Managerial Tenure and Recovery Following M-Form Reorganization in Diversified Firms

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We identify two factors that affect how quickly highly interdependent diversified firms recover from the performance disruptions that typically accompany M-form reorganizations: (1) organizational tenure and (2) the tenure of top management teams. We find that top management teams with a rare combination of long organizational tenure and relatively short team tenure are associated with faster performance recovery in diversified firms with extensive business unit interdependencies. The effects of managerial tenure on recovery time were found to be inconsequential in unrelated diversified firms where the reorganization task is less complex.

Although improved performance is a common motivation for most major structural reorganizations, such as the adoption of the multi-divisional structure (or M-form), it usually deteriorates during implementation and may take years to reach or exceed pre-reorganization levels. Indeed, some firms may never recover from M-form reorganizations. Given that the M-form is the dominant structure for managing large, complex, particularly diversified corporations in the United States and throughout the world (Galunic and Eisenhardt, 1996; Hoskisson, Hill, and Kim, 1993; Markides and Williamson, 1996; Rumelt, Schendel, and Teece, 1994), identification of the factors that help explain whether and how quickly firms recover from M-form reorganizations is critical to both organizational scholars and the managers of growing and diversifying firms contemplating M-form adoption.

In the only study to explicitly examine this issue (Lamont, Williams, and Hoffman, 1994), diversification strategy was found to be an important contingency affecting the length of the performance recovery period following M-form adoption. Unrelated diversifiers, with limited linkages among their businesses and, thus, relatively easier reorganization tasks, were found to recover more quickly than vertical or related diversifiers, firms with more complex interdependencies among their different businesses. It was also observed that the variance in recovery times for the vertical and related diversifiers was much greater than that for the unrelated diversifiers, suggesting that other factors besides strategy may be important in explaining the performance recovery times of the more highly interdependent firms.

Although improved performance is a common motivation for most major structural reorganizations, such as the adoption of the multi-divisional structure (or M-form), it usually deteriorates during implementation and may take years to reach or exceed pre-reorganization levels. Indeed, some firms may never recover from M-form reorganizations. Given that the M-form is the dominant structure for managing large, complex, particularly diversified corporations in the United States and throughout the world (Galunic and Eisenhardt, 1996; Hoskisson, Hill, and Kim, 1993; Markides and Williamson, 1996; Rumelt, Schendel, and Teece, 1994), identification of the factors that help explain whether and how quickly firms recover from M-form reorganizations is critical to both organizational scholars and the managers of growing and diversifying firms contemplating M-form adoption.

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tenure (organizational tenure and TMT tenure) interacts with firm strategy (vertical integration, related diversification, and unrelated diversification) to affect firm performance recovery time after M-form reorganization.

**Background**

Examination of factors that affect firm recovery time after M-form reorganization is important because firms increasing their levels of diversification generally change their structures from the functional (U-form) to the multi-divisional (M-form) structure (Amburgey and Dacin, 1994; Chandler, 1962; Hoskisson et al., 1993; Williamson, 1975). In theory, the M-form is supposed to lead to increased firm efficiency as operating decisions are delegated to the newly created semi-autonomous divisions (Bettis and Chen, 1990; Chandler, 1962; Hill, Hitt, and Hoskisson, 1992; Hoskisson, Harrison, and Dubosky, 1991; Hoskisson et al., 1993; Roberts and Greenwood, 1997; Russo, 1991; Williamson, 1975). While the firm’s head office retains strategic decision-making responsibilities, routine operational decisions are assigned to the various divisions that are directly involved in the firm’s production and distribution activities. An M-form reorganization generally involves dramatic changes in structure, systems, controls, and power and decision-making centers within the firm (Miller and Friesen, 1984; Roberts and Greenwood, 1997; Tushman and Romanelli, 1985).

