Predicting who stays or leaves after the acquisition: Target’s top manager turnover

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Abstract

In acquisition of high-tech and knowledge intensive firms, scholars have paid special attention to top managers’ status after the deal. Literature suggests that these managers in particular CEOs if kept in post-acquisition provide coordination capacity for the acquirer to transfer the knowledge and technology from the target to the acquirer while minimizing the disruptive effect of post-acquisition integration process. In addition, the acquirer benefits from human capital embedded in target’s managerial resources; especially in high-tech and knowledge intensive firms where top managers are founders or patent holders. Although the above mentioned argument have been validated by empirical studies showing that top manager’s turnover reduces the post-acquisition performance for the acquirers, multiple empirical studies have reported abnormal managerial turnover shortly after the acquisition. This thesis made an attempt to explain this puzzling phenomenon by investigating on the determinants of the top manager’s turnover of the target in the post-acquisition period. The study finds that in case of CEOs, acquirers do not rely always on coordinating capacity provided by them in post-acquisition. Indeed, the acquirer’s choice of provision of coordination is beyond the target’s CEO retention. The choice of coordination depends on the existing level of coordination capacities and the acquisition’s motivation. In addition, founder-CEOs are more likely to stay after the acquisition because of their valuable firm-specific human capital for the acquirer. However, this value diminishes by the maturity of the target. In addition, similarity in demographic characteristics of the two CEOs (of the acquirer and target) causes social attraction, collaboration and cooperation which ultimately increases the chance that the target’s CEO retention. Finally, diversity within the target’s top management team (TMT) directly increases their chance of departure after the deal. The diversity engenders social frictions, conflicts and coordination inefficiencies.

Keywords

Acquisition, CEO turnover, TMT turnover, coordination, Founder-CEO, Similarity attraction, Diversity
In loving memory of my father

My life-long mentor
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Stockholm, December 2015

Keivan Aghasi
List of appended papers

**Paper A**

Aghasi, K. Brown T. & Rossi-Lamastra C., “The role of top managers in M&A: Reviewing thirty years of literature and setting directions for future research”

**Paper B**

Aghasi, K., Colombo, C., Rossi-Lamastra, C., “Post-acquisition implementation of small high-tech firms: Looking beyond the surface”. This paper is presented in DRUID conference in Denmark, June 2014 and in AIIG conference in Bologna, Italy (October 2014)

**Paper C**

Aghasi, K., Colombo, C., Rossi-Lamastra, C., ”Antecedents of target CEO departure in post-acquisition: The leading role of founder”. This paper is presented in DRUID conference in Denmark, in January 2014 and in R&D Management conference in Italy (July 2015).

**Paper D**

Aghasi, K., “Similarity as an antecedent for target’s CEO turnover: Do birds of a feather flock together?”. This is my single-author paper and accepted in Accepted in AIIG conference in Vicenza Italy (October 2015).

**Paper E**

Aghasi, K., Lougui, M., Brostrom, A., Colombo, C., “Why diverse top management teams break up in post-acquisition periods”. This paper is presented in DRUID conference in Rome, Italy (June 2015) and SMS conference in Denver USA (October 2015).
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1. Introduction

In acquisition of high-tech and knowledge intensive firms, scholars pay special attention to their top managers’ status after the deal. Literature suggests that these managers in particular CEOs if kept in post-acquisition, provide coordination capacity for the acquirer to transfer the knowledge and technology from the target to the acquirer while minimizing the disruptive effect of acquisition (Cloodt, et al., 2006; Colombo & Rabbiosi, 2014; Graebner, 2004; Graebner, et al., 2010; Ranft & Lord, 2002). In addition, the acquirer benefits from human capital embedded in top managers; especially in high-tech firms, they might be founders or patent holders or in knowledge intensive firms for example the CEO of a law firm is also a lawyer (Buchholtz, et al., 2003; Coff, 2002; Wulf & Singh, 2011).

The empirical studies provide evidence for the aforementioned arguments by showing that managerial turnover causes decline in post-acquisition performance (Cannella & Hambrick, 1993; Krishnan, et al., 1997; Walsh, 1989; Zollo & Singh, 2004). However, multiple empirical studies report abnormal turnover shortly after the acquisition (Cannella & Hambrick, 1993; Iverson & Pullman, 2000; Kiesslering & Harvey, 2006; Krishnan, et al., 1997; Walsh, 1988). This suggests a gap between the theory and practice. On one hand, the theory argues and empirical works have provided evidence for positive effect of targets’ CEO retention on acquisitions’ returns, and on the other hand, in practice acquirers tend to substitute them. Although some prior studies tended to close the gap by interpreting the turnover via agency theory and market for corporate control (See for e.g. Bergh, 2001 and Walsh, 1988), I believe such attempts had limited applicability for several reasons: Firstly, not all of the studies find evidence of acquisition for disciplining top managers (See for e.g. Walsh & Ellwood, 1991; Walsh & Kosnik, 1993). Secondly, and more importantly, in
acquisition of high-tech or knowledge intensive firms, the implicit assumptions behind the aforementioned theories such as separation of ownership and control are not valid as most of the acquisitions include small private firms that owner-managers run the firms. Finally, even in case of listed firms founder-managers (for e.g. founder-CEOs) are in charge of the firm in post-IPO, and some recent studies have provided evidence of stewardship rather than agency problem for such firms due to psychological attachment or reputation of the founder entangled with the success of the firm (Fahlenbarch, 2009; Gao & Jain, 2012). The following section briefly presents various theories explaining the managerial turnover in post-acquisition.

1.1 Background

There are several theoretical lenses which explain the determinants of target’s top manager turnover after the acquisition. They are presented in the following section:

The most common lenses are market for corporate control (Manne, 1965) and agency theory (Jensen, 1986; Jensen & Meckling, 1976; Jensen & Ruback, 1983). Both lenses argue that acquirers replace the target’s top managers after the acquisition because of their prior poor performance and principal-agent conflicts of interest (Walsh & Ellwood, 1991; Walsh & Kosnik, 1993). In addition, acquirers replace the top managers to avoid any problem during integration and resistance against the changes in post-acquisition period (Buccholtz & Ribbens, 1994; Cannella & Hambrick, 1993; Walsh, 1989). Furthermore, target’s top managers decide to leave after the acquisition because of their psychological perception against the acquisition. In particular, loss of autonomy, inferiority and ambiguity in their future career are among the reasons mentioned for the managers’ decision for departure (D’Aveni & Kesner, 1993; Hambrick & Cannella, 1993; Lubatkin, et al., 1999; Very, et al., 1997). Additionally cultural differences, resulted in social frictions, influence on the manager’s departure which is exacerbated in international acquisitions (Chatterjee, et al., 1992; Krug & Hegarty, 2001).
Borrowing insights from the organization design lens (Thompson, 1967; Tushman & Nadler, 1978; Van de Van & Delbecq, 1974), post-acquisition literature emphasizes on the coordination capacity of the target’s top managers. Indeed, top managers facilitate the integration process and organizational changes, if they stay in post-acquisition period (Graebner, 2004 and 2009; Pablo, 1994; Ranft & Lord, 2002). The integration process diverts acquirer’s managerial resources from the daily operation and the core business (Hitt, et al., 1991; Schoar, 2002); the target’s top managers can be in charge of the post-acquisition integration instead of the acquirer’s managers. In addition, if target managers stay, the cost of implementation becomes lower for the acquirer as they have better knowledge over the target’s organizational structure, routines and processes (Graebner & Eisenhardt, 2004; Very, et al., 1997). Additionally, organizational disruptions as a result of changes imposed by the acquirer to the target reduce the employees’ productivity and loss of autonomy; disruptions bring about lack of commitment and demotivation among the employees, which ultimately have negative influence on post-acquisition performance (Chatterjee, et al., 1992; Datta & Grant, 1990; Larsson & Finkelstein, 1999; Zollo & Singh, 2004).

Other than post-acquisition coordination capacity argument, based on RBV, human capital of target’s top managers provides additional argument on post-acquisition performance and turnover. It argues that acquisitions are means to obtain resources to provide competitive advantage for the acquirer (Barney, 1991; Coff, 1997). Human capital of firm is considered as a source of competitive advantage (Ployhardt & Moliterno, 2011). The target’s top managers are not only, as mentioned before, resourceful in organizing the target’s human capital for the acquirer in post-acquisition but also they are part of the human capital of the firm (Buchholtz et al., 2003; Castanias & Helfat, 1991 and 2001; Carpenter et al., 2001; Coff, 1997 and 2002; Walsh & Ellwood, 1991 and Wulf & Singh, 2011). To the extent that the human capital is unique to the acquirer, the likelihood of turnover reduces in post-acquisition.
1.2 Problem statement

So far different theoretical arguments try to explain why there is an abnormal top managers’ turnover after the acquisition and how such turnover affects the performance. In particular, market for corporate control, agency theory, and post-acquisition resistance are in favour of turnover for value creation whereas post-acquisition coordination capacity of target’s top manager suggests turnover is value destructive. Human capital argument is also in favour of managerial retention to the extent that the managerial human capital is unique for the acquirer. The remaining question is which argument is valid. More precisely, if market for corporate control, agency theory and resistance hold, then it is expected that post-acquisition performance improves by the target’s managerial turnover. Nevertheless, as explained earlier, studies mostly reported decline in performance. Similarly, if the argument related to coordination capacity holds, it is expected that the target’s top managers stay after the acquisition. On the contrary, as explained before studies found the opposite. Even for the human capital supporting evidences are weak. For instance Wulf & Singh (2011) found weak links between human capital argument and CEO’s turnover. The paper reported high rate of turnover in unrelated acquisitions even though lower relatedness suggests higher human capital uniqueness for the acquirer.

This all suggest that despite of much of the theoretical and empirical contributions in the last three decades, still managerial turnover in post-acquisition is a black box. The acquirer’s rationale in dismissing or keeping the target’s top managers is not clear. Recently Krug, et al. (2014) stated that none of the aforementioned arguments are dismissible; however a missing element in favouring one argument over the other is the context within which acquisition occurs. To my knowledge almost all of the empirical studies in managerial turnover in post-acquisition, regardless of the choice of the theoretical arguments, have treated all the acquisitions as homogenous corporate strategies. This homogeneity causes several problems. First, it causes violation of assumptions for certain theoretical arguments. For example as explained briefly in the introduction, market for corporate control and agency theory are not applicable for small firms (which are mostly private). In addition, other than the violation of assumptions, market for corporate control is based on the Anglo American corporate governance
in that ownership and control are separated. However, in many countries such as Germany and Japan, other stakeholders such as unions and institutional shareholders have stronger monitoring power over CEOs which results in lower agency problem. This makes generalizability of the results questionable.

The second problem is related to acquisition’s motivation. Prior studies on managerial turnover have overlooked at the motivation of the acquisition. The motivations vary from economic of scale and scope, market entry, knowledge and technological acquisition, and increasing market power (See Trautwein (1990) for a review). The motivation as the driver of the acquisition affects the acquirer’s decision related to keep or dismiss the target’s top managers. The motivation affects the degree and type of post-acquisition changes necessary to the target (Haneslagh & Jemison, 1991) and therefore, the importance of coordination capacity of the target’s top managers for the acquirer. Additionally, the value of human capital for the acquirer is partly determined by what acquirers pursue in the acquisition. Human capital is multidimensional; based on managerial human capital literature the value of the manager’s human capital like any other resources depends on its fit with the other firm’s internal resources (Castanias & Helfat, 1991; Ployhardt & Moliterno, 2011). From this standpoint, certain dimension in human capital of a manager is valuable for one firm while it is not valuable for the other firm. Therefore, the value of the human capital of the target’s top managers for the acquirer depends on its fit with the acquirer’s resources. In other words, the acquirer may find certain dimension of the human capital valuable. Prior works studied the target’s managerial human capital at aggregate level; this could be a reason of weak links between human capital and retention.

