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Executive retention and acquisition outcomes: A test of opposing views on the influence of organizational tenure

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Abstract

This study considers the influence of retained acquired company top executives on the eventual outcome of corporate acquisitions. We test opposing views on how the organizational tenure of those executives could lead to the retention and divestiture of acquired companies. The Resource-based View (RBV) suggests that keeping acquired company top executives with longer organizational tenure will lead to more successful acquisition outcomes, as those executives have organization-specific knowledge that would facilitate effective implementation of the acquisition. By contrast, the Upper Echelons Perspective (UEP) suggests that retained top executives having short organizational tenure will lead to more successful outcomes, as they would have the adaptability to manage most effectively during the uncertainty and difficulty of the acquisition. Results of logistic regression analyses of 104 acquisitions followed over 5 years supported the RBV. Apparently, the benefits of long organizational tenure, such as more intimate understanding of the acquired company, lead to more successful outcomes than the benefits of short organizational tenure. The findings do not support the argument that drawbacks of long organizational tenure, such as commitment to the strategic status quo and rigidity, are detrimental after uncertainty and disruption. The results further suggest that one reason for the high frequency of acquisition failure might be because of the retention—and departures—of the wrong acquired company top executives. © 2001 Elsevier Science Inc. All rights reserved.

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1. Introduction

In an effort to explain why acquisitions often fail (Bergh, 1997; Boot, 1992; Kaplan & Weisbach, 1992; Porter, 1987), attention has begun to focus on the top executives of the acquired companies as they are intimately involved in implementation, one of the key factors that influences the success of acquisition strategy. This investigation has found that acquired companies that retain their top executives tend to have more successful outcomes than those that do not (Cannella & Hambrick, 1993; Krishnan, Miller & Judge, 1997). However, it is difficult to retain all acquired company top executives, as most are lost within a few years of the acquisition (Krug & Hegarty, 1997; Walsh, 1988, 1989; Walsh & Ellwood, 1991). This trend toward losing acquired company top executives raises troubling questions for executives of acquiring companies: If some acquired company top executives are going to leave, then which ones should acquiring companies try hardest to retain? More generally, is there a relationship between who stays, who goes and what happens to the acquisition? If such a linkage exists, then is one reason why many acquisitions fail because of the retention of the wrong acquired company top executives?

Prior research has begun to address these questions, finding that retaining the senior-most top executives, such as the Chair, Vice-Chair, CEO, President, and COO, is related more positively to postacquisition success than retaining lower ranked top executives (Cannella & Hambrick, 1993). This explanation offers important insights, but, at present, suffers from two key limitations, both of which provide the need for additional study. First, the focus on positional rank does not recognize that variation may exist in top executive posts across companies. For instance, CEOs may have been hired from outside or promoted from within, could offer different value to the postacquisition process and might not be related to the acquisition outcome in the same way. Positional rank of top executives may therefore not capture completely what an executive brings to the acquisition. Consequently, prior research may not explain fully which particular executives should be retained or which ones are associated with what particular acquisition outcomes. To address this limitation in prior research, our study focuses on a nonrank attribute of top executives: their organizational tenure. Organizational tenure is perhaps the strongest characteristic for distinguishing executives (Finkelstein & Hambrick, 1990), as it reflects factors such as unique knowledge, perspective and insights into the organization that would be especially critical to successful implementation of an acquisition (Haspeslagh & Jemison, 1991). By considering the organizational tenure of top executives, we attempt to build upon earlier findings by specifying how attributes of top executives, other than their rank, are related to specific acquisition outcomes.

Second, the relationship between retained top executives and acquisition outcomes offered by prior research is subject to opposing theoretical explanations, neither of which have yet been reconciled relative to the other. The RBV suggests that keeping acquired company top executives with longer organizational tenure would lead to more successful acquisition outcomes, as those executives have idiosyncratic and nontransferable knowledge of the acquired company's history, its culture, relationships with significant others (suppliers, buyers, competitors, etc.) and an understanding of the underlying political structure of the organization which would be valuable for the effective implementation of the acquisition. In addition, departures of these executives would deprive the acquisition process of leadership and continuity at a time of uncertainty and distress (Buono, Bowditch & Lewis, 1985; Jemison & Sitkin, 1986; Krishnan et al., 1997). By contrast, the less tenured top executives would face liabilities of newness whereby they would not have the social capital or understanding of the acquired company to steer it through the difficulty of the acquisition process.

The opposing position, offered by the UEP, suggests that retaining top executives having short organizational tenure would lead to more successful outcomes, as they would have the adaptability to manage most effectively during the uncertainty and difficulty of the acquisition. This viewpoint suggests that top executives having long organizational tenure tend to become rigid and committed to established courses of action (Hambrick & Fukutomi, 1991; March & March, 1977; Katz, 1982), that they resist strategic change (Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992), are committed to the strategic status quo (Hambrick, Geletkanycz & Fredrickson, 1993), vulnerable to a "stale in the saddle" syndrome (Miller, 1991), and are less capable of adapting to uncertainty (Grimm & Smith, 1991; Hambrick, Cho & Chen, 1996; Thomas, Litschert & Ramaswamy, 1991). Such qualities could inhibit these executives from adapting to the upheaval associated with the acquisition of their companies, suggesting that they may actually be the worst, instead of the best, executives to keep afterwards. Instead, acquired company top executives having short organizational tenure are more willing to experiment and change their company's strategies, factors that become important during acquisition implementation.

