TOP MANAGEMENT TEAM TURNOVER IN MERGERS & ACQUISITIONS

Jeffrey A. Krug and Ruth V. Aguilera

ABSTRACT

This paper reviews the evolving literature on top management team effects in mergers and acquisitions (M&As). Existing research has focused on understanding why incumbent top managers depart at higher rates than normal following an acquisition and why high turnover rates have negative postacquisition performance effects. We explore two new areas of inquiry. First, we discuss the role of newly hired executives – executives hired after the acquisition. Our research indicates that executives who join target companies after an acquisition also depart more quickly than executives who join companies not previously involved in an acquisition. Acquisitions appear to create long-term instability in the target firm's top management team – both incumbent and new-hire executives depart at higher rates than normal well into the future. Integration of the target firm often intensifies instability within the target company's top management team. This instability affects performance and leads to further integration efforts as the firm attempts to improve performance. These additional integration activities, in turn, lead to even higher subsequent executive turnover. Second, we examine the topic of director turnover and propose a theoretical framework for understanding the relationship between acquisitions and director retention. Future research that

Advances in Mergers and Acquisitions
Advances in Mergers and Acquisitions, Volume 4, 123–151
Copyright © 2005 by Elsevier Ltd.
All rights of reproduction in any form reserved
ISSN: 1479-361X/doi:10.1016/S1479-361X(04)04005-0

considers the role of directors as well as executives may lead to deeper insight into the nature of turnover and integration effects in mergers and acquisitions.

INTRODUCTION

The importance and popularity of mergers and acquisitions as a means of achieving corporate growth and profit objectives is well established. The merger wave of the 1980s is considered to be the fourth merger wave of the twentieth century (Golbe & White, 1988). Between 1980 and 1989, 36,622 U.S. firms were acquired, an average of 3,662 transactions each year (The Thompson Corporation, 2004). Rather than showing signs of slowing, however, merger activity intensified through the 1990s both in terms of value and number of deals. Between 1990 and 1999, 103,016 U.S. firms were acquired, an average of 10,302 transactions each year. This high level of M&A activity continues relatively unabated. Between January 2000 and July 2004, an additional 42,077 U.S. firms were acquired for a total value of $4.8 trillion, an average of $1.1 trillion each year. Given the U.S. gross domestic product of $11.0 trillion in 2003, the M&A market is generating transactions valued at about 10% of the U.S. economy (Bureau of Economic Analysis, 2004).

Despite the popularity of M&As, the evidence is that acquisitions, on average, do not improve performance of the firms they acquire. In the most recent review of M&A literature, King, Dalton, Daily and Covin (2004) conducted a meta-analysis of 93 empirical studies of M&A performance. They found that stock values for both acquiring and target firms generally increase significantly on the day of the acquisition announcement. This suggests that shareholders expect long-term synergy gains at the time of the announcement, even though one in four global acquisition announcements is later withdrawn because of conflicts arising during merger negotiations or because the acquiring firm uncovers organizational problems during the due diligence process (Aguilera, Dencker & Escandell, 2004). They also found that future measures of acquiring firm market returns and accounting returns (ROA, ROE, and ROS) are generally negative. This suggests that acquiring firms generally fail to realize expected synergy gains. There is also little evidence that greater degrees of strategic relatedness between merging firms lead to greater acquisition value or postacquisition performance (Barney, 1988; Lubatkin, 1987; Singh & Montgomery, 1987). Relatedness appears to be a desirable but insufficient condition for creating value in the absence of effective integration (Capron & Pistre, 2002). Integration is viewed as a critical determinant of acquisition success regardless of the degree to which potential synergies exist (Cartwright & Cooper, 1996; Galpin & Herndon, 2000; Haspeslagh & Jemison, 1991; Hitt, Harrison & Ireland, 2001; Hubbard, 1999; Marks & Mirvis, 1998; Schweiger, 2002; Schweiger & Goulet, 2000).

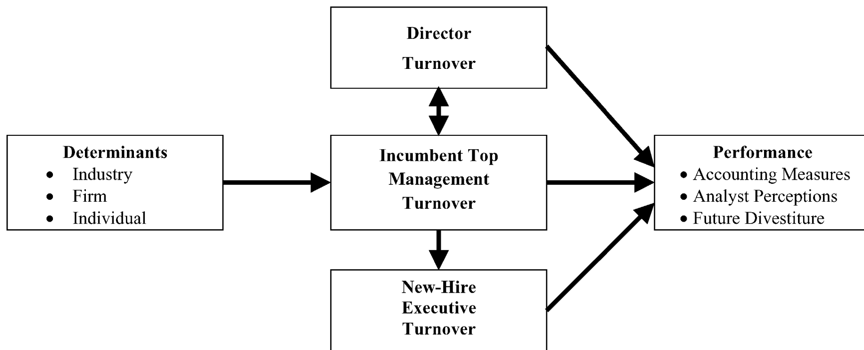

Fig. 1. Top Management Team Turnover in Mergers & Acquisitions: A Conceptual Framework.

Corporate Governance Issues in Mergers & Acquisitions

In this paper, we focus on the role of the target company's top management team. We examine the existing literature and present the preliminary results of our research. Our objective is to give the reader an understanding of what has been done and where we believe the most productive future contributions to this evolving literature may be made. We examine the target firm's top management team as a dependent variable (e.g. understanding the determinants of top management turnover) and as an independent variable (e.g. understanding the effect of top management turnover on postacquisition integration and performance). We adopt the framework in Fig. 1 as a basis for our discussion.

Most of the literature has focused on the target company's incumbent top management team. Despite anecdotal evidence and widespread acceptance in the media through the 1980s, Walsh (1988) was the first to empirically test whether acquisitions led to higher executive turnover. Walsh is generally credited with stimulating much of the work that followed on incumbent top management team effects in mergers and acquisitions. In the ten-year period following his initial research, the literature generally focused on three primary questions:

(1) Do target company executives depart at higher rates than normal following an acquisition?
(2) If so, what are the determinants of this higher than normal executive turnover?
(3) What are the performance effects of high executive turnover after an acquisition?

This literature focused exclusively on the incumbent executive team. The literature generally concluded that the turnover effects of acquisitions disappear beyond the

second or third year after the acquisition. That is, beyond the second or third year following the acquisition, executives in acquired firms are no more likely to depart than executives in firms that were not acquired two or three years prior. Our research indicates that this conclusion was erroneous. Mergers and acquisitions have effects that extend far beyond the incumbent top management team. Executives hired after the acquisition are also affected. Our findings indicate that the study of top management team effects may be an important avenue for helping us understand where and how value is created in M&As.

Recent research on the long-term effects of acquisitions indicates that acquisitions have a significant impact on executives hired after the acquisition (Krug, 2003a, b). Two important questions arise from these findings. First, if an executive has two job offers – one with a firm that was acquired several years before versus one with a firm that was not – will his or her daily responsibilities, work environment, and career prospects be any different? Second, if acquisitions have long-term effects on the target company's top management team, how do these effects influence integration efforts, company strategy, human resources, and long-term performance? The following queries show promise for contributing to our understanding of the long-term top management team effects of M&As.

Issues related to the target firm's top management team:

(1) Are executives who join companies after an acquisition more likely to depart than executives who join companies not previously involved in an acquisition?
(2) If so, what are the determinants of this higher than normal turnover?
(3) What is the relationship between incumbent top management team turnover and new-hire executive turnover?

Issues related to the target firm's board of directors:

(1) What is the effect of acquisitions on the target firm's board of directors?
(2) What theoretical explanations predict director retention?
(3) What are the theoretical linkages between board retention and integration effectiveness?

INCUMBENT TOP MANAGEMENT TEAM TURNOVER

Level of Turnover after the Acquisition

Table 1 summarizes the results of studies that measured rates of turnover among incumbent target company executives after an acquisition. No attempt was made to measure the effect of the acquisition on executives who joined the target company

Table 1. Cumulative Top Management Turnover Rates Following Acquisition.

