



Executive Turnover in Acquired Firms: An Analysis of Resource-Based Theory and the Upper Echelons Perspective

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Abstract. Using a repeated measures longitudinal design, I analyzed rates, patterns, and the timing of top management turnover among more than 12,000 executives in 473 target and non-acquired firms over a fifteen-year period. Acquisitions led to much greater long-term instability in acquired top management teams than was found in studies that only examined the short-term effects of acquisitions on target company executives. Top managers quit at significantly higher rates than normal up to nine years following their company's acquisition. Research suggests that target company executives are at greater turnover risk when their firm is acquired by a foreign multinational. The results indicate that these short-term effects do not extend to the long term: turnover rates were not significantly different between the foreign and domestic acquisitions over the long term, though there were differences in timing. The findings suggest that foreign ownership has different implications for target company executives depending on whether they are members of the original management team or join the target company after the acquisition. The debate between resource-based theory and the upper echelons perspective in providing prescriptions to acquiring firms about integrating target companies over the short- and long-term is discussed.

Key words: company acquisition, executive turnover, firm

1. Introduction

Studies indicate that target company executives depart at significantly higher rates than normal shortly following their company's acquisition (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Krishnan et al., 1997; Krug and Hegarty, 1997, 2001; Lubatkin et al., 1999; Walsh, 1988, 1989; Walsh and Ellwood, 1991). These high rates of top management departures are associated with lower firm performance (Cannella and Hambrick, 1993; Krishnan et al., 1997). One suggested reason for this lower performance is that acquisitions break leadership continuity within the acquired company and this discontinuity disrupts internal decision-making processes, upsets stakeholder relationships, and delays or terminates strategic projects (Finkelstein and Hambrick, 1990). Thus, the study of long-term rates and patterns of executive turnover is an important topic of research in the governance literature because it provides insights into the governance mech-

anisms that determine who leads companies after an acquisition, the nature of long-term leadership continuity in acquired firms, and the possible impact of executive turnover on acquisition outcomes.

Using resource-based theory, Bergh (2001) argued that the departure of target firm executives shortly after the acquisition has the most significant negative impact on performance when longer-tenured executives depart. The departure of longer-tenured executives deprives the target firm of those executives with the greatest imbedded knowledge of the firm. This firm-specific knowledge is a potentially valuable asset that is lost during the merger integration process. It breaks leadership continuity in the target company and disrupts long-established relationships with outside stakeholders. Bergh's results, that the departure of longer-tenured executives increases the probability of future target company divestiture, supported such a view. The resource-based view, therefore, provides a good short-term prescription for acquiring companies in that retaining longer-tenured executives after the acquisition leads to greater acquisition success.

It is, however, unclear whether the resource-based view provides the best prescription for acquiring firms as they attempt to create acquisition value over the long-term. Minimizing turnover among some executives may lead to greater short-term acquisition success but pursuing such a strategy may not always be in the best long-term interests of the merger. Existing studies suggest that acquisition effects are short-lived and that turnover rates among target company executives return to normal shortly after the acquisition (Walsh, 1988, 1989; Walsh and Ellwood, 1991). This partially explains why no study has yet examined the long-term effects of acquisitions – it is assumed that they are minimal. Despite current thought, there are theoretical reasons to believe that top management turnover rates may actually persist over time and that acquisitions have effects that extend beyond the top management team in place at the time of the acquisition.

Using the upper echelons perspective, I argue that acquisitions lead to longer-term turnover effects than have yet been reported in existing studies. We know little about the level of long-term top management turnover in acquired companies, since no study has yet documented them. The objective of this paper is to examine long-term rates and patterns of executive turnover in a broad sample of target firms. In particular, whether the major impact of acquisitions is limited to top management teams in place at the time of the acquisition or whether acquisitions have broader, longer-term implications for acquired company top management teams. This research considers whether different theoretical perspectives may provide different prescriptions for acquiring firms in how to manage target company top management teams depending on the stage of the integration process – whether short- or long-term.

Second, I analyze turnover rates in both cross-border and domestic acquisitions to better understand the long-term effects of foreign ownership on top management teams in acquired firms. The effect of foreign ownership has been a topic of growing interest in the management field given the importance of globalization

in the world economy, societal concerns about foreign ownership and its effect on national productivity, and the increased number and importance of cross-border mergers and acquisitions in facilitating the entry of firms into foreign markets (Woodward and Nigh, 1998).

2. Theory and Hypotheses

2.1. EXECUTIVE DEPARTURES FOLLOWING AN ACQUISITION

Existing studies used the term “top management turnover” to refer to the departure of target company managers following an acquisition. The use of the word “turnover,” however, is misleading in that existing studies only considered the departure of managers who were employed at the time of the acquisition. Managers who joined the target company after the acquisition and subsequently left were excluded from the turnover equation. In contrast, the traditional measure of turnover in the employee turnover literature considers the departure of all individuals during the year regardless of their date of hire, whether prior to or following the acquisition (Mobley, 1982; Price, 1977). An important distinction, therefore, can be made between the turnover calculation used in the merger and acquisition (M&A) and organizational behavior literatures. The former only considers the departure of executives employed at the time of the acquisition; the latter considers the departure of all individuals during the year regardless of their date of hire. The use of the former definition in the M&A literature is useful for isolating the effects of an acquisition on the acquired top management team. It is an ineffective tool for understanding the long-term top management team effects of M&As. Hambrick and Cannella pointed out this limitation in the M&A literature and suggested that “A more satisfactory approach would be to examine . . . the rates of departure of individuals who are present at the beginning of a given period” (1993, p. 735).

Table I summarizes the results of existing studies that examined target company executive departures after an acquisition (see Figure 1a for a graphical presentation). The unit of analysis was the incumbent executive. The fate of executives who joined the firm after the acquisition and subsequently left was not pursued. These studies used the term “top management turnover” to refer to the departure of incumbent executives during the year. In this paper, the term “departure rates” is used to distinguish this form of turnover from “turnover rates.” The latter refers to the departure of all executives – both those employed at the time of the acquisition and those hired after the acquisition who left during the year. Existing studies reported cumulative rather than annual top management departure rates. Their primary objective was to examine the cumulative effects of the acquisition on incumbent top managers and to determine when the full effects of the acquisition become apparent. The use of cumulative rather than annual rates in these studies was consistent with the employee turnover literature that recognized the importance of time in capturing events leading up to the turnover decision (Dickter et al.,

