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Effects of individual similarity on target CEO turnover in high-tech cross border acquisitions

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Abstract

Nowadays companies are continuously seeking for new sources of value from cross border acquisitions. This trend seems to be prevalent in high-tech industries. Companies are mainly motivated by the need of higher competitive advantage through the introduction of new technology capabilities. However, acquisitions represent a bet for the acquirer; indeed often the deal doesn't realize its expected gains. In this context, one of the most important factor that may influence acquisition success, are the human resources, in particular executives and CEOs.

In the present study, I investigate the determinants influencing target CEO turnover focusing on the role of individual characteristics. Specifically, I explore several areas of existing literature, in attempt to analyze the effects of individual similarities between the CEOs, on the likelihood that target CEO departs. Based on the social similarity-attraction theory, executives who are similar, tend to be attracted each other and interact easily. This is possible thanks to high communication frequency and easier interactions reduce the likelihood of potential conflicts.

Based on a sample consisting of 197 cross border acquisitions of small high-tech firms located in Europe or USA, my results show significant positive relation between target CEO retention and CEOs similarities in term of education background, organizational tenure and management style. In addition, this study highlights the importance of individual similarity in cross border acquisition, compared to cultural distance in determining Target's CEO turnover.

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Chapter 1
Introduction

Nowadays, acquisitions are a common and very used practice through which a firm tries to generate long term value. In the current market, firms that don’t seek for changes and innovation are doomed to failure. Despite the global recession started in 2008, acquisitions don’t seem to slow their diffusion but in last seven years they kept a constant and positive trend (Thomson Reuters, Full Year 2014). On the contrary, acquisitions activities try to respond to it by focusing on outside growth in order to create economic wealth and increasing global prosperity. Acquisitions are not only a method of external corporate growth, but also a strategic choice to strengthen its own core competences. Acquisitions have a central role in external corporate expansion and can ease a fast growth and management efficiency (Lee & Lee, 2006). However, the global financial crisis, make the acquisition decision a strategic mean through which firms restructure the whole organization focusing on the more profitable opportunities. Accordingly, globalization and continuous technological development may support this future positive trends of acquisitions’ activities (Grave, Vardiabasis, & Yavas, 2012). For this reason, the following study doesn’t look at all possible acquisitions, but only on a specific subset: cross border acquisitions that involve firms operating in the high tech industry.

Firms, in order to face the crisis, try to focus their investments outside, implementing strategies that look at value creation into other countries. The importance of cross border acquisition is confirmed by statistical data that showed an important increase in cross border deals in the last years. Last wave of acquisition, that will be presented in depth later, starts in 2001 and is characterized by a significant percentage of cross border acquisition, with the highest value in 2007 (Thomson Reuters, Full Year 2014). This current positive situation of cross border acquisitions is a consequence of the stronger competition, wider market diversification and the integration of the overall market. It is noteworthy to say that also low tariff barriers and taxes, together with lower cost of resources abroad, are another important reason for cross border deals (Lee & Lee, 2006).

Anther confirmation of the importance of cross border acquisitions come from the recent peak in 2014, with the strongest value since 2007.

In addition to globalization, the other important factor the following study will consider is the technological development. Indeed, since 1990 there has been a strong expansion of high tech acquisition worldwide and most of time it involved small startups (Wagner, 2008). The main motivation of this kind of acquisition is the willing of large firms, to rapidly acquire innovative technologies or technical and specialized capabilities from small firms (Ranft & Lord, 2000). Despite common acquisitions, where synergies or economies of scale are the main motivations, in high tech acquisition the acquirer wants to get access to new specialized knowledge and reach technological synergies. For this reason, in the last two decades, where innovation and technological development are rapidly expanding, large incumbents are seeking at innovative potential of small firms in order to gain a strong competitive advantage.

However, independently from the kind of acquisitions, they have so complex frameworks and determinants that are not easy to explain their performances. However, acquisitions should be measured against goals and objectives set by executives and not only against financial results. Indeed they are often driven by reasons that are completely different by financial value creation (King, Dalton, & Daily, 2004 and Brouthers, Hastenburg, & Ven, 1998).

In this intricate overview, human resources have an apparently secondary position but are instead one of the main drivers that influence the future of performances. The role of individual dimension during acquisitions is the main field that the following study is going to explore. Conflicts, integration problems, anxiety and tensions rise from lower level of the organization but in the medium-long term may affect the overall performances of the firm (Seo & Hill, 2005).

There are several phases of the acquisition process, which require a close interaction between individuals of different firms. In the post-acquisition integration phase, all individuals of the two parties come in contact each other. Instead during implementation, especially in the negotiation phase, the most involved individuals are the executives of the firms. In this phase, executives have to interact and coordinate in order to conclude the deal. During these activities individuals may give rise to tensions and conflict because of difficulties in collaboration. On the contrary, if they are attracted each other, collaboration and interaction may be more efficient. This is a very important phase because it reflects how individuals will behave in the new formed firm. As a consequence, hostile behaviors and conflictual interactions could be the cause of individual turnover after the acquisition, in particular regarding executives and CEO.

Post-acquisition executive's turnover is a topic that largely attracted scholars attention but its determinants are not fully clear. Several areas have been explored as potential reasons of executives' turnover, but results lead mostly to poor conclusions. Merger, firm and industry characteristics didn't succeed in explain target CEO turnover likelihood and results were often contradictory, suggesting the existence of moderating variables (Walsh, 1988; Walsh, 1989; Hambrick & Cannella, 1993; Walsh & Ellwood, 1991 and Walsh & Kosnik, 1993). The only studies that gave significant results were related to an individual level analysis of executives characteristics (Krishnan, Miller, & Judge, 1997 and Krug & Nigh, 1998).

Starting from these little findings, my study proposes a new potential determinant of turnover that doesn't consider target CEO characteristic in absolute terms, but compares them to acquirer CEO characteristics. In particular, I investigate the effects that differences or similarities between the two profiles could have on target CEO turnover/retention. The theoretical basis needed to support my hypotheses is built starting from those theories that focus on the consequences of the interaction between different or similar individuals. The main supporting theories are: social identity theory, social categorization theory, similarity attraction theory and homophily theory.

Summarizing, the final aim of this study, is to understand how individual similarities between CEOs influence target CEO retention or turnover, in high-tech cross border acquisitions. In addition a secondary goal is to understand the relative importance of individual dimensions on cultural dimension.

The organization of the following work is defined as follow:

- Chapter 1. Introduction

- Chapter 2. Exploration at micro and macro level of the possible reason that lead firms to undertake an acquisition.
- Chapter 3. General understanding of the phases of the acquisition process from the initial evaluation of the deal by the acquirer to the conclusion and post integration phase
- Chapter 4. General overview of cross border acquisition: definition, trends and driving factors
- Chapter 5. The role of culture during a cross border acquisition: how it affect performances and a preliminary understanding of the role of turnover
- Chapter 6. General overview of high tech acquisitions: definition, trends and driving factors.
- Chapter 7. First part of literature review. Overview of existing literature about executives' turnover: why executives turnover is important and what are the determinants driving turnover after the acquisitions.
- Chapter 8. Second part of literature review. Through a literature review covering several areas, the relationships between similarities/differences, individual conflicts and turnover are investigated.
- Chapter 9. Hypotheses development: starting from the existing literature about executives' turnover and about individual similarity, three hypotheses are proposed.
- Chapter 10. Sample, data, variables and methodology are explained in detail.
- Chapter 11. Comments on numerical results from hypotheses testing
- Chapter 12: Discussion and comments. Results are discussed in a more qualitative way. Then practical implication and suggestion for future researches are proposed.

Chapter 2

Why acquisitions occur?

2.1 Macro level causes: historical trends and acquisitions waves

In order to understand and foresee the nature of acquisitions, we should look at the macro environment influencing them and the specific historical context. Golbe and White (1993) started a stream of studies focusing on drivers regulating acquisition occurrence and their results showed cyclical waves regulated by economic and industry “shocks”. The increase of takeover activities coincide historically with changes in the operating environment and according to their size, consequences might impact several sectors (emergence of the Internet) or generate focused effects (industry specific regulation changes). Indeed “shock” is not enough to undertake a successful acquisition process, without a sufficient firm’s liquidity. So a wave could start from a huge firm liquidity without any industry change occurring, but it cannot be initiated exclusively by a shock. (Grave, Vardiabasis, & Yavas, 2012)

Recent researches (Golbe & White, 1993; Auster & Sirower, 2002 and Harford, 2005) identified five most important waves and tried to highlight the determinants driving them. Recently a sixth wave has been added (DePamphilis, 2010 and Berk, DeMarzo, & Harford, 2013). These studies where initially demonstrated for U.S. market but later were witnessed also by an increasing level of European M&A activities.

The first wave (1897 – 1904): Horizontal consolidation.

Economic depression, drive for efficiency, rise of industrial stock and technological changes were the most influencing external factor giving rise to the first wave of M&A. They were mainly horizontal acquisitions focused in particular in primary metal, transportation and mining. This phase, where big firms acquired smaller ones, saw the creation and growth of firms becoming monopolist in their respective sector: the most resounding example regards U.S. Steel that became in 1901 the first-billion dollar corporation thanks to the combination of 785 separate firms. This wave comes to an end in 1905 due to the equity market crash.

The second wave (1916 – 1929): Increasing concentration

The second wave rose after a period of a moderate level of M&A culminating with the end of the World War I and its subsequent economic boom. In this phase, vertical expansions were preferred allowing in that way the creation of oligopolistic structure and the increase of industry concentration: Samuel Insull built an empire involving operations in 39 different countries. The 1929 stock market crash brought this wave to an end.

Third wave (1950s – 1969): The Conglomerate Era

After more than 20 years of economic depression also due to World War II, researches have had some difficulties in the identification of specific industry shocks. Economic, social and technological changes leads to an increase in the number of M&A but as Sudarsanam (2003) notes, it is possible to highlight some differences: while U.S. firms keep creating large conglomerates, U.K. takeover activities where mainly horizontal. However one thing is sure: tighter antitrust regulation and the record in price earnings ratios, have a central role as influencing factors in the U.S. firms M&As third wave. Antitrust made almost impossible the horizontal expansion and forced firms in combining with other industries' companies. High P/E made all firms with low ratios the first objective of takeover activities because a combination would have led to higher earnings per share. Increasing leverage of the conglomerates and 70s' oil crisis led this wave to an end.

Fourth wave (1981 – 1989): The Retrenchment Era

The fourth wave started at the beginning of '80 and was characterized by antitrust policy changes, financial services deregulation, new financial instruments/markets and technological progress. It was the period of corporate riders, that through often hostile takeover and together with leveraged buyout (LBO) strategies, led to the breakup of many major conglomerates of that time. According to some researches, this phase is the consequence of inefficiencies generated by diversification of the third wave. The conglomerate structure seemed to be inefficient and its size led to a lack of flexibility to external factors. For the first time in history, takeover of U.S. firms by foreigners exceeded the number of M&As performed by U.S. firms in Europe and the rest of the world. As a consequence of LBO, bankruptcies occurring at the end of '80 led the fourth wave to an end.

Fifth wave (1992 – 2000): The Age of Strategic Mega-Merger

At the end of the fourth wave, due to the overpriced and overleveraged M&A activities, many thought that takeovers would not return to the level of '80. But probably they didn't consider the effect of globalization and the economic bull market, which together with technological innovation, deregulation and privatization, gave rise to an unprecedented wave in terms of value and volume. U.S. and Europe volumes, where respectively three and nine times the M&A deals of '80. Capital market globalization and increasing competition from abroad, allowed dramatic increase in cross border deals in particular toward Asian markets. Furthermore these takeovers were performed within the same industry. Another important aspect characterizing this wave is the decrease of number of hostile takeovers. Stricter regulation and the rise of alternative governance mechanism such as stock options make hostile takeovers more difficult or at least no more convenient for investors. The fifth wave growth finished with the emerging of the internet and the recession that hit U.S. at the end of 2000.

Sixth wave: The cross-border Era

After the negative trend characterizing the period going from 2001 to 2003, acquisition phenomenon kept rising in 2004and reached the peak in 2007 with the highest value of M&A in the history. After that, in 2009, due to general world crisis, M&A trend restarts its decline. One important thing to say about this last wave is that it is characterized by a significant percentage of cross border acquisition as a consequence of the stronger competition, wider market dimension and overall market integration. (DePamphilis, 2010 and Berk, DeMarzo, & J.V.T, 2013). In particular, current situation of cross border acquisitions outline a positive trend, with a total of 1,3 trillion$ during 2014 with a 78% increase from comparable 2013. It is also the strongest value since 2007.

Target Region/Nation	1/1/2014 -12/31/2014 Rank Val US$m	No. Deals	1/1/2013 - 12/31/2013 Rank Val US$m	No. Deals	% Change in Rank Value
Worldwide	**3,485,270.7**	**40,462**	**2,364,416.0**	**38,038**	**47.4 ▲**
Americas	1,769,458.9	12,783	1,197,547.0	12,249	47.8 ▲
Caribbean	19,143.8	130	6,326.7	92	202.6 ▲
Central America	16,390.4	251	23,450.4	279	-30.1 ▼
Mexico	14,278.8	198	18,672.4	214	-23.5 ▼
North America	1,640,906.9	11,472	1,092,565.3	10,754	50.2 ▲
United States	1,530,081.7	9,802	1,010,313.0	9,069	51.4 ▲
Canada	110,825.1	1,670	82,252.3	1,685	34.7 ▲
South America	93,017.9	930	75,204.7	1,124	23.7 ▲
Brazil	49,346.9	498	49,796.2	570	-0.9 ▼
Chile	18,813.0	120	8,104.6	152	132.1 ▲
Africa/Middle East	64,931.0	1,286	78,117.6	1,107	-16.9 ▼
Middle East	21,797.9	438	22,200.1	460	-1.8 ▼
North Africa	6,479.8	141	12,488.9	107	-48.1 ▼
Sub-Saharan Africa	27,980.5	643	28,849.4	478	-3.0 ▼
Europe	869,777.1	13,523	561,575.4	13,118	54.9 ▲
Eastern Europe	48,941.9	3,088	105,169.6	3,390	-53.5 ▼
Western Europe	820,835.2	10,435	456,405.9	9,728	79.8 ▲
United Kingdom	177,115.7	2,423	94,309.6	2,213	87.8 ▲
France	165,464.1	2,040	48,811.1	1,529	239.0 ▲
Germany	73,213.6	1,516	93,406.0	1,410	-21.6 ▼
Asia-Pacific	716,182.2	10,755	449,380.3	9,439	59.4 ▲
Australasia	90,950.6	1,460	82,274.5	1,529	10.5 ▲
Australia	81,180.3	1,229	75,759.7	1,336	7.2 ▲
New Zealand	4,912.5	202	3,250.9	175	51.1 ▲
South East Asia	87,180.2	1,828	60,580.1	1,745	43.9 ▲
Singapore	35,698.3	450	12,462.4	368	186.4 ▲
Malaysia	30,141.6	510	13,597.5	526	121.7 ▲
North Asia	507,738.9	6,435	285,278.2	5,239	78.0 ▲
China	390,411.8	4,520	207,005.4	3,565	88.6 ▲
South Korea	64,999.1	1,095	41,920.3	1,058	55.1 ▲
South Asia	30,312.5	1,032	21,247.5	926	42.7 ▲
Central Asia	8,672.8	64	14,579.2	62	-40.5 ▼
Japan	64,921.5	2,115	77,795.6	2,125	-16.5 ▼

Figure 1 - Worldwide announced M&A 2013 vs 2014 (source Thomson Reuters, Full Year 2014)

As we can see from Figure 1, size of worldwide announced acquisitions increases compared to the previous years but slighter than monetary value growth: 40462 worldwide deals were announced from 1 January to 31 December 2014 for a total value of 3,485,270.7 million $. In practical variations, around 2000 more deals and 1 trillion $ more compared to 2013. Talking about industry distribution, the most active sector is "energy and Power" with 16,6% of worldwide announced deals. An important part goes also to "Media and Entertainment" and "Healtcare" sectors respectively with 10,7% and 11,3%. Decreasing instead the percentage of "Financial" that in general has a very active role in M&A deals (Thomson Reuters, Full Year 2014; Mergemarket, 2014 and Harford, 2005).

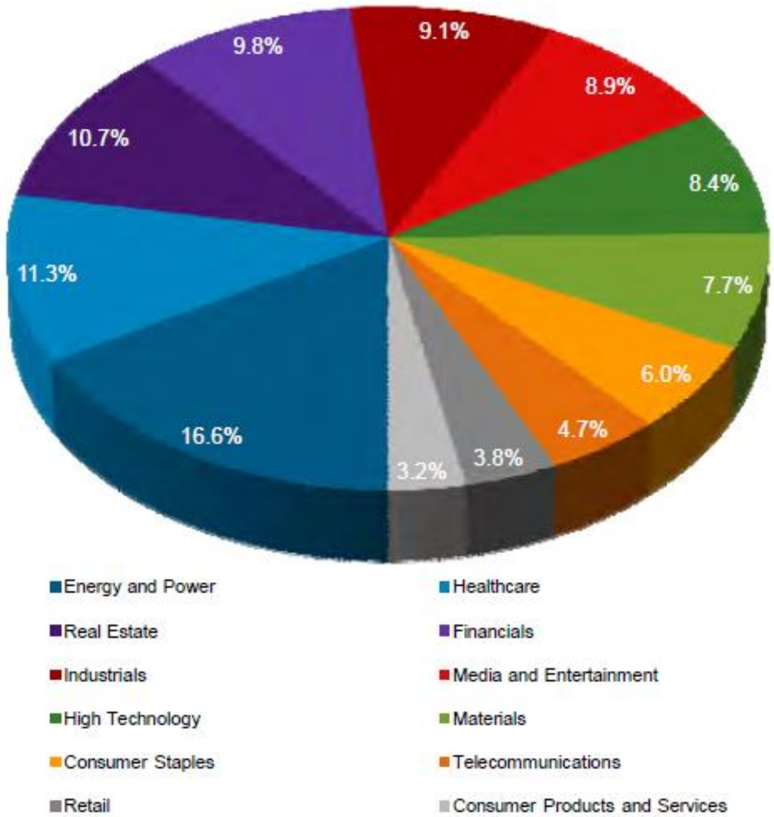


Figure 2 - Worldwide announced M&A target industry by value

In order to understand better the actual M&A context, here below list the top 15 worldwide announced M&As in 2014 (Thomson-Reuters, Full Year 2014):

Rank Date	Target (% Sought/Acquired)	Acquirer	Acquirer/Target Nation	Rank Value (US$m)
13/02/2014	Time Warner Cable Inc (100%)	Comcast Corp	US / US	70,677.1
18/05/2014	DirecTV Inc (100%)	AT&T Inc	US / US	67,186.3
11/17/2014	Allergan Inc (91%)	Actavis PLC	US / US	66,404.4
08/10/2014	Kinder Morgan Energy Partners (88.31%)	Kinder Morgan Inc	US/US	58,551.1
15/06/2014	Covidien PLC (100%)	Medtronic Inc	US / Ireland	47,922.1
16/04/2014	CITIC Ltd (100%)	CITIC Pacific Ltd	Hong Kong / China	44,543.5
07/04/2014	Lafarge SA (100%)	Holcim Ltd	Switzerland / France	39,544.6
17/11/2014	Baker Hughes Inc (100%)	Halliburton Co	US/US	38,477.9
15/07/2014	Lorillard Inc (1100%)	Reynolds American Inc	US/US	27,737.4
18/02/2014	Forest Laboratories Inc (100%)	Actavis PLC	Ireland / US	23,615.6
11/03/2014	SFR (100%)	Numericable Group SA	France / France	23,123.1
19/02/2014	WhatsApp Inc (100%)	Facebook Inc	US / US	19,467.7
14/09/2014	Sinopec Sales Co Ltd (30%)	Investor Group	China/China	17,457.9
30/04/2014	Alstom SA-Energy Businesses (100%)	General Electric-Energy Assets	US / France	17,124.2

Figure 3 - Top fifteen worldwide announced deals (source Thomson Reuters Full Year 2014)

2.2 Micro level causes: firm level reasons for acquisitions

The decision related to takeover actions are very important and should be managed carefully. It has been demonstrated that performances of acquisitions don't depend on the experience of the acquirer in such activities but it is however important to proceed step by step, keeping under control every detail consistently with the overall firm's strategy. And the specific decision of undertaking an acquisition, depends a lot on the specific context the firm is operating in. Industry, firm, economic or individual variables, are the main factors that drive the acquisition decision and according to the scenario, an acquisition may result to create value or on the contrary be inconvenient for the acquirer (Krug, Wright, & Kroll, 2014).

- Economic performance improvement. The output of an acquisition is a unique entity formed by two different firms that potentially enhance the value of the conglomerate (Ali-Yrkko, 2002). This idea starts from the assumption that two firms together will create higher value compared to the sum of the value of two separated entities:

  $$V_{AB} > V_A + V_B$$

  However this gain in value is not a direct consequence of acquisition activities. There are several opportunities that encourage firms in undertaking acquisitions activities and, in different ways, they give their support for the overall shareholder value enhancing.

  - Operating Synergy. This term is generally related to a reduction of cost exploiting point in common between involved firm's resources. In particular after acquisitions, the consequent increase in size of the new firm make possible for the firm to exploit economies of scale (EoS). Higher the value of fixed cost against the variable ones, higher the cost benefits generated by the EoS effect. Operating synergies are not only a matter of cost reduction thanks to larger volumes (Ali-Yrkko, 2002). Cost savings can be realized even through the combination of a specific set of skills or assets (e.g. marketing and distribution) for different types of related products, exploiting thus the so called economies of scope (Sherman, 2010 and Graebner, Eisenhardt, & Roundy, 2010).

- Diversification. When a firm decides to enter a market (by itself or through an acquisition) that is outside its current primary line of business, it is applying a diversification portfolio strategy. The interest toward products that are "out of your competences" can have different reasons and very often lead to important economical and organizational gains.
    - Financial synergy. This type of synergy is related to the fact that different sectors or industries usually generate different level of cash flow and reach higher or lower value of the firm's cost of capital. Cost of capital is the minimum rate required by investors and lenders to induce them to buy a firm stock or to lend money to the firm. Stable firms which have a constant cash flow and succeed in taking advantage of all positive investment opportunities are able to reduce their cost of capital (Berk, DeMarzo, & Harford, 2013). Therefore, combining a firm operating in a mature market with excess cash flow, with another one that needs money to invest in its growing market, could lead to huge benefits both in term of future returns and in term of a lower cost of capital (DePamphilis, 2010).

      Furthermore, very large firms formed by a combination, just like a diversified portfolio, are less risky both for investors and for the firm itself against bankruptcy issues. As a consequence, especially for diversified firms with negatively correlated performances (when a firm has positive profit the other one will have a loss and vice versa), the conglomerate could benefit a tax reduction because losses of one firms are offset by the positive profit of the other one (Sherman, 2010).
    - Product and market diversification. When a firm decides to make an unrelated acquisition, diversification options can regard product or market choice. In particular according to the specific context and current needs of the firm, this strategy can be applied in two different ways: related and unrelated diversification. A firm could decide to enter a new growing market with its current product or provide a new product with which is relatively unfamiliar in the local market (Graebner, Eisenhardt, & Roundy, 2010). In this case, related diversification, there are big growing possibilities but they are counterbalanced by a high level of risk. In the case of unrelated

diversification instead, if a firm made both these actions together (new product in a new market) opportunities and risk will considerably increase.

		MARKET	
		CURRENT	NEW
PRODUCT	CURRENT	Lower growth and lower risk	Higher growth and higher risk [Related diversification]
	NEW	Higher growth and higher risk [Related diversification]	Highest growth and highest risk [Unrelated diversification]

Table 1 - Classification of product and market diversification

- Vertical integration. Valid especially for vertical acquisitions, vertical integration refers to mergers of two firms belonging to the same industry but occupying a different stage of the production process. Principal benefit regards coordination. (DePamphilis, 2010) The acquirer can get a cost reduction achieved both by avoiding communication and bargaining activities, and through a strong decrease in production costs thanks to a more integrated production process. Furthermore, in a conglomerate, all firms move toward a common goal and the possibility to have an efficient internal control system ensure a high level of quality provided (Sherman, 2010).
- Acquiring resources. In order to compete efficiently firms need expertise in specific areas. If firm doesn't own these competences it has to go on the labor market and try to hire skilled and experienced personnel. But sometimes the choice of these capable workers is very difficult and since the firm is not familiar with this new area there is the possibility to make a wrong selection (Ali-Yrkko, 2002 and Seo & Hill, 2005). The simplest and most efficient way, is to look at a target that is operating in that specific area and that already owns skilled and experienced workers. The know-how that the acquirer will gain, could be technological, geographical and managerial. In the first case the acquirer will benefit not only from patents, but also from technical knowledge of personnel. The geographical know how instead is typical of cross border

acquisition useful in particular for firms with a limited international experience (Harford, 2005).