Study	Sample	Period	Year Following Acquisition				
			1	2	3	4	5
Walsh (1988)							
Acquired firms	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)							
Acquired firms	102	1975–1979	26.1	38.6	48.9	54.9	61.1
Walsh and Ellwood (1991)							
Acquired firms	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)							
Acquired firms	97	1980–1984	27.0	45.0	55.0	67.0	
Krishnan, Miller and Judge (1997)							
Acquired firms	146	1986–1988			47.0		
Krug and Hegarty (1997)							
Acquired firms	270	1986–1988	21.2	40.5	59.9	68.4	74.8
Non-acquired firms	120	1986–1988	8.1	16.3	23.6	31.6	36.9
Lubatkin, Schweiger and Weber (1999)							
Acquired firms	69	1985–1987	20.0	33.0	42.0	52.0	
Average turnover rates							
Acquired firms			23.6	39.3	50.6	60.6	68.0
Non-acquired firms			5.7	14.8	23.0	30.6	34.5

Note: Cumulative top management turnover rates calculated by dividing the number of executives employed at time of acquisition (incumbent top management team) leaving the firm through year being reported divided by the number of executives employed at time of acquisition.

after the acquisition. In all cases, cumulative rather than annual rates of turnover were reported. The objective was to understand the full effects of the acquisition on the acquired top management team and when those effects returned to normal. A significant number of executives leave during the first year after the acquisition, when an average of 24% of the top management team departs. This represents a postacquisition turnover rate almost three times higher than normal. By the end of the third year, more than one-half of the original top management team is gone. Sixty-eight percent are gone by the end of the fifth year.

A significant portion of the incumbent executives who depart after the acquisition leaves involuntarily. Two studies interviewed a sample of target company executives to understand the nature of the executive's departure decision (Krug & Hegarty, 2001; Krug & Nigh, 2001). One third of the executives who

departed after the acquisition reported that they left voluntarily for reasons that had nothing to do with the acquisition, e.g. retirement, to take a better career opportunity, or family reasons. Another one-third reported that they were involuntarily terminated. The last one-third reported that they departed because they felt alienated from the new top management team or were made to feel that their participation in the new management team was no longer valued. In these cases, the company recorded the executive's departure as voluntary. The nature of these executives' turnover decisions, however, indicated that they would not have departed absent the acquisition. Despite the acquiring firm's reporting these latter departures as voluntary, these findings suggest that acquisitions may have negative consequences for up to two-thirds of the target company's top management team.

Situational Determinants of Incumbent Executive Turnover

Merger Characteristics

Early attempts to understand the causes of high postacquisition executive turnover in target firms focused on a variety of merger, industry, firm, and individual characteristics. Walsh (1989), for example, examined aspects of the merger negotiation process. His analysis included preacquisition interest in the target company, tender offer versus merger proposal, negotiations marked by numerous counteroffers, the amount of time required to negotiate the deal, buyer's public assurance that they would retain target company management, hostile versus friendly negotiations, type of payment (i.e. cash or stock), and the premium paid for the target company. Only the hostility of merger negotiations explained high turnover rates in the first year after the acquisition. When target executives opposed an acquisition, particularly in instances where an acquiring company bypassed the target company's top management team and presented a tender offer directly to shareholders, they were less likely to stay once the acquisition took place. Other merger characteristics, however, generally did not explain why so many executives left soon after the acquisition. While hostile negotiations were the most significant of the merger characteristics studied, it is noteworthy that hostile acquisitions represent an insignificant number – 5% of less – of all acquisitions transacted in any year (Krug & Nigh, 1998). Thus, merger characteristics appear to be a poor predictor of future target company turnover.

Industry Characteristics

The examination of industry differences has focused primarily on the issue of relatedness. Early research tested the hypothesis that acquiring firms were more likely to view target executives as dispensable when they acquired firms that

operated in similar industries or product categories (Manne, 1965; Pitts, 1976). In unrelated acquisitions, acquiring firms have less knowledge of the firm they are acquiring and would, therefore, be favorably inclined toward retention of target company executives. Walsh (1988, 1989) tested the effect of relatedness using the five Federal Trade Commission categories (related = horizontal, vertical, product extension, and market extension; unrelated = conglomerate). He found no direct correlation between relatedness and turnover. Walsh's (1989) analysis of merger characteristics, however, did find indirect associations. When a target company was approached with a merger proposal by an unrelated acquiring firm after it had been subjected to significant merger interest, its executives were more likely to leave four years after the merger. Walsh, however, suggested that his analysis of merger characteristics and industry relatedness, both which were based on the examination of intercorrelations, stopped short of adequately explaining the high level of turnover, especially during the first two years after the acquisition.

Hambrick and Cannella (1993) also tested the effect of relatedness. They used two judges who independently placed acquisitions into categories of relatedness using business descriptions of the merging firms. Their findings, however, were contrary to existing thought. Horizontal acquisitions, which resulted in the combination of firms operating in similar product categories, experienced low levels of turnover among target firm executives during the first month after the acquisition. Unrelated acquisitions experienced higher target executive turnover rates. Relatedness was not associated with turnover beyond the first month after the acquisition. The immediate loss of executives in unrelated target companies was counter to the expectation that acquiring firms would take steps to minimize turnover given that they had fewer managers with sufficient industry knowledge to operate the unrelated target. Hambrick and Cannella (1993) argued that the lack of relatedness may generate greater cultural gaps that lead to communication problems and create incentives for executives to leave. The findings in both Walsh's (1988, 1989) and Hambrick and Cannella's (1993) research suggest that relatedness is nevertheless a weak direct predictor of turnover.

A more promising avenue for understanding industry effects may be found in Krug and Nigh's (1998) study of cross-border acquisitions. Using the concept of transnational integration developed by Kobrin (1991), they found that turnover in U.S. target companies was significantly higher when the merging firms operated in a global industry. This effect began immediately after the acquisition and intensified through the sixth year following the acquisition, suggesting that global industry effects are immediate and long-term. Previous studies of industry relatedness focused on whether the acquiring firm had an adequate supply of managers with sufficient industry knowledge to operate the acquired company after the acquisition. In contrast, Krug and Nigh (1998) focused on the desirability of

retaining target company managers given industry structure. In global industries, companies benefit by standardizing product designs, manufacturing processes, distribution channels, and marketing practices. Standardization lowers costs through scale effects and provides the firm leverage across a larger sales base. It also has two important human resource effects. First, local managers – that is target company managers – are less critical to the global firm's integration efforts, since standardization reduces the need for local market knowledge. Second, the global firm's existing managerial base becomes a critical resource for transferring the firm's strategy abroad. In multi-domestic industries, in contrast, firms benefit from local adaptation rather than standardization. Local managers become a more critical resource for helping the global firm adapt its product and processes to the local market. These findings suggest that managers' firm- versus industry-specific knowledge may be more influential in enabling the acquiring firm to successfully transfer capabilities and integrate the target firm.

Firm Characteristics

Research on firm characteristics has concentrated primarily on target company performance prior to the acquisition and on the market for corporate control. Hambrick and Cannella (1993) found that poor accounting performance in target companies relative to the acquiring firm is associated with greater target company executive departures during the first two years after the acquisition. Poor preacquisition stock performance is also associated with significantly higher turnover when the target company is acquired by a corporate raider (Walsh & Kosnik, 1993). As we discuss later, Hambrick and Cannella (1993) suggested that poor preacquisition performance creates the perception of inferiority on the part of target company top management – they feel inferior and the acquiring company feels superior. These feelings of status, brought on by the target company's poor performance prior to the acquisition, cause target company executives to depart more quickly. Acquiring firms may also be more inclined to replace target executives with their own when performance has been poor.

The association between poor preacquisition performance and postacquisition turnover raises the question of whether poor performance is a primary motivating factor behind merger and acquisition activity. According to the market for corporate control, firms that perform below shareholder expectations become takeover targets. Outside firms may compete for control of underperforming firms, replacing perceived incompetent target firm executives immediately after the acquisition in an attempt to improve performance (Berle & Means, 1932; Fama, 1980; Fama & Jensen, 1983; Jensen & Meckling, 1976; Varian, 1988). In this type of acquisition, the termination of less than competent executives is a major objective of the acquisition (i.e. hubris). Theoretically, executives are motivated to pursue activities

that promote their self-interest even at the expenses of shareholders. They tend to pursue projects that create the perception of competence, thereby enhancing their own opportunities for promotion and increased job security. If boards fail to address such behavior, then the market for corporate control becomes an important mechanism whereby outside firms may intervene by acquiring the poorly performing firm, replacing incompetent management, and improving performance.