The presence of these opposing theoretical explanations of the relationship between executive retention and acquisition outcomes limits our abilities to understand how the retention of particular executives might be linked with particular acquisition outcomes. To address that limitation, our study develops and tests a "competing" hypothesis model to help determine which of the two perspectives better explains the relationship between executive retention and acquisition outcomes. We offer opposing hypotheses on how organizational tenure of retained top executives might be related to acquisition outcomes, one each for the RBV and the UEP. Testing this type of theoretical model will help uncover whether and how executive organizational tenure may be related to acquisition outcomes while, at the same time, provide a basis for probing the boundaries of two emerging and popular theoretical perspectives.

Overall, our study offers two contributions to the current explanation of the executive retention and acquisition outcome relationship. First, we consider how some nonpositional rank characteristics of acquired company top executives are associated with particular acquisition outcomes. Second, through testing opposing theoretical views, we provide a more rigorous explanation of the relationship between retaining particular acquired company executives and the outcomes of corporate acquisitions.

2. Theory

2.1. RBV

The RBV posits that firms are bundles of tangible and intangible resources that affect their strategies and performance (Barney, 1991; Dierickx & Cool, 1989; Wernerfelt, 1984).

Advocates of this perspective argue that firms have heterogeneous resources and capabilities that help explain why some have sustainable competitive advantage and realizations of above-normal rates of return (Amit & Schoemaker, 1993; Peteraf, 1993; see Mahoney & Pandian, 1992, for a review of research on the RBV). Oliver notes that "[a]ccording to this view, it is the rational identification and use of resources that are valuable, rare, difficult to copy, and nonsubstitutable which lead to enduring firm variation and supernormal profits" (Oliver, 1997, p. 697).

When applied to explaining the relationships between top executive retention and acquisition outcomes, the RBV would suggest that the executives that offer the most valuable resources are the ones that would be associated with the most successful outcomes. Such executives are those with longer rather than shorter organizational tenure. The longer tenured top executives would have unique and nontransferable knowledge that would not be available to less tenured executives (Cannella & Hambrick, 1993; Haspeslagh & Jemison, 1991). The rich organizational wisdom gained from years of tenure enable the acquired company's longer tenured top executives to provide insights into key factors in the implementation process, such as the traditions and history of the acquired company's culture, its long-term relationships with suppliers, vendors and buyers, understanding of what has worked and failed before, and the underlying structure of its political conflicts (Buono et al., 1985; Jemison & Sitkin, 1986; Haspeslagh & Jemison, 1992).

Moreover, retaining longer tenured top executives may affect the acquiring company's intangible resources, namely its reputation (Hall, 1992). By keeping the longer tenured executives, the acquiring company symbolizes that it values the leadership and prior strategies of the acquired company and that it wants to ensure stability during the transition (Schweiger, Ivancevich & Power, 1987; Pfeffer, 1981; cf. Cannella & Hambrick, 1993). This reputation resource is critical during acquisition implementation as "every acquisition changes the established order and pattern of activities at both firms. . . [creating] uncertainty, fear, and a tendency toward self-preservation on the part of the employees (Haspeslagh & Jemison, 1991, p. 120). Preserving this resource is especially valuable, as losing executives having organizational tenure may raise suspicions, create a state of anxious paralysis, induce a "threat rigidity" response (Cannella & Hambrick, 1993) and potentially jeopardize the prospects of the acquisition. By retaining longer tenured top executives during a period generally described as "exceedingly disruptive" (cf. Buono et al., 1985; Cannella & Hambrick, 1993; Jemison & Sitkin, 1986), the acquiring company creates a valuable intangible resource.

Further, retaining less tenured top executives instead would not provide the seasoned leadership needed during the aftermath of the acquisition. These executives have a "liability of newness" whereby they would lack the exposure and history with the organization to know which implementation strategies would work best and which would not. Their abilities to rally employees during a difficult and uncertain time have not yet been proven. Losing longer tenured top executives, whether voluntarily or not, deprives the acquisition process of unique and valuable resources.

By contributing to and improving the acquisition implementation process, the value, inimitability, rareness, and nonsubstitutability of company-specific knowledge associated with long organization tenure suggests that those executives are more important to retain than less tenured ones. Failing to retain the longer tenured top executives would reduce the quality of resources brought to the acquisition process, and the attendant losses of the reputation resource would indicate that prior tenure is not valued by the acquiring company, a gesture which could lower confidence in and commitment to the acquisition. Acquired companies that retain executives possessing long organizational tenure are expected to have better implementation processes and more positive acquisition outcomes. Losing less tenured top executives, while depriving the acquired company of its once-heir apparent, is not as detrimental, as they do not have the unique organizational knowledge base to contribute to the implementation effort as the longer tenured executives. With decreased implementation effectiveness, acquired companies having less tenured executives would have less successful outcomes. This logic suggests a positive relationship between the organizational tenure of the remaining acquired company top executives and the successful outcome of the acquisition.

Hypothesis 1(a): The organizational tenure of retained acquired company executives will be related positively to acquisition outcome success.

