Liberating Leadership Style & Short-run Success of American Takeovers.

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Abstract

In the present research, we provide empirical evidence whether the leadership style, and in particular, the liberating leadership style, is a driver of the short-run success of U.S. mergers and acquisitions (M&As), building upon shareholders' wealth as a measure of success. Through the use of content analysis of 191 CEOs, our contribution compared to former works is the use of a new approach to gauge the leadership style of an organization and therefore to analyze M&As operations success. Using a sample of M&As of S&P 500 listed companies within 2000 to 2013, we find that bidders displaying more liberating leadership style are more likely to produce short-term success. This supports the hypothesis that the leadership style granting employees' needs of growth, self direction and freedom, as well as of being treated intrinsically equal enhances employees' well-being and firm profitability. Our findings also suggest that the bidder's leadership style has no significant effect on the cumulative abnormal returns of the target firm.

JEL classifications: G34, G39, L2

Keywords: American mergers and acquisitions, liberating leadership style, firm success, cumulative abnormal returns.

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Introduction

"In 1961, as the company's sales of their only product at the time—Teflon-coated wires and cables—was picking up, Gore looked for ways to expand their sales network. This was not long after the company had moved from Gore's basement into a small plant up the road, where it still operates.".......“But Gore knew that success would come from self-motivated people taking daily initiatives to meet these challenges—not from supervisors."

Under the leadership of Bill Gore, the Gore & Associates knew an unprecedented success and it is now one of the American leaders in manufacturing fluoropolymer products used in aerospace, electronic, medical and other applications, with 12,000 employees and $3 billion in revenues in 2012. Gore is also ranked as one of the Unites States' top places to work[1] and is operating over 20 countries. Bill Gore attributed this success to the way you lead employees. His leadership is characterized by granting freedom and by removing of the bureaucracy in the organization. "Freedom is the great motivating power of individual human beings", said Bill Gore (Getz, 2009, p.46). Along these lines, Gordon Forward- who has a doctorate from MIT and worked in research and development before leading Chaparral Steel-said: "Good ideas die every day in command-and-control companies" (Carney & Getz, 2009, p.35). Drawing from this example, we try to empirically examine whether liberating leaders induce the success of the firm, and in particular, the success of mergers and acquisitions (M&As). The study of this topic in M&A context is interesting because it is theorized that leadership style is a cardinal driver of M&A failure (Waldman & Javidan, 2009).

Leadership is defined as "the process of influencing others to understand and agree about what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives"(Yukl, 2006). Under the upper echelons researches, explanations given by academic researches revolved around that an increase in employees outcomes, such as a rise in their job satisfaction, employees commitment, motivation along with collaboration is rooted in the adoption of an effective leadership and, in so doing, effective leaders contribute to firm success.

Given the importance of leadership style, several of studies provide evidence that firm performance increases with the leadership style (Stahl, 2007; Ireland & Hitt, 2005; Waldman,

[1] Deloitte https://dupress.deloitte.com/dup-us-en/topics/talent/w-l-gore.html

Ramirez & House, 2001, Wang, Tsui & Xin, 2011; Shin, Sung, Choi & Kim, 2015). For instance, Ling, Simsek, Lubatkin, and Veiga (2008) argue that the transformational leadership is drawn by the capacity, the talents and the potential of the leader to transcend the personnel interests and transform the perceptions, believes, attitudes and behaviors of his followers by going beyond status quo and, in so doing, affect their ability to innovate and enhance firm performance.

Since the 1950s**,** a growing corpus of research emerged that focused on the effect of liberating leadership on firm performance as long as the firms implementing this leadership are the most successful global firms and are classified by Fortune as the best companies and the best places to work in. Originally implemented by the CEO of 3M (William McKnight,) in 1924, and developed by many companies, liberating leadership style embodies the creation of an environment that fulfills the employees three universal needs (such as need of growth, of self-direction along with being treated intrinsically equal by the removal of hierarchy), that once satisfied, induced enhanced engagement and commitment (Getz, 2012; Dubrin, 2013).

Intrinsic equality implies the adoption of work practices that provide the same egalitarian values of respect and dignity to all people in spite of their disparity. Building genuine relationship with employees goes through treating them with fairness, dignity, respect and as equals and removing all power signs such as the hierarchical organizational charts and the own executives offices. According to Carney & Getz (2009), the second step to liberate a firm goes through building a work environment wherein the employees self-direct. Within this organization the employees enjoy the autonomy, freedom and feel empowered to take actions, instead of their managers, they decide best for their organization. Freedom also implies the removal of the bureaucratic process and giving the employees the authority to find problems and solve them without following specific procedures. This means that liberating leaders encourage pushing personal responsibility and accountability to the lowest level of the company. Finally, the liberating leaders ensure the promotion of the personal growth of people in the workplace. These leaders develop the skills and the confidence of their subordinates to look for problems solving by themselves and to take initiatives in the right direction for the best interests of their firm.

They do create a great place to work in which the workforce feel that they grow spiritually and intellectually by broadening their knowledge and skills, by providing global opportunities and training to the individuals to allow them to become a strong leaders who are able to work in any part of the company, and by giving them coaching to strength their abilities to perform news tasks and procedures and to flourish in their works. Indeed, liberating leaders develop the confidence of their subordinates by treating them as trustful and by fostering their abilities to be more effective and innovative and by giving a particular attention to individual competences among their subordinates. By adopting these practices of freeing up people to take initiatives and risks, by implementing egalitarian values in which CEOs are listening to their subordinates instead of controlling them and imposing what to do, by promoting the culture of engagement that is likely to increase the people proactivity, Carney & Getz (2009) postulated in their study that these companies have sharply outperform their peers and their rivals.