Studies of the market for corporate control, however, have found that few acquisitions are driven strictly by the desire to improve poor target firm performance (Walsh & Ellwood, 1991; Walsh & Kosnik, 1993). Nevertheless, companies that perform below their industry average do experience higher turnover rates after the acquisition, an indication that acquiring companies are less willing to retain executives when performance is poor. In practice, however, the average target company performs at or above industry standards before it is acquired. This suggests that most acquiring firms actively seek acquisition candidates that are either industry leaders or have some unique set of competences that are of value. The market for corporate control also assumes that executives entrench themselves by pursuing projects that maximize their tenure. Walsh and Kosnik (1993), however, found that target companies generally experience preacquisition turnover rates at or above turnover rates in comparable, non-acquired companies. This also implies that target companies are either good performers or willing to discipline themselves when performance falls short of expectations. Target companies are acquired for a variety of reasons (Ravenscraft, 1987; Trautwein, 1990; Walter & Barney, 1990). The inefficient management hypothesis, however, while long accepted as a major incentive for acquisition activity in the media, has little theoretical support (Davis & Stout, 1992; Walsh & Ellwood, 1991).

Krug and Hegarty (1997) found that the effect of firm characteristics is intensified in cross-border transactions. Cross-border acquisitions are associated with higher executive turnover in target companies compared to purely domestic acquisitions. Research on domestic acquisitions concluded that the most significant turnover effects occur within three years after the acquisition. Beyond the third year, turnover rates rise at about the same rate as in non-acquired firms. In the case of cross-border acquisitions, turnover rates continue to rise at a higher rate than normal through the sixth year after the acquisition. This suggests that longer-term effects are present when the target is acquired by a foreign firm. In addition to the global industry effects already discussed, Krug and Nigh (1998) found that turnover rates are significantly higher when the foreign acquirer has made previous acquisitions in the same country. Acquisition experience enables foreign firms to develop internal capabilities and experiences that can be leveraged in future acquisitions. As the foreign firm gains experience, it becomes less dependent on the target company for local knowledge. Consequently, foreign firms are more likely

to use their own managers to integrate acquired firms when they have significant acquisition experience.

Individual and Top Management Team Characteristics

Individual characteristics are an important determinant of organizational success. They affect how top management team members interact and influence both the quality of decision making and the efficiency with which decisions are implemented (Schweiger & Sandberg, 1989). Certain types of executives are more likely to depart more quickly than others. More senior managers, for example, tend to depart sooner after the acquisition. In Walsh's (1988) study, 39% of the target company CEOs, presidents, and chairs left within five years after the acquisition. In contrast, a significantly lower number (27%) of vice presidents, controllers, secretaries, and treasurers left during the same period. The loss of more senior executives has important organizational implications because it disrupts strategic projects and degrades leadership continuity (Schweiger, Ivancevich & Power, 1987). When the most senior executives depart, a leadership vacuum is created in the target company that must be filled by the acquirer. Executives from the acquiring firm, however, often lack the firm-specific knowledge needed to quickly step in and make informed strategic decisions. In many cases, however, replacing the most senior executives in the target company is viewed as having significant symbolic value. It signals that the acquiring firm is in charge (Pfeffer, 1981).

Krishnan, Miller and Judge (1997) examined the question of top management team complementarity, where complementarity referred to instances in which the merging top management teams had dissimilar or non-overlapping functional skills. They found that target company executives were more likely to depart when their functional backgrounds were similar to the backgrounds of acquiring firm executives. In these instances, executive skills were viewed as redundant in that they did not contribute to the acquiring firm's existing knowledge base. The existence of overlapping skills creates opportunities to achieve greater cost efficiencies by eliminating redundant positions. In contrast, executives were most likely to be retained when they had complementary skills or unique sets of managerial competencies that added value to the acquiring firm's knowledge base. In addition to these knowledge benefits, the merging of top management teams with dissimilar individual characteristics and functional skills improves problem solving by increasing the diversity of solutions proffered (Haspeslagh & Jemison, 1991). Whereas the departure of older, more tenured executives might be viewed as non-efficient insofar as they deprive the firm of experience and leadership stability, top management team complementarity might be viewed as efficient in that it creates synergies in the decision making process.

Individual values and beliefs are strongly embedded in culture. Cultural differences often lead to conflicts and miscommunications that exacerbate turnover after an acquisition (Lubatkin, Schweiger & Weber, 1999). They cause target company executives to leave voluntarily and motivate acquiring firms to replace executives with their own as a way of reducing integration problems. The effect of culture, however, is moderated by a variety of other firm characteristics. Krug and Nigh's (1998) analysis of turnover in cross-border acquisitions, for example, showed that cultural effects are strongly influenced by other factors. The negative effect of culture is reduced when the foreign acquirer has significant international experience operating in multiple countries. International experience helps the firm build cross-cultural sensitivities that mitigate communication problems. The negative effect of culture is also reduced when the foreign acquirer has significant acquisition experience. This experience reduces integration problems that would otherwise be intensified by cultural differences.

Dispositional Determinants of Turnover

Related Status and Removal of Autonomy

Early studies focused on situational determinants (merger, firm, industry, and individual and top management team characteristics) to understand the nature of high executive turnover in target companies after an acquisition. The low predictive power of most situational characteristics, however, led researchers to examine dispositional characteristics such as executive perceptions of the merger process. While they did not directly measure perceptions, Hambrick and Cannella (1993) studied the concepts of relative status and autonomy removal. They found that executives were less likely to depart when they were granted greater status and autonomy in the newly merged company. They measured status using a dichotomous variable that identified instances where an executive's job title indicated an increase in status. They acknowledged that this measure did not embody actual managerial responsibilities. It was, however, an expectation that executive perceptions were captured – albeit imperfectly – by the simple measure of titular status.

Autonomy of target company executives was measured through surveys sent to security analysts and executives in the acquiring company. As with status, this measure did not directly measure executive perceptions but was thought to capture the nature of the executive's level of autonomy after the acquisition. An individual executive's feelings about his or her status and autonomy in the new firm had a direct bearing on his or her job satisfaction and ultimate decision on departure. In addition, executives were more likely to depart when other executives in the firm received greater status enhancements. Thus, acquiring companies that increase the status of

one or more executives as a means of motivating them to stay may nevertheless find these executives leaving if they grant greater status increases to other executives in the firm. Lubatkin et al. (1999) replicated these findings using actual perceptions of managers in firms acquired in friendly, related acquisitions. Perceptions of cultural differences and removal of autonomy were significant in explaining more than 50% of the variance in turnover in the first year after the acquisition. In the fourth year after the acquisition, removal of autonomy remained significant.

In a third study, Krug and Hegarty (2001) used surveys to analyze how executives' perceptions of merger events determined whether they stayed or left after the acquisition. They found that executives' perceptions of the merger announcement, interactions with executives in the acquiring firm after the merger, and executives' perceptions of the long-term personal effects of the merger had a significant impact on their decision to stay or leave. These perceptions could be used to accurately distinguish executives as stayers or leavers in 80% of the cases. When the sample was split into "stayers" and "leavers" based on whether they were "informed" or "uninformed," Krug and Hegarty (2001) found that informed stayers had the most favorable impressions. The most informed leavers had the most negative perceptions. This suggests that good communications during the merger integration process is insufficient for overcoming all executives' initial negative perceptions of the merger. Consistent with upper echelons theory, executives are driven by a complex set of motives and often develop widely divergent interpretations of the same event. This makes it difficult for researchers to make accurate predications about an executive's behavior, even when methodology is based on perceptional measurements.