This thesis has investigated on the rationale behind the acquirers’ choice regarding the status of the targets’ top managers in post-acquisition period with respect to the above mentioned problems. In order to bring the context to the study, I focused on the acquisition of high-tech and knowledge intensive firms for several reasons. First, in this type of acquisition the costs imposed to the acquirer due to organizational disruptions and loss of autonomy would be more severe (Colombo & Rabbiosi, 2014; Graebner et al., 2010; Puranam et al., 2009; Ranft & Lord, 2002). As the knowledge is tacit and embedded in
target’s employees, their departure due to loss of autonomy and demotivation lead to loss of knowledge for the acquirer (Coff, 1999; Grant, 1996; Kogut & Zander, 1992; Larsson & Finkelstein, 1999; Ranft & Lord, 2002). Even if loss of autonomy does not cause turnover, empirical studies show that at least the demotivation and lack of commitment lower their productivity in terms of R&D outputs (Kapoor & Lim, 2007; Parunchuri, et al., 2006). If the target’s top managers stay after the acquisition, they can alleviate the negative effect of organizational disruptions and demotivation of employees in high-tech and knowledge intensive acquisitions (Graebner et al., 2010; Shanley & Correa, 1992). Second, in high-tech and knowledge intensive firms, human capital embedded in top managers is beyond just managerial capital as in many cases they also participate in the knowledge creation process of the firm; founder top managers are good examples as their human capital is beyond managerial skills and include technological know-how (Coff, 1999 & 2002; Colombo & Grilli, 2005; Fahlenbarch, 2009; Graebner et al., 2010). From this standpoint, retention of target’s top managers after the acquisition is beneficial for the acquirer as they can contribute to technological know-how as well as managerial resource of the firm. Additionally, founder-managers especially founder-CEOs are interesting type of managers to study their turnover as stewardship and psychological attachment make them different from professional CEOs (Gao & Jain, 2012; Wasserman, 2003). High-tech and knowledge intensive industries are replete with the founder-CEOs, which provide ample opportunity to study their turnover. Additionally, this thesis focuses on small targets to close the asymmetric findings between most of the prior work on managerial turnover in large public US targets and few studies on managerial turnover in small targets.

The overarching research question of this thesis is “What are the antecedents of top managers’ turnover in post-acquisition?” To answer the research question, the thesis consists of several papers. The first paper, A, systematically reviews the state of the art in the role of top managers’ in M&A. The paper provides a picture of recent findings, the gaps and contradictory results. Based on the received knowledge about the topic presented and the future studies suggested in paper A, four empirical papers were devised to investigate on the target’s managerial turnover. Three papers, B, C, and D focus on the turnover of the target’s
CEO, and paper E focuses on the turnover of the target’s top management team (TMT).

The rest of this draft is devised as the following: in the next section, a short summary of the papers is explained. The third section describes the methodology applied for each paper. The fourth section presents about the main findings of the papers; how the findings for each paper are connected to one another and how they contribute to answer the ultimate research question. The last section concludes the thesis.
2. Papers in summary

2.1 Paper A

*The role of top managers in M&A* - *Reviewing thirty years of literature and setting directions for future research*

This paper has critically reviewed the earlier works on managerial studies in M&A. Many studies have been carried out on understanding the role of top managers of the acquirers or the targets in the acquisitions. The studies are divided into three categories; they are: Studies focused on managerial motive in engaging to the acquisition, on the role of managers in acquisition’s value creation and capture, and managerial turnover as an acquisition outcome. The studies applied wide variety of theoretical lenses, including market for corporate control (Manne, 1965), agency theory (Jensen & Meckling, 1976), stewardship (Davis et al., 1997), hubris (Roll, 1986), upper echelon (Hambrick & Mason, 1984), relative standing (Cannella & Hamrbick, 1993), resource-based view and human capital (Barney, 1991 and Coff, 1997), and efficiency theory.

The empirical findings of this research strand are contradictory and mixed. This motivates a review of the literature that systematizes extant knowledge with the aim to comprehend the sources of contradictions, reflect on applied theories, and indicate directions for future research. This systematization is even more important given the multi-disciplinary nature of the field, where lack of communication between the disciplines may lead into losing the opportunity to cross-fertilize from multidisciplinary approaches.
In addition, current real-world heterogeneity in forms of M&A (e.g., acqui-hires, technological acquisitions, and mergers of equals), targets (e.g., entrepreneurial ventures, high-tech firms and family firms) and characteristics of top executives (e.g., founder executives) suggest that it is time to rejuvenate the field and reconsider the explicit and implicit assumptions behind the applied theories.

The paper addressed the above mentioned issues and concluded with some suggestions for future studies. It is carried out by a systematic literature review of 140 empirical studies published between 1983 and 2013 in respected journals across three disciplines namely: finance, economics and management available in “ISI Web of Science”.

2.2 Paper B
Post-acquisition implementation of small high-tech firms- Looking beyond the surface

The paper has provided new perspective in explaining the target’s CEO turnover in post-acquisition by focusing on the relevance of coordination capacity provided by her stay for the acquirer. The central assumption in this research is that firms choose their organizational structure to provide the necessary level of coordination. Based on the acquisition implementation (Jemison & Sitkin, 1986; Haspeslagh & Jemison, 1991) and organization design (Thompson, 1967; Tushman & Nadler, 1978; Van de Van & Delbecq, 1974) literature, this study investigates on the alternative mechanisms available for the acquirers to provide the required coordination capacity to transfer the knowledge and technology from the target. More specifically, this paper focuses on understanding under what circumstances certain mechanism prevalently becomes more attractive for the acquirer. In this regard the overarching research question is: “What are the antecedents behind the acquirer’s choice of coordination mechanisms in acquisitions of small high-tech firms?”

The paper focuses on the choice of structural integration on one end (the highest level of coordination capacity provided at the highest cost) and target’s CEO retention and keep the target as a separate subsidiary on the other end (the lowest level of coordination capacity provided at the lowest cost). The paper introduced three antecedents for the acquirer’s choice of coordination mechanisms, namely: Component
technology, technological relatedness, and alliance. The rationale behind choosing these antecedents is that they affect the benefits and costs of the coordination mechanisms and thus affect the acquirer’s design of the acquisition implementation process. This research is based on empirical analysis of small high-tech acquisitions between 2001 and 2005. The paper found that when acquirer applies higher level of coordination capacity, then lower level of coordination capacity becomes redundant. In other words, the conditions that necessitates higher level of coordination, increases the likelihood of the target’s CEO replacement. In particular, component technology requires high level of coordination between the two firms. Accordingly, the acquirer chooses coordination mechanisms that imposes such level of coordination to the target despite its higher costs. Conversely, technological relatedness and the existence of prior alliances between the acquirer and the target bring coordination capacity so the acquirer does not need to provide high level of coordination in post-acquisition. Therefore, it tends to choose mechanisms with lower coordination benefits and associated costs. In this regard, if the acquirer and the target are technologically related or have established an alliance prior to the acquisition, the coordination capacity provided by the target’s CEO suffice for the acquirer. Henceforth, it is inferrable that, technological relatedness and alliance decreases the likelihood of CEO departure.

2.3 Paper C
Antecedents of target CEO departure in post acquisitions- The leading role of founder
This paper studied the determinants of founder-CEOs’ status after acquisition of their firms. Prior literature on managerial turnover in post-acquisition did not pay attention to the founder-CEOs. As explained earlier in the previous chapter, founder-CEOs have unique human capital which make their turnover different than professional CEOs. This uniqueness is resulted from her psychological attachment, and deep knowledge over technological know-how developed in the target.

Borrowing insights from the human capital (Becker, 1964) and managerial labour market (Castanias & Helfat, 1991; Harris & Helfat, 1997) and founder-CEO succession (Wasserman, 2003), this paper tries
to explain founder-CEO’s turnover from human capital perspective. The three overarching interrelated research questions of this paper are: “All else being equal is there any difference between professional and founder-CEO turnover in post-acquisition” and if so “What makes the difference between professional and founder-CEO turnover?” and finally “Under what circumstances, acquirers keep the founder-CEO?”

This research is based on empirical analysis of small high-tech acquisitions between 2001 and 2005. The first finding of the paper is that founder-CEOs have lower turnover rate compare to professional CEOs in post-acquisition. The value of founders’ firm specific human capital is to the extent that acquirers are willing to keep them when the targets are absorbed or relatedness between the two firm are high; the two conditions that respectively generic and industry specific human capital of the CEOs are not of interest for the acquirers. Moreover, the value of founder-CEOs’ firm specific human capital is contingent to maturity of the target at the time of acquisition. Maturity reduces the value of firm specific human capital.

2.4 Paper D
Similarity as an antecedent for target’s CEO turnover: Do birds of a feather flock together?

This paper has introduced new antecedent of target’s CEO turnover. By borrowing insights from social catgorization and similarity-attraction literature (Ashforth & Mael, 1989; McPherson, et al., 2001; Tajfel, 1982), this paper investigates on behavioral aspects of managerial turnover in post-acquisitions. In particular, the paper tends to determine to what extent demographic similarity between CEOs improves their (intergroup) relations which ultimately causes target’s CEO retention in post-acquisition. The overarching research question of the paper is “What is the effect of similarity between CEOs on the target’s CEO turnover in post-acquisition?”

Having controlled for individual characteristics of the target’s CEO, the main finding of the paper is that demographic similarity between CEOs results in social attraction. Similarity improves the positive attitude of the acquirer and target to one another during the negotiation, as similarity increases the likelihood of the target’s CEO
announcement of her stay in post-acquisition in the news. In addition, the paper found that similarity increases the problem with misjudgements of in the decision determining the status of the target’s CEO (retention vs. replacement) in post-acquisition period. The misjudgement defined as the difference between what is announced in the news regarding the target’s CEO stay and further collaboration with the acquirer and the target’s CEO status in post-acquisition. The effect of similarity on retention announcement and misjudgement is weaker when the acquirer has more experience. This research is based on empirical analysis of small high-tech acquisitions between 2001 and 2005.

2.5 Paper E
Targets’ top management team diversity, a trap for the acquirers- A new perspective of managerial turnover

This paper has investigated on the determinant of targets’ TMT turnover in post-acquisition period. What differentiates this study from similar studies on managerial turnover such as (Cannella & Hambrick, 1993; Krishnan et al., 1997; Krug & Hegarty, 1997; Lubatkin et al., 1999) is introducing the collective determinants for individual turnover. The paper argued that managing a firm is a collective effort of top managers at team Level. The central element in team is coordination. It provides more realistic approach to both arguments of target’s managerial coordination capacity and human capital that explained in previous sections. First, the top management team (TMT) coordinates the firm. The team is responsible for coordination in pre-acquisition and therefore is a potential candidate for coordination in post-acquisition. Second, team influences over human capital embedded in top managers. Considering human capital constitutes of individual demographic attributes and characteristics (Buchholtz, et al., 2003; Coff, 2002), at team level however, these demographic attributes propagate diversity. Diversity is a multidimensional construct and often considered as a double edge sword that affects the inter-group collaboration and cooperation and ultimately the coordination capacity of the TMT (Harrison & Klein, 2007; Lau & Murnighan, 1998; Pelled, 1996; Pelled, et al., 1999). Therefore, it is expected that the diversity determines the top managers’ turnover in acquisition. The main objective of the paper
is to demystify the effect of ex-ante diversity of the target’s TMT and the turnover in post-acquisition. The overarching research question in this paper is: “What is the effect of ex-ante demographic diversity in target’s TMT on determining the top manager’s turnover in post-acquisition?”

The paper focused on four dimensions of diversity at TMT namely: managerial status diversity, pay dispersion, education background and industrial tenure diversity. Following the operationalization of the diversity constructs suggested by Harrison & Klein (2007), the paper treated managerial status diversity as separation, pay dispersion as disparity and the last two constructs as variety. The empirical analysis was on 2164 top managers of 297 Swedish firms, acquired between 2001 and 2006 in knowledge intensive and high-tech sectors. Having controlled for individual characteristics (individual human capital), the main finding of the paper is that diversity among top management team members increases the top managers’ turnover. Acquisitions as organizational disruptions trigger social conflicts among diversified teams, which increase the likelihood of their turnover in post-acquisition. Even positive side of diversity in the form of variety that increases the team’s information processing capacity, creativity and problem solving capability is not valuable for the acquirer as it hampers coordination efficiency.

