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# The choice of Insider or Outsider top executives in acquired companies

**Introduction**

This paper presents the results of an empirical study into the type of top executive put in charge to manage an <u>acquired</u> company. Top executives have a critical role to play post-acquisition as they are vital for re-establishing strategic leadership (1) and have a key influence upon Merger and Acquisition ("M&A") performance (2). However many empirical studies show that there are significantly higher levels of change in top executives in an M&A situation than at other times (3). Indeed, in the UK, less than half of acquired CEOs remained in position two years post deal (4). With such significant levels of change in top executives in acquired companies, most being within the first two years (5) it is important to investigate whether the nature of top management leads to their retention or change.

The decision to retain incumbent top executives, or remove and replace them with ones drawn from outside the acquired company, may be influenced by their nature or, more specifically, their prior organisational experiences. In other contexts it has been shown that the prior organisational background of a top executive is associated with the amount of subsequent change which occurs in their company. When top executives are drawn from outside the organisation there follows significantly higher levels of subsequent organisational change than when incumbents remain in-post (6).

In a post-acquisition context numerous commentators have observed widely varying levels of subsequent organisational change. These are sufficiently varied in volume and nature to lead researchers to conclude that there are quite different approaches to integrating acquired companies (7). This has spawned a number of post-acquisition integration typologies (8) which identify distinctive ways in which acquired firms may be integrated. However none of these frameworks examines the nature of top executives in these situations. None asks whether different types of top executive might be used to manage alternative post-acquisition integration strategies and whether they are linked with specific types of organisational change. It is these questions which this paper addresses: which type of top executive, by prior organisational background, is used to manage an acquired company in order to pursue different post-acquisition integration strategies? How does top executive type affect the changes which occur in different integration strategies?

The paper begins by reviewing the literature on top executive change in acquired companies. It then links top executive type with overall organisational change. The dimensions of alternative post-acquisition typologies and a post-acquisition integration framework are then examined as a prelude to generating two first order hypotheses linking them with top executive type. Four post acquisition organisational integration styles are then discussed and second order hypotheses generated associating top executive type with post-acquisition integration style. The novel dual methodology, of quantitative survey and qualitative interviews, is outlined and results presented. Discussion follows about the use of Insider or Outsider top executives and the changes they make in different post-acquisition integration situations.

**Top executive change in M&A**
In response to why so many M&A fail, research attention has focused upon top executives in charge of acquired companies as they are intimately involved in implementation of post acquisition strategy. There is some debate over whether it is better to retain top executives or to replace them as some studies show that retained incumbents result in more successful integration outcomes (9) whilst others, such as Karaevli's (2007) substantial review of 5 decades of empirical research into the consequences of CEO change, show much more mixed results (10). Cases for and against retaining acquired top executives and for replacing them can be made. The loss of longer tenured executives can have the most detrimental effects on acquired firm performance as they have the greatest firm-specific knowledge which is not easily replaced (11) and provide leadership continuity which helps reduce employee uncertainty and negative reactions (12). However retaining long tenured top executives may also be an obstacle to change as they become more rigid in their actions and remain committed to prior policies. If the incumbent is the founder of the acquired business they might also run the business in a stewardship rather than agency way which may not mean the maximization of profits for new shareholders (13). Replacing incumbent top executives may allow a greater focus upon profitability as well as more novel strategies which diverge from those of predecessors. New top executives may be more open minded and more likely to make changes to the acquired firm. They may transfer acquirer systems and culture effectively to the target to increase interdependence with the parent company which may achieve short term performance objectives (14). However top executives drawn from outside the acquired business will lack critical firm level skills which may make fitting into the culture of the organization problemmatic (15).

The problem for all of these studies is that they seek to generalise the use of top executive type across all acquistions when there is significant evidence that acquistions are highly varied in nature, not least in terms of post acquistion integration. They also attempt to link top executive to acquisition outcome with little consideration for the actual changes which occur post acquisition. In other words to attempt to prescribe one type of top executive for all post acquisition strategies is to miss a crucial point, that post-acquisition integration is highly varied in nature and likely to require sensitive use of different types of top executive. It may be that ignoring what changes actually happen in the post acquisition phase is why so many studies seeking to link top executive type to post acquisition outcome are confounded.


**Top executives and organisational change**
Although there is little direct empirical research examining the link between top executive retention and actual, rather than inferred, post-acquisition organisational change, related areas of research are of some assistance. For instance, the turnaround literature is replete with examples of executive succession leading to significant organisational change (16). Even in contexts where there is no performance decline, top executive succession increases the likelihood of organisational transformation (17), and is often a necessary precondition for significant organisational change (18). Where the CEO is replaced, organisations are significantly more likely to undergo revolutionary transformation (19).

Linking top executive change with organisational change resonates with the Insider (a top executive drawn from within the focal firm) / Outsider (a top executive drawn from outside the focal firm) distinction. Findings from this literature are consistent: Outsiders tend to make more organisational changes than Insiders (20).

Explanations for differences in the volume of change include new top executives having fewer vested interests than incumbents (21), and they enter an atmosphere of expectancy about change in the organisation (22). From the appointers' perspective there may be a selection bias which favours Outsiders where change is required and Insiders where the status quo is preferred (23).

In summary there appears to be considerable empirical support for the view that systematic differences between Insiders and Outsiders may exist in terms of the volume of subsequent organisational change. In a post-acquisition context, with various integration styles demanding different levels of organisational change, a differential use of Insiders and Outsiders would, therefore, be expected. This paper therefore addresses the following questions; 1) is the nature of the top executive linked with their replacement or retention post acquisition, and 2) is the nature of the top executive in charge of managing an acquired firm associated with the subsequent approach to integration?

## Post-Acquisition Integration styles

Whilst a number of post-acquisition organisational typologies exist, the majority examine cultural cohesion and differences (24) rather than organizational change. Haspeslagh and Jemison (1991) however, identify a number of distinct post-acquisition organisational styles with specific organizational change implications. Their framework is based upon two key dimensions: *organisational autonomy* and *strategic interdependence.*

*Organisational Autonomy* is a central concept of organisational fit and is the extent to which the boundary of an acquired company's culture is preserved or dissolved. Where a boundary is disrupted there is negative impact on organisational culture (25). Where an acquired company's strategic capabilities are deeply embedded within its organisational culture, threats to its boundary, through loss of autonomy, are likely to result in damage to both culture and strategic capabilities (26). High levels of organisational autonomy are important then to protect acquired firms where strategic capabilities are deeply embedded in the company's culture (27). In such situations low levels of organisational change have been observed. Where the acquired company's strategic capabilities are not so embedded, there is less need for boundary protection and low levels of organisational autonomy are appropriate.  In these situations higher levels of organisational change have been observed.

*Strategic interdependence* is linked to the concept of strategic fit and how interdependent the two firms should be in terms of capability transfer and resource sharing. The extent of interdependence is determined by how value is to be obtained for the acquirer. Low interdependence means value for the acquirer is realised through *value capture*, a one time, transaction related, event, involving shifting value from previous shareholders/ stakeholders to the acquiring firm's stakeholders. Frequently a financial gain (28), it may also include value purely in ownership and through no formal capability transfer (29). High interdependence means value for the acquirer is realised through *value creation,* a longer-term phenomenon resulting from executive action and the transfer of capabilities between firms through mechanisms of resource sharing, functional skills transfer and general management capability. Such transfer creates value that would not exist if the firms operated separately as these capabilities are immobile (30) and not easily exchanged on the markets (31). Capron et al. (1998) confirm this by showing resource redeployment post-acquisition is more intense where resources face greater market failure (32). The implications for post-acquisition change in the acquired company are high levels of change where there is high strategic interdependence and low levels of change where there is low strategic interdependence.

**Organisational Autonomy and top executive change**

Higher levels of organisational autonomy suggest greater tolerance of corporate differences, low levels of organisational change and an increased likelihood of incumbent top executive retention. This view finds some support as organisational autonomy may be negatively associated with top executive turnover (33) and positively linked with acquired top executive retention (34). To preserve the acquired company's core competencies incumbents may be retained, or an Insider used, rather than the appointment of an Outsider which may have disruptive effects. Conversely low organisational autonomy is associated with high levels of post-acquisition change as there is little desire by the acquirer to maintain acquired company core competencies in their unique configuration. The acquirer will impose its own strategic view and is likely to use an Outsider to legitimise change. Outsiders would be less constrained than their Insider counterparts who are embedded in existing social systems (35) and subject to 'organisational inertia'. This lack of ties would give them greater discretion to take action in managing structural and procedural impediments to change. In situations of low organisational autonomy, Insiders would represent the old order and, as such, would be an obstacle to change. From this discussion the following hypothesis is derived:

*Hypothesis 1:* Post-acquisition organisational autonomy will be negatively associated with the appointment of Outsiders in the acquired company and positively associated with the retention of Insiders.