2.2. The UEP

In contrast to the RBV, prior research on the UEP suggests that the shorter tenured executives would be better at postacquisition management than their longer tenured counterparts, and would be associated with more successful acquisition outcomes. Shorter tenured executives are more willing to experiment (Hambrick & Fukutomi, 1991), change their organization's strategies and configurations (Gabarro, 1987; Finkelstein & Hambrick, 1990; Wiersema & Bantel, 1992), have better sources of information (Chaganti & Sambharya, 1987) and pursue more innovative strategies (Bantel & Jackson, 1989; Thomas, Litschert & Ramaswamy, 1991). They are more likely to embrace strategic change because they are less socialized into accepting their company's existing policies, norms and values (Murray, 1989; Finkelstein & Hambrick, 1996). Each of these attributes would facilitate effective management during change, which is very high after an acquisition (cf. Buono et al., 1985; Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986).

Conversely, longer-tenured executives are more likely to become committed to established policies, procedures and history (Katz, 1982; March & March, 1977), prior strategies (Hambrick et al., 1993) and strategic persistence (Finkelstein & Hambrick, 1990). These executives exhibit inertia as their experiences mount (Hambrick & Fukutomi, 1991; Miller, 1991). Organizational tenure may also restrict information processing (Finkelstein & Hambrick, 1990). Executives with longer tenure may be insulated from fresh, accurate information and they often lack the rich information and network ties of their shorter experienced counterparts (Katz, 1982; Miller, 1991). Further, acquired company executives having longer organizational tenure may actually resist the acquisition because it could undermine their power and status; resistance that would have a disastrous effect during the integration phase of the acquisition. Collectively, these factors would inhibit the abilities of longer tenure to effectively manage the change associated with the acquisition and implementation of their companies.

Moreover, the organizational knowledge afforded by long organizational tenure may not be as relevant after the acquisition. Acquisition implementation often revises, reconfigures and reorganizes the previously established order within acquired companies (Buono et al., 1985; Haspeslagh & Jemison, 1991; Pitts, 1976). Executives committed to former methods of managing the organization, who rely on routine and familiar information sources, are vulnerable to inertia, and have tendencies to become rigid and resistant to change would not, overall, contribute positively to the postacquisition management of their companies. It is also likely that the company-specific knowledge accrued through long organizational tenure may become outdated and obsolete after the acquisition has been completed.

When considered collectively, the UEP provides a basis for proposing that retained acquired company executives with shorter organizational tenure will have the most positive acquisition outcomes. The innovation, adaptations and flexibility needed during an acquisition would be managed most effectively by executives willing to experiment, demonstrate open-mindedness, and approach problems from fresh perspectives, qualities ascribed more to executives having shorter rather than longer organizational tenure. These problem-solving advantages favor the implementation of the acquisition and raise the odds of its eventual success. Losing longer tenured executives, while depriving the acquired company of its experience resource, is not as detrimental, as they are unable to adapt to the uncertainty of the acquisition and their experience and expertise may not be all that valuable in the newly acquired company. This logic suggests a negative relationship between the organizational tenure of the remaining acquired company executives and the success of the acquisition.

Hypothesis 1(b): The organizational tenure of retained acquired company executives will be related negatively to acquisition outcome success.

3. Method

3.1. Sample

The hypotheses were tested with a sample of large acquisitions completed from 1986 through 1992. These acquisitions were used because (1) larger companies are likely to have more variability in top executive characteristics than smaller ones, (2) large acquisitions are used most frequently in studies on acquisitions (Kaplan & Weisbach, 1992; Montgomery & Wilson, 1986; Porter 1987), and (3) reliable and valid data are more readily available for larger than smaller acquisitions. These years provide a sufficient interval for tracking the success of the acquisitions while being recent enough to facilitate data collection purposes.

The acquisitions were identified by comparing yearly activity reports in the journal *Mergers & Acquisitions.* The 25 largest completed acquisitions for each of the study years were selected and then the partners to the acquisition, the acquiring and acquired companies, were screened on three criteria, whether either was (1) non-U.S., (2) privately held, or (3) had filed for bankruptcy. These screens were necessary to identify and remove companies that may not have reliable or valid data. Also acquisitions were removed if data items were missing for either the acquiring or acquired companies. Application of these screens reduced the original sample of 175 to 124 acquisitions where complete data existed for both the acquiring and acquired companies. Comparisons between the acquisition pairs removed from the sample with those that remained indicate no significant differences between the two groups. Those comparisons were performed on size (log of employees and financial performance (return on assets), both adjusted for industry differences.

3.2. Independent Variable

Organizational tenure was operationalized as the mean number of years each of the acquired company top executives had been employed at the time of the acquisition. This measure reflects exposure to the organization, its culture, strategy, processes, systems and critical events, factors that would affect an executive's knowledge of the company, its history and policies.

Organizational tenure was computed for the executives who had been present at the completed year of the acquisition and had then stayed for 3 years afterwards (Krishnan et al., 1998; Walsh, 1988, 1989). However, if the acquired company was divested before that third year was reached, then tenure was computed for the year before the divestiture.

