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ROLE OF THE TOP MANAGEMENT TEAM IN POST ACQUISITION SUCCESS: A RESOURCE-BASED VIEW

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ROLE OF THE TOP MANAGEMENT TEAM IN POST ACQUISITION SUCCESS: A RESOURCE-BASED VIEW

A Dissertation APPROVED FOR THE

MICHAEL F. PRICE COLLEGE OF BUSINESS

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ROLE OF THE TOP MANAGEMENT TEAM IN POST ACQUISITION SUCCESS: A RESOURCE-BASED VIEW

TABLE OF CONTENTS

LIST OF FIGURES

ROLE OF THE TOP MANAGEMENT TEAM IN POST ACQUISITION SUCCESS: A RESOURCE-BASED VIEW

ABSTRACT

The acquisition strategy is likely the most popular corporate strategy for growth. Research continues to explore this strategy and suggest that acquisitions occur for numerous reasons: rapid renewal in a global marketplace, creating synergies, ensuring financial and tax advantages, establishing market power, and the market for corporate control. However, a large body of research suggests that top management team (TMT) failure and improvement in efficiency is the key role for acquisitions, as argued in the market for corporate control literature. An important research question that researchers continue to explore is the disposition of the TMT subsequent to acquisition and its impact on acquisition performance.

This research focuses on the TMT, their retention, the particular characteristics of the TMT (their networks, knowledge, dynamic capability), these characteristics moderated by both acquisition type and competitive environment, and their value to the acquiring firm to help explain the variation in post acquisition success of the acquired firm. Finally, this research focuses on smaller acquisitions, which are the majority as opposed to most previous research that focused on larger acquisitions only. This research also examines primary data from acquisition managers as opposed to the secondary (archival) data that has dominated most previous work on acquisitions.

Our findings suggest that Pre-Acquisition performance of the target firm correlates with top management team (TMT) retention. Higher TMT retention was found to positively correlate with Post-Acquisition performance and that Pre-Acquisition

performance does not correlate with post-acquisition performance. TMT knowledge, TMT network and TMT dynamic capability were found to be positively significant to post-acquisition performance. We controlled for the size of the acquirer versus the acquired, how the firm was purchased and the type of ownership of the acquired firm.

Chapter One
Statement of the Problem and Contribution

1.1 Introduction

Acquisition strategy research is extensive and ongoing. The sheer volume of acquisitions suggests that this strategy is likely the most popular approach for growth by corporations (Seth, Song and Pettit, 2000). For example in 2003, 27,612 Mergers and Acquisitions deals worth $1.33 trillion were announced, which is a 10% growth from 2002 which had 26,270 deals worth $1.21 trillion (Wall Street Journal, 2004). However, past research has suggested that acquisitions do not create shareholder value (Datta and Puia, 1995). The popularity of the strategy in spite of its apparent lack of success (measured mostly through stockholder value) creates a rich research opportunity.

Research has suggested that one reason firms pursue the acquisition strategy is due to the change in the marketplace where speed becomes of the essence and the need for rapid renewal plays a significant role in driving organizations to acquire competences rather than to build them internally (Hayward, 2002; Vermeulen and Barkema, 2001; Hamel, 2000). The finance and economics literatures conceptualize acquisitions as natural forces in a market for corporate control where alternative management teams compete for the right to control the assets of undervalued corporations (Jensen and Ruback, 1983). The market for corporate control is defined as the transferring of managerial control to new capital providers (e.g., through acquisitions), i.e. the market for buying and selling businesses (Hitt, Hoskisson, Johnson, and Moesel, 1996). Firms also complete acquisitions for other strategic objectives such as creating synergies, ensuring financial and tax advantages, and establishing market power (Jensen and Ruback, 1983; Ravenscraft and Scherer, 1987).

Although there are many reasons for acquisitions, much of the research suggests that TMT failure and improvement in efficiency are the key motivators for acquisition (Herman and Lowenstein, 1988; Walsh and Koznick, 1993). For example, the key role of takeovers is seen as controlling the behavior of corporate managers who have pursued courses that have caused the firm to under-perform (Jensen, 1986). Mergers are also seen as improving efficiency after managers who may have been poor agents for their stockholders (Council of Economic Advisers, 1985). There is little direct evidence for the efficiency-enhancing disciplinary view, but researchers have drawn support for this view by eliminating alternative motives (Ravenscraft and Scherer, 1987). This literature suggests that getting rid of the previous management should improve the performance of the acquired firm. However some recent research suggests that there may be no association between acquired firm TMT stewardship and acquisition performance. Specifically, Walsh and Elwood (1991) found no association between TMT turnover and pre-acquisition performance. Walsh and Koznick (1993) found no relationship between corporate raider takeover and TMT turnover while Martin and McConnell (1991) even found a negative association with TMT turnover post-acquisition performance.

The key question becomes what is the effect of the target firm’s top management team (TMT) on performance of the target firm subsequent to acquisition. The research is typically explored through use of secondary data by examining the substantial increase of executives leaving the firm and through a sample of very large acquisitions (e.g., Morck, Shleifer and Vishny, 1989; Martin and McConnell, 1991; Ikenberry and Lakonishok, 1993; Agrawal and Walkling, 1994; Cannella and Hambrick, 1993; Kennedy and Limmack, 1996). Often these views suggest that the target firm's TMT may not be retained as the research results chronicle increased post-acquisition turnover rates among target firms' top managers (Martin and McConnell, 1991; Walsh and Ellwood, 1991).

This dissertation research is different in several critical areas: This research explores acquisitions and the value of the TMT from a viewpoint that combines the Upper Echelon perspective of top management teams with a resource based view of them (e.g. Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). We explore this perspective arguing that the TMT is valuable, needs to be retained after acquisition, and positively affects post-acquisition performance. The Upper Echelon perspective suggests that there is a linkage between top management characteristics and the development of strategic assets so that the organization becomes a reflection of the TMT. The development of this "reflection" assists in explaining the competitive behavior of the firm. The resource based view argues that organizations accumulate and develop a bundle of specialized resources that are both tangible and intangible. These resources, when applied appropriately, should generate above average returns and can create a sustainable competitive advantage (Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The resource based view offers that physical, human, and organizational resources are an organization's source of competitive advantage when they are valuable, rare, non-substitutable and inimitable (Barney, 1991). The top management team (TMT) has control over all organizational resources, to one degree or another and may be the valuable resource that attracts acquisition attempts. From this perspective firms will acquire other firms that have these valuable resources to augment their own stock to compete effectively in the new global marketplace.

This dissertation also examines the specific characteristics of the TMT in post acquisition success through their networks, knowledge, and dynamic capabilities to post acquisition performance of the acquired firm. The focus of analysis for this study is the post acquisition performance of the acquired entity, not the overall combined firm to be consistent with some other TMT research (Cannella and Hambrick, 1993). This dissertation examines which characteristics of the TMT are seen as important in acquisitions moderated by both industry specific competitive environment and type of acquisition. Finally, we explore and extend the TMT as a resource in regard to acquisitions through a field study using primary data as opposed to the archival data most commonly used. We will examine the purchase of smaller firms (which compose the majority of acquisitions), as opposed to larger acquisitions (that while fewest in number have dominated the prior research).

1.2 Rationale and Importance of Research

Research has suggested that the top management team of an acquired organization tends to leave the organization after acquisition (Cannella and Hambrick, 1993; Walsh and Kosnick, 1993). U.S. target organizations can expect to lose about two-thirds of the executives of the acquired organization within 5 years of acquisition (Krug and Hegarty, 1997). This issue is even more prominent at the international level where departures are even higher when the purchaser is a foreign multinational (Krug and Hegarty, 1997). Explanations for the loss of the target's TMT vary from differences in corporate culture, loss of autonomy, incompatible governance imposition, and the preferred explanation from the economic-finance literature, that of the market for corporate control.

The market for corporate control literature suggests that when the TMT of the acquired firm exits the situation, it is due to their underperformance and the market is working, as the new TMT of the acquirer has successfully rid them-selves of the poorer performing TMT (Agrawal and Walkling, 1994; Martin and McConnell, 1991; Kennedy and Limmack, 1996). The synergy literature would suggest that due to economies of scale and scope, a target firm's TMT's departure would eliminate costs thus providing greater return for shareholders (Chatterjee et al, 1992; Amit and Livnat, 1988).

This dissertation investigates the view that argues that firms do not predominantly acquire failing or poorly performing firms. Rather this dissertation proposes that firms make acquisitions of successful firms to add to their own resource base and that the intention of the acquisition is to retain a valuable TMT. This research focuses on the TMT retention and their value to the firm to help explain the variation in acquisition performance. The sample is also different from previous studies that typically examine large firms (e.g., Hambrick and Cannella (1993) examined only the largest 108 acquisitions in a five year time span) and focus on the majority of acquisitions, which are smaller. We also examine the particular characteristics of the TMT moderated by both acquisition type and competitive environment to post-acquisition performance.

1.3 Research Questions:

Research Question One: The first research question is a fundamental question in the field of strategic management: Is there a relationship between the retention of the

TMT of the target firm after acquisition and post-acquisition performance of the acquired firm? There is an emphasis in strategic management currently on the Resource-based view of the firm and which resources are actually rare, inimitable, valuable and organized to exploit their value, therefore the identification of resources that fulfill these criteria facilitate theory development. If these resources (the TMT) are lost, what is the effect to post-acquisition performance? Not only are we interested in the relationship between retention and post-acquisition performance, but also the relationship if the resources are not retained.

By addressing the question of the relationship between post-acquisition performance and retention of the TMT, this dissertation attempts to account for the change in business practices and global "speed" in which inimitability and scarce management capabilities are now prevalent. This dissertation results suggest that the TMT retention positively correlates to post-acquisition performance, thus contradicting the agency theory perspective of self-interested managers that are supplanted by a new managerial team. In essence, the TMT is a valuable resource that is an integral part of the target firm's value.

<u>Research Question Two:</u> The second research question examines whether there is a relationship between target firm pre-acquisition performance and the retention of the TMT. The argument offered by the market for corporate control for acquisitions is that the target is performing poorly due to an inadequate management, thus the marketplace sees an opportunity. The argument continues that the poorly performing firm is bought and the target TMT is then fired. This argument does not address the purchase of non-poorly performing firms, but we attempt to measure both poorly performing firms, and

those with good performance. In essence the question is: Does pre-acquisition performance of the firm affect the retention of the TMT?

By addressing the above questions, this dissertation goes beyond the relation between post-acquisition performance and TMT retention, but also pre-acquisition performance and whether the TMT is retained. Intuitively and in accordance with our findings, the results suggest that Pre-Acquisition performance of the target correlates with top management team (TMT) retention. Interestingly, barely a third of our sample indicated that the firm was performing below average and very few with poor performance, thus adding to the strategy literature the concept that firms may actually be purchasing firms that are performing well, but both are seeking complementary resources. This indicator continues to support the resource based view that resources that are rare, valuable, organized, and inimitable are a source of competitive advantage and may not be internally replicated by a competitor, but can be done through acquisition.

<u>Research Question Three:</u> Are the TMT characteristics we have theoretically identified (network, knowledge, dynamic capability) correlate to post-acquisition performance of the acquired firm? The Upper Echelon perspective suggests that there is a linkage between top management characteristics and the development of strategic assets so that the organization becomes a reflection of the TMT. The development of this “reflection” assists in explaining the competitive behavior of the firm (Hambrick and Mason, 1984). Yet this general concept conceals the elements of the TMT that are in particular valuable to an organization.

One of the characteristics important to a TMT is the network of relationships in which the TMT is embedded in, both external and internal. For example, the advice network that a TMT forms to acquire and share tacit knowledge throughout the organization is a key coordinating mechanism (Athanssiou and Nigh, 1999). Also, the internal network focuses on productivity, innovation, and labor relations, while the external network will focus on competition, customers and new product/market opportunities (D'Aveni and MacMillan, 1990). TMTs develop networks of relationships between firms and then maintain them. These relationships developed are an integral part of a firm's success, and are often inimitable. The significant findings in this dissertation suggest that the network of relationships developed by the TMT is a characteristic that purchasing firms find a valuable component of the acquisition and the TMT in specific.

Today's marketplace is becoming more knowledge-based so knowledge and the competencies built upon a knowledge platform are key factors in determining an organization's current and future value (Grant, 1996; Hamel, 2000; Kogut and Zander, 1993; Spender, 1996; Yli-Renko, Autio and Sapienza, 2001; Seth, Song and Petit, 2002; Lane and Lubatkin, 1998). The TMT has tacit knowledge in regard to strategy, organizational strengths and weakness, the industry, etc., which is a valuable commodity to the firm. Also, the TMT develops routines that create knowledge flows throughout the organization. Knowledge is information laden with experience, truth, judgment, intuition, and values; a unique combination that allows individuals and organizations to assess new situations and manage change (Huseman and Goodman, 1999). This dissertation findings support the knowledge-based perspective, that the TMT knowledge is a valuable characteristic and thus an integral component of the target acquisition value.

One of the new strategic challenges in today's marketplace and a possible form of competitive advantage is "speed" (Pearce, 2002). How the TMT employs the firm's assets, and how quickly, affects the success of a strategy in today's global competition (Eisenhardt and Brown, 1998b). This asset employment can be called dynamic capabilities, which refer to the development of management capabilities and difficult-to-imitate combinations of organizational, functional and technological skills to gain/sustain a competitive advantage (Teece, et al., 1997). Our results in this dissertation support this assertion and the TMT characteristic of dynamic capabilities has become a credible asset in today's global marketplace. In essence, the three TMT characteristics are a beginning to unravel the particulars or value of the TMT in regard as a valuable resource to the firm.

1.4 Structure of this dissertation:

The remainder of this dissertation is in the following format. Chapter Two (The Literature Review) discusses the strategic importance of acquisition, acquisition types, theories we are applying to our research, and an overview of the literature on acquisitions. Chapter Three (Theoretical Model and Hypothesis Development) discusses all the constructs and develops a model with variables of Top Management Team: Retention, Pre-acquisition Performance, Post-Acquisition Performance, TMT Characteristics (TMT Network, TMT Knowledge, TMT Dynamic Capabilities), Competitive Environment, and Type of Acquisition. Chapter 4 (Methodology) describes the dependent and independent variables, and discusses the sample and how we collected the data. Chapter Five (Results) presents the results of our research. Chapter 6 discusses the theoretical implications, managerial implications, future research, limitations of the research, study limits, and method limits.

Chapter Two
Literature Review

2.0 Overview

This section discusses acquisitions and the theoretical reasons for firms to acquire other firms. We also explore the literature in regard to the evidence that suggests that the acquisition strategy may not be successful. The different types of acquisitions are explored and then the recent literature in regard to the resource based view is applied to acquisitions. Upper echelon theory in concert with the resource based view is applied to the TMT and their value to acquisitions. The dynamic capabilities perspective and the knowledge based view are introduced to assist in explaining the importance of the TMT in acquisition success. I end the section with a summary of the research in regard to acquisitions.

2.1 Acquisitions: Background and Strategic Importance

Researchers have investigated the logic behind the acquisition/ownership decision using multiple theories. The rationale from Transaction Cost Economics for acquisition rests with minimizing the sum of production and transaction costs (Williamson, 1975). The resource based view (Wernerfelt, 1984) suggests that through acquisition an organization can maximize value by gaining access to the idiosyncratic and valuable resources of other organizations (Madhok, 1997; Ramanathan, et. al., 1997). Coff (1999) suggests that firms will attempt to purchase other firms for their knowledge, but will utilize different coping strategies in reaction to the knowledge intensity of the industry and their relatedness. Lubatkin (1987) found no differences in returns to bidding firm's shareholders for strategically related and unrelated firms. Barney (1988) suggests that synergistic cash flows stemming from relatedness will lead to abnormal returns for the acquiring firm's shareholders when those cash flows are private and unique, inimitable and unique, or unexpected. One important source of value in acquisitions is the potential to transfer valuable intangible assets such as know-how between the combining organizations (Caves, 1982). The knowledge based perspective continuously turns to privately held knowledge as a basic source of competitive advantage of which attracts acquisition attempts.

Strategic reasons for employing an acquisition strategy include: access to new markets, the availability of scarce specialized resources, the opportunity to achieve production efficiencies, and/or the means to reducing political or market risk (Cooke, 1988). For example, an international acquisition strategy allows organizations to exploit foreign market opportunities quicker than other strategies (Root, 1987), overcome trade and investment barriers (Mergers and Acquisitions, 1990), and, through international market diversification, stabilizing organization returns due to uncorrelated market fluctuations and turbulent political climates (Caves, 1982).

Although acquisition strategies continue to be attractive, organizations divest a high proportion of unrelated and related acquisitions (unrelated as a higher percentage) often shortly after their purchase (Bergh, 1997). The percentage of unrelated acquisitions alone that are divested ultimately can reach as high as 79% (Porter, 1987). In the past, researchers have connected failure of the acquisition to divestiture (Porter, 1987; Ravenscraft and Scherer, 1987) and that divestitures occur when the acquisition does not meet the expectations that prevailed at the time of acquisition strategy execution (Bergh, 1997). Divestiture may lead to financial losses, damage to the reputation of the purchasing organization, dismissal of executives, and devaluation by the financial community (Donaldson, 1990; Kaplan and Weisbach, 1992).

Contrary to previous studies, recent literature suggests that acquisitions do not fail as often as thought and can create value for the organization. For example cross-border acquisitions represent an increase of 7.5 –10.7 percent in value for 74-76% of the organizations that use this strategy (Eun, Koldny and Schereaga, 1996; Seth, Song and Pettit, 2000; Bradley, et. al., 1988; Seth, 1990a; Berkovitch and Narayanan, 1996). In domestic acquisitions, research has suggested that additional value has been derived from an increase in operational efficiency, an increase in market power, or some other form of financial gain (Singh and Montgomery, 1987; Seth, 1990b)

Also, most prior studies utilized financial measures that only include acquisitions whose impact must be measurable on combined organizations' performance (e.g., stock price, corporate financial statements). For example Business Week (2002) suggests that acquisitions fail to generate stockholder value, yet includes in its analysis only those acquisitions valued at greater than $500 million. This type of acquisition is a minority (10-12%) to the total number of acquisitions performed (Ernst and Young, 2003), as the average acquisition's dollar value is $64 million (Business Week, 2002).

2.2 Acquisition Types

Acquisitions have been classified according to the following four types: Vertical, horizontal, conglomerate and concentric (Cartwright and Cooper, 1992). The characteristics of each type of acquisition vary markedly in regard to the strategy behind them, the value of and type of resources to be acquired, and the role of the extant TMT. We describe each of the four acquisition types below.

In a vertical acquisition, one organization is acquiring another within their supply chain (e.g., a manufacturer purchasing an organization backward in their chain; e.g., a supplier, or forward in their supply chain; e.g., a distributor or a customer). Transaction cost analysis would suggest that this type of acquisition occurs to internalize or lower the costs of production or of doing business in the open market. In a horizontal acquisition, two organizations in the same industry (competitors) combine operations. This type of acquisition occurs for economies of scale, market power, or the acquisition of competencies from the competitor. A conglomerate acquisition is the acquisition of an unrelated organization. This practice was more common in the 1960's (Cartwright and Cooper, 1993) and the objectives were to reduce systematic risk between industries and to develop a large internal capital market. Concentric acquisition refers to a combination between organizations offering complimentary products or services. An example of such would be a wireless service organization being acquired by an organization with core competencies in local and long distance services. Potential economies of scale, use of similar distribution channels, and sales capabilities could overlap. Although the four types are differentiated, often the classification for a given acquisition is not so straightforward and may have characteristics of each, especially in the case of horizontal and concentric acquisitions.

The definitions of the acquisition types discuss broader structural and external relationships and do not discuss the internal manifestations that often lead to subsequent success or failure of the acquisition goals (i.e., changes in corporate culture, resource allocations, TMTs, synergy development, etc.). As the resource-based view holds that an organization is viewed as a bundle of specialized resources that are deployed to create a privileged market position, how these resources are organized, employed and subsequently integrated by the top managers is of interest (Barney; 1986; 1988; Dietrix, Cool and Barney, 1989; Rumelt, 1982; Wernerfelt, 1984; 1995). Firms are also a reflection of their top management teams and organizational outcomes can be predicted through an examination of these individuals (Hambrick and Mason, 1984). This argument follows earlier work that suggests that top managers are unique as they are often unable to make economically rational decisions because they are boundedly rational and must act in a social context of multiple and conflicting goals (March and Simon, 1958; Cyert and March, 1963). Therefore the TMTs of firms are responsible for their firm's success or failure due to their strategic decisions, corporate culture development, human resource selection and enhancement, knowledge that is internal to the firm as well as their external knowledge of the industry, market, and competitors.

2.3 Upper Echelon Theory and the Resource Based View to TMT/Acquisitions

This section presents a view of the TMT, their capabilities, and their role in acquisition success using Upper Echelon Theory as the core of the argument. This perspective then integrates the Upper Echelon perspective with the RBV because the Upper Echelon perspective argues that top managers are valuable to their firms and the RBV explains why. We further augment the Upper Echelon perspective by integrating the dynamics capabilities perspective The TMT's value from the dynamic capabilities perspective suggests that the TMT's strategic decisions in tangible/intangible asset utilization, combination, acquisition, and disposal create value for the firm.

This section will examine the importance of the TMT through research in Upper Echelon theory and the resource based view paying particular attention to the dynamic capabilities and knowledge based elements of the RBV. Upper Echelon theory allows us to develop a linkage between top management characteristics and the development of strategic assets. This concept puts the focus on TMT behavior rather than a single individual such as the CEO (Hambrick and Mason, 1984). Hambrick and Mason's research suggests that the organization becomes a reflection of the TMT, which in turn helps explain the competitive behavior of the firm.

2.4 Upper Echelon Theory

The most important group in an organization is the top management team (e.g. Ireland and Hitt, 1999). The TMT of an organization ranges from as little as three to ten people and is at the apex of the organization providing strategic leadership (Finkelstein and Hambrick, 1996). Successful firms owe their success to these small groups of executives that develop strategy and direct the resources that combine both the firm's tangible and intangible assets. Researchers have explored the link between human resource planning and strategic planning, as the TMT is the focal force in planning strategy and staffing to strategic requirements (Walker, 1978; Devanna, Fombrum and Tichy, 1984; Schuler and Jackson, 1987; Wright and Snell, 1991). The resource based view has shifted the emphasis from external factors in the strategy literature to internal factors (Hoskisson, Hitt, Wan and Yiu, 1999) thus bringing legitimacy to the importance of people to organization success. Human resources could be a source of competitive advantage, especially if they are aligned with the organization's competitive advantage (Huselid, 1995). Organizations, in a broader sense, have developed certain rules and processes that determine who holds the power and how it is executed. These rules and processes are developed through mutual agreement amongst the participants (Cyert and March, 1963; Pfeffer, 1981; Salancik and Pfeffer, 1977). A boundedly rational TMT affects a firm's strategic choice and the subsequent performance of the firm due to these decisions (Cyert and March, 1963).