- Market power. If the acquisition is large enough, firms sometimes merge in order to achieve more market power with the possibility to obtain a market positions closer to the monopoly. This strategy should be evaluated considering current antitrust laws, but if possible, thanks to the exploitation of economies of scale, the new firm can set low prices so to both gain a competitive advantage position and cause an entry barrier for potential competitors (Trautwein, 1990).

• Managerial motives. Not all reason at the basis of acquisitions are economically motivated and sometimes the maximization of value for shareholders is not the only explanation for such type of decision (Ali-Yrkko, 2002).

  - Conflict of interest. This problem occurs when ownership and management of the firm are separated. Shareholders and management have different interest and sometimes they lead to contrasting decisions. In particular in acquisitions, since often CEO owns only a little part of the firm stocks, he could be more interested in maximizing his compensation, power and prestige than enhancing shareholder value. Therefore, if an acquisition destroys shareholder value but increase compensation of the CEO, probably he will however start a takeover decision (Krug, Wright, & Kroll, 2014). Two possible solutions are the creation of an external or at least impartial board of directors or make the CEO more involved in shareholder’s interest by giving him a larger part of firm’s stocks (Harford, 2005).
  - Hubris. It is a feature that characterize some executives while evaluating an acquisition opportunity. In particular they think that their own valuation of the target firm is superior to the market’s valuation and sometimes they overestimate their abilities, pretending to create value from an acquisitions that hardly could be value added. The problem is created not only by an overvaluation of executives’ skills, but by a wrong evaluation of possible synergies between the two firms as well (Trautwein, 1990 and Sherman, 2010).

Chapter 3

The takeover process

The acquisitions process in not just a matter of choosing by an acquirer, but it is a systematic and detailed approach based on planning and implementing activities that facilitate the communication and understanding of the ownership transfer, increasing in this way the likelihood of meeting expectations. Since acquisitions are very strategic and innovation oriented, this structured process could lead to a delay in responding to business opportunities. But often, being too quick and shallow during the analysis of an acquisition decision, leads to wrong performance forecasts and sometimes even to the failure of the acquisition. So this process is a large set of independent tasks that can be divided, according to the idea of several researchers (Jemison & Sitkin, 1986 and Sherman, 2010 and DePamphilis, 2010), basically into three macro phases: planning stage, implementation stage and closing/post integration stage.

3.1 Planning stage

- BUSINESS PLAN

  In order to understand threats and new business possibilities deriving from those potential internal and external factors influencing future firm's performance, the first step is the development of a SWOT analysis because it analyses strengths, weaknesses, opportunities and threats of a business. Once the firm has a general overview about the internal and external context, it is important to define a mission and a business strategy other than a detailed implementation strategy to define those actions and decisions aimed at the achievement of strategic objectives. These concepts will be the guide line for the acquisition plan draft.
- ASSEMBLING THE TEAM

  Generally the business plan is not an activity that firms do for a specific acquisitions decision. It is the foundation of our general strategy and it is a basic requirement for every new firm. Next phases instead are specifically intended for the acquisition context and should be performed each time a firm is going to acquire another one. In particular it is important to define a working team. It should be the most experienced and diversified team possible and involve both internal and external experts. In particular are necessary both external advisors such as lawyers and accountants, and an internal team with members coming from all different areas of the firm (finance, sales, marketing, strategy etc). The CEO, or someone appointed by it, should lead the group and define responsibilities and authorities of the members.

- ACQUISITION PLAN

  If a firm decides to execute its strategy through an acquisition, it will need an acquisition plan. It is a specific type of implementation strategy that focuses on a short term decision, in this case the acquisition, rather than long term issues. So acquisition plan have to highlight those objectives to be achieved within a certain period and they have to be aligned with those strategic objectives defined during the drafting of the business plan. These measures can have both financial and not financial nature, and will be useful to the firm in order to evaluate the acquisition and determine either its success or its failure. Accordingly it is important to evaluate all possible risks influencing the achievement of these goals. They can be related to resources constraint but also coming from difficulties in the integration process. In this last case they can be:

  - Operating risk, in relation with the ability of the firm in managing the new formed entity
  - Financial and overpayment risk, in particular about the future value changes of EPS.

In this phase management should demonstrate their commitment in the process and provide a reference point in all activities of the process by means of boundaries and limits. Higher management support, lower miscommunication and confusion during the implementation of the acquisition process will occur.

As last component of a well structured acquisition plan, a timetable of the process have to be developed. Important features to highlight are those key activities to be put in place, their beginning and ending and all important milestone along the way.

- SEARCH AND SCREENING

  This phase is a detailed and restrictive analysis aimed at the identification of potential acquisitions targets. In particular we have a two-step selection criteria identification that support the decision through a gradual restriction of possible targets. As initial step the firm should define a list of primary selection criteria, like industry and size of transaction, and draft a first list of potential firms that respect these constraints. Then in order to refine the search process and limit the number of candidates, acquirers have to perform a screening activity. In particular secondary selection criteria should be selected and generally they regard:

  - Market segment and product line. Starting from the primary selection criteria target industry we have to identify the specific segment within the industry. Successively, within the chosen market segment we have to identify a specific product line.
  - Profitability. In particular we have to analyze those financial performances describing the overall profitability of the firm like ROE, ROI and ROS.
  - Degree of leverage, to measure the level of leverage and indebtedness.
  - Market share.
  - Cultural compatibility. It is an important issues even if it is very difficult to be measured. The acquirer could analyze cultural features of the target in order to exploit both the possible differences and potential point in common. The cultural topic will be furthered in detail during the following chapters.

3.2 Implementation stage

- FIRST CONTACT

  Once the acquirer selected the best candidate to be acquired, it is important to initiate the contact with the target. This phase is very delicate and the approach is different according to the size of the target. If we consider a small target, then a worded letter could be sent in order to ease a future direct and face to face where the acquirer should explain clearly the benefits of the proposal. With medium and large firms instead, intermediaries should be used in order not to intimidate too much the target.

Once the first contact occurs, it is appropriate to establish a personal relationship with the other part, in particular at the corporate level. Discretion is the base for the first contact and acquirer's executives should also be able to understand and manage possible target's reactions. In this phase neither the acquirer nor the target has convenience in being the first to estimate the transaction value. Generally the valuation starts from current year earning or similar business acquisition. However, in order to go on with the transaction, both firms have to agree the formula.

Typically early on firms require three different documents: confidentiality agreement, term sheet and letter of intent. Confidentially agreement contain as much audited historical data and supplemental information as the target or the acquirer is willing to provide. They are used by the parties in order to assess other firm's financial credibility. Then the term sheet outlines the primary terms about the acquisition that will be in depth detailed during the Letter of Intent draft. It includes in a rough way the purchase price, what is being acquired and limitations on the use of proprietary data. Some firms just skip the term sheet and go directly to the letter of intent. LOI is the governing document for the deal and it is useful in identifying areas of agreement and disagreement early in the process other than a description of rights of all involved parties. It includes major terms and conditions, responsibilities of both parties, expiration date (because the LOI will terminate if acquirer and target do not reach agreement by a certain date), how all fees will be paid and other standard conditions.

- NEGOTIATION (purchase decision)

  The negotiation phase is one of the most complex for the whole acquisition process. It involves refining preliminary evaluation, structuring the deal, conduction due diligence and developing a financial plan.

  At first, since the acquirer will have more information, it is possible to update the preliminary target valuation. These new information come from at least three or five years' historical financial data. At the end all costs should be represented as a percentage of revenue.

The deal structuring part is about understanding sources of disagreement and for this reason it tries to address all needs of both parties in particular regarding issues of risk in term of compensation, legal, tax and accounting structures.

The third phase of the negotiation is the due diligence: an exhaustive review of records and facilities. Typically it is performed in order to assess a firm's value and conditions. Although this part is generally performed by the acquirer, it can happen sometimes that it is also required by the target in order to evaluate financial possibilities of the acquirer. A well done due diligence requires high executives' time and attention. Usually the acquirer wants as much time as necessary to complete due diligence, instead the target tries to limit the times and cover those item that cause possible purchase price reduction.

The last part of negotiation phase is the draft of a financial plan. It is not only a financial projection to understand the value of the target, but rather it describes the expected cost of financing the transaction. This document can be useful for the evaluation of the purchasing price because it represent the lower limit for the acquirer. Moreover the financial plan is attached to the business and acquisition plan and it's used by lenders and investors to evaluate the financing feasibility.

During this last phase, both the acquirer and the target has to evaluate possible benefits and future opportunities coming from the transaction. After that they decide if to go for the acquisition or run away.

3.3 Closing and post integration stage

Once more general particulars about the deal are defined, the last thing you need is the consent of shareholders, regulatory and third parties. Moreover is important to finally define agreement of purchase and sale, and if necessary apply changes and little modification in order to reach the final agreement and get a signed closing contract.

Information defined during this step, are about warranties for both parties, additional conditions and last but not least the definition of the final purchasing price, that can subject to little adjustments.

The uncertainty affecting this last phase, the complexity of the deal and the accuracy of the work performed, make the closing stage last from few hours until even some weeks. So, in order to avoid or at least minimize misunderstanding and potential mistakes, all individuals involved and interested in the deal should be present to the final meeting. One important risk to avoid is that hurry doesn't have to influence last decisions timing because necessary changes should be performed in the best possible way and with all the needed time. Shorten the time may cause not only a lower quality of the output, but sometimes it is the main reason of failed deals.

From a contractual point of view the deal may be considered closed, but the most careful stage that needs concentration and accuracy is the integration phase. For this reason as first step it is important to develop an integration plan starting at the day of signing the contract. In addiction acquirer should designate an integration manager that starting from the plan determines what is critical for the firm and how to manage cultural differences. Indeed in this phase interpersonal and project management skills are more important that technical ones. Decisions about resources should be taken because acquisitions create uncertainty and sometimes it leads to talent outflows. Tensions and potential conflicts coming from cultural differences should be eliminated as fast as possible through the creation of a new common culture. Often cultural conflicts are main reason of failure for the deal but succeeding in merging two different cultures is a big opportunity for value creation.

Chapter 4

Cross Border Acquisitions

4.1 Introduction to cross border acquisitions

In recent years, globalization and reshaping of industrial structure, led to a rapid increase in cross border activities. The possibilities to exploit new markets, with potential new customer and resources, drove firms to look at new horizons, experiencing new opportunities outside local country. In particular, recent trends highlighted a shift of foreign direct investment tendency, toward cross border acquisitions rather than greenfield investments (Lee & Lee, 2006).

As it is easy to imagine, such type of transaction are strongly influenced by the historical context and macro trend in a specific period. Starting from 1990s cross border acquisitions experienced a general explosion particularly in automotive, petroleum, pharmaceutical and telecommunication services (Evenett, 2004 and Brakman, Garretsen, & Marrewijk, 2005). Nowadays they are the most used and easiest way for industrial globalization, but firms should be careful before undertaking such type of decision because patterns and applicability change according to the considered industrial context. Indeed according to sector features, driving forces underlying cross border acquisitions are more or less complex and varies by nature. Anyhow recent technological revolution influenced almost all markets (Stahl & Voigt, 2005 and Kang & Johansson, 2000).

Before analyzing in depth past and current trends of cross border acquisitions, it is important to make some definition and classification in order to clarify and understand all possible scenarios.

4.2 Inward vs outward acquisition and CBA vs Greenfield investments

In an increasing globalized world, selling abroad products or services, is becoming the key challenge for all firms (Evenett, 2004). Cross border acquisitions are a particular type of investment outside the local country hence it belongs to a macro category called foreign direct investments (FDI). FDI is simply an investment made by a firm based in one country, into another firm based in a foreign country (Gilroy & Lukas, 2006 and Lee & Lee, 2006). But when a firm wants to serve a foreign market selling its product abroad, it has two different options: it can decide to produce locally in the foreign country by constructing new operational facilities and establishments abroad or simply acquiring an already existing firm that is operating in a foreign country (Nocke & Yeaple, 2007). The first option is called Greenfield investments and the second is the cross border acquisition choice. In general during time they maintained the same quantitative importance but with the sixth wave of M&A, cross border acquisitions experienced a so rapid and significant increase that they accounted for about 80% of global foreign direct investments (Gilroy & Lukas, 2006 and Kang & Johansson, 2000).

We can imagine cross border acquisitions as a flow of capital from a country to another. Indeed in such deals we have an acquirer and a target therefore a country that experiences an economic outflow and on the counter part another country that receives an economic inflow (Lee & Lee, 2006). So cross border acquisitions are those transactions, within which a firm acquires a firm belonging to a foreign country and according to the capital flow direction they can be:

- Inward cross border acquisitions: those transactions that incur an inward capital movement through the sale of domestic firm. So this is from the perspective of the target that is acquired.
- Outward cross border acquisitions: those transactions that incur an outward capital movement though the purchase of all part of foreign firm. This is the perspective of the acquirer that makes the purchase (Kang & Johansson, 2000).

Due to different market and different economic contexts, trends in cross border acquisitions differ among developed and developing countries. If we consider inward cross border acquisitions, developed countries played a major role from 1990 to 2007 with more than two times compared to developing ones but suffered a great fall after the global world crisis. This drop of developed countries inward cross border acquisitions is underlined by general FDI inflows. As a matter of facts, decrease corresponds to an increase in the counter part. Indeed developed countries experienced from 1990 a stable increase in inward cross border acquisitions (FDI Statistics; OECD Data, Analysis and Forecasts, 2014).

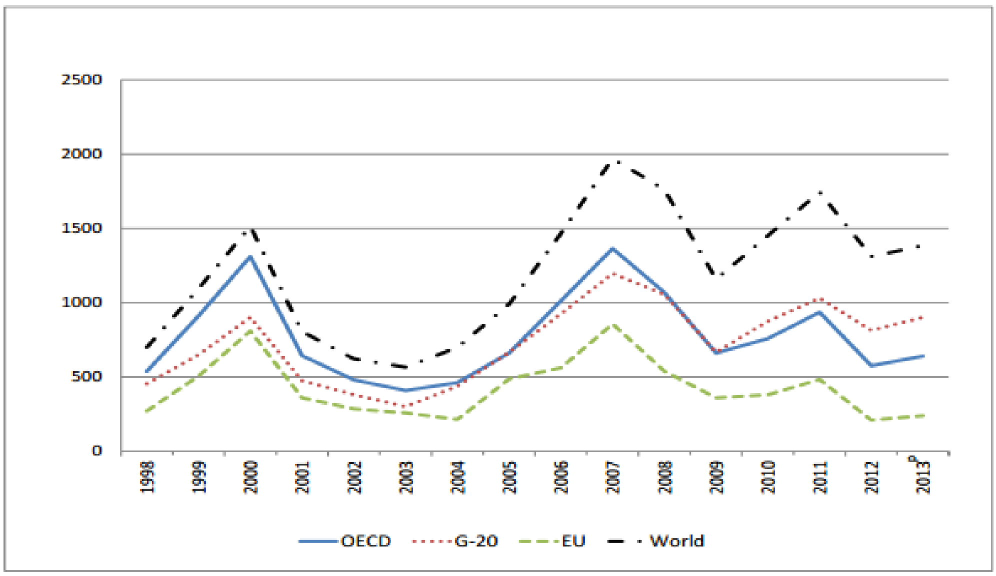


Figure 4 - FDI inflows, 1998-2013 (USD billion)

As we expect, the importance of developed countries in outward cross border acquisitions maintained its major role during time, accounting for almost all world outward cross border activities. Also in this case developed countries encountered a drop but less strong than inward cross border acquisitions. And probably this trend is intended to keep increasing since developing countries are continuously strengthen their global market position.

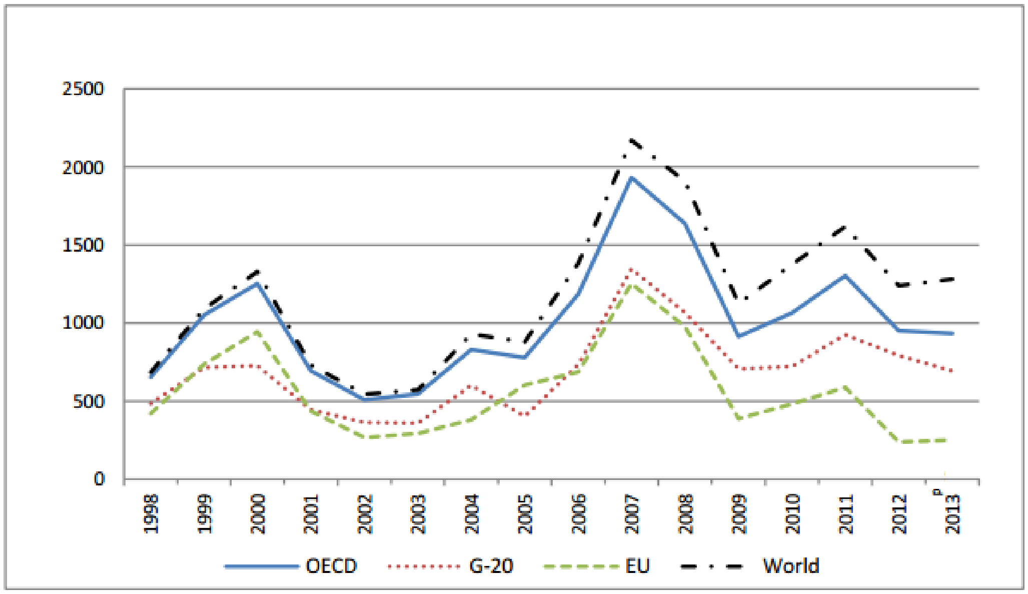


Figure 5 - FDI outflows, 1998-2013 (USD billion)

4.3 Cross border acquisition trends

The importance of this type of acquisition in the current market and its influence in all managerial decisions, make it both very interesting and fundamental to understand actual trends and related researches (Brakman, Garretsen, & Marrewijk, 2005).

During the last century, cross border acquisitions maintained a stable but little growth and their relative percentage was very low compared to domestic deals. With global changes, technological evolution and as said before the pursuit of new potential source of gain, from 1990 cross border acquisitions experienced a rapid increase both from a numerical point of view but also under an economical perspective. Indeed, what numbers say, is that in less than 10 years, from 1991 to 1998, cross border acquisitions more than six-fold their value: with 558 billion$ in 1998 compared to 85 billion$ of 1991. The highest increase in value occurred in the last two years of the period with a gap of more than 200 billion$ between 1997 and 1998 (Kang & Johansson, 2000 and Evenett, 2004). On the other hand, cross border acquisitions increased even in size. But if we analyze in detail the variation of the total number of cross border acquisitions during time, we can observe some interesting details. Indeed the total number of cross border acquisitions almost doubled from 1991 to 1995 but decreased in the following years. This phenomenon highlighted the tendency toward large scale cross border acquisitions and it keeps rising. So the unitary value of these deals is very high: in 1998 for instance British Petroleum acquired Amoco for the 61 billion$ that remains nowadays one of the highest valued acquisitions (Ali-Yrkko, 2002).

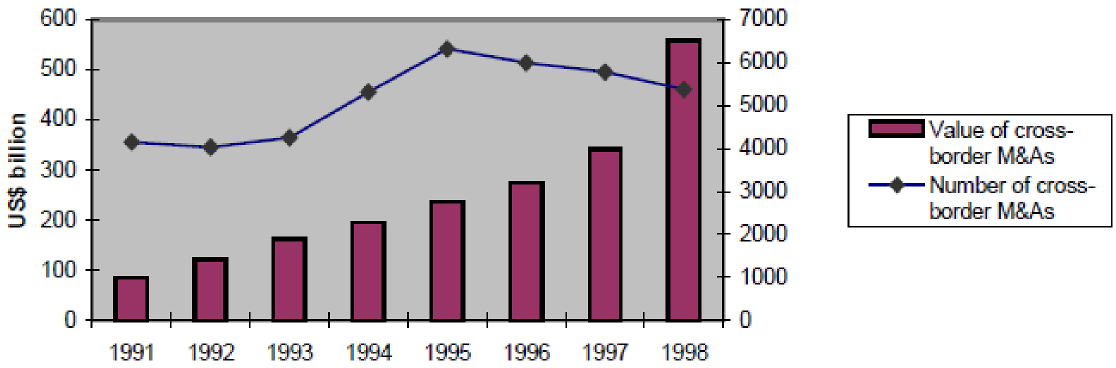


Figure 6 - Cross-border acquisitions trend (1991-1998)

After that golden period for cross border acquisitions, they didn't stop their growth. Indeed their volume reached another peak in 2007 when they represented 45% of total acquisition volume, much higher than the 23% in 1998. This continuous growth of cross border opportunities nowadays is justified by the intervention in such deals of emerging countries like India, Brazil, Malaysia, China and others (Kang & Johansson, 2000 and Bhagat, Malhotra, & Zhu, 2011). Over the last decade indeed, cross border acquisitions have become the preferred mode of entry of emerging country firms: from a value of outbound cross border acquisitions by emerging country firm of 37 billion$ in 2004 to 182 billion$ in 2008 (Bhagat, Malhotra, & Zhu, 2011). This boom suggests potential further increases for the future. Positive signals came from recent statistics: cross border acquisitions activities totaled more than 1,3 trillion$ during 2014, accounting for 36,9% of overall acquisitions volume and represented an increase of 78% compared to 2013 (Thomson Reuters, Full Year 2014).

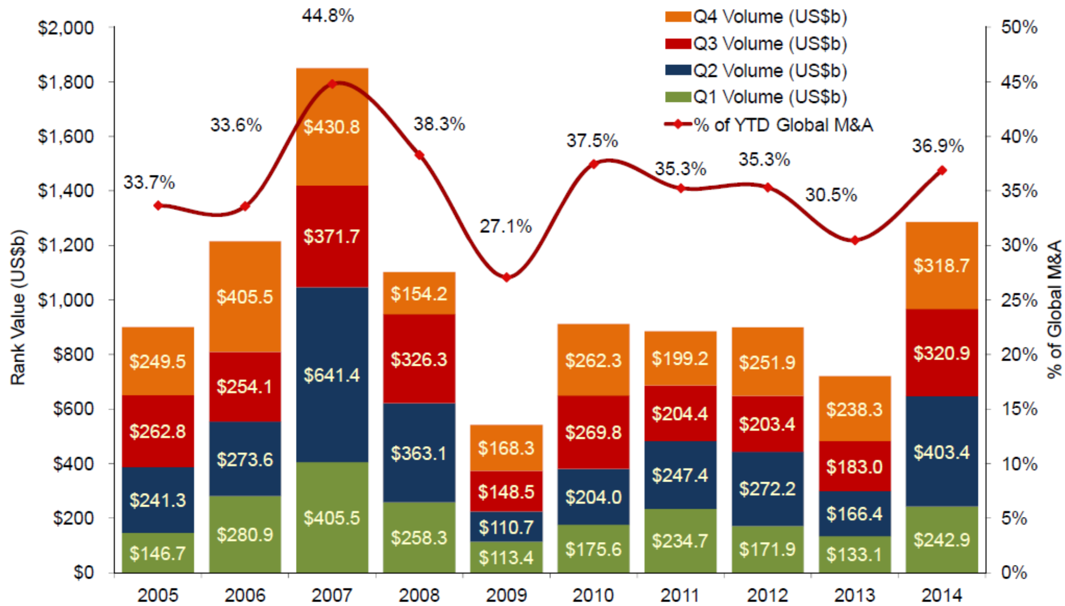


Figure 7 - Worldwide Cross Border Volume (2005-2014)

4.4 Driving factors of cross border acquisitions

Being a specific kind of acquisitions, cross border acquisitions share all drivers listed in the previous chapter. But since it is characterize by activities outside the local country, it has several driving forces that differ a lot from domestic acquiring activities. Here below are listed all macro and micro economic variables that are identified by most of researchers (Erel, Liao, & Weisbach, 2012; Bhagat, Malhotra, & Zhu, 2011 and Lee & Lee, 2006). Some of them have been already listed for global acquisitions and in this part are discussed deeper in detail in cross border context.