The top executives were those at and above the level of vice president (e.g., senior vice president, vice chairman, CEO) and any others on the directory board (Cannella & Hambrick, 1993; Michel & Hambrick, 1992; Wiersema & Bantel, 1992). Following that previous research, the identity of the top executives and their organizational tenure was found in Dun and Bradstreet's *Reference Book of Corporate Management*.[1]

3.3. Dependent Variable

3.3.1. Retention/divestiture of acquired company

This variable was determined by following the acquisition over a five-year period after the completion year, as five years is generally long enough to determine whether the acquisition has met its objectives and expectations (Bergh, 1997; Datta & Grant, 1990; Ravenscraft & Scherer, 1987; see also Boot, 1992; Kaplan & Weisbach, 1992; Porter, 1987). If the acquired company was retained, a dummy variable called outcome was coded as one. If the acquired company was divested, outcome was coded as zero. The acquisition was considered successful if the acquired company was retained and unsuccessful if it was divested.

The acquisition outcome determinations were based on examinations of each parent's annual roster of subsidiaries and affiliates as reported in Dun and Bradstreet's *Who Owns Whom: Directory of Corporate Affiliations* and Standard and Poor's *America's Corporate Families*. Retention occurred when the acquired company was held throughout the study period. Divestitures occurred when the acquired company was no longer listed within the company, and a restructuring transaction (spin-off, sell-off) could be linked with the disappearance of the unit from the acquiring company's holdings. All divestments were cross-checked against annual financial reports and activity reports in *Mergers & Acquisitions* and Moody's *Industrials* to prevent misclassification of internal reorganizations as divestments and to identify partial divestments.

Although the retention/divestiture depiction of acquisition outcome success has been criticized as crude (Cannella & Hambrick, 1993), it is in our case the most viable of the alternative approaches. Three other widely used alternative methods, including postacquisition surveys, the consolidated performance of the acquiring company, and the segment performance of the acquired company could not be used in the present study. Surveys of acquired company performance, though preferred (e.g., Cannella & Hambrick, 1993; Very et al., 1997), would not provide valid data because many acquired companies had been previously divested, requiring recall data that may not be valid or reliable. The aggregated performance of the acquiring company does not solely reflect the success of the acquisition; this measure could also include the contributions of other business lines. Finally, acquiring companies do not usually report the performance of the acquired company per se, just the performance of the segment it belongs to when that segment represents 10% or more of the acquiring company's consolidating revenues. Unfortunately, that segment may also include the combined performance of other, related businesses. Hence, exact financial measures of acquired company outcome success are unavailable, requiring the need for another measure.

Depicting acquisition outcome success as retention and divestment outcomes overcomes the problems of and offers several advantages unavailable to the other methods. First, retention and divestment have been shown to reflect acquisition success (Boot, 1992; Kaplan & Weisbach, 1992), as interviews, case studies and surveys report that most unsuccessful acquisitions are divested and successful ones are retained (Duhaime & Grant, 1984; Hamilton & Chow, 1993; Ravenscraft & Scherer, 1987; Taylor, 1988). Indeed, to date, no study has offered contradictory evidence nor shown that successful acquisitions are divested and unsuccessful ones are retained. Second, acquisition success may have nonfinancial dimensions that are captured through retention and divestment. For example, management may decide that an acquired company, although profitable, may not be meeting a strategic or organizational criteria, and may decide to divest it. By measuring acquisition outcome success in a manner broader than financial performance, we have the opportunity to capture nonfinancial criteria which are also important antecedents to acquisition success (see Bergh, 1995; Duhaime & Grant, 1984; Hamilton & Chow, 1993). Third, retention and divestment of acquired companies are outcomes valued highly by executives and shareholders; both managers and the stock market equate divestment with strategic failure (Alexander, Benson & Kampmeyer, 1984; Kaplan & Weisbach, 1992; Montgomery, Thomas & Kamath, 1984). Lastly, this approach provides a clear and objective measure of what really happened to the acquired company (Bergh, 1997; Montgomery & Wilson, 1986; Porter, 1987; Ravenscraft & Scherer, 1987). Alternative approaches, such as the overall performance of the acquiring company, do not allow us to pinpoint the exact outcome of the acquired company per se. These reasons offer support for the use of the retention/divestment approach.

There is, of course, a possibility of classification errors with this method; some acquiring companies may have strategies whereby they divest successful acquisitions within five years or hold onto unsuccessful ones. Accordingly, control variables are used to account for those strategies (explained below). Hence, care was taken to minimize the likelihood that the premise underlying the dependent variable contains misclassification bias.

3.4. Control variables

Several controls were used to account for alternative theoretical explanations and confounds that could affect the predicted relationships.

3.4.1. Industry relatedness

Acquiring companies tend to retain acquired companies longer if both reside in the same industry (Porter, 1987; Ravenscraft & Scherer, 1987). If the parent and acquired companies shared any of the same two-digit SIC code industries, a dummy variable called Industry was coded as one. If not, the dummy was coded as zero. These determinations were based on *COMPUSTAT* financial records and were computed for the year of the acquisition.