The Performance Consequences of Postacquisition Executive Turnover

Three studies addressed the relationship between postacquisition executive turnover and performance. Each study drew similar conclusions: the loss of target company top managers after the acquisition has negative performance consequences and should be managed accordingly. Cannella and Hambrick (1993) looked at performance in 96 acquisitions between 1980 and 1984. Surveys were mailed to twelve expert informants, including six executives from each acquiring firm and six security analysts who specialized in the acquiring firm's industry. Each informant rated the profitability of the target firm at the time of the acquisition and four years after. Results indicated that high target company executive turnover rates after the acquisition were associated with lower performance. Performance was affected most when the most senior managers left. Giving higher status to one or more target company executives in the post-merger organization was associated

with the greatest performance improvement. These results suggest that executives from the target firm are important resources, especially in terms of the experience they bring to the integration process. When target firms lose their top management base, organizational processes are broken and leadership discontinuity often leads to instability. Such resources are not easily replaced.

Krishnan, Miller and Judge's (1997) study found a positive relationship between top management team complementarity and performance. They used a sample of 147 acquisitions between 1986 and 1988 and measured performance as return-on-assets (ROA) averaged over a three-year period immediately following the acquisition. Dissimilar functional backgrounds provided complementary or synergy-contributing skills that improved the integration process. In turn, executive turnover was lowest in complementary acquisitions, an indication that target company executives who had complementary skills were both easier to integrate into the new organization and provided the greatest contribution to the new company in terms of background experience and skills. Top management team complementarity was positively associated with both lower postacquisition executive turnover and higher postacquisition performance. Complementary skills are an indication of the individual executive's potential value to the integration process.

Bergh (2001) studied the association between target company executive retention and the probability that the target company would later be divested. He examined 104 of the largest U.S. publicly traded acquisitions between 1986 and 1992. Fifty percent of the target companies were divested within five years of the initial acquisition. Performance was measured as return on assets (ROA) for the acquiring firm during the years the target firm was retained. Target firms had the highest probability of eventual divestiture when the least senior executives were retained (i.e. executives other than the chairman, vice chairman, president, CEO, or COO). In addition, targets that retained executives with the longest organizational tenures were the least likely to be divested. These findings indicate that retaining executives with the longest organizational tenure decreases a target firm's probability of divestiture. Consistent with the resource-based view of the firm, organizational tenure implies that the executive with greater firm-specific knowledge contributes to more effective integration of the target firm.

NEW-HIRE TOP MANAGEMENT TEAM TURNOVER

Level of Turnover after the Acquisition

Three conclusions from the existing work on target company incumbent top management turnover following an acquisition can be drawn: (1) the greatest

executive turnover occurs during the first year after the acquisition; (2) turnover rates generally return to normal within three years after the acquisition; and (3) high executive turnover rates are associated with poor target company performance. Despite the insight offered by existing studies, several issues remain. First, the primary insight offered by existing studies is in explaining the high turnover that occurs in the first year after the acquisition. These studies, however, have had less success explaining turnover beyond year one. Additionally, many findings have been contradictory. Hambrick and Cannella (1993), for example, found that reduced autonomy and status are associated with higher turnover in the second year after the acquisition. This relationship, however, reverses itself by year four, when reduced autonomy and status are associated with lower turnover. Lubatkin et al. (1999) also found, consistent with Hambrick and Cannella (1993), that lower autonomy in year two is associated with higher turnover. This relationship, however, remained positive in year four rather than reversing itself as in Hambrick and Cannella's analysis.

These problems raise a number of questions. First, are the effects of acquisitions limited to executives in the acquired top management team? Or, do acquisitions also impact executives who join the firm after the acquisition (new-hire executives)? If total executive turnover equals incumbent plus new-hire turnover, then perhaps the inability of studies to fully explain turnover beyond the first year post-acquisition, as well as the contradictory findings of existing studies, can be explained by these studies focusing solely on incumbent executives. Second, if new-hires are also affected by the acquisition, then do turnover rates really return to normal? Third, what is the relationship between incumbent and new-hire turnover?

In order to better understand the long-term effects of acquisitions, Krug (2003b) analyzed rates, patterns, and the timing of executive turnover among 12,080 executives in 473 target and non-acquired firms over a fifteen-year period. He analyzed data using a repeated measures longitudinal design that controlled for violations in homoscedastic error assumptions. He found no significant differences in turnover rates between merged and non-merged firms during the seven years leading up to the acquisition or point of observation. This suggested that there was no reason to believe that turnover rates between the two groups would have differed in the future had the target firms not been acquired. Nevertheless, during the nine-year period following the acquisition, the merged firms experienced average annual turnover rates of 9%, two times higher than turnover rates in the non-acquired firms.

These findings indicate that the conclusions of studies that the turnover effects of acquisitions disappear beyond the second or third year after the acquisition are erroneous. Acquisitions appear to create leadership instability in target companies that continues for at least nine years after the acquisition. Executives who join targets after the acquisition also appear to leave more quickly than executives who

join firms not previously involved in an acquisition. This suggests that much of the conflicting results of studies that only examined incumbent executive turnover might be explained by turnover among new-hire executives. Acquisitions create conditions that lead to high turnover rates among both groups. Studies that separate the turnover effects of these two groups may find more robust explanations of the effects of acquisitions.

The Relationship between Incumbent and New-Hire Executive Turnover

Drawing on the concept of managerial discretion (Barnard, 1938; Finkelstein & Hambrick, 1990; Hambrick & Abrahamson, 1995; Hambrick & Finkelstein, 1987). Krug and Michael (2004) analyzed the relationship between incumbent and new-hire executive turnover. Using a longitudinal repeated measures model, they examined the careers of more than 4,000 incumbent and new-hire executives in 89 merged and 90 non-merged firms over a fifteen-year period surrounding the acquisition. Consistent with the literature, they found that incumbent executives departed at abnormally high rates after the acquisition. In addition, they found that executives who joined target firms after the acquisition also departed at higher rates than executives who joined firms not involved in an acquisition. New-hire executives who joined the target firm one year after the acquisition were already departing at higher rates than normal one year later. New-hire turnover continued to occur at a higher rate than normal through the ninth year. Further, new-hire turnover was significantly higher when it was preceded by high incumbent executive turnover. Firms with the highest rates of turnover among incumbent executives immediately following the acquisition had the highest rates of turnover among new-hire executives several years later.

Based on their framework of managerial discretion, Krug and Michael (2004) argued that acquisitions create uncertainty among executives regarding their managerial discretion. Many incumbent executives depart immediately after the acquisition because the merger creates uncertainty surrounding their decision-making rights in the firm. Existing psychological contracts are broken when executives must deal with new managers and directors who have different interpretations of the terms and conditions of previously made psychological contracts (Hambrick & Finkelstein, 1987; Herman, 1981; Mizruchi, 1983). After the acquisition, executives suffer uncertainty regarding the extent of their new discretion. Managerial discretion is created by psychological contracts that depend on the identities of the individuals making them. Instead of negotiating new contracts with new managers and directors in the acquiring firm, many incumbent executives choose to exit.

Many new-hire executives face the same uncertainty regarding their managerial discretion, especially in the face of high incumbent executive turnover. When incumbent executives feel uncertainty regarding their managerial discretion, they have greater difficulty delegating decision-making rights to executives who join the firm after the acquisition. As a result, new-hire executives are more likely to feel greater uncertainty regarding the boundaries of their own discretion compared to executives who join firms not subjected to acquisition. When incumbent executives depart, this situation is aggravated. The new-hire executive must now renegotiate his decision-making rights with a new executive, one who may have a different understanding of the previously negotiated psychological contract. Acquisitions create uncertainty for all target executives who must renegotiate psychological contracts with new superiors. This uncertainty creates long-term instability in the target firm and causes high turnover rates well into the future.

TURNOVER AMONG THE TARGET FIRM'S BOARD OF DIRECTORS

Little research has been conducted on the turnover behavior of the main governance body (board of directors) of the acquired firm. The few studies touching on director turnover focused on turnover of the CEO or chair using agency theory arguments (e.g. Walsh & Ellwood, 1991; Walsh & Seward, 1990). We respond to the research oversight pointed out by Walsh and Kosnik (1993, p. 692) more than a decade ago and discuss the patterns and consequences of target firms' director turnover. An understanding of director turnover is fundamental to the success of acquisitions, given the directors' potential decision-making role in the newly merged firm. Since acquiring firms are generally unable or unwilling to retain all target directors, we inquire into the factors that affect the likelihood that target company directors will be retained.

