

# Director experience with acquisitions improves firm performance

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A new study in *Strategic Management Journal* examines how the nature of outside directors' prior experience, and resulting expertise, will influence the performance of a firm's performance. Results show that this past experience and expertise will have positive effects on the firm's acquisitions.

Michael L. McDonald, James D. Westphal, and Melissa E. Graebner developed a conceptual framework contesting that firms make higher quality acquisition decisions when their outside directors have experience in decision making regarding acquisitions that are similar to the ones that are being pursued by the firm.

Their theoretical model predicted that when the firm's outside directors had experience with acquisitions in the same product markets as those being pursued by the firm, the firm made better acquisition decisions.

In addition, a firm's related acquisitions would perform better to the extent that outside directors had experience in making related acquisitions, and that a firm's unrelated acquisitions would be of higher quality to the extent that outside directors were experienced in making unrelated acquisitions.

"The general principles of our theory might be extended to consider how other aspects of outside directors' prior experiences impact the relative success of other kinds of focal firm strategic actions," the authors conclude. "Board independence from management only leads to better

acquisition decisions to the extent that outside directors have relevant prior acquisition experience. Conversely, directors' relevant prior experience has more positive effects on acquisition performance to the extent that they are independent from management."

Source: Wiley

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