**Strategic interdependence and top executive change**

With increased interdependence the acquired company will experience greater levels of change. Transfers and sharing of resources and capabilities resulting from increased interdependence will disrupt the acquired company's configuration. The implication for top executives is that Insiders, who are highly associated with their firm's strategy and unique configuration, are likely to be less valuable to the acquirer where substantial resource transfer and sharing is intended. The Insider's value, stemming from embeddedness in the acquired company's social structure, will wane as their company's coherence fades. In order to bring about actual synergetic gains between two companies a new top executive drawn from outside the acquired company is likely. The Outsider will be closer to the parent board from the outset, aware of the conditions into which the acquired company should merge, can focus objectively upon realising synergies, will not be tied to previous ways of doing things, and may be better able to overcome organisational resistance in the acquired company. This is not to say that Insiders cannot begin to bring about synergetic interaction, but this may be restricted due to the limiting effects of their internal social ties.

Where there is low resource transfer or sharing, the need for inter-organisational executive skills will be far less and greater value placed upon the acquired company being run effectively. For this reason Insiders are likely to be retained and Outsiders would be perceived to be an unnecessarily disruptive force. From this discussion the following hypothesis is derived:

*Hypothesis 2:* Post-acquisition strategic interdependence will be positively associated with the use of Outsiders and negatively associated with Insiders in the acquired company.

**Post-acquisition integration styles and top executive type**

Bringing together the two dimensions, of Autonomy and Strategic Interdependence, results in Haspeslagh and Jemison's framework containing four distinct organisational integration styles described as Preservation, Absorption, Holding and Symbiotic[1].

Two of these post acquisition integration styles, Preservation and Absorption acquisitions are coherent with the Hypotheses 1 and 2 in that the former (with low strategic interdependence and high levels of autonomy) is likely to be dominated by Insiders and the latter (with high levels of strategic interdependence and low levels of autonomy) is likely to be mostly run by Outsiders.

Where there is contention between the framework axes is in situations of both i) low autonomy and low strategic interdependence (Holding acquisitions), where the former predicts the use of Outsiders and the latter, Insiders, and ii) high autonomy and high strategic interdependence (Symbiotic Acquisitions), where the former predicts the use of Insiders and the latter, Outsiders.

Holding acquisitions have low levels of autonomy, as they are in poor financial health and require substantial organisational change in order to prevent collapse. They have low levels of strategic interdependence, as there are concerns about the damage that may be caused to the parent firm by integrating a poor business. In situations where high levels of organisational change are necessary Outsiders should predominate. However, low levels of strategic interdependence suggest minimal interaction between parent and acquired company and the deployment of Insiders. The question is whether the lack of integration with the acquiring firm is more important than the need to make substantial changes in the acquired company as the former would imply a dominance of Insiders and the latter would suggest the use of Outsiders. The related turnaround literature offers clues to this dilemma as *'studies of corporate 'turnarounds' repeatedly confirm the necessity of hiring new chief executives in order to achieve strategic change and recovery'* (36). Whittington (2001) reviews several empirical studies showing that Outsiders dominate in situations of poor financial health. '*Often managers recruited from outside the organisation are necessary to achieve the changes required for a turnaround, as Insiders are reluctant to impose radical change'* (37). Higher levels of organisational change, following the replacement of top management, is an enduring observation for companies needing to restructure (38). For these reasons Outsiders are likely to dominate in Holding Acquisitions.

*Hypothesis 3*   Outsiders will predominate in Holding acquisitions

Symbiotic acquisitions have high strategic interdependence, as value is created by inter-organisational synergies, and high levels of autonomy, as its configuration is highly valued. This creates a paradox as valuable immobile capabilities embedded in the acquired company's culture necessitate high autonomy and low levels of change, whilst the intention to realise synergies through transferring capabilities requires high levels of interdependence and high levels of change. The paradox is how can the acquired firm be simultaneously autonomous and integrated?  For reconciliation Haspeslagh and Jemison introduce a temporal element into their framework by proposing that autonomy is critical for the acquired company at the outset, to protect acquired capabilities, but note that increasing interaction through capability transfer is necessary over time as both companies work toward a new organisational solution. It is likely that Insiders will be associated with the immediate post-acquisition period and Outsiders thereafter as the level of integration and organisational change increase.
*Hypothesis 4*   Insiders will predominate in Symbiotic acquisitions in the intial stages and then Outsiders will predominate

In summary this paper hypothesises that different types of top executive type will be associated with different post acquisition strategies. The outcome of this association will be

that acquired companies will experience different amounts of post acquisition change depending upon whether the top executive of the acquired company is an Insider or Outsider. This may be evident across different post acquisition strategies as well as within the same strategy where different types of top executive are present. There may also be differences by top executive type in terms of their perceptions of the success of the post acquisition strategies they are managing. Where we find strong associations between a particular top executive type and a post acquisition integration strategy we may find their views are more positive than for those top executives in the minority.

## Method

In order to achieve generalisability of results across a population of acquisitions and gain explanation for links between the types of top executives and post-acquisition change, a medium grained hybrid method (39) with dual phase (dominant, less-dominant) design (40) was followed. A questionnaire was used to survey the acquisition population and generate a statistical 'backbone' which was then informed and interpreted by subsequent qualitative interviews.

### The Questionnaire Survey

Certain specified criteria were adopted in selecting UK corporate acquisitions. They were as follows:

a) acquisition targets valued in excess of £8m (data on smaller deals is less complete and many are just assets rather than operating companies and so less instructive in post acquisition integration);

b) domestic transactions (to avoid additional complication from national regulatory and socio-cultural variations),

c) stand alone targets (this allowed the acquirer to implement the full range of integration options and organizational changes. Including subsidiaries would have biased integration options as these firms could not stand alone);

d) wholly owned targets (partial control would reduce the parent's ability to make changes);

e) a corporate acquirer (other forms, such as private equity funds, individuals, management teams would not normally allow organizational interaction).

By this process, from an initial list of 1390 acquisitions, derived from Acquisitions Monthly, 232 met our stringent criteria of domestic, stand-alone operating company acquisitions.

The questionnaire was then posted in stages to the top executives of our sample of 232 acquired companies so that approximately two years had elapsed post closure - an appropriate length of time for a top executive to fully take charge (41). A telephone call followed ten days later to encourage response.

The top executive of the acquired company was the focus of our attention for questionnaire survey and interview as they are the subject of our enquiry as well as possessing a strategic view of change in the post-acquisition period. Part of their job is to articulate events to group management and outside stakeholders and to take responsibility for post-acquisition change. As the critical interface between acquiring and acquired companies, their pivotal position makes them an important focus for data collection as 'key informant'.

Examples of self-administered questionnaires to ascertain perceptions of key informants are numerous in the strategy literature (42) which gives credence to the efficiency and value of

this method. However, there are potential limitations which were addressed as follows. Every recipient was telephoned personally to check that they had actually filled in the questionnaire. To mitigate post-hoc rationalisation, internal company documents were checked for alignment with interview data. By focussing upon post-acquisition change a potential problem of self-selection, that top executives are more influenced in their actions regarding success than other variables, may have been reduced. The very small numbers of acquisitions in the population which subsequently went into receivership or administration were very low so reducing the potential extent of survivor bias.

*Post acquisition changes*

To explore 'changes' post-acquisition, two literatures were examined. First the turnaround literature and in particular the very rigorous 'Sharpbender study' (43) with its substantial catalogue of organisational changes used to improved performance, and second the more organisationally based 'taking charge' literature (44), were consulted. Forty nine organisational change variables from these two sources were disaggregated from original categories and re-ordered into the functions of finance, marketing, communications, human resources, operations, I.T., for the purposes of clarity in the questionnaire. Changes in top executives and their time in office were assessed by a separate question.

*Control Variables*

Previous research on executive successions has identified variables which may influence findings. These include top executive tenure (45), founder effects (46), experience in finance, prior qualifications, prior M&A experience (47) and management styles. Characteristics of the M&A may also affect findings. These include prior financial health of the acquired firm, whether the deal was public or private, friendly or hostile. Some of these items could be ruled out due to insufficient numbers of cases (friendly/hostile, founder effects). The remaining items were tested with chi-squared tests and only one item is associated with top executive type post acquisition and that is general management experience – the more experience the incumbent has the more likely they are to be retained in the acquired firm.[1]

*Respondents*

70 questionnaires were returned, a response rate of 30.17%, which is more than acceptable for surveys in the acquisition field (48). Of these 70 questionnaires, 66 questionnaires were usable and complete. It is also worth noting that previous researchers have generally argued that assessing top executives of acquired companies is a difficult, if not impossible, task (49).

Responses were evenly distributed across SIC codes and equally split between private and public deals. The turnover data of acquired companies ranged from £1m to £230m (mean = £50m) and employed up to 3,829 employees (mean = 585). T-tests established no significant differences between responding sample and population based upon bid value, sales, and number of employees. Confidence in the results is engendered by having responses from 30.17% of the population, but systematic non-response bias cannot be ruled out.

The sample of respondents represented four distinct top executive types as shown in figure 1. It should be noted that roughly one third of the acquisitions studied involved organisational outsiders.

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[1] The authors adopted a conditional modelling strategy to control for acquisition size. Control variables used include acquisition deal size (consideration), turnover and number of employees. The results in the paper were found to hold when such a conditional modelling strategy was adopted.

Figure 1    Responding sample by Insiders/Outsiders
[Insert figure 1 about here]

**Constructing the contingency matrix**
Haspeslagh and Jemison's contingency framework was reconstructed by focusing upon the dimensions of 'organisational autonomy' and 'strategic interdependence'.