Prior research concerning the role of the TMT in post acquisition success, however presents a mixed picture. As an example, some of the succession literature implies that loss of the TMT and subsequent succession by new managers has no effect on the subsequent firm's acquisition performance (Romanelli and Tushman, 1987; Virany, Tushman and Romanelli, 1992). The succession literature focuses on the effects of CEO succession and their relationship with the TMT, as interest conflicts and competition between the CEO and other senior executives put the CEO at risk of power contests with senior executives (Ocasio, 1994; Shen and Cannella, 2002). However, Grusky, (1969) plus Helmich and Brown, (1972) suggest that insider/outsider successions affect the firm differently. Also, research has suggested that new top managers with prior records of good performance are more likely to bring about performance improvements, which supports the market for corporate control arguments (Smith, Carson and Alexander, 1984; Pfeffer and Davis-Blake, 1986). One key exception in this area of research is Cannella and Hambrick (1993). These authors found that that the loss of the TMT from the acquired firms negatively affected post acquisition performance of the acquired firm.

TMT departure after acquisition may heighten the level of disruption and uncertainty in the firm following acquisition (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Krishnan, et. al., 1997; Singh and Zollo, 1998). Past research has suggested that management retention should be more important in unrelated acquisitions than in related ones, since the target firms' TMT are likely to be more familiar with their operation then the acquiring firm (Cannella and Hambrick, 1993; Walsh, 1988). Yet, from a resource based perspective, the TMT may be as important whether the acquisition is related or unrelated. The organization's culture, strategy, and dynamics are all dependant upon the TMT (Cyert and March, 1963; Pfeffer, 1981; Salancik and Pfeffer, 1977).

Development of the organization's culture, strategy and dynamic capability by the TMT are performed with the objective of building the economic value of the firm. These processes occur through the integration of complementary human resources and development of a synergistic environment (Seth, et. al., 2002; 2000; Eun, et. al., 1996). The TMT, through their guidance, corporate culture development, employment practices, and deployment of human resources influence these internal factors. Decisions by the TMT to align the human resource skills and strategy can affect performance (Wright, Mcmahan and Smart, 1995). Also, the TMT through their strategic choices is a main component that determines the success or failure of an organization (Andrews, 1971; Ansoff, 1988; Child, 1972; Priem, 1994). Strategic leadership theory holds that companies are reflections of their top managers and that the specific knowledge, experience, values and preferences of top managers are reflected not only in their decisions, but also in their assessment of decision situations (Cannella and Monroe, 1997).

2.5 Dynamic Capabilities Perspective

The dynamic capabilities perspective suggests further value of the TMT (Madhok & Osegowitsch, 2000). Dynamic capabilities refer to the development of both management capabilities, and difficult-to-imitate combinations of organizational, functional technological skills to gain/sustain a competitive advantage as well as the ability to change these things as the need arises (Teece, et al., 1997). The TMT has a major role in this process. Dynamic capabilities necessitate having the TMT develop overall organizational coherence. Such coherence must recognize the unique features of the internal and external environment to facilitate customization of strategies while focusing attention on the adaptation, integration plus the reconfiguring of both internal and relational resources to match the opportunities in the global and local marketplaces (Dierickx, Cool and Barney, 1989; Teece et al., 1997).

Dynamic capabilities theory is derived from the resource-based view of the firm that focuses on firm-level resources (internal factors semi-permanently linked to the organization) that provide the firm with a unique competitive posture (Barney, 1991; Dierickx, Cool and Barney, 1989; Wernerfelt, 1984). Briefly, the resource-based view of the firm theorizes that the accumulation of resources, that are: 1) valuable; 2) rare; 3) imperfectly imitable; and 4) for which there are not strategically equivalent substitutes create resource position barriers to deter competition, and competitive advantage resulting in above-normal returns (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). Alternatively, the dynamic capabilities perspective argues that capabilities are more substitutable across different contexts as well as equifinal, thus rendering inimitability and immobility irrelevant to sustained competitive advantage (Eisenhardt & Martin, 2000). As such, the dynamic capabilities perspective is focused on the strategic employment of key resources, as opposed to the ownership of the resources themselves and application in a stable environment. The TMT's decisions as to the direction and employment of strategically key resources are often what create value for firms. Dynamic capabilities thus are the organizational and strategic routines, by which firms achieve new resource reconfigurations as markets emerge, collide, split, evolve, and die (Eisenhardt and Martin, 2000). The firm's internal resources are not considered stable, but must be bought, sold and developed by the TMT as the strategy changes to compete in the dynamic environment.

2.6 Knowledge based Perspective

Both the resource based view and dynamic capabilities perspectives would suggest that knowledge is critical. Increasing turbulence in the market place has suggested that knowledge; tacit knowledge in particular, is the most strategically important resource which firms possess (Quinn, 1992). Tacit knowledge is both difficult to transfer and necessitates transaction-specific investment. The primary task of the TMT is to integrate the specialized knowledge of multiple individuals within the firm (Grant, 1996). The critical source of competitive advantage is knowledge integration throughout the firm and not the knowledge itself. Therefore a knowledge based theory is the perception of interdependence as an element of organizational design and subject to managerial choice. The quality of the choices of the TMT rest upon their relevant expertise developed over time.

The concept of the role of knowledge and the accumulation of knowledge within the capitalist society as paramount in value generation is not new, as the Austrian school of economics in the 19th century advocated such an idea. Social institutions and firms should be appraised by reference to their ability to generate and transmit knowledge (Bohm-Bawerk, 1959; Hayek, 1935). On this account, markets are conceived of as institutions geared to the production and distribution of socially valuable knowledge (Bohm-Bawerk, 1959; Hayek, 1935).

The current knowledge marketplace is a new economy characterized by new technologies, globalization and an ever increasing emphasis on intangibles (Sullivan, 2000; Neef, 1999; Pfeffer and Sutton, 1999; Thurow, 1996). Strategy scholars, business "gurus", pundits and management researchers suggest that today's marketplace is knowledge-based and that knowledge and the competencies built upon this platform could be the main factor in determining a organization's current and future value (Drucker, 1993; Thurow, 1999; Grant, 1996; Hamel, 2000). Capital, natural resources and labor are not the most valuable resources in today's economy; instead knowledge and knowledge workers play the central role (Drucker, 1993). Knowledge has emerged as the most strategically significant resource of the organization as increasing turbulence of the external business environment has focused attention upon resources and organizational capabilities (Grant, 1996; Quinn, 1992).

A knowledge-based argument is another foundation of the resource based view and an emerging theme in the strategic management literature that continuously turns to privately held knowledge as a basic source of competitive advantage (Grant, 1996; Barney, 1991; Winter, 1995). The resource based view addresses performance differences between organizations by using asymmetries in knowledge as a foundation for the argument (e.g. Conner and Prahalad, 1996; Amit and Schoemaker, 1993; Barney, 1991; Chen, 1996; Henderson and Cockburn, 1994; Peteraf, 1993; Prahalad and Hamel, 1990; Robins and Wiersema, 1995; Schoemaker and Amit, 1994; Winter, 1995).

Significant attention in the strategy literature under the auspices of the resource based view has focused on knowledge, specifically knowledge in regard to customers, competitors, or to the creation of new products or services (ex. Hansen, 1999; Hedlund, 1994; Nonaka, 1991; Sveiby, 1998; Szulanski, 1996; Grant, 1996; Liebeskind, 1996). The human resource management field focuses more on job related knowledge and although it has been argued that all learning begins at the individual (Argyris, 1976) it is affected by both the social context and routines within an organization (Nonaka, Takeuchi and Umemento, 1996). Thus the TMT effectively influences the organizational culture to either engender or hinder knowledge development, assimilation, and intraorganizational transfer (Zahra and George, 2002).

Snell, Youndt and Wright, (1996) argue that core competencies of an organization are knowledge based and are comprised of human capital, social capital (ex. internal/external relationships and exchanges) plus organizational capital. The TMT's internal and external relationships with employees, customers, competitors, suppliers, etc. and the exchange of ideas, knowledge and effective direction are sources of the core competency. The dynamic management of this human capital and the TMT's internal and external relationships becomes a resource in itself.

Knowledge is information laden with experience, truth, judgment, intuition, and values; a unique combination that allows individuals and organizations to assess new situations and manage change (Huseman and Goodman, 1999). Differences in the knowledge possessed by different individuals are implicit in the concept of asset specificity (Williamson, 1985). More broadly, these differences motivate individuals to specialize in various aspects of business activity, including the TMT (Connor and Prahalad, 1996).

As discussed above, many scholars consider knowledge as a valuable resource to the organization and may be a requirement to compete in today's marketplace. The TMT is important to this collection and dissemination of knowledge. Often the TMT knowledge is tacit and its value is due to its inimitability. Also, the TMT generates a culture of knowledge creation and dissemination within the organization through corporate culture development. In essence, the TMT, from a knowledge based perspective, can be a source of competitive advantage.

The resource based view of the firm of the organization suggests that organizations accumulate and develop a bundle of specialized resources that are both tangible and intangible. These resources, when applied appropriately, will generate above average returns and can create a sustainable competitive advantage. However, resource based view's assumption of the organization as a bundle of resources breaks down in high velocity markets because in these situations resources are added, recombined and dropped with regularity. The dynamic capabilities theory focuses on the flexibility of integration in the new dynamic marketplace with the focus on knowledge transfer and integration and due to the global pressures; nearly all industries are affected and require this aptitude. These capabilities are concerned not only with product and process innovations, but also with strategic innovations that reconfigure knowledge into new approaches to competing.

Knowledge based theory, suggests that the TMT may create firm value. Their personal knowledge and development of knowledge integration throughout the organization creates this specific firm value. In particular, the dynamic capabilities perspective supports the value of the TMT. As the marketplace continues to become even more dynamic, and decision processes become more unstructured with few rules, personal decisions based upon their knowledge and experience will prevail. The TMT as a group will rely upon each other's expert competencies to make firm decisions in this new dynamic marketplace. The Upper Echelon theory also suggests that the dominant coalition, in particular its top management team, influence organizational outcomes. Both the strategies and their effectiveness are viewed as reflections of the values and cognitive basis of the top management team (Hambrick and Mason, 1984).

Madsen, Mosakowski, and Zaheer (2003) suggest that personnel new to a firm may broaden the firm's knowledge stock without disrupting the way it is organized. The TMT of an acquired firm play a role in transporting knowledge within the newly combined firm, which is crucial to knowledge production and development (Argote and Ingram, 2002). Also the TMT may provide the acquiring firm with access to knowledge that is novel or different (Gruenfeld et al, 2000) and can act as conduits for the transfer of fine-grained information (Kraatz and Moore, 2002).

2.7 Summary:

We overviewed the logic behind the acquisition strategy and the related theories. The differing types of acquisitions (vertical, horizontal, conglomerate and concentric) are discussed and compared to the top management teams' value for each. We then explored the value of the TMT through both Upper Echelon Theory and the Resourced Based View. These perspectives suggest that the TMT is a valuable asset to the firm, and may be of value in the target firm even after acquisition. In regard to the TMT and acquisitions, other previous research presents a mixed picture. We analyzed the Resourced Based view from a dynamic capabilities perspective and knowledge based perspective. These theoretical viewpoints complement the resource based viewpoint of the TMT and their value to a firm. The following Chapter Three theoretically draws from this literature review to develop our model and the hypotheses for testing.

Chapter Three
Theoretical Model and Hypothesis Development

3.0 Overview

As the reader may recall, this research explores acquisitions and the value of the TMT from a viewpoint that combines the Upper Echelon perspective of top management teams with a resource based view of them (e.g. Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The Upper Echelon perspective suggests that there is a linkage between top management characteristics and the development of strategic assets so that the organization becomes a reflection of the TMT. The development of this "reflection" assists in explaining the competitive behavior of the firm. The resource based view argues that organizations accumulate and develop a bundle of specialized resources that are both tangible and intangible. These resources, when applied appropriately, should generate above average returns and can create a sustainable competitive advantage (Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The resource based view offers that physical, human, and organizational resources are an organization's source of competitive advantage when they are valuable, rare, non-substitutable and inimitable (Barney, 1991). The top management team (TMT) has control over all organizational resources, to one degree or another and may be the valuable resource that attracts acquisition attempts. Together these theories suggest a perspective about the TMT and their role in which acquisitions occur due to these valuable resources augmenting the purchaser's own stock to compete effectively in the new global marketplace.

This section presents our model concerning the role of the acquired firm's TMTs in the post acquisition success of the acquired firm. Using the perspective we described in chapter 2 and summarized above, this dissertation suggests that a key source of a firm's success may be the TMT (Conner, 1991; Olavarrieta, 1996). The acquired firm's TMT is an important component of the embedded resources that the acquiring firm seeks to secure through acquisition (Barney 1991; Castanias and Helfat, 1991). Strategic leadership of the TMT will have a significant impact on organizational strategy and performance and be the source of a strategic competitive advantage (Lado, Boyd and Wright, 1992).

The model will predict the effect of prior acquisition performance and retention of the TMT. The model will also predict the effect of TMT retention and post acquisition performance, where competing views are presented. The model will predict how TMT characteristics (knowledge, dynamic capability and network) affect post acquisition performance. These TMT characteristics are moderated by competitive dynamics and type of acquisition on post acquisition performance.

3.1 Top Management Team: Retention – Pre-acquisition Performance

This dissertation focuses on the target firm's TMT, their characteristics, and post acquisition performance, therefore we must first explore whether the TMT should be, or is, retained. The TMT leads the firm, directs resources, develops and implements strategy, and motivates employees. This dissertation's perspective suggests that a firm acquires another firm due to its resources, which have been developed by the TMT, or which may very well be the TMT. TMT retention as a group is important as in accordance with Simon's (1945) idea of bounded rationality, that the creation of new knowledge, acquisition of existing knowledge, and storage of knowledge cannot be performed by one individual. Therefore the TMT are experts that specialize in particular areas of knowledge. Knowledge based theory suggests that the TMT develops rules and directives to facilitate knowledge integration based upon specialist expertise (Grant, 1996). Also knowledge assets remain with individual employees and cannot be readily transferred with the most complex tacit knowledge resident in the TMT. From this argument, it would follow that the greater the loss of the members of the TMT, the less effectively the TMT will perform.

Contrarily the synergy hypothesis from the market for corporate control literature proposes that acquisitions take place when the value of the combined firm is greater than the sum of the values of the individual firms (Bradley, Desai and Kim, 1988; Seth, 1990).

This synergy has at its core the recognition of potential sources deriving from interdependencies between the value chains of the two organizations (Pablo, 1994). The synergistic gain in acquisitions is derived from an increase in operational efficiency, an increase in market power, or some form of financial gain (Singh and Montgomery, 1987; Seth, 1990). Following an acquisition, some degree of interorganizational integration is necessary (Datta, 1991). Some researchers have suggested that the acquired firms' top management team may be dismissed as the top managers of the acquiring firms are expected to manage, or at least provide a plan for managing, newly acquired firms (Jemison, 1988; Schweiger and Weber, 1989) as management incompatibility results in dropping productivity and poor post-acquisition performance (Ivancevich, Schweiger and Power, 1987). Theory suggests that increases to future cash flows could be realized from economies of scope that also can be inferred that the targets TMT departure increases future cash flows (Panzar and Willig, 1981, Teece, 1981).

Over time, the top management team develops collective mental maps around their current strategy (Barr, Stimpert and Huff, 1992) and a successful strategy has achieved legitimacy with key stakeholders (Meyer and Rowan, 1977). In this way, the current strategy becomes protected from challenge and the longer the strategy is in place, the stronger its acceptance within and without the organization (Tushman and Romanelli, 1985) regardless of whether it is working or not. This same legitimacy also serves to protect the TMT who are seen as the embodiment of that strategy (Edstrom and Galbraith, 1997). Therefore in declining performance, the TMT is a detriment to stakeholders and the market for corporate control could be the only resort.

Research suggests that acquisitions often occur as a useful external control mechanism for removing managers who fail to maximize firm value (Morck, Shleifer and Vishny, 1989; Martin and McConnell, 1991; Ikenberry and Lakonishok, 1993). The threat of acquisition is a useful mechanism for encouraging managers to pursue shareholder wealth maximization strategies and corporate control is a valuable asset actively traded in a market (Manne, 1965).

By examining the substantial increase of executives leaving the firm following an acquisition, researchers have supported the assertion of the market for corporate control (e.g., Martin and McConnell, 1991; Agrawal and Walkling, 1994; Cannella and Hambrick, 1993; Kennedy and Limmack, 1996). Past research suggests that changes in corporate control through acquisition are followed by above-normal levels of turnover among target firm executives (Furtado and Karan, 1990; Walsh, 1988). For example the corporate raiders of the 1980's have acknowledged that the replacement of entrenched and ineffective managers was a primary motive for their raids on corporations (Icahn, 1988; Pickens, 1986; Walsh and Koznick, 1993).

Acquisitions could be largely attributed to the failure of internal management control practices (Seward and Walsh, 1995) and are strongly linked to internal control systems that did not correctly align managers' strategic actions with that of the shareholders goals (Hoskisson and Hitt, 1994). As the internal market is inadequate, the acquisition is an external mechanism of control transfer that increases share value by reallocating control rights to more efficient management (Choi, 1991). Following a successful acquisition, the bidder can replace the incumbent with a more competent team of managers or he can force the management to follow policies and strategies that are consistent with the shareholder value maximization (Martin and McConnell, 1991).

However, our research focuses on the TMT as a source of value. When top managers depart when developing the cost savings from synergies, much needed resources and expertise may be lost hindering post-acquisition integration (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993). Synergy development is more important in related acquisitions than in unrelated acquisitions because synergy requires operating efficiencies and economies of scale through high levels of integration (Porter, 1985; Salter and Weinhold, 1978; Shrivastava, 1986). The more synergy that is expected, as in related acquisitions, the more collaboration and cooperation are required from the acquired firm (Singh and Montgomery, 1987; Souder and Chakrabarti, 1984). In summary, the TMT is necessary in both unrelated acquisitions due to their expertise in the new industry of which the acquiring firm's TMT is ignorant, and are important in related acquisitions to assist in synergy development.

Loss of the TMT can be compared to the downsizing of a firm. The downsizing literature suggests that firms undergo a deterioration of communication at many levels (Cascio, 1993) even though communication is particularly important at the time of downsizing, as well as during acquisitions (Rosenblatt, Rogers and Nord, 1993). Dismissal of the TMT during the acquisition period also will affect the communication within the firm and will aggravate the high levels of uncertainty (Tombaugh and White, 1990). Also the loss of the acquired TMT could affect creativity or innovation and negatively affect the post-acquisition performance of the acquired firm. Some of the environmental factors that are considered important for creativity and innovation in organizations are an open information flow and support for new ideas at all levels of the organization, from top management, through immediate supervisors to work groups (Robbins and Decenzo, 2004).

To alleviate potential post-acquisition problems, many purchasers may be more inclined to make changes and increase governance (Krug and Hegarty, 1997). After acquisition the purchasing organization strives to create a situation where all the internal and external resources are joined, working together towards the mutual goals and objectives. The target TMT's participation in the buy-in, development and implementation of known monitoring systems is essential to engender cooperation (Cartwright and Cooper, 1993).

Following an acquisition, some degree of interorganizational integration is necessary, ranging from very little for unrelated acquisitions to a great deal for those firms that were acquired for synergy. However the level of integration to implement must be decided, as under- or over- integration can result in failure to create value, or have value destruction (Pablo, 1994). The realization of potential synergies could fail with an insufficient level of integration, while excess reconfiguration can hurt as executives depart in unfavorable circumstances (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Walsh and Elwood, 1991).

In summary, the acquiring firm may attempt to retain the TMT after acquisition if they facilitate the integration of the acquired firm, or are considered an integral part of the value of the acquisition. However, a poorly performing target firm may reflect poor management and retention of the TMT after acquisition is not desirable. In accordance with the market for corporate control argument, firms become targets due to poor performance from poor management. Contrarily, from a resource based perspective where the TMT is viewed as valuable as these individuals lead the firm, direct resources, motivate, and are aware of the resources to develop the synergies that may arise between two firms, positive pre-acquisition performance could indicate their importance, thus the acquiring firm will attempt to retain them. Therefore;

H1: The greater the pre-acquisition performance of the acquired firm, the more likely the TMT of the acquired firm will be retained

3.2 Retention and Post-Acquisition Performance

The importance of the top management team of an organization, the value of their strategic decisions and their influence on performance has been researched extensively in the management literature (Child, 1972; Volberda, 1996; Fiol, 1991; Lado and Wilson, 1994; Lee and Miller, 1999). Many researchers focus on a managerial view of acquisitions with attention paid to how goals are developed, resources are allocated, and individual's efforts are coordinated to build congruence in the overall direction adopted by the company that the TMT will facilitate after acquisition (Doz, 1991; Doz and Prahalad , 1986). Loss of the TMT may impair the development of the new goals and role the acquisition will perform. This loss of the TMT in turn will negatively affect the performance of the acquisition.

From the strategic choice perspective, Child (1972) claims that managers have discretion and that the decisions they make are of vital importance to the success of the organization. Top management is often viewed as critically involved in formulating and implementing strategy to provide superior performance for the organizations. The task of management is to provide dynamic capabilities for organizational flexibility and to configure an organization for the preservation and control of technology, structure, and culture (Volberda, 1996). The TMT thus is an integral part of the value of the acquisition by developing its strategy, organization, and leadership.