Table I. Cumulative departure rates in target companies following acquisition: Summary of the literature^a

| Author | Firms | Years | Year following acquisition | | | | | |
|--|-------|-----------|----------------------------|------|------|------|-----------|---|
| | | | 1 | 2 | 3 | 4 | 5 | 6 |
| Walsh (1988) | | | | | | | | |
| Target company acquired by a domestic firm | 50 | 1975–1979 | 25.0 | 37.0 | 46.0 | 52.0 | 59.0 | |
| Non-acquired firms | 30 | 1975–1979 | 2.0 | 13.0 | 21.0 | 31.0 | 33.0 | |
| Walsh (1989) | | | | | | | | |
| Target company acquired by a domestic firm | 102 | 1975–1979 | 26.1 | 38.6 | 48.9 | 54.9 | 61.1 | |
| Walsh and Ellwood (1991) | | | | | | | | |
| Target company acquired by a domestic firm | 102 | 1975–1979 | 26.1 | 38.6 | 48.9 | 54.9 | 61.1 | |
| Non-acquired firms | 75 | 1975–1979 | 7.1 | 15.0 | 24.3 | 29.2 | 33.5 | |
| Hambrick and Cannella (1993) | | | | | | | | |
| Target company acquired by a domestic firm | 97 | 1980–1984 | 27.0 | 45.0 | 55.0 | 67.0 | | |
| Krug and Hegarty (1997) | | | | | | | | |
| Target company acquired by a domestic firm | 102 | 1986–1988 | 20.4 | 40.6 | 57.7 | 64.9 | 69.0 | |
| Target company acquired by a foreign firm | 168 | 1986–1988 | 20.9 | 40.5 | 59.9 | 68.4 | 74.8 | |
| Non-acquired firms | 120 | 1986–1988 | 8.1 | 16.3 | 23.6 | 31.6 | 36.9 | |
| Krug and Nigh (1998) | | | | | | | | |
| Target company acquired by a foreign firm | 101 | 1986–1988 | 20.3 | 39.8 | 61.5 | 69.5 | 77.6 82.4 | |
| Lubatkin et al. (1999) | | | | | | | | |
| Target company acquired by a domestic firm | 69 | 1985–1987 | 20.0 | 33.0 | 42.0 | 52.0 | | |
| Average executive turnover rates in domestic M&As | | | 23.4 | 39.3 | 50.9 | 59.7 | 65.1 | |
| Average executive turnover rates in cross-border M&As | | | 20.3 | 39.8 | 61.5 | 69.5 | 77.6 82.4 | |
| Average executive turnover rates in non-acquired firms | | | 7.6 | 15.6 | 24.1 | 30.5 | 35.4 | |

^aCumulative annual departure rates calculated by dividing number of executives employed at time of acquisition that had left through year being reported by number of executives employed at the time of the acquisition. Numerator does not include executives hired after the acquisition who subsequently left. Denominator remains constant from year to year.

1996; Lee and Mitchell, 1994; Mobley et al., 1979; Porter et al., 1974; Williams and Hazer, 1986; Youngblood et al., 1983).

The most significant number of executives (on average 23 percent) leave the target company in the first year after the acquisition, a departure rate three times higher than normal. These high early departure rates have been associated with hostile takeover bids, poor preacquisition target company performance, cultural differences between merging firms, lower job status, and lost autonomy (Hambrick and Cannella, 1993; Lubatkin et al., 1999; Walsh, 1989). The most significant effects occur within two years. Thereafter, turnover rates within the acquired top management team generally return to levels that existed prior to the acquisition.

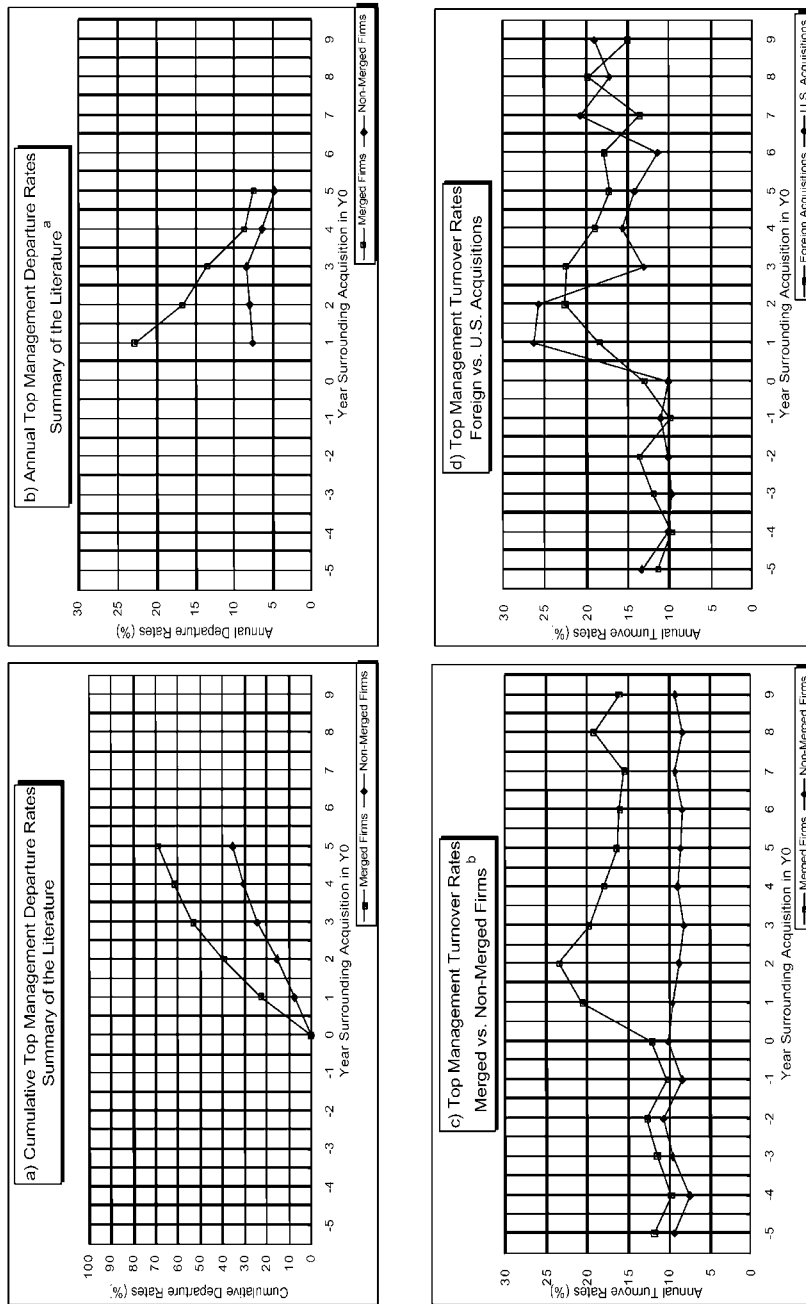


Figure 1. Top management turnover rates in acquired companies following an acquisition.
 (a) Annual departure rates in existing literature calculated by dividing number of top managers employed at time of acquisition that left in year being reported by number of top managers employed at time of acquisition. Numerator does not include managers hired after acquisition who left during year. Denominator remains constant from year to year.
 (b) Annual turnover rates were calculated by dividing number of top managers who left during year by number of managers employed at beginning of year. Numerator includes all managers who left during year regardless of whether they were employed at time of acquisition or were hired after the acquisition and later left.)