Despite the diverse array of former works on leadership styles, M&A researches have shifted their focus away from the effect of leadership style on M&A success. Fewer studies have been devoted to charismatic or transformational leadership style and its effect on employees commitment and post-M&A integration (Waldman & Javidan, 2009) or on post-M&A outcomes (Nemanich & Keller, 2007). Using a survey of American M&As**,** Waldman & Javidan (2009) argue that M&As don't generate the intended results because of the post-M&A integration difficulties namely arising from organizational factors as the leadership style. Other studies have focused on the financial, strategic (Eckbo, 2011) or the managerial culture issues, such as cultural fits and compatibilities or specific management styles (Datta, 1991), and have ignored the relevance of CEO leadership style, as a main factor of firm success. Yet, few studies have been devoted to leadership styles types, and no study to date has developed the concept of the liberating leadership style to link it to firm success**.**

To examine the role of liberating leaders in M&A, we use American takeovers made by S&P 500 firms over 2000 and 2013. The present research is built on Short, Broberg, Cogliser, and Brigham's work (2010), by using content analysis to measure leadership style through a computer-aided text analysis (CATA) approach. We rely on this approach to derive and test lists of words ("dictionaries") using the text analysis software DICTION (Hart, 2000) and then to screen each CEO's letters to shareholders for these words and use their frequencies as a measure of the company's level of liberating leadership style. The M&A success stems from the financial perspective (the wealth creation for shareholders) assessed using the cumulative abnormal returns approach.

Through the results found in our present research, we provide evidence that firms run by liberating leaders are more likely to increase the short-run success of M&As deals. It follows that the leadership style is an important determinant of firm success as upper echelons researches suggested in stable environment. It also stems from these results that liberating leaders is key driver of synergies due to shareholders' wealth maximization. Furthermore, we show that bidder's the leadership style has no significant effect on the M&A success of the target.

Drawing from these findings, this study has contributed to the present academic research and has several implications for theory and future researches. It contributes to the debate whether or not the firm success is inherent to the quality of CEO leadership, his personality, values, and beliefs and, in particular, the role he played to lead the firm effectively. Top managers should put an emphasis on the competitive advantage of implementing liberating leadership style and especially by pushing freedom and autonomy to the down level of the firm. Moreover, our empirical evidence override employees outcomes and integration process success to also devote to firm performance, and namely firm success in M&A context, by focusing on liberating leadership style. Indeed, rather than using a questionnaire to assess leadership style, we develop an innovative approach, that consists in using content analysis to gauge leadership style and to obtain objective measure of leadership style. Hence, the incorporation of objective measures of liberating leadership style is an additional contribution over prior studies.

The paper is structured as follows. The first part is devoted to review the theoretical backgrounds that deal with leadership style and firm success as well as the hypotheses to be tested. Following that, an outline of the research methodology including the explanation of the sample selection and the conceptualization of the variables is presented. Afterwards, the results of the statistical analysis are discussed and, thereby we conclude by the presentation of our findings and their implications for the future.

1. Backgrounds & preview studies

1.1. Leadership style and firm success

In this century's globalized economy, the attention has shifted to leaders who are confronted to scrutiny and several challenges to lead their organization effectively, given the riskier competitive environment wherein the firm seeks to gain competitive advantage and to flourish among rivals. Indeed, throughout years, it was theorized that the leadership style adopted by an organization also enters in determining its business collapse or improvement, and firm success or failure is inherently associated to the quality of its management. Accordingly, managers should conduct an effective leadership taking into account the employees development, freedom and best treatment, in order to encourage employees to fulfill the firm goals.

Although the effect of leadership style on firm success is well documented in financial and management literature (Stahl, 2007; Ireland& Hitt, 2005), little wealth of attention has been paid to this topic in M&A context. Leadership style was considered as one of the most prominent pillars of firm success. In this perspective, Stahl (2007) provides evidence that the CEO couldn't achieve the organizational success alone but rather by listening to the challenges of the employees and by building a connection between him and his subordinates. Firm success could be yielded through an effective strategic leadership and by putting an emphasis on employees initiation as well as by developing and by mobilizing the human capital via engaging in educational investments.

Accordingly, leadership style is a driver of growth opportunity, boosted productivity for the firm, and competitive advantage by building resources that are difficult to imitate or poach by the rivals (Ireland & Hitt, 2005).This latter explained that the firm success "will depend on the ability of a firm's top managers to form a community of citizens rather than a band of employees working for a firm" (Ireland & Hitt, 2005, p.71).

1.2. Liberating leadership style and firm success

Beyond the earlier studies on leadership style and firm success, and according to Getz (2012), firm success is more likely to increase in an organization wherein the autonomy and freedom are granted to employees. Getz & Craney (2012) argue that this organization is characterized by a flatter organizational structure (elimination of hierarchy), providing well-being and freedom to employees along with an improvement in employees outcomes in terms of employees turnover and absenteeism. Creating such nourishing environment helps the subordinates to be self-motivated, innovate and foster their creativity, leading thereby to an increase in employees, firm performance and in their personal well-being.

In congruence with Getz & Craney (2012), a higher level of well-being, motivation, along with, happiness and decrease of retention rate stems from the amount of freedom the employees enjoy while working. The leadership style that provides freedom and empowerment to employees is preferred by several firms as a tool privileged in the pursuit of productivity and success (Gagné & Bhave , 2011). From this perspective, it seems important to highlight and turn our attention to the importance of the autonomy and freedom in terms of enhancing creativity, subordinates innovation, which promotes firm performance indeed (Mierlo, Rutte & Vermunt, 2006).