The human dimension (the TMT in this instance) is critical to effective execution of strategy (Fiol, 1991; Lado and Wilson, 1994; Lee and Miller, 1999) as well as the development and dissemination of knowledge and organizational learning within the organization (Fiol, 1991; Hall, 1993; Miller and Shamsie, 1996). A study by Lengnick-Hall and Wolff (1999) using three perspectives in strategy (Resource based, Hypercompetitive and high-velocity, plus ecosystem and chaos theory-based views) established common themes concerning this human dimension. These concepts include: developing effective exchange relationships (e.g. Porter, 1985; Bourgeois and Eisenhardt, 1988; Boeker, 1991), understanding that strategy and context are dynamic (e.g., Barney, 1991; Collis, 1994; Levy, 1994), and emphasizing the performance "numerator" rather than the cost "denominator" (e.g., Barney, 1995; Eisenhardt and Tabrizi, 1995; Stacey, 1995). The performance "numerator" suggests a superiority of product or service that will require a talented top management team for continued post acquisition performance of the acquired firm. In effect, loss of the top management team of the acquired organization may directly affect post acquisition performance of the acquired firm, exchange relationships (within and without the organization), and strategy regarding the specific market context. Thus we propose:

> *H2a: There is a positive relationship between post acquisition performance of the acquired firm and degree of retention of the top management team of the acquired organization.*

There are two contradictory views of the relationship between top management retention and post-acquisition performance. Jensen (1993) states that the infrequency with which large corporate organizations restructure or redirect themselves solely on the basis of the internal control mechanisms in the absence of crises is strong testimony to the inadequacy of internal control mechanisms such as the Board of Directors and TMT incentive packages. Although internal control mechanisms may not always be effective, the market for corporate control serves as a discipline of last resort when the internal corporate control mechanisms fail (Fama, 1980). The theory of the market for corporate control suggest that as top managers engage in self-interested behavior, their company's performance is likely to increasingly diverge from its maximum potential (Berle and Means, 1932; Manne, 1965; Jensen and Meckling, 1976; Fama, 1980; and Fama and Jensen, 1983a, 1983b). Due to this underperformance, other management teams are likely to offer themselves as alternatives to the incumbent management. The market for corporate control is a manifestation of the competition among these management teams for the rights to manage particular corporate resources. In an acquisition, the acquiring company's expected gain resides "almost entirely in the expectation that it will be able to root out deadwood inefficiencies and put a target's assets to better use" (Lowenstein, 1983: p. 272).

The interpretation that acquisitions occur as natural forces in a market for corporate control is grounded in agency theory, which defines a corporation as a nexus of contracts and assumes that the relationship between professional corporate managers and stockholders is inherently imbued with conflicts of interest about risk orientations, time horizons, effort levels, and the payout of free cash flow (Jensen, 1986). When other mechanisms fail to influence managerial performance, the external market for corporate control is initiated and the firm is acquired (Jensen, 1988).

This view of the market for corporate control as an arena in which competing management teams vie for control of corporate assets provides the "mechanism through which economies of scale or other synergies available from combining or reorganizing control and management of corporate resources are realized" (Jensen and Ruback, 1983, p. 6). Thus acquisitions will attempt to cut costs through economies of scale or development of other synergies. As the TMT of the target firms is assumed to be inadequate, and is costly as they are paid the most, subsequent dismissal of the target's TMT after acquisition is assumed to occur.

Acquisitions also are viewed as a solution to the agency problems arising between managers and stockholders, since the threat of acquisition focuses managers on the goal of shareholder wealth maximization (Philippatos and Baird, 1996). Findings have also suggested that successful, better performing firms make acquisitions of poorly-performing companies and subsequently create greater value (Servaes, 1991). Poor performance predicts executive turnover (Dalton and Kesner, 1985; Friedman and Singh, 1989; Bonnier and Bruner, 1989) and a Board will dismiss its top managers if its firm is performing poorly compared to other firms in the industry (Morck, Schleifer and Vishny, 1988). Therefore, following acquisition, from the market for corporate control perspective, the acquiring firm will likely dismiss the underperforming TMT, and replace them with their own TMT. As such we present a competing argument:

H2b: There is a negative relationship between post acquisition performance of the acquired firm and degree of retention of the top management team of the acquired organization.

3.3 TMT Characteristics to Post Acquisition Performance: Introduction

"Owing to uncertainty, complexity, and conflict (both in and outside the organization), different organizations will employ different strategic assets, without any one set being probably optimal or easily imitated" (Amit and Schoemaker, 1993: 44). The emphasis in the strategic literature has shifted from viewing competitive advantage as primarily determined by environmental (industry/market) factors to a resource based view (cf. Wernerfelt, 1984). In essence, how the TMT employs the resources in reaction to market pressures and the firm's environment, affects the success of a strategy. Knowledge based resources, such as the TMT and their experience, assist in the development of the organization's strategy, core competencies, and subsequently its value (Miller and Shamsie, 1996). While the influences of the firm's external environment cannot be ignored, many companies' success hinges on the quality of their leadership (Nadler, 1998). Although the resource based view addresses the importance of internal resources, the Dynamic Capabilities perspective takes the RBV to the next level and addresses the employment of internal resources in response to external pressures. So both the internal and external environment affects a firm's strategy and their success.

Therefore it is important to model the effects of TMT characteristics include both internal and external components. TMT networks of relationships within the firm (e.g., peers, managers, employees, joint ventures) and external networks of relationships (e.g., suppliers, banks, distributors, customers) can be a valuable asset to the firm. The TMT knowledge of the firm internally (e.g., strategy, expert, personnel, intangible assets and liabilities) and external (e.g., competitors, industry, product, market pressures) also will affect firm performance. Lastly, the dynamic capability to apply the internal networks, knowledge and assets to external pressures and marketplace dynamism will also affect firm success. This section attempts to theoretically ascertain which characteristics of the TMT (network, knowledge, and dynamic capabilities) are valuable in acquisitions

3.3a TMT Characteristic Network to Post-Acquisition Performance:

Upper echelons theory (Hambrick and Mason, 1984) suggests that TMT characteristics affect organizational outcomes. Researchers have identified that there are as many ways to operationalize TMTs characteristics and behaviors as there are studies examining these issues (Pegels and Yang, 2000). One of the characteristics important to a TMT is the network of relationships in which the TMT is embedded in, both external and internal. For example, the advice network that a TMT forms to acquire and share tacit knowledge throughout the organization is a key coordinating mechanism (Athanssiou and Nigh, 1999). Also, the internal network focuses on productivity, innovation, and labor relations, while the external network will focus on competition, customers and new product/market opportunities (D'Aveni and MacMillan, 1990).

TMTs develop external networks of relationships between firms and then maintain them. What makes a network of firm relationships so important is the quality of relationships and shared values, with relationships defined as: non-hierarchical/long-term commitments, multiple roles and responsibilities, mutuality, and affiliational sentiments (Anderson and Narus, 1991). Therefore, what differentiates the network-oriented organization are its density, multiple levels of complexity, and reciprocity of ties, plus a shared value system defining membership roles and responsibilities. Research suggests that networks should add value to firms (Achrol 1997). The TMT's network of relationships in which the firm is embedded will represent a significant contribution to the firm success.

The ambiguous, complex, and fluid configuration of firms that constitute a network, and the personal relationships of the members developed over time, create value for the firms (Hakansson and Johanson, 1993). Each network member's identity communicates a certain orientation toward other actors; it conveys a certain competence, because it is based on each actor's perceived capability to perform certain actions (Albert and Whetton, 1985) and is based on the particular resources each actor possess (Yamagishi, Gillmore, and Cook, 1988). The TMT administers these relationships, chooses appropriate compatible partners, and maintains the relationships.

A major source of information and network maintenance is the TMT as a boundary spanner. Boundary spanning communication is important to organizations as a source of new information and awareness of environmental changes (Weedman, 1992). Boundary spanning refers to the effective interaction between an organization and its external environment. As a lynchpin, the TMT assures an even flow of information between the parties involved. Meaningful communication between firms in a working partnership is a necessary antecedent to trust and in subsequent periods the accumulation of trust leads to better communication (Morgan and Hunt, 1994). This vital transference of information allows the parties to share strategic views on the external market environment, mutually decide a course of action internally, and then implement the decision. When a boundary-spanning function is executed appropriately, the organization may be better able to manage its environment effectively.

Networks of relationships within and without the firm are important for the TMT dynamic capability. For example, explicit knowledge that is not embodied in specific products may not be efficiently transferred. However, alliances and networks of these alliances may be well suited to the transfer and integration of this knowledge (Liebeskind, 1996). Another consideration is the speed to which this knowledge is transferred. Networks of firms sharing knowledge will permit knowledge to be transferred more quickly then relying purely on the market (Grant, 1996; Smith, 1996; Richardson, 1996). From the dynamic capabilities perspective, the network strategy involves the routines by which the TMT reconnect webs of collaborations among various parts of the firm to generate new and synergistic resource combinations among businesses (Eisenhardt and Galunic, 2000). These network alliances bring new resources into the firm from external sources (Gulati, 1999; Capron, et. al., 1998; Zollo and Singh, 1998). We make the following prediction concerning TMT networks:

> *H3 There is a positive relationship between the quality of the acquired firm TMT's networks and post acquisition performance of the acquired firm.*

3.3b TMT Characteristic Knowledge to Post-Acquisition Performance:

According to Hambrick and Mason's upper echelons theory (1984), the TMT impacts organizational outcomes because of their decisions. These decisions are based upon the TMT's personal knowledge of the organization (internal), market, and industry (external), intertwined with their personal experiences and expert knowledge. Other TMT members, through personal contact, can only understand any TMT member's tacit knowledge over time (Winter, 1987). Today's marketplace is becoming more knowledge-based so knowledge and the competencies built upon a knowledge platform are key factors in determining an organization's current and future value (Grant, 1996; Hamel, 2000; Kogut and Zander, 1996; Spender, 1996; Yli-Renko, Autio and Sapienza, 2001; Seth, Song and Petit, 2002; Lane and Lubatkin, 1998). Knowledge has emerged as the most strategically significant resource of the organization as increasing turbulence of the external business environment has focused attention upon resources and organizational capabilities (Grant, 1996; Quinn, 1992). The TMT has tacit knowledge in regard to strategy, organizational strengths and weakness, the industry, etc., which is a valuable commodity to the firm. Also, the TMT develops routines that create knowledge flows throughout the organization.

Knowledge is information laden with experience, truth, judgment, intuition, and values; a unique combination that allows individuals and organizations to assess new situations and manage change (Huseman and Goodman, 1999). Differences in the knowledge possessed by different individuals are implicit in the concept of asset specificity (Williamson, 1985). More broadly, these differences motivate individuals to specialize in various aspects of business activity, including the TMT (Connor and Prahalad, 1996). It is corporate level knowledge that constitutes the stable generation mechanism of strategic behaviors. The strategic behavior design process consists of information interpretation and processing and is structured by corporate-level knowledge, usually possessed by the TMT (Kuwada, 1998).

In summary, the TMT is important to the collection and dissemination of knowledge. Often the TMT knowledge is tacit and its value is due to its inimitability. Also, the TMT generates a culture of knowledge creation and dissemination within their own target organization through corporate culture development. As nearly all acquisitions are related (noted earlier), the TMT knowledge becomes even more important. In essence, the TMT, from a knowledge based perspective, can be a source of competitive advantage. Therefore;

> *H4 There is a positive relationship between the quality of the acquired firm TMT's knowledge and post acquisition performance of the acquired firm.*

3.3c TMT Characteristic Dynamic Capabilities to Post-Acquisition Performance:

TMT dynamic capabilities utilizes TMT knowledge garnish from their internal and external networks, and is the conduit for strategic direction. Hambrick and Mason's (1984) Upper Echelon perspective suggested examining the relationship between TMT and the organizational outcomes of strategic choices and performance levels. Other studies have supported this perspective and have found a link between TMT and strategic innovation and performance (Bantel and Jackson, 1989; Norburn and Birley, 1988). TMT dynamic capabilities inferred by the Upper Echelon perspective is the ability of an organization to anticipate and respond to opportunities or pressures for change, both internal and external (Wiersema and Bantel, 1992).

How the TMT employs the firm's assets, and how quickly, affects the success of a strategy in today's global competition (Eisenhardt and Brown, 1998b). This asset employment can be called dynamic capabilities, which refer to the development of management capabilities and difficult-to-imitate combinations of organizational, functional and technological skills to gain/sustain a competitive advantage (Teece, et al., 1997). The TMT has a major role in this process. Dynamic capabilities necessitate having the TMT develop overall organizational coherence while recognizing the unique features of the internal and external environment to facilitate customization of strategies while focusing attention on the adaptation, integration and reconfiguring of both internal and relational resources to match the opportunities in the global and local marketplaces (Dierickx & Cool, 1989; Teece et al., 1997). The TMT's decisions as to the direction and employment of strategically key resources are often what create value for firms. Dynamic capabilities thus are the organizational and strategic routines, by which firms achieve new resource reconfigurations as markets emerge, collide, split, evolve, and die (Eisenhardt and Martin, 2000).

Without TMT effective strategic leadership, the probability that a firm can perform well when confronting the challenges of the global economy is greatly reduced (Davids, 1995). Dynamic capabilities are the antecedent organizational and strategic routines by which the TMT alter their resource base by acquiring and shedding resources, integrating them together and recombining them, to generate new value-creating strategies (Grant, 1996; Pisano, 1994).

H5 There is a positive relationship between the quality of the acquired firm TMT's dynamic capability and post acquisition performance of the acquired firm.

3.4 Competitive Dynamics Moderating the value of the TMT Characteristics (Network, Knowledge, and Dynamic Capability) to Post-Acquisition Performance

The value of the TMT network, knowledge and dynamic capabilities are not independent of the context in which they are found. Rather this dissertation suggests that these constructs' effects will vary based upon the competitive dynamics of the industry. As the competitive dynamics varies from mild to moderate to intense, the value of the TMT's characteristics will either be more or less valuable in regard to post acquisition performance. The type of market will affect how a firm's resources are organized, employed and subsequently integrated by the top managers (Barney; 1986; 1988; Dietrix and Cool, 1989; Rumelt, 1984; 1987; Wernerfelt, 1984; 1995). For example, the market type also affects knowledge as it becomes the most strategically significant resource of the organization as the increasing turbulence of the external business environment has focused attention upon resources and organizational capabilities (Grant, 1996; Quinn, 1992).

However the conceptualization and measurement of competitive dynamics of an industry continues to be illusive in past literature, which has implications for strategic management research (Bluedorn, et al., 1994; Bluedorn, 1993; Boyd et al, 1993; Castrogiovanni, 1991; Dess and Rasheed, 1991; Sharfman and Dean, 1991a, 1991b; Aldrich, 1979; Tosi et al., 1973). Although most researchers agree that the concept of industry competitive dynamics is composed of multiple dimensions (Boyd, 1995) three general dimensions are typically utilized: munificence, dynamism and complexity (Bluedorn, 1993; Dess and Beard, 1984; Aldrich, 1979). We have utilized these dimensions as put forth by Dess and Beard (1984), paralleling other strategic literature (Keats and Hitt, 1988; Lawless and Finch, 1989; Boyd, 1995; Goll and Rasheed, 1997; Li and Simerly, 1998; Simerly and Li, 2000). Other researchers however have raised a number of questions regarding the measurement and validity of this analysis (e.g., Sharfman and Dean, 1991a, 1991b). Other researchers have also used subjective measures (e.g., Lawrence and Lorsch, 1969; Duncan, 1972; Miles and Snow, 1978; Tan 2002, Boyd and Faulk, 1996) and other researchers have utilized a combination of subjective and objective measures (e.g., Tung, 1979; Tosi et al., 1973).

In emphasizing how an organization develops its strategy, competitive dynamics have been developed based upon pricing patterns over time (Klepper and Grady, 1990). Competitive dynamics play a role in acquisitions as the level of integration to implement must be decided, as under- or over- integration can result in failure to create value, or have value destruction (Pablo, 1994). The environment of a market will influence the organizational and strategic routines, by which firms achieve new resource reconfigurations as markets emerge, collide, split, evolve, and die (Eisenhardt and Martin, 2000). Also, organizations have time-based interdependencies between their resources and their environment (Williamson, 1992).

Moderate markets are characterized by products facing direct competition for extended periods with the organizations typically designed to serve high volume markets (Chandler, 1990). The firm's isolating mechanisms are less powerful then those in the mild market as their resources are less specialized, they serve mass markets, and competitors have more incentive and ability to imitate (Williams, 1992).

The firms in a moderate market must continue to have ongoing financial and organizational commitments and complex learning processes that must be coordinated across the organization in spite of intense resource imitation pressures (Bower and Hout, 1988). In such markets, buyer supplier relations are moderately stable so TMT networks may be valuable after acquisition. Economies of experience are considered moderate but organizational learning and imitation pressures are important (Nayyar, 1993) so TMT knowledge after acquisition may also be important.

In the mild markets, the key to sustaining a competitive advantage often depends upon gaining a resource or capability that is idiosyncratic: (e.g. patents, copyrights, geography) plus then protecting and maintaining this proprietary competitive advantage (Smith, Grimm, Wally and Young, 1997). Product advantage is secured within the firm and competitors cannot attract the company's customers away (Williamson, 1989; Scitovsky, 1990). Mild market products often need only low levels of reinvestment to sustain them (e.g., aerospace and defense) and rely on guild like skills (Eisenhardt and Martin, 2000). Similarly, firms develop binding relationships with clients bolstering personal contacts that take a long time to nurture and grow (e.g., investment banking industry) (Rotemberg and Saloner, 1987).

Organizations in mild markets align with the idiosyncratic needs of the customer over a period of time. These relationship-based advantages often cannot be duplicated creating barriers to other firms (Pfeffer and Salancik, 1978). Powerful, relationship-based barriers in certain industries (e.g. telecommunications, financial services, health care) have been identified, but the importance of these relationship-based resources and its competitive forces are often overlooked in research (Williams, 1992).

Mild markets have stable and long term buyer and supplier relationships based upon close personal contact (Williams, 1992). Therefore after acquisition, the network of relationships developed by the TMT will be of importance in this type of market. As the key to being competitive is to protect, maintain and extend their idiosyncratic resource, the TMT's dynamic capability will not be as valuable in this marketplace after acquisition. The TMT's strategy and knowledge of the marketplace and industry will not be as important after acquisition in mild markets.

Intense markets are when products are copied quickly and first mover advantage for many of the products does not yield sustainable competitive advantage. This type of marketplace could be classified as the information revolution where products can be based on ideas that are easy to copy and customer loyalty is fleeting (Williams, 1992). As pure creativity is often the basis of advantage, economic value is created and destroyed quickly.

Prices fall very quickly in intense markets so companies need to profit from their products quickly. These markets have placed a strategic strain on many organizations. The enduring characteristics are: 1) that relative competitive advantages are very time-sensitive, and therefore erode very quickly, requiring that core competencies of global organizations must be rejuvenated constantly; 2) that strategies must be formulated continuously to seize competitive initiative resulting only in a temporary market advantage; 3) that there needs to be a modification in the conventional wisdom relative to timeframes with attention being given to shorter and shorter life-cycles [i.e., product, technology, organizational, relationship and the like]; 4) that the redefinition of industry boundaries, due to deregulation and the intrusion of non-traditional competitors entering the industry, will continue to occur; and 5) that the environment of industries and competition are forever increasing or quickening, necessitating management to address constant change and time as the common bases of global competition (Brown & Eisenhardt, 1998; Fine, 1998; Davis & Meyer, 1998; Hitt, Keats & De Marie, 1998; Ireland & Hitt, 1999).

In intense markets, network buyer and supplier relations are unstable, temporary and brand loyalty is low, and so TMT networks after acquisition should not be as important. The ability to change the firm and react to the dynamism of the marketplace and ability to acquire knowledge will be extremely important in this market type. In summary, the competitive dynamics (i.e. mild/moderate/intense) will moderate the relationship between TMT characteristics and performance of the acquisition.

H6a: The competitive dynamics positively moderates the relationship between the quality of TMT knowledge and post acquisition performance of the acquired firm.

H6b: The competitive dynamics positively moderates the relationship between the quality of TMT dynamic capabilities and post acquisition performance of the acquired firm.

H6c: The competitive dynamics positively moderates the relationship of the quality of TMT's networks and post acquisition performance of the acquired firm.

3.5 Type of Acquisition moderating the value TMT characteristics (Network, Knowledge, and Dynamic Capability) to Post-Acquisition Performance: Overview

This section discusses the relationship between type of acquisition (related horizontal, related vertical, and unrelated) to the TMT characteristics (Network, Knowledge, and dynamic capability). Earlier we suggest that the TMT characteristics of network, knowledge and dynamic capability positively correlate to post-acquisition performance. Here, we will explore whether the value of these TMT characteristics to post-acquisition performance will vary based upon the type of acquisition, due to the acquisition-type perhaps requiring differing skills for success. This research hopes to explore in more depth, the relationship between the TMT characteristics moderated by the type of acquisitions to post acquisition performance of the acquired firm. Past research has attempted to explain TMT retention with acquisition-type, with varying success and disparity. We hope to explore the actual dynamics of the relationship based upon the TMT characteristics required, and not just retention.

Relatedness has been defined as the extent to which acquired and acquiring firms serve similar customers, or utilize similar production processes (Rumelt, 1982; Salter and Weinhold, 1979; Porter, 1987). Research suggests the type of acquisition affects the value of the TMT, as it is suggested that synergy development is more important in related than in unrelated acquisitions, as to achieve the benefits of operating efficiencies and economies of scale will require high levels of integration (Porter, 1985; Salter and Weinhold, 1979; Shrivastava, 1986). The more synergy is expected, as in related acquisitions, the more collaboration is required (Singh and Montgomery, 1987) and greater cooperation from the acquired firm (Souder and Chakrabarti, 1984). Contrarily, other past research has suggested that management retention should be more important in unrelated acquisitions than in related ones, since the target firms' TMT are likely to be more familiar with their operation then the acquiring firm (Cannella and Hambrick, 1993; Walsh, 1988). This contradiction illustrates the quandary of associating TMT retention with acquisition-type without exploring more in-depth the construct for retention, or that of the TMT specific characteristic and its value to acquisition type.

Research has attempted to extend the boundaries and importance of the type of acquisition with post acquisition performance. As traditional measures looked at relatedness only at the industry or market level, other research attempted to explore relatedness of resources between firms (Markides and Williamson, 1994). However, previous research has not explored the particular characteristics (such knowledge, dynamic capability, or networks) that are imbued in the TMT, to assist in explaining the reasons for retention. In this research we consider the three categories of relatedness similar to Cannella and Hambrick (1993): 1) related horizontal (acquiring competitors),

2) related vertical acquisitions, and 2) unrelated (when two firms are not in the same industry).