The general lack of significant effects found in most studies beyond two years after the acquisition can be explained as primarily an outcome of the cumulative departure rate calculation that excludes the departure of executives who join the target company after the acquisition. The numerator equals the total number of executives from the original top management team who have departed through the year being measured. Thus, the numerator increases over time as greater numbers of the original top management team depart. The denominator equals the total number of executives from the original top management team and remains constant over time. As a result, cumulative rates approach 100 percent over the long-term, since fewer and fewer members of the original top management team are available for departure. The effect of reporting cumulative departure rates can be seen in Krug and Hegarty's (1997) study. They documented cumulative departure rates in firms acquired by a foreign or domestic firm and found that departure rates were almost equal in both the foreign and domestic acquisitions through the third year after the acquisition. Beyond the third year, departure rates in the domestic acquisitions returned to normal. Departure rates in the foreign acquisitions, however, continued to rise at a greater rate through the fifth year. Thus, target companies began to experience the effects of foreign ownership immediately after the acquisition, but it took five years for these effects to become apparent. It is likely that these longer-term cumulative effects would not have been identified had their study only reported annual departure rates.

In order to facilitate comparison with the annual turnover rates reported in this study, average annual departure rates for the studies reported in Table I were calculated by taking the difference between the cumulative rates in each year (see Figure 1b). To eliminate double counting, only the latest study was counted when previous studies reported data using the same database. Also not included were studies that reported cumulative departure rates for single years, as annual rates could not be calculated in these cases. Whereas cumulative rates approached 100 percent over time, annual departure rates approached zero over time. The numerator only included members of the original top management team who left during the year being reported. As greater numbers of the original management team departed, there were fewer managers available for departure.

2.2. TOP MANAGEMENT TURNOVER PATTERNS IN M&AS

It is generally accepted that high turnover within the target company's top management team shortly after acquisition is detrimental to target company performance (Cannella and Hambrick, 1993; Krishnan et al., 1996). The loss of longer-tenured executives appears to have the greatest detrimental effect because longer-tenured executives have greater firm-specific knowledge and wisdom that is valuable during the acquisition process and is not easily recovered (Bergh, 2001). The acquisition announcement produces a variety of negative employee outcomes such as greater uncertainty, stress, job dissatisfaction, and intent to turnover (Schweiger

and DeNisi, 1991). Longer-tenured executives provide leadership continuity that helps reduce these negative employee outcomes. Leadership continuity also helps minimize the uncertainty that employees perceive about changes made during the merger integration process. It is beneficial in reducing the negative impact of this uncertainty on employee morale and productivity (Buono et al., 1985).

Despite theoretical support for the view that acquiring firms should attempt to minimize the departure of some portion of the target company's top management team, many acquiring firms either actively encourage or passively accept the departure of a large number of executives shortly after the acquisition. Acquiring firms often transfer their own executives into the target firm shortly after the acquisition to accomplish a variety of short-term goals. Management transfers are, for example, an effective tool for quickly transferring the acquirer's systems and culture to the target firm, achieving integration, transferring functional skills, increasing interdependence, and increasing strategic and operating control (Datta, 1991; Ettlie and Reza, 1992; Pablo, 1994). In highly related acquisitions, transfers may be a means of consolidating units to improve synergies and eliminate overlapping skills and redundancies (Krishnan et al., 1997; Ostroff and Kozlowski, 1992). In less related acquisitions, such transfers may be a means for the acquirer to learn target company capabilities, skills, and technologies (Haspeslagh and Jemison, 1991). These different findings partially explain why studies have found few significant relationships between relatedness and top management turnover (Bergh, 2001; Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Walsh, 1988, 1989). Acquiring firms may use management transfers as a tool for achieving short-term objectives in both related and unrelated acquisitions.

Acquiring companies may also use management transfers to achieve a quick transfer of power from the target company to its own executives, thereby minimizing resistance to the acquisition (Finkelstein, 1992). This practice appears to be widespread, since senior executives are the most likely to be replaced after an acquisition (Walsh, 1988). M&As lead to lower job status and lost autonomy for many acquired executives and these executives are more likely to depart (Hambrick and Cannella, 1993; Lubatkin et al., 1999). Hostile relations between merging top management teams during the initial stages of the merger are also associated with greater target company departures. This suggests that acquiring companies use management transfers as a way of mitigating conflict and guaranteeing support for the acquisition. Despite these widespread practices, resource-based theory suggests that acquiring firms should focus on retaining those target company executives who contribute the greatest knowledge, value, and leadership continuity during the integration process. Retention of longer-tenured executives is associated with greater acquisition success. The failure of many acquiring firms to follow such a prescription may explain the high failure rate of many mergers and acquisitions.

Is leadership continuity also a good prescription for acquiring companies over the long-term? If the resource-based view of the firm holds over the long-term,

then acquiring firms should make efforts to retain executives for long periods, thereby minimizing turnover within the target company's top management team and encouraging long-term executive tenure. Research on executive tenure in the upper echelons literature, however, suggests that longer-tenured executives may not always provide the greatest long-term value. Longer-tenured executives tend to follow more persistent, unchanging strategies that conform to industry averages (Finkelstein and Hambrick, 1990). As executive tenure increases, executives become more resistant to change, become more rigid in their actions, and remain committed to established policies, even in instances where their chosen strategies are unsuccessful (Katz, 1982; Staw and Ross, 1987). As a result, firms that are led by longer-tenured executives tend to perform close to the industry average. Acquiring firms may, therefore, view longer-tenured executives as an obstacle to change and implementation of new strategies in the acquired firm.

In contrast, shorter-tenured executives are more willing to take risks, experiment, and pursue novel strategies (Bantel and Jackson, 1989; Hambrick and Fukutomi, 1991; Thomas et al., 1991). As a result, performance tends to deviate from the industry average to a greater degree in firms that are led by executives with shorter tenures (Finkelstein and Hambrick, 1990). Executives are most open-minded about making changes in the beginning of their job tenures but become increasingly closed-minded and more committed to the status quo as their tenures increase (Hambrick and Fukutomi, 1991; Hambrick et al., 1993). Executives generally begin to scale back change and turn increasingly to incremental initiatives that are consistent with their past routines when they are in their positions beyond three years (Gabarro, 1987; Romanelli and Tushman, 1988). Outside successors are more likely to make more immediate changes in strategic direction and pursue strategies that diverge from their predecessors (Helmich and Brown, 1972). Acquiring firms may, therefore, view shorter-term executives as providing the greatest long-term value to the merged firm.

Individual executives may also be motivated to take short-term assignments in order to achieve a variety of personal and professional objectives. Mergers and acquisitions bring the target into a larger network of divisions and subsidiaries of the parent company. This provides individual executives with job rotation opportunities that enhance their career development through greater job- and firm-specific knowledge (Brett, 1984; Hall, 1984; Louis, 1982; Morrison and Brantner, 1992). Acquiring firms may also use short-term rotations as a means of developing and widening the organizational perspectives of future top executives. Therefore, short-term job tenure may be viewed as positive by both the acquiring firm and individual executives, a means of achieving both organizational and individual goals.

Agency theory suggests that corporate boards protect shareholder interests by making changes in firms' top management teams to correct poor firm performance (Fama and Jensen, 1983; Jensen and Meckling, 1976). The relationship between poor firm performance and top management team change has received strong empirical support. Top management team changes are highly correlated with a

variety of negative organization outcomes, including poor accounting performance, poor stock performance, bankruptcy, and financial distress (Coughlan and Schmidt, 1985; Friedman and Singh, 1989; Salancik and Pfeffer, 1980; Schwartz and Menon, 1985; Warner et al., 1988; Weisbach, 1988). Acquiring firms are more likely to replace target company executives shortly after the acquisition when the target firm performs below the industry norm prior to the acquisition (Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Walsh and Kosnik, 1993).