Given the conjectural factors and the challenging environment wherein the companies operate, the tall hierarchies are not effective anymore. Within a flatter organization, which is an organizational form that is interestingly adopted by firms in the 21centery, employees are treated as partners by their CEOs (Ireland & Hitt, 2005) and the relational barriers between top managers and subordinates are minimized by the elimination of hierarchy (Getz, 2012). Such organization structure, in theory, is more likely to give employees more autonomy by involving the down level (Getz & Graney, 2012; Kastelle, 2013; McCann, Morris & Hassard, 2008) and by having less bureaucratic organization. However, in contrast to these findings, a recent study conducted by Wulf (2012) found that flattering (delaying) the organization increases CEO centralization and involvement rather than having less CEO involvement, which is not consistent with the objective of delaying. By removing the COO position and hiring more functional level managers such as CMOs, CHRM, CIO, the CEOs have more control since the number of division heads that report directly to them increased (Raghuram and Wulf, 2006). As well, through interviews done with CEOs of Fortune 500 companies, they asserted that the main reasons for delaying, is to "get closer to the business" and not to push decisions downward.

In the management field, the concept of leadership or management style is an intriguing theme. It has drawn the attention of researchers for decades due to its link to employees outcomes and firm performance (Zehira, 2011). Furthermore, in M&A context**,** despite the importance of leadership style on firm success, works examining the managerial culture are fewer and are interested in the effect of management style differences on the M&As operations success, using a comparison of specific or individual management styles dimensions (Datta, 1991; Davis, 1968; Schoenberg , 2004; Schoenberg & Norburn, 1998; Šunje et *al.* 2012). Datta (1991) addressed the issues of national and organizational culture incompatibilities between the target and the acquiring firm as a cardinal driver of M&A failure. Taking into consideration the effect of culture synergy, he theorized that the higher the culture clash, the higher the acquired firm managers turnover along with the lower the employee commitment and collaboration.

1.3. Liberating leadership style and M&A success

Yet, accordingly, fewer studies conducted in M&A support the argument suggested by Getz & Carney (2009) which focuses on employees as key driver of firm success. For instance, Harding and Rouse (2007, p.2) asserted that "The success of most acquisitions hinges not on dollars but on people". He also argues that financial and legal issues are prevailed in the pre-merger stage whereas employees that are the soft side of the organization are ignored. Further issues, with regards to the leadership style and people outcomes, are highlighted by Amabile (1998), Junga, Chowb & Wuc (2003), and Mumford & Gustafson (1988), who suggested that the leadership style influences the motivation, efficiency, effectiveness and outcomes of subordinates and with that influence it was proved to be a such rise in firm performance (Zehira, 2011). The leadership style mostly depends on the employees commitment which in turn reflects the employees outcomes (Waldman & Javidan, 2009).

Preview studies from the organizational culture perspective, theorized that value destruction is due to poor leadership style, which is in turns depends on the success of the post-acquisition integration. Liberating leadership style is considered as an effective leadership in stable environments (Getz, 2009). In acquisitions, leaders displaying positive behavior, translated by delegating responsibilities and freedom to employees, are able to alleviate the employees stress and resistance to change yielding thereby an increase in firm performance. By granting autonomy, listening to employees needs and giving them the opportunity to take responsibilities and initiatives to decide what is best for the company, the employees are involved in the firm objectives and are able to fulfill the goals of the merger, which essentially consists in synergies creation.

Furthermore, the type of the leadership style could contain signaling information and it is reflected immediately in security prices. Favorable market response means that the market predicts the favorable synergy realization. Hence, in view of the arguments mentioned above we expect that the market anticipates the successful of these operations because of the valuation of the acquirer's leadership style, since it is considered as an effective leadership style and it is implemented by many companies classified as the best places to work in.

Building on these empirical evidences, we predicted that liberating leadership increases employees job performance by granting freedom and autonomy to employees leading therefore to M&A success. Being responsible for the development of their employees, liberating leaders have to provide the well-being in the workplace in order to enhance M&A success. Under this literature, it further turns out that liberating leadership style yields positive effect on short-run abnormal returns, and thereby, leads to enhance the M&A success of the bidder. As well, assuming that the deals are wealth creation for the target, so cumulative abnormal returns increase with the bidder's leadership style level.

Building from these prior empirical results and researches, we expected that:

Hypothesis 1: the higher the level of the acquirer's liberating leadership style, the more likely the deal generates short-run success for the bidder.

Hypothesis 2: The level of bidder's liberating leadership style increases the short-run success of target firm.

2. Methodology

2.1. Sample selection

The current study was carried out using deals undertaken by publicly traded firms, gathered from Securities Data Company's (SDC) U.S. Mergers and Acquisitions Database and covered 2000 through 2013. The firms are listed in the S&P 500 index in all years from 2000 to 2013 and extracted from Compustat (WRDS). The non significant deals including the deals whose value is lower than one million of $ are excluded from our sample as well as cross-border deals. We have chosen the significant deals to lower the error term and avoid inconclusive results.

The sample only includes M&A of major stakes (that is more than 51 per cent) and completed deals whereby the acquirer ends up with the acquisition of 100% of the target's shares after acquiring 50% before the deal achievement. We required that the bidder is a publicly listed firm on the Center for Research in Security Prices (CRSP) and Compustat during the event window.

Indeed, the dependant variable in this research refers to firm success, which is assessed through firm financial performance; meanwhile the independent variable is related to top managers liberating leadership style. Thus, daily returns data are taken from the Center for Research of Stock Prices (CRSP) while financial information (total assets, total debts, market value) are extracted from COMPUSTAT database, respectively. Information inherent to CEOs such as CEO name, tenure and duality are drawn from standard and poor's EXECUCOMP (2000) database. This provides us of 346 targets deals and 172 acquirers, for which we are able to compute CARs for the target and acquirer firms.

Data needed to construct liberating leadership style has been collected through CEOs' speeches that are CEO's letters to shareholders (letters sent from CEOs to shareholders). These letters are retrieved from Public Register's Annual Report Service ; Investor Relations Information Network ; EDGAR (U.S. Securities and Exchange Commission) and Thomson one. The acquirers whose letters are not available in the preview mentioned databases as well as the firms for which the data is not available in ExecuComp (2000) are excluded from our sample. Given these data filters, the sample is reduced to 298 deals and 154 acquirers for which we could compute a score of CEO leadership style.