Organisational autonomy was assessed from a question which asked *'to what extent do you feel that the acquired company is autonomous from the parent?'* Although autonomy has been shown to be multi-dimensional, researchers have shown it to be highly correlated with respondent's perception of autonomy derived from a single question with a 5 point Likert scale (50). In this survey a score of one indicated very low autonomy and a score of five, very high autonomy.

Strategic interdependence was assessed by three 5 point Likert scale questions. These asked i)*'to what extent has there been a transfer of physical assets (plant, machinery etc) between parent and acquired company?'* ii) *'to what extent has there been a transfer of knowledge and information between parent and acquired company?'* iii)*'to what extent has there been a transfer of personnel between parent and acquired companies?* A score of one indicated very low transfer/sharing, and a score of five, indicated very high transfer / sharing. The concept of combination benefits was not used as they do not relate to capability transfer and might have indicated greater interdependence than actually warranted.

To test the first order hypotheses, linking top executive type and the framework dimensions of organisational autonomy and strategic interdependence (H1 , H2), tests were run on each strategic interdependence item. However, in order to investigate the second order hypotheses, a single score for strategic interdependence was necessary to enable the acquisitions to be plotted upon the integration framework. To achieve this, a 'weak' and 'strong form' of strategic interdependence was calculated. For the weak form, the highest score of any one measure was used, and for the strong form, the average of all three scores was used. Together with the autonomy score, firms could be located on weak and strong forms of the matrix.

**Interviews**
Once cases were mapped upon the contingency framework, interviews were used to uncover top executive explanations for patterns of change which had occurred in the acquired company post-completion. It is worth pointing out that it is exceptionally difficult to obtain interviews with top executives in the process of integrating acquired companies as they are generally extremely busy, very stressed and painfully aware that they are under intense pressure to achieve results under difficult circumstances.

Six case interviews per strategic post-acquisition integration type were conducted for reasonable coherence (51) although fewer respondents for symbiotic acquisitions meant a smaller number of case interviews for this integration style. From the survey data it was apparent that Preservation, Absorption and Holding acquisition strategies have a dominant executive type. From each of these dominant groups thirteen case interviews were chosen randomly (four or five from each post acquisition type).  In order the 'sharpen' the image so that consistent change actions are illuminated as well as divergent ones, a further five case interviews were selected of the minority or deviant groups (one or two per post acquisition type). With few Symbiotic cases three interviews were obtained.

A total of 21 interviews were conducted. They were semi-structured around the themes of the questionnaire, lasted around 1½ hours, were taped and transcribed. Brief anonymous details of interviewees are given in appendix 1. The data was analyzed using inductive qualitative techniques (52) informed by this study's focus on the changes made by top executives during acquisition integration. Accordingly, the analysis consisted of multiple readings of the interview transcripts, from which a rich set of change themes emerged for each post acquisition integration strategy (53). Measures were taken to ensure the reliability of this procedure and two coders -not related to this study- independently coded a subset of transcripts. A Cohen's kappa coefficient of consistency (54) was high, calculated at 0.82, for the particular themes[2].

**Performance outcomes**

In order to assess whether there were performance outcomes associated with top executive type and post acquisition integration strategies two approaches were used. In the self-assessment questionnaire top executives were asked to assess the success of the acquisition on 5-point Likert scales for recovering the cost of capital, improving group profitability; achieving strategic objectives; technological synergies; operational integration; cultural integration, I.T. integration, gaining market share. These perceptions are indicative rather than highly precise measures of performance. Whilst it may be preferred to obtain more objective data on acquired firm performance this is a notorious difficulty in acquisition research. Acquired public firms frequently lose their listing on stock markets and so market data is unavailable. Acquired firm financial and accounting performance is generally impossible to obtain as this information is rarely reported separately post acquisition, being amalgamated within parent accounts and not for public inspection. Where acquired companies are significantly restructured post acquisition it is doubtful if figures, before and after this change, are meaningful. The problem is widely recognised amongst researchers in the M&A field which explains why performance research tends to focus upon combined rather than acquired firm performance. There are studies which have assessed organizational performance in the absence of objective measures. Results suggest that top management subjective perceptions are strongly correlated with objective measures of firm performance (55).

The second way in which performance is assessed is on the basis of a meta-performance outcome, namely the amount of post-acquisition organisational changes in the acquired firm by post-acquisition strategy and comparing these against top executive type. Meta outcomes are so named as they do not go as far as indicating financial outcome which is problematic in this sort of research. However as the purpose of investigating top executive type is to discover whether they are associated with levels of change in acquired companies, this is an appropriate outcome to assess.

To refine further the patterns of change associated with top executive types, interview data enables comparison between dominant and deviant executive actions. For each post acquisition strategy, changes associated with the main type of top executive are contrasted with the changes carried out by the minority group in order to identify why a particular executive type might be in a minority in that situation.

# Results

## Insiders / Outsiders and acquisition autonomy

Hypothesis 1 suggested an association between top executive Insiders/Outsiders and the level of autonomy of the acquired company. As the sample size is small, and at the ordinal level, the non parametric Mann-Whitney U test, which does not require assumptions about the shape of the underlying distributions, was used to test this and subsequent hypotheses. A significance level of .1357 was recorded. This does not provide firm support for earlier research that top executive turnover is negatively associated with autonomy (56). A cross tabulation in table 1 also shows a statistically non-significant result, and reveals confounding detail.

Table 1        Level of autonomy versus use of Insiders / Outsiders

[Insert Table 1 about here]

High levels of autonomy generated the expected relationships with higher than expected levels of Insiders (residual = 2.1), and lower levels than expected of Outsiders (residual = − 2.1), than could be explained by chance alone. However, a reduction in the level of autonomy had only a very weak effect in lowering the percentage of Insiders used, and apparently none upon the use of Outsiders. Therefore all that can be said about hypothesis 1, that Insiders / Outsiders are associated with acquired company autonomy, is that the sign is in the right direction.

## Insiders / Outsiders and strategic interdependence

Hypothesis 2 suggested a positive relationship between the presence of Outsiders and strategic interdependence. A Mann-Whitney U test shows Outsiders have a significantly higher mean rank (42.11) (sig.=.007) than Insiders (mean rank= 28.90) which indicates Outsiders are associated with a higher level of strategic interdependence[3] than Insiders.

Table 2        Mann-Whitney U test: Strategic Interdependence versus Insiders / Outsiders

[Insert table 2 about here]

Each of the three components of the strategic interdependence measure were also significantly and positively associated with the use of Outsiders.

Table 3        Mann-Whitney U tests for strategic interdependence items against use of Insiders / Outsiders

[Insert table 3 about here]

These results support the second hypothesis that strategic interdependence is positively associated with the use of Outsiders and negatively associated with the use of Insiders in the acquired company.

## Insiders / Outsiders distribution on the contingency framework

The Insiders and Outsiders were located in different post-acquisition styles (Figure 2).

Figure 2        Distribution of Insiders and Outsiders

[Insert figure 2 about here]

The results from the first two hypotheses suggest consistency between Insiders, high levels of autonomy and low levels of strategic interdependence, both of which are associated with low levels of organisational change. This defines Preservation acquisitions and Insiders can be seen in figure 2 to dominate these acquisitions (75.0% of cases. Sig. at .005 level). Similarly, the results above suggest consistency between Outsiders, low autonomy and high strategic interdependence, both of which are associated with high levels of organisational change. This

defines Absorption acquisitions and Outsiders can be seen in figure 2 to dominate here (72.7% of cases. Sig. at .005 level).

For Holding and Symbiotic acquisition styles there is a conceptual conflict between the relative importance of the framework dimensions and top executive type. In Holding acquisitions low autonomy predicts high change and the use of an Outsider and yet low strategic interdependence predicts little change and the retention of an Insider. As the literature review observed high levels of organisational change for Holding acquisitions, hypothesis 3 predicted Outsiders would dominate. However Figure 2 shows 82.4% of Holding cases retain Insiders (Sig. at .005 level). This indicates that strategic interdependence is a stronger determinant of top executive type than autonomy for Holding acquisitions.

In Symbiotic acquisitions, the conflict between the demands of high autonomy and high strategic interdependence, in terms of organisational change and top executive type, were mitigated by introducing a temporal element. When cases were analysed by time in office since acquisition by top executive type, a Kendall Tau correlation showed a statistically significant difference at the .05 level[4], between Insiders and Outsiders, with the former dominating the first 18 months (75.0% Insiders) and with the subsequent appointment of further Outsiders, the latter dominating thereafter (66.6% Outsiders). This finding suggests that Insiders are more likely initially than Outsiders in symbiotic acquisitions. Similar tests were carried out on the other acquisition styles but no significant results were identified and correlations were low.

**Insider/Outsider perceptions of success by post acquisition strategy**

The results from hypothesis testing show associations between top executive type and different post-acquisition integration strategies (See table 4). There are significant differences between top executive type and their perceptions of success by post-acquisition integration strategy. The perceptual measure of success which shows significant differences between top executive types in all four post acquisition integration strategies is 'Achieving Strategic Objectives'. Specifically Insiders express more positive views than Outsiders in these terms in Preservation acquisitions (t=1.73, significance = 0.05). For the other three post acquisition integration strategies, Outsiders express more positive views (Absorption: t=3.26, significance = 0.01; Holding: t=2.77, significance = 0.01; Symbiotic t=2.33, significance = 0.03).

