corporation. Executives who are also significant shareholders will have more power than executives who do not have an ownership position (Finkelstein, 1992). By virtue of their ownership position, these executives will be able to exert more power over the board of directors to accomplish their will. Not only do they have power based on their structural position, but their power is increased because of their ownership position.

Prestige power is the executive's reputation within the organization and the industry (Finkelstein, 1992; Olson, 2004). An executive that has graduated from a prestigious university and has been asked to serve on the board of a number of different companies is deemed to have a higher level of prestige power. Other individuals look to them for their network of relationships and contacts. According to D'Aveni (1990), the viability of a firm is dependent on the prestige of its managers as these individuals would be most likely to have powerful friends. Prestige power has the potential to confer legitimacy on an organization" (Daily and Johnson, 1997; Krishnan and Park, 2003)

Expert power deals with an executive's abilities to contribute to organizational success, and cope with corporation and environmental uncertainties (Finkelstein, 1992; Hambrick, 1981; Krishnan and Park, 2003; Olson, 2004). It requires an ability to understand and appropriately react to factors that occur at both the organizational and industry level (Hambrick, 1981; Wiersema and Bantel, 1992). Level of education, tenure within an organization along with tenure in a senior executive position can increase this type of power. Individuals that have higher levels of expert power are not only known within the organization, but their advice may also be sought by individuals within the industry. People will listen and follow these individuals not because of their structural position, but because they have confidence in their ability to lead.

Very few studies have examined TMT power characteristics as they relate to mergers and acquisitions (D'Aveni and Kesner, 1993; Krishnan and Park, 2003). A notable empirical exception is the study completed by D'Aveni and Kesner (1993). They concluded that target managers would be more likely to cooperate if they shared ties to some of the same networks with the acquiring firm and had less prestigious connections. However, they found target managers would resist if the target managers felt they had more prestigious ties than the acquiring firm or if neither the acquiring nor the target firm's TMT were highly connected. Since an acquisition involves a complete change in structural hierarchy and ownership, D'Aveni and Kesner (1993) only addressed prestige and expert power. However, in this dissertation, in addition to collecting data on prestige and expert power, data on CEO structural power will also be collected.

Krishnan and Park (2003) theorized that the greater the prestige and expert power in the target firm, the higher the post-acquisition performance. They proposed that target managers with expert power would be valuable to the post-merger firm because with their heterogeneous background they bring a new set of competencies to the top management team that may generate different and unique alternatives to key issues (Krishnan and Park, 2003). These authors suggested that retention of prestige power from target executives would be advantageous to the post-merger firm because of the access to different social networks, and increased trust from major stakeholders and employees.

Organizational Slack

Slack has been defined in different ways. Cyert and March (1963: 54) define it as "the supply of uncommitted resources". Cohen, March and Olsen (1972:12) had a fairly similar definition when they defined it as "the difference between the resources of the organization and the combination of demands made on it." According to Bourgeois (1981: 30) the most common definition used within the academic literature is "organizational slack is that cushion of actual or potential resources which allows an organization to adapt successfully to internal and external pressures." Researchers have examined the relationship of slack to a variety of performance outcomes such as market expansion (Mishina, Pollock and Porac, 2004), product expansion (Mishina, Pollock and Porac, 2004), innovation (Nohria and Gulati, 1996), environmental uncertainty (Bourgeois, 1981; Lawson, 2001) and mergers and acquisitions (Gary, 2005).

One of the purposes of slack was to induce employees to stay with an organization by paying them more than what the market might dictate (Cyert and March, 1963). Another benefit of slack is it may also allow subunits to pursue goals that may not be essential, but in the long-run could lead to opportunities (Bourgeois, 1981; Geiger and

Cashen, 2002). A third benefit is it allows an organization to adapt to complex technologies and environmental turbulence (Cyert and March, 1963; Lawson, 2001). Fourth, it provides a cushion for individuals within an organization to adapt to discontinuities, in the organizational environment (Bourgeois, 1981; Thompson, 1967). The examination of slack during a merger implementation is warranted because the disruptions in individual's routines are one of the greatest discontinuities' that individuals within the two merging entities face. In relation to M&A, one of the few studies that investigated slack as a moderator variable was completed by Gary (2005). He found that negative performance outcomes result when there is insufficient slack and that maintaining organizational slack through all aspects of the M&A process is essential.

The typical typology used by researchers to distinguish between the various types of organizational slack is 1) available slack, 2) recoverable slack, and 3) potential slack (Geiger and Cashen, 2002; Herold, Jayaraman and Narayanaswamy, 2006; Sharfman, Wolf, Chase and Tansik, 1988). Available slack represents resources available, recoverable slack is the existing resources within an organization that can be reallocated and potential slack identifies the firm's ability to generate new resources. Other names for available and recoverable slack are unabsorbed and absorbed slack (Singh,1986). However, this typology only addresses various types of financial slack. Financial slack gives an organization the wherewithal to invest in a new venture and human resource slack provides the expertise and time to be able to integrate the two organizations. The acquiring organization requires financial slack because without this slack they would not have the monetary resources to engage in the merger in the first place (Nohria and Gulati, 1996; Singh, 1986).

In addition to examining financial slack, Mishina et al., (2004) encouraged researchers to also investigate human resource slack as each of these types of slack can have different effects on post-merger performance. These authors are some of the few that ventured away from the typology mentioned above and attempted to examine and measure human resource slack. In their study they found that human resource slack positively moderated the relationship between market expansion and sales growth, whereas financial slack did not have an impact on this relationship. A synergistic merger expands the scope of a firm and consequently, some of the same competencies that provide benefits in the market expansion to sales growth relationship may be evident during the merger integration process.

The combining of two firms requires a great deal of communication, consensus and compromise (Graebner, 2004; Nahavandi and Malekzadeh, 1988; Westphal and Shaw, 2005) and the re-deployment of human resource slack within the pre-acquiring firms to be utilized in the acquisition implementation process can positively affect the retention of desired competencies and resources (Barney, 1991; Larsson and Lubatkin, 2001; Ranft and Lord, 2002). Firms prosper on their ability to transfer critical knowledge (Kogut and Zander, 1993). Research has found that as human capital is leveraged, performance increases (Hitt et al., 2001). This human resource slack can be utilized to initiate and facilitate communication between the pre-acquisition firms, it can be also be utilized to alleviate fears that may arise due to potential job loss or a change in task responsibilities. Graebner (2004) found that the utilization of resources from the target corporation in the implementation process can generate serendipitous values, which she defined as unexpected synergies that were not initially identified.

The utilization of human resource slack resources from the acquiring and target firm can be utilized in the acquisition implementation process. The merger implementation team, which contains representatives from each pre-merger firm, can work together to orchestrate a smoother merger and resolve potential issues.

Merger Effectiveness Outcomes

One reason for equivocal findings within the merger and acquisition literature is the lens by which performance is measured. The majority of the early research on M&A performance concentrated on strategic fit to ascertain the viability of the merger and ignored organizational fit (Jemison and Sitkin, 1986; Larsson and Lubatkin, 2001). Within the last couple of decades, researchers have transferred some of their focus to the examination of organizational fit and/or acquisition integration (Pablo, 1994).

However, even within the acquisition integration stream of research, there has been three separate lenses by which performance has been measured. The majority of the research has focused on the acquiring organization, with some more recent studies examining performance based on the post-merger firm and only a few authors addressing performance through the lens of the target organization. Seth (1990) expanded on the contradictory findings on performance issues concluded that one reason the results were ambivalent is that the focus was on either the acquiring and/or target firm instead of the combined entity. She recommends that value is created "when the value of the combined entity exceeds the sum of the values of the two combining firms" (Seth, 1990: 107). This dissertation examines performance through the lens of the post-acquisition firm.

Chakravarthy (1986) observed that many of the accounting based performance measures used by researchers failed to capture the variable the researchers was attempting to measure as it only captured one dimension of the firm's strategy. Consequently, in this dissertation, post-merger firm performance is measured using two distinct measures (Chakravarthy, 1986; Venkatraman and Grant, 1986). First it is measured using the accounting based measure of return on assets which is a measure that is frequently used by strategy researchers (Finkelstein and D'Aveni, 1994; Harrison et al., 1991, Krishnan et al., 1997) to evaluate strategic actions. Secondly it is measured using the stock based measure of Jensen's alpha which compares the post-merger firm performance to that of firms of similar risk (Cannella and Hambrick, 1993; Daily and Johnson, 1997).

Hypotheses

Building on the literature review articulated in the sections above, it is expected that CEO and TMT power structures of the acquiring and target firm along with the contextual variables of financial and human resource slack will be related to the effectiveness of the merger outcome. This section will introduce the hypotheses that emerge from the research model (See Figure 1). First it will address post-merger firm performance and examine the relationship between target executive retention and post-acquisition performance. Second, it will investigate CEO and TMT power characteristics of the managers in the pre and post-merger firms to determine the impact these dimensions may have on the phenomena of mergers and acquisitions. It will compare the resultant post-acquisition power characteristics with that of the pre-merger acquiring and target firm's power levels to ascertain whether the relative power increased or decreased and will measure the impact of the change in power on overall post-merger firm performance. Finally, it will introduce moderators such as financial slack and human resource slack and will investigate the impact these variables have on overall post–acquisition firm performance.

Target Executive Turnover and Performance of Post-merger Firm

Within the strategy literature, one reason given for M&A activity is to acquire resources and/or competencies (Ahuja and Katila, 2001; Hayward, 2002) that can allow the organization to create and sustain a competitive advantage (Barney, 1991; Wernerfelt, 1984). This acquisition activity is intended develop synergies and create economic value (Harrison et al., 1991). These competencies and resources are often embedded within the people, yet prior research has found evidence that turnover among target managers was significantly higher in the event of a merger than normal turnover rates (Cannella and Hambrick, 1993; Krug, 2003; Krug and Hegarty, 1997; Walsh, 1988). Other authors have found evidence that the minimization of target executive turnover increases post acquisition performance (Cannella and Hambrick, 1993; Krishnan et al., 1997; Walsh, 1988; Zollo and Singh, 2004).

Since post-merger firm performance decreases as turnover of target managers increases, it is essential to implement processes that will minimize this drain as these individuals are not easily replaceable (Hambrick and Cannella, 1993; Krug, 2003; Walsh, 1988). It is especially problematic when target executives, with resources and competencies that acquiring firm was anticipating receiving, decide not to participate in the post-merger firm. This can result in the loss of synergies and may ultimately result in a competitive disadvantage if these executives move to a competing firm.

One key process that must be effectively managed is how the firms are integrated. Zollo and Singh (2004) found that the greater the level of integration between the two merged firms the higher the potential post-acquisition performance. The retention of knowledge from both pre-acquisition firms and the creation of new knowledge become essential for a firm to obtain the competencies and skills it was hoping to acquire (Hansen, 1999; Kogut and Zander, 1993). Since knowledge is embedded within the people (Grant, 1996) and network of relationships (Burt, 1992; Hansen, 1999), the acquiring management team needs to have a good understanding of the skills that exist within the target firm and the potential that they have to retain those skills (Buchholtz, Ribbens and Houle, 2003; Hitt, Hoskisson and Ireland, 1990; Krug and Hegarty, 2001). They need to comprehend the complementary skills of the target company (Hayward, 2002; Krishnan et al., 1997; Westphal and Shaw, 2005), understand where these skills reside and put in place an integration strategy that will minimize the turnover of the target executives they desire to retain. This type of action requires extensive cooperation (Park and Russo, 1996) on the part of both the acquiring and target companies where the target executive is an active member in coordinating the merger and in alleviating downsizing fears of the target managers (Graebner, 2004). To obtain the value the acquiring firm is expecting and to utilize learning to obtain a competitive advantage, it is essential that turnover of managers and executives is minimized (Hatch and Dyer, 2004).

H1: In synergistic M&As, the higher the target executive retention, the greater the post-acquisition firm performance.

Expert and Prestige Power

Turnover of target executives does not provide the whole story as it doesn't differentiate between executives the acquiring firm desired to retain versus those that did not provide a synergistic benefit to the post-merger organization. The utilization of constructs such as prestige and expert power can help identify a target executive's core competencies and his/her abilities to manage a firm (D'Aveni and Kesner, 1993; Finkelstein, 1992; Pfeffer, 1992). One of the objectives of this research is to examine the acquiring and target CEO and TMT pre-merger power structures and compare that with the structure of the post-acquisition team to determine whether the post-merger firm was able to increase its level of prestige and expert power from that of the pre-acquisition firm. Target executives with more prestige may have larger social networks that can be of great value in identifying potential profitable business opportunities. They may also have "sticky" resources and skills (Barney, 1991) that can complement the skills that the acquisition firm previously possessed.

Consequently an acquiring firm may undertake a M&A to increase its prestige and expert power as the executives within this firm feel this is the type of resource that can provide the organization with a sustainable competitive advantage. If the acquiring organization is successful in retaining these skills, the post-acquisition firm should have a higher level of prestige and expert power than pre-acquisition acquiring firm. Therefore, it is hypothesized that:

H2A In synergistic M&As, the greater the increase in prestige power of the post-acquisition firm over the pre-acquisition prestige power of the acquiring firm, the greater the post-acquisition firm performance.

H2B In synergistic M&A, the greater the increase in expert power of the post-acquisition combined firm over the pre-acquisition expert

power of the acquiring firm, the greater the post-acquisition firm performance.

Another area that will be investigated is the level of both prestige and expert power in the pre-acquisition acquiring and target firms as an imbalance in this area may cause complications for the implementation. CEO's and top management teams in large organizations that have achieved that level of structural power for the most part have large egos and are proud of their accomplishments and would not like to diminish their perceived level of prestige or expertness by being taking over by a firm that is perceived to be inferior. D'Aveni and Kesner (1993) found that target managers were more prone to cooperate with the merger if they perceived the acquiring firm had more prestigious connections. Lubatkin, Schweiger and Weber (1999) found that the retention of target executives is dependent on their relative standing. If the target executive feels that his/her position will be considerably lower in the new organization than he/she was accustomed to, then the executive is apt to leave the newly combined post-acquisition firm. Thus it is hypothesized:

H3A: In synergistic M&As, the greater (lesser) the prestige power of the acquiring firm TMT over the prestige power of the target firm TMT, the greater (lower) the target executive retention.