Furthermore, the use of the S&P 500 is justified by the fact that 85 % of the standard and poor's 500 companies have a section dedicated for the leadership or management style of the firm (Guiso, Sapienza and Zingales, 2014). As well, the letters sent from CEOs to shareholders are privileged materials used to construct the leadership style for some reasons. First, the CEO's letter is the most amply read item in the annual report (Courtis, 1982) and presents the most commonly used narrative text in management literature. The CEO actively participates in writing the letter. This letter provides the managerial cognitions of the authors as they are useful for constructing their beliefs and perceptions (D'Aveni & MacMillan, 1990). Indeed, the analysis of the language of the letter mirrors the thoughts of the CEO on various environmental aspects, concerns and decisions affecting the firm (Goodman, 1980). Therefore, this letter is held to provide important issues of top management values and style of an organization. Another raison is that letters are systematically available for the public firms.

2.2. Identification and measures of variables

In this section, we present the measurement of the variables: cumulative abnormal returns of the target and the acquirer as our dependent variables, leadership style as the explanatory variable, and governance variables, CEO and deal-specific characteristics as our control variables.

A. Measuring firm success

Drawing from the extant researches in M&A, the evaluation of the financial success of M&As stems from two perspectives: the financial and operating perspective. More broadly, the financial success that refers to value creation, given as the ultimate objective of the firm, is suggested as a useful measure of M&A success. According to Martynova & Renneboog (2008), the best benchmarking used for M&A success is either shareholder value creation or realization of net gains. In our present research, we use the perspective of the financial market that consists in either evaluating the M&A operations success surrounding announcement dates or after completing theses operations (Laabs, 2009).

By implementing the ordinary least squares (OLS) regression in an event study framework, we assess acquirer and target's cumulative abnormal returns (CARs) around takeover announcements in order to measure short-term M&A success. Using the beta-one model for the (-1,+1) event window centered symmetrically around the announcement date, the daily abnormal returns are computed as the difference between the observed return of the acquiring or the acquired firm, and the benchmark return usually the estimated return derived from the market model with CRSP value-weighted market index returns (MacKinlay, 1997; Khotari and Warner, 2006).

Following the Scholes and Williams (1977) procedure to estimate the parameters of the market model, the daily return, the daily abnormal returns, CARs are computed as specified in the following equations:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_{it}$$

$$AR_{i,t} = R_{it} - E(R_{i,t} \backslash X_T) \quad \& \; CAR_{(-1,+1)} = \frac{1}{N} \sum_{j=1}^{N} \sum_{t=-1}^{+1} AR_{jt}$$

Where: X_T represents the conditioning information for the predicted return model.

: ε_{it} is an i.i.d. normally distributed error term.

For modeling abnormal returns, we use the market model instead of the market-adjusted model or the Mean-Adjusted Returns Model (the constant mean return model). MacKinlay (1997) argue that the market model is better than the constant mean return model as long as removing the part of the return that reflects the variation in the market return reduces abnormal returns variation and leads thereby to an increase in detecting the events impact on stock prices. Indeed, the advantage of using market model is the reduction of the abnormal return variance and the increase of the gains when the R_2 of the market model regression is higher. As with the constant mean return model, the market-adjusted model is subject to constraints biases. Since the parameters α and β of the market-adjusted model are constrained to be zero and one, respectively, MacKinlay (1997) recommended to only use the market-adjusted model "if necessary, and if necessary" because of the biases that could arise from the imposition of such restrictions.

Indeed, to avoid the effect of confounding events effects (the news events such as the announcements of bonus shares, dividends), on the event of concern, we use shorter event window (M&A announcement) (Konchitchki & O'Leary, 2011). We use (-205,-6) day estimation window as the accurate estimation window length advocated by Park (2004), since the results are not sensitive provided the length of this window is beyond 100 days.

Further, to assess if the results are sensitive to the use of the three-days period specification, some sensitivity tests are performed by re-estimating the models through the event window (-1, +2). To address the statistical significance of event returns, parametric and non parametric-tests of CARs have been applied.

B. Measuring liberating leadership style

Building upon our current study on the work of Short, Broberg, Cogliser & Brigham (2010) and Davis & Gardner (2012), we rely on content analysis through a computer-aided text analysis (CATA) approach as a way to gauge the leadership style. To meet the measurement problems issues encountered in management field, content analysis of CEO's speeches such as annual report or letters sent from CEOs to shareholders, is a method used by many scholars as a way to construct management variables such as charismatic leadership style and entrepreneurial orientation (Engelen, Neumann and Schmidt, 2013), since it presents the advantage to include both qualitative and quantitative analysis (Davis, 2012, p.4).

Originally developed by Short et al. (2010), this approach is divided into two approaches such as the inductive and the deductive approach and finds its roots in the work of Short et al. (2010). In our study, we use a deductive approach and supplement it by an inductive approach (starting from theory to empiricism). It consists in identifying an exhaustive list of commonly used words within all CEO's letters sent to shareholders across all the firms. We use the Diction software as a CATA programs, which enables us to generate an "insistence score" mentioning the words that are repeated three or many times in the text of interest. We obtain 14,000 commonly used words in the text of study.

Afterwards, the word selection from this preliminary list was guided by developing a working definition of the liberating leadership style. We rely on Getz's three-dimension conceptualization of liberating leadership style as "the style satisfying the employees' needs of self-direction, growth and of being treated intrinsically equal by the removal of hierarchy". We also use Rodale's (1978) "The Synonym Finder" to create a list of words that captures the theoretical

definition of each of the three liberating leadership style dimensions. Thus, 321 words are created by using Isaac's Book and the Synonym Finder.
Then, this list was refined by identifying the words that germane to the construct of interest, that is, the liberating leadership style. Finally, the Diction software is used to compute the frequency of these words for each CEO as a measure of his liberating leadership style. The list of these words definitely chosen (82 words) is presented in appendix 1.