A large portion of mergers and acquisitions perform poorly after the acquisition or fail to live up to expectations (Ravenscraft and Scherer, 1987). Many acquirers subsequently initiate management restructures to correct performance problems. Management restructures and weak firm performance are strongly related to top management turnover. Many acquisitions, therefore, are likely to lead additional rounds of higher than normal top management turnover several years after the acquisition when the target company performs below expectations (Furtado and Karan, 1990; Hunt, 1990; Trautwein, 1990).

Agency theory and the upper echelons perspective offer consistent views regarding the benefits of using shorter-tenured executives to improve firm performance and achieve long-term strategic value. Studies in upper echelons theory show that executives develop stronger attachments to the firm, develop stronger social circles, and establish stronger ties to the community over time (Vancil, 1987). Such attachments and ties reduce executives' willingness to make changes or to take significant risks. Shorter-tenured executives, especially those brought in from the outside, are more likely to pursue unique strategies that deviate from industry or established firm norms (Finkelstein and Hambrick, 1990). Therefore, longer-tenured executives may be viewed as an obstacle to resolving continuing performance problems in the target firm. Thus, both agency theory and the upper echelons perspective provide theoretical support to suggest that top management turnover rates in target companies persist over time and do not return to normal as suggested in existing studies:

- H₁: Long-term top management turnover rates in acquired firms are higher than comparable turnover rates in firms not involved in a merger or acquisition.

2.3. CROSS-BORDER MERGERS & ACQUISITIONS

Are long-term top management turnover rates greater in firms acquired by a foreign multinational? The literature on cross-cultural differences and global strategy suggests that higher top management turnover rates in cross-border acquisitions persist over the long-term when compared to long-term turnover rates in purely domestic acquisitions. Existing studies indicate that executives depart at higher rates over the short-term following acquisition by a foreign firm (Krug and Hegarty, 1997). Cultural differences increase the rate at which executives depart and appear to exacerbate conflict between merging cross-border top management

teams, particularly during the early stages of the postacquisition integration process (Chatterjee et al., 1992; Krug and Nigh, 1998). In addition, U.S. executives depart at significantly greater rates when their firm is acquired by a foreign firm operating in a global industry (Krug and Nigh, 1998). Globally integrated firms rely more heavily than locally responsive firms on personnel transfers among their worldwide units as a means of transferring standardized knowledge and technology (Kobrin, 1991; Roth and Morrison, 1990; Roth et al., 1991). Executives with extensive experience working in the firm's international operations are valuable resources for the global firm because of their deeply embedded knowledge of the firm's global operations. Target company executives who have more localized knowledge are less helpful to the global firm in integrating the target company with the firm's other worldwide units.

These country and industry factors may continue to have an impact on executives who join a foreign-owned firm long after the acquisition. Basic values, assumptions, and behaviors differ across national boundaries and individuals tend to focus on these differences when placed in cross-national settings (Adler et al., 1986; Hofstede, 2001). Individuals also interpret and respond to strategic events, disseminate information, and deal with interpersonal relationships differently based on values native to their national culture (Sullivan and Nonaka, 1988; Schneider and De Meyer, 1991). Value differences may create uncertainty, cause managers and subordinates to evaluate each other negatively, and lead to lower work and job satisfaction. These dysfunctional outcomes are positively associated with employee turnover (Cotton and Tuttle, 1986). These problems may continue to affect executives who join the target company after the acquisition. Individuals tend to be less willing to adapt to leadership styles, human resource management policies, and other administrative practices when they differ drastically from their national cultural norms (Calori et al., 1994; Porter, 1986).

The negative effect of culture should be more pronounced in cross-border acquisitions that operate in global industries. Global firms use management transfers and rotations to facilitate their global integration goals and support the flow of technology, resources, and products among their various worldwide subsidiaries. This process is on-going. Executives who join companies previously acquired by a foreign multinational are likely to be subjected to problems dealing with other executives from different cultural backgrounds that are similar to those experienced by executives who worked in the target company at the time of the acquisition and subsequently left. In general, multinational firms can be distinguished from purely domestic firms by their higher level of interactions among people from different cultural backgrounds and greater degree of worldwide intra-firm product, technology, and people flows. Therefore, the negative effect of culture and global integration that is felt by many executives, especially those with localized knowledge, is likely to continue. Long-term top management turnover rates in companies owned by a foreign multinational are likely to be higher than comparable turnover rates in firms owned by a domestic company:

- H₂: Long-term top management turnover rates in firms acquired by a foreign multinational are higher than comparable turnover rates in firms acquired by a domestic acquirer.

3. Methodology

3.1. SAMPLE AND PROCEDURE

A random sample of 500 U.S. target firms was drawn from *Mergers & Acquisitions* between 1980 and 1993 (350 targets acquired by a foreign multinational and 150 targets acquired by a domestic firm). More recent acquisitions were not included in the sample, reflecting the objective of collecting turnover data for up to nine years following the acquisition. Top management team data were available for 373 of the 500 sampled firms (75 percent). The final sample included 268 U.S. firms acquired by a foreign multinational (72 percent of the sample) and 105 firms acquired by a domestic firm (28 percent of the sample). A control group of 100 firms was randomly drawn from *Standard & Poor's Register of Corporations, Executives, and Directors (Register)*. The control firms were matched with the target companies by number of employees in order to control for effects of size. They were also matched with the target companies by year of acquisition in order to control for the effects of restructuring and downsizing that characterized many firms during the 1980s. The mean size of the target and control firms was 4,471 and 2,923 employees, respectively. Size differences between the two groups were insignificant ($p < 0.05$).

Top management team members in each of the target and control firms were identified in the *Register* six years prior to the firm's acquisition (target firms) or point of observation (control firms). This time frame permitted the calculation of turnover rates for each of the five years leading up to the acquisition or point of observation. Five years was considered to be sufficient for determining the level of "normal" turnover in companies prior to their acquisition (Walsh and Ellwood, 1991). Turnover rates were then calculated for the year of the acquisition (year 0) and each of the nine years following (years 1 through 9). Nine years of post-acquisition turnover data was considered to be sufficient for identifying long-term differences in the level, pattern, and timing of turnover between the experimental and control groups.

In some instances, the target firm discontinued reporting top management team information to the *Register* at some point during the study period. When it could not accurately be determined whether there were subsequent changes in the firm's top management team, no turnover rates were entered into the model. It is possible that this procedure led to an understatement of long-term turnover rates. This method of coding turnover, however, was considered a desirable step for minimizing the possibility of Type I error. When a firm was sold during the study period, turnover rates were calculated as though no change in ownership had occurred. This procedure allowed for the continuous calculation of turnover rates during the

study period. No attempt was made to control for subsequent mergers or acquisitions, since the objective of the research was to identify long-term differences in mean turnover rates between the study groups rather than to explain variation in mean differences. In only two cases was the target company dissolved during the fifteen-year postacquisition period. The careers of 12,080 executives (9,855 executives in the acquired firms and 2,225 executives in the non-acquired firms) were followed during the fifteen-year study period. Job titles included chairman, president, chief executive officer, chief operating officer, executive vice president, senior vice president, vice president, chief financial officer, treasurer, and secretary.