So far, a brief summary of the each paper is presented. The research question of each empirical paper was investigated by set of hypotheses; Table 5 has summarized them. The findings of the papers related to the hypotheses are discussed in more details.
Table 1: The list of hypotheses tested in papers B, C, D, and E

<table>
<thead>
<tr>
<th>Papers</th>
<th>Hypotheses</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>H.B.1</td>
<td>In acquisitions of small high-tech firms, acquisition of component technology increases the likelihood of structural integration compare to coordination via target CEO replacement and no action.</td>
</tr>
<tr>
<td>B</td>
<td>H.B.2a</td>
<td>In acquisitions of small high-tech firms, technological relatedness between the acquirer and the target increases the likelihood of taking no action compare to coordination via target CEO replacement and structural integration.</td>
</tr>
<tr>
<td>B</td>
<td>H.B.2b</td>
<td>In acquisitions of small high-tech firms, technological relatedness between the acquirer and the target negatively moderates the effect of component technology on likelihood of structural integration.</td>
</tr>
<tr>
<td>B</td>
<td>H.B.3a</td>
<td>In acquisitions of small high-tech firms, the existence of a prior alliance between the acquirer and the target increases the likelihood of taking no action compare to coordination via target CEO replacement and structural integration.</td>
</tr>
<tr>
<td>B</td>
<td>H.B.3b</td>
<td>In acquisitions of small high-tech firms, the existence of a prior alliance between the acquirer and the target negatively moderates the effect of component technology acquisition on the likelihood of structural integration.</td>
</tr>
<tr>
<td>C</td>
<td>H.C.1</td>
<td>If the target’s CEO is a founder the likelihood of CEO departure decreases in post-acquisition.</td>
</tr>
<tr>
<td>C</td>
<td>H.C.2a</td>
<td>In acquisition of small high-tech firms, if the target’s CEO is a founder the positive effect of relatedness on the target’s CEO departure in post-acquisition is weaker.</td>
</tr>
<tr>
<td>C</td>
<td>H.C.2b</td>
<td>In acquisition of small high-tech firms, if the target’s CEO is a founder the positive effect of absorption on target’s CEO departure in post-acquisition is weaker.</td>
</tr>
<tr>
<td>C</td>
<td>H.C.3a</td>
<td>In acquisition of small high-tech firms, if the target is older, the negative effect of founder on the likelihood of CEO departure decreases in post-acquisition is weaker.</td>
</tr>
<tr>
<td>C</td>
<td>H.C.3b</td>
<td>In acquisition of small high-tech firms, if the target is larger, the negative effect of founder on the likelihood of CEO departure decreases in post-acquisition is weaker.</td>
</tr>
<tr>
<td>D</td>
<td>H.D.1</td>
<td>Similarity between the CEOs of the acquirer and the target decreases the probability of announcement of the target’s CEO retention, when the deal is closed.</td>
</tr>
<tr>
<td>----</td>
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<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>D</td>
<td>H.D.2</td>
<td>H2: Similarity between the CEOs of the acquirer and the target increases the probability of misjudgement about the decision related to the retention of the target’s CEO in the post-acquisition period.</td>
</tr>
<tr>
<td>D</td>
<td>H.D.3a</td>
<td>Acquirer’s experience in acquisition weakens the positive relationship between the similarity and probability of announcing the target’s CEO retention, when the deal is closed.</td>
</tr>
<tr>
<td>D</td>
<td>H.D.3b</td>
<td>Acquirer’s experience in acquisition weakens the positive relationship between the similarity and the probability of misjudgement about the decision related to the retention of the target’s CEO in the post-acquisition period.</td>
</tr>
<tr>
<td>E</td>
<td>H.E.1</td>
<td>In acquisition of high-tech or knowledge intensive firms, ex-ante positional diversity of TMT increases the likelihood of the top manager turnover in post-acquisition.</td>
</tr>
<tr>
<td>E</td>
<td>H.E.2</td>
<td>In acquisition of high-tech or knowledge intensive firms, ex-ante income disparity in the TMT increases the likelihood of the top manager turnover in post-acquisition.</td>
</tr>
<tr>
<td>E</td>
<td>H.E.3a</td>
<td>In acquisition of high-tech or knowledge intensive firms, ex-ante educational background diversity increases the likelihood of the top manager turnover in post-acquisition.</td>
</tr>
<tr>
<td>E</td>
<td>H.E.3b</td>
<td>In acquisition of high-tech or knowledge intensive firms, ex-ante industrial tenure diversity increases the likelihood of the top manager turnover in post-acquisition.</td>
</tr>
</tbody>
</table>
3. Methods

This thesis is based on different sets of empirical analysis. Paper A is a systematic literature review. Papers B, C, and D share the same empirical setting and paper E has a different empirical setting. In the following section, the methodology for each paper is explained.

3.1 Methodology for paper A

For this review study, the papers were collected from the “ISI WEB OF SCIENCE” database. The selection consisted of several steps. In the first step, the authors run a series of keyword inquiries on the database. The inquiries were dyadic combinations of words from two sets. The first set contains the following terms: post-acquisition, acquisition, M&A, merger and acquisition, post-merger, merger, and takeover; the second set contains: CEO, top management team, TMT, top executive, top manager, manager, corporate elites and executive.

In the second step, the search results were filtered based on the time horizon of 1983 and 2013 as well as the discipline of the journal, namely: finance, management, and economics. The authors believe that given the emergence of the empirical studies and the relevant theories that focused on the role of TMT in M&A in the mid 80’s, 1983 is a good starting point for collection. Some examples of considered journals belonging to management disciplines are Administrative Science quarterly, Journal of Management, Journal of Management Studies, Management Science, Strategic Management Journal, and Organization Science. In finance, some examples are Financial Management, Journal of Finance, Journal of Financial Economics, and Review of Financial Studies. In economics are American Economic Review, Economica,
Rand Journal of Economics. At this stage, we collected 325 articles.

In the third step, by reading through the abstracts, the authors excluded papers that did not explicitly focus on either M&A or TMT (in any form, e.g. CEO, functional manager). Then we read carefully the selected articles to check whether TMT and M&A have central position throughout the papers. For instance, we excluded studies whose focus was exclusively on the board of directors and firm’s performance. Therefore, total number of articles reduced to 160. Finally, by removing conceptual papers, the final sample reduced to 140.

To increase the validity of the paper collected from the keyword inquiries, the authors followed Haleblian et al (2009) and performed a manual search for some selected journals based on the relevance to the topic in the same period (1983-2013) and cross-check its results with the results obtained from the keyword search. These journals are Economica, Journal of Finance, Journal of Law & Economics, Organization Science, and Strategic Management Journal.

3.2 Methodology for papers B, C, and D

In these studies the focus are on acquisitions of small high-tech firms made by large listed firms in the period 2001-2005. In order to build the acquisition database, I relied on two databases widely used in the empirical acquisition literature: SDC Platinum belongs to Thompson and Zephyr belongs to Bureau Van Dijk. I selected all acquisitions that meet the following criteria.

First, the target operates in high-tech industries which conformed to OECD (1997) definition with the exclusion of aerospace and defense as few small firms operate in those industries. Accordingly, a firm actively operates in one of the following sectors, are considered to be high-tech: Drugs (283), Computer and office equipment (357), Electronic and other electrical equipment and components except computer equipment (36), Instruments (38) and Software programming (737). The SIC codes are available at both SDC Platinum and Zephyr. Second, as the main attribute of this study is acquisition of small firm by large firm, following Puranam & Srikanth (2007) and Puranam et al. (2009) I used the headcounts of employees. Since the majority of targets
and acquirers in the population are headquartered in USA, small and large firms have been defined according to USA Small Business Administration norm. Accordingly, the targets and acquirers should employ respectively less than 500 and more than 1000 personnel at the time of acquisition. Third, the acquirers were listed in a stock exchange while targets were both consist of listed and private firms. Fourth, the acquirer should own 100% of the equity capital of the acquired firms after the acquisition. Finally, both firms were headquartered either in the USA or in the EU, as the two database used for identifying M&A in this work offer considerable lower coverage of acquisitions in other countries. Additionally, the availability of individual information related to CEOs is considerably lower when it comes to other countries especially for small private firms. Overall, 749 acquisitions met the above criteria.

In order to understand the events related to the acquisition between acquisition announcement and effective date, the related news in the published online journals, daily newspapers and professional industrial magazines are used. Lexis Nexis is the database chosen to retrieve related news. These pieces of articles contain valuable information about the motivations behind the acquisition, top executives personal information, their titles and reflections about the acquisition from target and acquirer, as well as the acquirer’s further decision related to formal organizational structure of the target in post-acquisition period (Ahuja & Katila, 2001). In total, news was gathered and variables were codified for 590 deals. In order to check the validity of codified variables from the news, two researchers independently codified them and the correlation between codifications is above 90%. After checking the discrepancies the correlation improved to 100%. Information related to accounting data and firms’ characteristics such as foundation year and size were gathered from Orbis belong to Bureau Van Dijk.

In the next step, the individual data related to CEOs were collected. Initially, the target CEO’s names were gleaned from their interviews and public statements about the acquisition in the news as well as searching for the name of the CEO from Bloomberg Businessweek Company Database. Then by cross searching the names in Capital IQ, and LinkedIn for each CEO a personal CV was gathered. In
some cases that CVs lack information, we have been able to extract additional information from other sources such as company’s webpage. The variables related to the individuals such as age, tenure in the target, and their time of departure from the targets was codified from the CVs. In the following the description of the variables and their constructs are described. For Paper D, similar procedures have been applied to gather information related to the acquirer’s CEO.

3.2.1 Variables constructed for paper B

**Dependent variable:** Acquirer’s coordination choice is the dependent variable in the paper. It is constructed as the interaction of two variables namely, CEO replacement and Structural integration. CEO replacement is constructed following Bergh (2001), Cannella & Hambrick (1993), and Wulf & Singh (2011) as a binary variable defined as 1 if the CEO is replaced from the combined entity two years after the acquisition and 0 otherwise. As mentioned earlier, the information related to CEO’s decision of departure or stay is gleaned from their biographies.

**Structural integration** is a binary variable equal to 1 if following the acquisition the target was structurally integrated within the organization of the acquirer, whereas it is 0 if it remains separately; that is the target became an autonomous subsidiary or business unit of the acquirer. Following Paruchuri, et al. (2006) and Puranam, et al. (2009), two methods were applied to codify this variable from the news:

1. **Acquirer’s official announcements:** the news usually include acquirer’s official announcement for the structural status of the target. Top executives of the acquirer (mostly CEO) announce the acquirer’s official decision with regard to the structural form.
2. **Deal’s description:** the deal’s description in the news often covers the operational details of the transaction including the future formal structure of the target, lay-offs and etc.

If the announcements or deal descriptions report a statement such as: “Centennial Technologies Inc. will be merged into Solectron’s Technology Solutions Business Unit”, we conclude that structural integration had occurred, while if explicitly it is mentioned about
retaining the target as an independent entity, such as “Heartport Inc. will become a wholly owned subsidiary of Johnson & Johnson and will continue to operate as a distinct operational unit after the acquisition”, we recorded this as structural separation.

Also following Puranam et al. (2009), to check the validity of the variable construct, the authors controlled for the list of registered subsidiaries of the acquirer in Orbis, to check whether the target is listed as a separate subsidiary or not.

The dependent variable in form of categorical variable is constructed from interaction of the above mentioned variables. No action, is the choice that acquirer keeps the target as a separate subsidiary and CEO stays after the acquisition (Acquirer’s coordination choice=1); Coordination via target CEO replacement, is the choice that acquirer keeps the target as a separate subsidiary and CEO is replaced after the acquisition (Acquirer’s coordination choice=2); Coordination via structural integration, is the choice that acquirer structurally integrates the target after the acquisition (Acquirer’s coordination choice=3).