Indeed, the examination of the shareholders letters during the liberating leadership style calculation process indicates that the mean number of words used in our sample of letters sent from CEOs to shareholders was 14,796 while the length of these letters varied considerably with the longest letter contained 67,744 and the shortest one used 1,494 words. Thus, we standardized our liberating leadership style construct words by scaling them by the total number of words obtained in the text of interest.

C. Control variables

The factors studied in the literature and inducing success include strategic, organizational and financial factors. Following Masulis, Wang and Xie (2007), we control for the potential impact of the governance variables and deal and acquirer characteristics on M&A success.
The bidder characteristics that we control for include firm size, leverage and SIC code**.**
As documented by Moeller, Schlingemann, and Stulz (2004), larger acquirer's size tend to be negatively correlated with the acquirer's CARs. The explanation of this effect size finds its roots in the managerial hubris hypothesis developed by Roll (1986) as long as these bidders pay higher premiums leading thus to firm value destroying. Firm size is defined as the natural logarithm of the bidder's total assets (AT), measured at fiscal year-end prior to the date of announcement of the M&A.
Leverage is defined as the acquirer's book value ratio of total debts over the market value of total assets, where the book value of total debts is equal to the long-term debts and debts in incurrent liabilities**.** The market value of total assets is computed as the book value of assets minus the book value of common equities plus the market value of equities.
It is theorized that leverage provides incentives for mangers to increase firm performance since they could lose their jobs and cede the overall control to the creditors whether the firm falls into financial distress or they violate debt covenants. Leverage is also a cardinal governance

mechanism to limit the availability of free cash flow and therefore to reduce the managerial discretion of managers and their ability to engage in empire building. Free cash flow is computed as (Funds from operations – Capital expenditures - Cash dividends paid) scaled by total assets. It corresponds to the values in the last annual report available at the announcement date.

Indeed, the empirical evidence suggest that the method of payment is negatively associated with the abnormal returns of the acquirer when the transaction is paid by equity. Myers, Stewart, and Majluf (1984) put into evidence that this negative market's response is due to the equity signaling hypothesis, suggesting that the adverse selection problem is generated by equity issuance**.** The method of payment takes the value one whether the operation is fully or partially financed by cash and zero otherwise (payment in equity or mixed payment).

Indeed, we compute the relative deal size as the deal value divided by the acquirer's market value of equity (Moeller et al. 2004). Bidder's size is measured by bidders' market value of shareholders equity. Relative deal size is equal to deal value over bidder size. The upper echelons researches put forward that the coefficient associated to relative deal size is usually significant but the sign of this latter is trivial. Asquith, Bruner and Mullins (1983) and Moeller et al. (2004), among others, reported significant positive coefficient while Travlos (1987) found contradictory results.

Target ownership status is a dummy variable equals to one if the target is public and 0 if it is private or subsidiary. The empirical evidences suggest that bidders earn negative abnormal returns when they buy public target. Among the reasons for the underperformance of acquiring privately held companies is: the liquidity discount. The private companies are considered as less liquid investments and this liquidity discount is reflected in their evaluations of the potential target by offering a lower price compared to public firms (Officer, 2007).

Two indicator variables are created and denoted as diversifying acquisition if the two entities involved in M&A do share a Fama-French industry (acquisitions of firms within the same two-digit SIC as reported by SDC), and not diversifying if these acquisitions do not. Song and Walkling (2008), Aktas et al. (2009), and Betton et al. (2009), among others, have documented that diversifying deals usually induce destruction of the shareholders value while they benefit the own interest of managers .

We also include governance variable as control variables. Governance variables refer to CEO tenure and CEO duality: we create a binary variable that is equal to one if the CEO holds the position of chairman of the broad and the position of CEO, and zero otherwise. CEO tenure equals to the CEO's number of years in office and was square-root transformed since its distributions departed from normality. CEOs with longer tenure are more likely to integrate the networks of key stakeholders and built the resources and coalitions (Simsek, 2007). Greater tenure also allows the CEO to accumulate deeper knowledge of the firm environment and job specific skills and, in so doing, long-tenured CEO enhances firm success.

2. 3. Model Specification

Our empirical procedure involves a linear regression model, with the aim to examine the potential relationship between firm success and top managers' liberating leadership style. We model acquirer and target cumulative abnormal returns around the announcements of M&A operations, by using OLS regressions in an event study framework.
The basic model specification of the present study can be developed as follows

$$R_i^t = \alpha_i + \beta\, LS_A + \delta\left(CV_{gov,\ A}, CV_{deal\,char,\ A}, CV_{bidder\,char,\ A}\right) + \varepsilon_t$$

Where:
- R_i^t : indicates the three-day cumulative abnormal returns
- LS_A: measures the liberating leadership style of the acquirer
-$CV_{gov,A}$ **:** refers to the governance variables including the CEO duality and CEO tenure. CEO duality represents a dummy variable that takes the value 1 if the CEO holds the position of Chairman of the board and CEO and 0 otherwise; CEO tenure is measured in number of years.
- $CV_{deal\ char,\ A}$ **:** denotes bidder characteristics that include the method of payment, the relative deal size and the industry relatedness. The method of payment takes the value 1 whether the operation is fully or partially financed by cash and 0 otherwise. For industry relatedness, two indicator variables are created: related (or not diversifying) for acquisitions of firms within the same two-digit SIC as reported by SDC and diversifying otherwise.
Relative deal size is computed as the deal value divided by the acquirer's market value of equity. These variables are introduced in the model as controls for the transaction characteristics that may influence the cumulative abnormal returns.