3.2. DATA ANALYSIS

The research hypotheses were tested using a longitudinal model that adjusted for violations in homoscedastic error assumptions (Bergh, 1995; O'Brien and Kaiser, 1985). Change over time was measured as a within-subjects factor. The general model was $\text{Turnover} = \text{Merged} + \text{Foreign Ownership} + \text{Time} + \text{Two-Way Interactions}$, where turnover represented the annual turnover rate of the target company's top management team, merged indicated whether the firm was merged or non-merged (control group), foreign ownership indicated whether the acquiring firm was foreign or domestic, and time represented the year of the acquisition, from five years prior to through nine years following the acquisition. The data analysis included 7,095 observations (473 companies measured over a fifteen-year period surrounding the acquisition or point of observation).

Turnover rates for the companies in the sample are reported in Table II. An examination of the variance-covariance matrix indicated that both within-group (autocorrelation) and between-group (heteroscedasticity) variances were non-zero and non-equal over time. Homoscedasticity was, therefore, violated by the data. The presence of homoscedasticity in the data has the tendency to inflate the F statistic and increase Type I error (LaTour and Miniard, 1983; O'Brien and Kaiser, 1985). In order to minimize potential biases in the data, the turnover variable was weighted inverse proportional to the square root of the estimated variance in each group. The practice of weighting the dependent variable inverse proportional to the variance is a common procedure for correcting for violations of homoscedastic assumptions (Timm and Mieczkowski, 1997). A re-examination of the variance-covariance matrix indicated that homoscedasticity held when using the weighted turnover measure.

The Proc Mixed Procedure in SAS (version 8.0) was then performed using a repeated measure design and unstructured correlation structure in order to determine the significance of the turnover model (Littell et al., 1996). Deviation contrasts were used to test the magnitude, direction, and stability of turnover among the different categories of acquisitions over time. For this analysis, firms were divided into three groups: (1) foreign acquisitions, (2) domestic acquisitions, and (3) non-merged firms. The reported *p*-values represent unadjusted significance

Table II. Top management turnover rates in target companies following acquisition: Summary of results^a

| | Acquisition | | | | | | | | | | | | | | |
|-----------------------------|---------------------------|--------|--------|--------|--------|--------|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Year prior to acquisition | | | | | year | Year following acquisition | | | | | | | | |
| | -5 | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| Foreign acquisitions | | | | | | | | | | | | | | | |
| Turnover (%) | 11.3 | 9.7 | 12.0 | 13.5 | 10.0 | 13.0 | 18.5 | 22.5 | 22.4 | 19.0 | 17.2 | 17.9 | 13.6 | 19.9 | 15.0 |
| Std. deviation | (17.0) | (14.5) | (16.8) | (19.7) | (17.3) | (18.1) | (27.4) | (30.2) | (30.8) | (28.5) | (25.9) | (28.1) | (24.2) | (28.8) | (28.5) |
| U.S. acquisitions | | | | | | | | | | | | | | | |
| Turnover (%) | 13.3 | 10.1 | 9.7 | 10.0 | 11.1 | 10.1 | 26.3 | 25.6 | 13.0 | 15.5 | 14.1 | 11.4 | 20.7 | 17.3 | 19.1 |
| Std. deviation | (16.0) | (17.0) | (17.2) | (16.2) | (16.2) | (16.1) | (31.1) | (32.5) | (25.1) | (24.6) | (26.9) | (17.9) | (29.5) | (27.8) | (32.4) |
| All acquisitions | | | | | | | | | | | | | | | |
| Turnover (%) | 11.8 | 9.8 | 11.4 | 12.7 | 10.2 | 12.2 | 20.6 | 23.4 | 19.8 | 18.0 | 16.3 | 16.1 | 15.5 | 19.2 | 16.1 |
| Std. deviation | (16.7) | (15.1) | (16.9) | (18.9) | (17.0) | (17.6) | (28.7) | (30.8) | (29.5) | (27.4) | (26.2) | (25.8) | (25.9) | (28.5) | (29.6) |
| Non-acquired firms | | | | | | | | | | | | | | | |
| Turnover (%) | 9.3 | 7.4 | 9.6 | 10.8 | 8.3 | 10.1 | 9.6 | 8.8 | 8.1 | 8.8 | 8.7 | 8.4 | 9.2 | 8.4 | 9.3 |
| Std. deviation | (16.0) | (16.4) | (14.0) | (16.9) | (14.6) | (16.8) | (16.5) | (15.0) | (13.8) | (15.6) | (15.2) | (16.1) | (18.3) | (15.3) | (17.2) |

^aAnnual turnover rates calculated beginning five years prior to acquisition (acquired firms) or point of observation (non-acquired firms) through the ninth year following acquisition (acquired firms) or point of observation (non-acquired firms). Turnover rates calculated by dividing number of executives leaving firm during year by number of executives employed at beginning of year.

levels that can be used to identify possible mean differences worthy of further investigation. In order to reject the null hypotheses, however, a stricter level of significance was applied to each deviation contrast by adjusting the p -values to recognize the effect of multiple comparisons. Multiple comparisons increase the possibility of rejecting the null hypothesis when it is in fact true. The p -values necessary for determining significance were adjusted using Bonferroni's method (Castaneda et al., 1993). A minimum 95 percent confidence level was maintained for those contrasts that retained their significance after the Bonferroni adjustment.

4. Results

Table III reports the results of the mixed effects model. The model is significant at the 0.05 level. Analysis of the fixed effects indicates that mean turnover rates differed between two or more groups and these differences changed over time. The group*year interaction indicates that the groups exhibited different patterns of turnover with time. Thus, the model indicates both within- and between-group effects. These effects changed over time. Hypothesis one was tested using the contrasts shown in Table IV. The first group of contrasts examined between-group differences in turnover during the five-year period leading up to the acquisition. The estimated mean difference shows the average difference in turnover rates between the two groups in each contrast for the period being examined. When p -values were adjusted for multiple comparisons, there were no significant differences in preacquisition turnover rates between the merged and non-merged firms. Both groups experienced roughly equal rates of top management turnover during the five-year preacquisition period. There was, therefore, no reason to believe that turnover rates would differ between the two groups in future years had the target firms not been acquired.

The second group of contrasts examined within-group differences in turnover during the preacquisition and postacquisition periods. During the entire nine-year postacquisition period, the target companies experienced higher average turnover rates among their top management teams (6.78 percent higher each year) than prior to the acquisition. The control group of non-merged companies showed no significant change in average turnover rates over time. The third group of contrasts tested differences in mean top management turnover rates between the merged and non-merged firms following the acquisition. The merged firms experienced higher top management turnover rates that were twice as high on average (9.05 higher in each year) as comparable rates in the non-merged firms during the entire post-merger period. These results indicate that acquisitions lead to long-term leadership discontinuity in target company top management teams. This is an important finding, since existing studies could not identify these long-term top management team effects. Thus, there is strong support for hypothesis one. Long-term top management turnover rates in acquired firms are higher than comparable rates in firms not involved in a merger or acquisition.