The underlying theory behind firms’ adoption of the M-form structure is that in large, complex corporations the M-form enhances performance resulting from improved operating and strategic controls. Research suggests that the M-form enhances firm performance by shifting operational decision making and responsibility to decentralized product or geographic divisions. Such decentralization serves to improve the firm’s efficiency as decisions are made by managers closer to the firm’s production and distribution activities (Armour and Teece, 1978; Bettis and Chen, 1990; Galbraith and Kazanjian, 1986; Williamson, 1975). Further, utilization of the M-form allows the firm’s separate divisions to exercise greater operational autonomy, thereby reducing the routine decision-making activities of top managers. Top managers are better able to concentrate on broad strategic issues facing the firm, while the burden of operational decision making is reduced as a result of decentralization (Chandler, 1962; Galbraith and Kazanjian, 1986; Williamson, 1975).

In addition to the above benefits associated with M-form adoption there are also drawbacks. The major drawback is that it may take years for the firm to realign systems, culture, personnel, and procedures with the new structure (Chandler, 1962; Galbraith and Kazanjian, 1986; Lamont et al., 1994; Roberts and Greenwood, 1997). It can be theorized, however, that the extent of this drawback may be somewhat contingent on the type of diversification strategies the firm has pursued. This idea is supported by recent research which has suggested that firms pursuing certain strategies, specifically unrelated diversification and, to a lesser extent, vertical integration, benefit more from adopting the M-form structure than firms that have pursued related diversification (Hoskisson, 1987; Lamont et al., 1994). In addition, it can be theorized that certain characteristics of the firm’s top management team may play a pivotal role in how well a firm is able to realign systems, culture, personnel, and procedures with the new structure and to ultimately recover from the M-form reorganization.

**Theoretical Development**

The idea that top management team characteristics affect organizational outcomes is not new. Hambrick and Mason (1984) laid the conceptual foundation for the relationship between top management team characteristics as managerial age, tenure, education, and functional background and firm performance. The work of Hambrick and Mason (1984) focused on the possible impact of basic demographic factors on managerial strategic choices related to firm strategy and related risk, innovation, firm structural dimensions, and firm growth and performance.

Several studies have confirmed empirically that such a relationship does, in fact, exist between TMT characteristics and firm performance. For example, Norburn and Birley (1988) found that teams (the firm’s dominant coalition) possessing greater functional experience and wider educational training experienced better performance outcomes. Wiersema and Bantel (1992, p. 91) found that “cognitive perspectives, as reflected in a team’s demographic characteristics, are linked to the team’s propensity for change.” Thomas, Litschert, and Ramaswamy (1991) found that the greater the alignment between firm strategy and TMT characteristics, the better the firm’s performance. More recently, Boeker (1997) found that firm performance moderated the effects of TMT characteristics on corporate strategic change.

One TMT characteristic that has been studied extensively over the years is managerial tenure. Results from several studies have suggested that there is a link between managerial tenure and organizational outcomes (e.g., Barker and Patterson, 1996; Boeker, 1997; Finkelstein and Hambrick, 1990; Greening and Johnson, 1996; Pfeffer, 1983). To date however, no study has examined the possibility of a link between managerial tenure and recovery time from M-form adoption, nor have any studies examined the effect of firm strategy on this relationship.

**Managerial Tenure and Recovery Time**

Long managerial tenure has been linked with commitment to the status quo (Boeker, 1997; Michal and Hambrick, 1992; Wiersema and Bantel, 1992), reduced learning and increased inertial responses (Hambrick, 1994, 1995; Virany, Tushman, and Romanelli, 1992), reduced risk-taking and limited infor-
Diversified Firm Recovery

Information processing (Finkelstein and Hambrick, 1990, 1996; Hambrick, 1994, 1995), and a tendency for managers to maintain past business patterns (Barker and Patterson, 1996; Boeker, 1997; Staw and Ross, 1980). Arguments have been made that TMTs possessing long organization tenure and long TMT tenure tend to be more conservative, that they do not engage in as much strategic experimentation (relative to TMTs with shorter organizational and TMT tenure), and tend to pursue imitative strategies directly in line with industry trends, and thus their organizations perform close to the industry average.