**Independent variables:** There are three independent variables in the paper; in the following, they are briefly explained:

*Technological relatedness:* For constructing the technological relatedness, one may rely on patents similar to studies such as Ahuja & Katila (2001), Grimpe & Hussinger (2014), Kapoor & Lim (2007), Parunchuri, et al. (2006) and Sears & Hoetker (2014). However, unlike the aforementioned studies, the sample includes many small software targets that usually had not filed any patent at the time of acquisition. In addition, some targets in other industries had been still at exploratory phase and without any patent at the time of acquisition. Therefore, comparing directly the patent base of firms is not feasible in this case. Alternatively, in this study, technological relatedness is constructed based on the correlation between acquirer’s technological patent portfolios five years prior to the acquisition and SIC codes of the target. For constructing this variable, the paper followed Dushnitsky & Leon (2005) and relied on Silverman (2002) concordance matrix. Initially, for each acquirer a patent portfolio five years prior to the acquisition
based on four digit IPC codes was constructed. Then, corresponding SIC codes for each IPC were collected, which results into an array of potential SIC codes for the portfolio. Technological relatedness is measured as the number of common SIC codes between target and the acquirer’s portfolio corresponding SIC codes divided by total number of the target SIC codes. The data related to the acquirer’s patent portfolio was gathered from Thompson Innovation database.

**Component technology:** Similar to Puranam et al. (2009), the paper assessed whether the acquired firm’s technology was a component for the acquirer or a standalone product by examining press releases and article about the acquisition motives and its future development available in Lexis Nexis. For example, if it is reported in the article: “Silicon Energy’s solutions are already integrated with Itron’s industry-leading MV-90 software systems...” or “Parc’s Route Server software will be incorporated into Cisco’s Multiprotocol Label Switching (MPLS) Management product portfolio and will be made available as part of Cisco’s IP Solution suits” the acquisition was coded as component technology (Component = 1). One the other hand, if it was reported in the article that: “KuDOS Pharmaceuticals is an excellent opportunity to acquire an established technology platform additive to our own oncology research capabilities” or “The addition of Chipcon’s technical capabilities and leading RF (radio frequency) integrated circuits will complement Texas Instruments’ existing low-power wireless product line” then the acquisition was a standalone product (Component = 0).

**Alliance:** Following Porrini (2004), it is constructed as a binary variable equal to 1 if the acquirer and the target have established any prior alliance five years before the acquisition. The information related to prior alliance is extracted from press releases available in Lexis Nexis and cross-checked with Thompson SDC Platinum. For brevity the description of the control variables are not explained here but their description are available in Paper B. Table 2 summarizes all the variables and their definitions including the control variables.
Table 2: The variable description of paper B

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
</table>
| Acquirer’s coordination choice | It is a categorical variable:  
No action: if target’s CEO stays after the acquisition and the target is kept as a separate subsidiary.  
Coordination via target’s CEO replacement: if target’s CEO is replaced while still it is kept as a separate subsidiary.  
Coordination via structural integration: if the target is structurally integrated. |
| Technological relatedness     | It is measured as total number of common SIC codes between target and corresponding acquirer IPC family class divided by total number of target assigned SIC code. |
| Component                    | It is equal to 1 if the acquirer intends to integrate certain target’s technological artefact to its current product or ongoing product development and 0 otherwise. |
| Alliance                      | It is equal to 1 if target and acquirer have a prior alliance and 0 otherwise.                                                                                                                             |
| Product relatedness           | It is measured as total number of common SIC codes between target and acquirer in the third digit level.                                                                                                  |
| Target public                 | It is equal to 1 if target is a public company and 0 otherwise.                                                                                                                                              |
| Target size                   | It is measured as total number of employees.                                                                                                                                                                |
| Relative size                 | It is measured as target number of employees divided by the acquirer number of employees.                                                                                                                                 |
| Exploitation                  | It is equal to 1 if the target has patent, product or a prototype prior to the acquisition and 0 otherwise.                                                                                                  |
| Target age                    | It is the target age in terms of years between the foundation year and acquisition year.                                                                                                                                 |
| High-tech experience          | It is measured as natural logarithm of total number of acquirer’s prior experience in high-tech sectors, five years prior to the acquisition.                                                              |
| Non-high-tech experience      | It is measured as natural logarithm of total number of acquirer’s prior experience in non-high-tech sectors, five years prior to the acquisition.                                                             |
| Cross Border                  | It is equal to 1 if target and acquirer are headquartered in different countries and 0 otherwise.                                                                                                           |

3.2.2 Variables constructed for paper C

**Dependent variable:** CEO departure is the dependent variable for this paper and it is constructed similar to paper B.
**Independent variable:** Founder is a dummy variable that equals 1 if the CEO of target was also founder of the firm that is obtained from the collected CVs.

**Variables of interest:** The first variable, Product relatedness reflects the extent of the overlap of the operations of the target with those of the acquirer. Following Puranam & Srikanth (2007) it was calculated as the number of 3-digit SIC codes common to acquirer and target divided by the total number of 3-digit SIC codes assigned to the target. The first interactive variable is between founder and product relatedness (Founder × Product relatedness).

The second variable of interest is Absorption. It is a dummy variable; it is 1 if following the acquisition, the target is structurally integrated within the organization of the acquiring firm; and it is equal to 0 if it is kept as a separate subsidiary. The construction is similar to paper B. The second interactive variable is between founder and absorption (Founder × Absorption).

The third and fourth variables are Age and Size of the target. Target age is constructed as the difference between foundation year of the firm until acquisition (Target age) and size is constructed as number of employees at the time of acquisition (Target size). The two other interactive variables are between founder and respectively target’s age and size (Founder × Target age and Founder × Target size). For brevity the description of the control variables are not explained here but their description are available in Paper C. Table 3 summarizes all the variables and their definitions including the control variables.

**2.2.3 Variables constructed for paper D**

**Dependent variables:** This paper has two dependent variables. The first dependent variable is Announcement of retention. Following Walsh (1989), it is a binary variable; it is 1 if the news states that the target’s CEO stays after the acquisition. It is 0 if the news states that the target’s CEO will leave the target after the acquisition. This announcement is made jointly by the CEOs of the acquirer and the target. The news related to the deals is collected from Lexis Nexis. The second dependent variable is Misjudgement. It is measured as the difference between what...
is stated in the news regarding the target’s CEO status and target’s CEO status two years after the acquisition.

**Independent variable:** *Similarity in type* is a binary variable; it is equal to 1 if both CEOs are either internal or external CEOs. Following prior studies such as Carpenter et al. (2001) and Mackey et al. (2013), internal CEOs are defined as CEOs who are founder of the firm, or get promoted to become CEO from inside of the organization, or outsider CEOs with more than 10 years tenure in the firm. More detailed explanation of this variable is available in Paper D.

**Variable of interest:** A variable of interest is experience of the acquirer. It is measure as natural logarithm of total number of acquisitions made by the acquirer 5 years before the focal acquisition. The variable of interest is generated as interaction between acquirer experience and similarity in type (*Similarity in type × Acquirer experience*).

For brevity the description of the control variables are not explained here but their description are available in Paper D. Table 4 summarizes all the variables and their definitions including the control variables.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO departure</td>
<td>It is a binary variable equal to 1 if the CEO is replaced from the combined entity two years after the acquisition and 0 otherwise.</td>
</tr>
<tr>
<td>Founder</td>
<td>It is a binary variable equal to 1 if the CEO is founder of the target, and 0 otherwise.</td>
</tr>
<tr>
<td>Product relatedness</td>
<td>It is measured as total number of common SIC codes between target and acquirer in the third digit level.</td>
</tr>
<tr>
<td>Absorption</td>
<td>It is a binary variable equal to 1 if the target is structurally integrated after the acquisition, and 0 otherwise.</td>
</tr>
<tr>
<td>Target age</td>
<td>It is the target age in terms of years between the foundation year and acquisition year.</td>
</tr>
<tr>
<td>Target size</td>
<td>It is measured as total number of employees.</td>
</tr>
<tr>
<td>Product/patent</td>
<td>It is a binary variable equal to 1 if the target has patent, product or a prototype prior to the acquisition and 0 otherwise.</td>
</tr>
<tr>
<td>Target public</td>
<td>It is a binary variable equal to 1 if the target is a listed company and 0 otherwise.</td>
</tr>
<tr>
<td>CEO age</td>
<td>It is a binary variable equal to 1 if the CEO is near retirement (over 60) and 0 otherwise.</td>
</tr>
<tr>
<td>CEO tenure</td>
<td>It is constructed as number of years she appointed to be the CEO of the firm until the time of acquisition in logarithmic format.</td>
</tr>
<tr>
<td>CEO duality</td>
<td>It is a binary variable equal to 1 if CEO is also chairman of the firm, and 0 otherwise.</td>
</tr>
<tr>
<td>Cross Border</td>
<td>It is a binary variable equal to 1 if the target and acquirer are headquartered in different countries and 0 otherwise.</td>
</tr>
<tr>
<td>Alliance</td>
<td>It is equal to 1 if target and acquirer have a prior alliance and 0 otherwise.</td>
</tr>
<tr>
<td>Minority stake</td>
<td>It is a binary variable equal to 1 if the acquirer holds a minority stake before the focal acquisition, and 0 otherwise.</td>
</tr>
<tr>
<td>Acquirer experience</td>
<td>It is measured as total number of acquisitions made by the acquirer five years prior to the acquisition.</td>
</tr>
<tr>
<td>Acquirer size</td>
<td>It is measured as the natural logarithm of sales at the time of acquisition.</td>
</tr>
</tbody>
</table>
Table 4: The list of variables in paper D

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Announcement of retention</td>
<td>It is a binary variable equal to 1 if the news states that the target’s CEO stays after the acquisition, 0 otherwise,</td>
</tr>
<tr>
<td>Misjudgement</td>
<td>It is constructed as the difference between announcement of retention and whether the target’s CEO stayed at least 2 years after the acquisition</td>
</tr>
<tr>
<td>Similarity in type</td>
<td>It is a binary variable equal to 1 if both CEOs are either internal or outsider CEOs</td>
</tr>
<tr>
<td>Acquirer experience</td>
<td>It is measured as total number of prior acquisition made by the acquirer 5 years prior to the focal acquisition</td>
</tr>
<tr>
<td>Age difference</td>
<td>It is measured as the relative difference between the acquirer’s CEO and target’s CEO age.</td>
</tr>
<tr>
<td>Target CEO duality</td>
<td>It is a binary variable equal to 1 if CEO is also chairman of the firm, and 0 otherwise.</td>
</tr>
<tr>
<td>Target CEO tenure (log)</td>
<td>It is constructed as number of years she has tenure in the target before the acquisition announcement.</td>
</tr>
<tr>
<td>Target public</td>
<td>It is a binary variable equal to 1 if the target is a listed company and 0 otherwise.</td>
</tr>
<tr>
<td>Target age</td>
<td>It is the target age in terms of years between the foundation year and acquisition year.</td>
</tr>
<tr>
<td>Target patent</td>
<td>It is a binary variable if the target has filed a patent prior to the acquisition and 0 otherwise.</td>
</tr>
<tr>
<td>Target size</td>
<td>It is measured as total number of employees.</td>
</tr>
<tr>
<td>Cross Border</td>
<td>It is a binary variable equal to 1 if the target and acquirer are headquartered in different countries and 0 otherwise.</td>
</tr>
<tr>
<td>Absorption</td>
<td>It is a binary variable equal to 1 if the target is structurally integrated after the acquisition and 0 otherwise.</td>
</tr>
<tr>
<td>Product relatedness</td>
<td>It is measured as total number of common SIC codes between target and acquirer in the third digit level.</td>
</tr>
<tr>
<td>Alliance</td>
<td>It is equal to 1 if target and acquirer have a prior alliance and 0 otherwise.</td>
</tr>
<tr>
<td>Minority stake</td>
<td>It is a binary variable equal to 1 if the acquirer holds a minority stake before the focal acquisition, and 0 otherwise.</td>
</tr>
</tbody>
</table>

3.3 Methodology for paper E

The empirical analysis is based on the data extracted from the Swedish matched employer-employee database collected by Statistics Sweden. This database contains longitudinal record of both firms’ annual data and their employees’ information. The paper focused on firms, acquired between 2001 and 2006, and followed the employees both three years
before and after the acquisition. In this study, the targets operating in high-tech, medium to high-tech and knowledge intensive industries were selected. The selection of firms was based on the congruence of their associated NACE code with the list of NACE codes provided by (OECD, 1997) for the aforementioned industries. The paper chose top managers as individuals who are reported as senior managers for the firm. We removed smaller targets by excluding the firms that have less than 50 employees at the time of acquisition and also some observations due to lack of data availability. The final sample for this study consists of 2164 top managers in 297 firms.