The role and importance of individual directors and the board of directors as a whole has been an area of extensive debate in the corporate governance literature (Johnson, Daily & Ellstrand, 1996). Class hegemony theory, for example, describes the director's role as one of perpetuating class power and the ruling elite (Useem, 1984). In contrast, managerial hegemony theory views directors as passive actors with little power (Mace, 1986). Increasing empirical evidence indicates that directors are of strategic importance in the firm's value creation process (Golden & Zajac, 2001; Westphal, 1999). Westphal and Frederickson (2001) teased out board effects on firm strategy from what previously had been considered to be executive effects. Other studies demonstrated direct board effects on firm strategic outcomes (Ruigrok, Peck & Keller, 2002) and how board demographics and processes affect

IPOs (Filatotchev & Bishop, 2002), entrepreneurship patterns (Zahra, 1996), CEO succession (Ocasio, 1994), and acquisition strategies (Davis, Diekmann & Tinsley, 1994). In sum, the literature indicates that, as a corporate governance entity, the board of directors has direct effects on firm strategy and value creation.

In the context of M&A negotiations, the target firm's board of directors is critical because it is the body that engages in merger negotiations in the case of friendly acquisitions or that is superseded in the case of hostile takeovers. In addition, "maintaining continuity of board membership is often important in meeting the long-term objectives of the combined forces," unless the firm is significantly smaller than the acquiring firm (DePamphilis, 2001, p. 242). This is particularly true when the target operates as a subsidiary of the acquirer. As Bergh (2001) rightly questioned for executives, we ask a similar question regarding directors. Given that the newly merged firm is unable to retain all acquired directors, which directors should be retained and which should be let go? The retention of key human capital is one of the factors leading to successful implementation of an acquisition strategy (Haspeslagh & Jemison, 1991; Porter, 1987). We develop a theoretical framework of director turnover in acquired firms by examining directors' functions from three theoretical perspectives.

We confine our discussion to outsider directors – those with no executive responsibilities in the firm. For the study of insider directors' turnover post-acquisition, we refer to the TMT turnover studies already discussed. Agency theory is traditionally used to explain the conflict of interests between shareholders and the fiduciaries of their interests – the directors. We argue, however, that this single-focused approach is insufficient to understand director turnover in the context of acquisitions because directors fulfill multiple functions. We propose a framework that builds on agency theory but also examines the endogenous functions of directors through the resource-based view of the firm and directors' organizational boundary spanning functions through the social capital perspective.

These three distinct theoretical perspectives allow us to analyze directors' functions as fiduciaries of shareholder interests in the acquired firm, both as critical human capital contributing to the knowledge base of the acquiring firm and as social capital or resource linkages between the acquiring firm and external stakeholders. Whereas human capital fills the gaps in the principle agent dyad, social capital is the contextual complement to human capital (Burt, 2003, p. 150). Consequently, we argue that acquired director turnover is not only explained by classic agency arguments such as director dependence relative to the top management team of the acquired firm but also by factors such as asset specificity, asset complementarity, and directors' boundary-spanning relations with other organizations. These multiple factors have interactive effects.

The Monitoring Function

Amidst corporate scandals, the board of directors faces increasing pressure from various stakeholders and the institutional environment for increased accountability (Luoma & Goodstein, 1999). This pressure resonates well with the agency argument that directors are the fiduciaries of shareholder interests. The argument is built on the premise of management's potential self-serving behavior and the information asymmetry between management and shareholders (Arrow, 1985). The separation between ownership and management, particularly with diffuse ownership structures, may lead managers to act in their self-interest. These actions may not coincide with the interests of shareholders (Fama, 1980). One function of the board of directors is to behave as the ultimate internal monitoring mechanism to reduce such self-serving behavior (Fama & Jensen, 1983). This monitoring function is commonly recognized by the public and regarded as the most "orthodox" function of the board of directors as a governance entity.

As the main internal monitoring mechanism, the board of directors provides a lower-cost means of replacing underperforming top managers relative to market takeovers (Fama, 1980). Directors, however, may fail to monitor management effectively and may themselves need to be monitored. If so, the outside takeover market serves as a court of last resort, where not only inefficient management but also the ultimate internal control mechanism – the board of directors – will be culled. From an agency perspective, Walsh and Kosnik (1993) argue that if corporate takeovers are indeed motivated by the desire to increase performance by eliminating management inefficiencies, then postacquisition restructuring decisions need to address both director and management deficiencies in the acquired firm. Walsh and Kosnik (1993) suggest that turnover among directors of the acquired firm will be higher than the company's historical turnover rate and the rate of firms not engaged in acquisitions.

Ineffective monitoring is possible either because directors lack adequate information needed to supervise management activities or because the board of directors is subservient to the CEO, top management team, or both. Since it is difficult to ascertain any information asymmetry a priori, we focus on the case of *director dependence*. Directors are said to be dependent on top management when their personal, professional, and/or economic relationships with top management unduly influence the effectiveness of their monitoring. CEOs, for example, can significantly influence directors' interests and decision-making (Johnson et al., 1996). This is expected or anticipated and may even be considered a part of their job. It is a matter of degree and the directors' response. Some managers use any means available to pressure directors to their advantage. Directors are sometimes viewed simply as "rubber-stampers" serving top management interests (Pfeffer, 1981).

In sum, from an agency perspective, it is more likely that directors can effectively carry out their monitoring function when they are independent of undue influence from other directors, the CEO, or other top management members. Conversely, we expect that directors are more likely to monitor the TMT ineffectively when they are unduly attached to the top management of the acquired firm. As a result of the acquisition, they, in turn, are more likely to leave.

The Knowledge Contribution and Capability Building Function

The agency argument is built on the presumed conflict of interest between shareholders and management. Despite its dominance in the corporate governance literature, shareholders may not always be subject to conflicts of interests with managers and directors. This is particularly the case when directors or managers are altruistic or are also shareholders (Aguilera & Jackson, 2003; Davis, Schoorman & Donaldson, 1997). In these cases, the monitoring function assigned to directors may not be more important than other director functions such as those of knowledge contribution and capability building. Ideally, it is to be hoped that each director will contribute to all three functions, albeit to varying degrees.

Drawing on the resource-based view of the firm, we identify two director functions: knowledge contribution and capability building. First, it is broadly accepted within the *content* approach of the resource-based view that firm competitive advantage and value creation are based on the possession and service of firm-specific, costly-to-imitate resources (Barney, 1991; Mahoney & Pandian, 1992). Directors are critical human capital and contribute specialized knowledge and expertise to the firm. Director knowledge and expertise are specific to the firm when they are embedded in directors' experience. In particular, tenured directors develop as the firm grows and accumulate knowledge about the firm and its environment over time. Such knowledge is difficult to replicate. If directors have valuable specialized knowledge or expertise, we argue that they also have a knowledge contribution function.

While the knowledge contribution function relates to the firm-specific, inimitable characteristics of director knowledge and expertise, the capability building function refers to a director's role in the dynamic process of accumulating organizational capabilities. Firms not only require a collection of resources for value creation, but they must also engage in processes of deploying and developing resources, e.g. coordination, integration, reconfiguration, and the transformation of existing internal and external resources (Teece, Pisano & Shuen, 1997). As the environment changes, the firm must generate new knowledge and renovate its resource base to maintain competitiveness. Therefore, the director's process of

accumulating firm-specific resources matters as well. Not only the stock of existing knowledge in a firm but also effective development and deployment of resources and capabilities over time are sources of competitive advantage and value creation (Eisenhardt & Martin, 2000). As part of the firm's strategic leadership, directors have important functions in setting strategic direction, bringing together internal and external resources, and solving various problems on a sustained basis in the capability building processes. Specifically, directors have a say in the resource allocation process for strategic investments. When directors are associated with the development of critical firm capabilities such as innovation and technology, then they have a key capability building function. Such functions are particularly valuable for a firm in competitive, technology-intensive industries and in today's knowledge economy in general.