Long tenure has also been related to increased first-order learning among management team members and lower levels of second-order learning (Hambrick, 1995; Virany et al., 1992). TMTs that exhibit first-order learning continually and incrementally improve at those things that offer them a competitive advantage (Tushman and Keck, 1989; Virany et al., 1992). This is because first-order learning is based on experience and the competence that comes from working with the same actors on a limited number of fixed tasks over a long period of time. In contrast, second-order learning is characterized by a shift in core assumptions and decision-making premises. It involves unlearning prior premises and standard operating procedures (SOPs). It also requires that the firm develop new decision-making frames, new SOPs, and new interpretive schemes (Bartunek, 1984; Virany et al., 1992).

Prior research suggests that the results of long managerial tenure should be a reluctance of managers to undertake major organizational changes, such as an M-form reorganization. Nevertheless, the accumulation of managerial tenure may provide certain benefits. New managers generally enter their positions lacking extensive knowledge about contacts and procedures needed to successfully perform their duties, and such knowledge must be gradually obtained over time (Boeker, 1997; Gabarro, 1987; Hambrick and Fukutomi, 1991). In addition to knowledge of the job, team members enhance and solidify their power over time (Pfeffer, 1983). The CEO, in particular, accumulates power through the cultivation of internal and external relationships with other executives and organizations. The CEO, as well as other TMT members, also accrues power by accumulating expert knowledge of the firm and its processes, and by granting rewards to organizational members (Boeker, 1997; Hambrick and Fukutomi, 1991). In most cases, this accrual of power can occur only through managerial tenure. Thus, while the dysfunctional aspects of lengthy managerial tenure have been addressed in the empirical literature, the potentially positive influence of lengthy tenure seems to have been largely overlooked.

Although long managerial tenure may contribute to TMTs being adverse to major organizational change, the greater expertise of long-tenured managers may prove invaluable to firms who have formally committed to undertaking a structural reorganization. Once the reorganization is underway it seems reasonable to assume that a manager's knowledge and power base should be of great value in assisting the firm to progress through the disruptive reorganization process. These managerial attributes should also provide the firm with needed stability during the process.

Firm Strategy Recovery Time

In addition to suggesting that managerial tenure can affect a firm's performance recovery time following M-form adoption, research also suggests that a firm's strategy prior to M-form implementation affects the magnitude and nature of the reorganization problem (Hill and Hoskisson, 1987; Hoskisson, 1987; Hoskisson, Harrison, and Dubofsky, 1991, Lamont et al., 1994). Specifically, the level of interconnectedness or interdependence among the various businesses and/or functional units affects M-form implementation (Hill and Hoskisson, 1987; Hoskisson, 1987; Hoskisson, Harrison, and Dubofsky, 1991; Hoskisson, Hitt, and Hill, 1991; Jones and Hill, 1988; Markides and Williamson, 1996). The level of interconnectedness reflects the extent to which each of the firm's parts, or divisions, is dependent on and supports the firm's other divisions (Thompson, 1967). The level of interconnectedness across units affects the types of controls and systems required to achieve smooth, corporate-wide coordination (Hill and Hoskisson, 1987; Jones and Hill, 1988), with higher levels of interconnectedness requiring more complicated and costly coordinating mechanisms (Thompson, 1967).