3.5a Related Horizontal Acquisitions moderating the value TMT characteristics (Network, Knowledge, and Dynamic Capability) to Post-Acquisition Performance

In related horizontal acquisitions, research suggests that the acquiring firm's management should have the same knowledge and skills relevant to make the decisions for the acquired firm, which is consistent with the market for corporate control argument (Jemison and Sitkin, 1986; Porter, 1987; Datta, 1991). Therefore the target TMT's characteristic of *knowledge* will not be of value to the acquiring firm. A motive for a horizontal acquisition is to create synergy by consolidation or through economies of scope (Amit and Livnat, 1988). Also, this type of acquisition might enhance market power, allowing it to improve its long term competitive position. The *dynamic capabilities* of a target TMT will also not be valuable in this association as the two firms are combining in the same industry.

Research suggests that horizontal acquisitions with similar characteristics result in higher acquisition performance than those of dissimilar characteristics as the integration goes more smoothly (Lubatkin, Schulze, Mainkar, and Cotterill, 2001). Horizontal acquisitions may also benefit from increased size and access to new resource niches, as well as reducing the overlap among products targeted at particular resource niches, and hence the intensity of competition (Barnett and Freeman, 2001). Horizontal acquisitions also efficiently share their assets and form similar baskets of knowledge and will outperform unrelated acquisitions (Lubatkin, Srinivasan, Merchant, 1997; Seth, 1990).

Also, horizontal mergers occur due to cost-based synergies (exploitation of scale and scope) and revenue-enhancement synergies by mobilizing core competencies (Capron, et al, 1998). Several studies show that asset divestiture (i.e. the elimination of redundant activities and inefficient management practices) improves the acquisition performance of horizontal acquisitions (Anand and Singh, 1997; Tremblay and Tremblay, 1988). However, elimination of the target firm TMT's *networks* of relationships with customers and suppliers may cause poorer post-acquisition performance due to loss of revenues (customers) or preferred discounts (suppliers).

Therefore in horizontal acquisitions, the acquirer TMT will have similar knowledge as that of the acquired firm's TMT and not value the TMT *knowledge*. The target firm's TMT *dynamic capabilities* may not be of value as the two firms are combining and not reacting to the marketplace. However, the TMT *network* of relationships with internal and external (such as customers, key personnel, strategic alliances, etc.) will continue to be important.

H7.1a: Horizontal acquisitions will positively moderate the value of the TMT networks to acquisition performance.

H7.1b: Horizontal acquisitions will negatively moderate the value of the TMT dynamic capabilities to acquisition performance.

H7.1c: Horizontal acquisitions will negatively moderate the value of the TMT knowledge to post acquisition performance of the acquired firm.

3.5b Related Vertical Acquisitions moderating the value TMT characteristics (Network, Knowledge, and Dynamic Capability) to Post-Acquisition Performance

As noted above, research suggests the purchasing firm's TMT in a related *horizontal* acquisition may have much of the knowledge and skills of the acquired managers, and the acquired managers become unnecessary (Cannella and Hambrick, 1993). However, in related vertical acquisitions, although the TMT of the acquiring firm is well versed in the industry, the target firm TMT's knowledge is greater in regard to the firm specific processes and operations. Synergy is the ability to obtain gains that result from commonalities or complementarities between acquirer and target that enable the combined value of the organizations to exceed their value as two independent entities (Hayward, 1997). The TMT's knowledge of their firm's assets and capabilities, as well as their network of relationships will facilitate synergy development. Unlike an agency type motive, the synergy motive assumes that managers of both acquiring and target companies have value maximizing goals that result in economies of scale or scope (Berkovitch and Narayanan, 1993). Therefore the target firm's TMT's *knowledge* is valuable in related vertical acquisition.

Other research suggests that the role of synergy will be to develop economies of scope and elimination of dual positions, such as the TMT of the target firm. However, simply amortizing existing assets though economies of scope will yield short-term benefits only, if at all (Palich, Cardinal and Miller, 2000). In addition, the activities that are necessary to exploit synergy will require significant cooperation amongst the business units and blunt the benefits of the strategy (Nayyar, 1993). The target firm TMT's *dynamic capabilities* will facilitate the development of the synergy as well as reconfiguring the organizations assets and structure. Synergy cannot be achieved without intrafirm exchanges that lead to inefficiencies result from governance costs (arising from coordination and integration demands), incentive degradation (as a result of agency effects) and bureaucratic distortions (Jones and Hill, 1988; Williamson, 1985). Therefore the internal *network* of relationships developed by the target firm's TMT will be of value. Also, synergy is difficult as impediments result from a lack of communication between units, problems allocating joint costs, incentive distortions generated form intrafirm conflict (rather than from necessary cooperation amongst managers), and incompatible technologies (Nayyar, 1993). In short, synergies fall short of management expectations (Goold and Campbell, 1998). To develop synergy, cooperation is required as well as knowledge of their own firm's resources. Thus the internal *knowledge* of the target firm will valuable. The TMT will provide the valuable knowledge and *networks* of relationships that will affect the performance of the acquisition. To adapt the target firm through changes to develop complementarities, the target firm TMT's *dynamic capabilities* will be required.

H7.2a: Vertical acquisitions will positively moderate the value of TMT knowledge with post acquisition performance of the acquired firm.

H7.2b: Vertical acquisitions will positively moderate the value of the TMT networks with post acquisition performance of the acquired firm.

H7.2c: Vertical acquisitions will positively moderate the value of the TMT dynamic capabilities with post acquisition performance of the acquired firm.

3.5c Unrelated Acquisitions moderating the value TMT characteristics (Network, Knowledge, and Dynamic Capability) to Post-Acquisition Performance

In unrelated acquisitions, the acquiring firm typically desires strategic continuity in the acquired firm and acts like a passive investor (Pitts, 1976; Salter and Weinhold, 1979; Ravenscraft and Scherer, 1988). The unrelated acquisition creates value through financial economies, or cost savings realized through improved allocations of financial resources based on investments inside or outside the firm (Hill, 1994). Unrelated acquisition may provide gains from internal capital market allocation relative to the external capital market (Billet and Mauer, 2001). Therefore, the *dynamic capabilities* of the target firm's TMT may not be valuable, as the acquiring firm may wish strategic continuity and not continual change and reconfiguration of resources.

In unrelated acquisitions and the value of the target TMT, past research has suggested that it is more important to retain the TMT in conglomerate acquisitions, as their *knowledge* of the unrelated business is greater than that of the acquirer. Cartwright and Cooper (1993) suggested that in this type of unrelated acquisition the target TMT knows the business better then the acquiring firm, so their knowledge is important for post acquisition success. Unrelated acquisitions may present some unique advantages primarily through financial synergies as industry-specific risk can be reduced only through extra-industry diversification (Kim, Hwang, Burgers, 1989). Therefore, unrelated diversification can reduce risk since this strategy involves business units in multiple industries (Amit and Livnat, 1998; Barney, 1995). The lower risk that results from portfolio effects and reduced probabilities of bankruptcy can also lead to increased debt capacity and enjoy reduced taxes (Seth, 1990; Amit and Livnat, 1998). Also the *network* of internal and external relationship continuation by the target firm's TMT will positively affect post acquisition performance.

H7.3a: Unrelated acquisitions will positively moderate the value of the TMT networks with post acquisition performance of the acquired firm.

H7.3b: Unrelated acquisitions will negatively moderate the value of the TMT dynamic capabilities with post acquisition performance of the acquired firm.

H7.3c: Unrelated acquisitions will positively moderate the value of the TMT knowledge with post acquisition performance of the acquired firm.

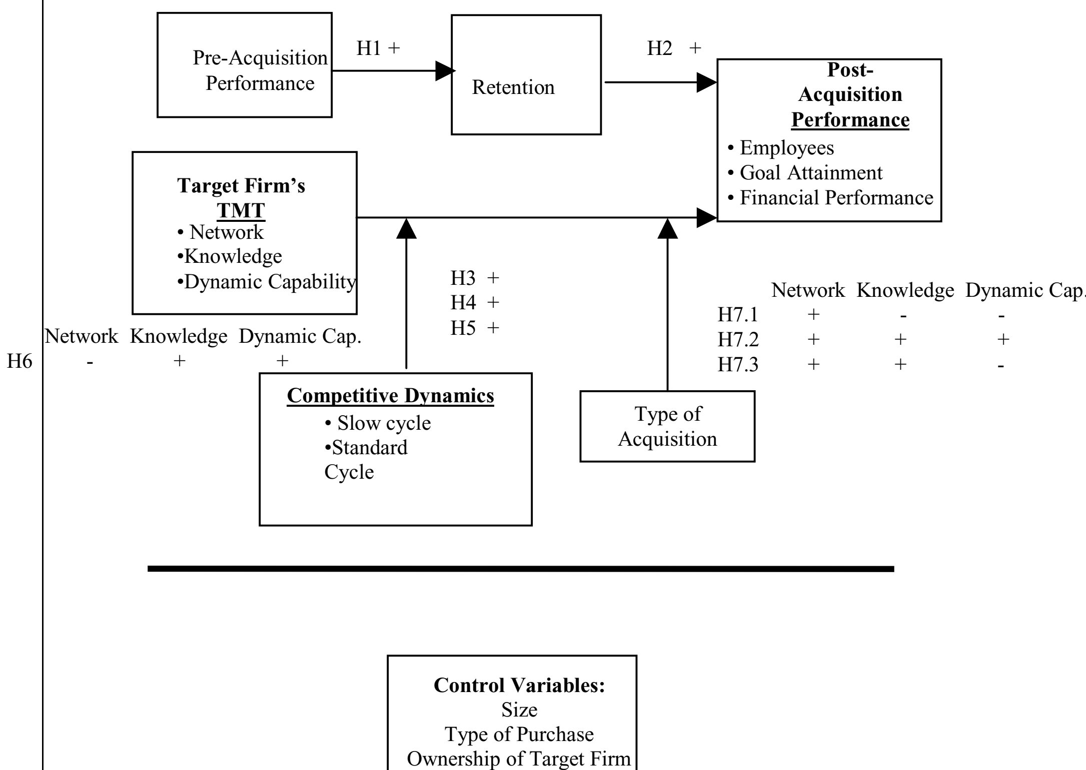
3.6 Summary

An important research question that researchers continue to explore is the disposition of the TMT subsequent to acquisition and the impact on acquisition performance. This research focuses on the TMT, their retention, the particular characteristics of the TMT (their networks, knowledge, dynamic capability), these characteristics moderated by both acquisition type and competitive dynamics, and their value to the firm to help explain the variation in post acquisition success of the acquired firm. The proposed view posits that the TMT is a valuable resource and firms now prefer to acquire successful firms with successful TMTs. This unique viewpoint is contradictory of the large body of market for corporate control literature which has a foundation of Agency theory. The model extends the Upper Echelon theory and integrates the resource based view plus its component pieces (the knowledge based view and the dynamic capabilities perspective) to reconceptualize the TMT as a valuable component of a firm.

Another key element of this dissertation is that it differs from previous research in that it examines which characteristics of the TMT are important to acquisition performance moderated by both industry specific competitive dynamics and type of acquisition. This research should help determine whether it is appropriate to conceptualize the top management team (via the resource based view) as a valuable, rare, inimitable, and non-substitutable resource that attracts acquiring firms.

The following model is tested. The model illustrates that the target firm's TMT may or may not (competing arguments) wish to be retained. The other direct effect is whether the retention of the TMT will or will not (competing arguments) affect post acquisition performance. Post acquisition performance consists of employee satisfaction, goal attainment, and perceived financial performance, which represent financial and non-financial outcomes. The TMT characteristics of network, knowledge and dynamic capability will positively affect post acquisition performance moderated by both the competitive dynamics of the market and the type of acquisition.

3.7 Diagram of TMT on Acquisition Performance



Chapter Four
Methodology

4.0 Overview:

This chapter describes the sample and key informant issues which affect the survey design. Also it discusses the pre-testing, the sample, and how we collected the data. We then discuss the variables in detail and their measurement. The questionnaire is introduced and the items illustrated. Finally, we explain our analysis procedure and the reasons for utilizing regression for this research.

4.1 Sample and Key Informant Issues and Their Effects on Survey Design

Several elements must be considered before conducting empirical tests on the proposed relationships in our model. The model itself does not lend itself to a study using secondary data. Due to the highly perceptual nature of data related to post- and pre-acquisition performance and also in regard to the specific TMT characteristics, a survey method of collecting data is most appropriate. Also, for most firms, acquisition financial performance information is usually consolidated if reported publicly, so specific acquisition performance data would not be available. As such, to ascertain post-acquisition performance of the acquired firm, perceptual data was required.

Our research must rely upon key informants, which is appropriate as the content of our inquiry is such that complete or in-depth information cannot be expected from respondents chosen statistically at random from any organization (Kumar, Stern and Anderson, 1993). Key informant methodology has some significant drawbacks, that of informant bias and random error. Since our sample will use key informants that occupy roles that make them knowledgeable about the issues being researched and were able and willing to communicate with the researcher, we suggest that key informant bias is not of a major consideration (Campbell, 1955). Also, insider informants have been used extensively in strategy research (e.g. Frederickson, 1984).

The focus of this study will be top level M&A managers' whose views may systematically vary from those of second/third-level M&A personnel due to their varying organizational roles (Phillips, 1981; Seidler, 1974). Several researchers have advocated querying multiple informants to increase the reliability and validity of reports (Bagozzi, Yi and Phillips, 1991; Golden, 1992). However, there are limitations involving multiple informants such as the selection problem. The selection problem is that response errors are likely to be higher for participants whose roles are not closely associated with the phenomena under study (Cusumano and Takeishi, 1991; Kumar, et. al., 1993).

In this study the informants are experts on acquisitions and senior managers. These informants will be asked about a specific acquisition of which they participated, and may be the only individual with all the pertinent data. The size of the acquisitions, as noted earlier, will be smaller than in past research and most may have had only one manager. Therefore attempting to acquire a second informant to question the competence of the responses of the original informant is not typically performed by researchers due to the amount of effort it frequently takes to obtain even a single organizational informant to discuss often delicate matters (e.g., Heide and John, 1992, Heide and Miner, 1992).

Retrospective reports in regard to perceptions have been researched (Huber and Power, 1985; Golden, 1992) utilizing executive's retrospective accounts to identify firm strategy (Boeker, 1989; Feeser and Willard, 1990), planning processes (Eisenhardt and Bourgeois, 1988; Mintzberg, Raisinghani and Theoret, 1976; Nutt, 1987) and strategic and organizational change (Eisenhardt and Schoonhoven, 1990; Smith and Grimm, 1987). Other research suggests sole informants at high levels such as CEO may actually increase the validity, or confidence therein, in their report (Sharfman, 1998).

This method is used because in many cases key informant perceptions are the only way to obtain information that may otherwise be difficult to measure as is in acquisition research (Seidler, 1974). Such top managers should accurately recall a past acquisition as 1) it is a high involvement activity both behaviorally and cognitively, and 2) the effects of an acquisition are generally enduring and the TMT will be continuously reminded of its occurrence (Golden, 1992). These are important characteristics, as our respondents are top managers who were both involved in pre- as well as post-acquisition activities and are aware of performance expectations prior to purchase as well as monitoring the performance post-acquisition.

However, it is argued by a small number of management researchers that there are pitfalls associated with this technique. The hazards suggested in using retrospective reports are 1) individuals may attempt to project a socially desirable image by casting a light of rationality upon their past decisions (Cannella and Henson, 1974; Feldman and March, 1981; Salancik and Meindl, 1984; Tedeshi and Melburg, 1984), 2) respondents with good intentions may misrepresent the past as a result of the hindsight bias (Fischoff and Beyth, 1975) or of subconscious attempts to maintain their self-esteem (Nisbett and Wilson, 1977), and 3) and that individual differences will affect the likelihood to accurately recall past events (Huber and Power, 1985).

However more recent research suggests that retrospective reports are accurate and an effective technique for management research (Golden, 1992). Even more encouraging is that the research suggests that top management who have MBA degrees may be expected to more accurately recall past strategy than those without such education lends credibility to this study, as nearly all of the respondents will have MBAs (cf. Huber and Power, 1985; O'Reilly, 1977). Moderate amounts of elapsed time do not affect the stability of retrospective reports and that researchers can have a fairly high level of confidence in the temporal stability retrospective reports (Huber and Power, 1985).

The present study was designed to address these issues. For example, we mailed surveys to only top managers and asked that they participate only if they have been involved in a recent acquisition. Some managers contacted us to let us know that they will not be participating as they were not involved in a recent acquisition. This sample focuses on key informants that occupy roles that make them knowledgeable of the transaction and may be the only individual with all the information that is required for the survey. Also as the survey asks for very delicate proprietary information, we have assured anonymity to the responders to attempt to circumvent hazards such as projecting a desirable imagine upon their past decisions and misrepresentation with a hindsight bias. As we asked the respondents to address a recent transaction, this should not affect the stability of the retrospective report due to the moderate amount of elapsed time. Also addressing the temporal issues we asked the respondents to pay attention to the following directions:

> Think of one recent acquisition in which you have participated and for which you can determine the post- acquisition performance and the performance was good. By recent, we mean an acquisition that occurred within the last one - two (1-2) years. When asked about the top management team (TMT) of the acquired firm, we mean those individuals from as little as three to ten people who are at the apex of the acquired organization and providing strategic leadership.

We included an area on the questionnaire for optional information. We asked the respondent for the name of their firm and the firm they purchased. This valuable piece of information has been kept "optional" to protect the confidentiality of respondents – something that we believe is essential for a good response rate. We hoped that the majority of participants would supply this information. Unfortunately only nine responded and seven with both purchaser and target firm information.

4.3 Pre-Test and Application of the Instrument:

The individuals we surveyed came from an Ernst and Young database of top executives who have participated in Mergers and Acquisitions. The database contained 807 names and their related addresses, telephone numbers, and e-mail addresses.

We initially prepared a draft questionnaire with items to test the variables. We obtained input on these preliminary items from an expert panel of M&A professionals from different industries, as well as from respected academics. Fifteen people reviewed the preliminary items. Three were from Price-Waterhouse/Coopers, 3 were international Mergers and acquisitions managers, 6 were top managers, and 3 were academics. A pilot study was performed with a small sample of business professionals that have participated in acquisitions. We administered the pilot version of the questionnaire to these M&A professionals. After the pilot was administered, we analyzed the data. During this pilot study we had asked the participants to make suggestions in regard to confusing questions, or any comments in general. We made changes in the instrument where we deemed necessary based on this feedback. The pilot data were not included in the final analysis.

After the pilot study was completed we administered the instrument. We contacted the individuals in the database in three waves of mailings to get as many of these managers as possible to participate. The initial mailing was performed on Monday November 3, the second on November 24, and the final mailing on December 15, 2003.

Two types of surveys were mailed in an attempt to gather data for acquisitions: those that did not have good performance and those that did have good performance. We did this to obtain results that reflected both acquisitions that had good post-acquisition performance as well as those with poorer post-acquisition performance. The two types (with same questions but differing directions) were randomly assigned with half of the sample receiving the good and the other poor performance. Please note the survey is in Appendix. Examples of questions in the survey with responses on a 5-point Likert scale are: In gross revenues, about how large is your firm?, The employees of the acquired organization are good workers., The acquisition has met the strategic goals we anticipated., The financial performance of the acquired firm is much less then anticipated., We retained the most valuable members of the TMT of the acquired organization., The acquired firm's TMT's network of relationships is extensive., The TMT of the acquired organization match internal strengths to market changes., The acquired firm's TMT's knowledge of the industry is valuable to our firm., The acquired firm was one of the better firms in their market.

Examples of the titles of the individuals that were sent the surveys were Vice Presidents (110), Senior VP (23), CEOs (24), CFOs (25), Director (49), etc. In essence, these are senior managers who have been directly involved in a recent acquisition and are aware of the post-acquisition performance of the acquired firm. The data base information was apparently old and after eliminating those that were either no longer at that address, "return to sender", or their office notified us they were not longer with the firm, or dead, we had 610 possible respondents. This figure may not be accurate however, and could be significantly lower. The tenure of upper managers can be as short as 3-5 years and many of the questionnaires could have been thrown away as the potential respondent no longer worked for the firm and we were not notified. Regardless, based upon this information, we received a sample of 102 responses for a response rate of 17%. Response rate for surveys of senior management is typically very low, so we were pleased with the number of responses obtained as it is consistent with similar surveys (cf. Weaver, Travino, Cochrane 1999; Hambrick, Geletkancyz, & Fredrickson, 1993). Chart 4.1 illustrates the wide variety of industries that were represented in the data, therefore the data is not subject to being biased from having been collected in only a few industries and may be more generalizable.

4.4 Measures:

The dependant variable is post acquisition performance measured with financial, strategic and employee indicators. The independent variables are Retention of the TMT, the TMT characteristics of Network, Knowledge and Dynamic Capability, Industry Competitive Environment, Acquisition Type, and Pre-Acquisition Performance. The control variables are Size, Type of Purchase and Ownership of the Target Firm.

4.4.1 Dependent Variable: Post Acquisition Performance

The dependant variable is the degree of failure or success of the acquisition based upon Mergers and Acquisition Experts' opinions (see discussion of the sample). There appears little agreement on the best way to measure acquisition success, or at what point in the process a measure should be taken (Hogan and Overmyer-Day, 1994). The results of acquisitions are difficult to assess accurately, both in terms of the indices used and the appropriate time span over which to judge acquisition performance (Lubatkin, 1983; 1987). Prior acquisition research has focused on such variables such as potential growth rate and target evaluation (Baker, Miller and Ramsperger, 1981), communication (Schweiger and Denisi, 1991; Sinetar, 1981), merger goals (Cartwright and Cooper, 1992; Kitching, 1967), organizational culture fit (Buono, Bowditch and Lewis, 1995; Marks and Mirvis 1992, 2000), and retaining the TMT (Hambrick and Cannella, 1993; Hayes and Hoag, 1974).

However, financial analyses frequently fail to recognize that the acquisition is an important human as well as financial activity, or a combination of both. In focusing only on financial results such as income statement, ratios, and balance sheet issues, the role of people, knowledge gained, or other intangible goals are often overlooked (Hunt, 1987; Levinson, 1970; Kitching, 1967). Acquisition decisions and negotiations still typically center on financial results and rarely involve the personnel function (Cartwright and Cooper, 1992).