These two functions are related to the "resource role" and "service role" of directors as described by Johnson et al. (1996). From resource dependency theory (Pfeffer & Salancik, 1978), directors have an important resource seeking role in the sense of securing access to certain critical resources such as financial capital or legal advice. This helps reduce uncertainty from the firm's interdependence with the environment (Dalton, Daily, Johnson & Ellstrand, 1999). These roles derive fundamentally from directors' leverage within the firm as well as the firm's interdependent relationship with other firms. Therefore, the "resource role" is power-based. The resource-based view of directors, however, emphasizes the value creation aspect of directors as critical human capital of a firm. Both resource functions of directors in our discussion are efficiency-based. Directors with these two functions should help the firm gain and sustain competitive advantage. This follows directly from the basic proposition within the resource-based view of the firm, that internal resources and capabilities that are valuable, rare, insubstitutable and inimitable are critical to a firm's competitive advantage (Barney, 1991; Conner, 1991; Peteraf, 1993). In addition, our discussion explicitly distinguishes between the static and dynamic director functions. The resource dependency perspective is silent on this issue.

We propose that how well directors fulfill the knowledge contribution and capability building functions will influence director turnover in acquisitions. First, acquisitions are motivated not only by profit-seeking goals but also by asset-seeking goals. Teece (1988) pointed out that, under certain circumstances, acquisition is the only means of obtaining certain valuable assets. If directors embody or are closely associated with the development of firm-specific knowledge in the target that is sought by the acquiring firm, then these directors will most likely be retained. Even when the acquisition is not motivated solely by asset-seeking incentives, directors with firm-specific knowledge that is potentially valuable to the acquiring firm have a better chance of retention than those who lack such knowledge.

This dynamic capabilities view focuses on a firm's capabilities as a source of competitive advantage. Capabilities involve purposeful and collective activities by which resources are assembled in integrated clusters spanning individuals and groups so that they enable distinctive activities to be performed. Capabilities are characterized by their degree of coherence or the degree to which one element reinforces or complements others (Teece, Rumelt, Dosi & Winter, 1994). In this sense, capabilities are highly "combinatorial" and involve complementarities among multiple resources and routines. One of Sony's capabilities, for example, is based on its core competence of miniaturization, the maintenance and enhancement of which must be supported by complementary capabilities in manufacturing (Prahalad & Hamel, 1990).

Following the acquisition, the acquiring firm should reconfigure complementary resources and capabilities. For example, top scientists equipped with expertise and knowledge in the acquired firm may no longer be needed either because the acquiring firm possesses similar expertise on its board or because the firm is in the process of shifting its strategic orientation, e.g. from a focus on basic research to applied research or development. Such a redefinition in the value of complementary knowledge and expertise means that these directors are less likely to contribute to the whole firm's capability. They may even be detrimental to the acquiring firm's capability accumulation in case of cacophony between directors and others in the acquiring firm. If directors' abilities do not complement the acquiring board or top management team, they are more likely to depart. Such complementarity is important for top management team members of the acquiring and acquired firms. While the asset specificity of director knowledge relates to the value of individual director knowledge and expertise to the acquiring firm, complementarity relates to whether director knowledge and abilities are compatible with the rest of the acquiring firm for its capability building. These two are distinct concepts, though equally important in determining the likelihood of acquired director turnover.

Interaction between the Agency and Resource-Based Arguments

Our claim that directors exercise multiple functions within the board adds complexity to the prediction of acquired director turnover, since we must examine the interactive effects of these different functions. From an agency perspective, director dependence is more likely to lead to ineffective monitoring and be associated with director turnover. This may, however, not always be consistent with the resource-based view argument. When acquired directors possess critical knowledge contribution and capability building functions, their asset specificity and complementarity increase the probability of their retention. Suppose, for

example, that a scientist is a director in a biotech firm that has professional attachment to the firm's top management team but also possesses substitutable expertise. His or her retention following the acquisition depends on two factors: (1) whether his or her attachment to top management has had negative performance effects; and (2) whether his or her specific expertise remains an important asset to and complements the existing asset base of the acquiring firm. If these two factors operate in different directions when the acquisition takes place, one will weaken the effect of the other on director turnover. When the director is attached to the top management team of the acquired firm but his knowledge remains valuable or complementary, the acquired director is less likely to depart.

The Social Capital Function

The social capital perspective is an excellent complement to the agency and resource-based views because it stresses different organizational issues and dynamics. While the agency perspective focuses on the function of directors in aligning incentives of management and shareholders and the resource-based view emphasizes the endogenous directors' function in knowledge contribution and capability building, the social capital perspective focuses on the social context of the firms mediated by its directors (Burt, 2003; Coleman, 1990; Lin, 2001; White, 1981). Social capital is defined as "the sum of the resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (Bourdieu & Wacquant, 1992, p. 119). From this perspective, directors bring social capital to the firm through their personal inter-organizational relations as well as through their overall location in the social structure of their networks.

The social capital perspective conceptualizes actors as part of a broader social structure. In line with this view, directors do not operate in isolation within the firm. Instead, they are embedded in a broader social context beyond the firm. They span organizational boundaries creating an advantage for lowering the risk of cooperation and increasing the value of information and resource transfer (Granovetter, 1985). In this respect, directors hold a pivotal function in building and maintaining a firm's social capital. They serve as key linkages between the focal firm and peer organizations, suppliers, customers, government and other stakeholders. Such inter-organizational relationships are critical to the firm's competitive advantage and value creation.

Although directors possess internal bonding relationships with other directors on the board, their external bridging relationships are particularly important in our analysis of director's social capital and acquired director's likelihood of turnover

(Adler & Kwon, 2002). We now focus on the directors' function of boundary spanning relationships that was originally discussed in the management literature by Barnard (1938) and Mintzberg (1978) in describing the role of senior managers. Directors' social capital stems from boundary spanning relationships beyond their firm and industry. This director function may be fulfilled, for example, by serving on several boards or having a functional background in other firms. We analyze directors' social capital along two main dimensions: relational and structural.

The relational aspect refers to the characteristics of directors' social relations and the resources gained from these relationships. One of the most important features of social relations is closure. Closure refers to the permeability of social relations and their density in preserving and maintaining resources. It will determine how much information and resources are gained from these relationships as well as what type of information and resources are transferred to the firm. Coleman (1990) stresses the importance of network closure as a distinctive advantage in social capital. He states that closure – as opposed to open networks – preserves and enhances trust, norms, authority and sanctions, thereby ensuring that network resources are mobilized through social relations. Moreover, because of its role in facilitating trust and norms among social actors, closed networks also confer competitive advantage by lowering the risk of cooperation in exchanging information and resources (Burt, 1993).

Social capital research also shows that closed social relations can serve as mechanisms for effective communications and obtaining fine-grained information. In acquisitions, acquired directors may bring with them closed networks that are valuable in helping the acquiring firm integrate the target company. Directors in closed inter-organizational networks can potentially contribute more social capital to the acquiring firm than directors in open social networks. Therefore, we expect that directors with closed networks will have a greater ability to secure social capital by virtue of their membership in such social networks and will be less likely to leave than directors with open networks.

Second, the structural dimension of social capital concerns the location of a focal actor in a social network and the director's utility in allowing information to flow from one social circle to another. Particularly important within this social structure is what Burt defined as structural holes or the separation between non-redundant contacts predominant in sparse networks (1992). As Lin (2001) states, "Locations that link nodes and their occupants to information and other resources unlikely to be accessible otherwise constitute valuable capital for the occupants of these 'structural hole' positions, and at other locations and for other occupants accessing them" (p. 22). In their boundary spanning function, directors develop social capital by building interpersonal bridges between disconnected parts of markets and organizations where it is valuable to do so. Directors' social structure defines

their opportunities for brokering the flow of information across organizations as well as controlling resources.

Burt (1992) demonstrated that sparse networks are especially beneficial because each contact serves as a bridge to non-redundant information. Thus, directors whose networks span holes across organizations are more likely to increase the value to the firm of cooperation with outsiders and consequently their own value within the firm. Directors' advantages accrue to those whose networks are *sparse* or rich in structural holes (Burt, 2003). In the context of acquired directors, those located in sparse networks will be able to add more value to the acquiring firm because these resources are difficult to access and tend to be attached to actors.