3.4.2. Prior acquisition activity

Some companies engage in "buy-and-sell" strategies whereby they acquire assets only to divest them afterwards. Such strategies would be evident when the number of prior acquisitions are associated with divestitures of acquired companies.[2] Conversely, acquiring companies that engage in higher numbers of acquisitions might have experiences that make them better at managing acquisitions than those engaging in fewer numbers (Haleblian & Finkelstein, 1999). Those effects would be evident when the number of prior acquisitions are associated with retention of acquired companies. To capture these alternative positions, the acquiring company's number of acquisitions made in the 3-year period before the focal acquisition in the study was computed (Haunschild, 1993). These acquisitions were located in *Moody's Industrials.*

3.4.3. Prior divestiture activity

Acquiring companies that engage in higher numbers of divestitures might have strategies of buying-and-selling assets for profit, or may have entered a restructuring phase. To control for these strategies, the acquiring company's number of divestitures made in the 3-year period before the focal acquisition in the study was computed. These divestitures were computed using *Moody's Industrials.*

3.4.4. Relative size

The acquiring company's willingness to retain and divest the acquired company may be influenced by its executives' commitment to the acquisition. Commitment is influenced by relative size (Bergh, 1995; Duhaime & Baird, 1987; Duhaime & Grant, 1984); acquiring company executives have higher commitment to acquired companies, and are likely to hold onto them longer, when the acquiring and acquired companies having closer relative sizes. In addition, the executives within the acquired company generally have higher commitment to the acquisition when the size of their firm is closer to that of the acquiring company (Hambrick & Cannella, 1993; Very et al., 1997). Relative size was computed as the ratio of the log of employees of the acquiring company to the log of employees of the acquired firm). Data were collected from *Moody's Industrials* for the year of the acquisition.

3.4.5. Organizational tenure of acquiring company top executives

The acquiring company's top executives also influence the implementation of the acquisition through their organizational knowledge, power, and experience (Haspeslagh & Jemison, 1991), factors represented in their overall organizational tenure. This variable was the mean number of years the acquiring company top executives had been employed at the year of the acquisition. These executives were defined in the same way as those of the acquiring company (above). The identity of the executives and their organizational tenure was found in Dun and Bradstreet's *Reference Book of Corporate Management.*

3.4.6. Heterogeneity of organizational tenure (acquiring, acquired companies)

Heterogeneity may affect the quality of the a top management team's decisions made during the acquisition formulation and implementation stages. In general, more heterogeneous teams could apply more diverse perspectives, creativity and innovativeness to selecting and implementing the acquisition (e.g., Finkelstein & Hambrick, 1996; Hambrick, Cho & Chen, 1996). It was measured as the coefficient of variation of organizational tenure and was based on acquiring company's top executive organizational tenure at the year of the acquisition and the acquired company's top executive organizational tenure who stayed for 3 years after the acquisition or the year before the third year in the case of divestiture.

3.4.7. Seniority

The seniority of retained executives has been linked with acquired company performance (Cannella & Hambrick, 1993). Because seniority may not correlate perfectly with tenure (especially in the case of external hires for top executive positions), it was necessary to recognize its independent effects. Following Cannella and Hambrick's approach, variables were created to reflect the percentage of "More Senior" and the percentage of "Less Senior" executives that stayed two years afterwards. The "More Senior" executives were those that had held any of the following five titles: Chairman, vice-chairman, president, CEO, and COO. The remainder was classified as "Less Senior."

3.4.8. Postacquisition financial performance of acquiring company

The postacquisition performance of the acquiring company would likely reflect acquisition outcome success (Krishnan et al., 1997; Ravenscraft & Scherer, 1987). Although this measure would include the performance of the acquiring company's consolidated business holdings, it does include the successfulness of the acquired company.

This variable was measured as the return on assets (ROA) for the acquiring companies for the years the acquired company was retained. Recognizing that performance measures such as ROA may be influenced by industry profitability, each company's ROA was subtracted from its respective industry average (Dess, Ireland & Hitt, 1990). These industry-adjusted values were used in the analyses. Data for ROA and industry averages were found in *COMPUSTAT.*

3.5. Analysis

The hypotheses were tested by using logistic regression analyses. This technique was necessary because the dependent variable (acquisition outcome) was dichotomous. A logistic regression equation is specified as $\ln P_i/(1\text{-}P_i) = a + BX_i$, where P_i is the probability that the *i*th unit will reflect a retained acquired company. The log of $P/1\text{-}P$ is referred to as the log odds (the natural log of the odds that $Y = 1/X$) and is held to be linearly affected by a vector of covariates X_i with coefficient vector B and intercept a. The maximum likelihood method was used.

Table 1
Means, standard deviations, and intercorrelations

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1. Outcome	00.50	00.50											
2. Industry relatedness	00.65	00.48	−.08										
3. Prior acquisitions	04.08	04.49	−.16^{+}	.19*									
4. Prior divestitures	01.36	02.02	−.05	.17^{+}	.16								
5. Relative size	01.19	00.27	−.07	−.15	.07	.08							
6. Post-acquisition performance (acquiring company)	01.59	05.09	.13	−.08	−.00	.02	.01						
7. Organizational tenure of acquiring company	17.87	06.89	.02	−.12	−.12	.03	.05	−.04					
8. Heterogeneity in organizational tenure of acquiring co.	00.46	00.22	.13	−.01	.15	.23**	.01	−.03	−.35**				
9. Heterogeneity in organizational tenure of acquired co.	00.47	00.22	.03	−.13	−.02	−.04	−.12	.14	.22*	.06			
10. Retention of more senior (%)	59.15	38.34	−.16	−.06	.15	.27**	.20*	−.14	.07	.13	.02		
11. Retention of less senior (%)	58.77	30.32	−.21*	−.09	.03	.04	.10	−.13	−.02	−.04	.08	.39**	
12. Organizational tenure of retained executives	15.95	06.47	.22*	.09	−.08	.10	−.05	.09	.16+	−.10	.13	.01	−.14

Note. $^{+}p < .10$, $^{*}p < .05$, $^{**}p < .01$; $n = 104$.