Table III. Proc mixed procedure and test of fixed effects

| GLM repeated measures model | | | | | |
|-----------------------------|------|----------------|-------------|---------|--------|
| Source | DF | Sum of squares | Mean square | F-value | p < |
| Model | 44 | 152893.34 | 3474.85 | 6.86 | 0.0001 |
| Error | 6538 | 3309527.42 | 506.20 | | |
| Corrected total | 6582 | 3462420.76 | | | |
| Test of fixed effects | | | | | |
| Effect | DF | | | F-value | p < |
| Group ^a | 470 | | | 65.25 | 0.0001 |
| Year ^b | 470 | | | 9.75 | 0.0001 |
| Group*Year | 470 | 4.14 | 0.0001 | | |

^aGroup categorized as 1 = foreign acquisition, 2 = U.S. acquisition, 3 = non-merged firm.

^bFifteen-year period beginning five years prior to through nine years following the acquisition.

The fourth group of contrasts examined the magnitude and direction of turnover for each of the nine years after the acquisition. Turnover was significantly higher in the merged firms in seven of the nine years following the acquisition. This finding is significant, since existing studies that only examined departures of incumbent executives suggest that turnover rates return to normal levels beyond the second year following acquisition. The results indicate that this is not the case. Acquisitions lead to leadership discontinuity in the target firms that continues almost unabated for a minimum of eight years after the acquisition. The most significant turnover occurred during the first three years. In the first year after the acquisition, the merged firms experienced turnover that was 11.19 percent higher on average than turnover in the non-merged firms. During the second year, the merged firms experienced turnover that was 14.68 percent higher than in the non-merged firms. The difference in turnover rates between the merged and non-merged firms then declined slightly through year seven before increasing significantly again in year eight. Thus, the effects of the acquisitions in the sample were not cumulative (i.e., did not get stronger over time). Despite changes in the magnitude and direction of turnover over time, however, turnover remained higher than normal during most of the nine-year postacquisition period. These results suggest that executives who joined the target company after the acquisition also quit at significantly higher rates than normal.

Table V reports the results of the deviation contrasts related to hypothesis two, which examined the impact of foreign ownership on acquired U.S. top management teams. The first contrast shows that there were no significant differences in turnover between the foreign and domestic acquisitions during the five years

Table IV. Deviation contrasts: Tests of mean differences in merged vs. non-merged firms

| | Est. mean difference | Std. error | DF | <i>t</i> -value | <i>p</i> < ^a |
|--|-------------------------|---------------|-----|-----------------|-------------------------|
| Preacquisition turnover rates (5 years leading up to acquisition) | | | | | |
| Merged vs. non-merged firms | 2.01 | 0.87 | 470 | 2.32 | 0.0209 |
| Foreign acquisitions vs. non-merged firms | 2.19 | 0.90 | 470 | 2.43 | 0.0156 |
| U.S. acquisitions vs. non-merged firms | 1.58 | 1.13 | 470 | 1.41 | 0.1597 |
| Preacquisition vs. postacquisition turnover rates (5 years prior to vs. nine years following acquisition) | | | | | |
| Merged firms | 6.78 | 0.56 | 470 | 12.11 | 0.0001** |
| Non-merged firms | 0.26 | 0.89 | 470 | 0.29 | 0.7737 |
| Postacquisition turnover rates (9 years following acquisition) | | | | | |
| Merged vs. non-merged firms | 9.05 | 0.69 | 470 | 13.03 | 0.0001** |
| Foreign acquisitions vs. non-merged firms | 9.19 | 0.74 | 470 | 12.42 | 0.0001** |
| U.S. acquisitions vs. non-merged firms | 8.70 | 0.95 | 470 | 9.17 | 0.0001** |
| Merged vs. non-merged firms (year surrounding acquisition) | | | | | |
| Year 1 | 11.19 | 2.51 | 470 | 4.46 | 0.0001** |
| Year 2 | 14.68 | 2.53 | 470 | 5.80 | 0.0001** |
| Year 3 | 11.46 | 2.37 | 470 | 4.83 | 0.0001** |
| Year 4 | 8.91 | 2.40 | 470 | 3.72 | 0.0002** |
| Year 5 | 7.47 | 2.31 | 470 | 3.23 | 0.0013* |
| Year 6 | 7.01 | 2.32 | 470 | 3.02 | 0.0027* |
| Year 7 | 5.44 | 2.49 | 470 | 2.18 | 0.0294 |
| Year 8 | 9.30 | 2.49 | 470 | 3.74 | 0.0002** |
| Year 9 | 5.96 | 2.69 | 470 | 2.22 | 0.0271 |

^aIn order to correct for the effect of multiple comparisons, Bonferri's method was used to adjust significance levels by multiplying the *p*-value by the number of contrasts (17). Contrasts that remained significant after this adjustment are indicated by **p* < 0.05; ***p* < 0.01.

leading up to the acquisition; therefore, there was no reason to believe that future turnover rates would differ had the target companies not been acquired. The second set of contrasts show that the target companies experienced significantly higher turnover rates during the postacquisition versus preacquisition period for both firms acquired by a foreign multinational (6.75 percent higher in each year) and firms acquired by a domestic acquirer (6.86 percent higher in each year). The third contrast, however, indicates that long-term postacquisition top management turnover rates were not significantly different between the foreign and domestic acquisitions. Foreign ownership did not, as hypothesized, lead to higher long-term

Table V. Deviation contrasts: Tests of mean differences in foreign vs. domestic acquisitions

| | Est. mean difference | Std. error | DF | <i>t</i> -value | <i>p</i> < ^a |
|--|-------------------------|---------------|-----|-----------------|-------------------------|
| Preacquisition turnover rates (5 years leading up to acquisition) | | | | | |
| Foreign acquisitions vs. U.S. acquisitions | 0.60 | 0.97 | 470 | 0.62 | 0.5349 |
| Preacquisition vs. postacquisition turnover rates (5 years prior to vs. nine years following acquisition) | | | | | |
| Foreign acquisitions | 6.75 | 0.65 | 470 | 10.33 | 0.0001* |
| U.S. acquisitions | 6.86 | 1.08 | 470 | 6.38 | 0.0001* |
| Postacquisition turnover rates (9 years following acquisition) | | | | | |
| Foreign vs. U.S. acquisitions | 0.49 | 0.90 | 470 | 0.55 | 0.5839 |
| Foreign vs. U.S. acquisitions (year surrounding acquisition) | | | | | |
| Year 1 | -7.81 | 3.22 | 470 | -2.43 | 0.0156 |
| Year 2 | -3.09 | 3.40 | 470 | -0.91 | 0.3641 |
| Year 3 | 9.36 | 3.03 | 470 | 3.09 | 0.0022** |
| Year 4 | 3.17 | 2.93 | 470 | 1.08 | 0.2806 |
| Year 5 | 2.75 | 2.93 | 470 | 0.94 | 0.3478 |
| Year 6 | 6.60 | 2.62 | 470 | 2.52 | 0.0119 |
| Year 7 | -6.44 | 3.16 | 470 | -2.04 | 0.0424 |
| Year 8 | 2.19 | 3.37 | 470 | 0.65 | 0.5174 |
| Year 9 | -2.28 | 3.77 | 470 | -0.61 | 0.5453 |

^aIn order to correct for the effect of multiple comparisons, Bonferri's method was used to adjust significance levels by multiplying the *p*-value by the number of contrasts (13). Contrasts that remained significant after this adjustment are indicated by **p* < 0.05; ***p* < 0.01.

turnover rates compared to the domestic acquisitions. Existing studies of incumbent top management team departures show that executives in firms acquired by a foreign multinational are at greater risk of termination than executives in firms acquired by a domestic acquirer. The results, however, suggest that executives who join the target company after acquisition by a foreign multinational are at no greater turnover risk than executives who join the target company after acquisition by a domestic acquirer. Thus, hypothesis two was not supported.