Interaction of Social Capital Arguments with Agency and Resource-Based Arguments

Under agency theory, we proposed that director dependence on top management will lead to higher turnover because the director's monitoring function within the acquired firm will be adversely affected. The social capital perspective suggests that directors contribute social capital to the acquiring firm through their organizational boundary spanning function, particularly in the case of those with a closed and sparse social network. Therefore, the social capital brought to the acquiring firm by directors through their external linkages may dilute the impact of direct dependence on turnover. We expect that the positive relationship between director dependence and director turnover will not be as strong as when a director does not have a closed and sparse social network or does not possess any competitive advantage over other directors as an efficient boundary-spanner.

Finally, according to the resource-based view, asset specificity and complementarity of director knowledge and expertise lead to lower acquired director turnover. It is reasonable to expect that directors with knowledge or expertise specific to the acquired firm and potentially valuable to the acquiring firm, or abilities complementary to those of the board or top management of the acquiring firm, will have a better chance of retention if they have also maintained a close and sparse social network.

CONCLUSION

Our objective in this paper was to provide the reader with a better understanding of the theoretical and empirical literature that has examined the issue of top management turnover in target companies following acquisition. One conclusion

from our examination is that studies have focused too narrowly on the target company's incumbent top management team. Our own research indicates that executives who join target companies after the acquisition experience high turnover rates up to nine years after the acquisition. This suggests that acquisitions create long-term leadership instability in acquired firms. Conflicting findings in studies that focused on incumbent executive turnover might be explained by the fact that they did not consider the possibility that acquisitions also impacted executives who join the target firm several years after the acquisition. Acquisitions appear to create long periods of instability in the target company's top management team that begins with a high level of departures among incumbent executives immediately following the acquisition and continues with high levels of turnover among executives who join the target firm after the acquisition.

These findings have both practical and theoretical considerations. Executives with job choices may find the nature and dynamics of different job opportunities to be significantly different depending on the firm's past acquisition activities. Firms previously involved in an acquisition may provide less job security and a more dynamic, rapidly changing environment as the firm pursues restructuring activities and attempts to improve performance. From a theoretical point-of-view, future research that considers these long-term effects may be more successful in providing better explanations for the high failure rates of acquisitions. We also proposed a theoretical framework for understanding the nature of target company director turnover following acquisition. Little research has yet been done in this area. We believe the best insight into merger integration effects will be found in future research that considers the role of each of these three agents – directors, incumbent executives, and new-hire executives – in managing target firms over the long-term.

REFERENCES

Adler, P. S., & Kwon, S.-W. (2002). Social capital: Prospects for a new concept. *Academy of Management Review*, *27*, 17–40.

Aguilera, R. V., Dencker, J., & Escandell, X. (2004). Left at the altar: An institutional analysis of global mergers and acquisition announcements in the 1990s. Working Paper, University of Illinois at Urbana-Champaign.

Aguilera, R. V., & Jackson, G. (2003). The cross-national diversity of corporate governance: Dimensions and determinants. *Academy of Management Review*, *28*, 447–465.

Aguilera, R. V., & Li, Y. (2003). Who stays and who goes? A theoretical model to explain director turnover in acquired firms. Working Paper, University of Illinois at Urbana-Champaign.

Arrow, K. J. (1985). Information structure of the firm. *The American Economic Review*, *75*, 303–307.

Barnard, C. I. (1938). *The functions of the executive*. Cambridge: Harvard University Press.

Barney, J. (1988). Returns to bidding firms in mergers and acquisitions: Reconsidering the relatedness hypothesis. *Strategic Management Journal*, *9*, 71–78.
Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, *17*, 99–120.
Bergh, D. D. (2001). Executive retention and acquisition outcomes: A test of opposing views on the influence of organization tenure. *Journal of Management*, *27*, 603–622.
Berle, A. A., Jr., & Means, G. C. (1932). *The modern corporation and private property*. New York: Macmillan.
Bourdieu, P., & Wacquant, L. J. D. (1992). *An invitation to reflexive sociology*. Chicago: Chicago University Press.
Bureau of Economic Analysis (2004). *National economic accounts* (http://www.bea.gov/bea/dn/home/gdp.htmwww.bea.gov/). Washington, DC: U.S. Department of Commerce.
Burt, R. S. (1992). *Structural holes: The social structure of competition*. Cambridge: Harvard University Press.
Burt, R. S. (2003). The social capital of structural holes. In: M. Guillén (Ed.), *The New Economic Sociology: Developments in an Emerging Field* (pp. 148–190). New York: Russell Sage.
Cannella, A. A., Jr., & Hambrick, D. C. (1993). Effects of executive departures on the performance of acquired firms. *Strategic Management Journal*, *14*, 137–152.
Capron, L., & Pistre, N. (2002). When do acquirers earn abnormal returns? *Strategic Management Journal*, *23*, 781–794.
Cartwright, S., & Cooper, C. L. (1996). *Managing mergers, acquisitions and strategic alliances: Integrating people and cultures*. Oxford: Butterworth-Heinemann.
Coleman, J. S. (1990). *Foundations of social theory*. Cambridge: Harvard University Press.
Conner, K. R. (1991). A historical comparison of resource-based theory and five schools of thought within industrial organization economics: Do we have a new theory of the firm? *Journal of Management*, *17*, 121–154.
Dalton, D. R., Daily, C. M., Johnson, J. L., & Ellstrand, A. E. (1999). Number of directors and financial performance: A meta-analysis. *Academy of Management Journal*, *42*, 674–686.
Davis, G. F., Diekmann, K. A., & Tinsley, C. H. (1994). The decline and fall of the conglomerate firm in the 1980s: The deinstitutionalization of an organizational form. *American Sociological Review*, *59*, 547–570.
Davis, G. F., & Stout, S. K. (1992). Organization theory and the market for corporate control. *Administrative Science Quarterly*, *37*, 605–633.
Davis, J. H., Schoorman, F. D., & Donaldson, L. (1997). Toward a stewardship theory of management. *Academy of Management Review*, *22*, 20–47.
DePamphilis, D. (2001). *Mergers, acquisitions, and other restructuring activities: An integrated approach to process, tools, cases, and solutions*. San Diego: Academic Press.
Eisenhardt, K. M., & Martin, J. A. (2000). Dynamic capabilities: What are they? *Strategic Management Journal*, *21*, 1105–1121.
Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy*, *88*, 288–307.
Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, *26*, 301–325.
Filatotchev, I., & Bishop, K. (2002). Board composition, share ownership, and 'underpricing' of UK IPO firms. *Strategic Management Journal*, *23*, 941–955.
Finkelstein, S., & Hambrick, D. C. (1990). Top management team tenure and organizational outcomes: The moderating role of managerial discretion. *Administrative Science Quarterly*, *35*, 484–503.

Galpin, T. J., & Herndon, M. (2000). *The complete guide to mergers and acquisitions*. San Francisco: Jossey-Bass.

Golbe, D. L., & White, L. J. (1988). Catch a wave: The time series behavior of mergers. *Review of Economics & Statistics*, *75*, 493–499.

Golden, B. R., & Zajac, E. J. (2001). When will boards influence strategy? Inclination times power equals strategic change. *Strategic Management Journal*, *22*, 1087–1111.

Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, *91*, 481–510.

Hambrick, D. C., & Abrahamson, E. (1995). Assessing the amount of managerial discretion in different industries: A multimethod approach. *Academy of Management Journal*, *38*, 1427–1441.

Hambrick, D. C., & Cannella, A. A., Jr. (1993). Relative standing: A framework for understanding departures of acquired executives. *Academy of Management Journal*, *36*, 733–762.

Hambrick, D. C., & Finkelstein, S. (1987). Managerial discretion: A bridge between polar views of organizations. In: L. L. Cummings & B. M. Staw (Eds), *Research in Organizational Behavior* (Vol. 9, pp. 369–406). Greenwich, CT: JAI Press.

Haspeslagh, P. C., & Jemison, D. B. (1991). *Managing acquisitions: Creating value through corporate renewal*. New York: Free Press.

Herman, E. S. (1981). *Corporate control, corporate power*. Cambridge: Cambridge University Press.

Hitt, M. A., Harrison, J. S., & Ireland, R. D. (2001). *Mergers & acquisitions: A guide to creating value for stakeholders*. New York: Oxford University Press.

Hubbard, N. (1999). *Acquisition strategy and implementation*. London: MacMillan.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Economic Perspectives*, *2*, 49–68.