Other acquisition research has focused on the effect of purchase premiums (Sirower, 1997), the importance of the overall integration process (Haspeslagh and Jemison, 1991), strategy (Bettis, 1982), and relatedness (Christiansen and Montgomery, 1981; Rumelt, 1982). It appears much of the previous research attempts to develop a theoretical foundation which establishes a causal relationship for the prediction of success/failure. However, the development of causal relationships is still inconclusive. Use of overall firm-level accounting measures as measures of acquisition performance has many limitations as short-term measures are imperfect and may not depict the true value of the acquisition (Porter, 1987). Typically acquisitions are accounted for only internally where the information is proprietary. Further acquisition performance often is consolidated into total performance and may be too small by itself to make a material difference in overall firm performance. Also managers have discretion as to the accounting methods utilized and allocation procedures (e.g. overhead, indirect costs, etc.), which may inflate the costs or the performance of the acquisition. The accounting method has typically a short-term bias in which accounting practices materially can affect such as the setting-up of accruals, writing off goodwill, eliminating costs from other divisions through allocation, etc. The largest flaw in utilizing accounting measures, especially in the new knowledge economy, is the valuation of intangible assets and liabilities. A firm's intangible resources and capabilities are productive assets that are difficult to observe, describe, and value but that nevertheless can have a significant impact of a firm's performance. Researchers have noted that the impacts of these limitations are great and the magnitude for researcher misrepresentation is significant (Fischer and McGowan, 1983; Ijiri and Kelly, 1980; Solomon, 1985; Pare, 1993).

Other ways to measure performance include Tobin's q, stock price, Jensen's alpha, the Treynor index, Sharpe's measure, net cash flow, and the capital asset pricing model (CAP-M), to name a few. However our research focuses not so much on the performance of the firm in total, but rather for the acquisition in specific, given the research questions directed toward the effects of the TMT on the acquisition's performance. Although the other measures have their place and import in overall performance research, they will not assist in this research. Also, not all authors believe that executive competence is easily inferred from observable performance indicators (Lipton, 1985; Lowenstein, 1983; Herman and Lowenstein, 1988). Finally, in light of recent marketplace events (e.g. Enron, WorldCom, etc.), accounting measures may not accurately reflect the acquisition performance of a firm under any circumstance.

In this study, Mergers and Acquisition Expert Managers were asked to evaluate the post-acquisition performance of the acquisition. Organizational performance has been criticized in the past for not actually measuring what the researcher is attempting to measure (March and Sutton, 1997). For example, stock price has been used as a measure of organizational performance. Though shareholder wealth creation is important, often stock-price growth may be systematic and not be causal from acquisition performance. Also, non-substantial acquisition failure or success may not affect a large organization's stock price, but still may be of strategic importance. Due to our recent ability to use robust statistical techniques in management research, measures have been developed that combine performance ratios and other measures that accurately define organizational performance (Hoskisson, et. al., 1994; Hitt, et. al., 1996). Unfortunately, these measures cannot be used in this study, as individual acquisition financial performance results are not public information and may not reflect the acquisition performance anticipated by the purchasing organization.

The rationale for measuring acquisition level results versus organizational level indicators is that the TMT of the acquisition is the focus of this research. As such, though the acquisition itself is an organizational phenomenon, we focus on acquisition performance as it is more closely linked to the performance and importance of TMT. Although this choice necessarily introduces a certain amount of subjectivity into these measures, Dess and Robinson (1984) argued in favor of the acceptability of subjective measures in situations such as these. It should be noted that we went to great lengths to make the measurement of acquisition performance as objective as possible (see discussion below). Researchers are advocating a multi-level approach to the study of organizations as organizations are increasingly differentiated both vertically and horizontally giving rise to the need for research that is both cross-level and cross-unit (Staw, Sandelands and Dutton, 1981). The issue of organizational level is important, as most phenomena in and about organizations are intrinsically mixed-level (Rousseau, 1985). The degrees of inclusion may contribute to the strength of the cross-level relations as the more included is an entity in a higher level unit, the stronger any cross-level relationship should be (Rousseau, 1985). As previously argued, the TMT is focal to the acquired firm and is highly "inclusive" so would be an appropriate unit for examining a cross-level relationship.

In the case of acquisition performance, unless we are given access to raw company data, there would have been no way to measure the performance of the acquisition with complete objectivity. Moreover, some of the outcomes are purely perceptual (e.g. degree of goal attainment). Finally, the approach to measurement we use allows for a common framework for assessing acquisition performance for the different TMT related constructs. Taking all these factors into consideration, previous research (e.g., Dess and Robinson, 1984; Delaney and Huselid, 1996; Youndt, Snell, Dean and Lepak, 1996; Lau and Ngo, 2001; Tomaskovic-Devey, Leiter and Thompson, 1994) has considered this perceptual approach a useful if imperfect answer to a very complex problem.

In strategy, the disposition of HRM and the TMT's actions are very difficult to assess and it is often impossible to assess the degree of unobservability of an unobservable (Godfrey and Hill, 1995). Acquisition outcomes were measured perceptually. Problems with managers' perceptions of acquisition performance could include social desirability (Ganster, Hennessey and Luthans, 1983), self-report bias, and hubris. Self reported measures are commonly used, especially in the strategic human resource management area (c.f. Delaney and Huselid, 1996; Youndt, Snell, Dean and Lepak. 1996). Although there is the danger of self-reported bias, research has found that measures of perceived performance correlated positively with objective measures of organization performance (Lau and Ngo, 2001).

Three key areas of acquisition performance are covered in the present study: employee satisfaction, goal attainment, and perceived financial acquisition performance. These three measures represent financial and non-financial outcomes and a comparative method is more effective in eliciting responses than asking respondents directly to provide exact numbers for acquisition performance (such as dollar amount of sales, market share, etc.) (Lau and Ngo, 2001; Tomaskovic-Devey, Leiter and Thompson, 1994). (See scale Appendix A – page 3 "Current Performance"). The present scale was developed by utilizing pre-existing measures developed by Lau and Ngo (2001) and Cannella and Hambrick (1993) and adapting them through suggestions from our expert panel plus through pre-testing.

The list of items to measure post-acquisition performance are: The employees of the acquired organization are good workers, The acquisition has met the strategic goals we set, The Acquisition's net profit is smaller than anticipated, The price we paid for the acquisition was valued too high relative to the benefits received, The acquisition will meet expected strategic goals, Most of the acquired firm's employees do not meet our standards, The Acquired Firm fits into our overall strategy, Our organization is pleased with the talent of the acquired organization's employees, The valuation of the acquisition represented its true worth, and The financial performance of the acquired firm is much less than anticipated. A Likert-type scale of 5 (strongly agree), 4 (agree), 3 (neither agree nor disagree), 2 (disagree), and 1 (strongly disagree) was used.

4.4.2 *Independent Variable:* **Retention** refers to the top management team and the extent to which the acquiring firm was able to retain the target TMT. Retention was measured in two ways: 1) defined as a proportion of executives that were retained, similar to Cannella and Hambrick (1993), and 2) additionally the perceived volume of valuable executives retained. As suggested by pre-testing responses and from the expert panel, reviewing the sheer number of executives retained for small to medium sized firms does not provide a full picture. Although we argue the TMT is valuable it is also true that there are also those individuals in smaller firms that may be relatives with an executive title (or similar situations), but of no value. Therefore we explore both, the number of executives retained, and whether the valuable executives were retained. Items explored whether: most members of the TMT of the acquired organization were retained, and whether most of the TMT members of the acquisition remained with the organization after purchase. (See scale Appendix A – page 3 "Top Management Retention"). There is no pre-existing scale to utilize as to TMT retention after acquisition. However we utilized previous literature to develop the items. We attempted to see if cumulatively whether a proportion of the TMT was retained (Walsh, 1988). We also asked the degree to which the valuable members of the TMT either stayed with the firm or exited (Kogut and Singh, 1988; Krug and Hegarty, 1997). We also will attempt to delineate between the loss of TMT that may have been of value and those that were not, as not all members of the TMT may be of value for the goal attainment of the acquiring firm (Finkelstein and Hambrick, 1996).

4.4.3 *Independent Variable:* **Network:** This independent variable refers to the internal and external network of relationships of the target firm TMT. A network of firm relationships and shared values, with relationships defined as: non-hierarchical/long-term commitments, multiple roles and responsibilities, mutuality, and affiliational sentiments, is developed by the TMT. The network organization is dense, has reciprocity of ties, and shared value system defining membership roles and responsibilities that the TMT has developed over time. Also the TMT has developed a network of internal relationships that facilitate the effective operation of the firm. Explicit knowledge that is not embodied in specific products may not be efficiently transferred, however the TMT's alliances and networks of these alliances may be well suited to the transfer and integration of this knowledge (Liebeskind, et. al., 1996). Our items (See scale Appendix A – page 4 "Top Management Team Characteristics" lines 2, 5, 8, and 11) examined whether the external networks are valuable as a TMT capability, as these external network alliances bring new resources into the firm from external sources (Gulati, 1999; Capron, et. al., 1998; Zollo and Singh, 1998). The items also examined the value of the internal networks as the personal relationships of the members developed over time, create value for the firms (Hakansson and Johanson, 1988).

4.4.4 *Independent Variable:* **Knowledge:** This independent variable is in regard to the industry, market and firm-specific knowledge of the target TMT. We are exploring whether the TMT knowledge will assist in the development of the new goals and role the acquisition will perform, as the TMT is an integral part of the value of the acquisition by developing its strategy, organization, and leadership. The retention of the top management team due to their knowledge base might well improve/maintain the expected performance of the acquired organization. The items (See scale Appendix A – page 4

"Top Management Team Characteristics" lines 3, 6, 9 and 12) will explore the TMT's knowledge, as knowledge has emerged as the most strategically significant resource of the organization (Grant, 1996; Quinn, 1992). As knowledge is information laden with experience, truth, judgment, intuition, and values; a unique combination that allows individuals and organizations to assess new situations and manage change the items will assess the importance of this knowledge in regard to acquisitions (Huseman and Goodman, 1999). Knowledge and the competencies built upon this platform are the main factors in determining an organization's current and future value so the items will attempt to ascertain as to how valuable the knowledge of the TMT was to the value of the acquisition (Drucker, 1993; Thurow, 1999; Grant, 1996; Hamel, 2000)

4.4.5 *Independent Variable:* **Dynamic Capability:** This independent variable refers to the dynamic capability of the target firm TMT. Does the TMT have the ability to adapt to new situations and employ the firm's resources to confront these issues? Dynamic capabilities are the organizational and strategic routines by which the TMT alter their resource base by acquiring and shedding resources, integrating them together and recombining them, to generate new value-creating strategies. Dynamic capabilities thus are the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die. Research suggests that organizations that wish to continue success into the next century must have a TMT who, among other attributes, have flexibility in their strategic choices (Sharfman and Dean, 1997). Therefore the TMT must be flexible and integrative, and each TMT and individual manager have values which cause prioritization of issues within a firm (cf.

Sharfman, Pinkston, Sigerstad, 2000). Decision processes of the TMT influence strategic decision-making effectiveness, thus they have the power to influence the success of strategic decisions (Dean, and Sharfman, 1996). The items (See scale Appendix A – page 4 “Top Management Team Characteristics” lines 1, 4, 7 and 10) attempt to ascertain the TMTs ability to adapt, integrate and reconfigure after acquisition both internal and relational resources (Dierickx & Cool, 1989; Teece et al., 1997). As dynamic capabilities are the antecedent organizational and strategic routines by which the TMT alter their resource base by acquiring and shedding resources, integrating them together and recombining them, to generate new value-creating strategies, the items will attempt to ascertain as to how well the TMT was able to perform these tasks after acquisition (Grant, 1996; Pisano, 1994). “In the constantly changing business environment organizations are regularly called upon to adapt to environmental change” (Sharfman and Dean, 1997: p. 191) thus the TMT’s dynamic capabilities are valuable to a firm. The dynamic capabilities perspective is focused on the strategic employment of key resources so the items attempt to ascertain the acquired firm’s TMT value in this process after acquisition (Eisenhardt & Martin, 2000). As decision processes have two distinct independent dimensions (procedural rationality and political behavior), a major strength in the recombination of resources may be the TMT’s ability to make choices that are both rational and political (Dean and Sharfman, 1993).

4.4.6 *Independent Variable:* **Competitive Dynamics:** In emphasizing how an organization develops its strategy, classifications of the competitive environment have been developed based upon pricing patterns over time (Klepper and Grady, 1990).

Environmental instability plays an important role in influencing decision effectiveness (Dean and Sharfman, 1996). Although most researchers agree that the concept of industry competitive dynamics is composed of multiple dimensions (Boyd, 1995) three general dimensions are typically utilized: munificence, dynamism and complexity (Bluedorn, 1993; Dess and Beard, 1984; Aldrich, 1979). We have utilized these dimensions as put forth by Dess and Beard (1984), paralleling other strategic literature (Keats and Hitt, 1988; Lawless and Finch, 1989; Boyd, 1995; Goll and Rasheed, 1997; Li and Simerly, 1998; Simerly and Li, 2000). We also asked the managers to identify the industry they are in (e.g. Biotech, high-tech, transportation, etc.)(See scale Appendix A – page 1).

Munificence is the capability or the ability of the environment to sustain growth. Dynamism is the stability or instability and the rate or degree of environmental change. Complexity is the concentration or dispersion and the heterogeneity and/or range of the organization's activities in the industry environment (Dess and Beard, 1984).

Munificence was calculated using a five-year growth in net sales for each industry (1998, 1999, 2000, 2001, and 2002). Using annual figures across all firms in each relevant industry, the natural logarithms were utilized in a time series approach from Standard and Poor's Industry Surveys (11-13-2003). Time served as the independent variable. The growth measure of each was the antilog of the regression slope coefficient. The result is a smoothed measure of the average growth rate over the period. Instability reflected five year patterns of instability in the dominant industry. The measures were antilogs of the standard error of each regression slope coefficient from the growth equations described in the munificence measure. Thus to be consistent with the arguments of Dess and Beard (1984) and Tosi, Aldag and Storey (1973) the indicators capture true discontinuities in the task environment and allow similar scores for task environments that present similar patterns but at different base levels of magnitude. The complexity measure was based on Grossack's (1965) index of environment concentration. It may be thought of an index of a trend toward or away from dominance by large firms in a task environment. It is a regression of terminal year market shares of all firms in a given industry upon their shares in the initial year. The resulting regression coefficient suggests monopoly type power within the industry. Erosion may be due to the growth of smaller firms, the entrance of new firms, or some combination of factors (Keats and Hitt, 1988). The three measures were then averaged. For example, in the chemicals industry the munificence was 1.007327, the volatility standard error was .063962 and the complexity was .618 for an industry competitive dynamic environment measure of .08964, or a mild competitive dynamic environment. The software industry had the munificence was 1.09622, the volatility standard error was 1.06715 and the complexity was 1.286 for an industry competitive environment measure of 1.149, or indicating a more intensely competitively dynamic environment

4.4.7 *Independent Variable:* **Acquisition Type:** It has been argued that managers are aware of the industry they are in, the segment, and the true similarity among their business units (Hoskisson, et. al., 1993). We will assess acquisition type in three ways: First we ask the managers what industry they are in and what type of acquisition it was. We can compare the responses to ascertain industry similarity. Second, we specifically ask the respondents utilizing the following categories: 1) A horizontal acquisition, two organizations in the same industry (competitors) or combination between organizations offering complimentary products of service (ex. a wireless service firm acquired by a local and long distance services firm), 2) The acquisition of an unrelated organization. Not in our industry. 3) Forward vertical acquisition, one organization is acquiring another within their supply chain. For example, a manufacturer purchasing an organization forward in their supply chain like a distributor. and 4) A backward vertical acquisition, one organization is acquiring another within their supply chain. For example, a manufacturer purchasing an organization backward in their chain like a supplier. Third, we ask a series of questions in regard to similar products, lines, competition, supplier and buyer interactions. These questions (See scale Appendix A – page 2 "Type of Acquisition" and 'Type of Acquisition (continued)") also serve to analyze type of acquisition. Acquisition type (related, unrelated, vertical forward or backward) could not be used as a stand alone variable as only 9 were unrelated acquisitions, 3 were forward acquisitions, and 3 were backward acquisitions while 86 were related acquisitions.

4.4.8 *Independent Variable:* **Pre-Acquisition Performance:** The market for corporate control research suggests that acquisitions often serve as a useful external control mechanism for removing managers who fail to maximize firm value (Morck, Shleifer and Vishny, 1989; Martin and McConnell, 1991; Ikenberry and Lakonishok, 1993). The theory for corporate control suggest that as top managers engage in self-interested behavior, their company's performance is likely to increasingly diverge from its maximum potential (Berle and Means, 1932; Manne, 1965; Jensen and Meckling, 1976; Fama, 1980; and Fama and Jensen, 1983a, 1983b). However, the resource based view has shifted the emphasis from external factors in the strategy literature to internal factors (Hoskisson, Hitt, Wan and Yiu, 1999) thus bringing legitimacy to the importance of people to organization success. Also, top managers of the target firm can be viewed as critical to enhancing post-acquisition performance as the TMT possesses knowledge critical to ongoing business operations and that their departure may heighten the level of disruption and uncertainty in the firm following acquisition (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Krishnan, et. al., 1997; Singh and Zollo, 1998). The items (See scale Appendix A – page 2 "Acquisition's Pre-Acquisition Performance") used were: 1) Before acquisition, the organization was one of the better firms in their industry, 2) Before acquisition, the organization was underperforming in comparison to their competitors. 3) Before acquisition, in comparison to their competitors, the firm had better performance. and 4) Before acquisition, the organization was one of the poorer performing firms in its sector of the market.

4.5 Control Variables: We use control variables because the fact that two variables are related does not necessarily mean that one is a cause of the other, even if the relationship is statistically significant and we are willing to reject the notion that the relationship is due to chance. The control variable will assist in explaining whether any of these four possible patterns that can result when the control variable is introduced into the relationship amongst the independent and dependent variables. 1) Explanation. The relationship may be *spurious*, that is, the independent and dependent variables may be related, not because either one affects the other, but because both are dependent on some third variable. Controlling for the third variable will cause the original relationship to disappear. 2) Interpretation. The relationship may be indirect, that is, the independent variable affects a third variable which in turn affects the dependent variable. The third variable is said to *interpret*the relationship. As with a spurious relationship, controlling for the third variable will cause the original relationship to disappear. 3) Specification. The nature of the relationship between the independent and dependent variables will depend on the value of a third variable. Controlling for the third variable helps us to specify the nature of the relationship. 4) Replication. Controlling for a third variable leaves the original explanation unaffected. This does not necessarily mean that the independent variable is a cause of the dependent variable (there are other variables we haven't controlled for yet), but at least it remains a possibility. We have identified three control variables from the strategy literature that may have affect the relationship between our independent and dependant variables: Size, Type of Purchase and Ownership of Target Firm.

4.5.1 *Control Variable*: **Size:** Size differences between acquiring and acquired firm may influence acquisition performance (Kusewitt, 1985). Increases in organizational size add complexity with its attendant increases in structural elaboration and formalized systems for planning, control, and resource allocation (Quinn and Cameron, 1983). As a result, increases in organizational size can create progressively stronger resistance to fundamental change (Tushman and Romanelli, 1985) yet large organizations generally have more decentralized decision-making authority (Blau and Schoenherr, 1971). We use size as a control variable in regard to TMT, because their value will depend upon the individual characteristics and their value. For example, some researchers suggest that the smaller an acquired firm relative to an acquiring firm, the greater an acquired executive's propensity of depart (Hambrick and Cannella, 1993). However, if the purchase was due to the TMT's knowledge of the industry or product, dynamic capabilities to evolve the firm in response to changing markets, or due to their internal or external network of relationships such as distributors or customers, then the acquiring firm will try to retain the TMT regardless of the target's size. Also, size may also contribute to the opposite results of Hambrick and Cannella's (1993) findings, due to hubris (Roll, 1986), empire building (Mueller, 1969), or parent arrogance (Jemison and Sitkin, 1986) where there is just not enough room at the top for two TMTs when two large firms are combined. In essence, we follow Kimberly's (1976) advice that size, as a variable is too general to permit its relation to organizations to explain phenomena accurately. As in other acquisition literature, size was calculated by dividing the sales of the acquired firm before acquisition by the sales of the acquiring firm (Hambrick and Canella, 1993). (See scale Appendix A – page 1 Items 3 and 4)

4.5.2 *Control Variable*: **Type of Purchase**: Simplistically, firms can be purchased with stock, cash, or a combination of both. From the acquirer's perspective, they can use their cash holdings, increase their debt by borrowing, sell more equity through shares of stock, or a combination of these with managerial ramifications for each. However, as this research's focus is on the target firm's TMT, their retention and value to post-acquisition performance, we are concerned with what the target firm's receives and in what form. For example, a cash purchase may unduly enrich the target firm TMT (assuming they are stock holders) who may then wish to exit the situation while a stock purchase may encourage the target TMT to continue with the association. The type of purchase may also affect the subsequent acquisition performance due to TMT motivational issues. Also, the type of purchase may also reflect the value of the TMT characteristics to the acquirer as requiring the use of cash versus stock. A very valuable TMT may command a cash purchase from the acquirer. Contrarily, the stockholders of a firm that is undervalued due to a poorly performing TMT may accept stock as compensation due to the changing of hands to a competent management team in accordance with the market for corporate control. We asked the survey participants whether the firm was bought utilizing cash, stock, debt, or a combination thereof and if a combination, what percentage of each method. (See scale Appendix A – page 1 items 8 and 9)

4.5.3 *Control Variable*: **Ownership of Target Firm:** The target firm may be privately owned, publicly owned with dispersed stockholders, or publicly owned with few majority stockholders. Privately owned firms will typically also be managed by an owner who is also a member of the TMT. Purchasing a privately owned firm may / may not suggest that the owner is either retiring or going to pursue other interests. In agreement with the RBV, the owner may only be seeking resources from the acquiring firm in which to continue and be more successful. A publicly owned firm with diverse investors will be managed by a TMT of experts. The market for corporate control would suggest that the firm might be underperforming by these TMT whose characteristics are not valuable to the purchasing firm. Contrarily, these very same experts may be needed to facilitate post-acquisition performance. We asked whether the acquired firm was a spin-off from another firm, privately owned, public firm with few majority holders, or a public firm with dispersed ownership. (See scale Appendix A – page 1 item 6)

4.6 Analysis

Sample size has a direct and sizable impact on power. Power in multiple regression refers to the probability of detecting as statistically significant a specific level of R-squared or a regression coefficient at a specified significance level for a specific sample size. In addition to its role in determining statistical power, sample size also affects the generalizability of the results by the ratio of observations to independent variables. A general rule for generalizability is that the ratio should never fall below 5 to 1, meaning that there should be five observations for each independent variable in the variate. Although the minimum level is 5 to 1, the desired level is typically between 15 to 20 observations for each independent variable to obtain generalizability (Hair, et. al., 1998). As we have a sample of 102, our study exceeds these conditions. We never have more than 5 variables in an equation.