4.4.1 *Macro economic factors*

- Favorable acquisition factors
  - Exchange rate. It is a factor that firms have to consider each time they have to manage transaction abroad. In particular when host country's currency depreciates, the host country becomes a cheaper place to develop its own business. On the contrary, if the host country's currency appreciates, foreign acquirers are less motivated in performing acquisition activities in that country.
  - Diversification. In cross border acquisitions it outlines different sources of value and wider opportunities, compared to local acquisitions. Global worldwide market

allows firms to look at foreign firm that operate in not only different sectors but even in different economies. Market diversification address in the specific different customer needs and tries to reach customer satisfaction entering new segments and markets with basically new offers. However, the concepts at the basis of diversification come from the assumption that covariance of returns across different economies is smaller than within a single economy.

- Current economic condition in home country. Negative condition of local economy make firms less willing to undertake cross border activities because they have to concentrate about their local issues. On the other hand under such conditions, can attract foreign countries that may take advantage of the negative situation. Conversely, positive economic context have the opposite consequences.
- Acquisition of technological and human resource. If a firm is unable to produce a specific product and perform specific activities because it doesn't have a sufficient level of technology knowledge, it can decide to acquire a foreign firm that is technologically advanced. So with minimum effort, cross border acquisitions become a way to transfer acquired technology back to strengthen the position in the domestic market.

o Unfavorable acquisition factors

- Unavailability of information. They can include market share, competition, cash flow, sales and other accounting information that can be useful to understand current firm's strengths and weaknesses. If some pieces of this information is missing, acquirer is forced to stop or at least delay its plans even if the target is very attractive.
- Inefficient management. Sometimes at the basis of acquisitions, there is the purpose to replace incompetent executives of foreign firm with its own executives in order to increase the efficiency and generate higher value. The main reason is that cross border there could be different way of management, different procedures and different ideas that applied to different contexts can likely came out to be an efficient combination. In this case is important to be careful about cost of replacing inefficient management that can both be inconvenient and have possible negative consequences.

- Monopolistic power. In this case difficulties for acquisition are encountered due to the presence of entry barriers in a specific industry that make very complex for each new entrant the penetration of the new market. They can be high fixed capital expenditure, high advertising expenditure or R&D outlays.
- Government restriction and regulations. In some countries there may be several regulations that fix limitations for acquisition activities. Sometimes, it is needed even governmental approval for takeover process occurrence. Restrictions example can include restriction on capital repatriation, dividends payout or intra company interest payments. Tax effect are not considered because several studies proved that they are industry specific.

4.4.2 ***Micro economic factors***

- Undervaluation. It is caused by product and service market imperfections that cause friction in the global market and consequently favor acquisition activities. Indeed in order to minimize acquisitions costs, foreign firms may look outside their country’s border and look for those targets that are undervalued and can be source of growth. Tobin’s utilized the “q” ratio to predict acquisition activities and takeover targets. According to his empirical studies, undervaluation is a predictor for cross border acquisition activities.
- Synergy. As said before most acquisition are focused on the achievement of synergies with other firms. Global market and growth of developing countries, led acquirers to look for potential source of synergies outside national borders. As for domestic acquisitions possible synergies can be exploited through economies of scale, improved production techniques and increased market share. The only difference is that internationally there is higher variety of synergies to be exploited.
- Maximizing value of firm. Executives of foreign firm decide to make an acquisition only when the NPV of the project is positive. Indeed if the net present value of a project related to the acquisition of a foreign country is larger than zero, than shareholders’ wealth of the acquirer will experience a large increase. And if we enlarge this reasoning outside national borders, firms may decide to look outside for new and more profitable sources of value.

Chapter 5

The role of culture in cross border acquisitions

5.1 Different level of culture

"Culture is the collective programming of the mind distinguishing the members of one group or category of people from others"

This is the definition that Geert Hofstede, a Dutch social psychologist, gave to culture (Hofstede, 1980 pg. 18). In other words, what he meant was that culture are those characteristics, attitudes and beliefs that individuals within a group have in common and by which they distinguish themselves from other groups. In all his studies he focused on the different kind of culture and deeply analyzed the relationship between national and organizational culture. Indeed he was pretty sure that national culture is able to influence organization and management styles. Hofstede stated that culture manifests itself in different ways: practices and norms. Practices are the more visible aspect of a culture and include symbols, heroes and rituals. Values are the more internal and abstract part of a culture, and are less visible and tangible than practices. They are the tendency of an individual for one state of affairs, over others to which strong emotions are attached and by which one group distinguish itself from other groups.

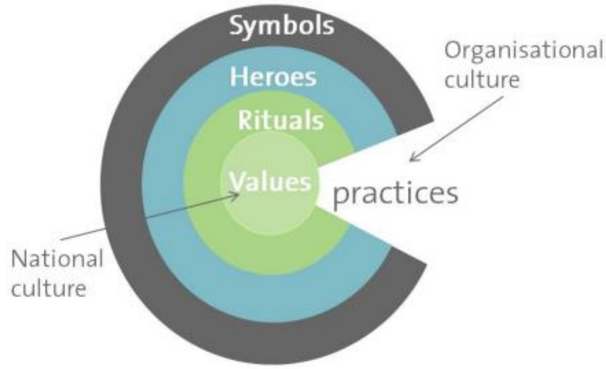


Figure 8 - Different levels of culture

In order to define different levels of culture it is important to understand where values and practices are generated (Hofstede, 1980). Values are learned with family, school and in first formation year and for this reason they are specific characteristics of the national culture. On the other side practices are generated and learned on the job within a firm and for this reason are strictly related with organizational culture.

Now that differences between national and organizational culture are clear it is possible to define them and describe all dimensions.

National culture is a set of norms, behaviors and beliefs that exist in a country and affect individual characteristics of local population (Hofstede, 1980 and Kogut & Singh, 1988). Firms that decide to operate cross border have to adapt their strategies and operations to the national country they are entering.

In 1980 Hofstede developed a research with the basic assumption that management practices in a specific country are dependent on local national culture. Results identified several clusters for cultural values and many of their characteristics influence management styles of local firms. In particular in a first time four dimensions were identified for culture, and later other two dimension were added:

- Power distance. It represent the extent to which less powerful members of an organization accept and expect that power is unequally distributed. The basic concept of this dimension is inequality and its acceptance: individuals belonging to societies with high power distance accept without any justification the hierarchical order with inequality among roles, while individuals belonging to low power distance societies want equal distribution of power among and require justification for inequalities.
- Individualism vs collectivism. Degree to which individuals are integrated into groups. Individualism describe those societies where individual looks after himself and his family without any ties with other groups. On the other side collectivist societies are characterized by individuals that are integrated into strong and cohesive groups and can expect their other members or relatives to look after them in exchange of unquestioning loyalty.

- Masculinity vs Femininity. They refer to the distribution of emotional roles between the genders and vary according to the predominant values. In masculine contexts values preferred are achievement, heroism, assertiveness and material rewards for success. Instead societies with high level of femininity prefer cooperation, modesty, caring for the weak and quality of life.
- Uncertainty avoidance. It represents the society's tolerance for uncertainty and ambiguity. Societies with strong uncertainty avoidance tend to keep a rigid code of beliefs and behaviors. Weak uncertainty avoidance instead characterizes societies that have a more relaxed attitude focusing more on practices than principles.
- Long term orientation. It describes the orientation of the firm toward either the creation of strong ties with its own past or dealing with challenges of the future. Short term oriented societies prefer to maintain traditions and norms of the past without any intention of changing. Long term oriented societies instead have a more pragmatic approach encouraging innovation, orientation toward future results, persistence and adaptation to changing circumstances.
- Indulgence vs Restraint. Indulgence characterize societies allow free gratification of basic and natural human drives related to enjoining life and having fun. Instead restraint stands for a society that suppresses gratification of needss and regulates it by means of strict social norms.

Organizational culture is the way in which individuals within an organization relate to each other, to their work and to the outside world, that distinguishes them from other organizations. Together with Bob Waisfisz (Hofstede & Waisfisz, 2010), Hofstede developed a model for describing the dimension of organizational culture. In particular it consists in six autonomous dimensions and two semi-autonomous dimensions.

- Means oriented vs Goal oriented. This concept is strictly related to firm effectiveness. In practice means, oriented firms are those which are interested in the way the work is carried out minimizing potential risks. Goal oriented firms focus only on the achievement of specific goals and internal results without considering the involvement of substantial risks.
- Internally driven vs externally driven. Internally driven culture is based on the perception that business ethics and honesty matter. Procedures are put is first place

and there is the basic idea that they know best what is good for the customer. In externally driven societies there is a focus on customer requirements satisfaction and pragmatic attitudes are more frequent than ethical.

- Easygoing work discipline vs Strict work discipline. It is related to the internal structuring, control and discipline. Easygoing cultures have weak internal controls and loose internal structure. In a strict work discipline instead there are strong internal structure and controls, and individuals are punctual, self-conscious and serious.
- Local vs professional. In local firms individuals identify with the boss or with the function they belong to, while professional firms' employees are more dependent and identify themselves with their professions.
- Open system vs closed system. They describe the accessibility of a society. In open societies newcomers are always welcome and anyone would fit in the organization. While closed societies on the contrary doesn't allow the access to all individuals but only who is suitable for the organization.
- Employee oriented vs Work oriented. In employee oriented societies members feel that personal problems are taken into account and that organization is interested in taking care of its employees. In a work oriented organization instead the only focus is on task achievement and no importance is given to employees.
- Degree of acceptance of leadership style. This dimension measures the degree the leadership style of the boss is aligned with respondents' preferences.
- Degree of identification with your organization. Degree at which individuals within the firm identify themselves with the organization. Indeed individuals can agree with several aspect of the organization (goals of the company, relationship with the clients, groups and bosses) and this dimension measure this level of connection.

5.2 Effects of cultural distance on cross border acquisitions

Early researches on the variables affecting acquisition performances often focused on more financial and strategic aspects, giving less importance to the organizational and human resource side. Since these studies didn't lead to significant results and what impacts acquisitions remained largely unexplained, a growing body of research tried to inquire the individual and organizational implications of acquisitions, emphasizing cultural dynamics and implication of cultural difference on the post-acquisition integration process (Aguilera & Dencker, 2004). Even in this case inconclusive results made poorly understandable the relation between culture and firms' future performances. Indeed, even if cultural differences represent a source of cultural risk for the acquirer and it may appear plausible that culture represents an obstacle for achieving integration benefits, these further studies yielded inconclusive results.

On one hand some studies (Datta & Puia, 1995 and Stahl & Voigt, 2005), proved a negative effect of cultural differences on acquisition performances. Strong effects on the social side, high costs of integration and difficulties in the post integration process were the main causes for poor future firm's performances and low shareholders wealth. On the other hand, several further findings (Morosini, Shane, & Singh, 1998 and Chakrabarti, Mukherjee, & Jayaraman, 2009) highlighted the positive aspects about cultural distance. The contact with a new world, operating in a different context, enables the acquirer to access new mechanisms, new ideas and better performances thanks to diverse set of routines and repertories embedded to the specific national culture.

Although their opposite results, all these studies concluded that cultural dimension cannot be considered in isolation from other variables. They suggested that cultural differences should be analyzed and controlled together with a list of moderating, variables, in order to understand and describe, in a comprehensive way, its overall impact on firm's performances.

Stahl and Voigt (2008) performed a comprehensive analysis about the role of culture during acquisitions. What they argued was that previous studies where comparing "apple and oranges" because their conclusions didn't consider any distinction between aspects that potentially lead to opposite situation. National and organizational culture where considered at the same time, and no distinction were made on different kind of firm performances. What they proposed, was a model that mainly considered two acquisition's performance strictly related each other: synergy realization, measured in term of accounting improvements and shareholder value measured with cumulative abnormal returns (CAR). CAR's influencing factors, such as shareholders expectations and likelihood that economic benefits are generated, require that expected synergies are generated. At the basis of these performances there is a central issue that both firms have to face during an acquisition: the integration process. As described in previous chapters, this acquisition phase is the last one but it is at the same time very careful to be managed. Indeed it is the crucial moment after which it is possible to determine if an acquisition succeeds or fails. This part is fundamentally divided into two different kind of integration, both influencing the achievement of positive future performances: sociocultural integration and task integration. On one side there must be continuity in term of transfer capability and resource sharing. On the other, the role of human resources and social compatibility become central in particular if we consider a context with two different cultures, both at the organizational and national level. Indeed as it is more intuitive, cultural distance, both national and organizational, is the main variable affection integration (Stahl & Voigt, 2005 and Stahl & Voigt, 2008).

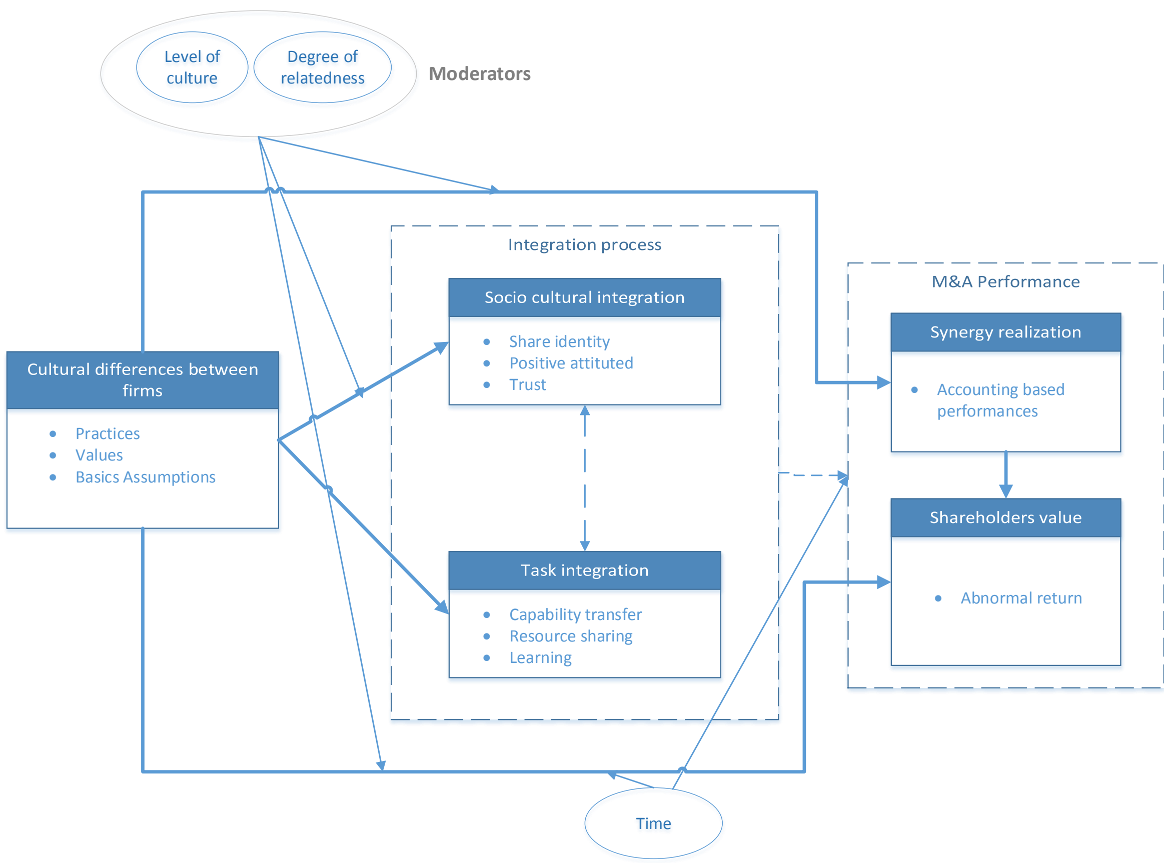


Figure 9 - Impact of Cultural Differences on acquisition Performance (source Stahl & Voigt, 2008)

Assumptions and model of this study seemed to be receiving strong literature support. In addition, the fact that they considered the effects of social integration on firm's performances is a step forward that gets closer to real factors influencing the success of acquisitions. Integration, intended more at a social level than as the achievement of task synergies, is potentially the central reason driving the acquisition process. Although its strong basis, this study (Stahl & Voigt, 2005) leads to inconclusive results highlighting almost no trend between the considered variables: their meta-analysis in particular yielded mean effect sizes close to zero. What they supposed was that cultural differences matter but they probably present a doubled effect, positive or negative, that makes the final result null and depends on factors still poorly understood.

However, some concrete results have been achieved in that paper and found support recently (Slangen, 2006): the level of integration doesn't work as a direct influencer on cultural distance but it is a moderator. Its effects indeed, depend on the strategic intent of the acquirer. Stahl and Voigt studied relatedness but probably it should be taken into consideration exclusively with the extent of the need of integration (Slangen, 2006). Hence the key concept is that how different one culture is from another has little meaning until those cultures are brought into contact with one another (Hofstede, 2001). If a subsidiary is strongly integrated in acquirer's operation, then the need of integration is high, there will be much interaction between the two firms hence possible difficulties and problems may rise up. If on the contrary an acquisition is not performed for synergistic reasons, then the cultural-related difficulties will be low since contacts between acquirers and target, both in term of social relationship and of task integration, are limited.

Conceptually Stahl and Voigt reached the same results but they emphasize also to the dimensions of cultural differences separating the firms. Related acquisitions that require high level of integration may create difficulties especially with cultural differences at the organizational level. Instead, unrelated acquisitions with lover level of required integration are positive associated to future performances especially those at national level in cross border acquisitions. Apart from this moderating effect of integration, general results on the relation between cultural differences and firm's future performance lead to inconclusive results.

A similar analysis was developed in 2009 by Chakrabarti and co-authors. He wanted to discover those factors that drive acquisition performances giving special attention to the cultural distance between the countries of target and acquirer. His attempt was aimed at understanding the impact of cultural differences on long term acquisition performances. He showed that cross border acquisitions perform better in the long term than domestic ones and this effect is enhanced if the acquirer and target are culturally more disparate. In particular this positive effect is divided into two categories that explain why cultural differences may enhance the value of the transaction and lead to advantages. The first category is based on the concept of cultural synergies. In practice merging different cultures, different routines and repertories, the new firm has the possibility to widen its views and will be able to operate in the global market. This variety of organizational practices will make the firm more flexible and the combined entity will be able to perform better. However, it is important that these effects have to be measured against potential collision coming from the interaction of different cultures (Chakrabarti, Mukherjee, & Jayaraman, 2009). The second category instead, is based on the concept of bias, that influences the way the deal is conducted due to existing cultural differences awareness. So while cultural synergies are related to post acquisition integration issues, biases regard pre deal differences in target selection criteria. Acquirers indeed successfully complete a cross border deal, only when they are enough confident that the economic returns will be greater that the risk coming from cultural differences. As Chakrabarti et al (2009) stated, if a firm is deciding to undertake an acquisition with a cross border target, the due diligence process will be better and carefully performed. So it is highly probable that cross border acquisitions will fail during the due diligence stage. For this reason, if a cross border acquisition will pass this stage, it is more likely that the whole deal will have positive returns.

However human interaction during cross border acquisitions and the achievement of a certain level of social integration is focal for future performances. As Stahl and Voigt (2008) stated, there are a number of issues related to the integration process of acquisition that deserve deeper exploration, in particular regarding the interaction for synergy realization. Starting from this, several researchers analyzed and proved the moderating effect of integration capabilities of the acquirer on cultural differences (Reus & Lamont, 2009). Following the way suggested by Reus and Lamont (2009), Dikova and Sahib (2013) focused their analysis on the importance of organizational learning and capabilities developed through past acquisition experiences. Indeed, in order to exploit potential benefits coming from new routines and organizational repertories shaped by the foreign national culture, acquirer should have an enough high level of cross border acquisition experience. Those acquirers that can benefit from their international experience know how to successfully take over a foreign firm and how to manage outside capital, legal and other resources so to reach an acceptable level of integration. Moreover, they will be able to solve potential administrative problems and more important they will have the required capability and sensitivity in resolving organizational incompatibilities in particular at the human interaction level.

This recent last study achieved a further step in this area demonstrating that organizational learning in cross border acquisitions are a mediating and moderating factor of cultural differences on acquisition performances, due also to the nature of the necessary interactions.

As a conclusion, most of these papers (Datta & Puia, 1995; Stahl & Voigt, 2005; Stahl & Voigt, 2008; Zollo & Meier, 2008 and Dikova & Sahib, 2013) not only highlighted the importance, but admitted several limitations in their procedures and proposed some improvements and suggestions for future researches. A common argument among these studies is that acquisition performances is a too wide, multifaceted and complex topic. For this reason it cannot be fully described by a single factor. In particular cultural differences and social integration are too abstract concepts and their numerical description variables may often lead to misalignment and evaluation errors.

Chapter 6

Technology Acquisitions

Since the focus of this study is on acquisitions of high tech firms, it is essential to have an overall idea of the framework driving such type of acquisitions. As said in previous chapters, nowadays firms tend to look at external sources of value and one of these is through the acquisition process (Haspeslagh & Jemison, 1991). The rapid increase of takeover activities from ‘90s till now, allowed researches to study all possible drivers behind the decision of acquisitions. Managerial motives, geographical extension, resource sharing and diversification are the most common reasons but nowadays with the continuous technological innovation firms have other necessities and the possibility to exploit further opportunities (Golbe & White, 1993 and Ahuja & Katila, 2001). Indeed the possibility of acquiring new and innovative technologies, other that specialized capabilities, attracted a lot those large firms operating in the high tech industry (Ranft & Lord, 2002). In such industry, characterized by rapid innovation and requiring high specialized skills and expertise, often firms seek more at the capable and expert resources than at the technology itself (Kozin & Young, 1994). In this case, knowledge transfer is the main issue a firm has to manage while undertaking technology acquisitions.

As for all acquisitions, the main factor influencing the transaction success is the post integration process. According to the context and to other factor of the specific firm, this phase may be more or less complex. In technological acquisitions, since the main reason is the acquisition of specialized technologies or resources, the right implementation in the acquirer and the efficient knowledge-transfer from the target are the main issue that acquirers have to face. Especially in this kind of acquisition, if the post integration process fails, the whole acquisition will be a failure (Ranft & Lord, 2002). Failure rate of technology acquisition has been estimated as 90% (Evans, 2004).

In this chapter I will focus on focus on the main drivers and challenges of technological acquisitions and the existing literature about cross border technology acquisition.

6.1 Knowledge transfer and technology implementation

Firm's value, is not exclusively related to physical assets and resources, but instead it is primary generated by intangible, knowledge based resources (Itami, 1987 and Santos & Eisenhardt, 2009). The specific technology of a firm is the embodiment of the state of knowledge base capabilities, skills and experiences. So in high tech sector, firms compete on the basis of their abilities both in term of specific knowledge and in term of innovation propensity and capacity. When this knowledge has to be transferred it is not simply a matter of acquiring it, but it must be nurtured and assimilated through a careful and efficient post integration process (Ranft & Lord, 2000). Difficulties may be encountered according to the kind of knowledge to be transferred. Explicit knowledge can codified and accessed using verbal communication or through written documentation. Tacit knowledge is embedded in the individual of the firm and it is difficult to be explained and taught. They are complex forms of intangible skills and experiences that are time consuming both to teach and to be learned but their diffusion may lead to creation of value and are an advantage for the firm who acquire it (Kogut & Zander, 1992). The importance of knowledge transfer is that individuals who developed tacit skills and expertise, develop patterns of interaction which allows them to integrate their specialized skills with complementary expertise of other individuals. Competitive advantage from acquiring new technologies and specialized resources depends mainly on the unique interrelationship between individuals and technologies that are barely imitable (Lei, Hitt, & Bettis, 1996 and Ranft & Lord, 2002). Given the central role of transfer knowledge in technology acquisition success, Ranft and Lord (2002) developed a general model to describe the post acquisitions implementation challenge.