The logistic regression analysis provides coefficient estimates that range from positive to negative infinity, and are distributed as *z*-scores. These coefficients, which are unstandardized, serve in the same role as beta coefficients in ordinary least square regression. In addition, logistic regression provides two sets of overall model parameter tests. The first set contains pseudo-R^2 measures of overall variance explanation. These measures are similar to the R^2 measure used in ordinary least squares regression, and they range from zero to one. The second set features a χ^2 measure and represents a test of overall model significance. Significance levels larger than $p < .05$ level represents models that reflect the χ^2 distribution and are considered statistically significant.

4. Results

Table 1 presents means, standard deviations and intercorrelations of the study variables. First, in terms of the means and standard deviations, the results show that half of all acquired companies were retained and half were divested. In addition, over 65% of the acquisitions involved companies in the same two-digit industry, suggesting that most acquisitions involve "related" types of acquisitions. Moreover, the acquiring companies averaged 4 acquisitions and about 1.3 divestitures over the 3 years before the acquisition. In addition, acquiring companies were about 20% larger, on average, than the acquired companies and the acquiring companies had higher than industry-average ROA after the acquisition. Further, the acquiring companies were managed by long average tenured top executives (almost 18 years) and had some heterogeneity on this dimension. About 60% of the "More Senior" and "Less Senior" executives were retained after the acquisition. Lastly, the average organizational tenure of the retained acquired company executives was 16 years, a few years less than the acquiring companies.

Second, the intercorrelations indicate that two variables, the measure of less senior executive retention and the independent variable, organizational tenure of retained executives, were correlated to outcome. Retention of less senior executives was correlated negatively to retention of acquired companies ($r = -0.21$, $p < .05$) and organizational tenure of retained executives was correlated positively to retention ($r = 0.22$, $p < .05$). These coefficients suggest that keeping more junior executives is associated with divestment and that keeping longer tenured executives is associated with the retention of the acquired company.

Table 2 presents the logistic regression results. These results are presented in three models. The first reports the relationships between the control variables and the acquisition outcomes. The findings indicate that three controls were related to outcome at the $p < .10$ level. These variables were organizational tenure of acquiring company executives, heterogeneity in the tenure of those executives and postacquisition performance.

The second model reported in Table 2 reports the results of testing the hypotheses. The findings indicate that organizational tenure of the acquiring company executives and postacquisition performance were related to outcome ($p < .10$ level). Two other variables, heterogeneity in the organizational tenure of the acquiring company's executives and the organizational tenure of retained acquired company executives, were related significantly

Table 2
Results of logistic regression analyses

Variable	Model 1 coefficients	Model 2 coefficients
1. Industry relatedness	−.28	−.43
2. Prior acquisitions	−.03	−.02
3. Prior divestitures	−.07	−.10
4. Relative size	−.79	−.93
5. Organizational tenure of acquiring company	.06$^+$	.06$^+$
6. Heterogeneity in organizational tenure of acquiring co.	2.06$^+$	2.48*
7. Heterogeneity in organizational tenure of acquired co.	−1.58	−1.85
8. Retention of more senior (%)	.01	.01
9. Retention of less senior (%)	.01	−.01
10. Return on assets	.09$^+$	.10$^+$
11. Organizational tenure of retained executives		.06*
Cox and Snell R^2	.13	.17
Nagelkerke R^2	.18	.23
Chi-square	12.83	16.48
$p <$	.23	0.12

Note that unstandardized beta coefficients are reported. $^+ p < .10$, $* p < .05$.

($p < .05$) to outcome. The positive direction of the coefficient between organizational tenure of retained acquired company executives is consistent with the predictions of the RBV, providing support for that perspective. This finding supports Hypothesis 1(a) and provides result opposite Hypothesis 1(b).

5. Discussion

Retention of acquired company top executives is linked positively with postacquisition performance, but many of these executives leave, creating dilemmas about which ones are most valuable to keep and which are not. To help improve our understanding of these problems, we asked several questions. If acquired company top executives are important to keep, yet some are going to leave, then which ones should acquiring companies try hardest to retain? More generally, is there a relationship between who stays, who goes and what happens to the acquisition? Finally, if such a linkage exists, then is one reason why many acquisitions fail because of the retention of the wrong acquired company top executives? Our study was designed to answer these questions. In doing so, we focused on the organizational tenure of retained acquired company top executives because it would represent the perspectives and backgrounds they would offer the implementation process, one source of their contributions to the acquisition's outcome.

The study results show that organizational tenure of retained acquired company top executives is related positively to retention of the acquired company. This finding suggests that the longer tenured top executives are the more valuable to keep. Further, the arguments that such top executives should be replaced by shorter tenured executives may be one reason why so many acquisitions fail. If the acquiring companies are allowing longer tenured executives to leave while retaining the shorter tenured ones, then they indeed may be allowing the better ones to go while keeping those that are less valuable afterwards. Although from an UEP it seems sensible to retain the less tenured ones and allow the more tenured ones to leave, such a strategy appears to lower the probability of acquisition success.