Different strategies tend to produce different patterns of interconnectedness between the various businesses and functional units of the corporation (Hill and Hoskisson, 1987; Hoskisson, Harrison, and Dubofsky, 1991; Jones and Hill, 1988). Thompson (1967) identified three patterns of work flow interdependence between organizational units: pooled, serial, and reciprocal. Each pattern of interdependence represents a greater level of interconnectedness and a more complex and costly coordination problem. With pooled interdependence, typical in unrelated diversifiers (Jones and Hill, 1988), each unit operates largely independently of other units except for a common input source or ownership structure. With serial interdependence, the dominant pattern in vertically integrated firms (Jones and Hill, 1988), the output of one unit is the input to another unit. Reciprocal interdependence is exemplified by complex exchanges between units, where the actions of one unit affect the actions and outcomes of another. Related diversifiers generally possess this type of interdependence among their units, as they typically serve overlapping markets, drawing on overlapping sources of supply, frequently using similar and interdependent technologies (Jones and Hill, 1988). Considering only the level of interconnectedness associated with the various strategies, related diversifiers should face the most complicated and costly reorganization problem in implementing satisfactory M-form controls and systems since they have the highest level of interconnectedness. Vertically integrated firms face the next most complicated and costly reorganization problem while the reorganization task confronting unrelated diversifiers is the least problematic (Hoskisson, Harrison, and Dubofsky, 1991).
As previously stated, performance recovery requires effective corporate-wide coordination and efficient operations within the newly created M-form. Given that long organization and team tenure may lead to shared ideologies, standardized ways of communicating, a more homogeneous perspective, and an overall greater understanding of the day-to-day workings of the organization (Tushman and Keck, 1989; Virany et al., 1992), TMTs with longer tenure are likely to be better able to facilitate corporate-wide coordination, efficient operations, informal communication flows, and other integration devices. Such long-tenured managers have established the necessary knowledge and power bases to bring about more effective reorganizations. Since a high level of firm unit interdependence is most strongly associated with firms pursuing related diversification and vertical integration strategies, the positive aspects associated with long tenure should manifest themselves through more rapid recovery times. Therefore, the following hypotheses are offered.

**H1a**: Following M-form implementation, related diversified firms that have top management teams with longer organization tenure will perform better (i.e., have shorter performance recovery times) than those related diversified firms whose TMTs have shorter organization tenure.

**H1b**: Following M-form implementation, related diversified firms that have top management teams with longer TMT tenure will perform better (i.e., have shorter performance recovery times) than those related diversified firms whose TMTs have shorter team tenure.

**H2a**: Following M-form implementation, vertically integrated firms that have top management teams with longer organization tenure will perform better (i.e., have shorter performance recovery times) than those vertically integrated firms whose TMTs have shorter organization tenure.

**H2b**: Following M-form implementation, vertically integrated firms that have top management teams with longer TMT tenure will perform better (i.e., have shorter performance recovery times) than those vertically integrated firms whose TMTs have shorter team tenure.

The reorganization task faced by unrelated diversifiers should be less complex than with firms that utilize vertical integration and related diversification strategies, as the need to retain high levels of unit coordination and mutual adjustment are much less for these types of firms. With unrelated diversifiers, the lower levels of firm unit interdependence should reduce the need for those positive attributes associated with long tenure. Therefore,

**H3a**: Following M-form implementation, unrelated diversified firms that have top management teams with longer organization tenure will perform no differently (i.e., will have similar performance recovery times) than those unrelated diversified firms whose TMTs have shorter organization tenure.

**H3b**: Following M-form implementation, unrelated diversified firms that have top management teams with longer TMT tenure will perform no differently (i.e., will have similar performance recovery times) than those unrelated diversified firms whose TMTs have shorter team tenure.

### Methodology

#### Sample

The sample consisted of the 76 firms identified as adopters of the M-form. The 76 firms make up a large percentage of the firms identified in the Armour and Teece (1978) and Hoskisson (1987) studies and are the same firms used by Lamont et al. (1994). These studies identified firm strategy and the year in which the firms initiated and completed the transition to the M-form, thus permitting an unambiguous identification of prior strategy and the timing of structural change.

Firm strategy classifications were based on data from annual reports and Moody’s Industrial Manuals. As Hoskisson (1987) noted, the firms’ strategies primarily corresponded to the dominant-vertical, related-constrained, and acquisitive conglomerate strategies in the familiar Rumelt (1974) typology.

#### Measures and Data Collection

Organization tenure (TENORG) and tenure on the top management team (TENT) were the independent variables. Data on managerial tenure were based on demographic information found in Dun and Bradstreet’s (1962–1968) Reference Book of Corporate Managements for selected years during 1962–1986. The top management team consisted of the CEO and senior vice-presidential positions for each firm. This is the same definition that Michel and Hambrick (1992) and Hambrick (1994) used in their work on top management teams. Using this definition, the largest team had nine members while the smallest team had three members. On average, the teams had six members.