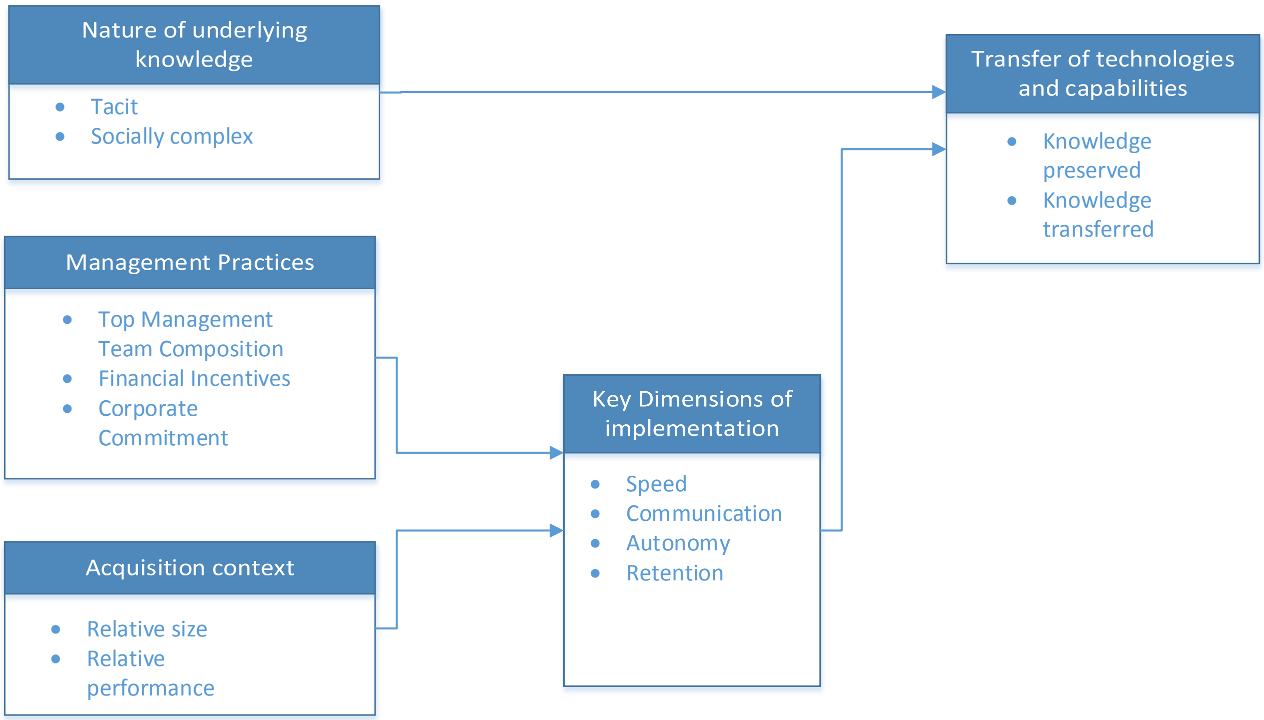


Figure 10 - An Expanded Model of Acquisition Implementation (source Ranft & Lord, 2002)

They made a comprehensive study in order to understand what drives post acquisition implementations. They suggested that transfer of technologies and capabilities is a complex and delicate process for the acquirer and it cannot be fully understood analyzing single variables in isolation.

Both tacit knowledge and social complexity are significant barriers for acquisitions implementation and knowledge transfer. So in order to face these issues, firms should slow down their post-acquisition process and make cautious and careful evaluations. This is contrasting with several previous papers that highlighted the importance and effectiveness of a rapid integration in order to cover potential problems before they began. Doing so, the risk of losing capabilities and damaging technologies is higher. On the other hand too long times may appear to be deleterious. Hence acquirers should find a balance between the two approaches, neither moving too quickly nor waiting too long (Tyre & Orlikowski, 1994). Moreover, in order to maintain the specialized skills of the target, it is important to leave a certain level of autonomy in order to be able to learn from its potentialities and those specific capabilities of the personnel. This is valid in particular for top executives that don't like to work under pressure and require a great level of cultural, symbolic and strategic autonomy in order to perform as the best as they can their specialized skills. Accordingly this waiting in order to be able to learn from the target, will necessarily slow the implementation process. And often the tacit knowledge of the target is embedded right in its top executives. If the key individuals depart the formerly merged unit, the acquirer loses not only his individual knowledge but also those key links with his valuable team. So top executives' retention is yet another important issue in obtaining tacit knowledge and not damaging firm's capabilities. As I will deep in the next chapters, another important variable that drive the success of a technology acquisition is the frequency and quality of communication between two different environments. Interpersonal contact will ease the post acquisition integration process, while existing tensions and hostility, and lead to poor communication and make complex the technology implementation.

These issues are enhanced by other more rooted factors that may positively or negatively influence the complexity of the implementation. Ranft & Lord (2002) demonstrated that acquisition context variable such as relative firm size and relative firm performances are influencer for the acquisition implementation. A large and successful target tends the acquirer to be willing to give autonomy and retain key employees. In addition, communication is more complex due to huge difference between the two parties.

At last, executives play an important role for the success of post-acquisition technology implementation. In particular several managerial practices are identified as useful ways to overcome those problem related to tensions and conflicts due to the target's need of protection from the deal and of transferring the specialized and innovative knowledge. The main practices that drive technology acquisition results are the composition of TMT, financial incentives and corporate commitment. From this empirical study Ranft and Lord (2002) showed that retention of target executives not only lead to more frequent and in-depth communication, but even to an easier and more efficient integration between the two organizations. Moreover the retention of target executives strongly influences even the retention of other key personnel of the firm. This means that in particular for technology acquisition, executives could not be the specialized resources that acquirer is seeking. However they showed that if no executives were promoted to the acquirer's

TMT, the future implementation of technology and integration between the two organizations resulted to be very difficult to be achieved. This lack of integration inevitably leads to difficulties for both firms in working together.

Even retaining few target executives have poor results and may generate conflicts between key players. Indeed the acquirer may decide to retain only few target executives in order to facilitate communication and understand the new firm's operations and personnel. But this retention is preferred not at the expense of acquirer's autonomy and prestige, reason why target top executives were not too much involved. However summarizing, target executives retention is preferable if post-acquisition communication and integration is an important goal of the deal (Ranft & Lord, 2002).

In order to preserve the target knowledge and those technical personnel perceived to be an important asset, often acquirer use financial incentives toward target executives or employees. These incentives try to tie employees' self-interest and encourage them to stay. There can be different kind of incentives and support the acquirer in developing an easier post acquisition technology implementation and integration process.

As last managerial practice, Ranft and Lord (2002) identified the corporate commitment. Indeed they stated that if the acquirer shows a high commitment to making the acquisition work, were perceived as a good signal from the target part because it imply a potential retention of target resources and an easier communication between the two organizations. By demonstrating that target and acquirer together will have a common future, develop trust, positive relationship and rapid integration thanks to richer communication.

6.2 Acquirer's motivation of technology acquisitions

6.2.1 *Acquiring target specialized resources*

The most direct reason that comes in mind when talking about technology acquisition is the possibility to have a direct and rapid access to target resources. Indeed often, in order to maintain a strategically valuable portfolio, big firms seek for those smaller ones that potentially could be a source of competitive advantage and superior performances. These resources could be for example specific product or technologies owned by the target and that together with acquirer's technical resources may add value to the whole firm. This decision may be due to the fact that small and young high-tech firms are often the most innovative (Ranft & Lord, 2000). On the other hand, individuals owning specialized and innovative skills and capabilities are important resources that the acquirer may seek in a potential target. These two kinds of resources are often obtained together because behind an innovative technology there are very specialized human resources (Mayer & Kennedy, 2004).

Another important advantage that the acquirer may obtain is related to that tacit knowledge embedded in the target's resources (Eisenhardt & Martin, 2000). Accumulated experience and specialized ways of communication may amplify the competitive advantage of the firm but it represents at the same time a risky challenge. Indeed intangible and tacit knowledge is very complex to be transferred and the innovative technical capabilities may result incompatible and unlikely to be integrated with existing knowledge (Capron & Mitchell, 2009).

6.2.2 *Market power*

As in general for acquisitions, technology acquisitions allow the acquirer to increase its market power through the access of new geographical area or serving new customer segments (Santos & Eisenhardt, 2009). In addition acquirers have the possibility of serving their actual customer with innovative products or technologies. In the case of market leader, through technology acquisition there is the possibility to completely eliminate the threats of competitors (Santos & Eisenhardt, 2009 and Graebner, Eisenhardt, & Roundy, 2010).

6.2.3 *Strategic innovation*

This kind of acquisition can furthermore be a source of innovation, not only of innovation from a technological or product perspective, but regarding the overall strategy of the acquirer (Agarwal & Helfat, 2009). The risk to be rigid and low innovation oriented is an important issue that big firms operating in the high tech industry have to manage. In such context technology acquisitions may renew and revitalize the whole organization. New practices and routines can enhance firm's ability to innovate unfreezing mental maps, structures and processes with the possibility to integrate the existing knowledge with the new information owned by the target (Vermeulen & Barkema, 2001). This reason for technology acquisition is especially suitable for those turbulent high technology industries where innovation is the main driver for surviving in the market (Graebner, Eisenhardt, & Roundy, 2010).

6.3 Target motivation of technology acquisitions

Not only is the acquirer interested in takeover activities, especially for technology acquisitions, also target may be motivated to sell the firm. Indeed usually acquirers use the target resources as necessary for the future operations and often cooperation and integration is reached (Graebner & Eisenhardt, 2004). In particular targets look at selling the firm at the right moment, when a specific and complex obstacle exists. This obstacle in general is linked to a need of capital that can be easily obtainable selling the firm (Graebner, Eisenhardt, & Roundy, 2010). As said before technology acquisitions are not drastic deals but collaboration behaviors keep existing. Indeed often happen that target not only chooses the time of selling, but even acquirer's preferences (Graebner & Eisenhardt, 2004).

Grabner and Eisenhardt (2004) showed that often target's owner decide to sell the firm for personal reason usually related to the stressing managerial life. Long working hours, personal events like marriage and financial pressure from friends or family who invested in the firm are some examples of personal reasons of target selling.

6.4 Technology acquisition challenges

6.4.1 *Unusual power of target*

Despite the great potential of this kind of acquisition, it is not so clear if they create value for the firm or not. Indeed some studies showed positive gains from technology acquisitions (Uhlenbruck, Hitt, & Semadeni, 2006) while others proved a negative effect on performances (King, Slotegraaf, & Kesner, 2008). The reason is that it is impossible to foresee future performance of technology acquisitions because they are very specific and are characterized by specific features that the acquirer have to be able to identify and manage in order to create future value (Graebner, Eisenhardt, & Roundy, 2010).

Even if in general target firms are small firms, uniqueness and potentiality of the resources they own make the bargaining power move toward them. Indeed the more attractive targets are, the more alternative they have available. As said before target are able to choose a specific acquirer according to their preferences regarding cultural, strategic or operative fit. This is an important feature of technology acquisitions, because in general, targets are the "victims" of a takeover process and they have no choice. Even for acquisition technology targets, although their power prior the acquisition, they become much less powerful after the sale. So sometimes happen that there is an overestimation of the technologies under development and this may lead to failure the acquisition.

6.4.2 *Target's resources uncertainty*

Another distinctive feature of this kind of acquisitions is that often target's innovative product or technologies are still under development and its success is uncertain. In addiction even specialized human resources represent a source of uncertainty. Indeed social embeddedness and specialized capabilities may result difficult to be spread all over the acquirer's organization and, in this way, target's resources will result to be less valuable than expected (Coff, 1999).

6.4.3 *Information asymmetry*

In this kind of transaction both parties have some information lacking about other part. On one hand acquire may not know everything about the technological knowledge since it is a tacit and difficult to be spread and explained (Coff, 1999). Moreover target firm may voluntary hide or distort some information that could drive the potential acquirer away or toward the wrong decision (Graebner, 2009).

On the other hand the target, due to few or wrong information about the acquirer, may wrongly assess acquirer's resources complementarities and potential synergies. Information that the target lacks, is about the intentions of the acquirer: indeed it can decide to establish a collaborating relationship but even to shut completely down the target's technology (Graebner, 2009).

6.4.4 *Deals distraction*

After technology acquisition, it is important that both parties won't be distracted by the deal because it can damage the new formed firm. Acquirer should keep focusing on its own core business and keep responding to changes required by its competitive environment in order not to lose position against rivals. Indeed logistical problems, the focus on the new role of target executives and negotiation issues may create confusion within the organization. But the most important thing in technology acquisition, is that target will keep focusing on the development of their own technology or product. The risk that the innovating technology doesn't lead to a patent generation is a real problem (Kapoor & Lim, 2007) in particular if we consider its effects in technology acquisitions. Both parties may be focused on negotiation and integration activities but it is important to find a balancing with operation continuum in order not to make the deal fail.

6.4.5 *Integration-autonomy trade off*

The achievement of a balancing between integration with the target and the decision of leaving the target autonomous is a difficult issue that the acquirer have to face especially when undertaking a technology acquisition. In order to have the possibility to create value from the innovative target, the acquirer needs to know and reach an high level of post deal integration. But technology acquisitions are characterized by tacit and socially complex knowledge and it is very difficult to be diffused. So it is also important to leave, at least at the beginning, a certain level of autonomy to the target in order not to stress it and increase the probability to achieve more innovative results. So in this kind of acquisition, a total integration may create an obstacle for the success of the deal (Ranft & Lord, 2002 and Kapoor & Lim, 2007)

Moreover buyer should have the right information about the target otherwise it may make mistake about the identification of valuable knowledge. And these potential mistakes can intensify the integration-autonomy trade-off problems because the acquirer in general tend to protect those parts of the organization where core knowledge is supposed to be.

6.5 Technology cross border acquisitions: few known, a lot to be discovered

As in general for acquisitions, globalization is leading firm to look outside national border for potential source of value. In this context, the current technological evolution made technology acquisition one of the most used ways to create value abroad. Indeed several researches showed a recent and rapid increase of cross border technology acquisition (Moschieri & Campa, 2009).

There are several factors that suggest a future positive trend of technology cross border deals. First of all even if United States has been considered the center of innovation for long times, nowadays there are many other countries that are developing innovative technologies operating in different sectors: telecommunication in Japan, semiconductors in Taiwan, software in India, biopharmaceuticals in United Kingdom and medical devices and energy technologies in Germany (Deloitte LPP 2008). This continuous development may move the center of innovation far away from US.

Moreover US and Western European firms are looking abroad (in particular to India and China) for technical talent, offshoring product development and other specialized activities (Manning & Massini, 2008). This will surely enforce position of these countries and will increase the frequency of cross border technology acquisitions.

But it is not so easy to manage such kind of cross border deals in particular between countries which are very different in term of both national and organizational culture. For example, Inkpen, Sundaram, & Rockwood (2000) showed that for cross border technology acquisitions involving US and European firms some hurdles exist. European slow decision making based processes were incompatible with a more entrepreneurial and innovative culture of US. As a consequence these difficulties create obstacles that slow down the integration and make complex the technological implementation.

Further difficulties may come from the abilities of the firms in gathering the right information of the other part in order to deal with the acquisition with more awareness of the counterpart. Indeed in cross border technology acquisitions, information asymmetry is enhanced due to geographic dispersion that make costly and time consuming the information gathering activity.

In conclusion there is a lot of open issues about cross border technology acquisition in particular regarding its comparison with domestic one: some studies showed higher performance for cross border deals (Morosini, Shane, & Singh, 1998) while other suggest that performance of domestic and cross border acquisitions are similar (Gugler, Mueller, Yurtoglu, & Zulehner, 2003). For this reason additional future researches are needed in order to find out the drivers guiding cross border technological acquisitions.

Chapter 7
Executives’ turnover after acquisitions

7.1 Definition and composition of top management teams

When we talk about executives we refer to those highest ranking managers that have responsibilities for the whole enterprise. They could be for instance the president, all executive directors, the managing director and, above all, the CEO. Since they are the ones who make all top level decisions about the firm, they have to turn overall vision into practical goals and strategic objectives. As any type of team, TMT is a small number of people with complementary skills, whose members are oriented toward a common goal that can be achieved only with discipline and right approach (Carpenter, Geletkanycz, & Sanders, 2004).

A general problem to face within a group is the potential growth of internal conflicts that can create loss in firm’s performances. Generally in TMT is difficult to see huge gains thanks to a more team like behavior, and for this reason sometimes happens that non team behaviors prevails on team working. There are several reasons why conflicts and non team working occurs within a group (Simons & Peterson, 2000).

First, a clear purpose of the work and tangible goals are difficult to be defined and often are very articulated. It is important that the group is committed and that goals are clearly defined otherwise members will experience demotivation and reduce efforts. Second, the right and necessary mix of skills is often absent and this may cause a lack of knowledge in a specific discipline. Indeed is it unlikely that executives owned all required skills and for this reason in some cases complementary skills are needed. In other cases instead different skills lead to conflicts and misunderstanding, so only a reduced mix of skills is needed. Third, most teams require a heavy time commitment and this can lead to demotivation felling within the group. Sixth, non-teams behaviors lead to lack of efforts in collaboration, alignment and monitoring activities. Finally non teams are fast and efficient because with a single leader alignment of activities is easier and quicker and members have only to rely to leader's competences and know how (Katzenbach, 1997).

All these reason seems to be the best choice in the short but in the long term with more turbulent and uncertain scenarios, collaboration and team working is necessary otherwise the whole team will fail. So team working is not an instinctive act and in general individuals tend to have non-team behaviors. In such situation, the role of a wise leader, in this case the CEO has to recognize the importance of both behaviors and find a balance between them, instead of preferring and replacing one with the other. He has to integrate the team and the team has to learn that in some situations the mixed experiences are the main driver for team performances. It is up to the CEO to monitor their activities and understand the contexts in which differences produce benefits, because heterogeneity often lead to conflicts difficult to resolve (Krug, Wright, & Kroll, 2014; Katzenbach, 1997 and Katzenbach & Khan, 2010).

These potential relational difficulties among executives have strong effects if we consider it in acquisitions context. The integration of executives after the deal, can have unexpected impacts. Indeed for example retention or substitution of target executives or CEOs is an important part of a successful integration strategy. Therefore it depends a lot by several contextual factors such as individual, group, industry and national factors. Two main research streams has been developed: one regards the effects of acquisitions on firm's performances and on turnover of executives (Krug, Wright, & Kroll, 2014). In next chapter and in the rest of this thesis I will focus on the second one.

7.2 Executives turnover after acquisitions

As seen in previous chapters, acquisition process is a long and well-structured set of activities principally performed at a corporate level because this kind of decisions are very delicate and focal for the firm because they are the main determinants for future success (Jemison & Sitkin, 1986). This is the reason why executives' characteristics during acquisitions received high interest from researchers that tried to associate them acquisition characteristics (Krug, Wright, & Kroll, 2014).

The decision of retaining or substituting target's executives is one of the most important variables that drive the success of an acquisition (Krug, Wright, & Kroll, 2014). Their effects have been studied by several researchers but results showed contrasting scenarios. From one side executives have embedded knowledge, experience and relationship of their specific industry or firm and it is an important source of opportunity to be exploited by the acquirer (Hambrick & Cannella, 1993; Krishnan, Miller, & Judge, 1997 and Butler, Perryman, & Ranft, 2012). Despite following this view, retaining executives can potentially enhance firm's value. This decision is not so easy to be taken and often acquirer make a deep evaluation on the advantages coming from target executives substitution. Indeed acquirer which substitute target executives achieve an important cost saving and in addition ease the post acquisition activities avoiding resistance of target executives after the deal. As a conclusion the decision to retain or substitute target executives is strictly related to country, industry, firm and individual factor of the specific acquisition process.

Acquisition reason, firm's goals and target top executive turnover are strictly connected each other and they vary a lot according to contextual factors (Krug, Wright, & Kroll, 2014). This relevance leads several researches to study those drivers behind target executives' turnover and this stream is deeply analyzed in next chapter. Several studies were developed about reason of turnover after acquisition and they are all connected to the specific situation both the acquirer and the target are facing (Krug, Wright, & Kroll, 2014).

For this reason, my focus in next chapters will be on those factors that influence executives' turnover after acquisition and later, this focus will deepen on those individual factors based on personal similarities of CEOs. Before analyzing reason behind substitution of target executives after acquisitions, it is necessary to make a general overview about executives' turnover in order to understand the extent of the phenomena I'm going to analyze.

Executives are very concerned about the impact of acquisitions on their own careers and lives (Bennet, 1986). Hirsch (1986) stated that these impacts could have so huge and pervasive consequences, that they can be viewed as "the managerial equivalent of a natural disaster". He shaped in this way the term "wounded list" in order to identify those target executives that showed personal or career problems after a takeover process.

Shifting to a more general vision, the importance of turnover after acquisitions doesn't lead only to individual problematic, but also to future issue for the whole firm. The evidence is that acquisitions, on average, don't improve performance of the firm they acquire (King, Dalton, & Daily, 2004). In such context, does turnover help in improving performance or worsen the situation? This question is important because through a root analysis of turnover original determinants, it is possible to understand which are those indirect factors influencing firm's performances. Hence the importance of turnover led several researchers to empirically study its trends and determinants highlighting differences with a non-acquisition situation.

First information about executives turnover after acquisition, come from (Hayes, 1979) reporting that five years after the acquisition, only 42% of target executive stayed within the merged firm. In 1988, Walsh tried to document in detail and with empirical evidence this phenomenon in order to confirm or deny Hayes' conclusions. He was the first one to explore this new area of analysis and as theoretical basis for its hypotheses, he identified three main forces that contribute to the occurring of executives turnover after acquisitions:

- Uncertainty among executives. This uncertainty is generated by a gap of information between target and acquirer. In this situation executives that are not able to reduce uncertainty or don't accept this information asymmetry are more likely to have turnover intent. Therefore after acquisition we expect higher executives' turnover.
- Cultural differences
- Market for corporate control

Starting from these assumptions Walsh (1988) and other studies tried to find a relationship between executives' turnover and merged firm. The final aim was to understand the impact of acquisitions on turnover and when this effect returns to normal.

However all these analyses found that top management team turnover during acquisitions is actually higher than in normal situations. In particular the cumulative turnover rate is higher for all 5 years following the acquisition with on average 24% of turnover rate after the first year and 60-65% of turnover rate five years after the acquisition. This means that only around one third of target executives stayed in the firm five years after the acquisition. These results highlighted and confirmed the effect of turbulent and uncertain nature of acquisitions on executives' perceptions that prompted them to leave the firm (Walsh, 1988).

Moreover these studies' results found consistency with Ducker's (1981) observations. Acquirer should be able to supply its own management for the target within one year after the acquisition and on the other hand target should be ready to experience high turnover in the first year following the deal. Hence it is interesting to note that while in first year turnover rate was significantly higher in merged firms rather than non merged (on average three times higher than normal), in following years the increasing rate of turnover was almost the same during time: for this purpose it is a significant data that the total variation from the first to the fifth year is very similar in both merged an non merged cases (Drucker, 1981). These results verified a strong short term effect of acquisition on turnover of target executives.

As I'll discuss later in next chapter, reason at the basis of executive turnover may come from potential arising conflicts within the group and between two individuals with consequent psychological tensions and feelings of hostility that prompted them to leave the firm (Davis & Nair, 2003). Although this, there is a significant portion of executives that leave involuntary the firm after the acquisition. Krug and Hegarty (2001) identified three main categories to describe executive intent to depart. According to their results, voluntary turnover were almost double the involuntary ones. Although two third of executive departures come from voluntary reasons, half of them left for motivation that had nothing to do with the acquisition like retirement or family reasons. The other half instead reported as principal turnover cause, alienation within the team and perception of negative long term personal effect of the acquisition. This kind of context is the one that would need deeper analyses because associate executives turnover and individual interaction. The last one third was characterized by involuntary turnover probably due to decision at the highest level of the firm probably for performance related reasons. These findings lead to conclude that acquisitions have negative consequences for up to two third of target’s top management team (Krug & Hegarty, 2001).

7.3 Determinants of executives’ turnover after acquisitions

So as we could infer from early studies on top management team turnover, departure situations are mostly related with voluntary decisions. Despite that, if the acquisition had not occurred, they would have not left the firm. So even if a large part of executives left the company for reasons that have nothing to do with the acquisitions, the higher turnover rate after a takeover process suggests that acquisitions have often negative consequences on target executives’ turnover. For this reasons a huge number of studies focus their attention on those determinants that influence the turnover rate of incumbent target executives (Krug & Aguilera, 2005).

In particular most important findings analyzed the causes by looking at four main perspectives:

- Merger characteristics
- Industry characteristics
- Firm characteristics
- Individual and TMT characteristics

7.3.1 *Merger characteristics*

As we will see in next paragraph, attention of researches was addressed to those strategic and organizational aspects that potentially could influence in general acquisition decisions and in particular executive’s turnover. What instead didn’t capture so much the attention of researchers are those possible causes related to aspects of the specific acquisitions process, in particular the negotiation phase.