Johnson, J. L., Daily, C. M., & Ellstrand, A. E. (1996). Boards of directors: A review and research agenda. *Journal of Management*, *22*, 409–438.

King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. (2004). Meta-analyses of post-acquisition performance: Indications of unidentified moderators. *Strategic Management Journal*, *25*, 187–200.

Kobrin, S. J. (1991). An empirical analysis of the determinants of global integration. *Strategic Management Journal*, *12*, 17–31.

Krishnan, H. A., Miller, A., & Judge, W. Q. (1997). Diversification and top management team complementarity: Is performance improved by merging similar or dissimilar teams? *Strategic Management Journal*, *18*, 361–374.

Krug, J. A. (2003a). Why do they keep leaving? *Harvard Business Review*, *81*, 14–15.

Krug, J. A. (2003b). Executive turnover in acquired firms: An analysis of resource-based theory and the upper echelons perspective. *Journal of Management & Governance*, *7*, 117–143.

Krug, J. A., & Hegarty, W. H. (1997). Postacquisition turnover among U.S. top management teams: An analysis of the effects of foreign vs. domestic acquisitions of U.S. targets. *Strategic Management Journal*, *18*, 667–675.

Krug, J. A., & Hegarty, W. H. (2001). Predicting who stays and leaves after an acquisition: A study of top managers in multinational firms. *Strategic Management Journal*, *22*, 185–196.

Krug, J. A., & Michael, S. (2004). Managerial discretion: A framework for understanding top management turnover in mergers and acquisitions. Working Paper, Appalachian State University.

Krug, J. A., & Nigh, D. (1998). Top management departures in cross-border acquisitions: Governance issues in an international context. *Journal of International Management*, *4*, 267–287.

Krug, J. A., & Nigh, D. (2001). Executive perceptions in foreign and domestic acquisitions: An analysis of foreign ownership and its effect on executive fate. *Journal of World Business*, *36*, 85–105.

Lin, N. (2001). *Social capital. A theory of social structure and action*. New York: Cambridge University Press.
Lubatkin, M. (1987). Merger strategies and stockholder value. *Strategic Management Journal*, *8*, 39–53.
Lubatkin, M., Schweiger, D. M., & Weber, Y. (1999). Top management turnover in related M&A's: An additional test of the theory of relative standing. *Journal of Management*, *25*, 55–73.
Luoma, P., & Goodstein, J. (1999). Stakeholders and corporate boards: Institutional influences on board composition and structure. *Academy of Management Journal*, *42*, 553–563.
Mace, M. L. (1986). *Directors: Myth and reality*. Boston: Harvard Business School Press.
Mahoney, J. T., & Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. *Strategic Management Journal*, *13*, 363–380.
Manne, H. G. (1965). Mergers and the market for corporate control. *Journal of Political Economy*, *73*, 110–120.
Marks, M. L., & Mirvis, P. H. (1998). *Joining forces*. San Francisco: Jossey-Bass.
Mintzberg, H. (1978). Patterns in strategy formation. *Management Science*, *24*, 934–949.
Mizruchi, M. S. (1983). Who controls whom? An examination of the relation between management and board of directors in large American corporations. *Academy of Management Review*, *8*, 426–435.
Ocasio, W. (1994). Political dynamics and the circulation of power: CEO succession in U.S. industrial corporations, 1960–1990. *Administrative Science Quarterly*, *39*, 285–312.
Peteraf, M. A. (1993). The cornerstones of competitive advantage: A resource-based view. *Strategic Management Journal*, *14*, 179–191.
Pfeffer, J. (1981). Management as symbolic action: The creation and maintenance of organizational paradigms. In: L. L. Cummings & B. M. Staw (Eds), *Research in Organizational Behavior*. Greenwich, CT: JAI Press.
Pfeffer, J., & Salancik, G. R. (1978). *The external control of organizations: A resource dependence perspective*. New York: Harper & Row.
Pitts, R. A. (1976). Diversification strategies and organizational policies of large diversified firms. *Journal of Economics and Business*, *28*, 181–188.
Porter, M. E. (1987). From competitive advantage to corporate strategy. *Harvard Business Review*, *65*, 43–59.
Prahalad, C. K., & Hamel, G. (1990). The core competence of the corporation. *Harvard Business Review*, *68*, 79–91.
Ravenscraft, D. J. (1987). The 1980s merger wave: An industrial organization perspective. In: L. E. Browne & E. S. Rosengren (Eds), *The Merger Boom* (pp. 17–37). Boston: Federal Reserve Bank of Boston.
Ruigrok, W., Peck, S., & Keller, H. (2002). Board control and involvement in strategic decision making: Evidence from Swiss companies. Paper presented at the Academy of Management, Denver.
Schweiger, D. M. (2002). *M&A integration: A framework for executives and managers*. New York: McGraw-Hill.
Schweiger, D. M., & Goulet, P. (2000). Integrating acquisitions: An international research review. In: C. Cooper & A. Gregory (Eds), *Advances in Mergers and Acquisitions* (Vol. I, pp. 61–91). Greenwich, CT: JAI Press/Elsevier.
Schweiger, D. M., Ivancevich, J. M., & Power, F. R. (1987). Strategies for managing human resources during mergers and acquisitions. *Human Relations*, *10*, 19–36.
Schweiger, D. M., & Sandberg, W. R. (1989). The utilization of individual capabilities in group approaches to strategic decisionmaking. *Strategic Management Journal*, *10*, 31–44.
Singh, H., & Montgomery, C. A. (1987). Corporate acquisition strategies and economic performance. *Strategic Management Journal*, *8*, 377–386.

Teece, D. J. (1988). Technological change and the nature of the firm. In: G. Dosi (Ed.), *Technical Change and Economic Theory* (pp. 256–281). London and New York: Pinter.

Teece, D. J., Pisano, G. P., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, *18*, 509–533.

Teece, D. J., Rumelt, R., Dosi, G., & Winter, S. (1994). Understanding corporate coherence: Theory and evidence. *Journal of Economic Behavior & Organization*, *23*, 1–30.

The Thompson Corporation, SDC Platinum Database (2004).

Trautwein, F. (1990). Merger motives and merger prescriptions. *Strategic Management Journal*, *11*, 283–295.

Useem, M. (1984). *The inner circle*. New York: Oxford University Press.

Varian, H. R. (1988). Symposium on takeovers. *Journal of Economic Perspectives*, *2*, 3–5.

Walsh, J. P. (1988). Top management turnover following mergers and acquisitions. *Strategic Management Journal*, *9*, 173–183.

Walsh, J. P. (1989). Doing a deal: Merger and acquisition negotiations and their impact upon target company top management turnover. *Strategic Management Journal*, *10*, 307–322.

Walsh, J. P., & Ellwood, J. W. (1991). Mergers, acquisitions, and the pruning of managerial deadwood: An examination of the market for corporate control. *Strategic Management Journal*, *12*, 201–217.

Walsh, J. P., & Kosnik, R. D. (1993). Corporate raiders and their disciplinary role in the market of corporate control. *Academy of Management Journal*, *36*, 671–700.

Walsh, J. P., & Seward, J. K. (1990). On the efficiency of internal and external corporate control mechanisms. *Academy of Management Review*, *15*, 421–458.

Walter, G. A., & Barney, J. B. (1990). Management objectives in mergers and acquisitions. *Strategic Management Journal*, *11*, 79–86.

Westphal, J. D. (1999). Collaboration in the boardroom: Behavioral and performance consequences of CEO-board social ties. *Academy of Management Journal*, *42*, 7–24.

Westphal, J. D., & Frederickson, H. G. (2001). Who directs strategic change? Director experience, the selection of new CEOs, and change in corporate strategy. *Strategic Management Journal*, *22*, 1113–1137.

White, H. C. (1981). Where do markets come from? *American Journal of Sociology*, *87*, 517–547.

Zahra, S. A. (1996). Governance, ownership, and corporate entrepreneurship: The moderating impact of industry technological opportunities. *Academy of Management Journal*, *39*, 1713–1735.

Uncited reference

References cited in the text must appear in the reference list; conversely, each entry in the reference list must be cited in the text... The author must make certain that each source referenced appears in both places and that the text citation and reference list entry are identical in spelling and year.

Aguilera and Li (2003).