We used the multiple regression technique as our analysis method because besides prediction, multiple regression provides a means of objectively assessing the degree and character of the relationship between dependent and independent variables by forming the regression variate (a linear combination of the independent variables that best predicts the dependant variable). Another powerful feature of the multiple regression technique is that moderator effects can be estimated. The moderator effect is represented by a term similar to the polynomials where the moderator term is a compound variable. To determine whether the moderator effect is significant, the researcher first estimates the original (unmoderated) equation and then estimates the moderated relationship. The independent variables, in addition to their collective prediction of the dependant variable, may also be considered for their individual contribution to the regression variate and its predictions. Interpretation of the regression variate may rely on any of three perspectives: the importance of the independent variables, the types of relationships found, or the interrelationships among the independent variables.

The most direct interpretation of the regression variate is a determination of the relative importance of each independent variable in the prediction of the dependent variable. The selection of the independent variables is based on their theoretical relationships to the dependent variable. Regression analysis then provides a means of objectively assessing the magnitude and direction (positive or negative) of each independent variables relationship. The character of multiple regression is the simultaneous assessment of relationships between each independent variable and the dependent measure. In making this simultaneous assessment, the relative importance of each independent variable is determined.

In addition to assessing the importance of each variable, multiple regression also affords the researcher a means of assessing the nature of the relationships between the independent variables and the dependent variable. The assumed relationship is a linear association based on the correlations among the independent variables and the dependent measure. Transformations for additional variables are also available to assess whether other types of relationships exist, particularly curvilinear relationships. This flexibility ensures that the researcher may examine the true nature of the relationship beyond the assumed linear relationship.

Finally, multiple regression provides insight into the relationships among independent variables in their prediction of the dependent measure. These interrelationships are important for two reasons. First, correlation among the independent variables may make some variables redundant in the predictive effort. As such, they are not needed to produce the optimal prediction. This does not reflect their individual relationships with the dependent variable but instead indicates that in a multivariate context, they are not needed if another set of independent variables explaining this variance is employed. The researcher must guard against determining the importance of independent variables based solely on the derived variate, because relationships among their independent variables may mask relationships that are not needed for predictive purposes but represent substantive findings none-the-less. The interrelationships among variables can extend not only to their predictive power but also to interrelationships among their estimated effects. This is best seen when the effect of one independent variable is contingent on another independent variable.

Chapter Five
Results

5.0 Introduction:

This chapter discusses the characteristics of the variables (e.g., correlations, descriptives), the validity and reliability analysis of both the measures and the design and how the variables are used in the various stages of the hypothesis testing. Recall that the raw input data used discusses the relationships between the TMT, their characteristics, pre-acquisition performance, and post-acquisition performance controlled for by size, type of purchase and ownership of target firm. The hypotheses will be restated in terms of what each is designed to test. The graphical analysis results are referenced if the reader wishes to see the summary statistical support from the tables. Noteworthy conclusions from the tests are highlighted but their discussion is reserved for the next chapter. Results of statistical tests are presented along with any relevant details about the tests used; however the implications of the findings are discussed in chapter six.

5.1 Data descriptives

The correlations among the variables are presented in Table 5.1. Review of the correlation table suggested relationships amongst the variables. We explore these relationships in greater detail through hypothesis testing. To assess multivariate and univariate normality analyses of skewness, kurtosis, and outliers were performed using Q-Q (P-P) plots and standard tests for each indicator. The results of these tests are presented in Table 5.2. Review of the skewness and kurtosis statistics suggest that no transformations were required as all the skewness and kurtosis numbers fall below 1.96 which corresponds to a .05 error level (Hair, Anderson, Tatham and Black, 1998). We tested all hypotheses with regression using SPSS version number 12.0.

5.2 Common Method Variance:

We utilized Harman's one factor test to assess the degree of common method variance due to the fact that the data all came from the same survey. This technique uses a statistical procedure in an attempt to isolate the covariance due the fact that the same general method (i.e. the same instrument) (Podsakoff and Organ, 1986). The technique requires that all variables of interest are entered into a factor analysis and the results of the unrotated factor solution are examined to determine the number of factors that are required to account for the variance in the variables (Podsakoff and Organ, 1986). The result of this procedure is in Tables 5.3 and 5.3.1, and suggests that a single factor did not emerge nor one general factor account for the majority of covariance (e.g. Greene and Organ, 1973; Jermier and Schriesheim, 1978; Podsakoff, Todor, Grover and Huber, 1984).

5.3 Non-response bias

Managers that are familiar with mergers and acquisitions are typically TMT who may not readily respond to surveys. We used extrapolation methods to examine non-response bias. Extrapolation methods are based on the assumption that subjects who respond less readily (late responders) are more like non-respondents than are early responders. The most common type of extrapolation is carried over successive waves of a questionnaire (Armstrong and Overton, 1977). Wave analysis employing MANOVA was used to check for non-response bias examining selected scale items from each construct (Armstrong and Overton, 1977). Each of the major survey waves was counted as a separate wave, for a total of three waves. Wave analysis, in the form of MANOVA, was performed covering all relevant variables and found no significant differences between each wave that would indicate the possibility of non-response bias. The result of this procedure is in Tables 5.4.1 to 5.4.3.

5.4 Scale development

Construct validity refers to the degree to which a construct corresponds to what its dimensions are intended to measure (Cronbach and Meehl 1955; Peter 1981). Thus, a researcher must be sure that measures/items are convergent (correlate with the other items within the construct) and are discriminant (do not correlate with items in another construct) (Campbell and Fisk 1959). We performed exploratory factor analysis to see if a unidimensional solution came out of the exploratory analysis. This analysis assists researchers in inferring unidimensionality and is helpful in showing convergence. For each of our independent and dependent variables we reviewed the results (Tables 5.5.1 to 5.10.4) and found that each construct's items were all significantly correlated ($p < .001$) in accordance with the Bartlett test of sphericity. Another measure, the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (MSA), for each of the variables, suggested high intercorrelation amongst the variables. The MSA index ranges from 0-1, reaching 1when each variable is perfectly predicted without error by the other variables. Post-Acquisition Performance had an MSA of .895, Retention .869, TMT Dynamic Capability .823, TMT Knowledge .756, TMT Network, .836, and Pre-Acquisition Performance .786. The Cronbach alpha's (Tables 5.5.5, 5.6.5, 5.7.5, 5.8.5, 5.9.5, an 5.10.5) were also strong: Post-Acquisition Performance had an alpha of .938, Retention .966, TMT Dynamic Capability .931, TMT Knowledge .756, TMT Network, .929, and Pre-Acquisition Performance .873. Cronbach's alpha is used to examine the internal consistency of a scale, or how well a set of items measures a single unidimensional construct. The items should all measure the same thing, so they should be correlated with one another. If the items making up the score are all identical and so perfectly correlated, all the si^2 will be equal and $sT^2 = k^2\ si^2$, so that $\Sigma si^2/sT^2 = 1/k$ and $\alpha = 1$. On the other hand, if the items are all independent, then $sT^2 = \Sigma si^2$ and $\alpha = 0$. Thus α will be 1 if the items are all the same and 0 if none is related to another.

5.5a Hypothesis H1

> *H1: The greater the pre-acquisition performance of the acquired firm, the more likely the TMT of the acquired firm will be retained.*

Hypothesis H1 explores the relationship between Target firm Pre-acquisition Performance and TMT retention. The independent variable was Target firm Pre-acquisition Performance with TMT retention as the dependant variable while controlling variables for Size, Type of Purchase and Ownership of Target Firm (Table 5.11). Model 1, which is the relationship between TMT Retention and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .873$ and an F-value of .234 (Table 5.11.2). The hierarchal linear regression indicated that the addition of Pre-acquisition Performance to the control variables proved to be significant at $p < .001$ (Table 5.11.2) with an F-value of 7.54. The R-square was .237 with an adjusted R-square of .205 with standard error at 1.7490 (Table 5.11.1). Review of the coefficients suggest that the variable Pre-acquisition Performance is significant at $p < .001$ with at standardized t-coefficient of 5.403 and Beta at .484 (Table 5.11.3). Therefore Hypothesis H1 is supported.

5.5b Hypotheses H2a and H2b

H2a: There is a positive relationship between post acquisition performance of the acquired firm and degree of retention of the top management team of the acquired organization.

H2b: There is a negative relationship between post acquisition performance of the acquired firm and degree of retention of the top management team of the acquired organization.

We next explored the relationship between TMT Retention and Post-Acquisition Performance. The independent variable was Retention, the dependent variable was Post-Acquisition Performance, controlling for Size, Type of Purchase and Ownership of Target Firm (Table 5.12). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .115$ and an F-value of 2.029 (Table 5.12.2). The hierarchal linear regression indicated that the addition of TMT Retention to the control variables proved to be significant at $p < .001$ (Table 5.12.2) with an F-value of 7.044. The R-square was .225 with an adjusted R-square of .193 with standard error at 1.2801 (Table 5.12.1). Review of the coefficients suggest that the variable Pre-acquisition Performance is significant at $p < .001$ with at standardized t-coefficient of 4.567 and Beta at .410 (Table 5.12.3). Therefore Hypothesis H2a is supported and H2b is not supported.

5.5c Hypothesis H3

H3 There is a positive relationship between the quality of acquired firm TMT's networks and post acquisition performance of the acquired firm.

The regression equation for H3 included the TMT Network as the independent variable Post-Acquisition Performance as the dependent variable, and Size, Type of Purchase and Ownership of Target Firm as the control variables (Table 5.13). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .115$ and an F-value of 2.029 (Table 5.13.2). The hierarchal linear regression indicated that the addition of the TMT Network variables to the control variables proved to be significant at $p < .001$ (Table 5.13.2) with an F-value of 19.809. The R-square was .450 with an adjusted R-square of .427 with standard error at 1.07887 (Table 5.13.1). Review of the coefficients suggest that the variable Pre-acquisition Performance is significant at $p < .001$ with at standardized t-coefficient of 8.302 and Beta at .627 (Table 5.13.3). Therefore Hypothesis H3 is supported.

5.5d Hypothesis H4

H4 There is a positive relationship between the quality of the acquired firm TMT's knowledge and post acquisition performance of the acquired firm.

The regression equation for H4 included the TMT Knowledge as the independent variable Post-Acquisition Performance as the dependent variable, and Size, Type of Purchase and Ownership of Target Firm as the control variables (Table 5.14). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .115$ and an F-value of 2.029 (Table 5.14.2). The hierarchal linear regression indicated that the addition of the TMT Knowledge variable to the control variables proved to be significant at $p < .001$ (Table 5.14.2) with an F-value of 13.118. The R-square was .351 with an adjusted R-square of .324 with standard error at 1.17148 (Table 5.14.1). Review of the coefficients suggest that the variable Pre-acquisition Performance is significant at $p < .001$ with at standardized t-coefficient of 6.613 and Beta at .543 (Table 5.14.3). Therefore Hypothesis H4 is supported.

5.5e Hypothesis H5

H5 There is a positive relationship between the quality of the acquired firm TMT's dynamic capability and post acquisition performance of the acquired firm.

The regression equation for H5 included the TMT Dynamic Capability as the independent variable Post-Acquisition Performance as the dependent variable, and Size, Type of Purchase and Ownership of Target Firm as the control variables (Table 5.15). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .115$ and an F-value of 2.029 (Table 5.15.2). The hierarchal linear regression indicated that the addition of the TMT Dynamic Capability variable to the control variables proved to be significant at $p < .001$ (Table 5.15.2) with an F-value of 15.414. The R-square was .389 with an adjusted R-square of .363 with standard error at 1.13707 (Table 5.15.1). Review of the coefficients suggest that the variable Pre-acquisition Performance is significant at $p < .001$ with at standardized t-coefficient of 7.237 and Beta at .580 (Table 5.15.3). Therefore Hypothesis H5 is supported.

5.5f Hypothesis H6a

H6a: The competitive dynamics positivelym oderates the relationship between the quality of TMT knowledge and post acquisition performance of the acquired firm.

The regression equation for H6a included the TMT Knowledge as the independent variable Post-Acquisition Performance as the dependent variable, and Size, Type of Purchase and Ownership of Target Firm as the control variables and competitive dynamics as the moderator (Table 5.16). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .115$ and an F-change-value of 2.029 (Table 5.16.1). Model 2, which is the relationship with the addition of the TMT Knowledge variable to the control variables proved to be significant at $p < .001$ (Table 5.16.1) with an F-change-value of 43.730 (see H4). However, the hierarchal linear regression indicated that the addition of the Competitive Dynamics moderator variable proved to be non-significant at $p < .251$ with an F-change-value of 1.401 (Table 5.16.1). The r-squared change was .019. Therefore Hypothesis H6a is not supported.

5.5g Hypothesis H6b

H6b: The competitive dynamics positively moderates the relationship between the quality of TMT dynamic capabilities and post acquisition performance of the acquired firm.

The regression equation for H6b included the TMT Dynamic Capability as the independent variable Post-Acquisition Performance as the dependent variable, and Size, Type of Purchase and Ownership of Target Firm as the control variables and competitive dynamics as the moderator (Table 5.17). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and Ownership of Target Firm, was not significant at $p < .115$ and an F-value of 2.029 (Table 5.17.1). Model 2, which is the relationship with the addition of the TMT Dynamic Capability variable to the control variables proved to be significant at $p < .001$ (Table 5.17.1) with an F-change-value of 52.378 (see H5). However, the hierarchal linear regression indicated that the addition of the Competitive Dynamics moderator variable proved to be non-significant at $p < .713$ with an F-change-value of .339 (Table 5.17.1). The r-squared change was .004. Therefore Hypothesis H6b is not supported.

5.5h Hypotheses H6c

H6c: The competitive dynamics positively moderates the relationship of the quality of TMT's networks and post acquisition performance of the acquired firm

The regression equation for H6c included the TMT Network as the independent variable Post-Acquisition Performance as the dependent variable, and Size, Type of Purchase and Ownership of Target Firm as the control variables and competitive dynamics as the moderator (Table 5.18). Model 1, which is the relationship between Post-Acquisition Performance and the control variables Size, Type of Purchase and

Ownership of Target Firm, was not significant at $p < .115$ and an F-value of 2.029 (Table 5.18.1). Model 2, which is the relationship with the addition of the TMT Network variable to the control variables proved to be significant at $p < .001$ (Table 5.18.1) with an F-change-value of 68.930 (see H3). However, the hierarchal linear regression indicated that the addition of the Competitive Dynamics moderator variable proved to be non-significant at $p < .561$ with an F-change-value of .581 (Table 5.18.1). The r-squared change was .007. Therefore Hypothesis H6b is not supported.

5.6 Summary:

The results of our hierarchal linear statistical analyses offer several contributions to the strategic management literature in regard to acquisitions and the value of the top management team (TMT) of the acquired firm, TMT retention, TMT characteristics, and their impact to post acquisition performance. Chapter 6 discusses the implications of these results for both academics and practitioners, and suggests further research to be performed. The results suggest significant findings in regard to hypothesis H1 (higher pre-acquisition performance correlates with TMT retention). Hypothesis H2a which suggests that Higher TMT Retention correlates positively with post acquisition performance was found significant yet H2b of Lower TMT retention to Post-Acquisition Performance was not supported. Hypotheses H3, H4 and H5, that of the TMT characteristics of Networks, Knowledge and Dynamic Capability to Post-Acquisition Performance were all found significant. We did not find that Competitive Dynamics (Hypothesis H6a, H6b and H6c) to moderate TMT characteristics of Networks, Knowledge and Dynamic Capability to Post Acquisition performance.

Chapter 6
Discussion and Conclusions

6.0 Restatement of Research Purpose

This research carries importance for both the researcher and the practitioner. From the researcher's perspective, this research utilizes the Resource Based View and Upper Echelon Theory to explain the occurrence of acquisitions, as opposed to previous research that relied mostly on Transaction Cost Economics, Agency Theory, and the Market for Corporate Control. Specifically, this research proposes that firms acquire other firms to capture the resources inherent in the top management team and that retention of that group aids post acquisition performance. Also, this research methodology is different from past acquisition research as it relied on primary data from questionnaires on a sample of the majority of acquisitions which are smaller, versus secondary data from very large acquisitions. This research also focuses on the top management team (TMT) of the target as a source of value with an attempt to determine specific characteristics that are valuable, versus previous research suggesting that the reason for acquisition is a poorly performing TMT that is ultimately dismissed.

There were three primary questions of interest in the presentation of the theoretical model representing the research problems. Those were:

1. Is there a relationship between the retention of the TMT of the target firm after acquisition and post-acquisition performance of the acquired firm?

2 Is a relationship between target firm pre-acquisition performance and the retention of the TMT.

3. Are the TMT characteristics we have theoretically identified (network, knowledge, dynamic capability) correlate to post-acquisition performance of the acquired firm?

The first research question is a fundamental question in the field of strategic management and in the acquisitions literature. There is an emphasis in strategic management currently on the Resource-based view of the firm. In essence, this view suggests that a firm's resources that are actually rare, inimitable, valuable and organized to exploit their value can be a source of competitive advantage. Therefore the identification of resources that fulfill these criteria facilitates theory development. If the TMT (as a resource) is lost, what is the effect on post-acquisition performance? Not only are we interested in the relationship between retention and post-acquisition performance, but also the relationship if the resources are not retained.

The second research question examines whether there is a relationship between target firm pre-acquisition performance and the retention of the TMT. The argument offered by the market for corporate control for acquisitions literature is that the target is performing poorly due to an inadequate management, thus the marketplace sees an opportunity. The argument continues that the poorly performing firm is bought and the target TMT is then fired. By addressing the above questions, this dissertation goes beyond the relation between post-acquisition performance and TMT retention, to examine the link between pre-acquisition performance and whether the TMT is retained in small acquisitions..

Finally, we explore the top management characteristics as strategic assets. One of the characteristics important to a TMT is the network of relationships in which the TMT is embedded in, both external and internal to the firm. For example, the advice network that a TMT forms to acquire and share tacit knowledge throughout the organization is a key coordinating mechanism (Athanssiou and Nigh, 1999). Also, the internal network focuses on productivity, innovation, and labor relations, while the external network will focus on competition, customers and new product/market opportunities (D'Aveni and MacMillan, 1990). TMTs develop networks of relationships between firms and then maintain them. These relationships developed are an integral part of a firm's success, and are often inimitable. The TMT has tacit knowledge in regard to strategy, organizational strengths and weakness, the industry, etc., which is a valuable commodity to the firm. Also, the TMT develops routines that create knowledge flows throughout the organization. How the TMT employs the firm's assets, and how quickly, affects the success of a strategy in today's global competition (Eisenhardt and Brown, 1998b). This asset employment can be called dynamic capabilities, which refer to the development of management capabilities and difficult-to-imitate combinations of organizational, functional and technological skills to gain/sustain a competitive advantage (Teece, et al., 1997). In essence, the three TMT characteristics are a beginning to unravel the particulars or value of the TMT as a valuable resource to the firm.

6.1 Theoretical Implications

Hypothesis one explores whether pre-acquisition performance is positively related to the retention of the TMT of the target firm and our results suggest statistical significance. Our research utilizes the resource based view and the upper echelon theory to attempt to identify target firm's value in an acquisition. The TMT leads the firm, directs resources, develops and implements strategy, and motivates employees. The support of this hypothesis may suggest that a firm acquires another firm due to its resources, which have been developed by the TMT, or which may very well be the TMT. Therefore a firm that is performing well may be an indication that the TMT members are effective. If so, then TMT retention as a group is important as in accordance with Simon's (1945) idea of bounded rationality, that the creation of new knowledge, acquisition of existing knowledge, and storage of knowledge cannot be performed by one individual. Retention of the TMT follows the knowledge based theory that suggests the TMT develops rules and directives to facilitate knowledge integration based upon specialist expertise (Grant, 1996). Also knowledge assets remain with individual employees and cannot be readily transferred with the most complex tacit knowledge resident in the TMT. From this argument, it would follow that the greater the pre-acquisition performance the greater the potential value of the target firm's TMT, thus retention increases. This finding also supports the market for corporate control literature by suggesting that the poorer the pre-acquisition performance, the less likely the target TMT will be retained

The significant findings which support Hypothesis 2a, suggest that there is a positive relationship between post acquisition performance of the acquired firm and the degree of retention of the top management team of that firm. If we consider our theoretical foundation that combines the Upper Echelon perspective of top management teams with a resource based view of them, retention of a valuable TMT should provide higher post-acquisition performance (e.g. Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The Upper Echelon perspective suggests that there is a linkage between top management characteristics and the development of strategic assets so that the organization becomes a reflection of the TMT. The resource based view argues that organizations accumulate and develop a bundle of specialized resources that are both tangible and intangible. These resources, when applied appropriately, should generate above average returns and can create a sustainable competitive advantage (Barney, 1986; Wernerfelt, 1984; Peteraf, 1993). The resource based view offers that physical, human, and organizational resources are an organization's source of competitive advantage when they are valuable, rare, non-substitutable and inimitable (Barney, 1991). The top management team (TMT) has control over all organizational resources, to one degree or another and may be the valuable resource that attracts acquisition attempts. From this perspective firms will acquire other firms that have these valuable resources to augment their own stock to compete effectively in the new global marketplace, and retention of these valuable resources after acquisition will positively affect post-acquisition performance.