In order to examine differences in the magnitude and direction of turnover in greater detail, deviation contrasts were performed for each of the nine postacquisition years. During the first year after the acquisition, top management turnover rates were 7.81 percent higher on average in the domestic acquisitions. In the second year, turnover rates were 3.09 higher in the domestic acquisitions. These results indicate that turnover rates in the domestic firms rose more rapidly than

in the foreign acquisitions during the first two years after the acquisition before falling in year three. Foreign acquirers, in contrast, made more modest changes in the acquired U.S. firms in the first year. These changes intensified through the third year, when turnover rates were 9.36 percent higher on average than in domestic acquisitions. This pattern of turnover suggests that foreign acquirers move more slowly to integrate U.S. targets. On average, it takes three years to make these initial changes before rates fall slightly in year four. Domestic acquirers appear to move more quickly to integrate acquired firms and are able to complete these initial changes within the first two years of the acquisition. This finding supports existing studies that show there are longer cumulative turnover effects in companies acquired by foreign multinationals (Krug and Hegarty, 1997). It is also consistent with the existing literature in that it indicates the primary impact of acquisitions occurs shortly after the acquisition (Walsh, 1988). Most of this early turnover reflects the departure of target managers employed at the time of the acquisition.

Turnover rates in the acquired companies, however, did not return to normal preacquisition levels after year three. In the domestic acquisitions, turnover rose in year four before falling in years five and six (see Figure 1d for a graphical view). Rates then jumped again in year seven, before falling in year eight. Rates then rose again in year nine. In the cross-border acquisitions, turnover rates remained at high levels in years four, five, and six before falling in year seven. Rates then jumped significantly in year eight, before falling again in year nine. These results suggest that acquired companies experience at least three different periods of instability among their top management teams: (1) years one through three, (2) years four through six, and (3) years seven through nine. In each period, turnover rates increased significantly before falling two to three years later. Thus, acquisitions appear to set off a series of changes in the composition of the acquired company's top management team that occur on average every three years.

5. Discussion

Existing research has focused on understanding the turnover effects of acquisitions on top management teams in place at the time of the acquisition. It suggests that turnover rates return to normal within two years following the acquisition (Walsh, 1988, 1989). Because such large numbers of incumbent executives depart shortly after the acquisition, it is not surprising that they depart at lower rates beyond the second year; a large portion of them are already gone. In this study, I examined longer-term turnover rates in target companies and did not restrict the turnover calculation to executives who worked in the target at the time of the acquisition. I considered turnover among all executives regardless of when they joined the target firm – prior to or after the acquisition. The data showed that top management turnover rates, rather than returning to normal within two years, persisted over time, remaining at levels higher than normal for almost nine years after the acquisition. These findings are significant because they indicate that acquisitions have a

significant impact on top management teams that extends well beyond their effect on top management teams in place at the time of the acquisition. Acquisitions may permanently alter the long-term dynamics within target company top management teams. Existing studies could not identify these longer-term acquisition effects.

The results are consistent with studies on executive tenure in the upper echelons literature that indicate firms view shorter-tenured executives as providing significant value to the firm (Finkelstein and Hambrick, 1996; Hambrick and Fukutomi, 1991). The persistence of high levels of turnover among executives over the nine-year postacquisition period suggests that acquiring firms made little effort to promote long-term executive tenure or to minimize turnover effects. One possible explanation for these long-term executive turnover effects is that acquiring firms use management transfers and rotations into the target to achieve acquisition objectives and create long-term value. Evidence suggests that acquiring firms transfer their own executives into the target shortly after the acquisition in order to increase strategic and operating control, increase knowledge of target company operations, and staff positions vacated by terminated or departing target company executives (Walsh and Ellwood, 1991; Hambrick and Cannella, 1993). The acquiring firm may continue to rotate executives into the target long after it has been integrated as a means of developing future executives and for organizational learning purposes. Many executives may also actively seek job transfers and temporary assignments as a means of career progression. Job transfers give them valuable experience, help them acquire new knowledge, and act as a springboard into higher positions within the corporate parent (Hall, 1984; Morrison and Brantner, 1992).

One might conclude that the use of shorter-tenure executives to create long-term acquisition value is at odds with Bergh's (2001) findings and the resource-based view of the firm. Bergh found that target companies that lost their longest-tenured executives shortly after the acquisition were later divested at a significantly greater rate than companies that retained their longest-tenured executives. Executives gain experience when they work together for long periods and this experience helps them make decisions that are uniquely valuable to the firm's operations (Penrose, 1959). The efficiency of decision-making is often hindered by the addition of newly hired executives to the top management team because they lack in-depth knowledge of the firm and other top management team members. Newly hired executives also invariably expend valuable time and resources overcoming problems that are caused by their inherent unfamiliarity with the firm. Sustainable long-term competitive advantage may, therefore, be enhanced by the strong interdependence that results from long-term relationships within the firm's top management team (Dierickx and Cool, 1989; Michel and Hambrick, 1992; Roth, 1995).

If the negative relationship between turnover and performance holds over the long term, then this study's findings paint a bleak picture for the success of many mergers and acquisitions. Many acquiring companies may be pursuing self-defeating policies that increase the likelihood of acquisition failure. Frequent management transfers and job rotations may provide value, but this value may

be more than offset by the negative outcomes that result from the loss of long-term leadership continuity. An alternative explanation is that the benefits of short-versus long-tenured executives change over time depending on the stage of the integration process. The retention of longer-tenured executives shortly after the acquisition provides leadership continuity at a time it is needed most. Uncertainty and stress among target company employees is greatest immediately after the acquisition. Leadership continuity may be instrumental in alleviating negative behavioral outcomes and smoothing problems during the early stages of the integration process (Schweiger and DeNisi, 1991).

Over the long-term, however, it is possible that shorter-term executives contribute greater value as the objectives of the merger change. In many acquisitions, acquisition value evolves over time, the result of long-term interactions between managers from both firms that lead to unpredictable and unexpected organizational learning benefits. The unpredictable nature of these evolving benefits means that acquiring firms must constantly reassess the goals of the acquisition and adapt to evolving needs. Transfers, rotations, and other methods of promoting interactions between executives and employees in both firms may be a deliberate strategy for creating such benefits (Haspeslagh and Jemison, 1991). Shorter-tenured executives are more willing to experiment, change their company's strategies, and pursue more innovative strategies (Chaganti and Sambharya, 1987; Hambrick and Fukutomi, 1991; Thomas et al., 1991; Wiersema and Bantel, 1992). Shorter-tenured executives may provide an on-going contribution to the firm's effort to stimulate long-term change and learning between the acquiring and target firm.