H3B: In synergistic M&As, the greater (lesser) the expert power of the acquiring firm TMT over the expert power of the target firm TMT, the greater (lower) the target executive retention.

As mentioned earlier one of the reasons why an acquiring firm may be interested in a target firm is to increase their level of prestige and expert power. However, problems can arise if the target firm perceives that they have a higher level of expert and/or prestige power than that of the acquiring firm. To alleviate these concerns, the target executives could be given a significant role on the acquisition implementation team. This provides evidence that the post-merger firm is interested in retaining their skills and competencies and has the added benefit of providing key individuals in the target organization that are available to alleviate fears of other management and staff within the target organization. These individuals can also be utilized not only in the continued management of the target firm (Graebner, 2004), but also in the acquirer's business activities.

H4A: When the target firm TMT has a higher level of prestige power than that of the acquiring firm, the greater the percentage of target executives on the post-acquisition top management team, the greater the post-acquisition firm performance.

H4B: When the target firm TMT has a higher level of expert power than that of the acquiring firm, the greater the percentage of target executives on the post-acquisition top management team, the greater the post-acquisition firm performance.

CEO Structural Power

Since the CEO is the most powerful actor in the organization (Daily and Johnson, 1997; Jensen and Zajac, 2004), structural power will be based on the structural power of the CEO and hereafter will be named CEO structural power. A CEO is deemed to have a higher level of structural power if he/she has additional titles. It is anticipated that if the CEO relinquishes some of his/her structural power to a member of the target company, that this strongly indicates a mutually beneficial M&A and a desire to retain resources and capabilities from the target firm. For example, if the CEO of the acquiring firm prior to the M&A was also the chairman of the board and/or the president of the organization and (s)he relinquishes one of his/her titles to a member of the target firm, this would indicate a strong desire to retain the capabilities of the target company.

H5A In synergistic M&As, a decrease in CEO structural power of the post-acquisition firm over the CEO structural power in the pre-acquisition acquiring firm, will result in higher target executive retention.

H5B In synergistic M&As, a decrease in CEO structural power of the post-acquisition firm over the CEO structural power in the pre-acquisition acquiring firm, will result in higher post-acquisition firm performance.

Now that the main effect relationships have been discussed, the moderator variables of financial and human resource slack will be introduced.

Organizational Slack (Financial and Human Resource Slack)

The effective integration of two organizations requires a substantial commitment of financial and human resources (Gary, 2005; Graebner, 2004; Haspeslagh and Jemison, 1991). Organizational slack, which is defined as the difference between resources that the firm possesses and the resources required to run the business, has been considered a necessary requirement in implementing diversification initiatives (Bourgeois, 1981; Chakravarthy, 1986; Gary, 2005; Nohria and Gulati, 1996). There are two main types of organizational slack, one is financial slack and the other is human resource slack (Mishina et al., 2004).

Financial slack allows an organization to take advantage of opportunities that present themselves in the environment (Mishina et al., 2004). It provides the organization with the skills and dollars to not only appropriately evaluate a new merger opportunity, but also provides them with the wherewithal to invest in the new venture. Financial slack can also be utilized in assigning resources to facilitate the integration of the two organizations.

One of the purposes of the merger is to obtain “sticky” resources and competencies from the target organization (Barney, 1991) that are difficult to develop internally. If the post-merger firm is able to retain their existing powerful executives and also secure the services of target executives with a high level of prestige and/or expert power, the resultant post-merger firm will have a higher level of retained power. A deficit in acquisition firm financial slack hinders the organizations abilities to effectively combine the two entities and acquire the competencies from the target organization it is striving to obtain (Gary, 2005). Whereas, the retention of financial slack through all the stages of the merger implementation (Gary, 2005) may assist the organization to manage the integration to provide opportunities for the acquiring company to obtain the competencies it had anticipated receiving.

H6A: Acquiring firm financial slack will moderate the relationship between target firm prestige power and post-merger firm prestige power retention such that as acquiring firm financial slack increases, the relationship

between target firm prestige power and post-merger prestige power retention is strengthened.

H6B: Acquiring firm financial slack will moderate the relationship between target firm expert power and post-merger firm expert power retention such that as acquiring firm financial slack increases, the relationship between target firm expert power and post-merger expert power retention is strengthened.

Once financial slack requirement is satisfied, human resource (HR) slack becomes critical. It is the management of this human resource slack within the two organizations that can greatly affect the outcome of the merger. Prior research often looks at an acquisition as an process that exists within the acquiring firm (Kitching, 1967; Pablo, 1994) and the involvement of the target managerial team is often overlooked (Graebner, 2004). It is important that HR slack exists in at least one of the organizations and that the organizations appropriately utilize these slack resources in the implementation process. In examining human resource slack four scenarios exist:

1. Slack may be high in the acquiring firm and low in the target firm.
2. Slack may be low in the acquiring firm and high in the target firm.
3. Slack may be low in both firms.
4. Slack may be high in both firms.

In the first scenario the acquiring firm has a high level of HR slack while the target firm has a low level. To appropriately integrate the two organizations, it may be wise for the acquiring company to lend some of their staff for the day-to-day running of the target business. This action has a three-fold benefit. First, it provides the opportunity for the post-acquisition firm to earn abnormal returns as Capron and Pistre (2002) found that it is the transfer of acquiring firm resources to the target firm line of business that generates superior returns. Second, it facilitates learning, as the involvement of acquiring managers within the target business allows tacit knowledge embedded within the target firm to be transferred to the acquiring firm. Hatch and Dyer (2004) found evidence that this learning is an essential step in securing some of the resources and competencies the acquiring firm requires to obtain and/or retain a sustainable competitive advantage (Barney, 1991). Third, it frees up some key target managerial staff to assist in the implementation. Graebner (2004) found that the utilization of the target management to assist in the implementation can provide the merger not only with the values they were expecting to obtain, but also provide them with serendipitous value. Graebner (2004) described serendipitous values as unexpected synergies that were implemented that were not originally identified. In the mergers she examined, she found that when the target managers had a key role during the implementation, the post-merger results were much more positive. These managers have a relationship with the staff in the target firm and not only know how the firms could be merged, but can also communicate with their staff to alleviate fears, thus providing a higher degree of probability that key leaders will be retained in the post-merger firm.

If the acquiring firm has a low level of HR slack, while the target firm has a high level of HR slack, then the target managers should take a lead role in the implementation with some assistance from the acquiring firm. If the acquiring firm does not have HR slack, to ensure the involvement of individuals from the acquiring firm, some of the slack resources from the target company could be re-deployed to the acquiring firm to assist in the running of their day-to-day operations. This would free up individuals from the acquiring organization to dedicate time on merger implementation activities.

The worst scenario is that slack resources do not exist in either the target or the acquiring company. This type of situation does not lend itself to a successful merger implementation as the key activities will not be thought out and the implementation will be less than ideal and will be less likely to yield the expected benefits that acquiring management was hoping to achieve.

The final scenario is where there is a high degree of slack in both the acquiring and target organizations. To garner the expected benefits and perhaps some of the potential serendipitous benefits, the acquiring organization must not take total control but they will need to include target management as an equal partner (Graebner, 2004).

The utilization of human resource slack resources from the acquiring and target firm can be utilized in the acquisition implementation process. The merger implementation team, which contains representatives from each pre-merger firm, can then work together to orchestrate a smoother merger and resolve potential issues. This in turn provides opportunities that a greater number of target individuals with high levels of prestige and expert power will be retained in the post-merger firm. The essential item is that human resource slack must be available and the two companies that are merging must work together to solve issues and garner the benefits that each of them were hoping to achieve.

H7A: Acquiring firm human resource slack will moderate the relationship between target firm prestige power and post-merger prestige power retention such that as acquiring firm human

resource slack increases, the relationship between target firm prestige power and post-merger prestige power retention is strengthened.

H7B: Acquiring firm human resource slack will moderate the relationship between target firm expert power and post-merger expert power retention such that as acquiring firm human resource slack increases, the relationship between target firm expert power and post-merger expert power retention is strengthened.

H7C: Target firm human resource slack will moderate the relationship between target firm prestige power and post-merger prestige power retention such that as target firm human resource slack increases, the relationship between target firm prestige power and post-merger prestige power retention is strengthened.

H7D: Target firm human resource slack will moderate the relationship between target firm expert power and post-merger expert power retention such that as target firm human resource slack increases, the relationship between target firm expert power and post-merger expert power retention is strengthened.

This chapter summarizes research related to the elements of the dissertation research model that was introduced in Chapter 1. It also highlights the need to conduct additional research on pre-merger activities and integration activities that can increase the likelihood of a successful M&A. It develops arguments linking pre-merger TMT power characteristics such as prestige and expert power to post-merger effectiveness. This section also develops hypotheses related to the dissertation model (Figure 1). Chapter 3 introduces the data sample and methodology that will be used to test these hypotheses.

CHAPTER III

METHODOLOGY

This chapter provides an overview of the methodology that will be used to test the hypotheses presented in Chapter 2. The first section provides information on mergers and acquisitions used within this study and describe the criteria that will be used in selecting the merger sample. The second section explains how the key constructs in the model will be operationalized. The third section identifies the analytical techniques that will be used to empirically examine the research questions and the final section summarizes the hypotheses along with providing an overview of how each hypothesis will be measured and statistically tested.

Sample Selection

Publically traded US based firms acquisitions will be identified by the Mergerstat database. The sample included in this study will meet the following criteria:

1 The mergers were considered related.
2 They were large mergers (minimum deal size of $1 billion).
3 The acquiring and target firms were of similar size.
4 The mergers were completed during the years 1995 – 2004.
5 The mergers were defined as synergistic.

Additional information on each of these criteria is described below:

Relatedness

This dissertation is attempting to examine mergers that are made to obtain complementary skills and abilities (Dyer and Singh, 1998; Krishnan et al, 1997) that the acquiring firm does not currently possess. Consequently, unrelated mergers are eliminated from the sample as the integration objectives and issues are very distinct between related and unrelated mergers (Ellis, 2000; Jemison and Sitkin, 1986).

Relatedness is a measure of the extent to which an acquiring firm's primary SIC code is similar to the target firm's primary SIC code. Some scholars have classified a merger as related when the primary operations are in the same two-digit code (Chatterjee et al., 1992; Kroll et al., 1997; Lubatkin et al., 1999). However, other researchers have imposed a more stringent coding where a perfect four-digit match between acquirer and target and is required before a merger is considered related (Buchholtz et al., 2003; Capron, 1999). This match at the four digit level is often referred to as a horizontal merger (Haleblian and Finkelstein, 1999). While a third group of researchers have classified a merger as related if there is a match in the two digit SIC code along with at least one match at the four-digit level within the acquiring and target firms' top six lines of business (Ellis, 2000; Haleblian and Finkelstein, 1999).

Since, scholars have found support that acquisition performance is enhanced when the acquiring and target firm are neither too similar nor too dissimilar (Krishnan et al., 1997; Ramaswamy, 1997), rather than using the stringent four-digit SIC code match, this dissertation also includes mergers where there is a match at the two-digit primary SIC code and a four-digit match in one of the top six lines of business.

Size of Merger

The average size of US mergers during 1997 was $209 million (Mergerstat, 1998) and this average remained virtually unchanged for the year 2004 and increased by twenty percent in 2005, when the average was recorded as $200 and $259 million respectively (Mergerstat, 2006). An examination of these mergers completed during 2004 and 2005 shows that many of these consist of smaller mergers and only five (5) percent of them represent mergers amounting to $1 billion or more (Mergerstat, 2006). Since the research question in this dissertation requires the active involvement of the CEO and TMT of both the acquiring and target firm, a minimum cutoff value of $1 billion was selected (Ellis, 2000; Hayward and Hambrick, 1997). An examination of mergers of this magnitude will ensure that senior executives from each pre-merger organization are involved.

Relative Size of Acquiring Firm versus the Target Firm

Hambrick and Cannella (1993) found evidence that executives in small acquisitions seldom stay with the combined organization as their relative standing in the post-merger organization was significantly changed. To observe the effects this study is attempting to detect (Ellis, 2000; Hambrick and Cannella, 1993; Hayward, 2002), this dissertation will limit its focus to examining firms of similar size.

A commonly used measure of firm size within the strategic management literature is firm sales (Datta, 1991; Ellis, 2000; Hambrick and Cannella, 1993; Hayward, 2002; Kroll, et al., 1997). A merger is considered of similar size when one of the pre-merger firms is no greater than twice the size the other (Ravenscraft and Scherer, 1989). This is operationalized as “the ratio of the sales of the acquiring firm to that of the target firm” (Datta, 1991: 287) calculated on sales data taken during the year of the merger announcement (Ellis, 2000: Hayward, 2002). Mergers included in this study have ratios that fall between 0.5 to 2.0.

Mergers Completed During the Years 1995 – 2004

To evaluate performance, financial data is required two years before the merger and for at least one year after the merger. The period from 1995 to 2004 was chosen as the period of analysis, as it provides recent merger data, the size and number of mergers has remained fairly constant during this time period (Mergerstat, 1998, 2006) and it provides at least one year of data to examine performance (Finkelstein and D'Aveni, 1994). Krishnan et al., 1997 measured post-merger firm performance three years after the year of the merger. However, in large mergers, the performance observed may contain confounding variables. Consequently, this study follows the convention of Finkelstein and D'Aveni (1994) by lagging performance by one year.

Synergistic Merger

A merger is considered to be synergistic if market place had a positive reaction to the merger announcement (Markelevich, 2003; Seth, 1990; Seth, Song and Pettit, 2002). This is indicated by an abnormal return generated at announcement date such that the cumulative abnormal returns (CAR) for the acquiring plus target firms are positive (Markelevich, 2003; Seth, 1990).

Acquirer and target stock prices will be measured using the market value of the acquiring and target firm. The most commonly used window for event studies is from five (5) trading days before the announcement to five (5) days after the announcement (Haleblian and Finkelstein, 1999; Markelevich, 2003), consequently, this is the time frame that will be utilized within this dissertation. However, since information on an intended merger may be leaked to stockholders prior to the announcement date, cumulative abnormal returns (CAR) will also be examined thirty (30) days prior to the announcement.