$CV_{\text{bidder char}\,,\ A}$: include the firm size, Tobin's Q, leverage, and free cash flow (FCF). Leverage is defined as the acquirer's book value ratio of total debts scaled by the market value of total assets, where the book value of total debts is equal to the long-term debts and debts in incurrent liabilities. The market value of total assets is computed as the book value of assets (AT) minus the book value of common equity plus the market value of equity. Firm size equals to the natural logarithm of the book value of the acquirer's total assets. The Free cash flow is computed as follows: operating income before depreciation minus (income taxes + interest expense + capital expenditures) scaled by book value of total assets. Tobin's Q is equal to market value of total assets scaled by book value of total assets.

3. Results and interpretations

3.1. Univariate Analysis

Table 1 displays the descriptive statistics of the short-run performance for acquiring and bidder firms around the acquisition announcement date as well as the scores of the liberating leadership style.

As shown in this table, the average 3-day CAR for the acquirer is -0.017 and it is highly significant at the 5% level. For the deals financed by cash, the CAR is, on average, -0.006 and is significantly different from zero at the 5%. Indeed, the bidder's CAR is about -0.003 for the transactions financed by stocks. 37 per cent of the acquirers experience positive CARs during the event window (-1,+1) while 93% of the acquiring firms' CARs are positive. For the event window (-1,+1), the average CAR value is -0.017 and 0.300 for the acquirer and the target, respectively**.** For the (-1,+2) event window the CARs continue, on average, to be negative for the acquirer.

On average, thereby, shareholders of target firm benefit from external growth while acquirers' shareholders don't realize gains from M&As operations. This supports the prior findings of Moeller (2004). The losses generated by the bidders around the announcement date could be explained by the overpayment realized by the acquirers in a competitive environment.

Indeed, descriptive statistics for liberating leadership style are provided in table 1. The scores for each CEO are computed by scaling the total words in the CEO's letter by the total words in the letters. The mean of the acquirer's liberating leadership style is 0.058 where the minimum score is 0 and the maximum score is about 0.287. A higher score for liberating leadership style indicates that the CEO is giving more freedom and providing growth and equality to his employees. Firms with higher liberating leadership style are experiencing higher profitability and are classified by Fortune as the best places to work in, while a score of zero means that the firm is not implementing this style.

Moreover, the examination of matrix correlation shows that there is no correlation problem between variables as long as no interfactor correlation is above the 0.5 level. The liberating leadership style is significantly and positively correlated with bidder's cumulative abnormal returns through the event window (-1,+1) and (-1,+2). Indeed, the examination of the multicollinearity produces a mean VIF of 1.29. So this value doesn't present a bias to our data. We also verify the absence of multicollinearity since each independent variable has a lower variance inflation factor than the recommended threshold of 2.0.

Furthermore, table 2 contains the descriptive statistics relative to control variables. Our sample presents lower leverage, higher Tobin's Q and smaller relative deal size. This supports the findings of Moeller et al. (2004) that large firms are characterized by a higher Tobin's Q and lower leverage. The CEOs in our sample have served, on average, 3 years in their positions. 62,7% of acquirers involved in M&A do share the same Fama-French industry. 57,75% of deals in the sample are paid by cash. The Pearson correlation matrix in table 3 shows that the CEO tenure and the firm size are significantly correlated to the liberating leadership style.

3.2. Cross-sectional Analysis

In table 3 we report the regression results with controlling for deal and bidder characteristics and governance variables. Regarding the results for the acquirer firm, we find that U.S. bidders experience significantly lower stock returns around the announcement date since the coefficient associated to the intercept is negative and significant; meanwhile a significantly positive coefficient of the intercept for the targets suggests that higher returns are generated for the U.S. targets. This evidence shows that external growth by M&A is value-enhancing operations for the target firm. However, they fail to create value as regards the acquirer's shareholders and this supports the consensus amongst prior evidence (Alexandridis, Mavrovitis & Travlos, 2012).

According to the evidence presented in table 3, the results reported in table 3 support the hypothesis 1 predicting that firms led by liberating leaders are more likely to increase firm success. These results reveal that the cumulative abnormal returns are an increasing function of the leadership style and the magnitude and statistical significance across the five models specification is stable. As well, our results do not alter within controlling for a wide variety of bidder & deal characteristics and governance variables.

The model 1 suggests that that stock returns respond positively to liberating leadership style. Hence, an increase by 1% of the level of liberating leadership style increases the bidder shareholder value by about 0.16 units. As the positive and statistically significant the coefficient associated to liberating leadership suggests, the success of the M&A operations tend to increases as the level of liberating leadership increased too.

Therefore, the firms whose CEOs are liberating underperform the ones that practice a traditional leadership style. The acquisitions that tend to perform better are those in which the bidder has a liberating leadership style. It stems from these findings that implementing higher performing human resources practices by providing freedom to employees to take initiatives and responsibilities as well as well-being in the work place is a driver of the M&A success. It follows that our results are consisting with the theoretical evidence.

Model 2 displays the regression estimates when controlling for governance variables such as CEO duality and tenure. Liberating leadership style continues to have a positive effect on bidder's CARs. However, none of the coefficients related to governance variables is significant. This indicates that separating the position of CEO has no significant effect on shareholders' wealth. In terms of CEO tenure, there is no significant relationship between CEO tenure and short-term success. Likewise, the results don't change whether we introduce the deal characteristics in model 3. The coefficient associated to the variable cash in this model is positively significant suggesting that deals financed by cash generate higher abnormal returns than mixed acquisitions. Bidders captured higher returns in cash deals while in equity or mixed offers the returns are lower. This is consistent with the findings of Moeller et al. (2004) and Meyers (1984), among others, who pointed out that short-term creation for the bidder is generated when the transaction is paid by cash and this is due to the equity signaling hypothesis.

The negative coefficient associated to the relative deal size and cumulative abnormal returns is consistent with the first hypothesis. As the negative and statistically significant the coefficient associated to the relative deal size suggests, the success of the M&A operations tends to increase as the relative deal size decreases too. Hence, this destruction of value is negatively and significantly related to the relative deal size.

