

## **EXECUTIVES' NETWORK CHANGE AND THEIR PROMOTABILITY DURING A MERGER**

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### **ABSTRACT**

Previous research suggests that large, open personal networks with many structural holes help executives' career, focusing on stable organizations. Using pre- and post-merger email networks, however, we find that building closed networks can be more advantageous if they are created across organizational boundaries (legacy organizational and functional) during a merger.

### **INTRODUCTION**

Junior executives are high-level middle managers and leaders that are important players in organizational change because they serve crucial roles as the organizational "backbone," buffering between top and low levels (Keys & Bell, 1982) and acting as organizational change agents (Huy, 2002). Hence, network researchers have asked and answered research questions, such as "what types of social relationship patterns would bring career advantages to junior executives?" A well-established answer is that junior executives should have "open" personal networks with many structural holes, where the focal person's contacts are not directly related to each other, while "closed" networks of densely connected individuals will have negative effects on careers because bridging the structural holes in an open network can bring diverse information and more influence on others (e.g., Burt, 1992; 2005; Seibert, Kraimer, & Liden, 2001). However, recent evidence suggests that this might not be true universally because closed networks are beneficial in some organizational contexts. This study theorizes and tests whether junior executives confronting a turbulent organizational period, such as during a merger, can benefit from closed networks instead of open networks in that important context.

### **LITERATURE REVIEW AND THEORY**

#### **Social Capital Theories and the Optimal Network for Career Success**

There are two major perspectives within social capital research – the bridging view and the bonding view (Adler & Kwon, 2002). The bridging view of social capital is concerned with

individuals' competitive career advantages gained from having certain relationship patterns, and particularly from being in a position that connects distant social groups. In contrast, the bonding view is concerned with the benefits of cohesive social relationships among group members, which brings benefits to all of the groups' members. These two views suggest that very different personal social networks and networking strategies are "optimal" for individual's career success and that there is a need to understand major contingencies that might determine which view holds sway in a particular situation.

Researchers have argued that open networks are more beneficial for individuals' career advancement in organizations for three reasons: (1) individuals with open networks connecting different social groups ("brokers") are more likely to have access to diverse information and knowledge pools; (2) tapping into many social groups can bring in useful information in a timely manner; and, (3) brokers are more likely influential and powerful because they control the information flows between social groups and also because they are more likely to have connections to the organization's dominant coalition (Brass, 1984; Burt 1992; Padgett & Ansell, 1993). This has been a prevalent view in the social capital literature on career advantages (e.g., Burt, 1992, 2005; Mehra et. al., 2001; Seibert et. al., 2001; Zaheer & Soda, 2009).

However, more recent research is finding the potential disadvantages of bridging social capital through open networks. Structural holes in open networks might not benefit individuals who possess them if the individuals are not considered as legitimate brokers by others (Burt, 2005), or the context requires strong organizational identity or trust among members (Podolny & Baron, 1997; Xiao & Tsui, 2007).

The contrasting bonding view highlights that strong relationships among community members have "bonding" effects among related individuals, engendering "enforced trust" as they can monitor each other's behaviors. Thus, an executive's dense network might lend her trustworthiness and legitimacy to import and interpret innovative external ideas to other members of a group (Obstfeld, 2006; Ter Wal, Alexy, Block, & Sandner, 2016; Tortoriello & Krackhardt, 2010). Moreover, a densely-connected group of individuals is more likely to engender norms and identity unique to its members as compared to a sparsely-connected group. From this perspective, executives who promote close relationships among their organizational group members are likely to be seen more favorably by the top management team. Thus, while both open networks and closed networks have pros and cons in career outcomes, they might not be mutually exclusive as executives can have both simultaneously depending on the context.

### **The Role of Organizational Boundaries**

We argue that a critical consideration is understanding the role of organizational boundaries in determining the utility of open and closed networks. Executives can receive diverse information from outside of their own group rather than inside because the group members are likely to have similar information and knowledge sets through frequent interaction (Burt, 1992; Gibson & Vermeulen, 2003). In contrast, they must be deemed a legitimate and trustworthy member of their own group to make use of external knowledge imported by him- or herself (Hansen, 1999; Fernandez & Gould, 1994). Accordingly, we can infer from the extant literature that the optimal social network structure for executives' career is the one that is externally open to other social groups, but internally closed to their own group members. However, the extant research is limited in that it has been largely conducted in stable

organizational contexts, and not in the dramatic organizational change context, such as the organizational merger we study.