TMT and organization tenure were measured in chronological years, with team tenure measuring the number of years that individual team members had spent on the TMT, and organization tenure measuring the number of years that team members had been employed with the organization. The team tenure and organization tenure for each firm’s TMT were calculated as an average of the individual team members’ tenures.

**PERFORMANCE RECOVERY TIME.** Industry-adjusted return on assets (ROA) was used as the performance indicator in the construction of the performance recovery time (RECOV) variable. ROA was chosen for its comparability with previous studies (e.g., Hoskisson, 1987; Hoskisson and Galbraith, 1985; La-
Following a procedure used in other studies (e.g., Judge and Zeithaml, 1992; Lamont et al., 1994), each firm’s annual ROA was adjusted for industry involvement to control for the performance effects of industry differences, as suggested by Dess, Ireland, and Hitt (1990). Following the same procedures as Lamont et al. (1994), industry-adjusted ROA was calculated using firm ROA divided by industry ROA.

Specifically, each firm’s annual ROA was divided by the corresponding annual ROA for the firm’s dominant industry. The dominant industry was operationalized using the IRS industry classification system, equivalent to the three-digit SIC system. Due to the diverse revenue sources of unrelated diversified firms, great care was taken to properly identify the industry providing the greatest revenue source for the firm. As in prior studies (i.e., Hoskisson, 1987; Hoskisson, Harrison, and Dubofsky, 1991; Lamont et al., 1994) the dominant industry was then identified for each of the unrelated diversified firms.

Performance recovery time (RECOV) was measured as the number of years after the M-form reorganization was completed (as reported by prior studies, i.e., Hoskisson, 1987; Hoskisson, Harrison, and Dubofsky, 1991; Lamont et al., 1994) for each firm’s industry-adjusted ROA to reach or exceed the firm’s average industry-adjusted ROA for the five-year period prior to reorganization. Out of 76 firms, 57 firms experienced a performance decline during the transition period. For those firms that experienced no performance decline RECOV was coded as “0.” If a firm did not reach or exceed its pre-change five-year performance average within 10 years, RECOV was coded “10” in the analysis. Although 15 firms required longer than 10 years to recover, the recovery times of those firms were “right censored” at 10 years in the survival analysis.

CONTROL VARIABLES. A decision was made not to use a control group in the current study. This decision was made because there is no meaningful way to measure the study’s dependent variable, recovery time, for a control group of firms that did not experience a structural reorganization, and the associated performance drop from which they would need to recover, thus making useful comparisons between our sample and a control group rather difficult.

In place of a control group, five variables were identified that should exert influence on the tenure–recovery time relationship, and all five were included as control variables in the model. From an internal perspective, firm size, reflecting the magnitude of the reorganization task, and the firm’s prior performance should affect the firm’s performance recovery time. Firm size (SIZE) was measured as the logarithm of the firm’s employees in the year prior to reorganization, and prior performance (ROAP) was measured as the firm’s average performance during the five-year period prior to M-form implementation.

Two other internal variables were also included as control variables. Given that Lamont et al. (1994) found M-form implementation time (IMTIME) to influence performance recovery it was included as a control variable. M-form implementation time was measured as the time required to fully implement the M-form. TMT tenure heterogeneity was also included as a control variable. The need to control for TMT tenure heterogeneity was deemed necessary due to the nature of member interactions that normally occur among individuals who have served on the TMT for different time periods (Boeker, 1997; Hambrick, 1994, 1995). TMT tenure heterogeneity (TENTHET) was measured as the coefficient of variation of TMT tenure.

External to the firm, changes in gross national product (GNP) reflecting general business cycles should also exert influence on the firm’s ability to recover to prior performance levels. Consistent with prior research on M-form reorganization (Hoskisson, 1987; Lamont et al., 1994) GNP changes were intended to control for the business cycle and time period differences across the sample. Gross national product was measured as the annual percentage changes in GNP during the recovery period.