Furthermore, the introduction of bidder characteristics in the model 4 shows that short-term success decrease with the industry Tobin's Q. As documented by Moeller et al. (2004), the negative significant coefficient is contradictory to the overvaluation hypothesis. Acquirers with higher Tobin's Q could be overvalued (having higher equity capitalization) and may signal to the market their true values, particularly when they use equity as payment method. Short-term destruction for the bidder is negatively related to Tobin's Q. As the statistically significant and positive coefficient of the leverage suggests, the higher the leverage of the firm, the greater the success of M&A operations. We conclude that leverage has a positive effect on CARs, thus giving support to the hypothesis that leverage does have an impact in preventing managers to accomplish bad transactions.

Moreover, we perform a sensitivity test in order to assess whether the results are sensitive to this particular event window specification. We re-estimate the model at the event window (-1,+2) and results are reported in table 4. The sensitivity tests are similar to those found previously and reveal some instances of a significant positive relationship between firm success and the liberating leadership style. We also provide additional results in table 5. We found no evidence supporting the hypothesis 2 that postulated that the success of the target is positively associated to the level of liberating leadership style of the acquirer.

4. Robustness tests

To conduct the robustness of the results, we use an alternative measure of the liberating leadership style. This measure reflects the quantity of information over the years of CEO tenure used in our sample. We rely on the work of Margaret Herman to construct this alternative measure. Therefore, the score of liberating leadership style is determined by computing the percentage of liberating leadership style words in a particular CEO tenure relative to the total number of liberating words (N. of words=82). The overall score is the average percentage across the letters examined. Table 6 reports the estimation results. The results using this alternative measure yield additional support for the bidder positive M&A success-liberating leadership style relationship.

5. Discussion

Our results suggest that upper echelons theory should take into account leadership style as an important determinant of M&A success. Univariate analysis show that acquirers experience negative cumulative abnormal returns while they are positive for the target. Multivariate analysis held to test the effect of liberating leadership style on M&A success of the bidder, reveals a significant relationship. Therefore, our findings are consistent with (Carney & Getz, 2009) who suggest that providing development, freedom and well-treatment in the workplace is more likely to increase employees motivation leading thereby to an increase in firm performance (Carney and Getz, 2009). This study supports the idea that firm performance could be achieved by increasing subordinate well-being. Although the results are significant for the bidder, this study does not support the significant relationship between bidder's liberating leadership style and M&A success of the target. The inclusion of deal characteristics, governance variables as well as an alternative measure of liberating leadership is to test whether the results stay robust.

6. Conclusion

Although former studies have proved that leadership style is becoming critical to firm success, research in M&A context is limited. This research is built on preview researches on leadership-success relationship, to further examine and shed light the impact of liberating leadership on M&A success.

This study provides results that corroborate the broad deal of current works in this field. Specifically, our findings suggest that bidders in which the CEO is displaying higher level of liberating leadership experience higher abnormal returns and these results stay robust when we introduce deal and bidder characteristics along with governance variables.

As a result, the findings of this research imply that liberating CEOs tend to generate wealth for shareholders. This suggests that organizations should focus on leadership style in order to achieve M&A success.

The results of this study have several implications for theory and future research. Our study may be extended by incorporating the effect of the leadership style of the target. As well, limitations of this study concern the restricted sample that only includes domestic American M&A operations. Further researches could explore this topic by taking into account cross-border deals across different cultures.

Table 1

Descriptive statistics of leadership style and CAR

The sample consists of completed U.S corporate mergers and acquisitions (listed in SDC) between 2000 and 2013 made by S&P 500 acquirers, where the transaction value is at least 1 million of $. CAR (-1, +1) and CAR (-1, +2) refers to the three four-day cumulative abnormal return, respectively. Note: * p-value <5%.

Variables	Mean	Median	SD	Min	Max	CAR+/-
Leadership style of the acquirer	0.058*	0.042	0.055	0	0.287	
CAR acquirer (-1+1)	-0.017*	-0.008	0.050	-0.298	0.149	110 :188/ 37%
CAR acquirer (1,+2)	-0.015*	-0.009	0.053	-0.216	0.204	117:181/ 39%
CAR target (-1+1)	0.300*	0.233	0.339	-0.963	2.317	280:18/ 93%

Table 1: The Pearson Correlation Matrix

Variables	1	2	3	4	5	6	7	8	9	10
1. CARs	1									
2. CEO liberating LS	0.17*	1								
Control variables										
3. Relative deal	- 0.27*	-0.07	1							
4. Diversifying	-0.01	0.06	0.12*	1						
5. Duality	-0.04	0.07	-0.00	0.02	1					
6. Tenure	-0.01	-0.14*	-0.08	0.04	0.07	1				
7. Leverage	0.01	-0.03	0.34 *	0.02	0.01	-0.02	1			
8. Firm size	0.10	0.20*	-0.18*	-0.02	0.16*	-0.25*	0.18*	1		
9. Tobin's Q	-0.14*	-0.06	0.03	-0.05	-0.03	0.07	-0.28*	-0.26*	1	
10. Free Cash Flow	0.04	0.03	-0.08	-0.04	-0.03	-0.21*	-0.42*	-0.05	0.10	1
11. cash (Dummy)	0.25*	-0.08	-0.36*	-0.11*	0.00	-0.14*	-0.19*	-0.02	- 0.02	0.28*

Table 2: Descriptive statistics of control variables

Variables	Mean	SD	Min	Max
Bidder Characteristics				
Deal value	3927.576	9076.276	2.994	67285.7
Bidder size**	9.789	1.553	5.309	13.920
Free cash flow	0.066	0.065	-0.194	0.269
Leverage	0.135	0.125	0	0.653
Tobin's Q	2.554	3.707	0.378	58.040
Deal Characteristics				
Method of payment	0.579	0.494	0	1
Relative deal size	0.199	0.388	0.000	2.747
Industry relatedness	0.627	0.484	0	1
Governance variables				
CEO duality	0.714	0.452	0	1
CEO tenure*	3.153	0.923	1	6