3.3.1 Variables constructed for paper E

**Dependent variable:** Top manager’s turnover is a binary variable; it is 0 if the top manager stays more than three years at acquirer’s organization in post-acquisition and 1 if the top manager leaves the firm sooner than three years in post-acquisition similar to studies such as Bergh (2001) and Buchholtz et al (2003). Also later for robustness check the paper introduced turnover following some prior studies such as Lubatkin et al (1999), Wulf & Singh (2011), and Zollo & Singh (2004) as a binary variable for leave or stay 2 years after the acquisition and 1 year after the acquisition.

**Independent variables:** There are four independent variables in the paper; in the following, they are briefly explained:

- **Managerial status diversity:** For each top managers of the target, a binary variable is constructed. It is 1 if the top manager holds a C-Suite position in the target such as chief operating officer (COO), and alternatively 0 if the top manager is a head of a subsidiary, an SBU or a plant. Managerial status diversity, following Harrison & Klein (2007), treated as a separation, was constructed as a team level standard deviation of c-suit binary variable.

- **Pay dispersion:** For each top manager of the target, we calculated salary as the average three consecutive years’ annual salary before the acquisition. Pay dispersion, following Harrison & Klein (2007), was constructed as the coefficient of variation of average salaries at team level.
<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top manager Turnover</td>
<td>It is a binary variable equal to 1 if the CEO is replaced from the combined entity three years after the acquisition and 0 otherwise.</td>
</tr>
<tr>
<td>Managerial status diversity</td>
<td>It is a binary variable equal to 1 if the top manager holds a C-Suite position in the target, and 0 otherwise.</td>
</tr>
<tr>
<td>Pay dispersion</td>
<td>It is constructed as the coefficient of variation of average salaries in three consecutive years prior to the acquisition at team level.</td>
</tr>
<tr>
<td>Education background diversity</td>
<td>It is constructed as the Blau index of education majors of the team members.</td>
</tr>
<tr>
<td>Industry tenure diversity</td>
<td>It is constructed as the Blau index of industrial tenure of the team members.</td>
</tr>
<tr>
<td>Male</td>
<td>It is a binary variable equal to 1 if the top manager is male and 0 otherwise.</td>
</tr>
<tr>
<td>Age &amp; Age²</td>
<td>The CEO age and power of the age at the time of the acquisition.</td>
</tr>
<tr>
<td>Education level</td>
<td>It is a categorical ordered variable; no academic background equals to 0 and undergraduate education equals to 1 and graduate education equals to 2.</td>
</tr>
<tr>
<td>Salary</td>
<td>It is constructed as the average three consecutive years’ annual salary.</td>
</tr>
<tr>
<td>Managerial experience</td>
<td>It is constructed as the normalized number of years the individual holds managerial position in the firm in the last 10 years.</td>
</tr>
<tr>
<td>Team size</td>
<td>It is constructed as natural logarithm of number of TMT members.</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>It is constructed as number of male members divided by total number of the TMT.</td>
</tr>
<tr>
<td>Relative size</td>
<td>It is measured as target number of employees divided by the acquirer number of employees.</td>
</tr>
<tr>
<td>Distance</td>
<td>It is a binary variable equal to 1 if both firms are located in different province and 0 otherwise.</td>
</tr>
</tbody>
</table>

*Education background diversity:* For each top managers of the target, her education background is constructed as a categorical variable. There are seven major categories namely: Business administration, engineering, healthcare, humanity and art, natural science, social science, and other studies. Education background diversity, following (Harrison & Klein, 2007) was constructed as a team level Blau index (variety).
*Industrial tenure diversity:* For each top managers of the target, firstly, their tenure in different industries based on the first two digit NACE code were checked to identify the corresponding industry with maximum tenure. Then, similar to *Education background diversity,* Blau index is applied to calculate the variety at the team level. For brevity the description of the control variables are not explained here but their descriptions are available in Paper E. Table 5 summarizes all the variables and their definitions including the control variables.
4. Analysis

4.1 Findings of paper A

The paper as a literature review covers a broader area than the scope of the thesis; the review extended to the role of acquirer’s top manager in M&As. The paper found several gaps and mixed results and accordingly presented several areas for future studies. For the sake of brevity, here I only present the findings related to the target’s top managers in M&As; they are described in the following:

*TMT in details and acquisition contingencies:* Most studies conducted in acquisition and TMT, includes only the strongest and highest rank member, which is CEO. Even in studies that look at top managers, the main overview is at the team level rather than individual level. Consequently, our insight on acquisition and top managers is restricted to the CEOs or TMT (Menz, 2012). For future study, the paper suggests more researches on other executives at individual level in particular when studying turnover, and the moderating roles of human capital and managerial experience in acquisitions. What is missing in prior studies is the important fact that not all target’s top managers are equally important for the acquirer. Especially, neglecting individual differences and managerial functional positions generate contradictory results. For example in technologically motivated acquisitions, acquirer might be more interested to keep chief technology officer (CTO) of the company compare to other functional managers. Similarly, acquirers might be more interested in managers with technical background in this type of acquisitions.
In addition, deeper investigation at individual attributes results in better understanding of team level demographic characteristics. For instance, diversity is reported to have both positive and negative effect on post-acquisition outcome. Based on the studies on diversity of TMT and firm performance (See for e.g. Nielsen, 2010), diversity has different dimensions namely: educational background, functional experience, ethnicity, gender and race. When considering diversity of TMT, scholars should acknowledge these dimensions and expect different result when focusing on each of them (Harrison & Klein, 2007). Additionally, these dimensions have interactive effect on one another and therefore on acquisition outcome (Higgins & Gulati, 2006), which all suggest more comprehensive study on the diversity of TMT and acquisition. Another interesting road to explore, is studying similarity and dissimilarity between acquirer and target’s TMT. Assuming any meaningful achievement from acquisition requires both teams’ commitment and collaboration, it is worthy to study the effect of homophily (McPherson et al, 2001) on acquisition outcome and the target’s turnover. On one hand, similarity attraction theory suggests that similarity between TMTs decreases social frictions, conflicts and miscommunications between the teams, on the other hand information decision making perspective suggests that varieties empower information processing (Pelled, 1996). Understanding the contingencies of similarity and disimilarity between TMTs and acquisition outcome and turnover is yet another fruitful area for future studies. This is in particular very important, because every deal has two sides (target and acquirer), focusing on managerial influence of one side would not provide us of a full picture of M&A and managerial behaviours.

Another missing element in studying TMT, is organizational design aspect (here post-acquisition organizational structure). In organization design literature, aspects such as centralization or decentralization play an important role on both the size and structure of TMT (Collis et al, 2007). Therefore, in studying TMT turnover, there is a difference between centralized and decentralized organizations. Borrowing literature from post-acquisition corporate restructuring (See for e.g. Haspeslagh & Jemison, 1991), one interesting area would be bridging two streams of literature to understand the interplaying effect of post-acquisition organizational structure and TMTs turnover. More
specifically, it would be interesting to examine the role of target’s top managers in post-acquisition according to extent of decentralization of organizations. Keeping the acquired subsidiaries, strategic business units or plants as autonomous entities requires granting more autonomy to the units compare to the case of absorption or integration with the acquirer’s current units. Therefore one expects that top managers in charge of these autonomous entities are less likely to be replaced in post-acquisition compare to top managers in c-suit positions.

Theoretical assumptions revisited: Most of the empirical works in target’s top managers chose market for corporate control and agency theory for their studies. However generalizability of the findings related to agency theory and market for corporate control is questionable. As Jensen & Meckling (1976) concluded: “The level of agency costs depends, among other things, on statutory and common law and human ingenuity in devising contracts. Both the law and the sophistication of contracts relevant to the modern corporation are the products of a historical process in which there were strong incentives for individuals to minimize agency costs.” Empirical studies that used agency theory (on either acquirer or target) and market for corporate control are based on the Anglo American corporate governance in that ownership and control are separated. While, in other countries such as Germany or Japan, other stakeholders such as union and institutional shareholders have stronger monitoring power over top executives which results in lower agency problem. This makes generalizability of the results in market for corporate control and agency theory under question. Therefore, for the future studies it is interesting to check whether the findings related to US firms are also valid elsewhere and if not, what is an alternative theory that suits non-Anglo American firms? The second even more severe problem with market for corporate control is its validity. Many studies showed that acquirers prefer to buy good performers rather than bad performers. Even in case of corporate raiders, Walsh & Kosnik (1993) did not find evidence of market for corporate control. All in all, this suggests that researchers should be cautious when using this theory, as acquisitions occur and target top managers are replaced not because of their bad performance.
**Acquisitions as heterogeneous corporate strategies:** As explained in the introduction, M&A literature suggests that acquisitions may occur for various reasons. The acquisition’s drivers can vary from economic, scale and scope, market entry, diversification, and acquiring new knowledge and/or technology. Studies at the intersection of TMT and M&A treat all acquisitions homogenously in terms of drivers and motivations and therefore used one proxy for performance measurement. However, performance in M&A literature is, as Zollo & Meier (2008) put it, a multifaceted construct that there is no single proxy to capture all aspects; they are both short and long term proxies across different levels namely: task, acquisition, and firm. Some examples of these proxies are financial and accounting returns, customer and employee retention, and innovation outcome (Zollo & Meier, 2008). Having said this, most of the studies on TMT and acquisition performance only focus on proxies based on event study. Over 80% of the studies in our sample constructed performance as stock market reaction to the acquisition announcement and formed a cumulative abnormal return (CAR) or premium paid. While both proxies capture short term value in the acquisition (financial return) at firm level, it cannot reveal or connect to long term performance or return of the firm (Bodolica & Spraggon, 2009). From this standpoint, studies that focus on target TMT turnover and M&A performance, suffer from linking turnover (which happens usually up to five years after the acquisition) with this measurement. In addition, studies that focus on moderating role of various corporate governance methods such as board monitoring, compensation structure, and payment policies similarly may suffer from the same misspecification of econometric model. Alternatively, when studying effectiveness of various corporate governance mechanisms and managerial interest in engaging into M&A activities it is vital that researchers use multiple constructs for performance to extend the so called outcome to long-term returns as well as non-financial metrics such as employee, top manager, and customer retention and innovation outcome.

**Heterogeneity in the targets:** The choice of empirical settings, as described in the earlier section, in the intersection of top managers and M&A hinders generalizability of the findings. While over two third of global M&A transactions involve acquisition of small and private firms
(Zollo & Singh, 2004), almost all studies focus on acquisition of public firms. The TMT structure, corporate governance, and many assumptions behind theoretical scopes used in studies are different when it comes to small and private firms (Capron & Shen, 2007). Agency theory and market for corporate control does not apply to private firms. Because unlike public firms, all owners should consent for the acquisition in private firms, and usually top executives hold a share in the firm. In addition, since ownership and control are not separable from one another, there is an alignment between top executives’ interests and the shareholders’ interests (Colombo & Rossi-Lamastra, 2013). Stewardship theory seems more appropriate in studying and understanding TMT in private firms. It would be interesting to understand the difference between the role of TMT in post-acquisition of private firms, the effect of their turnover on the post-acquisition performance and their motivation or psychological perception about the acquisition.

4.2 Findings of paper B

Acquirers choose their acquisition implementation strategy based on the required level of coordination. Highest level of coordination is not always the best choice as there are costs associated to it. Some are short-term and immediate costs of implementing changes in the organization (Hitt, et al., 1991; Schoar, 2002). Some are long-terms costs related to organizational disruptions and loss of autonomy for the target, which are especially worrisome in acquisitions of small high-tech firms (Hasperslagh & Jemison, 1991; Puranam, et al., 2009). In sum, there is a cost-benefit trade-off for the acquirer in choosing certain mechanisms to provide coordination.