Coherence amongst performance outcomes is maintained in Holding acquisitions where Outsiders express more positive views than Insiders on 5 out of 7 items (recovering the cost of capital (t= 2.31, significance= 0.02), operational integration (t= 2.16, significance= 0.02), cultural integration (t= 4.88, significance=0.00) and IT integration (t=1.73, significance= 0.05). In Absorption acquisitions where Outsiders are more positive than Insiders in terms of Strategic Objectives, they are also more positive in terms of gaining market share ((t = 1.85, significance=0.05). For no items are Insiders more positive than Outsiders. In Preservation acquisitions, where Insiders are more positive than Outsiders in terms of Strategic Objectives, they are also more positive in terms of IT integration (t = 1.74, significance=0.05). For no items are Outsiders more positive than Insiders. Only in Symbiotic acquisitions is there variation between top executive type and positive outcome. Whereas Outsiders are more positive in strategic objective terms, Insiders are more positive on most other measures (recovering the cost of capital (t= 3.14, significance= 0.01), group profitability (t= 2.00,

significance= 0.04), operational integration (t= 2.45, significance= 0.02), and IT integration (t=3.00, significance= 0.01)).

Table 4        Summary of results

[Insert table 4 about here]

In summary, different top executive types are related to different approaches to post acquisition integration and this appears to have performance implications in terms of achieving strategic outcomes.

## Case findings

This section explores each of the four post acquisition strategies in turn in order to focus upon change themes. Case interview data is used to reveal the main change themes for each post acquisition integration strategy. Comparison is then made between dominant and minority top executive groups in order to illuminate key differences in change initiatives between Insider and Outsider run firms in each post acquisition situation.

### Preservation Acquisitions

Empirical results show Insiders' dominate Preservation acquisitions. Comparing the number of changes carried out post acquisition in preservation acquisitions by top executive type finds that Insiders introduce significantly less organizational changes than Outsiders (t=2.25, significance = 0.02). The main change themes which emerge are; i) a bias for action to pull the business back into shape; ii) business as usual; iii) piecemeal change; iv) defending from the new parent; v) lack of support from the acquirer.

i) Insider are spurred into action by the feeling that acquisition negotiations distract them from managing their business. *'It take's your eye off the ball and you have* to *get back into the saddle'* (I3). They move quickly to reassert control. *'I had to get re-involved. I freely admit I made changes as quickly as I could as I knew what had to be done* (I1). Outsiders also feel the need to pull businesses back into shape after ownership changes hands. In all cases parent financial reporting systems are adopted immediately along with a small amount of management and operational pruning.

ii) After the initial flurry of activity, top executives say post-acquisition is really business as usual with low levels of substantive change to the acquired firm. Even though some anticipate significant change to be imposed from the acquirer it did not materialise*; 'Everybody expected a big wave of change but it never happened' (I1).*The main emphasis was to keep things as they are and preserve the core.  *'They (the acquirer) didn't interfere with the business. They just let me run the company' (I2). 'There wasn't that much to change 'cause my business was very successful' (I3). 'The company was basically sound. There wasn't much that needed changing'* (O1).

iii) When changes are made they occur piecemeal according to acquired business needs rather than following a plan of change or instructions from the parent. *'We were making changes because **I** thought it was appropriate to make changes. It was not the parent telling us (I1).*

Changes '*would have happened even if we had stayed independent. Most changes are market driven. There was nothing for them (the parent) to do' (*I2).

iv) Top executives agree on how they have to defend their businesses from parental interference. '*My major role throughout was defending the customers and the business from the owners'(I1).* Many realise that keeping to budgets is a successful mechanism for '*fighting the corporate immune system'. 'The budget is the bible. If we are keeping within budget, they don't interfere. They say, 'go ahead, run your business, you're the experts, we trust you'. When things go wrong, they get heavy'(I3).* Good performance is the main weapon for resisting parental initiatives. '*We had a good track record both on performance and budgets so we could say, 'look, we know our business. These numbers are bizarre, and we rubbished the numbers'(I4).*

v) Whilst investment is wildly anticipated, parental support is generally limited and rare. '*They (the parent) had no clear pattern of what they were trying to achieve and I've learnt that they're going to do nothing, so you bloody well get on with it and keep your head down. After-care was non-existent'(I1). 'The owners contributed absolutely nothing to the business at any stage (I4)' 'I decided to keep out of the way and let them carry on with the politics up there and just produce results; there's nothing better than just producing results' (I1).'The parent didn't bring anything (to the acquired company)'(O1).*

**Outsiders in preservation acquisitions**

Whilst both type of top executive agreed on main themes of change in Preservation acquisitions, the minority group, Outsiders, instigated more organisational changes than the dominant group, Insiders. Preservation acquisitions are companies in good shape so whilst all top executives perceive the need to engage in immediate change to pull the business back into shape, Outsiders inherit a situation where the loss of the incumbent is likely to leave a vacuum. '*She was completely autocratic which meant that there was a complete vacuum beneath her – there was no management at all when I got there'.* Outsiders need to appoint key people and spend time understanding the business and its employees before acting. '*I did nothing before I arrived and then I had to go very slowly, very sensitively because of the nature of the employees – they are in the top 1% of intelligence, ultra conservative and very powerful'.* Outsiders can experience significant resistance from employees loyal to the previous top executive, and protective of their ways of doing things. '*There were lots of hidden agendas 'We've always done it this way. Don't interfere boss''.* This requires significant communication. '*I had to improve communications and put myself around a lot. They were very, very suspicious of me'. 'I had to split the employees up and pick them off – it was hard work. I was just hammering away'.* Outsiders make far deeper cuts in the organisation than Insiders and these are often sacred cows. '*Because their IT system was invented in-house, they were loathed to admit that it needed to be more efficient'. I had to cut costs and reconfigure it. Over 7 months I cut about 1/8$^{th}$ of the workforce and combined three departments into one'.* This intense internal focus also has consequences as '*we lost a major customer because I was so focused internally'.*

Preservation acquisitions are about maintaining the status quo. Executives that disrupt the existing balance are likely to reduce the overall success of the acquisition. Outsiders seem to struggle with managing change in this context as they have to build credibility with resentful workforces and work hard to understand how acquired companies works. As they carry out

more and deeper changes than Insiders they are likely to be more disruptive of business and less successful in this context.

## Absorption Acquisitions

Outsiders dominate Absorption acquisitions. Comparing the number of changes carried out post acquisition Outsiders introduce significantly more organizational changes than Insiders (t=2.25, significance = 0.03). The main change themes which emerge are  i) taking hold ii) a planning and assessing period iii) high levels of subsequent change for a) reducing duplicate activities and operating costs b) imposing parent systems and structures iv) reviewing and fine tuning change.

i) Taking hold requires immediate changes to signal to stakeholders that things are now different. This is critical and includes removing barriers to change through a) substantial levels of communication to manage acquired employee perceptions; b) removing corporate identity; c) imposing parent financial controls; d) changing senior executives and boards.
ia) Massively increasing the amount and richness of internal communication in the acquired company to convey the new situation is perceived as vital. '*Their world (the employees') is in turmoil - they're all down to the bottom layer of Maslow: 'how do I feed my family'? Don't bullshit them. Be honest and open and be available' (O3 ).* All interviewees were heavily involved in disseminating information. '*I visited every single office of both companies throughout this country in a three day period and spoke to as many staff as they could get in. As soon as it was done, I got to all the overseas offices as well. It was a major exercise' (I6).* As another top executive put it,*' you have to have meetings ranging from the stadium to behind the skip – you have to touch everyone' (O2).*
ib) Another area of immediate change is removing corporate identity ranging from removing / destroying sculptures / monuments / flags / office signs to supplanting crests on stationary. Adverts appear immediately in the media announcing change in ownership - '*product x, now part of the y group'.* Security guard uniforms change and '*our receptionists, telephonists and secretaries were 'sent to college' to learn the 'new greeting'. The spirit is very much, 'the King is dead, long live the King' (O5).*
ic) Imposing parent financial controls is universal and urgent in order to establish a common language and to be able to identify clearly areas for cost reduction. '*Our accountancy personnel went in there straight away'* (O6). '*Until you turn the lights on, you can't see where you're going'* (O3).
id) In all cases there were significant changes in top management in the acquired company. '*We don't need a board of directors floating around and I think they knew that. It was the operational guys that we might want to keep' (O4). 'Its easy – you just get rid of the management and integrate it' (O4).* Even where incumbent top management was retained there were changes. '*We didn't need two company secretaries or two warehouse directors'* (I5)

ii) The planning and assessing period is intense. '*We didn't know enough to go in there day one and suddenly do things'(O4). 'After making the obvious quick changes we then said, 'Right, what's next?' – 'Let's think about it'* (I6). Extensive use is made of integration teams, task forces, joint committees and parallel working to better evaluate the acquired firm in order to evaluate areas for rationalisation. '*The planning took some months and a task force went in and worked jolly hard'* (O5). For two months '*the marketing guys of both companies were hard at work in hotel rooms laying down the plans – they were working hand in hand and in the end they agreed on a plan* (I5). '*We had people working side by side over that period of time running the same activity'* (O4). The purpose of this parallel working was '*to create*