Analytical Procedures

Because performance recovery time (RECOV) was a time-event metric and some of the data were right-censored (i.e., not all firms recovered), a regression technique known as survival analysis was used to test the hypotheses. When survival analysis is utilized, censored observations are used in estimating parameters, thereby avoiding biases that result from eliminating observations or treating them as though an event (e.g., recovery) has occurred when it has not. Survival analysis is a more generally appropriate technique for analyzing data in which the dependent variable is elapsed time to some event (e.g., time to performance recovery) and the data are censored (e.g., the recovery time of certain firms is unknown) (Anderson, Auquier, Hauck, Oakes, Vanaele, and Weisberg, 1980; Cox and Oakes, 1984). A preliminary analysis indicated that recovery time was best modeled as following a Weibull distribution (Cox and Oakes, 1984), with the effects of the variables on recovery time modeled as multiplicative. The SAS LIFEREG program was used with the logarithm of RECOV serving as the dependent variable (SAS, 1990).

Subgroup analysis was used to examine if managerial tenure (organization tenure and TMT tenure) interacted with firm strategy type (vertical integration, related diversification, and unrelated diversification) to affect firm performance recovery time after M-form reorganization. Subgroup analysis was used instead of interaction terms because the use of interaction terms is not possible when using the multiplicative modeling approach in the SAS LIFEREG program. Subgroup analysis is an appropriate technique to use in this situation because it falls under the interaction perspective of measuring fit (Venkatraman, 1989). The use of subgroup analysis requires that a sample be split into two or more groups. Subgroups are then tested to see if the results generated by each group are different from one another. If they are different then an interaction exists.
When using this procedure in the current study, separate regression analyses were conducted for each of the firm strategy types. Each regression analysis consisted of one basic model which regressed performance recovery time (RECOV) on the two independent variables (organizational tenure and TMT tenure) and the five control variables. The equation representing the basic model is as follows:

\[
\text{RECOV} = B_0 + B_1(\text{TENORG}) + B_2(\text{TENT}) + B_3(\text{SIZE}) + B_4(\text{ROAP}) + B_5(\text{GNP}) + B_6(\text{IMTIME}) + B_7(\text{TENTHET}) + \text{Error}
\]

### Results

The descriptive statistics for the variables are presented in Table 1 and the survival analysis results are presented in Table 2. With the exception of (GNP) and (SIZE), there were statistically significant correlations between the control variables (i.e., IMTIME, ROAP, and TENTHET) and the independent and dependent variables, thus supporting their inclusion in the analysis. As expected, the correlation between the firm’s prior performance (ROAP) and recovery time was positive and significant, as was implementation time with firm size. Surprisingly, however, correlations between tenure heterogeneity and each of recovery time and firm size were negative and significant, suggesting faster recovery times may be linked to more heterogeneous teams. Larger firm size was linked to less heterogeneous teams, a surprise given the greater opportunities for diversity in large firms.

Results from the survival analysis indicate that for the related diversified firms the parameter estimates for both organization tenure and team tenure were statistically significant (\(p < 0.001\)). The significant negative parameter estimate for organization tenure indicates that following M-form implementation related diversified firms that have top management teams whose members possess lengthy organization tenure tend to recover more quickly than those related diversified firms whose TMTs have shorter organization tenure. This result supports H1a. The positive parameter estimate for team tenure, however, is opposite to the effect hypothesized in H1b, suggesting that following M-form implementation related diversified firms that have top management teams with shorter team tenure recover more quickly than those related diversified firms whose TMTs have longer team tenure.