To calculate abnormal returns, stock price reaction to the merger announcement using event study methodology will be utilized (Combs and Skill, 2003; Kroll et al., 1997; Lubatkin and Shrieves, 1986; McWilliams and Siegel, 1997). This methodology is being utilized as it provides a well-grounded mechanism to link abnormal stock prices back to a specific event (Kroll et al., 1997; McWilliams and Siegel, 1997). The event study methodology has been extensively utilized within strategic management in examining market reactions to various events as stock prices are purported to contain stockholders assessment of the true value of the firm (Chatterjee et al., 1992; Combs and Skill, 2003; Davidson, Nemec, and Worrell, 2001; Kroll et al., 1997; Seth, 1990: Wright, Ferris, Hiller and Kroll, 1995). According to McWilliams and Siegel (1997: 626-627), stock prices are “assumed to reflect the discounted value of all future cash flows and incorporate all relevant information.”

Total CAR for the acquiring and target company will be measured by adding up the acquirer CAR and the target CAR.

Measurement of Key Variables

Since single-item scales do not adequately and accurately capture the concept being measured (Harrigan, 1983; Nunnally, 1978; Venkatraman and Grant, 1986), the majority of the variables within this study utilize constructs that are derived from more than one variable.

Independent Variables

Data will be collected on all four types of power for each of the acquiring, target and post-merger firm. How each of these are measured are shown in the subsequent sections.

Jensen and Zajac (2004) recommended that to improve predictive significance future researchers should disaggregate the CEO from the rest of the management team. In their study when they examined the CEO separately from the rest of the top management team, they found a much stronger support for the demographic to diversification link. As an example prior to previous notions these authors found support that TMT members with a similar functional background to the CEO will align themselves more closely with other TMT members from distinct functions than they will with their CEO who has the same functional background. Consequently, for the remainder of this paper the term TMT will refer to all members of the top management team except the CEO. The TMT will exclude the CEO but will include all other individuals above the level of vice-president who reported to the CEO and were also board members (Finkelstein and Hambrick, 1990; Krishnan et al., 1997). This definition is consistent with what is used by other researchers (Krishnan et al., 1997; Michel and Hambrick, 1992) and may include executive positions such as president, chief operating officer, executive vice president, senior vice president, and chief financial officer.

Prestige power

Prestige power is the executive's reputation within the industry environment (Finkelstein, 1992; Olson, 2004). Finkelstein (1992) used three items to measure this dimension – elite education, founder status and the number of boards on which the executive serves. Elite education is determined by an executives' graduation from a prestigious school (Daily and Johnson, 1997; Finkelstein, 1992; Hitt et al., 2001; Olson, 2004). This dissertation will utilize the list developed by Finkelstein (1992) and that has been subsequently utilized by other researchers (Bigley and Wiersema, 2002; D'Aveni and Kesner, 1993; Finkelstein and D'Aveni, 1994; Olson, 2004). A list of prestigious universities is shown in Appendix A. The value for this measure ranges from 0 to 3 with higher values indicating higher levels of prestige. This will be coded as 0 if no degree, as a 1 if no elite degree, as a 2 if one degree came from an elite institution and as a 3 if two or more degrees came from an elite institution. This will be coded for the CEO and for TMT identified in the acquiring and target firms. Data on this measure will be collected from *Who's Who in Finance and Industry, Dun and Bradstreet Reference Book of Corporate Management* and *Standard and Poor's Register of Corporations, Directors, and Executives*.

Founder status is the second dimension of prestige power. Nelson (2003) found evidence that founders are more likely than non-founders to exercise strong strategic leadership and that the stock market reacts favorably to founder-led firms. Other researchers have found evidence that relatives to founders also possess some of the same degree of power because of their name, family background and their unique relationship with the board of directors and other stockholders (Bigley and Wiersema, 2002; Finkelstein, 1992). Founder status will be coded in the same manner as Bigley and Wiersema (2002) using a range from 0 to 2, with higher values signifying greater levels of power. It will be coded as a 0 if the CEO or other TMT member is not a founder, as a 1 if he/she is related to the founder but does not have the same last name and as a 2 if the individual is the founder or is related to the founder with the same last name. Data will be gathered from the firm's proxy statements.

Participation on boards of other organizations provides an individual with additional social networks and a higher level of prestige (Daily and Johnson, 1997; Useem, 1979) and becomes a potent source of power (Bigley and Wiersema, 2002; Finkelstein, 1992; Finkelstein and D'Aveni, 1994). This dimension will be calculated for the CEO and the TMT of both the acquiring and target firm. It will be coded as a 0 if the individual only serves on the board in which he/she is employed and this number will be increased by the number of additional boards (profit and not for profit) in which this individual serves, with higher numbers signifying higher levels of prestige power. Board membership will be collected from firm's proxy statements and from *Who's Who in Finance and Industry*.

Once all the individual data is gathered, a measure is required to determine the team adjusted prestige power of the entire top management team. This study will follow the convention used by D'Aveni and Kesner (1993) using a summative scale on all three items for the CEO and each member of the TMT and then dividing the total by the number of members in the top management team. Since Jensen and Zajac (2004) recommended that, to improve predictive significance, future researchers disaggregate the CEO from the rest of the management team, three measures of prestige power will be calculated. One for the CEO only, another for the TMT with the CEO excluded and the last with the TMT including the CEO.

The percent change in prestige power will be calculated using the ratio of [(post-merger firm prestige power) – (pre-acquisition firm prestige power)] divided by [pre-acquisition firm prestige power].

Expert power

Expert power is based on the executives' ability to contribute to organizational success. For the CEO, three items are used to measure this construct - CEO tenure (Combs and Skill, 2003; Westphal and Zajac, 1995), CEO tenure in the organization and CEO level of education (Hitt and Tyler, 1991; Olson, 2004). For the rest of the TMT this will be measured by TMT tenure, tenure in the organization and TMT level of education.

CEO tenure and TMT tenure will be measured by the logarithm of the number of years an individual has worked in either the acquiring firm or target firm in that position (or in the case of a TMT member in a similar TMT position) at the time of its takeover. Prior researchers have found the log of tenure to be a better measure because tenure had a right skew and the effect of tenure will have diminishing returns (Buchholtz et al., 2003). This data will be collected from firm's proxy statements, *Dun and Bradstreet Reference Book of Corporate Management* and *Standard* and *Poor's Register of Corporations, Directors, and Executives*.

CEO and TMT tenure in the organization will also be measured by the logarithm of the number of years an individual has worked in either the acquiring firm or target firm in that position or within the organization at the time of its takeover. This data will be collected from the same source as CEO and TMT tenure in their position.

Level of education will be measured on a five point skill based on highest level of education achieved. It will be coded as a 1 if the individual is a high school graduate, coded as 2 if he/she has had some college or a two-year diploma, a 3 if he/she has a bachelors degree, a 4 if a masters degree has been obtained and as a 5 if he/she has a PhD. *Dun and Bradstreet Directory of Corporate Management* and *Standard and Poor's Register of Corporations, Directors, and Executives* will be used to gather information on educational level.

Similar to the convention used for prestige power, expert power for the organization will use a summative scale on all three items for the CEO and each member of the TMT and then dividing the total by the number of members in the top management team. Again, following the recommendations of Jensen and Zajac (2004), the CEO will be disaggregated from the rest of the TMT. One for the CEO only, another for the TMT with the CEO excluded and the last with the TMT including the CEO.

The percent change in expert power will be calculated using the ratio of [(post-merger firm expert power) – (pre-acquisition firm expert power)] divided by [pre-acquisition firm expert power].

Structural power

Structural power will only be calculated for the CEO and not for the rest of the management team. Structural power is bestowed upon an individual based on his/her hierarchal position within the organization. The greater the number of titles, the higher the CEO structural power (Bigley and Wiersema, 2002; Finkelstein, 1992; Olson, 2004). Finkelstein (1992) operationalized structural power by the number of titles held by the CEO; however, Olson (2004) reasoned that a CEO with an additional title of chairman of the board would be more powerful than a CEO that had the additional title of president. Consequently, for study, CEO power will be coded as a 1 if the only title the CEO has is

CEO. It will be coded as a 2 if the CEO is also the president and/or chief operating officer (COO). It will be coded a 3 if the CEO has the title of CEO and chairman of the board. It will be coded a 4 if the CEO has the title of CEO, chairman of the board and president (COO). The greater the number of titles, the higher the structural power (Bigley and Wiersema, 2002). Data for this measure will be collected from company annual reports and proxy statements.

Ownership power

Ownership power will be measured by the percentage of shares owned by the executive or his/her immediate family (Finkelstein, 1992). Data for this measure will be collected from proxy statements.

Dependent Variables

There are two dependent variables within this study that measure performance. One is target executive retention and the other is post-acquisition firm performance.

Data will be captured on executives that formally resided in the target and acquiring firms and on the executives that were members of the TMT in the post-merger firm. To evaluate target executive retention, a weighted average mean measure called percent target retention will be calculated using the following equation:

Target executive retention = Target executives / (total executives in post-acquisition firm)

Since one indicator is unable to reliably capture post-acquisition firm performance, this study will utilize two very distinct measures of this construct (Chakravarthy, 1986; Venkatraman and Grant, 1986; Venkatraman and Ramanujam, 1986). First, post-acquisition firm performance will be measured using return on assets

(ROA) as this is a measure that is frequently used to evaluate strategic actions (Finkelstein and D'Aveni, 1994; Harrison et al., 1991; Krishnan et al., 1997). Following the convention utilized by Finkelstein and D'Aveni (1994), ROA will be examined one year after the date of the merger. To control for industry effects, the number will be mean centered (Daily and Johnson, 1997). The second measure that will be used is Jensen's alpha. Jensen's alpha compares the post-acquisition firm performance with firms of a similar risk (Cannella and Hambrick, 1993; Daily and Johnson, 1997; Nayyar, 1993). The M&A is deemed to be a successful if the actual post acquisition value of the combined firm is greater than the hypothetical expected value of the two firms if they did not merge (Bradley, Desai and Kim, 1988; Seth, 1990; Seth et al., 2002). Seth (1990) defined the percentage gain in an acquisition as:

$$\frac{\textbf{(Actual post-merger value) – (Expected value of/no acquisition)}}{\textbf{(Expected value/no acquisition)}}$$

Where the actual post-merger value is the stock value of the combined firm and the hypothetical expected value/no acquisition is what the value of each firm would be if they maintain the same position within the industry.

Other dependent variables relate to power retention. Expert power retention is measured by calculated the summated expert power in the acquiring firm (Olson, 2000) and subtracting this number from the summated expert power in the post-acquisition firm. A positive number reflects an increase in expert power. Prestige power is calculated in the same manner.

Moderator Variables – Organizational (Financial and Human Resource) Slack

Bourgeois (1981) suggests that organizational slack may be obtained through public records. He also recommends that relative measures that compare an organizational index to the index of the industry are more appropriate than absolute measures. Organizational slack is divided into financial slack and human resource slack. Data for the measurement of both financial and human resource slack will be obtained from the Compusat database.

Financial slack is divided into three separate measures – available, recoverable and potential slack. This section describes a proxy for each of these variables that have been conventionally utilized in the strategy literature (Bourgeois, 1981; Geiger and Cashen, 2002; Herold et al., 2006; Singh, 1986). Available (unabsorbed) slack is measured using the quick ratio and provides a measure of a firm's liquidity. Recoverable (unabsorbed) slack provides an estimate of resources that are currently being used but could potentially be freed up and utilized in other areas. A proxy for this slack variable is calculated by dividing sales into selling, general and administration expenses (SG&A expenses/Sales). Potential slack provides an estimate of the organizations borrowing power and the proxy for this variable is debt/equity.

In the event of a merger of equals, which is being investigated in this dissertation, the acquiring firm requires significantly more resources than the available or recoverable slack would be able to provide. Only potential slack has the ability to provide an estimate of the firm's ability to acquire a similar sized firm. The firm's potential slack will be compared to the potential slack within the industry using the following equation:

$$\frac{\textbf{Firm debt}}{\textbf{Firm equity}} - \frac{\textbf{Industry debt}}{\textbf{Industry equity}}$$

Numbers greater than zero signify that the acquiring firm has a higher level of slack than the industry.

The other key organizational slack measure is human resource slack. To determine if either the acquiring or target firm has human resources greater than exist within the industry, this dissertation follows the convention used by Mishina et al. (2004). Human resource slack will be calculated for the acquiring and target firm using the following equation:

$$\frac{\textbf{Firm employees}}{\textbf{Firm Sales}} - \frac{\textbf{Industry employees}}{\textbf{Industry Sales}}$$

Numbers greater than zero signify that the acquiring and/or target firm have a higher level of slack than the industry.

Control Variables

This dissertation will control for firm size and for acquiring firm prior profitability. In addition, all variables will be mean centered to control for industry effects.

Analytical Techniques

All hypotheses within this study will be examined using OLS regression techniques. The data collected to test the hypotheses will come from a variety of archival sources. Multi-measurement constructs will be used to test the various relationships (Chakravarthy, 1986; Venkatraman and Ramanujam, 1986). The dissertation hypotheses, measures and statistical technique that will be used to test the various relationships are summarized in Appendix B.

CHAPTER IV

RESULTS

This chapter discusses the results of the various statistical analyses used to test the research questions and hypotheses presented earlier. The first section provides an overview of the sample database and how the sample was selected and then presents some descriptive statistics of the sample. The second section addresses the controls utilized, and the third section provides the results of testing the hypothesized relationships presented in Chapter 3.

Database Sample

The sample used in the dissertation consisted of one hundred and eight, billion dollar mergers that took place within the United States from 1995 to 2005. A breakdown of number of mergers by year is shown in Table 1.

Table 1

Number of Mergers by Year

Yr	# of Mergers
1995	5
1996	11
1997	13
1998	12
1999	14
2000	16
2001	14
2002	5
2003	3
2004	5
2005	10
Total	**108**

Originally, I had planned to use mergers up to and including those completed in 2004; however, to increase the size of my sample, I also selected mergers that were completed during 2005. The year 2005 was added, as the information became available during the data collection period and including this year provided ten (10) additional mergers.

The original database included one thousand two hundred and thirty (1230) billion dollar mergers (Ellis, 2000). To obtain the sample required to test the hypotheses in this dissertation, I eliminated unrelated non-synergistic mergers, mergers where the target and acquiring firms were dissimilar in size and mergers that were completed outside the 1995-2005 timeframe. This eliminated one thousand one hundred and seven (1107) mergers from the database and left one hundred and twenty-three (123) mergers in the sample. A chart showing the selection process for the sample is shown in Table 2.