*some interface between the organizations to allow the planning process to proceed'* (O4). '*I spent two months ghosting the management and asked what they thought compared with the earlier ball park paper'* (O4). '*In about six to eight weeks we had blitzed it and worked out how we were going to operate'* (O5).

iii) The drive for efficiency gains result in high levels of subsequent change to reduce duplicate activities and operating costs. *'It was obvious that we would only operate with one office and I'm sure somebody would have told me from on high if I'd said that we needed to keep two Head Offices going'(O4).* '*In one town, they had a depot, we had a depot, I mean it's easy as that - you don't have two depots, you have one'* (O5). '*We closed down one of their factories which was running at 60% capacity whilst ours, three times the size, was running at 70% capacity. You bang the whole thing in and it runs at 100% capacity. So it just made sense'* (O4). The changes were extensive and often traumatic in nature. *'There were some revolutions, there had to be. We completely merged the sales forces and there was competition for position and some our guys didn't make it, which was sad as they had been with us for a long time.'* (I5). '*A lot of people were banging tables saying we've got to get costs out. We ought to be able to run this lean and efficient. We don't have all those people, so we kicked them all out'* (O4).
iiib) Parent systems and structures are always imposed: *'We know broadly the structure that we (the parent) want'* (O4). '*They were on the attack, they were straight off, it was laid down (by the acquirer head office)'* (I5). '*Accounting went in there right away. Every single team had an accountant from head office ensuring that objectives were being met. We now have one system, the (parent) system'.* [Interviewer] *'It sounds as if you went in on day one saying this is how we would like to run our accounts?'* '*Yes – we made 200 people redundant in six months'* (O6). '*The parent company doesn't like HR directors so that poor chap (HR director of acquired firm) was dealing with people who were saying 'What do you do HR director?' We were looking at him like some prehistoric animal. We outsource all HR activities'* (O6). *'We were pretty successful and had a winning formula. We knew we were doing it right and that everybody else did it wrong, so we just imposed our culture totally on the target…. you haven't got to have a debate about which computer system is best - you just go in and shut theirs down and transfer your own'* (O3). '*They were so entrenched in their ways that they were completely oblivious to looking at anything that we had done* (I5).

iv) For all top executives there was a final period of reviewing and fine tuning. *'At the end of the first year there was a taking stock of how well we had done, and a further rationalisation which was not in the plan and was completed in a further six months'* (O6). '*After twelve months it is a period of refinement and getting things done' (O5). 'There were certainly some changes we made that we changed again after the first year (I6).*

**Insiders in Absorption Acquisitions**

Whilst both type of top executive agree on the main themes of change in Absorption acquisitions, the minority group, Insiders differ from Outsiders in presiding over fewer organisational changes. Insiders can discuss with acquirer what might be changed in more detail earlier in the acquisition process, pre-completion, than is possible for Outsiders thus reducing post acquisition planning phase and allowing some smaller changes to occur more rapidly. '*Not every problem was solved but we had a pretty clear idea of which individuals would fit into which slot. We had a lot sorted before we pushed the button'.* The emphasis for Insiders is more on *'evolution rather than revolution and trying to minimise fall-out'.* They

are more concerned with the *'risk of destabilising the business if things are pushed along too fast. It's much more important to get it right than to do it quick'. 'It would have been quicker with a guy from the acquirer'.* 'You have to work progressively and sensibly and avoid upsetting things'. *'The acquired business was run separately for 9 months and only then pulled together – and it was very difficult'.* For these reasons changes were fewer than with Outsiders who did not have the same regard for the acquired business. *'I think we felt the changes were pretty substantial and it needed a new person, new blood, to implement that. If the management had just stayed the same, although they bought into the changes, I think they would have found it very difficult when push came to shove, to actually do it'* (O6*).* When asking Insiders why they might be used in Absorption acquisitions it is clear from their response that they feel that Outsiders are appropriate in this context.

From the interview data it can be seen that Absorption acquisitions result in massive change to the acquired company in order that maximum areas of synergy between both firms can be achieved. Executives who do not engage in major change to achieve as many synergies as possible, by defending some areas for instance, are likely to reduce the overall success of this type of acquisition. In this context it is Outsiders who are carrying out the most change to the acquired firm and they would seem to be the right executive for the task.

## Holding Acquisitions

Whilst we hypothesise that Outsiders should dominate over Insiders in Holding acquisitions, as this integration approach requires significant change to the acquired company, evidence presented in this paper shows Insiders dominate. In comparing the number of changes carried out post acquisition Insiders introduce significantly more organizational changes than Outsiders (t=2.25, significance = 0.03) which might be viewed as counter intuitive. The main themes emerging for top executives in Holding Acquisitions are i) speed of action ii) imposition of tight controls iii) carry out high levels of change to achieve turnaround in financial health iv) change top executive strategic perspective from medium to short term v) post-acquisition lull beyond recovery.

i) Speed of action is vital to reverse the poor financial health of these acquisitions. Critical are *'stabilising the workforce, stopping capital expenditure, stopping financial misuse, putting immediate controls on the finances and putting in place the parent required financial systems'(I8).* Insiders are often prepared and can act very quickly *'I had been thinking about making changes for months and I had got a blueprint already in place and I just pressed the button'*(I10). Clarity of purpose and speed of action are key; *'have a clear idea and do it. You'll get lots wrong, but that doesn't actually matter. People want clarity' (I7).*

ii) Tight controls are imposed focussing on overhead and production costs as areas for quick improvements. *'The rationale for the changes was of course the company was making losses basically because the overheads and the management overheads were too* big' ( I11).The imposed controls are absolutely rigorous aiming at short term improvements *'I wouldn't let any of the controls slip. I wouldn't tolerate any departure. We don't let that get away'* (O7). *Everything has to be performance monitored. Everything is very, very accountable. There is accountability for everything and everybody. We didn't have that before' (I8). 'They implemented an unprecedented set of financial and accounting systems – it was a big shock'* (I11).

Many acquired company Managing Executives complain about the stringency and unyielding nature of parental controls which seem to have little bearing upon their business. *'We were constrained by the parent company, not free to make decisions in the best interests of our business. The parent company imposed rigid expenditure controls'(I10).* *'We were treated like nothing'* (I7). Often the constraints and severity of these new controls forced the top executive into making major changes in order to meet budget although with damaging medium term consequences.

iii) To achieve turnaround in financial health there are high levels of change including focusing upon meeting budget, changing senior management, restructuring divisions, rationalising assets, cutting expenditure in marketing, R&D. *'There were a lot of managers – it was very top heavy so we removed a lot of them'* (O7*). 'It was incredibly badly managed – sort of bleeding to death – so I cut staff immediately'* (I9)[5]. *'We closed down the head office which was very expensive and opulent – a major task* (O7). *'There were too many divisions and not enough activity so we had a fairly quick restructuring into sales and purchasing'* (O7). *'We had to change a lot of things but it tended to be what is convenient – what's easiest to get rid of'* (I7). The severity of imposed changes are indicated by *'cut back, cut back, cut back - but if that's what they want, profit, I'll give them profit, or reduce losses'(*I10 ).

iv) top executives found their strategic horizons collapsing from medium to short term under the pressure to produce quick results. *'I found the reductions in development and marketing spend hardest because it was hitting the future of the company. I was putting a great line through my own strategy. The instruction from the parent company was get back to budget'* (I10). *'I said the cost of sacking these people in money terms is X but more importantly in terms of achieving our strategy it's XYZ and means putting back our strategy quite severely. What he said is 'I want profit (I8)'! 'I had a futile role as Managing Director'(I10).*

v) Post-acquisition there is a lull once the acquired firm recovers - as if acquirers lose interest. Acquired firms feel no sense of strategic direction, with no one driving synergies. *'We were left in a complete vacuum. All we did was carry on'* (I10). *'We didn't feel valued'* (I11). *'There was no discussion of strategy. Nobody came to me and said, 'You've built this thing up over the last 20 years, what do you want out of it?'* (I8). *'There was no attempt to motivate the staff'. 'It was just 'Carry on''. 'People came to me and said, 'What now?', 'What are they going to do; how can they help us?' and I said, 'I have no idea - I'm sure it will all become clear' - but it never did'* (I10).

