

# Top Managerial Prestige, Power and Tender Offer Response: A Study of Elite Social Networks and Target Firm Cooperation during Takeovers

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## Abstract

In this paper we explore the following research question: When faced with a tender offer, why do some firms resist and others cooperate? In the past, researchers have suggested that the manner in which firms respond to takeover attempts may be, in part, a function of managers' personal motivations. We contribute to this line of research by questioning whether other factors might be involved. Specifically, we examine whether cooperation may be a function of the friendliness of the bidding company and the social networks shared by executives in the two firms (i.e., bidder and target). We examine how the power and connections of managers affect their responses to tender offers. Our results suggest that these factors do indeed play a role. We found, for example, that target managers are more likely to cooperate under two conditions: (1) if they have less prestigious connections than managers in the bidding firm, and (2) if the target and bidding firms' share numerous ties to the same prestigious networks. In contrast, we found that target managers are more likely to resist a bidder's advances if: (1) the managers in both firms are poorly connected, or (2) the targets' managers hold more prestigious connections relative to the bidders. Together these findings suggest that cooperation and resistance may be a function of the social networks and power relationships that exist between and within firms. We discuss our findings within the framework of numerous organizational theories such as social class and social network theory, agency theory, and resource dependence. Although each of these perspectives suggests somewhat different results, we propose a reconciliation of these various perspectives. Specifically, we suggest that the variables of managerial power and connections may have different effects depending on whether we are observing firms before or after tender offers are made. It may be, for instance, that before a takeover offer is received, the power and prestige of target managers is associated with adoption of anti-takeover defenses (i.e., defenses designed to thwart takeover attempts). In fact, this finding has already been well documented in the literature. On the other hand, our findings suggest that after an offer is received, these same factors of prestige and power appear to be associated with resistance. Finally, our results call into question previous views that corporate takeovers are a mechanism for disciplining or ridding the company of incompetent managers. Instead, our findings suggest that the nature of the takeover process (i.e., cooperative versus resistant) may do little more than perpetuate existing social structures. Powerful and prestigious managers may not suffer the same negative effects of takeovers as their less prestigious and less powerful counterparts.



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