Table 2

Selection of Sample Database

	Eliminated	**Total**
Total # of billion dollar mergers in original database		1230
Eliminated:		
- unrelated non synergistic mergers	487	
- mergers that were dissimilar in size	589	
- mergers completed outside 1995-2005 window	31	
	1107	
Original sample		123
Eliminated mergers where target became wholly-owned subsidiary	15	
Final sample		108

Similar to the convention used by Haleblain and Finkelstein, (1999), a merger was considered as related if there was a match between the acquiring and target corporations' two digit SIC code along with at least one match at the four-digit level within the acquiring and target firms' top six lines of business. I retained mergers that matched these criteria and eliminated four hundred and seventy-five (475) from the original sample. An additional twelve (12) mergers were eliminated as they were not considered synergistic. I also only retained mergers within my sample that were considered similar in size. A merger was considered of similar size when one of the pre-merger firms was no greater than twice the size of the other (Ravenscraft and Scherer, 1989). Using this criteria an additional five hundred and eighty-nine (589) mergers were eliminated. This left one hundred and twenty-three (123) mergers.

After collecting data on these mergers, I discovered that fifteen (15) of the target companies became wholly owned subsidiaries of the acquiring organization. Since the intent of this dissertation was to determine whether the resultant post-merger firm was able to retain power within their top management team, these mergers were eliminated from my sample. In these fifteen cases, the acquiring firm had no intention of changing their management team structure. The final sample size was one hundred and eight (108) mergers which involved two hundred and sixteen (216) pre-merger companies and one hundred and eight (108) post-merger organizations.

Within the dissertation sample, seventeen (17) mergers took place within the banking industry. Additional segments that had a large representation included the petroleum industry fourteen (14) mergers, computer industry thirteen (13) mergers, and telecommunications and broadcasting ten (10) mergers. The above industry segments constituted fifty percent (50%) of the dissertation sample. Other segments included, electrical services, aviation, chemicals, newspaper and paper mills, medical services, pharmaceuticals, department stores, clothing manufacturers, construction, grocery, hotels and gambling and employment agencies (see Table 3).

Table 3

Merger Breakdown by Industry

Industry	#
Banks and savings institutions	17
Petroleum industry	14
Computer peripherals and software	13
Broadcasting (Telephone, Radio, TV, and Cable)	10
Insurance companies	7
Electrical services	7
Aviation and space travel	6
Pharmaceuticals and drug Stores	5
Real estate	5
Petrochemicals and plastics	3
Paper mills	3
Department and general merchandise stores	3
Organic crude and dyes	2
Other manufacturing	2
Grocery and dairy	2
Hotels and casinos	2
Career and help services	2
Medical services	2
Office supplies	1
Newspaper and publishing	1
Warehousing	1
Total	108

Mergers in the sample ranged from a merger value of 1.01 billion dollars to a high of 89.17 billion dollars. The smallest merger was Accustaff/Career Horizons and the three largest mergers were Pfizer/Warner Lambert, Exxon/Mobil and Travelers/Citicorp valued at 89.17, 78.95 and 72.56 billion dollars respectively. A list of the mergers in the sample is shown in Appendix C.

Originally, I had planned to identify executives that would be included in the study as executives that reported to the CEO and were also directors of the organization (Finkelstein and Hambrick, 1990; Krishnan et al., 1997; Michel and Hambrick, 1992).

However, while coding the reference data to test the hypotheses, I discovered that forty-seven percent (47%) of the pre-merger organizations had the CEO as the only inside director of the organization. An additional thirty-three percent (33%) of the organizations had only the CEO and one other executive as inside directors of the organization. Since the purpose of this study was to examine the effect of the top management team, I further researched the definition used by prior researchers and found that others used a broader definition which included executives at the level of senior vice president who reported to the CEO (Cannella and Hambrick, 1993; Lubatkin et al, 1999; Wiersema and Bantel, 1993). I therefore relaxed the condition of the executive also being a director of the organization and collected reference data on all executives who reported to the CEO that were at the level of senior vice president (executive vice president for the banking industry) of the acquiring, target and post-merger firms. When these individuals were included, it yielded a larger base of executives than if only TMT officers who were also directors of the organization were selected. There was an average of 7.7 executives per pre-merger organization. The number of executives per merger ranged from a low of 7 (Maxim Dallas Semiconductor merger) to a high of 53 executives (Firstar merger with Mercantile Bancorp). The following reference data was collected for each executive:

- Position or positions he/she held in the organization.
- Whether the individual was also a director of the organization.
- Tenure in the position and in the organization.
- Tenure as an executive within this organization.
- Whether the individual was a founder.

- Educational degrees obtained where they received those degrees.
- Number of degrees the executive obtained from prestigious universities.
- Professional designations.
- Date he/she retired or left the organization.

This information was collected from company annual reports, corporate proxy statements, *Who's Who in America*, *Who's Who in Finance and Industry*, *Dun and Bradstreet Reference Book of Corporate Managements*, company websites and other internet searches. Utilizing the above information, I was able to obtain metrics on structural, expert and prestige power at the organizational level for the acquiring, target and post-merger firms. Additionally data was collected at the company and industry level for performance and slack metrics from *Robert Morris Associates, Annual statement Studies*, *1997 Economic Census* and the *2002 Economic Census*. Descriptive statistics on the variables utilized are shown in Tables 4 and 5.

Table 4

Descriptive Statistics –Dependent and Control Variables

	N	Min	Max	Mean	Std. Deviation
ROA yr1 less ROA yr0	108	-4.178	.514	-.072	.460
Jensen's Alpha	108	-.964	2.461	-.006	.512
Target Exec Retention in p-mgr firm	108	.0	.8	.209	.190
Expert power retention	108	-11.94	11.43	.39	3.59
Prestige power retention	108	-3.21	5.5	.18	1.16
TGT size / (TGT + ACQ size)	108	.325	.654	.4655	.090

Table 5

Descriptive Statistics – Independent and Moderator Variables

	N	Min	Max	Mean	Std. Deviation
Act retention less expect Retention	108	(7.00)	3.50	(2.09)	1.98
Expert Δ tenure as exec (P-A)	108	(5.81)	4.80	(0.15)	1.52
Expert Δ tenure in org (P-A)	108	(8.60)	11.28	(0.22)	2.49
Expert Δ level of educ (P-A)	108	(1.46)	1.00	(0.02)	0.41
Prestige Δ elite educ Co (P-A)	108	(0.58)	0.60	(0.01)	0.19
Prest incr in founder 1-Yes 0-No	108	-	1.00	0.05	0.21
Prestige incr in for profit boards	108	(3.00)	5.00	0.19	1.12
Founder Status 1= T higher 0=no	108	-	1.00	0.05	0.21
Expert Tenure as exec (A-T)	108	(16.98)	17.85	0.13	4.97
Expert Tenure in org (A-T)	108	(20.93)	21.17	0.61	7.04
Prestige Elite educ (A-T)	108	(1.21)	4.00	0.07	0.62
Expert Level of Educ (A-T)	108	(4.50)	4.92	(0.02)	1.19
Prestige Corp Dir (A-T)	108	(6.00)	16.00	0.60	2.77
CEO Struct pwr Δ 1=lower 0=no	108	-	1.00	0.18	0.38
Elite Edu-Target	108	-	4.00	2.31	0.39
Target # FP BRDS	108	-	7.00	1.02	1.70
Exp tenure as exec-Target	108	1.67	26.60	8.05	4.27

Control Variables

Initial control variables included firm size and profitability. However, these did not have a significant effect on the model. Therefore an additional search was completed to determine other variables that are currently used in the academic literature. Munificence (Dess and Beard, 1986) was then included, but this variable also was not a significant variable due to the diversity of mergers that have been included in the dissertation sample. Even though this dissertation only examined mergers where the acquiring and target firm were similar in size (i.e. one firm was no greater than twice the size of the other), it was found that it was still important to control for relative size (Hambrick and Cannella, 1993; Walsh, 1988, Weber, 1996). Consequently, all regressions were controlled for the relative size of the acquiring versus the target firm.

The expert power and prestige non-categorical variables which include 1) tenure in the organization, 2) tenure as an executive, 3) education level, and 4) number of for profit boards were all mean centered. I ran the various regressions where the variables were mean centered on the industry average and ran the same regressions using the actual numbers. The regression results were the same whether the variables were mean centered or not, therefore, all regression runs results within this dissertation included the actual numbers.

Hypotheses Testing Results

All hypotheses were tested using linear regression as the regression assumptions were not violated. As mentioned above, the size of the target firm in relationship to the combined size of both the acquiring and target firm was used as a control variable.

As per recommendations of Jensen and Zajac (2004), I ran the regression models first including the CEO as part of the top management team and then the same regression equations were re-run where the CEO was excluded from the top management team. The results were consistent whether the CEO was included in the top management team or was excluded from the team. Therefore, all results reported from this point forward include the CEO in the top management team. A correlation table of all the variables is found in Table 6. Due to the number of variables, this table is divided up into two sections. Table 6A provides the correlation among the direct effect hypotheses and Table 6b provides this same information for the moderation hypotheses.

Table 6A

Direct Effects Correlations

		1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	Control Rel Size	1													
2	DV ROA Yr1-Yr0	-.099	1												
3	DV Jensen's Alpha	-.057	.230*	1											
4	% Exec Retention	.089	-.077	-.024	1										
5	Act Reten less expect reten	-.312**	-.088	.015	.693**	1									
6	Prest Δ elite educ (P-A)	.009	.266**	-.090	-.020	-.038	1								
7	Prest Δ board memb (P-A)	.141	-.055	.047	.384**	.250**	.105	1							
8	Exp Δ tenure as exec (P-A)	.159	.025	.096	-.088	-.093	.019	.124	1						
9	Exp Δ tenure in org (P-A)	.179	.001	.187	-.101	-.208*	.003	-.102	.612**	1					
10	Exp Δ educ level (P-A)	.098	-.034	-.036	.168	.139	.498**	.296**	-.087	-.166	1				
11	Exp Δ tenure as exec (A-T)	-.031	.031	.123	.027	.017	.056	-.059	-.496**	-.159	.114	1			
12	Exp Δ tenure in org (A-T)	-.185	.042	.048	-.062	.000	.110	-.003	-.439**	-.503**	.197*	.665**	1		
13	Prest Δ elite educ (A-T)	-.010	-.078	.239*	-.020	.135	-.322**	-.082	-.038	-.015	-.231*	.032	-.002	1	
14	Exp Δ educ level (A-T)	-.106	.073	.106	-.011	-.074	-.169	-.195*	-.022	.044	-.460**	-.032	-.046	.094	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Table 6B

Moderation Effects Correlations

		1	2	3	4	5	6	7	8	9
1	Exp pwr (P-A)	1								
2	Prest pwr (P-A)	.221*	1							
3	Tgt HR slack	.097	-.009	1						
4	Acq HR slack	-.064	.010	-.004	1					
5	Tgt Boards	.086	.489**	-.057	-.045	1				
6	Tgt elite educ	.177	.172	.034	.052	.134	1			
7	Tgt educ lvl	-.048	.100	-.018	-.064	.048	.520**	1		
8	Tgt exp as exec	.183	-.064	-.098	-.062	.014	.001	.006	1	
9	Tgt exp in org	.074	.070	-.061	-.084	.223*	.134	.074	.662**	1

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Results of the statistical analysis are reported within the next two sections. The first section provides information on the direct effects hypotheses which include hypotheses 1-5. The second section addresses the results of the moderated hypotheses.

Direct Effect Hypotheses

In this study, two separate measures were used to assess performance. The first is return on assets (Finkelstein and D'Aveni, 1994; Harrison et al., 1991; Krishnan et al., 1997) and the second is Jensen's alpha which is a measure developed by Seth (1990) which utilizes stock market metrics. Jensen's alpha compares the post-acquisition firm performance with the hypothetical expected value of the two firms if they did not merge (Seth, 1990; Seth et al., 2002). Seth (1990) defined the percentage gain in an acquisition as:

$$\frac{\textbf{(Actual post-merger value) – (Expected value/no acquisition)}}{\textbf{(Expected value/no acquisition)}}$$

Where the actual post-merger value is the stock value of the combined firm and the hypothetical expected value/no acquisition is what the value of each firm would be if they maintain the same position within the industry.

The first hypothesis posited that higher target executive retention would result in increased firm performance. Hypotheses two through four relate to the impact of TMT expert and prestige power on post-merger implementation effectiveness and theorized that the retention of power from target executives would increase post-merger firm performance. Hypothesis five dealt with structural power at the CEO level and posited that a CEO's willingness to reduce his/her level of structural power from that which he/she had within one of the pre-merger firms would increase target executive retention and post-merger firm performance. Table 7 provides a summary of key statistical data for the direct effect hypotheses.

Table 7

Regression Results – Direct Effect Hypotheses (R^2 is Included if the Model is Significant)*

	df	F	Signif	R^2	Adj R^2
H1 using ROA as the DV	2	1.374	.258		
H1 using Jensen's alpha as the DV	2	.170	.844		

	df	F	Signif	R^2	Adj R^2
Prestige power impacts					
H2A using ROA as the DV	4	16.553	.000	.391	.368
H2A using Jensen's alpha as the DV	4	1.306	.273		
Expert power impacts					
H2B using ROA as the DV	4	.313	.868		
H2B using Jensen's alpha as the DV	4	1.18	.324		

	df	F	Signif	R^2	Adj R^2
Prestige power impacts on exec retention					
H3A – using all prestige dimensions	4	2.863	.027	.100	.065
H3A - excluding founder dimension	3	2.680	.051		
Expert power impacts on exec retention					
H3B – using all expert power dimensions	4	.442	.778		

	df	F	Signif	R^2	Adj R^2
Prestige power impacts on performance					
H4A using ROA as DV	4	1.196	.315		
H4A using Jensen's alpha as the DV	4	.229	.876		
Expert power impacts on performance					
H4B mergers using ROA as DV	4	1.051	.301		
H4B using Jensen's alpha as the DV	4	.287	.835		

Impact of CEO structural power	df	F	Signif	R^2	Adj R^2
H5A using exec retention as the DV	2	7.344	.000	.123	.106
H5B using ROA as the DV	2	.863	.425		
H5B using Jensen's alpha as the DV	2	.274	.761		

*Betas are shown in Appendix D

No support was found for hypothesis one whether performance was measured by Jensen's alpha or by return on assets. For hypotheses two through four, three items were used to measure prestige power - elite education, founder status and number of for profit boards in which the executive serves (Finkelstein, 1992). Expert power was measured using tenure in the organization, tenure as an executive and level of education (Finkelstein, 1992). Support with a R^2 of 0.39 was found for hypothesis 2A when return on assets as the dependent variable was used (F=16.553, Sig=.000). This hypothesis theorized that an increase in prestige power in the post-merger firm over the power that existed in the acquiring firm would result in greater post-acquisition firm performance. No support was found for this hypothesis H2A using Jensen's alpha.