**Outsiders in Holding Acquisitions**

Holding acquisitions are about saving the acquired business and returning it to an even keel. This requires significant short term changes to the acquired firm. Insiders seem to be faster at implementing changes to their businesses than Outsiders as they are able to prepare for action and are also more aware of how to bring about change whilst Outsiders have to learn what to do. The deviant outsider's comments illustrate how more time is needed for planning. *'The company was dead on its feet so we quickly drew up a plan' 'How long did that take?'* (interviewer) *'About three months'. 'When we took the action a lot of people would always say 'well why on earth didn't you do this earlier'?*

The Outsider also explains why it was difficult to make changes immediately in all areas. Although it was known from negotiations and due diligence that *'the company was making a loss, it was only when taking charge that we realised that we have to remove a lot of top management. It wasn't done to begin with - it wasn't something you could see – you had to look at it. Its only when you can actually get into the company – it takes a lot of time to get inside relationships between managers'. 'It took a year of actually working with them, rather than taking an initial view'.* Integrating themselves and working with employees is one of the big challenges which face Outsiders. *'Many managers didn't get on with me or didn't get on with my way of doing things'.* This meant that significant efforts were required to maintain good relations. *'I've always been extremely careful to try and preserve the goodwill'.*

In asking the Outsider why he was brought in, the response was because *'we didn't think the chairman and managing director of the company were doing a good job and there was a lot of reorganization to be done – a lot of changes to be made. I was a jobbing accountant who did insolvency and turnarounds'.*

Whilst Outsiders were hypothesized to be the right choice for running these businesses, it is Insiders who are found to make the most changes in this context and this would appear to be the right approach for restoring balance.


## Symbiotic Acquisitions

Insiders in Symbiotic acquisitions occur at the outset and later the balance changes to Outsiders. Key change themes which emerge from the interview data are i) Maintain distinctive characteristics in the acquired company at the outset; ii) Build trust in the acquirer and work towards partnership; iii) Transfer resources to create value and recognise dynamics of situation.

i) Maintain distinctive characteristics is vital for protecting the quality of the acquired business. '*The senior management level were effectively running the company and running it well – we wanted to keep them in place'* (O9). *'We didn't want to lose the distinctiveness – we had competencies in each firm that are not the same. We wanted to highlight, demonstrate that both companies had clear focus, objectives and briefs'* (O8). *'The group CEO said in his board presentation that it is absolutely fundamental to have my cooperation over the first year'* (I12)

ii) In order to build trust and work towards partnership the acquirer would invest and also give the acquired firm a lot of autonomy. *'We let them be their own masters'*(O9). *'In the first six months we wanted to give a very strong signal that we were keeping the companies separate to give confidence and commitment to people in both companies. In the acquired company there's an awful lot of insecurity and you'll lose the good ones first if you can't give them confidence'. 'The very first changes we made were completely renovating the office block because it was the pits – I mean literally buckets on the floor to stop water coming in. It was an investment – a big sign but didn't cost us a fortune. It was a very, very important signal' (O8).* Even where there were a few redundancies *'they received a very, very generous package – way over the odds. Everybody was extremely well treated as they wanted full cooperation' (I12).*

iii) To create value resources need to transfer but in a sensitive way so that the acquired company is not damaged.  Initially this means symbiotic companies are kept separate. *'We did say at the outset that we were not going to come in make wholesale change. One sees companies who say 'the new company will just run our systems'. I know we didn't do that. I'm glad we didn't do it and I think we are smart not to do it' (O8). 'It would be absolutely typical of the way the relationship worked, that we would listen on both sides and pick what we thought was best from both worlds. There was this incredibly harmonious trust with no hang-ups'(I12).*  Later after significant joint consultation transfers and integration begin. *'We are now at the end of year two and looking seriously at transferring resources'* (O8). When asked why change starts after some time responses are '*we simply did not want to unsettle the company – we don't want to come in with big heavy boots on because we don't fully understand the business and we want it to continue successfully'(O9).* The top executives in these acquisitions are sensitive to the dynamics of the situation. *'We had a plan but were alive enough to the dynamics of the situations to say that just because we had a blueprint we didn't have to stick to it – we judged changes in terms of the continuing development of both the companies'(O8).*

From the interview data it can be seen that Symbiotic acquisitions are about maintaining the status quo in the first instance and then incrementally changing through a collaborative process with the parent company. Executives which disrupt the existing balance in the first instance are likely to reduce the overall success of the acquisition and in this context it is Insiders who would appear to be most appropriate. However as the need for change increases over time it would seem that Outsiders are more appropriate for this role and we find that the change in dominance is reflected in the data.

**Case findings summary**

Different top executive types are related to different approaches to post acquisition integration. These differences extend to within post acquisition integration strategies. Case interviews illuminate the main themes of each post acquisition strategy and the differences between the use of Insider or Outsider within the same strategy. This would appear to have performance implications in both the amount of change carried out as well as perceptions of success, particularly in terms of achieving strategic outcomes.

# Discussion and interpretation

**Relating top executive type to autonomy**
A positive relationship between the use of Insiders and level of autonomy is observed. Acquired companies are granted high levels of autonomy when they are perceived to be well run businesses. For this reason all attempts are made to retain top management as they are integral to the core competencies of the acquired company which may be damaged if they are lost. In many cases the acquirer may lack in-situ experience and not want to take the risk of bringing in Outsiders who could destabilize a good operation.

The relationship between Insiders and low autonomy is less well defined. Low autonomy suggests acquired company configuration is not highly valued and will be changed. Often these acquired companies are in poor financial health prior to acquisition. Even though Insiders are intimately linked with this history, many remain to carry out substantial changes dictated by the new parent as they are best placed to act quickly through working ties and

alliances. Outsiders have to spend significant time establishing these links and this may be a significant disadvantage when time is of the essence. There are personal consequences for Insiders in making very severe changes to their organisation which is reflected in interview data showing substantial deterioration in their self esteem. Insiders could feel their strategic horizons collapsing as they are forced to concentrate upon short term profitability. Often this is perceived as writing off previous strategies and undermining everything they had worked for.

There is no evidence to support Outsiders being negatively related to levels of autonomy. This is hard to explain as Outsiders' objectivity about change might be more valuable where the core competencies of the acquired firm are not highly valued. It would seem that acquirers may find setting levels of autonomy difficult and tend to underestimate the problems of retaining Insiders for making fundamental change in poorly performing companies. The success outcomes seem to suggest that Outsiders may be more appropriate in these situations.

**Relating top executive type to strategic interdependence**
Outsiders are positively associated with strategic interdependence. Where this is high the acquirer will transfer its superior capabilities to the acquisition and remove areas of duplication. High strategic interdependence requires new perspectives and substantial change to the fabric of the acquired company. Outsiders are appropriate for this task as they are prepared to make radical changes, are more objective and lack the emotional attachments of Insiders to the acquired business.

In low strategic interdependence situations, Insiders predominate. This is understandable in financial asset terms as value capture deals; where value is gained through the market rather than internally through exchange. Insiders remain as the acquired business will not integrate with the new parent. This hands-off approach from the parent is typified by Insiders remarking upon a lack of direction from above. Whilst the frustration and confusion amongst Insiders over low strategic interdependence is tangible, it is a reflection of a lack of engagement with the acquirer.

**Top executives and post-acquisition integration strategies**
A resource based perspective helps interpret the prevalence of Insiders in Preservation and Outsiders in Absorption acquisitions. Preservation acquisitions are about value capture and retaining the valuable and unique configuration of the acquired company, including its incumbent executives. The dominant top executive type is Insider as they generally remain in place to maintain the status quo. The changes to Preservation acquisitions are therefore minor and focus upon pulling the business back into shape, normal operations and piecemeal changes, driven more by markets than the wishes of the acquirer. Indeed intervention from the parent is resisted as potentially damaging to the acquired firm and its customers. Outsiders are likely to be less appropriate in this context as they are not familiar with the business and not embedded socially. They need to expend effort in trying to understand how the business works and how change may be brought about through sensitive engagement with employees and customers. They are likely to experience employee resistance and this may distract them from their customers. With less capacity to act quickly and more likely to bring about disruptive changes to the core competencies of the firm, Outsiders are less appropriate in Preservation acquisitions. Indeed from the perceptions of strategic success, Insiders seem more successful in this context as their firms are less likely to be altered substantially and value destroyed.

Absorption acquisitions create value through restructuring the acquired company to integrate fully with the new parent. This boundary disruption requires radical change and new perspectives in the acquired company. Outsiders can bring fresh views as they have different backgrounds to the incumbent top team. Outsiders are less reluctant to impose radical change as they lack emotional ties to the acquired firm and are more likely to see things in a more objective light. Outsiders are associated with high levels of change which focus upon de-duplicating activities and imposing parent systems and structures in order to improve collective efficiency. This is likely to be highly disruptive of the acquired business and something which Insiders would try to reduce. Insiders are the deviant group in Absorption acquisitions as they carry out less change and may present an obstacle to aggressive alterations in their firm as they will have allegiances to the business and its employees. In this context Outsiders have more positive views of the strategic success of their acquisitions than Insiders as they are more likely to focus upon synergetic changes between both firm rather than the integrity of the acquired firm on its own.

Holding acquisitions exhibit high levels of organisational change which include instigating change rapidly, imposing tight controls, carrying out high levels of change to achieve turnaround and focusing upon short term results. This aggressive change, reminiscent of turnarounds, suggests Outsiders would be prevalent but Insiders dominate. The reason may be that organisational changes are largely internal to the acquired firm rather than at the boundary. Insiders, unlike Outsiders, are already embedded in effective social networks which allow them to act rapidly and extensively and this is particularly important when the acquired company is in poor condition and needing urgent treatment. Insiders know exactly how to bring about change and also are able to plan actions even before ownership changes. Outsiders are the deviant group here because they take longer to build effective networks for action. This is contrary to the turnaround literature which argues that for turnarounds to be successful there needs to be change in top management due to its close association with prior strategy. Interestingly the perceptions of success amongst Holding top executives shows Outsiders scoring more highly on several measures. This may be explained by Outsiders being more objective in their changes to the acquired firm. Whilst Insiders have the advantage of being able to act quickly and make many changes, they may not be tackling fundamental issues in their flurry of activity, preferring changes within an existing paradigm rather than contemplating revolutionary change. Insiders may unwittingly be allowing problems to continue as well as being demoralised by destroying much of what they had previously achieved.