The paper investigated on the antecedents behind the acquirer’s choice of coordination mechanisms in acquisition implementation when the target is a small high-tech firm. First, in line with Puranam et al (2006) and (2009), the paper found that component - as a form of reciprocal interdependencies between the acquirer and the target - increases the likelihood of structural integration. This coordination mechanism provides the highest level of coordination at the high cost (Hasperslagh & Jemison, 1991; Pablo, 1994 and Van de Van & Delbecq, 1974). As interdependencies demand high level of coordination between the two firms, the acquirer chooses structural integration that provides
the necessary level of coordination despite of the costs. However, these costs make acquirer to resort to structural integration only when it is mandatory. If coordination capacity exists between the acquirer and the target before the acquisition, then the acquirer chooses alternative mechanisms, which provide lower level of coordination but maintain the costs at lower level as well. Along this line of reasoning, the paper argues that technological relatedness between the acquirer and the target can be interpreted as an existing coordination capacity. It increases the absorptive capacity of the acquirer in knowledge transfer (Cohen & Levinthal, 1990; March, 1991) and creates a common ground between the two firms that facilitates coordination (Grant, 1996; Kogut & Zander, 1992). In line with these arguments, the findings suggest that when technology relatedness between acquirer and target is high, the acquirer keeps the target as a separate subsidiary and the target’s CEO in charge to act as a coordinator. Additionally, the existence of prior alliances between two firms results in creating certain coordination capacity, which the acquirer can leverage in acquisition implementation (Tsai, 2001 and Yang, et al., 2011). In other words, when a prior alliance between the acquirer and the target exists, the acquirer tends to keep the target as a separate subsidiary and keep the CEO in charge. The coordination capacity provided by technological relatedness and alliance is considerable enough that even in case of interdependency, structural integration as a desired choice of coordination mechanism loses its benefits over the associated costs for the acquirer.

4.3 Findings of paper C
This paper studied the determinants of the target’s CEO departure (or retention) after the acquisition of high-tech firms with special investigation on the effect of CEO being founder of the firm (the so-called founder-CEO). The result of empirical indicates that being founder of the target decreases the probability of CEO departure. This suggests that human capital embedded in founder-CEO is valuable for the acquirer. As explained before, we can divide the managerial human capital into general and specific. The interaction between absorption (structural integration of the target) and founder CEO reveals that CEO being a founder is so valuable for the acquirer that even if the acquirer decides to absorb the target, the acquirer prefers to keep the CEO. This finding brings a new insight to post-acquisition CEO turnover literature.
By ruling out soft coordination role for the founder-CEO in absorption, general managerial skills of this type of CEOs to serve as transitional manager are undermined, while specific skills are more attractive for the acquirer. Additionally, the interaction between founder and product relatedness reveals that when the target CEO is also a founder of the company, it is more likely that the CEO stays afterwards even in highly related acquisitions where industry specific human capital is redundant.

Also the paper showed that the value of the founder-CEO’s specific human capital is contingent to the maturity of the target. The more mature the target is, the less valuable the firm specific human capital is for the acquirer. The paper confirmed this argument by finding that as the target ages, the likelihood of founder-CEO departure increases. Additionally, for robustness check this paper control for alternative explanations of departure or retention. In particular, the paper controlled for agency problem, psychological attachment, and market for corporate control; the paper did not find any evidence of them. Also the paper controlled for how valuable might be other sources of generic human capital such as founder’s education background for the acquirer instead of firm specific human capital to encourage the acquirer to keep the CEO. The paper did not find any evidence of it. The robustness of the results strengthens the main findings of the paper.

4.4 Findings of paper D

The first finding of the paper is that similarity in managerial style between CEOs of the acquirer and target increases the likelihood of positive attitude toward the acquisition and post-acquisition implementations. In particular, the paper found that similarity in being an external or internal CEO increase the chance of pronouncing further collaboration of the target’s CEO in post-acquisition when the deal is closed. This finding confirms the argument of the paper that as social categorization theory (Ashforth & Mael, 1989; Tajfel, 1982) suggests individuals who share similar characteristics, are more likely to collaborate and trust each other.

Additionally, the paper found that similarity in style increases the chance of misjudgment. As similarity brings about initial trust
between individuals, they become short sighted to evaluate the deal and post-deal decisions and their consequences comprehensively. Literature on trust and inter-organizational relations suggested that trust increases the chance of opportunistic behavior, as trust is asymmetrical in nature (individual A may find individual B trustworthy whereas individual B does not necessarily share the same opinion about individual A) (Gulati, 1995; Schoorman et al., 2007). In this regard, based on the multiple case studies of acquisitions in high-tech and knowledge intensive industries Graebner (2009) reported that initial trust between the target and the acquirer also increases the chance of acquirer’s deceit and the target’s vulnerability. If the target trusts asymmetrically the acquirer, the target (especially the top managers) becomes vulnerable in post-acquisition. If the acquirer trusts asymmetrically the target, there is a chance that the acquirer gets deceived about the true potentials of the target in collaboration and cooperation in post-acquisition. In both scenarios, the target’s CEO leaves after the acquisition. This paper have not distinguished in case of CEOs’ similarity what would be the more likely scenario; whether deception or vulnerability causes the target’s CEO departure in post-acquisition, though announced otherwise when the deal is officially closed. Misjudgment presented in the paper, asserts a broader argument that include also asymmetrical notion of trust. Indeed, trust may bring about deception, which causes misjudgment for both CEOs; but also trust brings about social and behavioral biases, which engenders misjudgment about the post-acquisition implementation’s complications and the coordination capacity provided by the target’s CEO. In the similar line, Rogan & Sorenson (2014), by borrowing insights from inter-organizational trust literature, have recently reported that when the acquirer and the target share indirect common ties through a third party (common customers), it is more likely that post-acquisition performance declines. They asserted that biases cause performing poor due diligence and false sense of security. All in all, this paper suggests that although similarity between CEOs increases trust, collaboration and cooperation and decreases the likelihood of the target’s CEO departure in post-acquisition, it also has a dark side of misjudgment caused by either opportunistic behavior or biases, which results in the target’s CEO departure.
Finally, the paper found that experience as acquirer’s capability moderates the effect of similarity on announcement of retention and misjudgment. More experienced acquirers are more robust to the effect of similarity on determining the targets’ CEO status in post-acquisition period. The experience reduces the probability of making bad decisions regarding the post-acquisition integration process.

4.5 Findings of paper E

The paper has shown that in general ex-ante diversity in TMT increases the top manager’s turnover in post-acquisition. First, positional diversity of TMT as form of separation increases the turnover. This finding validates the argument related to the effect of separation on social friction, categorization and sub grouping, which increases the turnover in post-acquisition. In addition, based on theory of faultline proposed by Lau & Murnighan (1998), acquisitions as disruptive events activate the separation between C-Suite and non-C-Suite members as a form of faultline, as issues like career concern and relative standing increases rivalry between these two groups inside TMT. Acquisition changes the organizational structure of the target including norms, routines, and delegation of autonomy based on post-acquisition integration and implementation literature (Puranam et al, 2009; Sears & Hoetker, 2014; Zollo & Singh, 2004). This finding also suggests that ex-ante organizational structure of the target determines top managers’ turnover in post-acquisition. Following the arguments proposed by Argyres (1995), Child (1972), Chandler (1991), and Guadalupe et al (2013), as the TMT composition is the reflection of organizational structure, and number of general managers as non-C-Suite members of TMT represents the degree of decentralization of the firm, it is inferable that targets with decentralized structure are more likely to face turnover.

Secondly, the paper found that ex-ante pay disparity increases the top managers’ turnover in post-acquisition. This finding confirms the argument that pay disparity hampers information processing capability of TMT as team members are less collaborative and withhold information necessary for decision making (Eisenhardt & Bourgeois, 1988; Pfeffer & Langton, 1993).
Finally, the paper found that diversity as variety causes turnover of top managers in post-acquisition. Here the argument is that variety hampers efficiency in decision making, communication, and coordination between top managers. In this case, the acquirer replaces the target’s top managers after the acquisition to prevent such inefficiencies. The results assert that diversity in industrial background, as a form of variety, increases the probability of turnover, however we did not capture similar effect on education background as another form of variety. Such difference between the results of the two variety constructs confirms the argument presented by Bell et al. (2011) and Harrison & Klein (2007), that conceptualization of diversities of all task related attributes into a unified diversity index, does not give proper insight to the researchers. As the attributes are independent from one another, their diversity at team level has independent and somewhat different effect. One possible explanation for not finding expected effect for education background on turnover can be related to the diminishing effect of time on education background, especially considering the fact that the average age of top managers in the sample is 45. It would be noteworthy to mention that, Bell et al. (2011) in their meta-analysis did not find also strong positive effect of variety in education background as a surrogate of knowledge of team on the overall performance, and the paper also provided similar argument that the team members are years away from the time that they completed their education. This explanation is also in line with the notion of the importance of dynamism in organizational demography, suggested by Lawrence (1997) that some of the easily measurable attributes may not be as influential as it appears when considering its effect over time.

4.6 Findings of the thesis

So far the findings of the five papers separately have been described. In this last part of section 4, the connection of the findings across the papers is described. Table 6 have summarized the connections.

Paper B is a direct response to the suggestion of paper A regarding the interplaying effect of other organizational design aspects of post-acquisition implementation and the turnover of the target’s top managers in post-acquisition phase. In particular paper B introduced
the interplaying effect of the target’s post-acquisition organizational structure and the target’s CEO replacement or retention. Paper C differentiates between founder-CEOs and non-founder-CEOs in their post-acquisition turnover. From this standpoint, this paper reflects on the suggestion provided by paper A that there is a heterogeneity in the target’s top managers, and studies should appreciate such variety when studying managerial turnover.

Table 6: The summary of findings and connection with other hypotheses

<table>
<thead>
<tr>
<th>Papers</th>
<th>Hypotheses</th>
<th>Result</th>
<th>Connections with other hypotheses in other papers</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>H.B.1</td>
<td>Confirmed</td>
<td>H.C.2b, H.E.1</td>
</tr>
<tr>
<td>B</td>
<td>H.B.2a</td>
<td>Confirmed</td>
<td>H.E.1</td>
</tr>
<tr>
<td>B</td>
<td>H.B.2b</td>
<td>Confirmed</td>
<td>H.C.2b, H.E.1</td>
</tr>
<tr>
<td>B</td>
<td>H.B.3a</td>
<td>Confirmed</td>
<td>H.C.2b, H.D.1, H.E.1</td>
</tr>
<tr>
<td>B</td>
<td>H.B.3b</td>
<td>Confirmed</td>
<td>H.C.2b, H.D.1, H.D.2, H.E.1</td>
</tr>
<tr>
<td>C</td>
<td>H.C.1</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>H.C.2a</td>
<td>Confirmed</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>H.C.2b</td>
<td>Confirmed</td>
<td>H.B.1, H.B.2a, H.B.2b, H.B.3a, H.B.3b</td>
</tr>
<tr>
<td>C</td>
<td>H.C.3a</td>
<td>Confirmed</td>
<td>H.E.3a</td>
</tr>
<tr>
<td>C</td>
<td>H.C.3b</td>
<td>Not confirmed</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>H.D.1</td>
<td>Confirmed</td>
<td>H.B.3a, H.B.3b, H.E.1</td>
</tr>
<tr>
<td>D</td>
<td>H.D.2</td>
<td>Confirmed</td>
<td>H.B.3a, H.B.3b, H.E.1</td>
</tr>
<tr>
<td>D</td>
<td>H.D.3a</td>
<td>Confirmed</td>
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<tr>
<td>D</td>
<td>H.D.3b</td>
<td>Confirmed</td>
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</tr>
<tr>
<td>E</td>
<td>H.E.1</td>
<td>Confirmed</td>
<td>H.B.1, H.B.2a, H.B.2b, H.B.3a, H.B.3b, H.D.1, H.D.2</td>
</tr>
<tr>
<td>E</td>
<td>H.E.2</td>
<td>Confirmed</td>
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<tr>
<td>E</td>
<td>H.E.3a</td>
<td>Confirmed</td>
<td>H.B.1, H.B.2a, H.B.2b, H.B.3a, H.B.3b, H.C.3a, H.C.3b, H.C.3c</td>
</tr>
<tr>
<td>E</td>
<td>H.E.3b</td>
<td>Not Confirmed</td>
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</table>
As paper B, C, and D focuses on the target’s CEO turnover in post-acquisition, paper E expands its domain of study to include non-CEO top managers. This is in line with the suggestion provided by paper A that most of received knowledge in managerial turnover is asymmetrically obtained from the CEO’s studies and it is time to reduce this gap by including other top managers as well.