As said in previous chapters, Hirsch (1986) conducted several studies aimed at the identification of those executive “wounded” by the deal. What instead was unknown and little explored at that time, was the relation between the acquisition process characteristics and the level of risk toward target executives.

One of first study facing this issue was the examination published in 1979 by Hayes. His publications were a response to those Walsh's suggestions (1988) about possible executive turnover determinants other than firms' relatedness. In the specific, he observed that professional negotiations, meant as the ones which took place on both social and business level, lead to higher target top management retention. Although in a small size, in these early studies there were the willing and awareness concerning the importance of individual aspect on executive turnover after acquisitions.

Later, always with this purpose, in 1989 Walsh tried to investigate more in depth how negotiation phase during acquisitions affects the retention of a target's top management. In particular he analyzed seven aspect of the negotiation process that according to his view, may potentially impact on target's top management team turnover:

- Tender offer versus merged proposal: acquirer may decide to purchase the target with a standard merging proposal to the head of the firm or through a direct tender offer to the shareholders bypassing target executives.
- Negotiations marked by numerous counteroffer: because during negotiations price and interest of the two parties are often not aligned and consequent hostile relationship can lead to executives turnover
- Time required to negotiate the deal: this concept is strictly related with the number of negotiation counteroffers.
- Acquirer's public assurance that they would retain target executives. It is important to consider that these pre acquisition discussions bring no guarantees and are not accompanied with a contract.
- Hostile versus friendly negotiation: during the negotiation phase interactions can be characterized by friendly, hostile or neutral relationships.
- Type of payment: cash or stock. Target executives prefer stock payment if know that its assets have high value, while accept cash payment if it knows that its value is less than the value of the cash offer.
- Premium paid for the target: sometimes acquirer offer a premium over the average market value of the target that can vary from few percentages to more than two or three time the target market value. The extent of the premium strongly depends on

acquirer perception of future value of the target: high premium price means that in the opinion of the acquirer, the target is strongly undervalued.

Results showed that only one of the previous variables emerged to be statistically significant concerning its relation with target executives' turnover. The remainder didn't reach a sufficient level of consistency with the hypothesis enough to suggest a relation with turnover. Indeed in most of cases, their correlations, were almost null and sometimes opposite to the hypothesized value. The only detail to be highlighted is that often an acceptable level of consistency is obtained only after the second year following the deal. This is highly likely related to the fact that in general early management continuity is needed to facilitate the continuity of the operations and somehow firms tries to minimize the effect of serious problems regarding post acquisition integration (Walsh, 1989).

Only the hostility of transaction reached a sufficient level of consistency but only in the first year after the deal. The fact that this variable, unlike the others, reached statistical significance for the first year and then lose its validity in the following years, lead to the conclusion that negotiations are influenced by personal and emotional factors and that their effect can overwhelm the one related to the need of an early operation continuity. Another confirmation, come from the fact hostility variable is correlated to the one of acquirer approach: hostile transactions are most often tender offers than mergers (Walsh, 1989).

And this last correlation is right the starting point of Hambrick and Cannella's research in 1993. Unlike friendly negotiation, during a contested tender offer both parts are suspicious of other's intentions and motives. From one side, the acquirer is not willing to leave too much authority to the target in order to avoid the threat of stonewalling and sabotage. On the other side, target's executives don't want to run the risk to hold uncomfortable roles or be struggled and treated coolly by acquirer's executives. In such win and lose situation, the ones who take a beating are the target executives (Hirsch, 1986). From their analysis, when an acquisition is hostile a significant positive effect on executive turnover exists and it is visible not only in the first year after the acquisition, but also later. It is noteworthy to say that the effect after the second year will be less pronounced but still important because it is even more caused by individual reasons.

Although hostility is the only feature of negotiation that could impact on target executives' turnover, the number of occurrence of this kind of acquisition is almost null and it is insignificant compared to the huge number of deals transacted during a year. If we consider all acquisition in one year, hostility would be present only in 5% or less of cases (Krug & Nigh, 1998).

Thus, since most of acquisition negotiation process aspects are not related to executives turnover, and the only one that reach statistical significance has a minimal occurrence probability, merger characteristic cannot be considered a good predictor of future target turnover (Krug & Aguilera, 2005).

7.3.2 *Industry characteristics*

As seen in previous chapters, a significant reason at the basis of acquisition decisions is the possibility of exploitation of potential synergies among the merging parties. We could have different types of synergies and one of the most used classifications identifies financial and operating synergies. Sharing similar resources and knowledge allow both firms to get not only economic advantages, but also operational benefits, such as improvement in quality, productivity and cost reduction (Ali-Yrkko, 2002).

Talking about industry features, the relatedness between acquiring and target's sector, is an important driver in the pursuit of synergies. The Federal Trade Commission (FTC) made a classification of acquisitions based right on these relationships between acquirer and target. The first four are related acquisitions because the two parties have some characteristic in common or similarities that can be exploited, while the last one is unrelated acquisition.

- Horizontal acquisition: acquisition where both parties operate in the same industry. Generally target and acquirer produce the same or at least closely related products.
- Vertical acquisition: acquisition where acquirer and target produce different goods or services but can be involved in a potential buyer-seller relationship. So integration in this case is at process level rather than product level.

- Product extension. Acquisition where the two parties are functionally or distributional related but they produce two products that don't directly compete each other.
- Market extension. Acquisition where the two parties produce the same product but sell it in two different geographical areas/markets.
- Unrelated acquisitions. Acquisitions where the two firm has nothing to do each other. different product, different processes and different markets make the two firm completely unrelated.

In such context, the retention of top management might be different across various types of acquisitions.

Even if it could be difficult to estimate the different executives turnover rate among these five categories, what seems to be more reasonable, is that if a firm acquires another firm operating in the same or at least a similar sector, it could consider its own management already familiar and skilled in that specific business and for this reason the probability that target executives will be substituted should be higher (Walsh, 1988). If the objective of an acquirer is to increase its value after a deal, then probably it may feel its own experienced management more value adding compared to the target executives retention. It is not only a matter of technical abilities, but also the sense of belonging to an institution, together with an already entrenched organizational culture, plays its important role. So we could expect that in a related acquisition, target executives are felt as a redundant resource, and its replacement is very likely. Early studies (Manne, 1965) suggested that in a related acquisition, the acquirer may even encourage target executives turnover.

On the other hand instead, the role of target executives in an unrelated acquisition is focal for the success of the deal. As Pitts (1976) argued, often firms are not willing to lose the specific product and the rooted experience of target executives. Through an unrelated acquisition, the acquirer is diversifying its market and this means that probably they don't have any specialized skills and dedicated resources necessary to operate in the new sector. In such situation target's executive are crucial for the success of the deal and for the future creation of value. They have the know-how and they are familiar with their organization’s environment. Even the biggest firms in the world need knowledge about specific characteristics of an new industry before deciding to enter it. So at the end following Parsons & Baumgartner (1970), the acquirer needs, at least at the beginning, the institutional leadership provided by target executives.

Results obtained by researchers who studied the relationship between relatedness and turnover rate (Walsh, 1988; Walsh, 1989 and Hambrick & Cannella, 1993) were a little surprising: there is a variance in the turnover rate of target’s executives but it is not significantly influenced by the type of acquisition (related or unrelated).

Even if the mean of executives turnover rate was higher in a related acquisition rather than in an unrelated one, neither reaches statistical significance. Both T-test and ANOVA test were performed but with poor results. Sometimes they yielded outcomes quite contrary to prevailing theory and hypotheses: related acquisitions showed relatively low turnover rate and unrelated ones had a positive correlation with turnover rate in particular in the first year after the deal. These unexpected results lead researchers to make more detailed and precise analyses but even in these cases hypotheses didn’t reach statistical significance.

The only association that received support by statistical analysis is the one achieved by Walsh (1989), linking relatedness and previous acquisition interests: when an acquirer approaches with an acquisition proposal a firm that has been previously subjected to takeover interests and is operating in another industry, then target executives turnover rate will be higher 4 years after the deal.

In order to find a reason to these unexpected results, Hambrick and Cannella (1993) argued that probably what occurs in reality is influenced by factors that are more significant than potential sectorial synergies. What indeed happens, is that relatedness generate not only potential redundancy of target executives in the new firm, but also a smaller cultural gap that ease the communication between the two parties. Conversely in unrelated acquisitions this cultural difference could create real and anticipated strains between acquirer and target, and consequently make incentives for executives to leave.

Anyhow, generally speaking, both Walsh (1988; 1989) and Hambrick and Cannella (1993) came to the conclusion that an industry characteristic such as relatedness is not a good direct predictor of target executives' turnover.

These early studies, focused primarily on the analysis of synergies among different industries, looking at the need of specific knowledge and skills to operate in a given sector. Due to these poor results, researches tried to enlarge their views about other sources of industry characteristics impacts and in Krug and Nigh (1998) reached interesting findings through an analysis of cross border acquisitions. In particular their studies gave prominence to the industry structure rather than synergies and relatedness. What they demonstrated, is that executives turnover rate is higher if the acquirer operates in a global industry. This term refers to those sectors that operate in all, or most, of the market all over the world. In such a context firms look at the achievement of worldwide efficiency and performances. So it is not only a matter of domestic organization. Global firms have to manage and coordinate a complex and huge network of subunits in the best possible way. Standardization and rationalization of production and resources are the key concepts to look at in order to survive in a global industry. Homogeneous customer needs, cost reduction through economies of scale and learning curve effects are possible advantages that such firm can exploit. In this context the human resource has an important role that varies according to the market expansion of the industry. In a global context, the pursuit of standardization across the world makes less critical the need of local executives (the target ones) and on the other hand existing managers become a critical resource for transmitting the firm's strategy abroad. On the contrary in a multi domestic industry, the acquirer gets benefits from the retention of local executives because they can help the firm in the adaptation of the product and processes to the local market (Krug & Nigh, 1998).

So these finding suggested that a relation between industry features and target executives turnover actually exists, but it is related to the concept of transnational integration and global industry, rather than the achievement of synergies thanks to sectorial relatedness.

7.3.3 *Firm characteristics*

As said in previous chapters, behind the decision of acquiring a firm there could be a careful analysis on target's performances. Therefore, market for corporate control theory plays a central role in such activities. According to it, market for corporate control has the role of mitigating problems of agency caused by the separation of ownership and control in modern firms (Jensen & Ruback, 1983). Moreover, talking about firm's performances, those firms that perform below shareholder expectations become a takeover target. The point in this case is that often happen that executives engage themselves in order to promote and strengthen their position, undertaking decision that sometimes go against shareholders' interests. So it is not only a matter of incompetence, but rather of opportunism. They try to start projects that create the perception of competences even if it is not the best possible decision for firm's wealth. When an executive is not a shareholder, the opportunism is always an important threat to face and it could become an importance reason, more than incompetence, whereby acquirers can intervene by acquiring the poorly performing firm, replacing either opportunist or incompetent executives, in order to improve target's overall performances (Krug & Aguilera, 2005).

Starting from this theory, developed by Professor Henry G. Manne of the Washington University Law School in 1965, several studies were developed. In particular Hambrick and Cannella (1993) focused their research on the relation between executives' turnover and target firm performances: on the basis of their hypotheses, the lower the accounting performances of a target firm, the higher executives' propensity to depart. As disclosed in previous lines, target performances and individual factors in the interaction between the two parties' executives, are two highly related concepts and have impacts that may affect, in the same direction, t executives' future. Even if individual characteristics of executives will be deeply and better analyzed later, here we only mean to focus on the psychological effect on executives caused by poor or good target performances.

Hambrick and Cannella (1993) stated that beliefs and behaviors of both parties during executives interaction, follow the rules proposed by Frank (1985) with his "relative standing theory" whereby individuals' status in a social setting, such as neighborhood, firm or a team, is based on how they compare their status to others. In their research

(Hambrick & Cannella, 1993), they applied Frank's theory to target executives during acquisitions because their retention or substitution revealed both political and institutional interests and can predict future firm outcomes. In this way acquisitions create a new social setting in which target executives are forced to compare themselves both with their past performances and with acquirer's executives. So their analysis not only covered target outcomes in absolute value, but they even examined the gap between both parties' performances.

Since outcomes of a firm are commonly attributed to executives' abilities, a poorly performing firm may create in executives' minds, the feeling of inferiority that could lead to target executives' turnover. In particular after the acquisition, target executives may feel not up to the new formed firm and leave voluntarily. On the other hand, executives who stay will experience low status and intolerable conditions that force their departure. Results confirmed what hypothesized and implications of relative standing on executives turnover were empirically supported (Krug & Aguilera, 2005).

Nevertheless, although individual and corporate performances have been several time connected to acquisition primary motivating factors they didn't find any empirical confirmations (Davis & Stout, 1992 and Walsh & Ellwood, 1991). Indeed although all these hypotheses about improving target firm performances and replacement of underperforming executives have strong theoretical foundations and seems reasonable, further studies about market for corporate control proved that such type of reasons rarely drive acquisition decisions. Walsh and Ellwood (1991) stated that general literature about acquisitions accepted the theory of market for corporate control no complete examination or empirical tests were performed in order to analyze its implications. From their results they found little evidence in support of the theory. In practice what happens is that average targets perform above industry standards before the acquisition (Walsh & Kosnik, 1993). Acquirers look at those firms which are leaders or at least have specific set of unique competences or know how that would potentially increase the value of the new formed firm.

Summarizing we can say that poor performing targets experience high turnover rate among its executives, but performance improvement and substitution of incompetent executives are not primary motivating factor to undertake an acquisition process. As a consequence, relative importance of target low performance on turnover rate strongly reduces.

Another firm characteristic that has been studied and have strong influence on top management team turnover is the national culture. Krug and Hegarty (1997) made an overall research on cross border acquisitions and found that in such context, executives turnover rate is much higher that a domestic transaction. Cultural policies and procedure embedded in the national culture and difficulties in communication and understanding lead to voluntary or involuntary turnover during a cross border acquisition. Their analysis focused even on the timing of post acquisition turnover. In domestic acquisitions, target executives turnover rates have a growth rate higher than non merged firms but only for the first three years following the acquisition. Indeed for the years beyond the third, turnover increased with similar non merged firms’ rates. What happen instead for cross border acquisitions, is that executive turnover keeps rising at higher rate than normal through the sixth year after the acquisition. These findings imply that unlike domestic transactions, cross border acquisitions have long term validity and effect on top management team turnover. Cultural difference is a variable that drive behaviors and decisions of people not only in the short but even in the long term. This means that fear and difficulties during the interaction with different national cultures, make integration difficult to be achieved even in the long term (Krug & Hegarty, 1997).

Moreover cultural differences effects are enhances by the experience of the acquirer. International experience and acquisition experience in a specific country make the acquirer more flexible and able to face a different environment. In particular acquirer’s executive may feel self confident and less dependent on the local knowledge because through experience they succeed in developing target country specific capabilities. As a consequence, target executives may be considered redundant and their possibilities of departure increases (Krug & Nigh, 1998).

7.3.4 *Individual and top management team characteristics*

All these studies about turnover drivers after acquisitions focused on merger, industry or firm characteristics, led to poor results and no statistical significance. Often these researches started from reasonable and realistic assumptions, but no important relations were discovered. These results suggest that specific and careful topics such as turnover of target executives or CEO turnover are driven by other factors. Consequently strategic, organization or sectorial factors alone cannot be considered at the basis of substitution decision that probably have its deep origins in relational and individual factors between people.

It is quite uncertain and inconvenient for the acquirer to choose the retention or substitution of executives starting exclusively from strategic, sectorial and other organizational level factors. Indeed since it is a matter of people turnover, the focus for the decision should be on individual characteristics in particular comparing similarities and differences of personalities and experiences. Only knowing people profile and beliefs you will be able to judge them and decide if their skills and experiences might be useful for firm's growth and success (Hambrick & Mason, 1984). You cannot a priori exclude an executive only because the firm operates in a different culture or sector. He or she could own a large set of possible competences and be very high skilled, and if I replace him without knowing his background I commit an unforgivable mistake. So it is important that people coming from different teams will know each other in order to discover new and interesting skills or points in common. In addiction people should understand if in the future, cooperation and integration is possible or if risk of conflicts and misunderstanding is highly probable (Ivancevich, Schweiger, & Power, 1987). For all these reasons, several researches tried to analyze individual or top management team characteristic as main determinant of target executives' turnover. Here below it is described the existing literature about these issues.

Given the importance of individual characteristics Krishnam, Miller and Judge (1997) develop a study in order to examine impact of differences or similarities in functional background on post acquisition performance and executives turnover. They reported several literature sources highlighting both advantages and drawback of top management team complementarity. On one hand similar background and competences between executives leads to better communication, cooperation and shared understanding easing the integration of people working together. Nevertheless, real cases proved that similarities in functional skills among executives cause managerial clashes and result in redundancy and duplication of resources. Moreover, there is the risk that focusing competences on a single part of the firm to neglect other functions hence decision are taken from a unique point of view without considering diverse solutions. In order to explain this drawback, they reported several examples but the most striking is the acquisition performed by Philip Morris of American Safety Razor Company. Indeed this acquisition were prompted by similarities in marketing function but after few time Philip Morris was forced to disinvest because of problem encountered during the integration of top management teams of the two firms (Krishnan, Miller, & Judge, 1997).

For these reasons they focused their attention of benefits coming from functional complementarity of executives. Organizational fit, intended as the cultural, personnel and managerial matching between executives, is an important determinant for post acquisition integration (Jemison & Sitkin, 1986). In particular one dimension of organizational fit that have impact on performances and executives turnover is the level of functional complementarity of top management team. Differences in competences and skills make members of the team less redundant and more useful for the improvement of future performances. Unlike teams with similar characteristics, heterogeneous team in term of functional experience, contribute to increase the acquirer's existing knowledge. In addiction having a multi skilled team with different functional competences increase the diversity of solution proposed for a same problem.

Results of studies in this area (Krishnan, Miller, & Judge, 1997 and Wiersema & Bantel, 1992), proved that redundant executive were more likely to depart after acquisitions because acquirer already own competences and knowledge of target executives. While the ones with different functional backgrounds and complementary skills compared to existing acquirer executives, were retained since acquirer cannot afford to lose specialized experience, skills and talent of target's executives.

As stated for firm characteristics, culture is also an important driver at the individual level. Perceptions of cultural difference of top management teams are often the cause for voluntary or involuntary turnover. In particular Lubatkin, Schweiger and Weber (1999) find an inverse relationship between cultural difference perception and shareholder gain or firm's future performances. Reasoning done for culture as firm characteristics can be translated in a very similar way to cultural diversity at individual level. Different values and belief of the individual, embedded in the national culture are potential source of tension and clashes within a team. So in order to avoid these conflicts and problem during the integration process, acquirer could decide to completely replace target executives with its own. Another way for turnover is the voluntary turnovers of target executives that see the new environment too far from the previous firm and miscommunication with acquirer's executives enhance this distance causing a feeling of demotivation. As a consequence new ideas, strategies and procedures embedded in the national culture force executives to depart voluntary (Lubatkin, Schweiger, & Weber, 1999).

Krug and Nigh's (1998) stated that cultural difference effects on executives turnover is a very complex factor and it shouldn't be analyzed alone. Indeed they identified several moderators and suggest the existence of many other influencing factors. In particular executives with international experience are able to manage in a better way relationship with culturally different individuals and have more sensitivity during communication. In this way during cross border acquisition conflicts and integration problems are reduced hence turnover rate of target executive due to cultural distances will strongly decrease.

So turnover has been connected to both complementarity due to redundant resources and to similarity in term of culture thanks to easier integration and communication. So according to the context complementarity and similarity play different roles. As Krug et al (2013) suggested, similar and compatible traits between individuals should not be limited to national belonging. Indeed several other similarities variable have been analyzed at the basis of communication and conflict but they have not been applied to acquisitions (Ancona & Caldwell, 1992; Williams & O'Reilly, 1998 and Krug, Wright, & Kroll, 2014). So in next chapters, starting from the existing literature about personal executives similarity variables, I'll try to create a basis for the same theories but applied to acquisitions.

Chapter 8

Individual similarity and turnover

This thesis is aimed at the analysis of target and acquirer CEO's relationship and possible consequences on turnover deriving from individuals and social characteristics. For this reason the starting point is the analysis of executives' behaviors and interactions focusing on the effects of similarities or differences about personal profiles of individuals. In particular, starting from all psychological and socio relationship theories, I will try to understand to what extent individual similarity between CEOs affects target CEO turnover.

First of all it is important to briefly explain the theoretical arguments about similarity and social categorization. Then then analysis can deepen the effects of similarity on executives relationships.

After that, an important difference should be clarified. Literature emphasizes the psychological influence of individual's behaviors both at group, with TMT homogeneity and individual level, with social and demographic similarities between executives (Pelled, 1996). In both cases reasons at the basis of turnover decisions are placed at individual level for problem occurring during the interaction with similar or different personalities. The literature focused on similarity at individual level stressing out the negative effects of dissimilarity on social interactions which results in conflicts and ultimately turnover (Williams & O'Reilly, 1998). Even those researchers that tried to link group diversity and turnover level within the team, argued that causes of individual turnover should be found at a more individual level where the single member compare himself with other member characteristics (Holtom, Mitchell, Lee, & Eberly, 2008 and Swider, Boswell, & Zimmerman, 2011). So determinants at the basis of team diversity-team turnover can be used even for individual similarities/differences – individual turnover, through a lower level understanding and application.

8.1 Social identity theory and self-categorization

At the basis of behavior and interaction between two or more individuals there are strong psychological and often unconscious drivers that influence people attraction or attrition toward others. The research field that study such types of topic is placed in the social psychological science and my purpose is to apply this stream to business and organization contexts in order to understand potential influences on executive turnover decisions (Tajfel, 1978; Tajfel & Turner, 1986; Wagner, Pfeffer, & O'Really, 1984; Schneider, 1987 and Williams & O'Reilly, 1998) .

Main theories about self-identification of individual within a group come from Tajfel (1978) with Social Identity Theory (SIT) and later from its sister theory about Self-Categorization (Turner, 1985). They are often translated in the business context and described as the social identity approach to organizational problems and processes. SIT states that individuals tend to identify themselves as members of a specific group. In particular according to social identity theory, people tend to form self-categorization based on two identity variables: personal or self-identity, referring to personal qualities such as beliefs, abilities or skills, and collective identity including those characteristics coming from being part of society, culture, family or groups. In both cases individual’s behaviors within a group can be easily predicted and are caused by perceived group status differences. In this case more focus was given to collective identity since it is strictly related to definition of “social” and it entails information about the extent to which individuals feel committed, attached or attracted to a specific group.

Therefore, according to social identity theory, individuals tend to classify themselves and others into social categories according to organizational membership, religious affiliation, age, gender and race. It is noteworthy to say that social identity theory at its first origination was not intended to work as overall basement for social categorization. Indeed only later social psychological studies (Turner, 1985 and Tajfel & Turner, 1986) explored the perception of people toward individuals that can be classified as different. Categorization theory is considered by most, a branch of the broader social identity theory and it allows understanding behaviors, interaction and similarity perceptions between individual as a consequence of social category identification. This theory starts from the assumption that definition of others and the self, are largely relational and comparative. In other words, one can only define himself belonging to certain category such as young only if an opposing category such as old exists.

Indeed Tajfel & Turner (1979) has made an attempt to describe the process through which people tend to identify “us” and “them” into two different groups.

As first step people categorize objects and persons and as a consequence different social environments and individual characteristics are identified. Similarly to others, individuals categorize even themselves in a specific group. According to the considered dimensions and variables, a single person can belong to more than one category.

In the second phase, social identification, individuals tend to assign themselves to a well-defined group according to their personal experiences, status and characteristics. Accordingly individual tend to act in the way they believe a member of the group should act.

In the last phase in general individuals feel themselves as a part of a group. As a consequence they enhance their self-esteem and tend to make comparisons with other groups. This detail is very important for the evaluation of potential prejudices because often happens that differences with a member belonging to another group give rise to rivalry and tensions between two individuals. In order to maintain their self-esteem, individuals behave as if competition and hostility are a way for defending their own identity.