This logic may appear counterintuitive, as an acquisition brings change and uncertainty that would seem to favor the advantages of short organizational tenure. However, the liabilities of short organizational tenure appear to exceed their respective advantages, and the benefits of long organizational tenure, namely company specific-knowledge, corporate memory and wisdom—seem more valuable than the respective disadvantages of rigidity and commitment to the status quo. These findings suggest that when faced with stress, disruption and uncertainty, all of which are high during and after an acquisition (Buono et al., 1985; Haspeslagh & Jemison, 1991), the logic of the RBV better explains the effects of executive retention on acquisition outcome than that of the UEP. This result is unexpected, as prior studies on the UEP show that longer experienced executives have difficulty accepting change (Hambrick et al., 1993), and it would seem that their years of experience may have little use in a newly integrated and configured company. However, while longer tenured top executives may have troubles adapting to the changes, it does appear that their perspectives and knowledge bases offer more unique value after the acquisition than may have been expected.

These findings extend previous research on the contributions of acquired company executives to acquisition outcome success. Whereas prior research shows that departures of acquired company top executives are associated with decreases in postacquisition performance (Cannella & Hambrick, 1993; Krishnan et al., 1997), our study builds upon those results by showing which executives, on a nonrank and absolute basis, are associated with which particular acquisition outcome. For instance, in previous research, Cannella and Hambrick find that retention of senior top executives was related to more successful acquisition outcomes. Our study results suggest that this relationship does not exist for top executives possessing shorter organizational tenure. This difference in findings may be because of measures. Cannella and Hambrick focus on the title of the top executive only, not an absolute measure like organizational tenure, so they were unable to distinguish how different senior executives may be related to different acquisition outcomes. Our results are consistent with Cannella and Hambrick when the senior top executives have longer organizational tenure, a circumstance that does not exist in all settings. Our findings suggest revising the logic that all senior acquired company top executives should be retained to keeping those having longer rather than shorter organizational tenure.

The implications of the control variable results are also noteworthy. First, the acquiring company's top executive team was related to acquisition outcomes, though three of the four linkages were related at a marginal ($p < .10$) level only. We found that acquiring companies with longer organizational tenure in their top executive teams were related to retention of acquired companies at a marginal level ($p < .10$) and that heterogeneity in organization tenure for these companies was also linked with retention. The former result suggests that organizational tenure in the acquiring company may also matter when explaining acquisition outcomes. This latter result, which was supported at the conventional significance level ($p < .05$) in Model 2 (see Table 2) suggests that acquiring company executives having more heterogeneity are able to apply diverse organizational perspectives and richer cognitive resources (Jackson, 1982; Wiersema & Bantel, 1992) to solving the problems associated with integration of the acquisition. Conversely, the consensus, conformity and cohesion associated with low heterogeneity do not appear to enable effective problem solving during acquisition formulation or implementation. These findings suggest that, under the conditions associated with an acquisition, executives more willing to challenge each other and experience conflict are more likely to have successful acquisitions than those less willing to engage in such practices. Second, performance was related positive with outcome ($p < .10$). This relationship suggests that acquiring companies with higher performance tended to retain their acquired companies, a finding consistent with expectation.

Further, several of the control variables were not significant predictors in the present study. Acquiring companies making higher numbers of acquisitions were not more or less likely to divest acquired companies than those making fewer numbers of acquisitions. This result suggests that "buy and sell" strategies were not a viable alternative explanation of our findings. Apparently, most acquiring companies did not seek to gain value on the basis of buying and selling corporate assets rather than holding onto them for the purpose of developing synergy. In addition, relative organizational size has been shown to affect executive relative standing (Hambrick & Cannella, 1993; Very et al., 1997), with larger differences between the sizes of the acquiring and acquired companies leading to reductions in executive contributions after the acquisition. Further, the retention of higher proportions of 'More Senior' executives has been linked with better postacquisition performance (Cannella & Hambrick, 1993). None of these relationships were found to exist. The potential reasons for these nonfindings are probably attributable to differences in the samples. In the present study, the sample included acquired companies that were retained and divested whereas in previous research, results were based on retained companies only. Since significant differences have been shown to exist between the sizes and performances of retained and divested businesses (Bergh, 1995, 1997; Duhaime & Baird, 1987; Kaplan & Weisbach, 1992), it is likely that sampling differences account for some of the discrepancies with prior research.

The results offer implications to practitioners by suggesting who is best to keep, and who should be allowed to leave after the acquisition. If the acquiring company executives are expecting to lose acquired company top executives, then they stand to gain by retaining those having the longer levels of organizational tenure. The contributions of the shorter ones are not so valuable afterwards. Indeed, departures of these latter executives were associated with acquisition success. Therefore, the study results offer guidance as to how the retention and departure of specific acquired company executives are likely to affect the eventual outcome of the acquisition.

These foregoing results and implications should be considered in light of several limitations. First, the proposed theory is predicated on the assumption that acquired company executives are valued after the acquisition. The results do not apply to acquiring companies who push for the departures of acquired company executives. Second, the proposed explanation applies only to acquiring companies whereby retention is an important goal. Those that do not equate retention as acquisition success fall outside the scope of the study. Third, the findings are limited to acquisitions of and by large companies. It is unknown how the results would extend to small acquisitions. Finally, each acquisition was tracked over a five-year period only. The study findings may not apply to longer-term decisions, such as those that unfold over a period that exceeds five years.