No support was found for hypothesis H2B relating to the expert power dimension whether firm performance was measured using ROA or Jensen's alpha. This was found to be true for all hypotheses relating to the expert power dimension. Expert power is made up of three dimensions which include tenure as an executive, tenure in the organization and level of education. An examination of the mean averages of each of these dimensions within the sample determined that these dimensions were materially the same in the acquiring, target and post-merger firms and in all cases the mean average in the post-merger firm was less than the averages within the acquiring firm. As an example, tenure as an executive was 8.17 years in the acquiring firm, 8.05 years in the target firm and 8.02 years in the post-merger firm. Table 8 provides a breakdown of the means of the expert power dimensions for each of the firms.

Table 8

Dissertation Sample – Mean Average of Expert Power Dimensions

Firm	Tenure as an executive	Tenure in the organization	Level of Education
Acquiring	8.17	12.95	5.39
Target	8.05	12.34	5.40
Post-merger	8.02	12.73	5.32

The third hypothesis dealt with the interaction of prestige and expert power within the acquiring and target firms on post-merger target executive retention. Hypothesizing that target executive retention is strengthened when those executives perceive that the acquiring firm has a higher level of prestige power than that which exists in the target organization. H3A relating to prestige power was significant (F=2.863, Sig=.027) and explained 10% of the model. An examination of the coefficients found that the only significant prestige dimension was the number of external “for profit” boards the executive is a member of. The dimension of founder status was not significant. An examination of the database identified that only five (5) mergers of the one hundred and twenty-three still had a founder as an active member of the top executive team. This may be due to the size of the mergers examined within this dissertation as a merger was not considered unless the cost of the merger was one billion dollars or more. Inasmuch as this could be providing noise in my regression equation, hypothesis 3A (using ROA as a DV) was re-run where the variable of founder status was taken out. The result was not significant (F=2.680, Sig=.051).

The fourth hypothesis theorized that when the target firm has greater prestige and or expert power than that possessed by the acquiring firm that performance will be improved when the post-acquisition firm is able to retain a high number of target firm executives. No support was found for this hypothesis whether the DV was measured using Jensen's alpha or ROA. Additional explanation of the rationale for this occurrence is discussed in Chapter 5

Hypothesis five is the only hypothesis dealing with structural power at the CEO level. It posits that target executive retention and post-merger performance will be enhanced when the CEO of the post-merger firm agrees to lower his/her structural power from that which he/she had within one of the pre-merger firms. Support was found for Hypothesis 5A as it relates to executive retention (F=7.344, Sig.=.000) and the adjusted R square on this model is 10.6%. However, no support was found for performance whether measured by accounting or stock measures.

Moderated Hypotheses

Hypotheses 6 and 7 deal with the impact of financial slack and human resource slack on the power retention relationship. Gary (2005) found support that merger effectiveness is influenced by the level of slack within the acquiring and target firms. Slack is broken down into two distinct types of slack. The first is financial slack which provides the acquiring company with the necessary funds to merge the companies and the second is human resource slack which allows executives sufficient time to devote to implementation processes. To facilitate a successful implementation, financial slack should be present within the acquiring firm; whereas, human resource slack can be present within either the acquiring or target firms. Table 9 provides a summary of key statistical data for the moderated hypotheses:

Table 9

Regression Results – Moderation Hypotheses (R^2 is Included if the Model is Significant)*

Moderating Influence of Financial Slack	df	F	Signif	R^2	Adj R^2
H6A Acq firm fin slack moderating impact on prestige power retention	8	5.304	.000	.260	.208
H6B Acq firm fin slack moderating impact on expert power retention	8	1.369	.220		

Moderating Influence of HR Slack	df	F	Signif	R^2	Adj R^2
H7A Acq firm HR slack's moderating impact on prestige power retention	8	5.837	.000	.321	.266
H7B Acq firm HR slack's moderating impact on expert power retention	8	1.709	.106		
H7C Target firm HR slack's moderating impact on prestige power retention	8	4.934	.000	.287	.229
H7D Target firm HR slack's moderating impact on expert power retention	7	1.642	.132		

* Betas are shown in Appendix D

Hypothesis six dealt with the moderating influence of financial slack within the acquiring firm on the retention of target firm prestige (expert) power within the post-merger firm. Hypothesis seven examined the moderating influence of human resource slack either present within the acquiring or target firm on retention of target prestige (expert) power within the post acquisition firm. To ensure that any effect discovered was related to a moderating influence rather than a direct effect influence, I ran several regression equations to examine the significance from the direct effect of each of the slack variables and found them not to be significant.

Significance was found for the moderating impact of acquiring firm financial slack on prestige power retention (F=5.304, Sig.=.000). The adjusted R^2 within this model was 20.8%. No significance was found for the hypothesis 6B that relates to the moderating impact of acquiring firm financial slack on expert power retention.

Hypotheses 7A and 7B investigated the moderating impact of acquiring firm human resource slack on prestige (expert) power retention within the post-acquisition firm. Whereas, hypotheses 7C and 7D examined this relationship in relation to target firm human resource slack. Support was found that HR slack strengthened the relationship between target firm prestige power and post-merger prestige power retention. In relation to hypothesis 7A that addresses acquiring firm human resource slack, the regression equation explained 26.6% of the observed effects (F=5.837, Sig.=.000); whereas in Hypothesis 7C, this relationship explained 22.9% of the observed effects (F=4.934, Sig.=.000). However, no support was found for the moderating influence of human resource slack on expert power retention (hypotheses 7B and 7D).

Summary of Results

There was significant support for some of the hypotheses. Evidence was found that the retention of prestige power has a positive impact on firm performance, when this performance is measured using ROA. (See Table 7 - H2A; Table 9 - H6A, H7A and H7C.) In addition evidence was also found that the levels of prestige power between the acquiring and target firm have an impact on executive retention. In this study, target executives were more inclined to stay in the post-merger firm when they perceived that the acquiring firm had a higher level of power than that which existed in the target organization (Table 7 – H3A). When the founder dimension is excluded from the prestige power construct in Hypothesis 3A, only marginal support was found as the significance went from 0.27 to 0.51. Also support was found for the hypothesis that target executives are more disposed to stay in the post-merger organization when the top executive is willing to reduce his her own level of formal organizational power (Table 7 –

H5A). Finally, the results of this study provide evidence that acquiring firm financial slack and both acquiring and target firm human resource slack have a positive moderating influence on the retention of prestige power in the post-merger firm (Table 9 – H6A, H7A, H7C).

On the other hand, support was not found for hypotheses. No support was found that the retention of target executives results in post-merger firm performance (Table 7 – H1). No support was found that the retention of prestige power will result in improved post-merger firm performance when these hypotheses were measured using Jensen's alpha (Table 7 –H1, H2A, H4A, H5B). In addition, no support was found on hypotheses relating to the expert power dimension (Table 7 –H2B, H3B, H4B; Table 9 –H6B, H7B, H7D). Also, when the target executives were perceived to have a higher level of prestige power than the level of prestige power of the pre-merger acquiring firm, no support was found that the retention of these target executives resulted in greater post-merger firm performance (Table 7 – H4A). This was true whether performance was measured using ROA or Jensen's alpha. And finally, no support was found that an executive's willingness to reduce his/her level of structural power will result in improved post-merger firm performance Table 7 – H5B). Again, this was true whether performance was measured using ROA or Jensen's alpha.

Chapter five addresses potential rationale behind both the significant findings and the non-significant findings.

CHAPTER V

CONCLUSION

Value creation in M&A's is derived through how effectively executives manage the interdependencies involved in integrating the organizations (Haspeslagh and Jemison, 1991). However, implementation difficulties may offset many of the value opportunities the acquiring organization wants to obtain (Nayyar, 1993). The integration of two firms, even though they may appear to be fairly similar, is risky (Biggadike, 1979), complex (Nahavandi and Malekzadeh, 1988) and disruptive (Cannella and Hambrick, 1993). This is due to issues such as potential employee resistance (Pitts, 1976), differences in managerial styles between the two organizations (Jemison and Sitkin, 1986; Lubatkin, 1983), a quest for status (Frank, 1985) and sociocultural integration processes (Shrivastava, 1986). Integration requires the meshing of people, culture and organizational practices (Nahavandi and Malekzadeh, 1988) and frequently, the tacit, socially complex and idiosyncratic knowledge the acquiring firm requires does not transfer to the new organization (Ranft and Lord, 2002).

Academics from a variety of disciplines have explored the M&A phenomenon utilizing their own theoretical lenses (Larsson and Finkelstein, 1999). Much of the early research on M&A performance concentrated on strategic fit to ascertain the viability of the merger and ignored organizational fit (Jemison and Sitkin, 1986; Larsson and

Lubatkin, 2001). Within the last couple of decades, researchers have transferred some of their focus to the examination of organizational fit and/or acquisition integration (Pablo, 1994). Larsson and Finkelstein (1999) in their review of the M&A literature concluded that organizational integration was the strongest predictor of post-merger acquisition success. In this dissertation, M&A integration performance is examined through the lens of the post-acquisition firm.

Since Kitching's (1967) empirical review where he found evidence, that one reason M&A fail is because of disturbed reporting relationships within the post-acquisition firm, the four most common factors investigated (King et al, 2004) in the academic literature were:

- level of diversification and synergy (Jemison and Sitkin, 1986; Kusewitt, 1985; Lubatkin, 1983; Seth, 1990; Singh and Mongomery, 1987),
- relatedness (Kusewitt, 1985; Lubatkin, 1983),
- method of payment (Travlos, 1987) and
- acquisition experience (Haleblian and Finkelstein, 1999, Hayward, 2002; Lubatkin, 1983; Zollo and Singh, 2004).

Even though the phenomenon of mergers and acquisitions has been researched for over half a century, King et al. (2004) in their meta analysis concluded that none of these four most commonly researched variables were sufficient in explaining post-acquisition performance. Barkema and Schijven (2008) in their review of past research concluded that researchers need to dig deeper as there are important contingencies that are not being investigated. To provide a greater understanding of post merger firm effectiveness these authors have recommended that future researchers develop more complex models that may uncover important contingencies that are at play.

Previous research has found a relationship between demographic characteristics such as education, functional background, age, power and strategy preferences to organizational outcomes (Hambrick and Mason, 1984; Westphal and Zajac, 1995; Wiersema and Bantel, 1992). There is empirical support that the functional background of the top management team and the CEO, coupled with their strategic preferences and experiences, can affect acquisition activities (Jensen and Zajac, 2004; Palmer and Barber, 2001; Song, 1982; Wiersema and Bantel, 1992). However, few studies have investigated the link of top management team power and post merger firm effectiveness (Krishnan and Park, 2003).

This study had two purposes. One purpose was to investigate pre-merger management team power characteristics of both the acquiring and target firms with the retention of power in the post-merger firm. Specifically, the objective of the study was to examine prestige and expert power (Finkelstein, 1992) that existed in the pre-acquisition firms and the retention of these power dimensions in the post-merger firm. It also examined the effect of the retention of target executives and the competencies and resources (Barney, 1991) which they possess on post-merger performance effectiveness. Since Gary (2005) found evidence that the absence of slack will destroy value due to insufficient attention to merger implementation issues, another purpose of this study was to investigate the moderating role of financial and human resource slack on post-merger power retention.

A model of this process was discussed in Chapter 1 (See Figure 1). The potential contributions of this study include an appreciation of what drives an effective acquisition and includes: 1) an expanded understanding of CEO and TMT power characteristics on merger effectiveness; and 2) knowledge on the interaction effect of slack on post-merger power retention. The next two sections provide some explanations of the hypothesized results.

Explanation of Results – Direct Effects Hypotheses

Cannella and Hambrick (1993) found that post acquisition performance improved when the top management team of the post-merger firm included executives from the target organization and this finding was supported by Zollo and Singh (2004) where they found that replacing target executives has a negative impact on performance. An objective of this dissertation is to build upon and extend this line of inquiry to not only determine whether the post-acquisition firm was able to retain target executives but also whether they were able to retain the power which they possess.

Support was not found that post-merger firm performance was increased when a higher portion of target executives were retained. One reason this may have occurred is that a simple numerical examination of target executive retention does not consider whether the acquiring firm intended to retain that executive (Cannella and Hambrick, 1993). Another reason for non-significant findings was the age of the executives was not taken into account and it may be the intent of the target executive to retire or to move on to other opportunities. Buchholtz et al (2003) found support that the rate of departure of target executives in the post-merger firm is enhanced when the executive is either early in his or her career or close to the point of retiring. Another potential reason why significance was not found is that the examination of target executive retention is only one component of post-merger firm performance and the importance of this requirement may be considered minor when compared to other significant issues such as whether the merger was a wise strategic decision or whether the acquiring firm overpaid for the competencies which they were striving to receive.

Whereas no support was found that target executive retention (hypothesis 1) results in improved post-merger performance, support was found that the retention of prestige power from target executives does result in improved post-acquisition performance (hypothesis 2A). This finding provides evidence that post-merger performance is not so much dependant on the retention of target executives, but rather on the types of power and/or competencies the target executives have that can be transferred to the post-merger firm.

Unfortunately, this finding was not replicated when Jensen's alpha was used as the dependent variable to measure performance. This was the case for not only this hypothesis, but also for all other hypotheses that utilized Jensen's alpha as the dependent variable. Jensen's alpha is measured using stock market measures and attempts to ascertain whether the resultant post-merger firm has a higher market capitalization than would have occurred if each firm had remained as a separate entity. The actual market capitalization of the post-merger firm one year after the merger can be accurately measured as the data is available. However, the calculation of the market capitalization of each of the pre-merger firms if they did not merge can only be estimated on the basis of how well their competitors performed during that one year period. There is a built in assumption that the pre-merger firm would remain in the same quartile in relation to their competitor that existed at the time of the merger. Perhaps, this assumption may not be true which could have complicated the reliability of the performance measure. Another reason significance may not have been found is that it may take longer for the stock market to reflect success whereas ROA, as a measure of efficiency, would measure these effects more directly and quickly. In addition, stock price may be too broad a measure as it measures all aspects of the firm's performance and whether an executive remains within the post-merger firm may not have a significant impact on the post-merger stock price. Alternatively, after the initial market reactions at the time of the merger announcement, the market may take longer than one year to determine whether the merger is deemed to be a success.