*CEO tenure (in years) is square rooted to preserve linearity,
** Natural logarithm of total assets (million of $)

Table 3: OLS regression

Variables	$R_{iA}^{t} = \alpha_i + \beta\, LS_A + \delta\, (CV_{gov,A}, CV_{deal\ char,A}, CV_{bidder\ char,A}) + \varepsilon_t$				
Bidder's Liberating leadership style	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**
	0.160*** (0.002)	0.166 *** (0.002)	0.150*** (0.003)	0.143*** (0.007)	0.146*** (0.004)
Governance variables					
CEO tenure		0.000 (0.787)			0.001 (0.721)
CEO duality		-0.006 (0.332)			-0.006 (0.317)
Deal Characteristics					
Payment Method			0.019*** (0.002)		0.019*** (0.003)
Relative deal size			-0.024*** (0.002)		-0.031*** (0.000)
Industry relatedness			0.002 (0.652)		0.000 (0.875)
Bidder Characteristics					
Bidder size				0.001 (0.616)	-0.000 (0.963)
Free cash flow				0.043 (0.369)	0.050 (0.312)
Leverage				-0.002 (0.936)	0.057** (0.046)
Tobin's Q				-0.002 *** (0.006)	-0.001** (0.025)
Intercept	-0.027***	-0.025**	-0.034***	-0.033**	-0.036**
Adjusted-R2	0.028	0.024	0.116	0.048	0.154
Mean VIF	1	1.02	1.10	1.18	1.29
T-Fisher	9.64 (0.002)	3.53 (0.015)	10.16 (0.000)	3.95 (0.001)	6.00 (0.000)

The values in parentheses represent the plus-value.

Table 4: Sensitivity test [Event window (-1, +2)]

$$R_{iA}^{t} = \alpha_i + \beta\, LS_A + \delta\, (CV_{gov,\ A}\, , CV_{deal\ char,\ A}, CV_{bidder\ char,\ A}) + \varepsilon_t$$

	(1)	(2)	(3)	(4)	(5)
Intercept	-0.023***	-0.028**	-0.030***	-0.012	-0.029
β	0.143 ***	0.154***	0.130**	0.137**	0.145***
Deal Characteristics					
Payment method			0.022		0.025
Relative deal size			-0.025***		-0.031***
Industry relatedness			0.000		-0.001
Governance variables					
CEO duality		-0.007			-0.006
CEO tenure		0.003			0.002
Bidder characteristics					
Bidder size				-0.000	-0.001
Free Cash Flow				-0.030	-0.028
Bidder Leverage				0.008	0.057*
Tobin's Q				-0.001*	-0.001
Adjusted-R2	0.019	0.018	0.111	0.020	0.137
T-Fisher	6.84	2.89	9.72	2.22	5.36

** *, **, ***, statistical significance at 10%, 5% and 1% respectively.

Table 5 : Additional results				
	(1)	(2)	(3)	(4)
Intercept	0.288***	0.123**	0.506***	0.282**
β	0.201	0.141	0.163	0.017
Deal Characteristics				
Payment Method		0.215***		0.170***
Relative deal size		0.024		0.003
Industry relatedness		-0.004		-0.017
Target characteristics				
Target size			-0.030**	-0.010
Free Cash Flow			-0.376**	-0.416***
Target Leverage			-0.003	0.029
Tobin's Q			-0.016	-0.012
Adjusted-*R2*	-0.002	0.093	0.113	0.163
T-Fisher	0.32	8.05	8.55	7.71

*, **, ***, statistical significance at 10%, 5% and 1% respectively.

Table 6: Robustness tests

	(1)	(2)	(3)	(4)	(5)
Intercept	-0.025***	-0.032***	-0.022*	-0.026	-0.026
β	0.009***	0.008**	0.010**	0.008**	0.007**
Deal Characteristics					
Payment Method		0.019***			0.018***
Relative deal size		-0.023***			-0.030***
Industry relatedness		0.002			0.0004
Governance variables					
CEO duality			-0.007		-0.006
CEO tenure			0.0003		0.0003
Bidder characteristics					
Bidder size				0.0004	-0.0004
Free Cash Flow				0.041	0.045
Bidder Leverage				-0.005	0.052*
Tobin's Q				-0.002***	-0.001**
Adjusted-R2	0.020	0.105	0.018	0.041	0.142
T-Fisher	7.19	9.15	2.81	3.50	5.54

*, **, ***, statistical significance at 10%, 5% and 1% respectively.

Appendix 1: Words definitely chosen

Liberating leaders create an environment satisfying people's need of self direction: free, freedom, freedoms, freely, freed, frees, freeing//empower, empowers, empowered, empowerment, empowering // initiative, initiatives // accountabilities, accountable, accountability//responsibility, responsibilities, responsible, responsibility //bureaucracy, bureaucratic //authority, authorities.

Liberating leaders create an environment satisfying people need's to grow : Developing the confidence and skills of employees = trust, trusted, trusts, trustworthy // confidence, confident // I believe in , I have belief in employees // develop, developed ,developing, development, developments// train, retraining , trained, training//well-developed, well-trained // learn, learning //knowledge // opportunities, opportunity// potential// skills, skill // grow, grows, growing, growth //coach, coaches, coaching // invest, invested, invests, investment, investments// teach , teaches , teaching.

Liberating leaders create an environment of intrinsic equality, no hierarchy: Fairness: equal, equaled// equity// fair, fairness, fairly // dignity // honestly, honesty// justice// respect, respected, well-respected// // hierarchy, hierarchical

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