The study findings suggest several avenues for further inquiry. First, more research into the postacquisition contributions of acquired company executives is needed. How do they manage the process and what particular factors affect their efficacy? Second, more understanding of the nonsignificance of the control variables is needed. Why does industry-relatedness, a central concept in acquisition strategies, play no role in executive retention and acquisition outcome? To date, prior studies on executives and acquisition performances have not yet found an industry effect (e.g., Cannella & Hambrick, 1993; Krishnan et al., 1997). These results suggest that internal, firm-specific factors are more important than picking industries carefully (e.g., Porter, 1987). More research is needed to explain the absence of the industry effect in explaining acquisition outcomes. Third, we need to learn more about the acquiring company. The study results indicate that executive (heterogeneity in organizational tenure), firm performance and strategy (prior acquisition activity) factors matter. What other ones are important? What other unique dimensions affect the acquiring company's acquisition success? We need to understand those additional conditions to develop a more complete theoretical explanation of acquisition outcomes.

Finally, the comparative hypothesis feature of our theoretical model offers some general implications for future research. By developing a theoretical model that pits opposing explanations against each other, we can examine whether particular theories may be more or less applicable given a particular situation or context. The results of such examinations help provide understanding of the utility of theories while also discerning their boundaries. However, this type of theoretical development is incomplete by itself and further research is needed that would explain why one theory might be more applicable than an alternative. Research which could help explain why particular competing theories would be more applicable than others is instrumental in the continuing development of explanations of corporate behaviors. Such research might help untangle the thicket of findings on the diversification-strategy relationship, whereby multiple explanations of relatedness and performance exist. Other areas ripe for such examination include the strategic groups and performance, planning and the business strategy and performance linkage. Hence, researchers are urged to test competing hypotheses and to provide theoretical explanations as to why some theories might be more or less applicable than others given the situation of their studies.

6. Conclusion

This study focuses on how acquired company top executives might influence the outcome of the acquisition. We build on previous research by suggesting a relationship between those that stay and what happens to the acquisition. Whereas prior research has indicated that retention of acquired company top executives is related positively to postacquisition performance, it is nonetheless difficult to retain those executives.

Questions therefore arise about whom is best to keep after the acquisition. The academic literature is not of one mind on these questions and we find that alternative arguments exist about the effects of the organizational tenure of retained top executives on acquisition outcomes. We test these contrary views, finding support for one. Our results indicate that the probability of retaining an acquired company is increased by retaining longer tenured top executives than by retaining shorter tenured ones. This finding suggests that if acquiring company executives are motivated by retention of the acquired company, then they should try harder to keep the longer tenured top executives than their shorter tenured counterparts. Although these executives may exhibit rigidity, commitment to the strategic status quo and have difficulty adapting to uncertainty and distress, they appear to add higher postacquisition value than their shorter tenured counterparts. In this instance, we find that the value created by company-specific experience, knowledge and memory appears greater than that generated by creativity, flexibility and innovativeness.

The study results may offer insights into why many acquisitions fail. It is conceivable that acquiring companies would favor keeping acquired company top executives with shorter organizational tenure, as they would be less committed to prior strategies and organizational life before the acquisition, a seemingly important quality in an environment where the acquired company could possibly be reconfigured and integrated into the acquiring firm. By contrast, the preacquisition experience of longer tenured top executives, which might lead to rigidity and even resistance to change, would not be as valuable in the postacquisition conditions. It would therefore seem logical to let these latter executives leave, retaining instead those with shorter tenure. However, our results suggest that such an outcome increases the odds that the retained acquired company is divested. To the degree that acquiring companies retain shorter over longer tenured counterparts, then the probability of acquisition failure, increases.

In conclusion, the results highlight the importance of retaining particular acquired company top executives. The study results suggest that executive retention strategies should be an important part of the implementation process.

Notes

1. An anonymous reviewer observed that this type of source may not report all executive retention and that some researchers have found it necessary to contact companies directly to verify whether missing executives had actually left the companies or were simply not reported. Unfortunately, we were unable to collect such data, as the acquisitions occurred several years ago, half were divested, and the recall data on the missing executives may not be reliable. However, it seems unlikely that retained executives were systematically not reported by the *Reference Book,* and that such cases of unreported retained executives would be distributed randomly across the sampled companies. In addition, because each company is followed over several years, the likelihood of such errors is lowered significantly. To the extent that the *Reference Book* contains systematic bias in collection and reporting of executive data, then the results are accordingly influenced.
2. This type of acquisition strategy is not evident in the financial proceeds associated with buying and selling acquired companies. The proceeds of the acquisition would reflect more of the market's assessment of the divested company and less of the acquiring company's strategy. For instance, focusing on proceeds would only represent whether companies made or lost money on the acquisition, information that may not reflect the strategy behind the acquisition. If a company is proficient at the buy-and-sell strategy, then it should have net proceed gains. However, if it is inept, unlucky or inexperienced at this strategy, it may have net proceed losses. These latter companies

would not be represented in the financial proceeds variable. Furthermore, other strategic motives could be reflected in the proceeds variable, such as restructuring. Hence, the financial proceeds variable is not a direct measure of the buy-and-sell strategy and it contains too much noise to reflect a company's acquisition strategy.

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