No support was found for hypothesis 2B and all other hypotheses that examined the retention of expert power. Using the expert power dimension validated and tested by Finkelstein (1992), and used within this study, executives have very similar levels of education and experience (See Table 8) and there is very little to distinguish the post-merger expert power dimension from the pre-acquisition firm expert power dimension. Since expert power is defined as the executives' ability to contribute to organizational success (Finkelstein, 1992), it is believed that this would be a very important competency that an acquiring firm would want to acquire and additional research in this area is required.

Support was also found for the hypothesis that target executives would be more inclined to remain with the post-merger organization when there is a perception that the acquiring firm has a higher level of prestige power than that of the target. Perhaps these executives believe this type of environment will provide them with a greater opportunity for growth as the acquiring TMT may have more refined social networks or higher levels of competence to manage the newly created organization. Since the acquiring firm has a higher level of prestige power than that of the target firm, it is believed that the acquiring firm would not wish to retain all target executives. However, they may want to retain target executives that have the competencies and skills that could complement their organization. Even though D'Aveni and Kesner (1993) found that target managers would be more agreeable to remain in the organization, the actual number of target executives retained in the post-merger organization is influenced by the acquiring firm's opinion on whether these executives would help strengthen the overall level of prestige power in the post-merger firm.

No support was found for hypothesis 4A which theorized that post-merger performance is enhanced when the acquiring firm is able to retain a larger percentage of target executives when it is found that the target firm has a higher level of prestige power than that of the acquiring firm. These executives may feel their status has been reduced (Hambrick and Cannella, 1993) as they are now required to join a firm that they consider to be inferior. Also these executives may have a number of other attractive alternatives which they may choose over that of becoming an executive in the post-merger organization.

Support was found for the hypothesis that as the CEO of the post-merger firm is willing to reduce his/her level of structural power from that which he/she had within the pre-merger firm, that this would improve the level of target executive retention. Structural power is measured by the type and number of positions the executive holds. A CEO who is also chairman of the board has a high level of structural power as he/she not only is the senior executive within the firm, but also has authority in controlling and/or influencing board decisions. If that executive also has the title of President or Chief Operating Officer, the power is increased even further as he/she has very few checks and balances. Stepping down from one of the power positions will allow other executives an opportunity to step into that role and sends a message through the organization that the executive is willing to work with others.

The above hypothesis dealt with the direct effect of prestige and expert power as it relates to post-merger firm performance. However, many other factors may also have to be considered such as whether the acquiring firm had the financial wherewithal to effectively manage the merger and whether the acquiring and/or target firm had the managerial resources necessary to facilitate an effective implementation. The first item deals with financial slack and the second with human resource slack which are addressed in the next section.

Explanation of Results – Moderation Effects Hypotheses

Hypotheses six (6) and seven (7) dealt with the moderating influence of financial and human resource slack on power retention. Effective integration requires a substantial commitment of managerial resources (Haspeslagh and Jemsion, 1991). These could consist of financial and/or managerial resources. Gary (2005), identified that insufficient slack may contribute to unsuccessful merger outcomes and thus recommended that slack be considered when investigating mergers.

Financial slack was not significant as a direct effect on merger outcomes. However, it was significant as it relates to moderating the relationship between target firm prestige power and post-merger prestige power retention. Having sufficient financial resources to manage the implementation through the various stages was found to be necessary for the acquiring company to obtain the competencies it was striving to acquire.

No significance was found on the moderating role of financial slack on expert power retention. This is not surprising as there was no significance in the main effect hypotheses relating to expert power. This finding may be more a function of the nature of the expert power data that existed within my sample than on whether financial slack may be an appropriate moderator.

Financial resources need to be resident within the acquiring firm, however, human resource slack, could exist within either the acquiring or target firm. The integration of two organizations into one well performing unit requires a significant commitment of human resources (Graebner, 2004; Haspeslagh and Jameson, 1991). It was hypothesized that this commitment may originate from either the acquiring or target organization. Support was found for both Hypothesis 7A/7C which posited that acquiring/target firm HR slack moderates the relationship between target firm prestige power and the resultant post-merger target firm retention. While support was found that human resource slack moderated prestige power retention whether it originated from the acquiring or target firm, the effect was stronger when the slack originated from the target firm, further strengthening Graebner's (2004) argument that to improve the possibility of an effective merger, the target executives need to be involved in implementation activities. Her study found that involving the target executives within merger implementation activities provides not only expected synergies, but also serendipitous benefits which she defined as unexpected synergies that were not initially identified.

Contributions and Implications

This section examines the contributions of this research to the field of academic scholarship and then addresses the implications these research findings may have for future academic research and for the business community.

Academic Contribution

Prior research has examined the importance of retaining target executives. To achieve a sustainable competitive advantage Hatch and Dyer (2004) found that turnover of managers and executives must be minimized as the firms with a higher level of turnover significantly under perform their competitors. Within the M&A literature, researchers have found evidence that the retention of executives from the target organization leads to improved post-merger performance (Cannella and Hambrick, 1993; Krishnan, Miller and Judge, 1997; Zollo and Singh, 2004), however within five years nearly 70% of target executives will no longer be associated with the post-merger firm (Krug and Aguilera, 2005). Cannella and Hambrick were one of the first to examine the consequences of target executive departures and they found evidence that the departures of the more senior executives had the most severe effect on post-merger performance.

Rather than simply examining target executive retention, this study examines the types of power that exist within the acquiring and target firm and the interactions these various power dimensions may have on post-implementation performance. Evidence was found that post-merger performance was improved when the post-acquisition firm had a higher level of prestige power than that which existed in the pre-acquisition acquiring firm.

Support was also found that power retention is influenced by the levels of power that exist within the pre-merger firms. D'Aveni and Kesner (1993), in their research found that target executives were more likely to agree to a merger if they felt they had less prestigious connections than the acquiring firm. This study built upon and extended this line of inquiry to determine if executives with less prestigious connections would be more disposed to join the post-merger organization when they believed they had less prestigious connections than that of the acquiring firm. Support was found for this hypothesis.

Desai, Kroll, and Wright (2003) found that CEO duality was negatively associated with acquisition performance. This study extended this line of thinking by examining whether the willingness of an executive to relinquish a portion of his/her structural power would result in improved target executive retention. This hypothesis was supported.

Additionally, the results of the study support the finding by Gary (2005) that even when synergy opportunities exist, that the absence of slack will destroy value as it relates to post-merger implementation issues. In this study, both acquiring firm financial slack and human resource slack within either the acquiring or target firm positively moderated the relationship between target firm prestige power and post-merger power retention.

Implications for Research

Zollo and Singh (2004) found that the retention of top managers from the target firm and an increased level of integration between the two merged firms were positively related to performance. The results of the dissertation did not find evidence that the retention of target executives led to improved performance, however, post-acquisition performance was improved when the prestige power that resides within some of the target executives was retained. Future studies need to extend the inquiry of target executive retention to ascertain whether the executives the acquiring organization was striving to retain, were retained. In addition, future researchers could examine the competencies and skills the acquiring firm was attempting to acquire from the target organization to determine whether those competencies were retained. Utilizing the power dimensions as a proxy for competencies, evidence was found that when the post-merger firm increased its level of prestige power over that which existed in the pre-merger acquiring firm that performance improved.

Organizational slack, which is defined as the difference between resources that the firm possesses and the resources required to run the business, has been considered a necessary requirement in implementing diversification initiatives (Bourgeois, 1981; Chakravarthy, 1986; Gary, 2005; Nohria and Gulati, 1996). Researchers have examined the relationship of slack to a variety of performance outcomes such as market expansion (Mishina, Pollock and Porac, 2004), product expansion (Mishina, Pollock and Porac, 2004), innovation (Geiger and Cashen, 2002; Herold et al, 2006; Nohria and Gulati, 1996), environmental uncertainty (Bourgeois, 1981; Lawson, 2001) and mergers and acquisitions (Gary, 2005). Financial slack gives an organization the wherewithal to invest in a new venture and human resource slack provides the expertise and time to be able to integrate the two organizations. The acquiring organization requires financial slack because without this slack they would not have the monetary resources to engage in the merger in the first place (Nohria and Gulati, 1996; Singh, 1986). A number of studies have examined financial slack with fewer studies investigating human resource slack.

Mishina et al., (2004) encouraged researchers to also investigate human resource slack as financial and human resource slack can have different effects on post-merger performance. As an example, Mishina et al., (2004) found that human resource slack positively moderated the relationship between market expansion and sales growth, whereas financial slack did not have an impact on this relationship. Both financial and human resource slack were found to have a moderating impact on the retention of prestige power from the pre-merger target organization. In relation to M&A's implementation research, future researchers should examine the various slack variables to determine whether the inclusion of this variable may yield additional understanding of these phenomena and provide a more appropriate explanation of performance.

In this study, both Jensen's alpha and ROA were used to evaluate post-merger performance and significance was only found on the ROA measure. ROA as a measure of efficiency may reflect results of a strategic decision on a timelier basis, but it may take a longer time for the results to be reflected in the Jensen's alpha measure. Consequently, a fruitful area for future research would be to investigate the timing impacts of these two distinct performance measures.

Support was found for the prestige power dimension, but no support was found for the expert power dimension. Future researchers could develop alternative measures of expert power to determine whether the retention of this type of power is important for post-merger firm performance. In addition, an examination of the types of prestige power and or expert power that are more critical to retain is another fruitful field of inquiry. And finally, a more fine grained analysis of these dimensions using survey data may unlock some of the unspecified variables alluded to by King et al (2004)

Implications for Management

Larsson and Finkelstein (1999) concluded that organizational integration was the strongest predictor of success. Yet ironically, they found that 40% of the companies studied did not appropriately manage the integration process.

Graebner and Eisenhardt (2004) found that when target management took an active role in implementation processes that key target executives and employees were more likely to stay and post-merger performance was enhanced. Target executives had a better understanding of how their firm's competencies could be effectively integrated into the post-merger organization. They were able to provide a much higher level of comfort for target firm employees as they were able to anticipate and resolve potential conflicts on a more timely basis thus minimizing the concerns that exist whenever M&A occur. This resulted in not only the expected value, but in creating serendipitous value as well.

Managers need to select the target executives they wish to retain in the post-merger organization. In addition, they need to identify the specific skills and competencies those executives possess. Then strategies and processes should be established that will improve the probability of retaining those executives and the competencies which they possess. One way this can be accomplished is by providing target executives with a pivotal role and mandate in the implementation process. To facilitate the involvement of target executives in implementation processes, in the event that there is insufficient human resource slack within the target firm, the acquiring firm should utilize some of their staff to help run the target firm's day to day business thus freeing up time for a few of the key target firm executives to be actively involved in implementation activities.

Evidence was found that when the acquiring firm's top executive is pre-disposed to relinquish a portion of his/her structural power, that target executive retention is improved. Providing the target CEO with a title of president or chairman of the board, which was formally held by the CEO of the acquiring firm, provides evidence that the skills of the target executive are appreciated and required.

Limitations and Future Research

The metrics within this study examined the number of target executives that remained in the firm after the first year anniversary of the merger. Future studies could examine executive power as it relates to turnover in subsequent years as Lubatkin et al (1999) found that this type of study could reveal important contingencies that may be at play. In their research they suggested that year one departures not only included the departures of executives the acquiring firms was attempting to retain, but also included executive departures that were planned. Whereas, they believed that the examination of executive departures in years two through four may more fully capture executives that the post-merger firm intended to retain.

Another area that could prove to be a fruitful area for future research is previous M&A experience as this was not investigated in this study. Some authors have found that acquisition experience may enhance current merger implementation effectiveness (Barkema, Bell, and Pennings, 1996; Bruton, Oviatt, and White, 1994), whereas others found nonsignificant findings on this relationship (Bruton et al, 1994; Hayward, 2002; Kroll et al, 1997; Zollo and Singh, 2004). More recently, authors have concluded that acquisition experience exhibits a U-shaped relationship on post-merger firm performance (Haleblian and Finkelstein, 1999; Zollo and Reuer, 2006). Zollo and Reuer (2006) determined that after the twenty-second merger, that prior merger experience enhances post-merger performance. Further, they found that alliance experience rather than acquisition experience had a stronger impact on current merger implementation performance.

Expert power is defined as the executives' ability to contribute to organizational success and yet within this study utilizing measures of expert power developed by Finkelstein (1992), no significance was found. A fruitful area for future researchers to explore is the identification of alternative measures of expert power. One measure that could be utilized to measure this dimension is "expert informant subjective assessments" (Data and Grant, 1990; Schoenberg, 2006). This measure relies on ratings of press reports and/or financial commentaries on executives.

Both financial and human resource slack were found to have a moderating impact on the retention of prestige power from the pre-merger target organization. Future M&A studies should ensure both financial and HR slack are included as variables in their analysis. In addition, future studies may want to examine the appropriate level of financial slack as previous authors have found that too much slack can be inefficient and wasteful (Jensen and Meckling, 1976; Nohria and Gulati, 1996). Geiger and Cashen (2002) found that there was an inverted u shape relationship between the level of financial slack and innovation. If this type of relationship exists within the stream of innovation research, it is probable that a similar relationship may exist between financial slack and effectiveness of merger outcomes.

Another field that may be useful to investigate is the role of social capital on merger implementation performance (Koka and Prescott, 2002). These authors developed and tested a multi-dimensional construct of social capital that contains three distinct types of information: that there are different types of social capital an executive may possess which they define as:

1) Information volume (quantity of information),

2) Information diversity (variety of information), and

3) Information richness (quality of information).

They found evidence in their investigation of alliances, that each of these dimensions impact firm performance in a different manner. This type of study could profitably be investigated within the field of mergers and acquisitions to determine the types of social capital the acquiring firm may acquire and the impact each of these dimensions of social capital may have on subsequent post-merger firm profitability.