Paper B introduced three different choices for providing required post-acquisition coordination level. Paper B argued that in case of structural integration, retention of the target’s CEO does not have any coordination reason. Paper C provides an alternative reason for this scenario, which is the value of human capital of the target’s CEO for the acquirer. More specifically, H.C.2b shows that the human capital of the founder-CEO is valuable to the acquirer to the extent that even in case of structural integration, the acquirer is willing to keep them. From this stand, H.C.2b complements the findings of paper B including H.B.1, H.B.2a, H.B.2b, H.B.3a, and H.B.3b. In addition, H.B.2a and H.B.2b argued that technological relatedness as a form of common ground increases the available coordination capacity and consequently reduces the level of coordination capacity needs to be provided, so in this case the acquirer relies more on the target’s CEO to coordinate in post-acquisition. The findings in paper E provide additional insight to paper B. In particular, based on the findings of H.E.1 and H.E.3a, paper E inferred that the first priority for the acquirer is providing coordination capacity for knowledge transfer in post-acquisition phases. Therefore, the value of human capital embedded in the target’s TMT for the acquirer is to the extent that does not hamper coordination. In other words, acquirer places higher priority for coordination rather than the managerial human capital embedded in the target’s top managers, in determining their status (replacement or retention) after the acquisition.

The maturity arguments provided in H.C.3a and H.C.3b in paper C are in line with the variety argument provided in H.E.3a in Paper E. Paper C inferred that the acquirer keeps the target’s founder-CEO because of her firm-specific human capital; more importantly, the value for the acquirer depends on the maturity of the target at the time of acquisition. If the target reaches to certain maturity level in terms of age, the firm-specific human capital of the target’s founder-CEO loses its
value for the acquirer. So it appears that the acquirers in general are not interested in hiring the target’s founder-CEO for the potential technological development in future but rather for the current technological advancement at hand. Similarly paper E in H.E.3a also reported that the variety in human capital of the target’s TMT is not interesting for the acquirer despite of its benefit for creativity, problem solving, and innovation for future. Both arguments suggest that the value of human capital of the target’s top managers is contingent for the acquirer.

Similarity arguments provided in H.D.1 in paper D are in line with the separation argument provided in H.E.1 in paper E. Paper D proposed that similarity in characteristics of CEOs increases future collaboration and cooperation, and decreases conflicts and social frictions, therefore it is expected that similarity decreases the likelihood of the target’s CEO turnover. Paper E argued that dissimilarity in managerial position (c-suit vs. non-c-suit positions) causes separation between the target’s top managers, which increases their turnover in post-acquisition. Putting together both findings suggests the prevalence of positive effect of dissimilarity on managerial post-acquisition turnover.
5. Discussion and Conclusion

5.1 Deeper look into findings of paper B

The paper offers several contributions to the literature of acquisition implementation (Haseslagh & Jemison, 1991; Jemison & Sitkin, 1986; Ranft & Lord, 2002; Schrivastava, 1986; Schweitzer, 2005). First, it shows that cost-benefit trade-off drives the acquisition implementation choices of the acquirer. Prior studies have captured mainly the effect of acquisition implementation on post-acquisition performance (See for e.g.: Bauer & Matzler, 2014; Datta & Grant, 1990; Pablo, 1994; Parunchuri, et al., 2006; Puranam, et al., 2006; Zollo & Singh, 2004). However, directly linking acquisition implementation to post-acquisition performance does not give a comprehensive picture in understanding the rationale behind the acquisition implementation choices. In particular, prior works on the topic have overlooked the fact that there is no dominant acquisition implementation strategy and acquirer chooses their strategy based on the required level of coordination (Haseslagh & Jemison, 1991; Schweitzer, 2005). The authors of this paper provide an explanation for the rationale behind the acquirer’s choice of acquisition implementation by borrowing concepts from the organization design literature (Mintzberg, 1980; Thompson, 1967; Tushman & Nadler, 1978; Van de Van & Delbecq, 1974). The only exception that focused explicitly on acquisition implementation is Puranam et al. (2009). However, the work of Puranam and colleagues presented only a dichotomy of structural integration vs. separation as two choices in front of the acquirer, while the paper presented that the choice is beyond this dichotomy. A missing element in most of the empirical works on acquisition implementation is the role of target’s top executives in general and of CEO in particular as a coordinator in post-acquisition; the only exceptions are the in-depth case studies by Graebner (2004) &
(2009) and Ranft & Lord (2002). The literature on CEO’s retention or replacement in post-acquisition is mainly disconnected from that on structural integration. To my knowledge, this is the first paper based on an empirical large sample, which bridges the aforementioned two streams of literature to investigate on the acquirer’s rationale behind choices related to acquisition implementation. The empirical studies mainly captured the effect of CEO’s departure on post-acquisition performance (Bergh, 2001; Buchholtz, et al., 2003; Cannella & Hambrick, 1993; Hambrick & Cannella, 1993; Wulf & Singh, 2011). Our finding is complementary to this stream of literature by showing that if the target’s CEO stays and acts as a coordinator the costs of implementation specifically those related to loss of autonomy and organizational disruptions is lower and consequently performance is higher.

Finally, the paper contributes to the literature of technological acquisitions. This literature pays special attention to the effect of technological relatedness on post-acquisition outcome, and have reported positive effect of relatedness (Ahuja & Katila, 2001; Cassiman, et al., 2005; Cloodt, et al., 2006; Grimpe & Hussinger, 2014; Makri, et al., 2010; Sears & Hoetker, 2014). In addition, prior alliance between the target and acquirer and its effect on acquisition outcome is another interesting topic in this type of acquisitions. The empirical studies suggested that post-acquisition performance is higher when both firms established an alliance before the acquisition (Porrini, 2004; Yang, et al., 2011 and Zaheer, et al., 2010). The findings of this paper on technological relatedness and alliance as coordination capacity complement both streams of empirical studies by proposing a possible explanation on the mechanism behind higher post-acquisition performance. Coordination capacity provided by alliance and relatedness reduces the attractiveness, and consequently the probability of application, of mechanisms that provide higher level of coordination at higher costs caused by loss of autonomy and organizational disruptions. Accordingly, it is reasonable to expect that this coordination capacity is associated with higher post-acquisition outcome.

This study has certain limitations, which also lead into some suggestions for future studies. First, the paper has only focused on CEO
replacement or retention as the highest rank senior executive of the firm. This approach fits well with the context of acquisitions of small high-tech firms, where the CEO has high-managerial discretion and a strong symbolic role. However, it would be interesting to extend this study further to include top management team replacement or retention as a whole or the effect of certain top executive replacement or retention. As an example, in the context of acquisitions of small high-tech firms, top executives involved in R&D activities (such as the chief technology officer) may play a significant role in post-acquisition implementation. A similar argument holds for the other dimension: structural integration. In line with Puranam et al. (2009), this work takes into account only two forms of integration (structural integration vs. separation), which is common for acquisitions of small firms. However, integration choices are not bounded into total separation or full integration; hybrid approaches are practical in acquisitions of larger firms (Schweitzer, 2005). Therefore, another future area of investigation can be studying more general form of integration. Additionally, it would be of interest to study coordination mechanisms deeper. Particularly, in case of coordination via CEO replacement, further research should investigate on who would be appointed to be in charge of the unit; whether someone from target takes the position or someone from outside is in charge. Finally, this study did not differentiate between CEOs based on their individual characteristics, skills and capabilities. Especially in small high-tech firms, it is likely that CEOs may have firm specific human capital such as technological know-how and technical skills. More specifically, some CEOs are also founder of the company or patent holders, and acquirer may perceive these individuals as key personnel, which increases the probability of their retention in post-acquisition. Thus, it is interesting to disentangle the effect of these CEOs from professional CEOs when studying CEO replacement or retention as a coordination mechanism.

5.2 Deeper look into findings of paper C

The first contribution of the paper is to post-acquisition target’s CEO turnover literature. This study introduces a new determinant of the target’s CEO turnover. Here the paper showed that founder-CEOs are different in post-acquisition turnover than professional CEOs and what makes the difference is the firm specific human capital of founder-
CEOs. These findings on founder, suggest more in-depth studies on their retention on post-acquisition. The research, is extendible to other founder executives to first understand whether there is a difference between founder CEO and other founder managers for the acquirers and second, whether acquirers are willing to keep the founding team as a whole or founders individually.

The second contribution of this paper is to founder-CEO succession literature. Based on the study conducted by Wasserman (2003), it is a common wisdom that founder-CEOs usually face with the so called “success paradox”. Founder-CEOs are usually substituted by professional CEOs as their firms grow organically. Many studies (for e.g. Boeker & Fleming, 2010; Boeker & Karichalil, 2002; Certo et al., 2001; Jayaraman et al., 2000) proposed that the maturity of the firm necessitates different skills that usually founder-CEOs do not possess. This paper shows that in case of acquisition (the exit mode), as an alternative to organic growth, founder CEOs have similar faith.

The third contribution of the paper is to the literature of managerial human capital. Based on the categorization of human capital into generic, industry specific, and firm specific human capital proposed by Becker (1967), the paper showed that acquirers find firm specific human capital of founder-CEOs more valuable compare to two other types. Our finding is in line with the recent studies conducted by Ployhardt & Moliterno (2011) and Mackey et al (2013) that suggest human capital of the CEO at abstract level does not provide any meaningful results for the firms. The human capital should strategically fit to the firm’s resources. Therefore, certain human capital fits to one firm while it does not fit to another firm. The paper suggests that firm specific human capital of the target’s founder-CEO under certain circumstances strategically fits (acquisition and maturity contingencies) with the acquirer’s resources. The argument about the value of firm specific human capital of founder-CEOs contingent on the maturity of the target for the acquirer opens up interesting areas for future studies. The first is investigating on the founder-CEO’s position in the acquirer organization. In particular it is worthy to check whether the founder-CEO stays in the target and takes role in R&D department, product development or serves at higher strategic position. If the founder-CEO in post-acquisition continues working in the target or in the product
development, then the argument about the value of firm specific human capital becomes stronger. In addition, based on the maturity argument, the value of firm specific human capital for the acquirer is till certain stage of the target’s maturity in post-acquisition. From this stand, for future study another direction is investigating on whether the founder-CEOs’ employment contract with the acquirer is contingent on the target’s product development advancement in post-acquisition era.

5.3 Deeper look into findings of paper D

This paper has several contributions to the extant literature. This paper introduces new antecedent for the CEO’s turnover to the literature by providing a behavioral argument behind the target’s CEO turnover. The paper asserted that similarity between the acquirer and the target CEOs decreases the likelihood of the target’s CEO departure. Acquisition as a formal contract includes two parties. On one side, the acquirer’s CEO as the buyer, and on the other side, the target’s CEO as the seller interact, negotiate and finalize the deal. Based on similarity-attraction and social categorization literature (Ashforth & Mael, 1989; McPherson, et al., 2001; Tajfel, 1982), individuals tend to connect, cooperate and collaborate easier with other individuals when they share similar characteristics. Such similarities are surrogate for similarity in values, norms, and beliefs which reduces social conflicts and frictions (Pelled, 1996), increases collaboration and cooperation (Tsui & O'Reilly, 1989) and establishes trust between individuals (Li & Hambrick, 2005).

The empirical setting for the paper brought unique opportunity for testing the similarity effect. There is a size difference between the acquirer (large incumbent) and the target (small firm). This resolves two potential problems. First, it is easier to assume that when the deal is closed, the acquirer’s CEO assumes control over the target and consequently is in charge of all the decisions related to post-acquisition changes to the target. In other words, there is a clear power imbalance between the two CEOs in post-acquisition. In case of merger of equal size (MOEs), although like any other deal there is an acquirer (buyer) and a target (seller), decision making is more complicated and is not in the hand of the acquirer’s CEO entirely as the target’s CEO has also some influences (See Wulf, 2004 for a review on MOEs). The power balance in MOEs imposes value threat rather than attraction. When
both CEOs have similar power and similar characteristics, the more likely scenario is to expect CEO’s departure for competitive threat (See for e.g. Duguid et al., 2012); furthermore, RBV and efficiency theory suggest replacement due to redundancy at senior managerial positions. For the future study, it is interesting to evaluate whether similarity results in attraction or threat and redundancy. Second, in case of MOEs the deal involves top managers of firms as well as influential shareholders and board members, therefore it is expected that the effect of similarity between CEOs on the target’s CEO departure is not as strong as this setting. For future study it would be interesting to evaluate the effect of similarity between TMTs of both firms in case of MOEs on post-acquisition managerial turnover similar to the study conducted by Li & Hambrick (2005) on the effect of similarity between fractional groups in Sino-American joint ventures.