We propose that organizational changes and mergers might flip the optimal personal network structure for better career outcomes (i.e., internally closed and externally open) into *internally open* and *externally closed*. During turbulent organizational changes, such as mergers, relationships and identities among organizational groups such as functional departments and legacy organizations are dismantled and then re-constructed. Specifically, employees need to build new relationships with the employees from their counterpart department due to merger, and they need to create new organizational identities together. Therefore, closed networks across organizational boundaries might be more necessary for executives to promote post-merger integration. Conversely, internally closed relationships among group members have been suggested to hinder cross-boundary integration during a merger (Briscoe & Tsai, 2011) because closed networks tend to have pre-existing strong identities and norms and, therefore, are more likely resistant to change (Kim et. al., 2006). Our theory is tested with the below hypotheses.

### HYPOTHESES

We begin by testing a baseline hypothesis suggested by previous research suggesting a negative relationship between general network closure and junior executives' career outcomes.

*Baseline hypothesis: Increases in an executive's ego-network closure after a merger will be negatively related to the executive's career outcomes at T2.*

Faster organizational integration and stabilization into one company is likely to be among the top management team (TMT)'s highest priorities because many mergers fail owing to severe conflict and discoordination between legacy organizations (e.g., Agrawal & Jaffe, 2003; Cartwright & Cooper, 1993; Grotenhuis, 2009; Hogg et. al., 2012; Ullrich & van Dick, 2007). Junior executives are expected to contribute to the post-merger integration process by bringing together employees from the different legacy organizations to serve the newly-merged organization's goals. Lacking close relationships between employees of the two legacy organizations might impede mutual understanding, trust, coordination and helping behavior, while strong, close relationships promote these helpful outcomes (Nelson, 1989). Therefore, if junior executives help employees build new relationships during a post-merger integration process (i.e., by closing their personal networks rather than maintaining open network), they are more likely to be seen as valuable leaders by the TMT and to enjoy better career outcomes. On the other hand, increasing closed relationships among their own legacy employees may hinder the executives' ability and willingness to reach out to other legacy employees because of the strong identities and unique norms inherent to densely connected groups (Briscoe & Tsai, 2011; Portes & Sensenbrenner, 1993). Hence, junior executives are more likely to have better career prospects during a post-merger integration process if they increase their network closure between different legacy employees, while their careers may be hurt if they increase their network closure among their own legacy colleagues.

*Hypothesis 1a: Increasing network closure across legacy organizations in an executive's ego-network after a merger will be positively related to the executive's career outcomes.*

*Hypothesis 1b: Increasing network closure within the same legacy organization in an executive's ego-network after a merger will be negatively related to the executive's career outcomes.*

During a merger, coordination mechanisms across functional boundaries also need to be reconceptualized and harmonized across the two legacy organizations, often accompanied by significant employee turnover and organizational restructuring. Building these new coordination mechanisms require conscious cooperative effort among employees to experiment to find the best solutions. During this experimentation period, the need for cooperative and collaborative interaction between functional departments is likely stronger than the need for individuals' creativity. Therefore, TMTs undergoing post-merger integration will favor junior executives who increase network closure across functional boundaries after the merger. Along the same line as network closure within legacy organizational boundary, executives who increase network closure within their own functional boundaries will be disadvantaged in career outcomes as network closure with current group members is likely to obstruct creating new ties with other group members (Briscoe & Tsai, 2011; Zaheer & Soda, 2009).

*Hypothesis 2a: Increasing network closure across functional boundaries in an executive's ego-network after a merger will be positively related to the executive's career outcomes.*

*Hypothesis 2b: Increasing network closure within the same functional boundary in an executive's ego-network after a merger will be negatively related to the executive's career outcomes.*

## METHODS AND RESULTS

### Research Setting

Our research was conducted during an organizational merger process between similar-sized U.S. consumer products companies, Luxury and Standard, from 2013 to 2014. The merger was formally ratified in mid-March 2013, but much of the integration occurred during the latter half of 2013 (see Sung, et al., 2017, for a detailed description of the setting). Our research team were granted access to three major data sources: (1) personnel information from the company, (2) employee surveys we conducted in June 2013 and June 2014 on their attitudes toward the merger and the organization, and (3) the email servers that contained all of the email exchanges within the organization during two periods (June 2013 and June 2014) from which we constructed the employees' networks. The organization had about 1,500 corporate employees during the merger. For our study's purpose, however, we focused on 172 junior executives (director level to senior vice president). Our final sample was 72 junior executives who stayed in the organization and took the surveys in both 2013 and 2014.