Through a process of social categorization people divide the world in “them” known as out-group and “us” known as in-group (Tajfel & Turner, 1979). As status of the in-group increases, individuals belonging to the in-group start discriminating out-groups’ members. Indeed a central hypothesis of SIT is that group members will tend to find negative aspects of an out-group in order to highlight in-group’s values. Concluding individuals are inclined to exacerbate benefits coming from similarities with other in-group members and negative aspects related to characteristics of out-group members. This social accentuation is theoretically described by (Tajfel, 1981) that identified two different functions both aimed at the division between two groups. The cognitive function accentuate similarities within the in-group and differences with out-groups confronting individuals is their social environment. The value function instead goes beyond the specific accentuation of similarities and differences, using them as a starting point to enhance in-group's values. Differences between two categories are associated to subjective value differential with the certainty that "we are better than you".

8.2 Similarity attraction theories within the organization

The strong foundation of the previous theories leads researchers to find possible application to the organizational context. The attraction between people that are socially and demographically similar, leads to benefits that can be easily identifiable and its consequences on work related interactions may have interesting results (Postmes, Tanis, & Wit, 2001).

As said before, according to self-categorization theory, individuals tend to identify themselves as a part of categories sharing points in common like their attributes and backgrounds. So the concept of similarity plays a central and positive role because individuals tend to interact mainly with individual similar to them, viewing negatively others. This self-categorization leads to easy communication and sharing of ideas, other than an increase in cooperation and efficient interaction. Indeed starting from these assumptions several researches looked at interpersonal differences between top executives as possible source of conflictual disagreement (Turner, 1985).

Similar statements have been developed with the relational demography theory. This research stream not only analyses those diversity variables that drive individuals' behavior, but involves also individual similarity or differences at a personal level. Indeed several studies in this field (Byrne, 1971 and Wagner, Pfeffer, & O'Really, 1984) showed that the extent to which an individual shares similar characteristics with other members of a team, affects the probability of his integration in such group. Moreover (Williams &

O'Reilly, 1998) dissimilarity and categorization lead the creation of in-groups and out-groups resulting in deteriorating communication and decreasing cooperation. As a consequence, an individual with similar age, gender, education background or nationality to another one, is more likely to be accepted and receive support and cooperation. This acceptance is related to easier communication and positive perception of the relationship with the counterpart. On the contrary dissimilar individual are less likely to receive mentoring and support.

An application of these social based theories in the organization were developed in 1987 by Schneider, that propose the ASA (attraction-selection-attrition) model giving further confirmations about the fact that people tend to be more attracted to those environment and individuals that shares their common beliefs and ideas. Together with organizational demography theory (Pfeffer, 1983 and Jackson, et al., 1991) concepts of communication, conflicts and cohesion were highlighted both at an individual and group level. Summarizing Schneider's concept, in organizations settings, the creation of group composed by similar people is due to the tendency of individual to be attracted to similar others and to feel uncomfortable among dissimilar ones.

Another concept that received attention by researchers is the homophily. Theories about homophily describe it as the tendency of people to form connections with others who are similar to them. In particular, Marsden (1988) identified several dimension of homophily that are important: age, race, gender, education and religion. Starting by this classification, Louch (2000) proved that racial, age, educational, gender and religious homophily of a dyadic relation tend to ease the connection between the two individuals. As a consequence interactions and collaborations may be more frequent.

8.3 Executives individual similarity/differences effects

Starting from these theories, several studies analyzed the effects of interpersonal context in term of individual demography similarity on turnover decision within the organization in particular regarding top executives (Godthelp & Glunk, 2003 and Wagner, Pfeffer, & O'Really, 1984). Interpersonal attraction is related to integration, communication and consequently to turnover. But it is not an attribute of the single individual indeed it is a relationship between at least two members of the organization. Among executives, individual characteristics are important and similarities between two executives of the firm create automatically personal and social ties and accordingly they should be less likely to leave. Age, education background, gender, race and national culture are the most common demographic variables to take into consideration because they give rise to shared values and communication patterns that ease the interaction. Before explaining in detail their effect on turnover probability, it should be better to understand in a more detailed way, what drives attraction or conflicts toward turnover decisions.

Pelled (1996) made a comprehensive analysis about diversity of TMT team, individual differences and executives' turnover. Within his model, he proposed several reasons that lead to conflict within a team and between single individuals. Since our interest is about individual similarities and not on team diversity or group integration I will focus on those variables that can be applied to individual interaction. His model highlighted negative consequences of individual differences but it is possible to interpret his model in the opposite way, highlighting positive effects coming from similarities. Low conflicts, high communication frequency and cohesiveness are the main benefits that two similar individual can experience.

Conflicts describe all those tensions coming from misunderstanding and difficulties in relating with other people of the team. In this area but even in the overall literature about executives, conflict is seen as a two dimensional construct (Wall & Nolan, 1986 and Ross & Ross, 1989). The first dimension, affective conflict, is more related to socio emotional and interpersonal consequences of the conflict (affective dimension of conflict). In particular interpersonal clashes are caused by angers, distrust, fear and several other negative effects. The second, substantive conflict is more focused on the effect of task disagreements within a same group including goals, procedures and key areas of analysis (substantive dimension of conflict). Affective conflict, since it represents a more emotional dimension, has stronger effects on the individual side of the person and on turnover rate (Wall & Nolan, 1986 and Ross & Ross, 1989).

Communication is represented by the transfer of information, ideas and feelings between two or more individuals within a same team. Also for this variable, researchers (Jackson, et al., 1991) identified two dimensions both important in order to understand the relationship between executives: non work related and work related communication. Anyhow, conflicts and communication may influence each other: a lack of communication leads to potential conflicts, and the presence of conflicts may cause the absence of communication.

Cohesiveness is the variable describing social integration and represents the existence of attractiveness between individuals, satisfaction and reciprocal socialization (Katz & Kahn, 1978 and O'Reilly, Caldwell, & Barnett, 1989). Also in this case relation with conflict is intuitive but it is important to make a distinction (Ancona & Caldwell, 1992). Since this variable regards social and interpersonal interaction between executives, social integration and substantive conflict should have a weaker relationship than cohesiveness and affective conflict. This variable describes the extent to which group members are attracted each other, feel satisfied and socialize. For this reason it may be potentially related to turnover decisions (Ancona & Caldwell, 1992).

At last, another comprehensive study about individual similarity and turnover rate was developed by Jackson (1991). His results showed that rather than team diversity, main variables that drive executives' turnover should be found at a lower level, analyzing individual characteristics. The relation between group diversity and turnover is strongly influenced by the presence of dissimilar group members that are more likely to leave the firm. Hostility and uncomfortable feelings may limit individual integration and force his turnover. Indeed Jackson showed that executives, whose personal attributes are dissimilar to their teammates, would be more likely to leave the firm than executive who are similar to their teammates. Furthermore he looked most at the interactionist perspective: it is important to consider interpersonal context before explaining individual behavior because different people within different environments fit in several different ways.

A more recent comprehensive study developed by Jehn (1999) focused its attention on individual within the organization and those intrinsic problems of coordination, motivation and conflicts. As all previous mentioned theories, he believed that individuals prefer similarities in their interactions and, in order to maintain an effective work environment, they seek similar values and demographics. Poor communication and excessive conflicts due to unshared understanding and beliefs are the main sources of incompatibility between two different individuals. In order to develop a more comprehensive model to describe the relationship between differences, performances and conflicts, Jehn (1999) investigate how different types of diversity variables relate with different types of conflicts. In particular he identified two kind of individual differences: informational and social category differences. The first are those differences in education background and experiences. Such type of differences leads to different ways to face a problem and different opinions and perspectives on a certain topic. Accordingly debates during work activities and disagreements about task process may arise. Moreover, educational background similarities lead to easier organization and definition of the way to proceed (Jehn, Chadwick, & Thatcher, 1997). On the other hand, social category differences refer to those explicit differences between two individual such as age, race and ethnicity. Starting from social identity theory Jehn (1999) demonstrated that individual categorization and disagreements about interpersonal interaction provoke hostility even for non work issues. The type of conflict that arises from these differences is called relationship conflict. On the opposite, those individuals that belong to the same social category show favoritism each other and cooperation is easier and more efficient.

After these first streams that focused on the single effect of individual differences on interpersonal conflicts, a group of researches tried to study the existence of potential moderator on the negative effects coming from the interaction of different individuals (Carpenter, 2002; Jarzabkowski & Searle, 2004; Vaara, Sarala, Stahl, & Bjorkman, 2012 and Van Der Vegt & Bunderson, 2005). The common starting point of all these papers is that social identity theory, self-categorization and similarity attraction effect are valid, but their application may be influenced by several moderators such as context or internal organization variables.

Characteristics of executives will likely be reflected in organizational performances and interaction frequency, but only after taking into account the strategic and social context (Carpenter, 2002). In particular negative consequences of individual differences are enhanced when operating in a more complex context. Indeed even if people with different background may generate a greater range of strategic alternatives and be more efficient in the evaluation of feasibility of a certain decision, possibilities of hostile debates and behavioral tensions due to different opinions or points of view, lead to the creation potential socio-cognitive conflicts (Carpenter, 2002). Although his results, Carpenter (2002) required and suggested the need of future research about several other moderator, in order to understand better how executives' decision and behaviors will be affected by their backgrounds and the backgrounds of others.

Following social identity theory, Vaara (2012) hypothesized that individual difference in particular referring to national culture and ethnicity is positively associated to social conflicts. Against all odds, results showed that cultural differences were negative associated with conflicts. He justified these surprising findings stating that probably in long term executives develop a sense of adaptation toward different national cultures. Another reason he suggested was related to the fact that good performances may have positive effects on individual's commitment and cooperation, over potential cultural differences' tensions.

This effect is explained also by Jehn (1999) that proved the mediating role of performance between social category differences and morale, conflicts and intention to remain. However Vaara (2012) encouraged and suggested additional research about further mediating and moderating variables because even if in a first moment differences may lead to conflicts, with time other variables can soften this negative effect.

As anticipated by Charperter (2002) adaptation behaviors during time and learning processes coming from cooperation with different profiles, may overcome the potential rise of conflicts. Jarzabkowski (2004) agreed with social identity and similarity attraction, but defined differences between individuals as a double-edged sword. A team containing different behavior styles and profiles may show better problem solving capacity, but are more likely affected by conflicts among its members. This last detail is very important for an individual level analysis. Individual backgrounds shape personal experiences and beliefs and consequently personal predisposition to productive task or non-productive social conflict. Individual of the same age or with similar university studies may lead to similar behaviors and personality styles that drive individual's social interaction and personal level of collective actions. Collective action is defined as the capacity of an individual to act collectively despite holding different perceptions, background and ideas.

In his model, Jarzabkowski (2004) stated that similar individuals don't need a high level of collective action and thanks to shared understanding they create consensual interactions and cooperation dynamics. On the contrary different people need to have a high level of collective action in order to cooperate, otherwise their inability to agree on actions and ideas may turn task conflicts and dialectic debates into social conflicts. Therefore social category and educational background differences are potentially negative related to higher conflicts, but they are incomplete without understanding behavioral diversity (Jarzabkowski & Searle, 2004).

Individual differences, in particular regarding personal backgrounds, should be analyzed in a more complete and complex way in order to understand how and under which condition they promote potentiality or generate only drawbacks (Van Der Vegt & Bunderson, 2005). Individuals that specialize in different disciplines or functions not only gain specialized knowledge and skills, but they develop specific personal identities and ideas. According to these common beliefs they emphasize positive aspects of their categories and interact with other individuals. So according to social identity theory individuals will be initially attracted by similarities and first impact is the most influencing factor at the beginning of a relation. But with time, there could be the possibility that learning behaviors and the creation of a collective action lead individual to overcome communication difficulties and potential conflicts exploiting benefits coming from the interaction with different profiles (Van Der Vegt & Bunderson, 2005).

8.4 Conflict, satisfaction and turnover

In order to find a link between conflicts and individual turnover, I explored the existing literature about the role of morale and job satisfaction on the intention to leave the firm (Jehn, Northcraft, & Neale, 1999; Cox, 2003; De Dreu & Weingart, 2003 and Liu, Mitchell, Lee, & Holtom, 2012). De Dreu & Weingart (2003) stated that conflicts may results from tension between different individuals because of real or perceived differences. Moreover conflicts, may interfere with team performances but, more important for my analysis, can reduce satisfaction because it produces hostility, antagonism and tensions between two individuals. Several multidimensional analysis (De Dreu & Weingart, 2003) studied the relation between different kind of conflicts and individual job satisfaction. Individual job satisfaction can be related to the salary, opportunities of promotions and interaction with other members (Liu, Mitchell, Lee, & Holtom, 2012). This last case could be very interesting for my analysis and allows to find a connection between satisfaction and individual differences. Starting from the classification proposed in previous studies (Jehn, Chadwick, & Thatcher, 1997), Dreu & Weingart (2003) differentiate between task and relationship conflicts according to the context they arise. Depending on the considered conflict dimension, the effect on individual satisfaction may be different. In particular relationships conflicts have more negative impact than task conflicts on team member satisfaction. It is not a surprising result, indeed relational conflict is more interpersonal and emotional, and consequently more likely to generate immediate negative responses. However, conflicts in general reported negative correlation with individual satisfaction, due to difficulties in interaction and consequent decreases in morale (De Dreu & Weingart, 2003). Dreu & Weingart (2003) hypothesized in their conclusions, a potential positive relationship between conflicts and turnover or absenteeism.

In several recent studies job satisfaction has emerged as the most widely studied predictor of turnover (Holtom, Mitchell, Lee, & Eberly, 2008; Swider, Boswell, & Zimmerman, 2011; Liu, Mitchell, Lee, & Holtom, 2012 and Chen, Ployhart, Thomas, Anderson, & Bliese, 2011). An interesting analysis was developed by Liu (2012) because he looks at the satisfaction from two different points of view: individual job satisfaction, related to the personal work experience of the individual, and unit job satisfaction measured as the average individual satisfaction within a group. Regarding individual satisfaction, results showed a significant increase of turnover intentions in context with low satisfaction. A strong reduction of satisfaction may motivate the individual to seek new job opportunities and withdraw from the present organization in order to avoid future trouble. This is valid in particular for executives because since they are looking for successful careers, they will seek for new opportunities if the organizational context they operate in, is no more a source of potential satisfactions (Hom, Mitchell, Lee, & Griffeth, 2012). Moreover Liu (2012) studied the individual job satisfaction trajectory that consider changes over time from previous to current values of satisfaction. It is important because Liu (2012) included the role of time when considering individual interactions as previously stated in several researches about individual differences and conflict (Jarzabkowski & Searle, 2004 and Van Der Vegt & Bunderson, 2005). Employee's cognitive appraisal and affective responses to work experiences evolve over time, and may be influenced by differences in styles and beliefs of other individuals (Jehn, 1999), causing in this way a decrease in job satisfaction (Liu, Mitchell, Lee, & Holtom, 2012). Feelings and interactions with coworkers shape individual behavior such that individual's job satisfaction trajectory is negatively related to turnover: this means that a decrement in satisfaction is associated with an increase in the possibility of turnover. So low satisfied individuals, especially executives, are more likely to leave the company.

After this deep analysis of the existing literature it is possible to summarize the main concepts in order to find a logic flow that goes from differences or similarity variables and arrive to turnover decision. The following figure summarize graphically all connections and relations covered by the previous literature review:

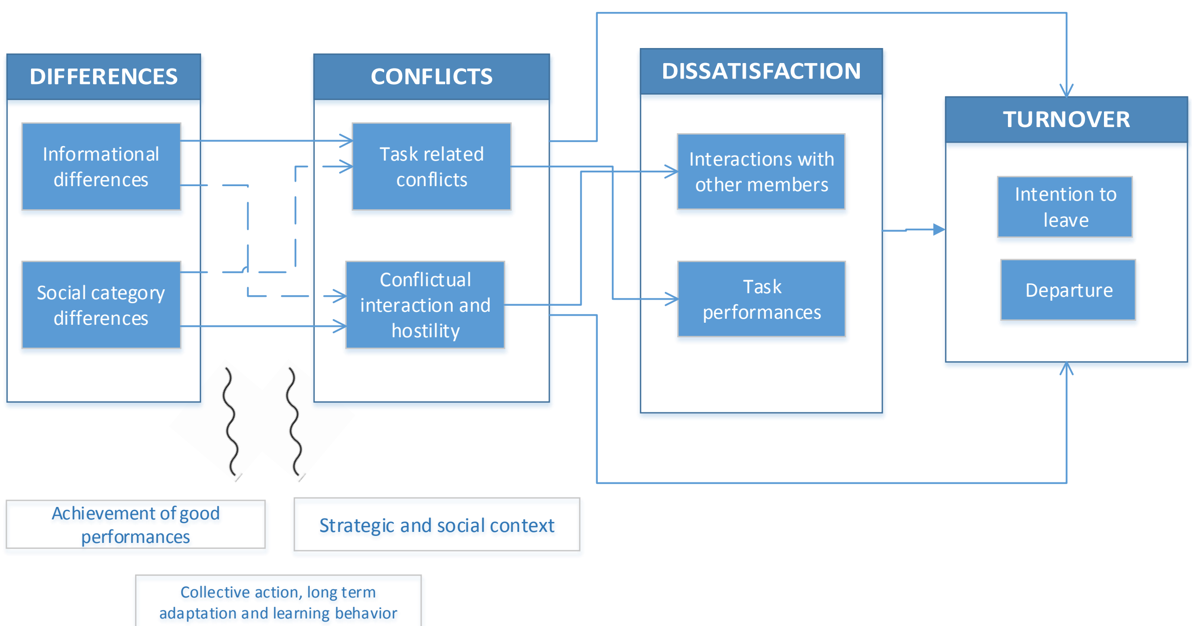


Figure 11 - Logical flow of literature review

Differentiating between several informational and socio category diversity variables, studies hypothesized and demonstrated that, according to social identity and similarity attraction theory, individual differences lead to hostile interactions, difficulties in communication and interpersonal conflicts, due to the lack of shared understanding and common beliefs (Pelled, 1996; Jehn, Northcraft, & Neale, 1999; Godthelp & Glunk, 2003; Wagner, Pfeffer, & O'Really, 1984 and Vaara, Sarala, Stahl, & Bjorkman, 2012). These conflicts may interfere with team performances but, more important, can reduce personal and job related satisfaction because it produces hostility, antagonism and tension between two individuals (Jehn, Chadwick, & Thatcher, 1997; Jehn, Northcraft, & Neale, 1999; Cox, 2003; De Dreu & Weingart, 2003 and Liu, Mitchell, Lee, & Holtom, 2012). A strong reduction of satisfaction may motivate the individual to seek new job opportunities and withdraw from the present organization in order to avoid future trouble. Researchers in this field showed that significant decreases in individual satisfaction, resulted in significant increase of turnover intentions (Holtom, Mitchell, Lee, & Eberly, 2008; Swider, Boswell, & Zimmerman, 2011; Chen, Ployhart, Thomas, Anderson, & Bliese, 2011 and Liu, Mitchell, Lee, & Holtom, 2012). As final conclusion, it is reasonable to assume that, unless potential moderating variables with opposite effects, individuals with different characteristics will experience conflictual interaction that, due to low satisfaction, eases the probability of turnover decisions.

Now that the link between individual differences or similarities and turnover is clearer, it is necessary to deepen the analysis on the single diversity variable so to have strong basis for supporting next hypotheses.

8.5 Age similarity

Age difference was repeatedly found to be an important factor in explaining conflicts and turnover at the top (Wagner, Pfeffer, & O'Really, 1984; Jackson, et al., 1991 and Godthelp & Glunk, 2003). Similarity in age is related to similarity in attitudes, perceptions and beliefs. Moreover common sharing of experiences and social values may create several similarities in individuals' personality. Age similarity can have two effects. The first one is that, since similar individuals are attracted each other (Schneider, 1987 and Byrne, 1971), the frequency of communication will be higher. Second similarity directly affects integration and cohesiveness since shared attitudes and common beliefs exist (Wagner, Pfeffer, & O'Really, 1984).

As Wiersema and Bantel (1992) discussed, age is an important demographic variable and it is strictly related to non-work experience of the specific stage in individuals' lives (Godthelp & Glunk,2003). Individuals with similar ages have several experiences and background in common which leads to shared attitudes and beliefs (Wiersema & Bird, 1993 and Wiersema & Bantel, 1992). On the other hand, people with different ages, face different experiences and they embedd social values belonging to different period of time. Age dissimilarity affects the level of integration and cohesiveness, reducing communication and cooperation, increasing the possibility of turnover (Godthelp & Glunk, 2003).

Theories about organizational demography, stated that integration, communication and cohesion create strong and friendly relationships reducing the possibilities of conflicts. Instead teams and individuals that experience tensions and hostilities are characterized by high turnover rate. Hence as Pelled (1992) stated, age difference is a high visibility variable and its effects on turnover pass through the creation of affective conflicts: angers, distrust and fear make work life too stressful and force them to leave the firm.

Starting from social and psychological theories, Jackson (1991) and Godthelp & Glunk (2003) predicted a positive relationship between individual age dissimilarity and the likelihood of turnover. Their results significantly supported this hypothesis.

Among all dimensions, age homophily can be the strongest. It is not only a matter of being similar in personal characteristics, but even context, different ideas and beliefs of the specific period of time make the difference. For all these reasons age homophilous ties tend to be closer, longer lived and involves a larger number of exchanges other than being more personal (McPherson, Smith-Lovin, & Cook, 2001).

A more recent study (Cennamo & Gardner, 2008) investigated the effect of differences between three generational groups in the organization. In particular this research focused on job satisfaction, commitment, conflicts and intentions to leave. They present evidence that individual values fit is an important issue in current organizations because it drives behaviors and enhance personal work motivation. Where individual coming from different generational groups showed difficulties in the fit, job satisfaction and commitment decreased and as a consequence individual intentions to turnover increased significantly (Cennamo & Gardner, 2008).

8.6 Education background similarity

Education reflects individual's cognitive skills and ability owned by an individual about a specific subject. As for ages differences, individuals coming from different university majors develop different knowledge and their studies embed a specific way of thinking that unconsciously forces the individual to face problems from different points of view and perspectives (Wiersema & Bantel, 1992).

Holland (1973) stated that university specialization tends to shape individual styles and personalities. In the same way Hitt and Tyler (1991) focused on specific degree types and found that the kind of academic degree have influence on strategic decision making and innovation orientation. For example engineering is more oriented toward progress and innovation than other degrees like arts or law.

Another way to look at the educational background as potential source of homogeneity is the prestige of the university executives attended (Wiersema & Bird, 1993). University prestige is not only an indicator of social class, but it is a strong determinant of the organization joined and have consequences even in the career trajectory of the individual. Similarity in university prestige influences individual relationships enforcing cohesiveness and integration (Wiersema & Bird, 1993 and Wiersema & Bantel, 1992).

This type of variable, unlike age, can be easily imagined as job related other than being an attribute shaping individual personality. Indeed education background generates specific knowledge and past experiences that work as main drivers for the perception of a problem (Pelled, 1996 and Hambrick & Mason, 1984). It shapes selective perception of the individual and studies about a specific discipline create in the mind of the individual diverse ideas. These different ideas and approaches coming from different university specialization or majors tend to create tensions and strains between executives, other than an almost absent cooperation during work (Wiersema & Bird, 1993). On the contrary executive educational background similarity eases communication and integration, hence lower level of turnover.

Jackson (1991) in his comprehensive analysis about individual dissimilarity and turnover explored the education variable under two points of view. First, he considered the level of degree assessed: starting from no degree, his scale proceed from 4-year degree to doctoral degree assessment. Second, he used a binary variable to indicate if a person had a degree that designated specialization in business administration. For both variables, Jackson (1991) found support for the hypothesis that individuals are more likely to leave if they were dissimilar to their teammates in term of educational background.

More recent studies about individual characteristics included educational background as informational differences (Jarzabkowski & Searle, 2004; Jehn, Northcraft, & Neale, 1999 and Van Der Vegt & Bunderson, 2005). Educational background may led to different ways to face a problem creating different ideas and point of views. Interactions between individuals with similar backgrounds, may give arise to difficulties in organizing and proceeding the work (Jehn, Chadwick, & Thatcher, 1997). Within his study about homophily, Louch (2000) stated that individuals who share educational background attributes are more attracted each other and the likelihood of contact increase significantly. Internal dynamics of an individual are shaped by those achieved boundaries generated by different educational backgrounds. Education locate individuals in school settings and for this reason it is not surprising that strong homophily exists on these characteristics (McPherson, Smith-Lovin, & Cook, 2001). Interconnection, friendly interactions and integration occur easier among individuals with the same education. Strong ties are generate between individuals with similar education level and according to social categorization, they tend to be less attracted to others (Louch, 2000 and McPherson, Smith-Lovin, & Cook, 2001).