In order to reconcile the contradictory indications from the axes of strategic interdependence and autonomy, it would seem that the lack of strategic interdependence has a greater influence than autonomy on the choice of top executive type in Holding acquisitions. Perhaps for the acquirer the fear of integrating a poorly performing firm and its potential for damaging the parent outweighs the fear of maintaining a poor set of core competencies in the acquired business.

In Symbiotic acquisitions results showed a change in balance with Insiders dominating in the first 18 months and Outsiders dominating thereafter. Insiders are used initially to stabilise and maintain the distinctive characteristics of the acquired company, so valuable configuration is not lost. Substantial efforts are then made to build trust between the two firms and change initiatives begin to switch towards the boundary. This is where Outsiders are then employed as they are more sensitive to the dynamic nature of two evolving organizations. Outsiders are

more likely to be comfortable with radical inter-organisational change where they can bring fresh perspectives to bear. For Symbiotic acquisitions, autonomy is initially dominant as a constraint upon integration, which favours the use of Insiders. However as strategic interdependence becomes increasingly important for longer-term value creation, Outsiders are more appropriate as willing advocates of fundamental realignments.

In summary, a strong association between top executive type and strategic interdependence is apparent and the distinction between value capture and value creation of key importance. Value capture acquisitions (Holding and Preservation) are about change focussing internally within the acquired firm and here Insiders dominate. Value creation acquisitions (Absorption and Symbiotic) are about change at the boundary and here Outsiders dominate (immediately in the case of Absorption and over time in Symbiotic acquisitions). The weak association of autonomy with top executive type is a refinement and an important clarification relative to earlier studies. This suggests decisions over top executive type are influenced more by an intentional activity of resource transfer/sharing, than concerns over boundary protection and autonomy. The choice of top executive in a post-acquisition context may, therefore, be driven more by strategic intentions of how value is captured or created rather than organisational fit considerations of how much autonomy top executives should have in managing acquired firms.

The wider implication of the findings for the study of M&A in performance terms is to explain why so many studies struggle to find clear correlations between top executive type and post acquisition outcomes (10). The results show substantial variation in usage of top executive types across a contingency framework. There are also very different change patterns associated with these top executives across and within integration strategies. These variations are likely to confound studies of performance which treat all acquisition integration as homogeneous and assume one type of top executive should be superior to the other. Different types of top executive are more appropriate in some integration strategies than others so that strengths noted for Insiders for instance (c.f. 11, 12) may be beneficial in Preservation acquisitions but actually harmful in Absorption acquisitions, and visa versa. In terms of top executive retention, in order to understand why top executives may stay or go (c.f. 4, 5) cannot be determined by assuming all acquisitions are the same, but only by being sensitive to the ways in which acquired companies are managed. This variation in usage has multiple implications for acquirer and acquired firms as the top executive is a major conduit for power and information between both organizations. The type of top executive may influence how acquirers may value the resources and capabilities of the acquired firm; their ability and capacity to learn from the acquisition (57); how much influence the acquired firm may have with the parent in subsequent integration decisions (58); the speed with which the parent can, and should, integrate the acquisition (59). The findings also suggest that there are consequences for using the wrong type of executive for a particular integration approach. In some circumstances this may be unavoidable but raises the issue of the extent to which misallocation of top executive may harm acquired firm performance.


## Conclusion

This paper set out to examine the link between top executive prior organisational background and different post-acquisition strategies. In particular whether 1) the nature of the top executive links with removal or retention post acquisition, and whether 2) the nature of the top executive in charge of managing an acquired firm associates with different integration strategies.

Through the use of a novel hybrid methodology consisting of survey and interviews, acquisitions were mapped onto a contingency framework in order to distinguish their different post-acquisition integration strategies. The relationship was then examined between different types of top executive, determined by their prior organisational background, and the main dimensions of a post-acquisition integration framework: organisational autonomy and strategic interdependence. Top executive types were then compared with different post acquisition strategy and comparisons made between their actions within each integration approach.

This paper provides empirical support for top executive prior organisational background being linked with different post-acquisition strategies. In particular, the level of the acquired company's strategic interdependence from the parent seems key with high levels of strategic interdependence being associated with the use of Outsiders and low levels with Insiders. As high levels of strategic interdependence are related to value creation, achieved through managerial action across company boundaries, Outsiders are appropriate top executives as they can readily bring in new perspectives to the acquired company and integrate across activities across organisational boundaries. Where there is low strategic interdependence and value from the acquisition is captured rather than created, Insiders predominate. In these acquisitions there is little need for a top executive to manage across boundaries. The emphasis is upon managing internal changes rapidly in order to improve the performance of the acquisition in the short term. For this purpose, the Insider, already embedded in working social networks is an appropriate choice for managing the acquisition.

Prior research (43) suggests that organisational autonomy is negatively associated with top management change. From the data presented in this paper this association is less clear. Whilst high levels of autonomy are associated with Insiders rather than Outsiders, in order to maintain acquired firm's distinctive capabilities, the reduction in autonomy level was not so clearly associated with changes in top executive balance. An explanation may be that setting appropriate levels of autonomy for an acquired company is difficult to handle.

In terms of different post acquisition strategies, Insiders dominate in Preservation acquisitions where the maintenance of distinctive capabilities is critical for performance. In these acquisitions it is likely that acquired Insiders are dissimilar in skills from acquiring management. In Absorption acquisitions Outsiders dominate as acquired company synergy benefits are to be found from full organisational integration with the acquirer. In these acquisitions the distinctiveness of the acquired firm is less valuable than the commonalities between firms. It is more important for profound adjustment of the acquired firm than maintaining its uniqueness and so Insiders, who are more likely to hinder integration through trying to preserve the acquired firm's integrity, are less valuable. Outsiders are more willing to impose radical changes for the needed alignment of acquired company with new parent.

The predicted relationships between top executive type, Holding and Symbiotic acquisitions is not forthcoming. Further enquiry revealed a close link between top executive type and strategic interdependence suggesting that this is the dominant dimension of the framework whereas the relationship with autonomy can only be described as weak and inconsistent. In Holding acquisitions, Insiders dominate and this may be explained by the need for rapid improvement in acquired firm performance. Insiders are best placed to deliver rapid and substantial change. However it is noticeable that whilst Outsiders are disadvantaged in these terms, they are associated with higher performance outcomes which may indicate a more

surgical approach to appropriate change. These results are contrary to the substantial findings in the related turnaround literature (9, 29, 30) and are worthy of further exploration.

Symbiotic acquisitions shows a more dynamic quality to the deployment of Insiders and Outsiders as acquisitions in this context start with the former and later appoint the latter. The Insider seems critical in the early stages of integration to preserve the integrity of the acquired firm's capabilities, whereas later in the process, greater benefit can be gained through a gradual convergence with the acquiring firm through inter-organisational change. The existence of differential timings in the types of top executive deployment in Symbiotic acquisitions suggests a more dynamic quality in choice than is commonly recognised.

Overall this paper has shown considerable variation amongst top executive retention across different post acquisition strategies. This is an important finding for research into top management turnover in M&A as current studies assume an unjustified homogeneity for acquisition integration. Furthermore a more fine grained approach to post acquisition integration reveals that there are important nuances in the relationship between top executive type and subsequent levels of organizational change depending upon the integration context.

**Practitioner Implications**
The data in this paper shows that different types of top executive are deployed to manage post acquisition strategies and this decision is driven more by intentions regarding strategic benefits rather than anticipation of organisational constraints. By privileging one over the other, acquirers should guard against potential over-estimation of the ability of retained management to instigate fundamental change.

Within each post acquisition strategy the paper shows that even with different top executive types, they agree upon the main change themes appropriate for that integration. However the different skills and abilities of Insiders and Outsiders are more appropriate in some circumstances than others. In particular Insiders are best suited to maintaining the integrity and core competencies of the acquired firm and, despite being able to act rapidly in implementing internal change, are good at resisting fundamental alterations. Insiders should be used in Preservation acquisitions, the initial stages of Symbiotic acquisitions and potentially in Holding acquisitions. Outsiders on the other hand bring a more objective view and do not have the same vested interests. They are better able to span between the parent and acquired company and far more willing to make changes in the acquired company to further inter-organisational integration. This makes them ideal for Absorption and later stage Symbiotic integrations and potentially in Holding acquisitions.