For the vertical integration group, the parameter estimate for organization tenure was negative and statistically significant (\(p < 0.05\)), while the parameter estimate for team tenure was not significant. The results suggest that vertically integrated firms having TMTs with longer organization tenure tend to recover more quickly following M-form reorganization than firms having TMTs with shorter organization tenure. The results also suggest that top management team tenure is not a significant factor influencing recovery time for vertically integrated firms following a reorganization. Therefore, the results offer support for H2a, but offer no support for H2b. For the unrelated diversification group, the parameter estimates for both organization tenure and team tenure were not statistically significant. These results support both H3a and H3b, that following M-form implementation unrelated diversified firms that have top management teams with longer organization tenure and TMT tenure do not recover more quickly than those unrelated diversified firms whose TMTs have shorter tenure.

### Discussion

The findings generally support the importance of prior strategy as a contingency affecting the relationship between managerial tenure and firm performance recovery after M-form reorganization. We saw this as a logical extension of previous research that has examined the effect of managerial tenure on organizational outcomes, and also as a logical extension of previous research linking strategy to the performance effects of adopting the M-form in large corporations.

What emerges from the findings is the profile of a TMT that may be most effective in implementing reorganizations in highly interdependent firms: the rare combination of a TMT composed of members possessing long organization tenure.

#### Table 1. Descriptive Statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>SD</th>
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<tr>
<td>RECOV</td>
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<tr>
<td>TENORG</td>
<td>23.27</td>
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<td>TENT</td>
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<td>SIZE</td>
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<td>GNP</td>
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<td>IMTIME</td>
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<td>ROAP</td>
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<td>TENTHET</td>
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### Correlations

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<tr>
<td>TENORG</td>
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<td>0.44**</td>
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<td>SIZE</td>
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<td>0.08</td>
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<tr>
<td>GNP</td>
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<td></td>
<td>-0.11</td>
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<td>IMTIME</td>
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<td>-0.13</td>
<td>0.19+</td>
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<td>ROAP</td>
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<tr>
<td>TENTHET</td>
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<td>-0.14</td>
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**n = 76.**

+ \(p < 0.10\); * \(p < 0.05\); ** \(p < 0.01\).
and short team tenure. For firms that have formally committed
to a reorganization, long organization tenure among team
members appears to be preferred. As predicted, such managers
would have developed a solid knowledge base and an exten-
sive set of relationships within their firms and industries. Such
detailed knowledge of the firm and its business is probably
not transferable to other firms (Kotter, 1982). Extensive un-
derstanding of an organization’s culture, systems, processes
and people, that is likely to only come with experience is
critical to the mounting of organization-wide redesign efforts
and the recombining of these design elements around a new
structure (Weick, 1993). Further, by definition, long-tenured
managers have been successful, and a successful track record
generally serves as the basis for the accumulation of power
(Hambrick and Fukutomi, 1991). Therefore, organizational
knowledge and power are derived from long organization
tenure, and apparently provide greater benefits for reorganiza-
tions involving firms with higher levels of interdependence
(i.e., the related diversifiers and vertically integrated firms).

The unexpected finding linking short TMT tenure to more
rapid recovery times requires further analysis of the dynamics
of TMT membership and group processes. Some recent work
(Hambrick, 1994, 1995; Finkelstein and Hambrick, 1996)
makes the important observation that top management groups
do not always function well as “teams.” Relevant to this study,
the posited negative curvilinear relationship between team
tenure and team effectiveness and its ability to implement
organization-wide strategic change. That is, it takes time for
group members to develop shared views and establish interac-
tion patterns that are necessary for effective communication
and decision making, but only up to a point. After that point,
increases in team tenure are associated with less internal com-
unication and superficial exchanges among members. It is
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### Table 2. Survival Analysis Results (Dependent Variable: RECOV)

<table>
<thead>
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<th>Parameter Estimate</th>
<th>Chi-Square</th>
<th>Log Likelihood Ratio</th>
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\( n = 76 \)

\(+p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001.\)

1Two-tailed significance

Where:

- RECOV = Performance Recovery Time.
- Tenorg = Organizational Tenure.
- Tent = Top Management Team Tenure.
- Size = Organizational Size.
- GNP = Gross National Product.
- Imtime = M-form implementation Time.
- Roap = The Firm’s Prior Performance.
- Tenthet = Top Management Team Tenure Heterogeneity.
a period of time beyond that necessary for effective team functioning (1.5 years) found in small group research. Our results are consistent with the curvilinear team tenure–team effectiveness hypothesis, and particularly supportive of the diminishing effectiveness of long-tenured teams in implementing large-scale organizational changes such as M-form reorganizations, at least in complex interdependent firms.