The use of shorter-tenured executives to create long-term acquisition value may not be as inconsistent with the resource-based view of the firm as it appears on first examination. Bergh (2001) focused on the greater imbedded knowledge of longer-tenured incumbent executives in contributing the greatest value to acquisition success. Over the short-term, deeply imbedded knowledge of the target company's longer-tenured executives provides value because it provides a basis for transferring knowledge to the acquirer. It is the acquiring firm's ability to absorb target company knowledge shortly after the acquisition that provides a basis for the creation of longer-term acquisition value. If longer-tenured target company executives leave shortly after the acquisition, this initial transfer of knowledge to the acquirer is impeded. Once the acquirer has absorbed target company knowledge, however, strategic change and new knowledge may become the basis for long-term acquisition value creation. Long-term strategic change and knowledge creation may require a different set of competencies. Shorter-term executives may be in the best position to contribute these competencies and knowledge. Thus, different types of knowledge – and different levels of executive tenure – may contribute the most to the firm's competitive advantage as the integration process progresses.

The results also indicate that cross-border M&As do not, as expected, lead to higher long-term executive turnover rates compared to purely domestic M&As.

There were no differences in either the rate or pattern of average annual turnover rates between the two groups during the nine-year postacquisition period. There were, however, differences in timing. Turnover was highest in the domestic acquisitions during the first two years after the acquisition. In the cross-border acquisitions, turnover rose more slowly, peaking in the third year after the acquisition. This suggests that foreign acquirers integrate target companies more slowly than domestic acquirers. The graphical presentation of the turnover data in Figure 1d shows three cycles of turnover during the nine years following the acquisition. Each cycle lasted two to three years. Turnover rates operated with a one-year lag in the foreign acquisitions in each cycle. The primary difference between the two groups was the initial lag in integration that appeared during the first three years in the cross-border acquisitions.

This result suggests that cross-border acquisitions may have different effects for target company executives depending on whether they are members of the original top management team or join the target after the acquisition. Foreign acquisitions lead to significantly higher turnover among top management teams in place at the time of the acquisition (Krug and Hegarty, 1997). The absence of long-term turnover differences between the cross-border and domestic acquisitions found in this study, however, suggests that executives who join a firm previously acquired by a foreign acquirer are at no greater turnover risk than executives who join a firm previously acquired by a domestic acquirer. Distance may best explain the higher initial turnover and lagged integration effects in cross-border acquisitions (Ghemawat, 2001). Greater geographical distance increases the costs of transportation and communication and physically makes the initial stages of integration more difficult. Differences in political, economic, and legal systems also slow the integration process as the foreign acquirer faces greater learning and adaptation hurdles. Acquirers with low levels of international and country-specific experience face the greatest information costs and uncertainty and have greater difficulties establishing relationships with customers, suppliers, and other stakeholders (Li, 1995).

Cultural differences, including differences in language and social norms, also have a significant effect on the way people interact and are associated with greater departures among acquired top management team executives (Krug and Nigh, 1998). Cultural differences are particularly problematic in cross-border acquisitions, since foreign acquirers face the task of dealing with both differences in corporate and national cultures. Barkema et al. (1996) termed this problem "double layered acculturation." Acquiring firms often attempt to reduce uncertainty resulting from cultural differences by increasing strategic and operating controls, for example by increasing the number of expatriates they transfer into the acquired firm (Boyacigiller, 1990; Erramilli and Rao, 1993). This partially explains why a greater number of target company executives are involuntarily terminated following acquisition by a foreign multinational (Krug and Nigh, 2001). Thus, greater geographic, political, and cultural distance leads to increased integration

problems in cross-border acquisitions that slow the integration process and lead to higher turnover within the acquired top management team over the short-term (Calori et al., 1994; Lubatkin et al., 1999; Olie, 1994).

The effects of distance in cross-border acquisitions appear to diminish over time. The accumulation of greater country- and firm-specific experience may reduce differences in how foreign and domestic acquirers operate their units. Experience is an essential element of international business success and foreign direct investment experience has a significant effect on how parent companies make and influence foreign subsidiary decisions (Chang, 1995; Downes and Thomas, 2000; Lane and Lubatkin, 1998). Subsidiary experience provides the basis for organizational learning and leads to incremental adjustments in how the parent company manages its international operations (Barkema et al., 1996). Over time, this experience helps firms overcome their liability of foreignness (Chang and Rosenzweig, 2001; Zaheer, 1995). Therefore, the accumulation of knowledge and experience may diminish the differences between merging firms that were most apparent shortly after the acquisition. Over the long-term, the ultimate ownership of a subsidiary of a diversified multinational firm – whether foreign or domestic – may become an insignificant determinant of how newly hired executives view the parent firm. Foreign-owned subsidiaries begin to resemble domestic firms over time in spite of their foreign ownership.

6. Conclusion

This research addressed the prevailing thought that high executive turnover rates in acquired firms shortly after the acquisition return to normal levels within two years. Rather than restricting the analysis of turnover to executives in place at the time of the acquisition, turnover among all executives was evaluated. The analysis showed that acquisitions lead to higher than normal turnover among target company top management teams and that this higher turnover persists for almost nine years after the acquisition. These results indicate that acquisitions lead to long-term leadership instability within target company top management teams. They raise new questions about the long-term management of executive teams in acquired companies. Do existing theories of the determinants of incumbent executive departures in acquired companies also hold for executives who join the acquired company after the acquisition and subsequently depart? Moreover, what are the consequences of long-term turnover on acquisition outcomes such as performance and the probability of divestiture?

The findings suggest several avenues for future research. The research design in this study was relatively coarse-grained in that it measured total turnover effects but did not separate turnover into its incumbent and newly hired executive turnover components. More fine-grained studies may offer greater insight into the turnover process by analyzing the independent effects of turnover on these two groups. The research design also did not measure actual transfers or rotations among execu-

tives who joined the target company after the acquisition. As a result, the actual determinants of long-term turnover among target company executives – and the cyclical nature of this turnover – remain suggestive. Future research is needed to examine the existence of these rotational effects and better understand the acquiring company's role in promoting short-term transfers as a means of creating long-term acquisition value.

Building on Bergh's (2001) study, we need better insight into the different effects that shorter- versus longer-tenured executives have on long-term value creation. Do high long-term turnover rates impede or improve target company performance and do longer- or shorter-term executives contribute the most to long-term acquisition success? Last, the focus of the study did not allow a more in-depth analysis of factors that affect the variation in long-term executive turnover rates. Industry effects, such as the consolidation of the banking industry in the 1980s, the motivation of the merger, and other factors, may have important effects on determining both the level and desirability of long-term rates of executive turnover in target firms. Future research needs to examine the positive and negative effects of long-term turnover and leadership continuity in acquired companies and their relationship to acquisition outcomes.

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