The fact that the competing hypothesis 2b was not supported, that of the retention of the TMT will negatively affect post-acquisition performance, is contradictory on the surface to past research that utilizes Agency theory, transaction cost theory, or the theory of the market for corporate control. The findings in our research do not necessarily provide conflicting evidence, however as the past research utilized only large acquisitions, utilized different measurement techniques, had different scope and focus on measurement, and used secondary data. However, our research may draw into question the generalizability of results from acquisitions of large publicly traded acquisitions. For example Business Week (2002) suggests that acquisitions fail to generate stockholder value, yet includes in its analysis only those acquisitions valued at greater than $500 million. Although our analysis found that size was not a significant variable in regard to post-acquisition performance, research involving only a small percentage of acquisitions (e.g., that of very large acquisitions only) may be misleading. The TMT of firms that are very large may have different influences and direct interests in the firm. For example, large firm TMT may have large holdings (stock options, stock, etc.) but are professional managers that become unduly enriched through the acquisition and as professional managers, leave to seek other opportunities. Also, the personality-type of a TMT of a very large firm may not be compatible with the TMT of the acquiring firm, or with the acquiring firm's corporate culture, causing TMT departure. Thus the acquiring firm loses this potential valuable intangible resource. As such, relying upon large acquisition secondary data information solely may be misleading

Interestingly, pre-acquisition performance does not correlate with post-acquisition performance in this study, contrary to previous research (Park, 2003). Many studies have evaluated stock price, earnings and other secondary data to determine pre- and post-acquisition performance of the purchasing firm after an acquisition, but rarely do studies examine the performance question from the perspective of the acquired firm. Conclusions about pre-acquisition performance to post-acquisition performance may be spurious without the mediating variable of TMT retention. In this study, pre-acquisition performance was positively correlated with TMT retention, and TMT retention was positively correlated with post-acquisition performance, but pre- did not correlate with post-acquisition performance. This finding places greater emphasis upon the focus of this research: the importance of the resources of the target firm, and in particular that of the TMT.

Since our research suggests that acquisitions perform better when the TMT is retained, and are considered a valuable asset in an acquisition, we tried to identify which theoretical characteristics of the TMT are of particular value. The theoretical constructs of TMT characteristics of knowledge, dynamic capability and networks were all found to be positively related to post-acquisition performance (H3, H4 and H5). Upper echelons theory (Hambrick and Mason, 1984) suggests that TMT characteristics affect organizational outcomes. One of the characteristics important to a TMT is the network of relationships in which the TMT is embedded in, both external and internal. For example, the advice network that a TMT forms to acquire and share tacit knowledge throughout the organization is a key coordinating mechanism (Athanssiou and Nigh, 1999). Also, the internal network focuses on productivity, innovation, and labor relations, while the external network will focus on competition, customers and new product/market opportunities (D'Aveni and MacMillan, 1990). These TMT's network of relationships in which the firm is embedded seem to make an important contribution to firm success. As a lynchpin, the TMT assures an even flow of information between the parties involved which may also assist in the post-acquisition performance of the acquisition.

According to Hambrick and Mason's upper echelons theory (1984), the TMT impacts organizational outcomes with of their decisions. These decisions are based upon the TMT's personal knowledge of the organization (internal), market, and industry (external), intertwined with their personal experiences and expert knowledge. Other TMT members, through personal contact, can only understand any TMT member's tacit knowledge over time (Winter, 1987). As the competencies built upon a knowledge platform are key factors in determining an organization's current and future value, retention of the TMT due to their knowledge may positively affect post acquisition performance (Grant, 1996; Hamel, 2000; Kogut and Zander, 1996; Spender, 1996; Yli-Renko, Autio and Sapienza, 2001; Seth, Song and Petit, 2002; Lane and Lubatkin, 1998). The TMT has tacit knowledge in regard to strategy, organizational strengths and weakness, the industry, etc., which is a valuable commodity to the firm affecting performance of the acquired firm.

TMT dynamic capabilities inferred by the Upper Echelon perspective is the ability of an organization to anticipate and respond to opportunities or pressures for change, both internal and external (Wiersema and Bantel, 1992). TMT dynamic capabilities utilizes TMT knowledge garnish from their internal and external networks, and is the conduit for strategic direction. Past research has supported this perspective and have found a link between TMT and strategic innovation and performance (Bantel and Jackson, 1989; Norburn and Birley, 1988). How the TMT employs the firm's assets, and how quickly, affects the success of a strategy in today's global competition (Eisenhardt and Brown, 1998b). The TMT's decisions as to the direction and employment of strategically key resources are often what create value for firms and positively affect post-acquisition performance.

The fact that competitive dynamics did not moderate the relationships between the TMT characteristics and post-acquisition performance is theoretically and intuitively surprising, but is in accordance with the resource based view of the firm. If as we have argued previously, that the typical acquisition is smaller with a very influential top management team which has developed pre-acquisition high performance, these same individuals will be targeted for retention. Their characteristics which engendered the firm success will be required in all different types of industries.

The inability to collect enough differing data in regard to acquisition type (horizontal, unrelated, and vertical) is a significant finding. These results are similar to actual practitioner rates through review of the most recent 303 acquisitions which as a total valued over $31 billion in total from December 15, 2003 to February 11, 2004 (Venture Reporter, 2004). This finding itself is of scholarly interest due to the research in regard to the diversification literature (see for whether or not the acquisition was by a conglomerate firm (e.g., Agrawal, Jaffe, and Mandelker, 1992; Berger and Ofek, 1995; Lubatkin, 1987), whether or not the acquisition was of a related firm (e.g., Hayward and Hambrick, 1997; Lubatkin, Srinivasan, and Merchant, 1997; Walker, 2000; Wansley, Lane, and Yang, 1983)). The subsequent review of these 303 acquisitions that actually have occurred within the last six months suggest that this is not an anomaly of the data set, or particular to sampling error, but mirrors current reality. This is in accordance with the suggestion that "These days, there's a trend toward "focused" companies making closely related acquisitions, and hardly any new conglomerates are forming" (Wall Street Journal, 10-25-2004; p. R4).

6.2 Managerial Implications

As firms continue to use the acquisition strategy (e.g. in 2003, 27,612 mergers and acquisitions deals were announced), research that explores post-acquisition success continues to provide direction for managers. Our research has several possible implications for managers and their success in pursuing the acquisition strategy. The correlation between pre-acquisition success and retention suggests that the TMT of the target firm has successfully implemented a strategy delivering a competitive advantage and above average returns. As such, the target firm's TMT is retained to continue their managerial actions in concert with the acquiring firm. Combining the two firm's resources will require coordination amongst both TMT groups.

Retention of the target firm's TMT after acquisition to obtain higher post-acquisition performance is a warning to the acquiring firm to attempt to retain the TMT of the target firm. Pre-acquisition negotiations and due diligence between the two firms should be an opportunity for the acquiring firm to identify and court the target firm's valuable TMT. As such, relationship development between the members could assist in retaining the TMT.

In developing the coordinating mechanisms and governance structures after acquisition, care should be given as to not overshadow the target firm's TMT characteristics. After acquisition many purchasers may be more inclined to make changes and increase governance (Krug and Hegarty, 1997). This research's findings suggest that the acquired firm's TMT characteristics of dynamic capabilities, network, and knowledge positively affect post-acquisition performance and therefore should be nurtured. Governance mechanisms that thwart the target firm's TMT characteristics may also lead to poorer post-acquisition performance.

6.3 Future Research

This research opens the door for an extended research program. Further research on the particular characteristics of the TMT that assist in positive post-acquisition performance can continue to be examined. The issues surrounding what variables are needed to retain the TMT, whether it is pre-acquisition, or incentives post-acquisition could be explored. Even more interesting is that this study suggests that the TMT retention positively affects post-acquisition performance, but is this necessarily always true? The rare situations that retention negatively affects post-acquisition performance should also be investigated. The exceptions may have some explanatory power that may be more interesting then the rule.

Integration of the TMT and governance mechanisms employed by the acquiring firm in regard to the post-acquisition performance should be researched. Transference of employees between the two firms, or any at all, in the integration process to understand post-acquisition success would also be valuable. Initial review of other data we collected suggests that the greater degree of assimilation into the firm positively affects post-acquisition performance which also contributes to the synergy literature. Many purchasers may be more inclined to make changes and increase governance (Krug and Hegarty, 1997) and strive to create a situation where all the internal and external resources are joined, working together towards the mutual goals and objectives. The target TMT's participation in the buy-in, development and implementation of monitoring systems is essential to engender cooperation (Cartwright, 1993). As such, the integration of the firm, versus allowing the related firm to "stand alone", will positively affect post acquisition performance. The retained TMT with their knowledge of their firm and internal networks will assist in the integration process.

Investigating the time line of the acquisition strategy as to an ongoing process versus the static viewpoint of one acquisition and then performance outcomes, would accelerate scholar's appreciation of strategy as a continuum and not as stationary strategic moves. As strategy is an ongoing complex plan, strategic acquisitions that affect not only the firm as a whole, but each of its segments, would further our understanding of these strategic moves. Analysis of singular acquisitions may not be effective when combinations of strategic acquisitions are the true source of competitive advantage. Initial review of other data we collected suggests that the acquisition strategy is not a singular action, but performed in a stream of strategic acquisitions. Past research focuses on total company performance due to one acquisition. This view may be confounding the acquisition research.

Comparing the results on a data set collected in a global market where relationships are even more important then in the US domestic market will facilitate our knowledge in the international business field. As multinational corporations ever increasingly grow, and doing so through acquisitions, this phenomena outside our borders to increase post-acquisition performance, as well as the TMT characteristics of a foreign born TMT will be of importance.

Review of the TMT capabilities against each of the performance measures separately may suggest some interesting correlations. For example, although TMT networks are positively correlated to post-acquisition performance in total, they may not be significant to the Employee Performance measure of Post-Acquisition Performance. Therefore, to delve even deeper into the data we collected. More in-depth review of the TMT characteristics will also need to be investigated. Which characteristic in which strategic circumstance (when, in essence) is valued greater, will also further the TMT literature.

6.4 Limitations of the Research

As with any empirical study, limitations do exist. The design of our research discussed earlier was developed in an attempt to control error and bias and which we believe was effective. Yet, due to certain aspects inherent in quantitative research and scope/level of this analysis, some limitations exist. Some of these issues are discussed briefly below.

The use of perceptual data, the use of key informants, and interest/response bias may all be limits to this study. A Cross-sectional design is a limitation as it could be better to study performance over a time range rather than asking for a snapshot. Thus, the manager may relate performance to this week which has been exceptionally good or bad and thus not representative of typical firm performance. This issue may be complicated by the fact that most measures were perceptual and therefore depend at some level on individual differences and environmental influences. The complications of perceptual differences could be overcome through the use of multiple informants, but it was deemed that multiple informants would be impossible in this type of study where the nature of the information is very sensitive and anonymity must be maintained. Additionally, multiple informants have not been supported as a perfect panacea for the complications of perceptual differences (John and Reve 1982; and Kumar, Stern and Anderson 1993). Finally, interest bias is a type of response bias caused by the people who are interested being the only people to respond. This is a limitation, but the response rate should reduce its impact. Sadish, Cook, and Campbell (2002) suggest that response bias is not a huge issue and that if researchers focus on non-response bias, response bias should take care of itself.

There are sample limitations as we did not sample the entire population of all possible acquisitions. Our population, from which we sampled, is only a small portion of total acquisitions. Therefore, there is a possibility that the sample is not representative of the total population of acquisitions. Although the size of our sample was sufficient for our research, in comparison to the total amount of acquisitions announced, is relatively small. So both in term of size and representativeness, the sample does provide a research limitation.

6.5 Method Limits

In addition to the study limits, a few method based limits exist. Two specific areas of contention are linear vs. curvilinear estimation of fit. Some researchers suggest that linear relationships are not a true representation of fit (Edwards 1993, 1994a, 1994b, 1995). Due to the nature of the study design for measuring fit, it was assumed that a simpler measure would be better. Thus, general linear modeling and regression analyses were used. Future research could examine three-dimensional components. Another important limitation is the measure of performance in the study was based upon perception instead of other options utilized by strategy researchers in the past, or combination thereof (ex. CAPM, stock price, net sales, etc.).

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Table 4.1
Table of Industry Types
Reported by Respondents

Apparel	1	Energy	1	logistics	1
Automotive	2	Energy Holding co.	1	manufacturing	6
B2B e-commerce software	1	engineering services	2	Marketing Services	1
Bakery Manufacturer	1	Federal consulting	1	Mechanical Contractor	1
Banking	1	Fiber optics	1	Medical Software	1
Billing Software	1	Financial	1	Military Contracting	1
Biopharmaceutical	2	Financial Investments	1	Mortgage banker	1
Biotech	2	Financial Services	3	Mortgage Banking	1
Broadcasting	1	funeral	2	Office equipment distribution	1
Business Consulting	1	Gas and oil	1	Online marketplace	1
Business Services	1	government contracting	1	Outsourcing Services	1
Chemical	1	Government Contracting - IT	1	Professional Services	1
Chemical Production	1	Government IT Services	1	Retail	3
Collection	1	Healthcare	2	Savings and Loan	1
Commercial Bank	1	Healthcare products	1	Security Services	1
Communications and technology	1	High Tech	1	Software	3
Communications solutions	1	Industrial Instruments	1	Storage software	1
Computer Sales	1	Information Technology	3	Technology-based business solutions	1
Computer Software	1	Insurance	1	Telecom	7
Computing Products	1	Internet	1	Telecom Consulting	1
Construction	4	Internet billing	1	Title Insurance	1
defense	2	IT Services	2	Transportation	2
Direct Broadcast Satellite	1	Lawn and Garden Products	1	Voice and data Communications	1
dmv checks	1	Legal outsourcing	1		

Table 5.1
Correlations

		Competitive Dynamics	Size	Type of purchase	Ownership of Target firm	Pre-acquisition performance	Post-acquisition performance	TMT dynamic capability	TMT Network	TMT knowledge	Retention
Competitive Dynamics	Pearson Correlation	1	-.099	-.044	-.100	.087	.064	.202(*)	.186	.062	.117
	Sig. (2-tailed)	.	.323	.660	.316	.386	.525	.042	.062	.537	.240
Size	Pearson Correlation	-.099	1	-.023	.175	-.100	-.165	-.125	-.026	.039	.070
	Sig. (2-tailed)	.323	.	.822	.078	.318	.096	.211	.798	.695	.483
Type of purchase	Pearson Correlation	-.044	-.023	1	.102	.089	-.086	-.027	-.069	-.075	-.036
	Sig. (2-tailed)	.660	.822	.	.309	.376	.390	.789	.492	.455	.716
Ownership of Target firm	Pearson Correlation	-.100	.175	.102	1	.076	.056	.079	.119	.195	.142
	Sig. (2-tailed)	.316	.078	.309	.	.449	.578	.429	.232	.050	.155
Pre-acquisition performance	Pearson Correlation	.087	-.100	.089	.076	1	.096	.403(**)	.310(**)	.301(**)	.464(**)
	Sig. (2-tailed)	.386	.318	.376	.449	.	.336	.000	.002	.002	.000
Post-acquisition performance	Pearson Correlation	.064	-.165	-.086	.056	.096	1	.589(**)	.635(**)	.536(**)	.403(**)
	Sig. (2-tailed)	.525	.096	.390	.578	.336	.	.000	.000	.000	.000
TMT dynamic capability	Pearson Correlation	.202(*)	-.125	-.027	.079	.403(**)	.589(**)	1	.856(**)	.736(**)	.659(**)
	Sig. (2-tailed)	.042	.211	.789	.429	.000	.000	.	.000	.000	.000
TMT Network	Pearson Correlation	.186	-.026	-.069	.119	.310(**)	.635(**)	.856(**)	1	.848(**)	.740(**)
	Sig. (2-tailed)	.062	.798	.492	.232	.002	.000	.000	.	.000	.000
TMT knowledge	Pearson Correlation	.062	.039	-.075	.195	.301(**)	.536(**)	.736(**)	.848(**)	1	.768(**)
	Sig. (2-tailed)	.537	.695	.455	.050	.002	.000	.000	.000	.	.000
Retention	Pearson Correlation	.117	.070	-.036	.142	.464(**)	.403(**)	.659(**)	.740(**)	.768(**)	1
	Sig. (2-tailed)	.240	.483	.716	.155	.000	.000	.000	.000	.000	.

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

Table 5.2

Descriptive Statistics

	N	Mean	Std.	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
size	102	-2.2924	1.45974	-.275	.239	1.776	.474
Ownership of Firm	102	.9637	.18130	.201	.239	-.351	.474
Competitive dynamics	102	2.0588	.78126	-.104	.239	-1.346	.474
Pre-acquisition Performance	102	4.9118	1.54217	-.543	.239	-.966	.474
Type of Purchase	102	1.99	.724	.653	.239	.800	.474
Post Acquisition Performance	102	4.660131	1.425133	-.472	.239	-1.117	.474
Retention	102	4.404	1.9620	-.261	.239	-1.478	.474
TMT Knowledge	102	4.38	1.687	-.206	.239	-1.327	.474
TMT network	102	4.051	1.6510	-.194	.239	-1.401	.474
TMT dynamic capability	102	3.9052	1.52861	-.006	.239	-1.402	.474
Valid N (listwise)	102						

Table 5.3: Common Method Variance
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.017	40.166	40.166	4.017	40.166	40.166
2	1.218	12.180	52.346	1.218	12.180	52.346
3	1.115	11.148	63.494	1.115	11.148	63.494
4	.993	9.934	73.428			
5	.874	8.743	82.171			
6	.721	7.207	89.378			
7	.507	5.066	94.444			
8	.279	2.789	97.233			
9	.178	1.781	99.014			
10	.099	.986	100.000			

Extraction Method: Principal Component Analysis.

Table 5.3.1: Common Method Variance
Component Matrix(a)

	Component		
	1	2	3
size	-.311	.311	.615
Competitive dynamics	.200	.236	-.321
Type of purchase	-.097	.630	.534
Pre-acquisition performance	.465	.427	-.236
Ownership of Target firm	-.025	.604	-.436
Post-acquisition performances	.680	-.323	.281
Retention	.847	.095	-.021
TMT knowledge	.893	-.021	.064
TMT dynamic capability	.895	.091	.070
TMT Network	.935	.005	.120

Extraction Method: Principal Component Analysis.
a 3 components extracted.

Table 5.4.1: Non-Response Bias Analysis
Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	size Competitive dynamics Type of purchase Pre-acquisition performance Ownership of Target firm Post-acquisition performances Retention TMT knowledge TMT dynamic capability TMT Network	.	Enter

a All requested variables entered.
b Dependent Variable: WAVE

Table 5.4.2: Non-Response Bias Analysis
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.312(a)	.097	.020	.779

a Predictors: (Constant), Wave, TMT Knowledge, Type of Purchase, size, ownership of Target Firm, Pre-Acquisition Performance, Post-Acquisition performance, TMT Dynamic Capabilities, Retention, TMT Network

Table 5.4.3: Non-Response Bias Analysis
ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.087	8	.761	1.254	.277(a)
	Residual	56.432	93	.607		
	Total	62.520	101			

a Predictors: (Constant), TMT Knowledge, Type of Purchase, size, ownership of Target Firm, Pre-Acquisition Performance, Post-Acquisition performance, TMT Dynamic Capabilities, Retention, TMT Network
b Dependent Variable: WAVE

Table 5.5.1: Construct Validity of Performance

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.895
Bartlett's Test of Sphericity	Approx. Chi-Square	775.532
	df	45
	Sig.	.000

Table 5.5.2: Construct Validity of Performance
Communalities

	Initial	Extraction
e1	1.000	.637
s3	1.000	.804
f1	1.000	.529
f3	1.000	.512
s1	1.000	.772
e2	1.000	.634
s2	1.000	.675
e3	1.000	.659
F3	1.000	.653
f2	1.000	.553

Extraction Method: Principal Component Analysis.

Table 5.5.3: Construct Validity of Performance
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.429	64.289	64.289	6.429	64.289	64.289
2	.877	8.766	73.055			
3	.673	6.735	79.790			
4	.529	5.288	85.078			
5	.424	4.240	89.318			
6	.332	3.317	92.635			
7	.243	2.433	95.068			
8	.192	1.922	96.991			
9	.188	1.876	98.866			
10	.113	1.134	100.000			

Extraction Method: Principal Component Analysis.

Table 5.5.4: Construct Validity of Performance
Component Matrix(a)

	Component
	1
e1	.798
s3	.896
f1	.728
f3	.715
s1	.879
e2	.797
s2	.821
e3	.812
F3	.808
f2	.744

Extraction Method: Principal Component Analysis.
a 1 components extracted.

Table 5.5.5: Construct Validity of Performance
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.938	.938	10

Table 5.6.1: Construct Validity of TMT Retention
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.869
Bartlett's Test of Sphericity	Approx. Chi-Square	514.147
	df	6
	Sig.	.000

Table 5.6.2: Construct Validity of TMT Retention
Communalities

	Initial	Extraction
ret1	1.000	.893
ret2	1.000	.936
ret3	1.000	.936
RET4%	1.000	.871

Extraction Method: Principal Component Analysis.

Table 5.6.3: Construct Validity of TMT Retention
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.636	90.909	90.909	3.636	90.909	90.909
2	.188	4.698	95.606			
3	.097	2.425	98.031			
4	.079	1.969	100.000			

Extraction Method: Principal Component Analysis.

Table 5.6.4: Construct Validity of TMT Retention
Component Matrix(a)

	Component
	1
ret1	.945
ret2	.968
ret3	.968
RET4%	.933

Extraction Method: Principal Component Analysis.
a 1 components extracted.

Table 5.6.5: Construct Validity of TMT Retention
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.966	.967	4

Table 5.7.1: Construct Validity of TMT Characteristic: Dynamic Capability
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.823
Bartlett's Test of Sphericity	Approx. Chi-Square	277.325
	df	6
	Sig.	.000

Table 5.7.2: Construct Validity of TMT Characteristic: Dynamic Capability Communalities

	Initial	Extraction
dc1	1.000	.859
dc2	1.000	.832
dc3	1.000	.873
dc4	1.000	.756

Extraction Method: Principal Component Analysis.

Table 5.7.3: Construct Validity of TMT Characteristic: Dynamic Capability Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.320	83.000	83.000	3.320	83.000	83.000
2	.368	9.195	92.195			
3	.165	4.121	96.315			
4	.147	3.685	100.000			

Extraction Method: Principal Component Analysis.

Table 5.7.4: Construct Validity of TMT Characteristic: Dynamic Capability Component Matrix(a)

	Component
	1
dc1	.927
dc2	.912
dc3	.935
dc4	.869

Extraction Method: Principal Component Analysis.
a 1 components extracted.