In this dissertation mergers from a variety of industries were examined which improves generalizability. The use of archival data does not provide an understanding of how each of the organizations conducted the integration activities. Abetti (2006), using interviews with the acquiring and target executives, found that one reason the integration of Steria to Bull was so successful, was that they conducted one day and two day workshops that included executives from both firms. Future researchers may want to combine the use of archival data with survey data to provide a better understanding of the M&A phenomena.

Another very important area for future researchers to investigate is a more holistic approach to M&A's. Barkema and Schijven (2008) cautioned researchers that acquisitions are not isolated events and the implementation of the acquiring firm's corporate strategy may take decades to be achieved as it could be contingent on the firm undergoing a sequence of merger activities. It is possible that for a firm to achieve the strategic position that they are striving to obtain, they may be required to undertake a merger that may be considered uneconomic and that investors may consider a poor investment. However, once this merger has been completed the post-merger firm may be in a position to undertake a subsequent merger that would allow it to achieve the sustainable competitive advantage it was striving to obtain. This study only examined each merger as separate phenomena. Future studies may want to investigate the sequence of mergers a firm undertakes in order to implement a corporate strategy.

Conclusions

King et al (2004), in their meta analysis of empirical M&A studies, summarized the last two decades of research and concluded that the most commonly examined variables researched to date have not provided appropriate explanation of M&A performance. However, they found that there were variables that the researchers have not yet identified that may explain significant variance in post acquisition performance and they encouraged future researchers to identify these variables. Homburg and Bucerius (2005) also recommended that additional research in this area is needed and warranted.

Prior researchers have found empirical support that the functional background of the top management team and the CEO, coupled with their strategic preferences and experiences, can affect acquisition activities (Finkelstein, 1992; Jensen and Zajac, 2004; Palmer and Barber, 2001; Song, 1982; Wiersema and Bantel, 1992).

Very little research within M&A literature has concentrated on the impact of CEO and TMT power characteristics (Finkelstein, 1992) of the acquiring and target firms on subsequent merger firm effectiveness (Krishnan and Park, 2003). The purpose of this study was to extend this line of inquiry into the TMT power dimensions. Another purpose of the study was to investigate the moderating role of organizational slack on power retention in the post-merger organization.

Support was found that an increase in the level of power in the post-acquisition firm over that which had existed in the acquiring firm resulted in a higher level of post-merger firm performance. Also it was found there were important contingencies within the power dimensions that must be analyzed to facilitate the transfer of target executive power into the post-merger firm. These contingencies included an understanding of the power levels that existed in the pre-merger firms and the impact this may have had on the retention of target executive power. In this dissertation, support was found that when the acquiring organization had a higher level of prestige power than that which existed within the target organization, that target executives were more inclined to join the post-merger firm. Other important considerations were the levels of structural power within the pre merger organizations and the willingness of the CEO of the post-merger firm to share a portion of this power. Finally, financial and human resource slack was found to provide a positive impact on the transfer of power from the target organization to the post-merger firm.

FIGURES

Figure 1

Dissertation Research Model

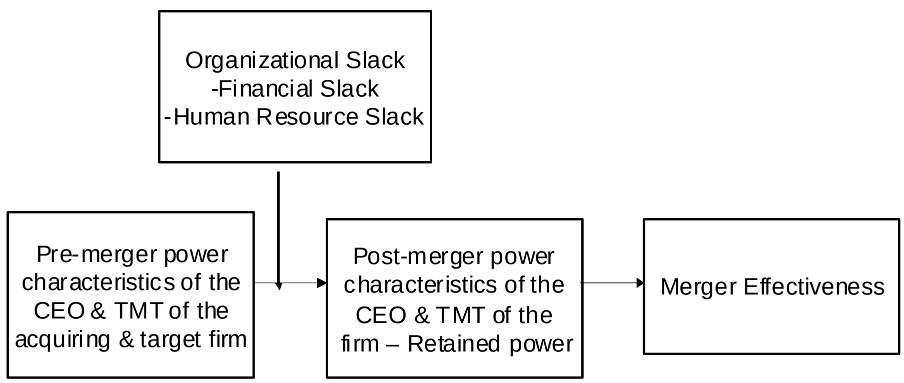
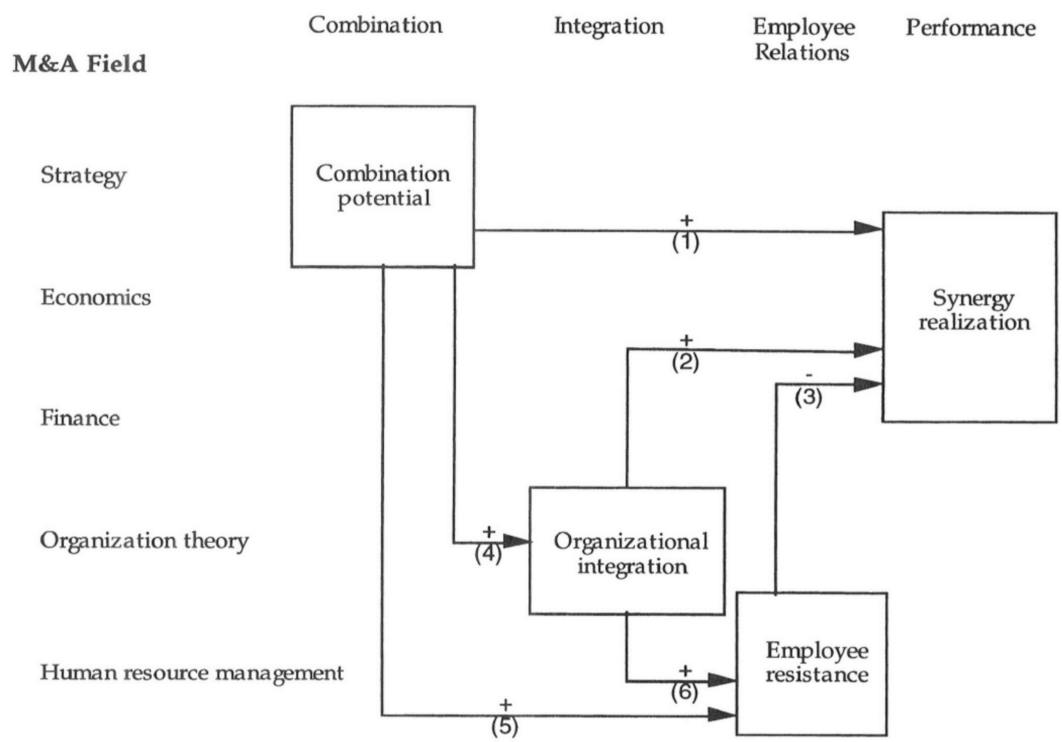


Figure 2

Larsson and Finkelstein (1999) Merger and Acquisition Integrative Model



[a]Numbers in parentheses refer to hypotheses.

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APPENDICES

Appendix A

Elite Educational Institutions

Reprinted from Finkelstein, 1992

Amherst College
Brown University
Carleton College
Columbia University
Cornell University
Dartmouth College
Grinnell College
Harvard University
Haverford College
John Hopkins University
Massachusetts Institute of Technology
New York University
Northwestern University
Oberlin College
Pomona College
Princeton University
Stanford University
Swarthmore College
United States Military Academy
United States Naval Academy
University of California, Berkeley
University of California, Los Angeles
University of Chicago
University of Michigan
University of Pennsylvania
Wellesley College
Wesleyan University
Williams College
Yale University

Appendix B

Hypotheses – How They were Measured and Tested

Hypotheses	Measures	Method
H1: In synergistic M&As, the higher the target executive retention, the greater the post-acquisition firm performance.	**Target executive retention** = % target executive in the post acquisition firm. **Post-acquisition firm performance** is measured in two ways. ROA & Jensen's alpha.	OLS Regression
H2A In synergistic M&As, the greater the increase in prestige power of the post-acquisition firm over the pre-acquisition prestige power of the acquiring firm, the greater the post-acquisition firm performance.	**Prestige power** = elite education + founder status + # of boards. Measured for post-acquisition firm and pre-acquisition acquiring firm. **Post-acquisition firm performance** – refer to H1. **Change in prestige power =** [(post-merger firm prestige power) – (pre-acquisition firm prestige power)]. Positive number represents an increase	OLS Regression
H2B In synergistic M&A, the greater the increase in expert power of the post-acquisition combined firm over the pre-acquisition expert power of the acquiring firm, the greater the post-acquisition firm performance.	**Expert power** = tenure as an exec + tenure in the organization + level of education for each TMT. **Post-acquisition firm performance** – refer to H1. **Change in expert power =** (post-merger firm expert power) – (pre-acquisition firm expert power)	OLS Regression
H3A: In synergistic M&As, the greater (lesser) the prestige power of the acquiring firm over the prestige power of the target firm, the greater (lower) the target executive retention.	**Prestige power** – refer to H2A. **Target executive retention** – refer to H1. Measured for both pre-acquisition firms and the post-acquisition firm. **Difference in prestige power** = (pre-acquisition firm prestige power) – (pre-target firm prestige power)	OLS Regression
H3B: In synergistic M&As, the greater (lesser) the expert power of the acquiring firm over the expert power of the target firm, the greater (lower) the target executive retention.	**Expert power** – refer to H2B. **Target executive retention** – refer to H1. Measured for both pre-acquisition firms and the post-acquisition firm. **Difference in expert power** = (pre-acquisition firm expert power) – (pre-target firm expert power)	OLS Regression
H4A: When the target firm TMT has a higher level of prestige power than that of the acquiring firm, the greater the percentage of target executives on the post-acquisition top management team, the greater the post-acquisition firm performance.	**Prestige power** – refer to H2A. Measured for both pre-acquisition firms and the post-acquisition firm. **Target executive retention** – refer to H1. **Post-acquisition firm performance** – refer to H1. **Difference in prestige power** = refer to H3a	OLS Regression

Hypotheses	Measures	Method
H4B: When the target firm TMT has a higher level of expert power than that of the acquiring firm, the greater the percentage of target executives on the post-acquisition top management team, the greater the post-acquisition firm performance.	**Expert power** – refer to H2B. Measured for both pre-acquisition firms and the post-acquisition firm **Target executive retention** – refer to H1. **Post-acquisition firm performance** – refer to H1. **Difference in expert power** = refer to H3b	OLS Regression
H5A In synergistic M&As, the greater the decrease in CEO structural power of the post-acquisition firm over the CEO structural power in the pre-acquisition acquiring firm, the greater the target executive retention.	**CEO Structural Power** is calculated for CEO of acquiring firm and post-acquisition firm if they are the same individual. It is based on # of titles held by CEO. Measured as a 1 if CEO, 2 if CEO and either COO or President, 3 if CEO and chairman of board, and 4 if CEO, chairman & President/COO. **Target executive retention**–refer to H1.	OLS Regression
H5B In synergistic M&As, the greater the decrease in CEO structural power of the post-acquisition firm over the CEO structural power in the pre-acquisition acquiring firm, the greater the post-acquisition firm performance.	**CEO Structural Power** refer to H5A. **Post-acquisition firm performance** – refer to H1.	OLS Regression
H6A: Acquiring firm financial slack will moderate the relationship between target firm prestige power and post-merger firm prestige power retention such that as acquiring firm financial slack increases, the relationship between target firm prestige power and post-merger prestige power retention is strengthened.	**Financial slack** = [(Firm debt) / (Firm equity)] – [(Industry debt) / (Industry equity)]. Numbers greater than zero would signify that the acquiring firm has a higher level of slack than the industry. **Target prestige power** – refer to H2A. **post-merger prestige power retention** = level of prestige power in post-merger firm	OLS Regression
H6B: Acquiring firm financial slack will moderate the relationship between target firm expert power and post-merger firm expert power retention such that as acquiring firm financial slack increases, the relationship between target firm expert power and post-merger expert power retention is strengthened.	**Financial slack** – refer to H6A. **Target expert power** – refer to H2B. **Post-acquisition firm performance** – refer to H1. **post-merger expert power retention** = level of expert power in post-merger firm	OLS Regression
H7A: Acquiring firm human resource slack will moderate the relationship between target firm prestige power and post-merger prestige power retention such that as acquiring firm human resource slack increases, the relationship between target firm prestige power and post-merger prestige power retention is strengthened.	**Human Resource Slack** = [(Firm employees) / (Firm Sales)] – [(Industry employees) / (Industry Sales)]. Numbers greater than zero would signify that the acquiring firm has a higher level of slack than the industry. Measured for the acquiring firm. **Target prestige power** – refer to H2A. **Post-acquisition firm performance** – refer to H1.	OLS Regression

Hypotheses	Measures	Method
H7B: Acquiring firm human resource slack will moderate the relationship between target firm expert power and post-merger expert power retention such that as acquiring firm human resource slack increases, the relationship between target firm expert power and post-merger expert power retention is strengthened.	**Human Resource Slack** - refer to H7A. Measured for the acquiring firm**. Target expert power** – refer to H2B. **Post-acquisition firm performance** – refer to H1.	OLS Regression
H7C: Target firm human resource slack will moderate the relationship between target firm prestige power and post-merger prestige power retention such that as target firm human resource slack increases, the relationship between target firm prestige power and post-merger prestige power retention is strengthened.	**Human Resource Slack** - refer to H7A. Measured for the target firm. **Target prestige power** – refer to H2A. **Post-acquisition firm performance** – refer to H1.	OLS Regression
H7D: Target firm human resource slack will moderate the relationship between target firm expert power and post-merger expert power retention such that as target firm human resource slack increases, the relationship between target firm expert power and post-merger expert power retention is strengthened.	**Human Resource Slack** - refer to H7A. Measured for the target firm. **Target expert power** – refer to H2B. **Post-acquisition firm performance** – refer to H1.	OLS Regression