This paper also contributes to the literature of trust in acquisition. To my knowledge, all the empirical works so far have captured the effect of inter-organizational trust on the acquisition. For instance, the effect of prior alliance (Porrini, 2004), indirect or direct network ties (Graebner, 2009 and Rogan & Soresnson, 2014), and multiple exchanges (Lee, 2012) on the acquisition. This paper has provided a new perspective by linking trust at the individual level (between CEOs) on the acquisition. For the future study, it is interesting to investigate on the relative strength of interpersonal to inter-organizational trust on the acquisition; more specifically, the moderating and mediating role of similarity (or dissimilarity) between CEOs on the effect of inter-organizational trust such as prior alliance or common ties on the acquisition.

5.4 Deeper look into findings of paper E

The main conclusion of this paper is that ex-ante diversity in TMT in pre-acquisition directly determines the targets managerial turnover in post-acquisition. The team view brings a fresh perspective toward the turnover. In this regard, although prior studies on acquisition implementation argue that the target’s top managers can be resourceful for the acquirer to minimize the negative effect of organizational disruptions exerted to the target while acting as coordinators between the target and the rest of the acquirer’s organization, TMT’s
demographic composition reduces such coordination capacity and therefore the acquirer prefers to replace the top managers and exert more organizational disruptions to target to provide the necessary level of coordination capacity. In other words, the benefit of providing coordination capacity by replacing the TMT is higher than its associated cost with the disruptions. This argument holds even in acquisition of high-tech and knowledge intensive firms, that the cost of disruptions is higher; as the employees’ departure due to such disruptions is associated with loss of knowledge for the acquirer. In this respect, our findings respond to some extent to studies such as Cloodt et al (2006), Parunchuri et al (2006), and Kapoor & Lim (2007) that question why acquirers go to great length in choosing disruptive implementation strategies such as organizational integration that lower inventors ‘productivity, R&D outputs and future innovations in the acquired units. In addition, this explains why although studies such as Graebner (2004), Graebner et al (2010), and Ranft & Lord (2002) suggested the opportunity of exploiting coordinating capacity present in retention of targets’ top managers for the acquirers, in practice they choose not to rely on such capacity. Another inference from the results is that, even though diversity in the form of variety supports creativity, knowledge development and innovation based on information process view, it reduces coordination efficiency to transfer the knowledge already created in the target. This insight also explains why managerial turnover in acquisition of high-tech and knowledge intensive firms are still higher than normal regardless of the human capital embedded in managerial resources. Accordingly, this paper provides complementary explanation to the studies such as Bergh (2001), Buchholtz et al (2003), and Wulf & Singh (2011), which linked human capital to turnover. The paper also provides a new antecedent of target’s managerial turnover, which is ex-ante organizational structure of the target before the acquisition. The paper found that targets with decentralized structure (for instance matrix organizations) face with higher managerial turnover. Empirically the paper confirmed the proposition presented by Argyres (1995) and more recently Ricardo et al (2008), who suggested that centralized organizational forms are more suitable for technology development as this organizational form facilitates knowledge transfer via centralized coordinating mechanisms. This argument also validates a recent observation reported by Guadalupe et
al (2013) that in the last two decades, US large firms have shifted from decentralized to centralized forms. If this argument is correct, then it is expected to see more centralized organizational form for the targets in post-acquisition rather than just replacing top managers. In other words, the acquirers reduce TMT’s size of the targets (lay-offs) rather than substitute them. For the future studies, it would be interesting to validate this argument.

This paper also contributes to the literature of TMT’s diversity. The first contribution is to the environmental contingency studies by showing that acquisition has disruptive effects on the organizations. The paper argued that the changes in the norms, values and routines in the organization, and consequently in the TMT, clearly activate the diversity in the form of separation. The finding is in line with the theory of faultline proposed by Lau & Murnighan (1998). Prior empirical studies such as Li & Hambrick (2005) and Pearsall et al (2008) focused on activation of faultline when the team is forming. This study complements them by showing that faultline can be activated also when roles, routines and to some extent goals of the team change even though the team has performed for a long period. In addition, prior studies on faultline mainly focused on visible demographic characteristics (such as age, gender, and race). Our finding on managerial position diversity is a response to a call by Bell et al. (2011), Hutzschenreuter & Horstkotte (2013), and Rico et al. (2007) to investigate on the diversity faultline of task related characteristics. Here, we focused on the ex-ante diversity of the target’s TMT, and the diversity faultline for the target; however acquisition has a disruptive effect on the acquirer’s organization as well, though it is less pronounced than the target. In future studies, it would be interesting to investigate on how and to what extent acquisition also activates the diversity faultline inside the acquirer’s TMT. In addition, in mergers of equals that both acquirer and target are relatively equal in terms of size, sales and market power Wulf (2004), it is more likely that both TMTs merge together and form a new TMT. The conflict, social categorization, rivalry across the former teams also suggests a fruitful area for future scholars interested in studying the effect of diversity in team formations and performance.

Another interesting insight from the result is the importance of acquisition as an environmental contingency; it is to the extent that
although variety is beneficial intrinsically to the team’s decision making effectiveness based on the information process view, it can be harmful when the environment changes. From this standpoint, this paper complements prior studies such as Mihalache et al (2013) Van der Vegt & Bunderson (2005) reporting that diversity in the form of variety harms decision making efficiency and coordination especially in the contexts that they are more important than creativity.

5.5 Discussion and conclusion of the thesis

Recalling the overarching research question of the thesis “What are the antecedents of top managers’ turnover in post-acquisition?” the compilation of five papers tend to answer it. This thesis revolves around understanding the rationale behind the turnover of target’s top manager after the acquisition. In particular, under what circumstances the acquirer keeps the target’s top managers or replaces them; in case of retention, what would be the main interest for the acquirer. As described in the introduction and also argued in paper A, the existing empirical work on the target’s managerial turnover and acquisition have not provided a clear picture. Empirical studies have applied several theoretical arguments for explaining the turnover. Some are in favour of turnover, whereas some are against turnover for value creation in post-acquisition. Lack of context as recently asserted by Krug et al (2014) and explained in paper A is the main culprit. None of the arguments are intrinsically dismissible, but what makes the difference on validity of the certain argument over the others is the context; the context within which acquisition occurs (the target’s firm characteristics, managerial characteristics and industrial characteristics) also the context regarding the acquisition category defined by the driver behind it (motivation). This thesis paid especial attention to context to unravel the determinants behind the target’s managerial turnover. Henceforth as explained earlier, the thesis focuses on knowledge intensive and high-tech industries, where knowledge is mostly tacit and embedded in human capital (Argyres, 1995 and Kapoor & Lim, 2007) and any meaningful return from this type of acquisition depends on the target’s employees and managers further collaboration with the acquirer in post-acquisition (Graebner, 2009). In addition it is safe to assume that acquirers pursue technology and knowledge acquisition even if other
motivations such as market entry and increasing market power also drives the acquisition (Ahuja & Katila, 2001; Graebner et al., 2010). Finally, by focusing on the small targets in three of the empirical papers and non-Anglo American acquisitions in the other paper, it is easier to dismiss market for corporate control and agency problems as a source of the managerial (in particular the CEO) turnover.

This thesis pays an especial attention to two other important theoretical arguments namely: post-acquisition coordination capacity and human capital. Paper B and C investigated on both arguments, which the conclusions and contributions have been discussed in great length in section 5.1 and 5.2. Also the thesis introduces two new determinants on turnover. First is the similarity in demographic characteristics between the CEOs of the acquirer and the target. The second determinant is ex-ante diversity in target’s TMT. Respectively sections 5.3 and 5.4 have discussed them in great details. Going back to the research question and putting the findings of all papers together, it is inferable from the thesis that for the acquirers at least in acquisition of high-tech and knowledge intensive firms, the main integral element is providing the coordination capacity necessary to transfer the knowledge from the target to the rest of its organization. Although the target’s top managers are potentially resourceful for providing some level of coordination capacity, the value of such capacity depends on the acquirer’s choice of mechanism to provide the necessary level of coordination. If the acquirer decides to rely on certain mechanisms to provide higher level of coordination other than the capacity provided by the target’s managerial resources, then the presence of top managers including the CEO becomes redundant after the acquisition. Indeed, their presence can potentially become detrimental to the post-acquisition implementation process because of their resistance toward the changes as some scholars suggested (For e.g. Buccholtz & Ribbens, 1994). Alternatively, removing their coordinating role also engenders lower status or inferiority in post-acquisition which forces them to leave after the acquisition as prior studies suggested (For e.g. Cannella & Hambrick, 1993). This explains why there is a gap between practice and the findings of studies such as Greabner (2004), Pablo (1994), and Ranft & Lord (2002). Those studies took for granted the value of coordination capacity in the target’s managerial resources for the acquirer.
The second important finding of the thesis is that the value of human capital embedded in target managerial resources is to the extent that it does not hamper coordination. The case of variety in paper E provides a strong evidence for this conjecture; as variety causes decision making process lengthier and coordination inefficient, the cost of such inefficiency is greater than the benefits of variety in problem solving and creativity usually highlights in information processing theory. Finally, the human capital of managerial resources should fit to the acquirer’s need and internal resources; otherwise generalization of value of human capital does not provide any meaningful result. A good example for this inference is provided in paper C. The paper asserted that the acquirers are willing to keep the targets’ founder-CEOs neither for their industry-specific nor for their general human capital; acquirers find their firm-specific human capital valuable. However, the value of firm-specific human capital is limited to the state of maturity of the target at the time of acquisition. Overlooking on the multidimensional aspect of human capital and the fit can be a reason why prior studies on human capital did not find a solid evidence of human capital in determining managerial turnover (See for e.g. Buccholtz et al., 2003; Wulf & Singh, 2011).

In this chapter, for each empirical paper some directions for further studies have been addressed. The findings of the thesis as a whole also open up new areas worthy to investigate. This study helps to predict under what circumstances, top managers stay (or leave) after the acquisition as suggested by the thesis’ title. In particular as most of the work has been done on CEOs, it is better to say which type of CEO and under what circumstances stays or leaves after the acquisition. However, the title can be interpreted as who among the top managers in a target would stay or leave after the acquisition. This is also a different but interesting research question to tackle for the future studies. For example as stated in paper A, it would be interesting to study if there is any difference between retention of CTO, CFO and chairman in case of acquisition of larger high-tech firms.

Besides that, this thesis has investigated only on the rationale behind the target’s managerial turnover and not on the effect of turnover on post-acquisition performance. For future study, another interesting area to extend the findings of this thesis is to link the acquirer’s choice related to the target’s managerial turnover and the
acquisition outcome. For example, it would be interesting to test whether retention of the founder-CEO in post-acquisition period, improves the productivity of target’s employees. In line with studies such as Kapoor & Lim (2007), the productivity can be measured by number of patents generated by target’s inventors. Alternatively, considering our argument about centrality of human capital in acquisition of small high-tech firms, another measure can be capturing the effect of retention of the founder-CEO on departure rates of inventors in post-acquisition period.

The thesis also explored only firm-, individual- and deal-level determinants of the target’s CEO turnover. It did not explore any macro level factors in particular national distances. For example cultural distance between the acquirer and target creates a peculiar situation for studying the target’s top managers (particularly CEO) in international acquisitions. The distance raises both the required level of coordination and at the same the cost of providing it. This makes the coordination capacity provided by the target’s managerial resources more valuable for the acquirer. However, cultural distance enhances the potential conflicts, and resistance to changes imposed by the acquirer among the target’s top managers (Krug & Hegarty, 1997). In this regard, it would be interesting to explore the managerial turnover with the moderating role of the distance. Another topic for future study would be the importance of the international experience of the target’s top manager as a determinant of her departure or stay after the acquisition.
6. References