Recent confirmations come from Carpenter (2002) that showed positive effects of educational background similarities during interaction between individuals within a team. Then it is reasonable to expect that, since personalities of individuals influence how they work with others and educational background contribute to shape individual’s personality, individuals with different backgrounds may give rise to non productive social conflicts (Carpenter, 2002 and Jarzabkowski & Searle, 2004).

8.7 Gender similarity

Relation between gender similarities and interpersonal relationship were predicted in early studies starting from similarity/attraction notion (Clement & Schiereck, 1973 and Holahan, 1979). Later, the presence of others that are different in term of sex, leads researchers to study the topic adopting the social categorization theory. Accordingly, studies that included sex as one of a set of demographic variables, concluded that dissimilarity create in the individual less opportunities of interpersonal attraction (McLeod & Lobel, 1992 and Tsui, Egan, & O'Reilly, 1992). Moreover, according to Pelled (1997) individual sex differences are positively associated with increased level of emotional conflicts with interpersonal tensions and lower level of friendliness.

When we talk about behavioral and interactional consequences of gender differences, it is important to understand the context. Indeed often in a group, isolation of minorities exists. It is not directly related to individual relationship but it is important to clarify differences in male and female during the interaction with the other sex. Men in minorities are socially integrated and treated fairly by other members (Schreiber, 1979), but they showed less satisfaction and job related depression than woman in minorities (Tsui, Egan, & O'Reilly, 1992).

Other researchers' investigations (Tsui & O'reilly, 1989) were more focused on direct individual interaction, analyzing the relationship between subordinates and supervisors. Results confirm attraction-similarity hypotheses: subordinates who were similar to supervisor tend to receive more positive affect and treatments. Furthermore, this tendency of negative evaluation toward the other sex is stronger when the evaluator is a male (Ruble, Cohen, & Ruble, 1984 and Swim, Borgida, Maruyama, & Myers, 1989).

The affective and emotional conflicts (Pelled L. , 1997) together with lower satisfaction, self esteem and job depression reduce commitment and force people to depart (Wharton & Baron, 1987).

Similar patterns are encountered even at top level of the firm. Indeed Ely (1994) showed that women between executives, viewed female partners more positively and were more supportive to them.

Several more recent studies hypothesized a positive relationship between gender differences and conflicts (Jehn, Northcraft, & Neale, 1999 and Pelled, Eisenhardt, & Xin, 1999). Although they started from categorization theory, some of these studies didn't succeed in statistically explain this relationship (Pelled, Eisenhardt, & Xin, 1999). Probably it is wrong to consider gender differences by itself. One interpretation of these poor results was that gender differences may trigger both categorization and social comparison that cancel each other's effects. Randel (2002) provided a more reasonable and statistically significant interpretation. Individuals tend to seek information about the identities of other people in order to determine what behavior is appropriate for that type of interaction (Wiley & Alexander, 1987). According to the situation, the identity whose information become more salient is the one that drive behavior patterns and attitudes. Hence categorization and conflict don't occur just because of gender differences, but it is the salience of gender within a group explains that the prevalence of conflicts (Randel, 2002).

Another theory that analyzes the creation of barriers in term of gender between two or more individuals is the faultlines theory. Even if it considers member as a part of a group and studies creation of sub groups, it includes those negative influences of gender differences on individuals interaction. Faultiness are defined as those "hypothetical dividing lines that may split a group into subgroups based on one or more attributes" (Lau & Murnighan, 1998, p. 328). As a consequence the presence and the activation of faultiness is negatively related to behavioral interaction and integration (Li & Hambrick, 2005). An important application of this theory considering gender differences were proposed by Pearsall (2008). Given the increasing representation of woman in management positions and work groups, gender is becoming one important variable when talking about individual differences. Communication, coordination and cohesion are three main requirements at top levels of the firm, and gender differences may work as a brake, leading to frictions and communication breakdowns. Pearsall (2008) focused his research on the relationship between gender differences, creative interaction and emotional conflict. When gender faultlines are triggered, frictions between male and female occur and communication become more difficult due to different ideas and opinions.

Accordingly, gender faultlines are positively associated to individual's emotional conflicts and consequently reduce creative interactions (Pearsall, Ellis, & Evans, 2008).

8.8 Racial and ethnical similarities

Organizational demography researches focused most on other variable like age or tenure rather than racial differences. This lack of studies in this field may be due to the fact that very little racial differences exist in team within the organization, in particular within top management teams (Williams & O'Reilly, 1998). Moreover, who attempted to describe effect of racial differences, had to take into consideration the societal context of the period.

Majority of studies that looked at this issue started, as for sex, from similarity-attraction and categorization theory. Most of them find support for these hypotheses and using Pelled (1997) logic they demonstrated the positive association between dissimilarity and emotional conflict. Accordingly, individuals belonging to different ethnical groups experienced lower interpersonal communication frequency and barriers in interaction (Hoffman, 1985).

As for sex, it is important to consider the importance of isolation issue that even doesn't imply individual relationship, may influence people behaviors and reactions (Ibarra, 1995).

At individual level several significant results were achieved concerning people similarities in term of race. Experiments at individual level studied the relationship and evaluations between supervisors and subordinate with different ethnical origins. White supervisors tend to give support and positive evaluation to people of the same race and as a consequence black people were more likely to receive lower rating and bad treatments (Sackett, DuBois, & Noe, 1991 and Greenhaus, Parasuraman, & Wormley, 1990).

Tsui, Egan and O'Reilly (1992) stated that individuals who were different from others in racial background, tended to be less psychologically committed to the organization and for this reason are more inclined to leave it.

More recent studies (Mihalache, Jansen, VanDenBosch, & Volberda, 2012 and Jiang, Chua, Kotabe, & Murray, 2011) focused on the reaction of executives collaborating with overseas colleagues and their behavior changes due to the interaction with different ethnicity. Mihalache et al (2013) stated that while offshoring activities may provide opportunities for developing the business and increase the value of proposed alternatives, the ability of executives can be influenced by their knowledge bases, perspectives and ideas often linked to different national belonging. Difficult communication and coordination among individuals with different national cultures increase conflict in particular when dealing with complex situations. Hence ethnicity differences may complicate the integration and knowledge transfer between top executives. Even if his study was focused on the negative effect of differences on offshoring activities, Mihalache et al (2013) highlighted the importance of similar mental models and ideas coming from same ethnicity, during the interaction between top executives. Jiang's (2011) investigation studied the consequences of ethnicity differences between top executives in particular giving prominence to reciprocal trust. Starting from similarity attraction and social categorization theory, he argued that top executives behave different with their overseas colleagues according to their cultural ethnicity. In particular higher affective and cognitive trusts were linked with same ethnicity of the considered executives. Connecting these results with Liu's (2012) findings it is possible to infer that this trust toward similar ethnicity individual may lead to less conflict and higher level of satisfaction.

8.9 Other individual characteristics: individual background

Even if it is not a social characteristic of the individual, it is important to include this variable in the literature review analysis, because several papers analyze in detail the consequence of interaction between people with different functional background.

In particular, as described previously in the chapter about executives' turnover determinants, one comprehensive study about similarities and turnover is the one published Miller and Judge in 1997. They highlighted both advantages and drawback of top management team complementarity. On one hand similar background and competences between top executives leads to better communication, cooperation and shared understanding easing the integration of people working together. Nevertheless, real cases proved that similarities in functional skills among executives cause managerial clashes and result in redundancy and duplication of resources. However results of similar studies showed conflicting trends, in confirmation to the double effect of functional background complementarity on executives' turnover (Michel & Hambrick, 1992; Wiersema & Bird, 1993 and Haspeslagh & Jemison, 1991).

Chapter 9
Hypotheses

9.1 Introduction to hypotheses

From the analysis of determinants of executives' turnover after acquisitions, it is clear that individual executives characteristic play very important role. As discussed earlier, any meaningful achievement from the acquisition requires close collaboration and cooperation between executives of both firms especially from CEOs. Given the importance of demographic characteristics of the executives and CEOs, interaction and integration, this study will focus on individual similarity of the two CEOs and its effect on target CEO's turnover in high-tech cross border acquisitions.

Since we are considering acquisitions between firms head quartered into different countries, the central variable in this context is the existence of national cultural differences between the two firms. The reason why this study wants to investigate the effects of CEOs individual similarities during acquisitions, is that, as several other researchers suggested, cultural issues during cross border acquisitions cannot be considered in isolation from other variables.

The arguments I'm going to develop, place in those fields covered by upper echelon theory (Hambrick & Mason, 1984 and Carpenter, Geletkanycz, & Sanders, 2004). The central premise of this theory, is that top executives view situation, opportunities, outcomes and alternatives through their own personal lenses. As a consequence organization are represented as a reflection of its own executives. This is possible because they have had different experiences that shaped their values and personalities. So within this context, the following study will focus on the importance of CEOs turnover and its relation with individual characteristics and personalities. In particular I will explore turnover values during the post acquisition integration process.

The importance of CEO's turnover during post acquisition integration, has been showed by Walsh's researches (Walsh, 1988 and 1989). He found that CEOs and presidents departed after acquisition more rapidly that other executive. This means that drivers for CEO turnover are not only similar to the ones driving other executives turnover, in addiction their effect is visible in the very short term. Hence my hypotheses start from the previous literature review related to top management team. Then I’ll apply those contents to the most important executive of the target: the Chief Executive Officer (CEO).

Another basic assumption for the following hypotheses is that what is known about top executives’ similarity in a general context, may be applied to acquisitions in particular to cross border transactions. Indeed, if diversity and other characteristics may cause difficulties in communication, incompatible shared understanding and consequently turnover in a context of ordinary administration, then this scenario is certainly valid during acquisitions where individuals are in a very close contact each other and interaction is the main variable.

As said in first chapters, during acquisition, in particular in negotiation phase, executives and CEOs interact and connect each other. So in this situation, collaboration and communication are the most important factors. Since acquisitions, merge not only firms, but also individuals, executives and CEOs, good communication supports people during the change and helps in reducing uncertainty. Neglecting the importance of communication may lead to misunderstanding, tensions, clashes and consequently to post acquisition integration difficulties. Confirmation of the difficulties in management of acquisition comes from Walsh (1988) result that showed an abnormal post acquisition turnover rate than in normal situation. In this context, it is interesting to analyze the role of similarity and differences between CEOs on integration or conflicts.

So summarizing, in general diversity have strong effects on variable such as conflict, communication and integration. In a context where two very different worlds with different cultures and beliefs are merged and interaction is the only solution to overcome these differences, the role of these variables is central and consequently even diversity plays a significant mediating role (Anand, Capron, & Mitchell, 2005).

Here below, a graphical representation of logical flow of next hypotheses linking similarity variables with likelihood of CEO turnover.

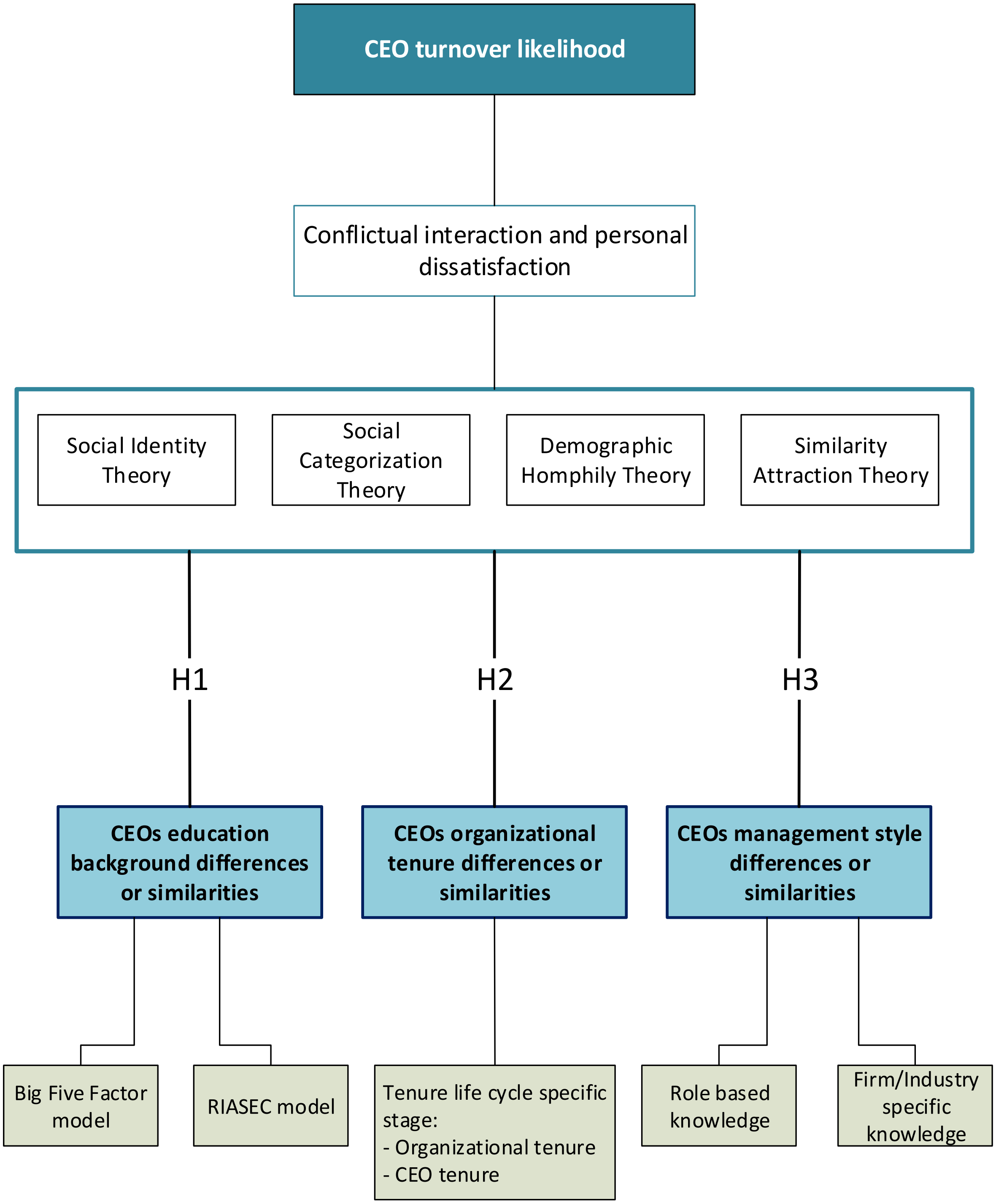


Figure 12 - Hypotheses logical flow

9.2 Hypothesis 1: CEOs education background similarity

Education is the establishment of individual personality and behavior. Other personal variables instead will maintain and reinforce it in the future. Education prepares the individual for situation that has not yet arisen and drives his stimuli toward instinctive actions. With school and university he obtains more technical and specific knowledge that shape his perceptions and cognitive capabilities (Datta & Guthrie, 1994).

Different educational backgrounds will tend to create different logical patterns for the individual, shaping not only individual knowledge about a specific topic, but have a direct effect on perceptions and understanding (Wiersema & Bantel, 1992; Bantel & Jackson, 1989 and Lopez, Rechner, & Olson-Buchanan, 2005).

Different educational backgrounds lead to different practices and personalities, in particular influencing a lot the future occupational attainment and interpersonal relational capabilities (Holland, Sorensen, Clark, Nafziger, & Blum, 1973).

Theoretical foundations of studies about education and personalities should be found in the Big Five model, proposed and refined by Goldberg in 1990. This model tries to classify people with different personalities and attitudes according to five dimensions: agreeableness, conscientiousness, extraversion, emotional stability and openness (Tupes & Christal, 1961; Norman, 1967; Goldberg, 1990 and Goldberg, 1993). It includes a set of variable producing the Big Five factor structure, so that connecting different variables and different factors, alternative personality framework existed. In particular, in order to have numerically homogeneous variables for each factor and avoid variable meaning misunderstandings, Goldberg selected a total of 60 variables in order to comprehensively describe individual personality. These variables are summarize by the factor they belong:

- Agreeableness: including attributes such trust, altruism, kindness and affection
- Conscientiousness: this dimension includes thoughtfulness, with control oriented and goal directed behaviors. These individuals tend to be organized and give attention to details.
- Extraversion: this dimension includes those individuals with high excitability, sociability and talkativeness.

- Emotional stability: this dimension involves those individuals that tend to experience emotional instability, anxiety, moodiness and irritability.
- Openness: individuals involved in this dimension are characterized by imagination and insight orientation, with broad range of interests.

In his studies Golberg underlined the importance that these factors have during the interaction between individuals with different personality variables. Starting from these concepts, in 1997 Holland proposed a more comprehensive model called RIASEC. This model is aligned with Big Five personality factors, but in addition it makes clearer the relationship between personality types and education received. In particular he identified five different kinds of personalities and associated them to different kind of university majors. A single mayor may be influenced by different personal characteristics:

- Realistic. Those individual who are independent, persistent, genuine, practical. They have athletic ability and prefer to work with object, machines or tools. Interaction and working with their hand are additional characteristics. Some example of major included in this kind of personality are: Aerospace Engineering, chemistry, software technician, mechanical engineer
- Investigative. Those individuals who are inquisitive, analytical, scientific and precise. They like to observe, learn, analyze and solve problems. Some examples of major included in this kind of personality characteristics are: Economy, Electrical Engineering, Biochemist, Mathematician, statistician and psychologist.
- Artistic. Those individuals who are creative, imaginative, innovative, unconventional and emotional. They have artistic and innovating abilities and like to work using their imagination and creativity. Some examples of major included in this kind of personality characteristics are: Language Studies, Design, Journalism, Advertising and Photographer.
- Social. Those individuals who are friendly, helpful and idealistic. They are people who are skilled with words and like to work with people in order inform, help, support or cure them. Some examples of major included in this kind of personality characteristics are: Psychology, History, Medical Assistance and Physical Therapy.
- Enterprising. Those individuals who are self-confident, persuasive, energetic and adventurous. They like to work with people in order to persuade and lead them

managing the interactions and achieve goals. Some examples of major included in this kind of personality characteristics are: Advertising and Marketing, lawyer, Politics, Sales Management and Business Management.

- Conventional. Those who are well-organized, accurate, numerically inclined and methodical. They like working with data and have numerical and clerical ability, carrying out task in detail. Some examples of major included in this kind of personality characteristics are: Accountancy, Computer Science, Business Management, Corporate Finance and Economy.

Holland developed a code, where he listed all major of University of Missouri and associated the coherent personality dimension developed by the students. Moreover he stated that the highest compatibility between two individuals is achieved with the same personality type.

These two models followed the same rationale, trying to investigate people behavior nature and attitudes development mechanisms. Starting from them, several studies were developed and many personalities and attitudes were identified among people with different educational background.

They investigated how education may shape the individual emotional intelligence defined as those emotions-related perceptions that go outside human cognitive abilities (Holland, Sorensen, Clark, Nafziger, & Blum, 1973 and Hitt & Tyler, 1991). A common categorization identities four main faculty typologies: technical, studies/natural, science/social and sciences/art/humanities (Sanchez-Ruiz, Perez-Gonzalez, & Petrides, 2010). Differences in diverse student profiles were found to be related to higher education differences. In particular several studies in this field, discovered that social science background increases emotions, agreeableness and cooperation compared to technical backgrounds (Sanchez-Ruiz, Perez-Gonzalez, & Petrides, 2010; Kaufman, Pumaccahua, & Holt, 2013 and Beauchamp & McKelvie, 2006).

Personalities are influenced in a different way even within a same discipline. Business management education may give the individual a unique starting point to face a problem, but within the same major there can be many differences (Hitt & Tyler, 1991). For example marketing specialties will focus on a qualitative and often behavioral analysis, while finance specialties will have a more quantitative approach (Lopez, Rechner, & Olson-Buchanan, 2005).

According to social identity theory, the creation of different personalities, with different ideas, views and skills, makes their interaction difficult due to potential creation of misunderstandings and conflicts. Education reflects individual's cognitive style and ability owned in a context focused on specific subject (Wiersema & Bantel, 1992 and Datta & Guthrie, 1994). As for people with different ages, people who received different education background develop different knowledge and specific cognitive capabilities. Indeed their studies embed a specific way of thinking that unconsciously forces the individual to face problems from specific points of view and perspectives (Wiersema & Bantel, 1992).

The job relatedness of education background makes easily perceivable the different consequence of these variables on cognitive skills, personality and ability of the individual (Pelled, 1996). Indeed experiences, different subjects knowledge and situational factors, shape individual perceptions in front of a problem and his interaction with others (Hambrick & Mason, 1984). According to social identity and categorization theory, all these difference in term of personality and attitudes created by different education received, can be the source for problematic individual relationship and conflicts. Accordingly, interaction between individual with similar background may easily organize their team working, being attracted each other (Louch, 2000). Specific background and specific faculties generate specialized knowledge and common past experiences, that creates in the mind of the individual diverse ideas. These different ideas and approaches coming from different education background create tensions and strains between executives so cooperation during their interaction may be very low (Wiersema & Bird, 1993).

Similarity-attraction and differences-conflicts relations are at the basis of more recent studies about educational background effects in term of conflict and turnover (Jarzabkowski & Searle, 2004). Moreover social homophily exists between individuals who share similar education background (McPherson, Smith-Lovin, & Cook, 2001).

Existing literature showed that interpersonal conflicts mediate the effect of individual demographic differences on turnover. Recent studies explored the role of conflicts on executives turnover showing that within this relationship, an important role is played by individual morale and satisfaction (Jehn, Northcraft, & Neale, 1999 and Cox, 2003). Using these concepts, De Dreu and Weingart (2003) explored the association between conflicts and turnover. Real or perceived differences between two individuals, create in their mind a sense of aversion that may result in higher tension and potential conflicts. Different kind of conflicts, task and relationship, may negatively influence executives individual satisfaction. Accordingly low morale and low satisfied individual will tend to depart more rapidly. This study, starts from social categorization, homophily and attraction similarity theory, hence its result can be applied also for education background similarities or differences.

Starting from demographic homophily concepts, Jackson (1991) showed a positive relation between dissimilarity of executives in term of educational background and their likelihood to leave the firm. Later studies (Wiersema & Bird, 1993) gave further support to these hypotheses stating that different ideas and approaches coming from different faculty specializations, tend to create tensions and strains between executives and cooperation during work may be absent.

More recent researches explored individual dynamics and personalities that generate difficult communication, tensions and conflicts. Their result showed that since personality and cognitive capabilities of individual are shaped by the received education background, differences arising from this variable may give rise to social conflicts (Carpenter, 2002 and Jarzabkowski & Searle, 2004). Such statement provides further strong foundation for the negative relationship between executives' individual similarity and turnover.

This supporting literature showed strong association between education background, conflict and turnover. In addition they can be applied to CEO similarity following fundamental concepts of upper echelon theory. During the interaction between target and acquirer CEO, different personalities and attitudes may create attrition and consequent target CEO turnover. Since in cross border acquisitions the two CEOs belong to two different organizations, with different national cultures, they need to interact, communicate and cooperate (Birkinshaw & Bresman, 2000 and Cartwright & Coopers, 2014). As inferable from existing literature, similarity in education background help individual to communicate better and reduces social conflicts. In addition to that the extent of post acquisition target CEO turnover reach abnormal values (Walsh, 1988). Accordingly the first hypothesis state as follows:

H1: in cross-border acquisition of small high-tech firms, similarity in education background of CEOs decreases the likelihood of target CEO turnover.

9.3 Hypothesis 2: CEOs organizational tenure similarity

In order to understand how people shape their behavior, attitudes and relational capabilities during time, it is appropriate to analyze the time individuals spend within the organization and the most suitable measuring variable for this phenomenon is the organizational tenure. Since the following analysis is focused on CEO role, the period within the firm may be reasonably divided into two periods. The first one covering the time laps were the individual was not yet CEO, and the other when the individual get his CEO role assigned. In both cases I will explore how time and experience accumulation shape individual behavior and attitudes.