Appendix C

Billion Dollar Mergers in the Sample

	Acquirer and Target Companies	Merger Date
1	AccuStaff - Career Horizons	11/14/1996
2	Adelphia Communications - Century Communications	10/1/1999
3	Albertson's Inc - American Stores Co	6/24/1999
4	Allegheny Ludlum - Teledyne	8/15/1996
5	AlliedSignal Inc - Honeywell Inc	12/2/1999
6	American Tower Corp - SpectraSite Inc	5/4/2005
7	Anthem Inc - WellPoint Health Networks Inc	11/30/2004
8	Archstone Communities Trust - Charles E Smith Realty Inc	10/31/2001
9	Associated Banc-Corp - First Financial	10/29/1997
10	Astoria Financial Corp - Long Island Bancorp	10/1/1998
11	BANC ONE - First Chicago	10/2/1998
12	BEC Energy Co - Commonwealth Energy System	8/25/1999
13	Boeing - McDonnell Douglas	8/1/1997
14	Boise Cascade Corp - Officemax Inc	12/9/2003
15	Burlington Resources - Louisiana Land and Exploration	10/22/1997
16	CalEnergy - MidAmerican Energy Holdings	3/12/1999
17	Caremark RX Inc - AdvancePCS	3/24/2004
18	Charles River Laboratories International Inc - Inveresk Research Group Inc	10/20/2004
19	Chemical Banking - Chase Manhattan	3/31/1996
20	Chevron Corp - Texaco Inc	10/9/2001
21	Cimarex Energy Co - Magnum Hunter Resources Inc	6/7/2005
22	Clear Channel Communications Inc - AMFM Inc	8/30/2000
23	Commerce One Inc - AppNet Inc	9/14/2000
24	Consumer Value Store - Revco DS	5/30/1997
25	CoreStates Financial - Meridian Bancorp	4/9/1996
26	Crompton & Knowles - Uniroyal Chemical	8/21/1996
27	Crompton & Knowles Corp - Witco Corp	9/1/1999
28	Crompton Corp - Great Lakes Chemical Corp	7/1/2005
29	Devon Energy Corp - Mitchell Energy & Development Corp	1/24/2002
30	Devon Energy Corp - PennzEnergy Co	8/17/1999
31	Devon Energy Corp - Santa Fe Snyder Corp	8/29/2000
32	DTE Energy Co - MCN Energy Group Inc	5/31/2001
33	El Paso Energy Corp - Coastal Corp	1/29/2001
34	El Paso Energy Corp - Sonat Inc	10/25/1999
35	Exxon Corp - Mobil Corp	11/30/1999
36	Federated Department Stores Inc - May Department Stores Co	8/30/2005
37	Fidelity National Financial Inc - Chicago Title Corp	3/20/2000

	Acquirer and Target Companies	Merger Date
38	First Data - First Financial Management	10/27/1995
39	Firstar Corp - Mercantile Bancorp	9/20/1999
40	Firstar Corp - Mercantile Bancorp	7/30/1999
41	FirstEnergy Corp - GPU Inc	11/6/2001
42	Fred Meyer - Smith's Foods & Drug Centers	9/9/1997
43	Frontier - ALC Communications	8/17/1995
44	General Growth Properties Inc - Rouse Co	11/23/2004
45	Halliburton Co - Dresser Industries Inc	9/30/1998
46	HealthSouth (HS) - Horizon/CMS Healthcare	10/29/1997
47	Hercules Inc - BetzDearborn Inc	10/15/1998
48	Hilton Hotels - Bally Entertainment	12/18/1996
49	Houston Industries - NorAm Energy	8/6/1997
50	Independence Community Bank Corp - Staten Island Bancorp Inc	4/13/2004
51	Iron Mountain Inc - Pierce Leahy Corp	2/1/2000
52	JDS Uniphase Corp - Optical Coating Laboratory Inc	2/4/2000
53	Jefferson Smurfit - with Stone Container	11/18/1998
54	Kana Communications Inc - Silknet Software Inc	4/19/2000
55	Kimberly-Clark - Scott Paper	12/12/1995
56	KLA Instruments - Tencor Instruments	4/30/1997
57	Kmart Holding Corp - Sears Roebuck & Co	3/24/2005
58	Lennar Corp - US Home Corp	5/2/2000
59	Liberty Media International Inc - UnitedGlobalCom Inc	6/15/2005
60	Lyondell Petrochemical Co - ARCO Chemical Co	7/28/1998
61	Martin Marietta - Lockheed	3/15/1995
62	Maxim Integrated Products Inc - Dallas-Semiconductor Corp	4/11/2001
63	Maxtor Corp - Quantum HDD	4/2/2001
64	Mead Corp (MC) - Westvaco Corp	1/30/2002
65	MGM Mirage Inc - Mandalay Resort Group	4/25/2005
66	National-Oilwell Inc - Varco International Inc	3/11/2005
67	NationsBank Corp - BankAmerica Corp	9/30/1998
68	NBD Bancorp - First Chicago	12/1/1995
69	NetIQ Corp - Mission Critical Software Inc	5/15/2000
70	New York Community Bancorp Inc - Roslyn Bancorp Inc	10/31/2003
71	NextLink Communications Inc - Concentric Network Corp	6/19/2000
72	Northrop Grumman Corp - Litton Industries Inc	5/30/2001
73	Northrop Grumman Corp - TRW Inc	12/11/2002
74	NOVA Corp - PMT Services Inc	9/24/1998
75	Ohio Edison - Centerior Energy	11/7/1997
76	Omnicare Inc - NeighborCare Inc	7/28/2005
77	PacifiCare Health Systems - FHP International	2/14/1997
78	Patterson Energy Inc - UTI Energy Corp	5/8/2001
79	Pennsylvania Real Estate Investment Trust - Crown American Realty Trust	11/20/2003

	Acquirer and Target Companies	Merger Date
80	Peregrine Systems Inc - Remedy Corp	8/27/2001
81	Pfizer Inc - Warner-Lambert Co	6/19/2000
82	Phillips Petroleum Co - Conoco Inc	8/30/2002
83	Phillips Petroleum Co Inc - Tosco Corp	9/17/2001
84	Phone.com Inc - Software.com Inc	11/17/2000
85	Potomac Electric Power Co - Conectiv Inc	8/1/2002
86	Praxair - CBI Industries	3/12/1996
87	Provident - Paul Revere	3/27/1997
88	Rite Aid - Thrifty Payless Holdings	12/12/1996
89	Rohm and Haas Co - Morton International Inc	6/21/1999
90	SBC Communications - Pacific Telesis	4/1/1997
91	Seagate Technology - Conner Peripherals	2/5/1996
92	Security Capital Pacific Trust - Security Capital Atlantic	6/30/1998
93	Simon Property Group - DeBartolo Realty	8/9/1996
94	Southdown - Medusa	6/30/1998
95	Sprint Corp - Nextel Communications Inc	8/12/2005
96	St Paul Cos - USF&G	4/24/1998
97	Suiza Foods Corp - Dean Foods Co	12/21/2001
98	Transocean Sedco Forex Inc - R&B Falcon Corp	1/31/2001
99	Travelers Group Inc - with Citicorp	10/8/1998
100	Tribune Co - Times Mirror Co	6/12/2000
101	UNUM Corp - Provident Cos	6/30/1999
102	Valero Energy Corp - Ultramar Diamond Shamrock Corp	12/31/2001
103	Viacom Inc - CBS Corp	5/4/2000
104	VoiceStream Wireless Corp - Omnipoint Corp	2/28/2000
105	Walt Disney - Capital Cities	2/9/1996
106	Washington Mutual Bank - Great Western Financial	7/2/1997
107	Washington Mutual Inc - HF Ahmanson & Co	10/1/1998
108	WebMethods Inc - Active Software Inc	8/16/2000

Appendix D

Hypotheses Betas

Hyp	DV		Beta	Sig
H1	ROA	Control – relative size	-.093	.341
		Target exec as % of post-merger firm	-.069	.482
	Jensen's alpha	Control – relative size	-.058	.576
		Target exec as % of post-merger firm	-.003	.979
H2A	ROA	Control – relative size	.026	.744
		Prestige - Δ elite educ	.160	.045
		Prestige - Δ founder status	-.577	.000
		Prestige - Δ for profit boards	-.051	.512
	Jensen's alpha	Control – relative size	-.027	.789
		Prestige - Δ elite educ	-.134	.177
		Prestige - Δ founder status	-.189	.063
		Prestige - Δ for profit boards	0.72	.462
H2B	ROA	Control – relative size	-.102	.313
		Expert - Δ tenure as an exec	.047	.704
		Expert - Δ tenure in the org	-.014	.914
		Expert - Δ level of education	-.022	.824
	Jensen's alpha	Control – relative size	-.093	.350
		Expert - Δ tenure as an exec	-.023	.849
		Expert - Δ tenure in the org	.219	.080
		Expert - Δ level of education	.007	.941
H3A	Exec retention	Control – relative size	.096	.306
		Prestige - Δ elite educ	-.241	.012
		Prestige - Δ founder status	-.169	.075
		Prestige - Δ for profit boards	-.022	.813
H3B	Exec retention	Control – relative size	.069	.497
		Expert - Δ tenure as an exec	.112	.399
		Expert - Δ tenure in the org	-.124	.359
		Expert - Δ level of education	-.005	.956
H4A	ROA	Control – relative size	-.147	.152
		Prestige power – target higher	.089	.362
		Actual retention – expected retention	-.137	.181
	Jensen's alpha	Control – relative size	-.053	.606
		Prestige power – target higher	-.058	.555
		Actual retention – expected retention	.001	.996
H4B	ROA	Control – relative size	-.133	.193
		Expert power – target higher	-.095	.330
		Actual retention – expected retention	-.126	.216
	Jensen's alpha	Control – relative size	-.052	.613
		Expert power – target higher	-.071	.471
		Actual retention – expected retention	.001	.990

Hyp	DV		Beta	Sig
H5A	Exec retention	Control – relative size	.087	.344
		CEO structural power change	.339	.000
	ROA	Control – relative size	-.099	.310
		CEO structural power change	-.080	.412
	Jensen alpha	Control – relative size	-.056	.563
		CEO structural power change	-.044	.649
H6A	P-Mgr Prestige pwr	Control – relative size	.078	.382
		Target elite educ	.107	.250
		Target boards	.458	.000
		Acq firm Fin slack	.207	.853
		Fin slack*target elite education	-.214	.849
		Fin slack*target boards	.027	.761
H6B	P-Mgr Expert pwr	Control – relative size	.187	.072
		Target – tenure as an exec	.156	.256
		Target – tenure in organization	.077	.581
		Target – education level	-.066	.495
		Acq firm fin slack	-9.056	.108
		Fin slack*target tenure as an exec	-1.291	.190
		Fin slack*target tenure in org	.753	.355
		Fin slack*target education level	9.531	.110
H7A	P-Mgr Prestige pwr	Control – relative size	.100	.237
		Target elite educ	.097	.289
		Target boards	.351	.000
		Target founder	-.071	.435
		HR acq slack	-1.873	.659
		HR acq slack*target elite education	1.893	.655
		HR acq slack*target boards	.266	.006
		HR acq slack*target founder	.063	.532
H7B	P-Mgr Expert pwr	Control – relative size	.224	.027
		Target – tenure as an exec	.314	.018
		Target – tenure in organization	-.201	.151
		Target – education level	-.110	.266
		HR acq slack	-5.841	.164
		HR acq slack*target tenure as an exec	-1.065	.443
		HR acq slack*target tenure in org	.606	.540
		HR acq slack*target education level	6.260	.132
H7C	P-Mgr Prestige pwr	Control – relative size	.110	.225
		Target elite educ	.101	.248
		Target boards	.449	.000
		Target founder	-.045	.605
		HR target slack	-.227	.973
		HR target slack*target elite education	.206	.975
		HR target slack*target boards	.148	.135
		HR target slack*target founder	.093	.286

Hyp	**DV**		**Beta**	**Sig**
H7D	P-Mgr Expert pwr	Control – relative size	.223	.037
		Target – tenure as an exec	.295	.029
		Target – tenure in organization	-.153	.279
		Target – education level	-.064	.513
		HR target slack	1.802	.278
		HR target slack*target tenure as exec	-.253	.313
		HR target slack*target tenure in org	.557	.419
		HR target slack*target education level	-.375	.863

VITA

Kenneth Blaine Lawlor

Candidate for the Degree of

Doctor of Philosophy

Dissertation: RELATIONSHIP OF CEO AND TMT PRE-MERGER POWER CHARACTERISTICS OF ACQUIRING AND TARGET FIRM WITH POST-MERGER EFFECTIVENESS

Major Field: Business Administration

Biographical:

Education: Completed the requirements for the Doctor of Philosophy in Business Administration at Oklahoma State University, Stillwater, Oklahoma in May 2009. Received a Masters in Business Administration from the University of Western Ontario, London Ontario in May 1980. Graduated from Simon Fraser University, Burnaby, British Columbia with a with a Bachelors degree in Arts (Commerce) in August 1974.

Experience: High School Teacher from 1976 until 1978. Employed in the Petroleum Industry from 1980 until 2001. Graduate Teaching Assistant from 2003 until 2006. Visiting Professor at Oklahoma State University Tulsa Campus from 2006 until 2008. Since August 2008, I have been an Assistant Professor at the University of West Florida.

Professional Memberships: Academy of Management Association.

Name: Lawlor, Kenneth Blaine Date of Degree: May 2009

Institution: Oklahoma State University Location: OKC or Stillwater, Oklahoma

Title of Study: RELATIONSHIP OF CEO AND TMT PRE-MERGER POWER CHARACTERISTICS OF ACQUIRING AND TARGET FIRM WITH POST-MERGER EFFECTIVENESS

Pages in Study: 120 Candidate for the Degree of Doctor of Philosophy

Major Field: Management

Scope and Method of Study:

Investigated the various types of power that exist within the pre-acquisition firms and how these types of power can be retained. It also examined the relationship between retained power in the post-merger firm with post-merger effectiveness and provided some empirical support on which types of power are the most important to obtain. This research also tested the moderating impact of human resource and financial slack on power retention. Archival data was captures on executives within one billion dollar mergers and regression was used to test the relationships.

Findings and Conclusions:

Support was found that an increase in the level of power in the post-acquisition firm over that which had existed in the acquiring firm resulted in a higher level of post-merger firm performance. Also it was found there were important contingencies within the power dimensions that must be analyzed to facilitate the transfer of target executive power into the post-merger firm. These contingencies included an understanding of the power levels that existed in the pre-merger firms and the impact this may have had on the retention of target executive power. Support was also found that when the acquiring organization had a higher level of prestige power than that which existed within the target organization, that target executives were more inclined to join the post-merger firm. Other important considerations were the levels of structural power within the pre merger organizations and the willingness of the CEO of the post-merger firm to share a portion of this power. The willingness of the CEO to reduce his/her level of structural power positively influenced target executive retention. Finally, financial and human resource slack was found to provide a positive impact on the transfer of power from the target organization to the post-merger firm.

ADVISER’S APPROVAL: Dr. Margaret A. White