While Hambrick and Fukutomi (1991) examined changes associated with increasing CEO tenure, their basic arguments may also be relevant to all top managers. For example, early in their TMT tenures team members may experience higher levels of commitment to achieving the firm’s goals (Hambrick and Fukutomi, 1991). Task knowledge will rise, and information diversity and task interest should be highest early in the team member’s tenure (Hambrick and Fukutomi, 1991; Kotter, 1982; Miller, 1991). With the exception of firm knowledge and power, the team member’s interest and information sources may diminish over time. This decline in enthusiasm and/or information diversity may reduce the team member’s overall effectiveness. Also, if groupthink (Janis, 1972) develops within the team the overall loss in managerial effectiveness will be magnified.

Although somewhat speculative, short TMT tenure coupled with long organization tenure may provide the optimal combination for undertaking a structural reorganization. When a firm has managers who have relatively recently joined the TMT, and who possess significant organization tenure, these managers not only want to make things happen, but also know what and how to get things done. Chandler (1962) provides anecdotal support for this assertion, particularly in his case study description of the M-form reorganizations of GM and DuPont. For example, Alfred Sloan, the primary executive responsible for the successful M-form reorganization at GM, was a long-tenured organizational member but recent newcomer to the TMT, as were his two key assistants (Donaldson Brown and John Lee Pratt) in putting the plan into action. Similarly, the set of executives who engineered the rapid DuPont reorganization had spent nearly all of their business careers with the company, were rapid climbers of the administrative ladder, and, with the exception of Fletcher Brown, were relatively new to the ranks of top management.

At least in the case of firms possessing high levels of unit interdependence, the findings of the present study offer support for the conclusions presented above. The results also suggest that when firm unit interdependence is minimal (i.e., the unrelated diversifiers), the link between managerial tenure and rapid reorganizations is greatly reduced or non-existent.

The implications of the results presented are significant for strategy researchers. The interactive patterns found in this study may provide some explanation for apparently contradictory findings of the strategic choice proponents and organizational ecologists. Although speculative, it is very possible that at some point a TMT loses some of its ability to adapt to changing conditions in an appropriate and timely manner. If, and when, a team reaches this point, it may cause its firm to follow the pattern of decline and possible extinction as described by Hannan and Freeman (1984). If a management team is at risk of losing its responsiveness, strategy and OD researchers may wish to examine proper mechanisms for maintaining the quality and freshness of management teams.

Given the findings, periodic changes in TMT membership may become necessary among firms with high levels of unit interdependence that are contemplating a major structural reorganization. In such cases, however, care must be taken not to overly disrupt the functioning of the firm’s management team during the crucial reorganization period. Further, it should be remembered that the inferences drawn from this study about the ideal combination of long organization tenure and short TMT tenure among managers in firms having highly interdependent units are related to periods of structural change. This same combination of managerial characteristics may not be as valuable to an organization during more routine operating periods.

As with most studies, there are limitations associated with the present study that provide opportunities for future research. Future studies may utilize more recent data, a larger sample, and may also want to examine other aspects of top management teams. Differences in organizational governance structures limit the ability of a management team to influence performance. An examination of these variables would be an appropriate extension of the regression model tested in this study.

Overall, it is hoped that results from the current study have provided additional insight into the manner in which the type of strategies firms pursue affects the relationship between managerial tenure and firm performance recovery after M-form reorganization. It is also hoped that the current study serves as a point of reference for future studies that examine the effects of strategy type on the relationship between other management variables and other organizational outcomes.

References


Diversified Firm Recovery

References


Staw, Barry M., and Ross, Jerry: Commitment in an Experimenting Society: A Study of the Attribution of Leadership From Adminis-