The consequences of misallocating Insiders and Outsiders are illustrated in the case data. Outsiders cause greater disruption and potential for damage in Preservation acquisitions and Insiders hinder and resist needed change in Absorption acquisitions. In Holding acquisitions it may appear that Outsiders do not move as fast or as extensively as Insiders, but their objectivity and willingness to kill sacred cows may make them a more effective executive in this situation. The key questions for acquirers in Holding situations are how time critical are changes, as Insiders may be able to act more rapidly and extensively. If time is less pressing then Outsiders may be a wiser choice. For Symbiotic acquisitions it would be an error to appoint an Outsider at the outset as this would risk damaging acquired firm core competencies. However, to let an Insider stay in charge for the long term, may prevent potential synergies from being achieved between the two firms. The dynamic quality of interfacing between Insiders and Outsiders in Symbiotic acquisitions is noteworthy and so

important questions for acquirers managing this type of acquisition are how long should an Insider remain in place before moving to an Outsider; what might the indication for top executive change be; should there be a period of co-existence to enable smooth handover?

Identifying the appropriate top executive type for managing a particular post acquisition integration style is important not only for having the right person in place once a deal has been transacted, but also for the significant affect it will have upon the tenor and bargaining positions of earlier negotiations. Acquirers will need to consider how they wish to signal to top executives in acquisition targets. Wishing to retain an Insider will require significant time and investment to ensure continuity, through financial and social incentives, whilst building mutual understanding and trust for a strong working relationship post deal. Where the intention is to bring in an Outsider, attention will focus, not upon retention, but upon enabling the Insider to depart without destabilising the acquired firm and organising a smooth handover to the new top executive.

## End notes
Lists of variables used in this study and their groupings are available on request from the author

1. Haspeslagh and Jemison (1991) do not discuss Holding acquisitions except to conceptualise that they could exist.
2. Cohen's kappa coefficient of consistency was chosen because it allows for two coders, it accounts for chance agreement between coders compared to percent agreement and is among the most commonly accepted rates in management research (60).
3. Strong form of Strategic interdependence
4. I9 is a new Insider
5. Result for Insider/Outsider against time elapsed in Symbiotic acquisitions is -.6299, n = 6, significance = .039.

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# Appendix 1      Anonymous details of interviewees

|   | **Acquisition type** | **Deal size*** | **Sector** | **Top executive type** | **Code** |
|---|---|---|---|---|---|
| 1 | **Preservation** | Small | Precision engineering | **I** | **I1** |
| 2 | " | Small | Packaging manufacturing | **I** | **I2** |
| 3 | " | Med. | Transport | **I** | **I3** |
| 4 | " | Med. | Medical | **O** | **O1** |
| 5 | " | Large | Communication | **O** | **O2** |
| 6 | " | Large | Communication | **I** | **I4** |
| | | | | | |
| 7 | **Absorption** | Small | Composite manufacture | **I** | **I5** |
| 8 | " | Small | Professional services | **I** | **I6** |
| 9 | " | Small | Professional services | **O** | **O3** |
| 10 | " | Med. | Food manufacturing | **O** | **O4** |
| 11 | " | Med. | Utilities | **O** | **O5** |
| 12 | " | V. large | Communications | **O** | **O6** |
| | | | | | |
| 13 | **Holding** | Small | Financial services | **I** | **I7** |
| 14 | " | Small | Engineering | **I** | **I8** |
| 15 | " | Small | Property services | **I** | **I9** |
| 16 | " | Small | Industrial service | **O** | **O7** |
| 17 | " | Small | Electronics | **I** | **I10** |
| 18 | " | Large | Industrial land usage | **I** | **I11** |
| | | | | | |
| 19 | **Symbiotic** | Large | Food manufacture | **O** | **O8** |
| 20 | " | Small | Engineering | **O** | **O9** |
| 21 | " | Small | Engineering | **I** | **I12** |

*Deal size at completion: Small (£8m - £25m), Medium (£26m - £100m), Large (£101m - £500m), Very large (£501m - £4bn)

# Figures and tables

**Figure 1        Responding sample by Insiders/Outsiders**

| | | |
|---|---|---|
| New executives from different industries = 11 cases | New executives from the same industry as the acquired business = 12 cases | **Organisational\* Outsiders ⇒ 23 cases** |
| Incumbents = 33 cases | New executives drawn from within the acquired business = 10 cases | **Organisational\* Insiders ⇒ 43 cases** |

**Total   ⇒ 66 cases**

\* Organisation refers to the target company acquired

Note: acquiring companies came from the target's own industry and outside its industry in equal measure

**Figure 2**        **Distribution of Insiders and Outsiders**

**Organisational Autonomy**

|  | Low | High |
|---|---|---|
| **Strategic** (Low) | *Holding*<br><br>***Insiders* = 82.4% of cases**<br><br><br>*Cases = 17* | *Preservation*<br><br>***Insiders* = 75.0% of cases**<br><br><br>*Cases = 32* |
| **Inter-dependence** (High) | *Absorption*<br><br>***Outsiders* = 72.7% of cases**<br><br><br>*Cases = 11* | *Symbiotic*<br><br>***Outsiders* = 66.6% of cases**<br><br><br>*Cases = 6* |

Number of cases = 66
Source: Adapted from Haspeslagh and Jemison (1991)

**Chi-Square Tests**

|  | Value | df | Asymp. Sig. (2-sided) |
|---|---|---|---|
| Pearson Chi-Square* | 10.772 | 2 | .005 |
| Likelihood Ratio | 10.195 | 2 | .006 |
| Linear-by-Linear Association | 7.896 | 1 | .005 |
| N of Valid Cases | 60 |  |  |

1 cell (16.7%) has expected count less than 5. This is acceptable (Everitt, 1977).

* Symbiotic acquisition cases are excluded as the number of observations for those cells is too low for this statistical test.

**Table 1 Level of autonomy versus use of Insiders / Outsiders**

**Level of Autonomy**

| | Low | Medium | High | |
|---|---|---|---|---|
| **Outsider** | **8**<br>7.0<br>34.8%<br>1.0 | **7**<br>5.9<br>30.4%<br>1.1 | **8**<br>10.1<br>34.8%<br>-2.1 | **23**<br>34.8% |
| **Insider** | **12**<br>13.0<br>27.9%<br>-1.0 | **10**<br>11.1<br>23.3%<br>-1.1 | **21**<br>18.9<br>48.8%<br>2.1 | **43**<br>65.2% |
| | **20**<br>30.3% | **17**<br>25.8% | **29**<br>43.9% | **66**<br>100.0% |

**Key to cells**: *Count, Expected value, Row Percentage, Un-standardised Residual*

| Chi-square | Value | DF | Significance |
|---|---|---|---|
| Pearson | 1.20725 | 2 | .54683 |

**Table 2 Mann-Whitney U test: Strategic Interdependence versus Insiders / Outsiders**

| top executive Type | Number of cases | Mean Rank | Sum of Ranks |
|---|---|---|---|
| **Outsiders** | 23 | 42.11 | 968.5 |
| **Insiders** | 43 | 28.90 | 1243 |
| | 66 | | |

| U | W | Z | 2-Tailed P |
|---|---|---|---|
| 296.5 | 1242.5 | -2.6877 | .0072 |

**Table 3 Mann-Whitney U tests for strategic interdependence items against use of Insiders / Outsiders**

| Transfer / Sharing items | Mean rank of Outsiders | Mean rank of Insiders | 2-tailed P |
|---|---|---|---|
| Personnel | 40.67 | 29.66 | .0198 |
| Physical Assets | 38.37 | 30.90 | .0757 |
| Knowledge and Information | 40.61 | 29.70 | .0225 |

**Table 4          Summary of results**

| Hypothesis | Findings |
|---|---|
| 1. Post acquisition organisational autonomy will be negatively associated with the appointment of Outsiders in the acquired company and positively associated with the retention of Insiders | Not supported<br>Mann-Whitney U test<br>2-tailed P = .1357 |
| 2. Post-acquisition strategic interdependence will be positively associated with the use of Outsiders and negatively associated with the use of Insiders in the acquired company | Supported<br>Mann-Whitney U test<br>2-tailed P = .007 level |
| Confirmation of the alignment of top executive type with the axes hypothesized above is confirmed with Insiders in  Preservation and Outsiders in Absorption acquisitions | Preservation cases<br>75.0% of top executives were Insiders.<br>Pearson chi-squared for matrix = .005<br>Absorption cases<br>72.7% of top executives were Outsiders<br>Pearson chi-squared for matrix = .005 |
| 3. Outsiders will predominate in Holding acquisitions | Not supported<br>82.4% of top executives were Insiders<br>Pearson chi-squared for matrix = .005 |
| 4. Insiders will predominate initially in Symbiotic acquisitions and then Outsiders will predominate | Supported<br>Kendall Tau  correlation = -.6299<br>P = .039 |
| 5.<br>*Insiders* will express more positive views than *Outsiders* on the success of the acquisition, in terms of achieving its strategic objectives,<br>in *Preservation* acquisitions.<br><br>*Outsiders* will express more positive views than *Insiders* on the success of the acquisition, in terms of achieving its strategic objectives:<br>In *Absorption* acquisitions,<br>In *Holding* acquisitions,<br>In *Symbiotic* acquisitions. | <br><br><br><br>Supported, t = 1.73, P = .05<br><br><br><br><br><br>Supported, t = 3.26, P = .01<br>Supported, t = 2.77, P = .01<br>Supported, t = 2.33, P = .03 |