Table 5.7.5: Construct Validity of TMT Characteristic: Dynamic Capability Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.931	.931	4

Table 5.8.1: Construct Validity of TMT Characteristic: Network
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.836
Bartlett's Test of Sphericity	Approx. Chi-Square	330.373
	df	6
	Sig.	.000

Table 5.8.2: Construct Validity of TMT Characteristic: Network
Communalities

	Initial	Extraction
NET1	1.000	.869
net1	1.000	.840
net2	1.000	.801
net3	1.000	.797

Extraction Method: Principal Component Analysis.

Table 5.8.3: Construct Validity of TMT Characteristic: Network
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.308	82.688	82.688	3.308	82.688	82.688
2	.292	7.305	89.993			
3	.259	6.479	96.473			
4	.141	3.527	100.000			

Extraction Method: Principal Component Analysis.

Table 5.8.4: Construct Validity of TMT Characteristic: Network
Component Matrix(a)

	Component
	1
NET1	.932
net1	.916
net2	.895
net3	.893

Extraction Method: Principal Component Analysis.
a 1 components extracted.

Table 5.8.5: Construct Validity of TMT Characteristic: Network
Reliability Statistics

Cronbach's Alpha	N of Items
.929	4

Table 5.9.1: Construct Validity of TMT Characteristic: Knowledge
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.756
Bartlett's Test of Sphericity	Approx. Chi-Square	256.635
	df	6
	Sig.	.000

Table 5.9.2: Construct Validity of TMT Characteristic: Knowledge
Communalities

	Initial	Extraction
know1	1.000	.774
know2	1.000	.850
know3	1.000	.810
know4	1.000	.490

Extraction Method: Principal Component Analysis.

Table 5.9.3: Construct Validity of TMT Characteristic: Knowledge
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.924	73.104	73.104	2.924	73.104	73.104
2	.660	16.497	89.600			
3	.276	6.903	96.503			
4	.140	3.497	100.000			

Extraction Method: Principal Component Analysis.

Table 5.9.4: Construct Validity of TMT Characteristic: Knowledge
Component Matrix(a)

	Component 1
know1	.880
know2	.922
know3	.900
know4	.700

Extraction Method: Principal Component Analysis.
a 1 components extracted.

Table 5.9.5: Construct Validity of TMT Characteristic: Knowledge
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.873	.873	4

Table 5.10.1: Construct Validity of Pre-Acquisition Performance
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.786
Bartlett's Test of Sphericity	Approx. Chi-Square	276.376
	df	6
	Sig.	.000

Table 5.10.2: Construct Validity of Pre-Acquisition Performance
Communalities

	Initial	Extraction
BEFORE_1	1.000	.785
BEFORE_2	1.000	.753
BEFORE_3	1.000	.784
BEFORE_4	1.000	.816

Extraction Method: Principal Component Analysis.

Table 5.10.3: Construct Validity of Pre-Acquisition Performance
Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.138	78.440	78.440	3.138	78.440	78.440
2	.425	10.616	89.056			
3	.265	6.619	95.675			
4	.173	4.325	100.000			

Extraction Method: Principal Component Analysis.

Table 5.10.4: Construct Validity of Pre-Acquisition Performance
Component Matrix(a)

	Component
	1
BEFORE_1	.886
BEFORE_2	.868
BEFORE_3	.886
BEFORE_4	.903

Extraction Method: Principal Component Analysis.
a 1 components extracted.

Table 5.10.5: Construct Validity of Pre-Acquisition Performance
Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.908	.908	4

Table 5.11
Pre-acquisition Performance to TMT Retention (H1)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	Pre-Acquisition Performance(a)	.	Enter

a All requested variables entered.
b Dependent Variable: TMT Retention

Table 5.11.1
Pre-acquisition Performance to TMT Retention (H1)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.084(a)	.007	-.023	1.9847	.007	.234	3	98	.873
2	.487(b)	.237	.205	1.7490	.230	29.194	1	97	.000

a Predictors: (Constant),Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant),Type of Purchase, size, ownership of Target Firm, Pre-Acquisition Performance

Table 5.11.2
Pre-acquisition Performance to TMT Retention (H1)

ANOVA(c)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.760	3	.920	.234	.873(a)
	Residual	386.028	98	3.939		
	Total	388.788	101			
2	Regression	92.065	4	23.016	7.524	.000(b)
	Residual	296.723	97	3.059		
	Total	388.788	101			

a Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm, Pre-Acquisition Performance
c Dependent Variable: TMT Retention

Table 5.11.3
Pre-acquisition Performance to TMT Retention (H1)

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.629	.647		7.151	.000
	size	.151	.216	.071	.701	.485
	ownership of Target Firm	-.084	.273	-.031	-.307	.760
	Type of Purchase	-.045	.138	-.033	-.327	.744
2	(Constant)	1.893	.763		2.482	.015
	size	.254	.191	.119	1.329	.187
	ownership of Target Firm	-.125	.241	-.046	-.521	.604
	Type of Purchase	-.101	.122	-.074	-.828	.410
	Pre-Acquisition Performance	.615	.114	.484	5.403	.000

a Dependent Variable: TMT Retention

Table 5.12
TMT Retention to Post-Acquisition Performance (H2)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	ownership of Target Firm, size, ownership of Target Firm(a)	.	Enter
2	TMT Retention(a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.12.1
TMT Retention to Post-Acquisition Performance (H2)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.474(b)	.225	.193	1.280141237314214	.167	20.855	1	97	.000

a Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm, TMT Retention

Table 5.12.2
TMT Retention to Post-Acquisition Performance (H2)

ANOVA(c)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.995	3	3.998	2.029	.115(a)
	Residual	193.136	98	1.971		
	Total	205.131	101			
2	Regression	46.172	4	11.543	7.044	.000(b)
	Residual	158.960	97	1.639		
	Total	205.131	101			

a Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm, TMT Retention
c Dependent Variable: Post-Acquisition Performance

Table 5.12.3
TMT Retention to Post-Acquisition Performance (H2)

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.520	.458		12.054	.000
	size	-.251	.152	-.162	-1.647	.103
	ownership of Target Firm	-.299	.193	-.152	-1.549	.125
	ownership of Target Firm	-.080	.097	-.080	-.819	.415
2	(Constant)	4.142	.515		8.042	.000
	size	-.296	.139	-.191	-2.124	.036
	ownership of Target Firm	-.275	.176	-.140	-1.556	.123
	ownership of Target Firm	-.066	.089	-.067	-.746	.457
	TMT Retention	.298	.065	.410	4.567	.000

a Dependent Variable: Post-Acquisition Performance

Table 5.13
TMT Networks to Post-Acquisition Performance (H3)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	TMT network(a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.13.1
TMT Networks to Post-Acquisition Performance (H3)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.671(b)	.450	.427	1.078870103477744	.391	68.930	1	97	.000

a Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm, TMT network

Table 5.13.2
TMT Networks to Post-Acquisition Performance (H3)

ANOVA(c)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.995	3	3.998	2.029	.115(a)
	Residual	193.136	98	1.971		
	Total	205.131	101			
2	Regression	92.227	4	23.057	19.809	.000(b)
	Residual	112.904	97	1.164		
	Total	205.131	101			

a Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm, TMT network
c Dependent Variable: Post-Acquisition Performance

Table 5.13.3

TMT Networks to Post-Acquisition Performance (H3)

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.520	.458		12.054	.000
	size	-.251	.152	-.162	-1.647	.103
	ownership of Target Firm	-.299	.193	-.152	-1.549	.125
	Type of Purchase	-.080	.097	-.080	-.819	.415
2	(Constant)	3.206	.449		7.143	.000
	size	-.225	.117	-.145	-1.917	.058
	ownership of Target Firm	-.294	.149	-.149	-1.976	.051
	Type of Purchase	-.037	.075	-.037	-.489	.626
	TMT network	.541	.065	.627	8.302	.000

a Dependent Variable: Post-Acquisition Performance

Table 5.14

TMT Knowledge to Post-Acquisition Performance (H4)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	TMT knowledge(a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.14.1

TMT Knowledge to Post-Acquisition Performance (H4)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.592(b)	.351	.324	1.171488351373215	.293	43.730	1	97	.000

a Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), Type of Purchase, size, ownership of Target Firm, TMT knowledge

Table 5.14.2
TMT Knowledge to Post-Acquisition Performance (H4)

ANOVA(c)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.995	3	3.998	2.029	.115(a)
	Residual	193.136	98	1.971		
	Total	205.131	101			
2	Regression	72.010	4	18.003	13.118	.000(b)
	Residual	133.121	97	1.372		
	Total	205.131	101			

a Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm, TMT knowledge
c Dependent Variable: Post-Acquisition Performance

Table 5.14.3
TMT Knowledge to Post-Acquisition Performance (H4)

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.520	.458		12.054	.000
	size	-.251	.152	-.162	-1.647	.103
	ownership of Target Firm	-.299	.193	-.152	-1.549	.125
	Type of Purchase	-.080	.097	-.080	-.819	.415
2	(Constant)	3.467	.492		7.042	.000
	size	-.282	.127	-.182	-2.216	.029
	ownership of Target Firm	-.319	.161	-.162	-1.977	.051
	Type of Purchase	-.039	.082	-.040	-.482	.631
	TMT knowledge	.459	.069	.543	6.613	.000

a Dependent Variable: Post-Acquisition Performance

Table 5.15
TMT Dynamic Capability to Post-Acquisition Performance (H5)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	TMT dynamic Capability (a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.15.1
TMT Dynamic Capability to Post-Acquisition Performance (H5)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.623(b)	.389	.363	1.1370740118688600	.330	52.378	1	97	.000

a Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), ,Type of Purchase, size, ownership of Target Firm, TMT dynamic Capability

Table 5.15.2
TMT Dynamic Capability to Post-Acquisition Performance (H5)

ANOVA(c)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.995	3	3.998	2.029	.115(a)
	Residual	193.136	98	1.971		
	Total	205.131	101			
2	Regression	79.717	4	19.929	15.414	.000(b)
	Residual	125.415	97	1.293		
	Total	205.131	101			

a Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant),,Type of Purchase, size, ownership of Target Firm, TMT dynamic Capability
c Dependent Variable: Post-Acquisition Performance

Table 5.15.3

TMT Dynamic Capability to Post-Acquisition Performance (H5)

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.520	.458		12.054	.000
	size	-.251	.152	-.162	-1.647	.103
	ownership of Target Firm	-.299	.193	-.152	-1.549	.125
	Type of Purchase	-.080	.097	-.080	-.819	.415
2	(Constant)	3.394	.473		7.175	.000
	size	-.137	.124	-.088	-1.100	.274
	ownership of Target Firm	-.331	.157	-.168	-2.111	.037
	Type of Purchase	-.062	.079	-.062	-.782	.436
	TMT dynamic Capability	.540	.075	.580	7.237	.000

a Dependent Variable: Post-Acquisition Performance

Table 5.16

TMT Knowledge moderated by Competitive Dynamics to Post-Acquisition Performance (H6b)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	TMT Knowledge(a)	.	Enter
3	Competitive Environment, Competitive Environment/TMT Knowledge Interaction(a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.16.1
TMT Knowledge moderated by Competitive Dynamics to Post-Acquisition Performance (H6b)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.592(b)	.351	.324	1.171488351373215	.293	43.730	1	97	.000
3	.608(c)	.370	.330	1.166672378798466	.019	1.401	2	95	.251

a Predictors: (Constant), Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), Type of Purchase, size, ownership of Target Firm, TMT Knowledge
c Predictors: (Constant), Type of Purchase, size, ownership of Target Firm, TMT Knowledge, Competitive Environment, Competitive Environment/TMT Knowledge Interaction

Table 5.16.2
TMT Knowledge moderated by Competitive Dynamics to Post-Acquisition Performance (H6b)

Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.520	.458		12.054	.000
	size	-.251	.152	-.162	-1.647	.103
	ownership of Target Firm	-.299	.193	-.152	-1.549	.125
	Type of Purchase	-.080	.097	-.080	-.819	.415
2	(Constant)	3.467	.492		7.042	.000
	size	-.282	.127	-.182	-2.216	.029
	ownership of Target Firm	-.319	.161	-.162	-1.977	.051
	Type of Purchase	-.039	.082	-.040	-.482	.631
	TMT Knowledge	.459	.069	.543	6.613	.000

a Dependent Variable: Post-Acquisition Performance

Table 5.17
TMT Dynamic Capability moderated by Competitive Dynamics to Post-Acquisition Performance (H6c)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	TMT Dynamic Capability(a)	.	Enter
3	Competitive Environment, Competitive Environment/TMT Dynamic Capability Interaction(a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.17.1
TMT Dynamic Capability moderated by Competitive Dynamics to Post-Acquisition Performance (H6c)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.623(b)	.389	.363	1.137074011868860	.330	52.378	1	97	.000
3	.627(c)	.393	.355	1.144899926852251	.004	.339	2	95	.713

Model Summary

a Predictors: (Constant), Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), Type of Purchase, size, ownership of Target Firm, TMT Dynamic Capability
c Predictors: (Constant), Type of Purchase, size, ownership of Target Firm, TMT Dynamic Capability, Competitive Environment, Competitive Environment/TMT Dynamic Capability Interaction

Table 5.18
TMT Network moderated by Competitive Dynamics to Post-Acquisition Performance (H6a)

Variables Entered/Removed(b)

Model	Variables Entered	Variables Removed	Method
1	Type of Purchase, size, ownership of Target Firm(a)	.	Enter
2	TMT Network(a)	.	Enter
3	Competitive Environment, Competitive Environment/TMT Network Interaction(a)	.	Enter

a All requested variables entered.
b Dependent Variable: Post-Acquisition Performance

Table 5.18.1
TMT Network moderated by Competitive Dynamics to Post-Acquisition Performance (H6a)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.242(a)	.058	.030	1.403844471920657	.058	2.029	3	98	.115
2	.671(b)	.450	.427	1.078870103477744	.391	68.930	1	97	.000
3	.675(c)	.456	.422	1.083558331378661	.007	.581	2	95	.561

a Predictors: (Constant), Type of Purchase, size, ownership of Target Firm
b Predictors: (Constant), Type of Purchase, size, ownership of Target Firm, TMT Network
c Predictors: (Constant),Type of Purchase, size, ownership of Target Firm, TMT Network, Competitive Environment, Competitive Environment/TMT Network Interaction

Appendix A
The Questionnaire (Acquisitions with Good Performance)

Think of one recent acquisition in which you have participated and for which you can determine the post-acquisition performance and the performance was good. By recent, we mean an acquisition that occurred within the last one **-** two (1-2) years. When asked about the top management team **(TMT)** of the acquired firm, we mean those individuals from as little as three to ten people who are at the apex of the acquired organization and providing strategic leadership.

About the Acquisition and Your Firm

1. In what industry was the **acquisition** made? (ex. retail, steel, biotech, transportation, etc.)

   ____

2. In what industry is **your** firm? (ex. retail, steel, biotech, transportation, etc.)

   ____

3. Approximately how large is **your** firm (i.e., the acquiring firm) in gross revenues?

   ____

4. Approximately how large was the **Acquisition** in gross revenues? _______________

5. In the past 10 years, approximately how many acquisitions has your firm made? ________

6. Which of the following best describes the ownership structure of the **Acquisition, prior to Purchase**?

   (Please check only one)
   Division or operating unit of another firm, ________
   Privately owned _______
   Independent public firm with a few significant stock holders______
   Independent public firm with dispersed ownership________

7. Please indicate on the scale below how your firm managed the Acquisition after acquisition.

Fully Integrated into our firm and can not be recognized as a stand-alone entity	←——————→	Not at all integrated and is a stand-alone entity

   1 2 3 4 5 6 7

8. Please indicate how your firm paid for the acquisition:

   All cash _________
   All Stock _________
   All debt _________
   Combination _________

9. If your firm used a **combination** method, please indicate the percentage of each type of financing used:
   Cash _________%
   Stock _________%

Debt _________%

Type of Acquisition How would you classify the acquisition according to the following four categories (choose one)

1) A horizontal acquisition, two organizations in the same industry (competitors) or combination between organizations offering complimentary products of service (ex. a wireless service firm acquired by a local and long distance services firm)________
2) The acquisition of an unrelated organization. Not in our industry.__________
3) A forward vertical acquisition, one organization is acquiring another within their supply chain. For example, a manufacturer purchasing an organization forward in their supply chain like a distributor._____________
4) A backward vertical acquisition, one organization is acquiring another within their supply chain. For example, a manufacturer purchasing an organization backward in their chain like a supplier._____________

Type of Acquisition (continued)		**trongly Disagree**			**Neutral**		**Strongl Agre**	
The target firm was selling similar products/services.		1	2	3	4	5	6	7
The target firm competed directly with our main line of business.		1	2	3	4	5	6	7
The target firm was an important supplier..		1	2	3	4	5	6	7
The target firm was an important customer.		1	2	3	4	5	6	7
The products the target firm supplies were critical to our business.		1	2	3	4	5	6	7
The products we supplied to the target firm were critical to its business.		1	2	3	4	5	6	7

Please indicate your level of agreement/disagreement with the following statements in regard to the Acquisition's *Pre-Acquisition Performance*.

Acquisition's *Pre-Acquisition Performance*		**trongly Disagree**			**Neutral**		**Strongl Agre**	
Before acquisition, the organization was one of the better firms in their industry.		1	2	3	4	5	6	7
Before acquisition, the organization was underperforming i comparison to their competitors.		1	2	3	4	5	6	7
Before acquisition, in comparison to their competitors, the firm had better performance.		1	2	3	4	5	6	7
Before acquisition, the organization was one of the poorer performing firms in its sector of the market.		1	2	3	4	5	6	7

Please indicate your level of agreement/disagreement with the following statements in regard to the Acquisition's *Current Performance*.

Acquisition *Current Performance*		**trongly Disagree**			**Neutral**		**Strongl Agre**	
The employees of the acquired organization are good workers.		1	2	3	4	5	6	7
The acquisition has met the strategic goals we set		1	2	3	4	5	6	7
The Acquisition's net profit is smaller than anticipated.		1	2	3	4	5	6	7

The price we paid for the acquisition was valued too high relative to the benefits received.	1	2	3	4	5	6	7
The acquisition will meet expected strategic goals.	1	2	3	4	5	6	7
Most of the acquired firm's employees do not meet our standards.	1	2	3	4	5	6	7
The Acquired Firm fits into our overall strategy	1	2	3	4	5	6	7
Our organization is pleased with the talent of the acquired organization's employees.	1	2	3	4	5	6	7
The valuation of the acquisition represented its true worth.	1	2	3	4	5	6	7
The financial performance of the acquired firm is much less than anticipated.	1	2	3	4	5	6	7

Please indicate your level of agreement/disagreement with the following statements regarding top management team (TMT) *__Retention__* after acquisition.

Top Management Team (TMT) *__Retention__*		**Strongl Disagr**			**Neutral**		**Strongl Agre**	
We retained the most valuable members of the TMT of the acquired organization.		1	2	3	4	5	6	7
The TMT stayed generally intact after acquisition.		1	2	3	4	5	6	7
Most of the TMT members of the acquisition remained with our organization after purchase.		1	2	3	4	5	6	7
		0 %	◄				►	100
Currently, what percentage of the TMT of the acquisition is still with your firm?		1	2	3	4	5	6	7

Please indicate your level of agreement/disagreement with the following statements regarding the *characteristics* of the top management team (TMT) of the Acquisition.

The Acquisition's Top Management Team (TMT) *Characteristics*		**Strongly Disagree**			**Neutral**		**Strongly Agree**	
The TMT of the acquired organization is skillful at adapting the firm's assets to market conditions		1	2	3	4	5	6	7
The acquired firm's TMT's network of relationships is extensive.		1	2	3	4	5	6	7
The acquired firm's TMT's knowledge of the acquired firm is valuable to our firm.		1	2	3	4	5	6	7
The TMT members of the acquired organization are skillful in developing internal resources as new circumstances present themselves.		1	2	3	4	5	6	7
The acquired firm's TMT's network of external relationships is valuable to our firm.		1	2	3	4	5	6	7
The acquired firm's TMT's knowledge of the industry is valuable to our firm.		1	2	3	4	5	6	7
The TMT of the acquired organization develops flexible strategies as new needs present themselves		1	2	3	4	5	6	7
The acquired firm's TMT's network of internal relationships is valuable to our firm.		1	2	3	4	5	6	7
We did not think the acquired firm's TMT's knowledge of their industry was important.		1	2	3	4	5	6	7
The TMT of the acquired organization reconfigure acquired firm internal capabilities skillfully in order to meet changing market conditions.		1	2	3	4	5	6	7
The acquired firm's TMT is skillful at developing new internal relationships as needed.		1	2	3	4	5	6	7
We had sufficient knowledge in-house to run the acquired organization.		1	2	3	4	5	6	7

Please indicate your level of agreement/disagreement with the following statements regarding the *Time Line* of this Acquisition

Acquisition *Time Line*		**Strongly Disagree**			**Neutral**		**Strongly Agree**	
This acquisition was done to meet short terms objectives.		1	2	3	4	5	6	7
This acquisition is one of a stream of strategic acquisitions		1	2	3	4	5	6	7
This acquisition is part of a long-term strategy.		1	2	3	4	5	6	7
Performance of the total firm changed quickly due to this acquisition.		1	2	3	4	5	6	7
We anticipate results from this acquisition to not accrue until years later.		1	2	3	4	5	6	7

LAST SECTION: Please indicate your level of agreement/disagreement with the following statements in regard to the *integration of the acquisition's* top management team (TMT) into your firm.

Top management team (TMT) *integration*		**Strongly Disagree**		**Neutral**			**Strongly Agree**	
The TMT decisions of the acquired firm typically meet with our approval.		1	2	3	4	5	6	7
In dealing with the TMT of the acquired organization, we have a mutual understanding of each of our roles		1	2	3	4	5	6	7
In dealing with the TMT of the acquired organization, we have a mutual understanding concerning remedies for performance failure		1	2	3	4	5	6	7
We implemented similar management information system in the acquired firm as used by our other divisions.		1	2	3	4	5	6	7
We have a mutual understanding of how the TMT of the acquired organization will act in case of a major, unanticipated event.		1	2	3	4	5	6	7
We spend too much time in monitoring the acquisition's actions.		1	2	3	4	5	6	7
During negotiations we developed a relationship with the TMT of the acquired organization.		1	2	3	4	5	6	7
The TMT team of the acquisition requires extensive supervision.		1	2	3	4	5	6	7

OPTIONAL: (Completion of any or all items of this section is not required.)

What is the name of your firm?______________________________________

What is the name of the firm you purchased? ____________________________