### Variables

Our dependent variable, junior executives' career outcomes during a merger, was operationalized as promotability ratings. The junior executives' promotability was rated into

three categories (high, medium, and low) by the TMT during their succession planning process in Fall 2014. We used promotability over other career outcomes, such as actual promotion and salary increase, because ratings were conducted for every junior executive regularly for succession planning purposes. In comparison, actual promotion and salary increases may occur irregularly and for endogenous and exogenous reasons (e.g., job vacancies, seniority, and job transfer). Promotability was considered distinct from performance in this organization and the TMT used different criteria to rate performance and promotability (available from the authors upon request). To sum up the criteria, performance was rated based on the executives' functioning in their current position while promotability was based more on the potential for higher positions and whether they were perceived to have the ability to think strategically beyond their own department and for the entire enterprise.

We employed employees' email exchange metadata to construct the network variables. To account only for meaningful relationships, we defined a tie between two employees only when they exchanged four or more emails during the one-month period. Network stability analyses using thresholds from 1 to 10 support our choice of four emails (analyses available on request). Ego-centric network closure, our independent variable for the baseline hypothesis, was calculated using Burt's (1992) measure of network constraint. Other independent variables, network closure within and across organizational boundaries, were calculated by counting the number of closed relationships (triads) among three people. For example, a closed triad across legacy organizations exists when an executive and two other employees are from different legacy organizations and have relationships with each other. Also, a closed triad within a legacy organization is created when an executive and two other employees are from the same legacy organization and have relationships with each other. We controlled for the sum of open and closed triads in each category to disentangle any potential effects of the number of ties.

We also controlled for age, performance, gender, legacy, and rank. The number of days from last salary change was also controlled because recent salary increases signaled recent major job changes that might lower employees' promotability in the near future. Functional integration order indicated when the employee's home functional department was being pressure to integrate by the TMT, as this might influence the executives' networking behavior. Lastly, *tertius iungens* orientation, which is an individual's tendency to introduce unconnected others and has been suggested to increase executives' innovative performance (Obstfeld, 2005), was included to isolate the effects of network structural changes over and beyond general networking propensity.

## ANALYSES AND RESULTS

We tested our hypotheses with multinomial logistic regression because our dependent variable, promotability ratings, had three categories: high, medium, and low. We included variables collected in both 2013 and 2014 to examine variable change (Edwards, 2002); the exceptions are the unchanging demographic control variables. Tables containing our analyses and results are available from the authors on request. First, we tested our baseline hypothesis that general network closure (regardless of organizational boundary) will decrease the junior executives' promotability during the turbulent merger period. As predicted, network constraint in 2013 was negatively and significantly associated with the executive's promotability in 2014 ( $\beta = -19.61, p < .05$ ). However, the effect became insignificant in 2014 ( $\beta = -2.20, n.s.$ ). Hypothesis 1a proposing that building cross-legacy network closure during a merger will increase the executives' promotability was supported as the number of closed triads between legacy

organizations in 2014 had a significant and positive relationship ( $\beta = .08, p < .01$ ), controlling for the same variable measured in 2013. Similarly, Hypothesis 2a was supported; increasing cross-functional network closure was positively and significantly associated with promotability ( $\beta = .03, p < .05$ ) controlling for the same variable for 2013. Meanwhile, we did not find any significant relationships between within boundary (both legacy and functional) network closure and executives' promotability contrary to our hypotheses 1b and 2b ( $\beta = .02, n.s.; \beta = .02, n.s.$ , respectively).

## DISCUSSION AND CONCLUSION

Our hypotheses that executives who increase network closure across organizational boundaries during a merger process, such as legacy organizational and functional boundaries, are more likely to be rated as promotable were supported. The results suggest that a newly-merged organization's TMT values faster, more effective post-merger integration as exemplified through closed networks, rather than the knowledge creation and information diversity inherent in open networks. Also, the fact that general network closure lost its negative effects on career outcomes one year into the merger further suggests the primacy of integration needs over information benefits during a merger. Similarly, we did not find significantly negative effects for network closure within an organizational boundary on executives' promotability. This might suggest that the need for mutual trust and task coordination inherent in closed networks is important during a merger within a boundary as well as it is across boundaries. But too much network closure might harm executives' ability and willingness to bridge across boundaries, cancelling out the potentially positive effects of network closure within boundary.

Our results have several implications on both future research and practice. First, our study suggests that executives might find career advantage in closed networks rather than open networks in certain situations, which is contrary to most previous studies of social networks in organizations. Second, our study suggests the need for more research on individuals' career outcomes during dramatic organizational change and the role of boundaries in realizing the benefits of various types of social capital. Our work provides a practical guide for executive networking approaches to both contribute to the organization's post-merger success while also improving their career outcomes by closing relational gaps across different boundaries in the organization rather than maintaining a position bridging these structural holes.

## REFERENCES AVAILABLE FROM THE AUTHORS