Existing literature provide evidence that attitudes and behaviors of individual are shaped by their career within the organization (Ornstein, Cron, & Slocum, 1989 and Singh & Singh, 2010). The literature suggested one main model for explaining how the organization shapes and influences the individual behavior and personality: Super’s (1987) career life cycle. His model stated that career stages cannot be divide only according to age transition, but they varies according to individual’s circumstances and perceptions. Career life cannot be divided univocally for all existing individual, but it is different considering the specific individual and organizational situation. However, starting from its formulation, other researchers made further study and connect Super’s ideas with individual organizational tenure (Mount, 1984; Stumpf, Rabinowitz, 1981). In practice several studies started from career stages proposed by Super, and operationalized them by job tenure. As a result four major career stages has been identified: trial stage, establishment, maintenance and decline (Super, 1957; Super, 1980; Mount, 1984; Stumpf & Rabionowitz, 1981 and Singh & Singh, 2010).

- Trial stage includes the first two years on the job. This phase is characterized by increasing interest toward the job and initial task commitment other than the creation of a professional self image. Individuals in this stage are less committed toward the organization and both satisfaction and individual performances are very low compared to following stages. This phase is very important for the individual because it represents the first impact and it is the main influencer for turnover decisions (Singh & Singh, 2010 and Cron & Slocum, 1986).
- Establishment stage goes from 2 to 10 years on the job. It is characterized by higher commitment, career promotion and satisfaction. In this phase the individual will try to find a balance between work achievement and personal life interest seeking for stability.
- Maintenance stage includes the period over 10 years on the job. In this stage the individual tries to maintain his personal job achievement and career advancement in order to create a self image in term of career success.
- Decline phase timing depends on the specific individual that decide, after a certain point in time, to reduce his commitment and interests toward the achievement of career success within that organization.

So according to age, tenure and situational characteristics of the specific stage, different individual attitudes and behavior are encountered. This is also valid for executives that showed a shaping process throughout their experience within an organization (Singh & Singh, 2010).

The other important measure that I'm going to analyze is the time extent CEOs belong to their firm in that role. It allowed not only acquiring specific knowledge and competences about the firm, but even skills required for being the CEO. Once an executives become CEO, he starts a learning process that improve his knowledge and experience required by that role. Hambrick and Fukutomi (1991) made an attempt to model the dynamics driving tenure executives during time, in particular focusing on a specific position: the Chief

Executive Officer. The model they propose, divide the life cycle of CEO in five stages according to the value of CEO's tenure. These stages shape CEO's profile and give rise to different patterns both on his behavior and understanding, and more in general on organizational performances. The typical CEO's tenure is characterized by the following five stages: response to mandate, experimentation, selection of an enduring theme, convergence and dysfunction. It is noteworthy to mention that the model is general and many CEOs in practice do not survive the first season.

In the first stage, once the new CEO get his new role, the attention is totally given to the mandate he received from the board of director or from the President who nominated him. In the mandate, required and expected actions or decisions are made explicit. It can be a mandate based on simple continuity of operations but it can even be about radical changes. In this first stage, CEOs use the mandate as a real guideline for his work because the most important thing at the beginning is to prepare the ground to demonstrate to the Board, that what they expect can be concretely achieved. However executives will tend to focus at the beginning on changes regarding the area they are confident with and where they are more experienced. This first stage can be seen as a planning phase for the CEO where he tries to gain early acceptance and crate a first political foothold (Hambrick & Fukutomi, 1991).

As Gabarro (1987) stated, after a first phase where CEOs followed their ongoing mandates, they entered a period characterized by an intense learning after which, with enough knowledge required by the role, they experimented new changes and new opportunities no more aligned with mandate's guidelines or personal background. It is possible because after two or three years, CEO acquired a sufficient amount of diverse information and thanks to the beginning high task interest, he can deviate from his initial plan and explore new source of value creation (Walters, Kroll, & Wright, 2007).

The third logic stage, coming as a consequence after the experimentation, is about the selection of an enduring theme as a basis for the new CEO's firm shape. Starting from experience accumulated in previous two stages, CEO have to decide how to configure the firm from that point on. In practice CEO will have to choose if the initial paradigm related to the mandate is better or not than the approach he proposed in the experimentation phase. Once CEO decided which choice is the more promising, then an enduring theme for the firm's future is established. Organization life cycle is characterized by continue alternation of radical and incremental changes, and they often correspond to CEO succession stages. In particular the nomination of a new CEO will correspond to a radical change, with new ideas and paradigm to follow. Accordingly, after the theme selection, CEO will start to reinforce it with incremental actions oriented toward changes of firm's structure, organization processes or specific functions. In all cases, decision that the CEO will undertake, will serve to converge toward the common theme (Hambrick & Fukutomi, 1991).

The last phase is characterized by a low CEO engagement in substantive initiatives due to an increasing boredom for the role and an ineffective orientation toward habituation. Responsiveness of stimuli will be very low and decision making will be based on few information. As a consequence, CEO in such kind of situation is dysfunction for the organization. However, even the unfavorable situation, CEO is not always substituted. Indeed sometimes happens that CEO created a close relationship with board members, so that reciprocal loyalty make the CEO turnover highly improbable. For this reason the dysfunction stage of CEO's tenure may sometimes be even quite long (Hambrick & Fukutomi, 1991).

Each stage, shapes CEO's behaviors and attitudes differently (Hambrick & Fukutomi, 1991). The table below summarizes the most important trends in CEO's profile:

	SEASON OF CEO'S TENURE				
CRITICAL CEO CHARACTERISTICS	**Response to mandate**	**Experimentation**	**Selection of an enduring theme**	**Convergence**	**Dysfunction**
Commitment to a Paradigm	Moderately strong	Could be strong or weak	Moderately, strong	Strong, increasing	Very strong
Task Knowledge	Low but rapidly increasing	Moderate, somewhat increasing	High, slightly increasing	High, slightly increasing	High, slightly increasing
Information Diversity	Many sources, unfiltered	Many sources but increasingly filtered	Fewer sources, moderately filtered	Fewer sources, highly filtered	Fewer sources, highly filtered
Task Interest	High	High	Moderately high	Moderately high but diminishing	Moderately low and diminishing
Power	Low, increasing	Moderate, increasing	Moderate, increasing	Strong, increasing	Very strong, increasing

Table 2 - Critical CEOs characteristics during CEO's tenure life cycle

Table X shows the changes in each stage of the critical characteristics of a CEO. The commitment to a paradigm, in term of the path the CEO want to follow in order to lead the firm, is, as described in previous lines, fluctuating during time. CEO's learning curve is positive, with low task knowledge in the first phases, and larger job experience as tenure increases. Source of information and interest toward the task are negatively related to CEO's tenure. Indeed at the beginning the CEO tries to look at all possible sources of information and his commitment for success achievement is very high. Later instead, commitment and task interest will diminish. At last the power of the CEO will be low at the beginning because he has to persuade and demonstrate his competences to the board. With experience accumulation and achieving early success he will establish credibility and conquered the confidence of the board.

What this means, is that CEO that are in different stage of their tenure, experience different situation and develop in a different measure all these previous characteristics (Walters, Kroll, & Wright, 2007).

Homophily and similarity attraction theory state that individuals tend to identify themselves as a part of categories and feel attracted toward those individual sharing points in common with, like their attributes, attitudes, ideas and backgrounds. The easier interaction with similar individuals leads to easier communication and rapid integration, reducing the probability of conflicts. It is possible then, to connect these concepts with the previous studies about individual organizational and CEO tenure stages. It is reasonable to expect that people, and in particular CEOs, belonging to different stages of organizational tenure, developed different behaviors, attitudes and ideas, and as a consequence their interaction may generate misunderstanding and conflicts.

Consistently with social categorization and similarity attraction theory, individuals identify with others who entered the organization at the same time because they are experiencing the same stage of the organizational tenure (Tsui, Egan, & O'Reilly, 1992). Behaviors, interests and worries of the specific stage can be shared and integration is easier. Similarity in time of entry and in term of organizational tenure, leads to increased communication and as a consequence integration and cohesion (Pfeffer, 1985 and Li & Hambrick, 2005). Hence tenure homogeneity increase frequency of communication and social integration decreasing the possibility of conflict creation (Pelled L. , 1997 and O'Reilly, Caldwell, & Barnett, 1989).All these statement showed that social identity and categorization theories have strong foundations, and can be applied also for organizational tenure similarity. They are coherent with Hambrick and Fukutomi (1991) and Super (1980) organizational stage models. Indeed higher tenure corresponds to a specific stage, and in turn specific stage corresponds to different individual characteristics, perceptions and behaviors. Some of these studies (Wiersema & Bantel, 1993; Pfeffer, 1985; Tsui, Egan, & O'Reilly, 1992; Carpenter, 2002 and Milliken & Martins, 1996) were conducted with sample composed by top executives so their statement can be applied to the interaction of member of top management teams, CEO included. More recent studies (Carpenter, 2002 and Li & Hambrick, 2005), confirmed these hypotheses about benefits of similar tenured executives and their results strengthen the credibility similarity-attraction theory. Carpenter (2002) viewed tenure as an equalizer that drives executives interaction within the firm. Different tenured executives are associated to different characteristics that influence their ideas, aversion to risk and adherence to the status quo. Organizational tenure is a more complex variables compared to other similarity factors. Indeed if it is true that top executives are affected by differences, in the case of tenure those differences may change over time (Carpenter, 2002) as inferred by theories about organizational tenure stages.

Another characteristic of tenure similarity that may have positive effect on individual interaction, is the degree of accumulated experience. The degree to which an individual is psychologically linked to others, can be enhanced by the possibility to undertake very technical communication thanks to an important accumulated experience in a specific sector or in a specific firm. As proposed by Hambrick and Fukutomi (1991) CEO's tenure increases his knowledge about the task domain, in particular about the firm, the industry and the specific knowledge required to be a CEO. Therefore a difference in term of tenure, will lead not only to social categorization effects, but even to difficult technical communication and easier misunderstandings (Williams & O'Reilly, 1998 and Pelled, Eisenhardt, & Xin, 1999). All these differences coming from different stages of CEO's tenure, can make complex the interaction between two individuals and it is associated with high conflicts occurrence (Williams & O'Reilly, 1998).

Studies on tenure similarity, demonstrated not only the connection with lower conflicts, but even an easier retention of executives. In particular early studies showed that the positive relationship between executives tenure similarity and turnover were mediated by conflicts (McCain, O'Reilly, & Pfeffer, 1983 and Carpenter, 2002). Demographic difference between executive, including tenure dimension, increase conflict, reduce communication and increase that some individual will prefer to leave from this uncomfortable situation (Williams & O'Reilly, 1998 and Kato & Long, 2006). Turnover rates should decrease as interpersonal attachment increase (Sorensen, 2000)Attraction similarity theory and social identity theory, with the support of later studies (Wagner, Pfeffer, & O'Really, 1984), showed that demographic characteristics of individuals affect the strength of interpersonal attachment. Thus, higher level of similarity, in particular in term of organizational tenure, will lead to higher individual attraction and attachment. On the contrary different profiles will potentially experience more tension and their poor interpersonal connection will be associated to high turnover rate (Sorensen, 2000 and Carroll & Harrison, 1998). This psychological difference is enhanced throughout the phases of organizational tenure life cycle. Individual in different phases, will develop different attitudes and behaviors and their personalities are shaped by the experiences of the specific stage (Singh & Singh, 2010). As a consequence these differences in personalities may create complex interaction and difficulties in communication, hence higher turnover probability.

All the previous literature provide strong basis for the second hypothesis of this thesis. It is possible to infer that similarity in term of executives and CEO's tenure will ease the interpersonal integration between two individuals. As already stated for the first hypothesis, during cross border acquisitions communication and cooperation are central for better integration and lower conflicts (Birkinshaw & Bresman, 2000 and Cartwright & Coopers, 2014). Hence the negative association between tenure similarity and conflicts, and the importance of turnover in post acquisition integration (Walsh, 1988) leads to the following hypothesis:

H2: In cross-border acquisition of small high-tech firms, similarity in organizational tenure of CEOs decreases the likelihood of target CEO turnover.

9.4 Hypothesis 3: CEOs style similarity

The last hypothesis is about CEO's style similarity. Nowadays firms are facing difficult challenges to find the right person to be the leader. In general CEO characteristics were classified by age, tenure, education and gender but in recent years another important and interesting differentiation among CEOs attracted attention of researchers: insider versus outsider CEOs. Insiders includes those people who usually are veteran of the firm and move to CEO position from executive team thanks to their merits and accumulated experience (Mittal, 2007). The main representative example of insider CEO is the firm's founder. On the contrary, outsiders are those who came directly from outside the organization and sometimes even from a different industry. The main reason that lead to hire this kind of CEOs, is that they are like "professional CEOs" and own specialized knowledge, not about a specific firm or industry, but regarding the specific role. The role of CEO requires huge leadership and management skills, which go beyond the simple organizational affinity with the firm. Moreover, outsider CEOs have specialized knowledge about how to perform their job. This is the reason why two out of five CEOs fail in their first 18 months in the role (Charan, 2005).

Literature in this field, gave emphasis to several succession aspects in particular on its effects and events, other than successor characteristics. Results, in particular those about performance effects of insider and outsider often received poor and contradictory support. These inconclusive results were due to the fact that it is not possible to directly connect CEO management style with firm' performance. Indeed both kind of CEO have advantages and drawbacks but in order to be exploited they should be contextualized (Karaevli, 2007). They develop different competences, knowledge and understanding that can be useful and suitable with specific contexts and environments. Outsider CEO owns specific job skills, but doesn't develop knowledge about a specific organization or industry. According to Finkelstein, Hambrick, & Cannella (2009) classification, CEO outsiderness is defined as the perception of openness to change as a function of CEO tenure and previous industry experience. Accordingly the main difference from extreme insider (CEO with more than 15 years tenure) and extreme outsider (external CEO coming from different industries) come from the expected tendencies toward change, both socially and in term of organizational innovation. Insider instead may be more suitable and effective for continuing the good work of their predecessor (Charan, 2000).

Apart from the choice between outsider and insider, and its effects on firm's future, my focus will be on how being an insider or outsider will shape individual attitudes, perceptions, behaviors and personalities. The starting point for this analysis is a general understanding of insider and outsider characteristics seen as advantages and drawbacks for the firm.

Outsider, who are "professional CEO" change frequently the head of different firms. For this reason they are not statics individual and may experience different practices, processes and environment making their mind more flexible and change oriented (Datta & Guthrie, 1994 and Charan, 2005). However outsiders may not be familiar with social ties, relational styles and practices within the new organization. Last thing, orientation toward innovation and changes is not always necessary and sometimes may result disruptive.

Insider, not only feels strongly committed to the firm he belongs to, but are able to understand better organizational culture, practices and people. They not only follow firm's vision and values, but they even use them as the basis of their own personalities (Datta & Guthrie, 1994 and Charan, 2005). Probably they will have less knowledge and skills to perform CEO job, but their personality is so aligned to the firm they belong to, that it may be a stronger advantage for the whole organization (Finkelstein, Hambrick, & Cannella, 2009).

An interesting analysis developed by Leipzig (2011) tried to connect the dimension of CEO's life cycle proposed by Hambrick and Fukutomi (1991) and the psychological personalities of the individual. Since CEO's tenure stages can have influence on behavioral CEO features, then several different should result at individual level between insider and outsider CEOs. Leipzig focused on the task knowledge dimension looking at it from a psychological and behavioral point of view. Indeed psychology and personality is strongly interlinked with task knowledge thanks to experience accumulation.

Task knowledge is generated in the individual thanks to three dimensions that vary in different ways according to personal experience and contextual variables: they are role based knowledge, firm/industry knowledge and experience based knowledge. Insider and outsider CEOs may have different level of these kind of knowledge and since they influence personal perception, personalities and even cognitive capabilities, different CEO profiles may lead to different behaviors and completely opposite cognitive capabilities.

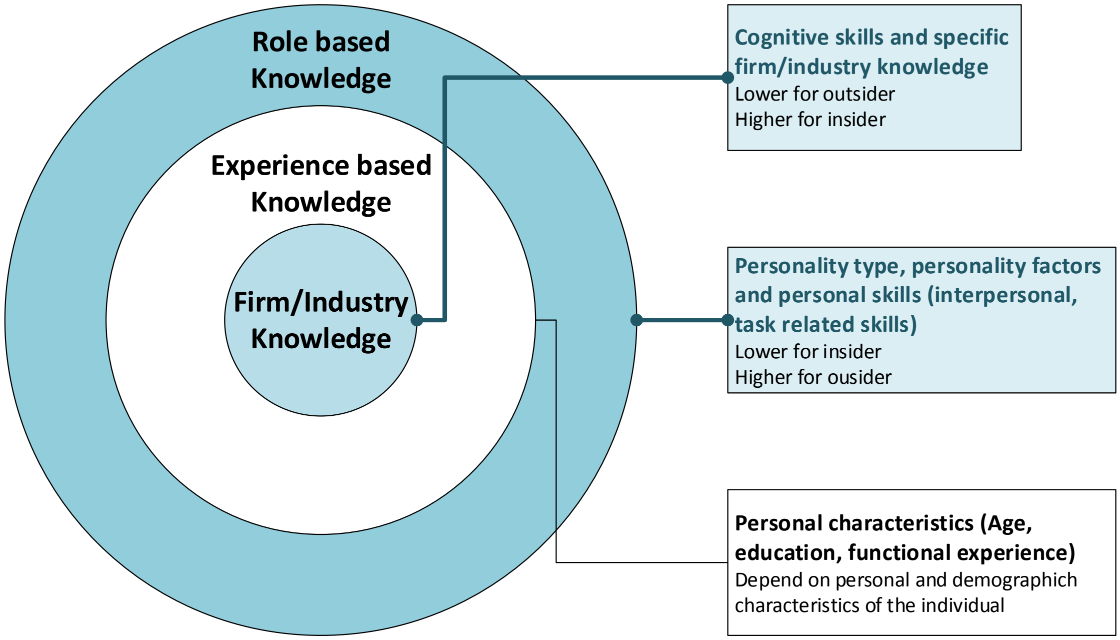


Figure 13 - Individual knowledge classification

The experience base knowledge, which include age, education and functional experience, is not related to the nature of CEO style (insider or outsider): it depends on personal experience of the individual coming from his educational background or his age. For this reason it is not analyzed in detail in this the third hypothesis section.

Specific firm or industry knowledge can be a characteristic owned by insider CEO, and, at least for firm knowledge, outsider may show lacks in this sense. Then firm specific internal communication and information channels, shape insider CEO behavior and these dynamics are not part of outsider personality. Similar conclusions can be drawn even talking about industry specific knowledge and experience. The only exception exists when outsider CEO not only owns capabilities about its role, but even regarding a specific industry. Moreover insider CEOs are more oriented toward strategic vision of the firm they lead embedding its vision within their own personalities (Shen & Cannella, 2002). Outsiders instead don't consider organizational culture and their approach is more focused on duties of their role. Accordingly, CEOs who come from inside the firm possess higher task knowledge than outsider CEOs and consequently their approach will be influenced in different ways. The second task knowledge dimension, that generate source of individual personalities difference between insiders and outsiders, is the specific role knowledge possessed by the CEO. This dimension represents the main variables that highlight differences between the approaches of the analyzed CEO's profiles. Specific role knowledge allows to acquire more specific task related knowledge but it is even an important factor influencing individual psychological personality. Moreover while insider are more connected to firm's social networks and environment, interrelation skills may result much lower compared to the one of outsider that experienced different contexts improving their relational capabilities (Shen & Cannella, 2002 and Zhang & Rajagopalan, 2003). Outsiders furthermore tend to be more innovative and change oriented than insiders and thanks to their abilities, perspectives and experience in the role, they are able to formulate and implement appropriate strategic changes. Insider instead are less innovation oriented, and tend to be more stable maintaining strategic future direction of the firm (Zhang & Rajagopalan, 2003 and Charan, 2005). According to attraction-similarity theory and possible attrition between people with different personalities (Goldberg, 1990) these kinds of knowledge differences, which leads to diverse approaches and cognitive capabilities, generate tensions during interactions that may arise in relational conflicts.

In addition to these differences, in general insider and outsider CEOs may have, due to their difference experiences, two opposite approach for analyzing, framing and working. This source of diversity between the two CEOs can potentially generate friction as confirmed by social identity theory and homophily theories. Moreover, the already cited task knowledge gap, leads to different profiles with different personalities and cognitive capabilities (Leipzig, 2011), conflict can be even stronger. The interaction between an insider and an outsider will likely lead to contrasting and conflictual behaviors. Indeed these two different profiles, are generated by different behaviors and cognitive capabilities caused by different experiences. Homophily theory and attraction similarity theory state that individuals tend to socialize with people with similar profiles, so insider and outsider CEOs probably will encounter several obstacles during their interaction. Different experiences, different behavior and different knowledge generate two different state of mind that tend to separate these two individuals. As stated for the first hypothesis about educational background, cognitive skills developed and difference experiences accumulated, create two completely different profiles. The acquisition of different specific knowledge and skills about firm and industry, and the creation of different personality factors and skills, meets the definition of similarity dimensions of social categorization and attraction similarity theories. Accordingly, people who feel part of a group tend to give rise to rivalry and tension with members of the other groups (Tajfel & Turner, 1979). They tend to feel part of a group and discriminate other who have different characteristics. On the contrary individuals with shared understanding and similar cognitive capabilities will create a strong relationship because potential problems of coordination and communication are easily overcome (Jehn, Northcraft, & Neale, 1999). Even interaction frequency is influenced hence different personalities and skills lead to hostile debates and behavioral tension (Carpenter, 2002). In particular for the specific role knowledge, different opinions, points of view and managerial approaches are generate, so they will negatively affect post acquisition integration (Carpenter, 2002). Accordingly, if CEO style differences generate different knowledge, personalities and cognitive skills, the interaction between people with differences in this dimension will create tension and discrimination in their mind, enhancing the probability of relational conflicts. A conflictual interaction creates in the mind of both parties a sense of dissatisfaction that not only reduces their integration but may lead to turnover (Dreu & Weingart; 2003). Individual differences in term of experiences and knowledge, generate cognitive appraise and affective responses to work experiences (Jehn, Northcraft, & Neale, 1999). This personality gap may influence individual satisfaction and perception of the job, hence at the end turnover probability will increase (Liu, Mitchell, Lee, & Holtom, 2012).

So from the existing literature is reasonable to expect that differences in term of CEO management style between target and acquirer CEOs, may increase the likelihood of target CEO turnover due to conflictual interactions and incompatible personalities and cognitive skills. Applying these statements to a cross border acquisition context, executives turnover will enhance its rate with higher intensity than normal situations (Walsh, 1988). Then it is inferable that even retention decisions thanks to individual similarities may lead to much lower turnover rate. Therefore the third hypotheses states as follows:

H3: In cross-border acquisition of small high-tech firms, similarity in management style of CEOs decreases the likelihood of target CEO turnover.

Chapter 10
Methodology

10.1 Data collection and statistical description of the sample

The main research goal of this work is the analysis of individual similarity factors' effect on target CEO replacement in cross-border high-tech acquisition. In order to test my hypothesis about this topic, I selected a sample following several criteria that limited the dataset to a small subset of acquisitions. As first filtering variable we used the country of acquirers and target. The sample includes only cross border acquisition with acquirers headquartered in Europe or USA. As second focus, only high tech acquisition were considered. According to our scope and to Graebner's (2010) definition, the sample include those acquisitions where the target operate in high-tech industry and since most of technology acquisition involve entrepreneurial firms, large acquirers and small technology targets were considered.

Information gathering were performed from different database. For all information regarding the acquisition event (e.g. announcement year, final stake of acquisition, sizes of firms involved etc), I used different financial providers: ONE Banker (Thomson), Zephyr (Bureau Van Dijk), SDC Platinium (Thomson), Lexis Nexis and Capital IQ**.** For all information regarding target and acquirer CEOs (e.g. age, role in the firm at the time of the acquisition, education background, entrepreneurial experience), three main sources were used: LinkenIn, Bloomberg and Capital IQ databases.

The final data set is composed by 197 cross-border high-tech acquisition that met the following characteristics:

- The number of cross border deals divided by country is showed in the following tables:

ACQUIRER	
United States	84
United Kingdom	27
Germany	21
France	17
Finland	13
Sweden	11
Netherland	7
Italy	4
Switzerland	3
Ireland	3
Austria	2
Spain	2
Belgium	1
Denmark	1
Israel	1

TARGET	
United Kingdom	42
United States	33
France	28
Germany	23
Sweden	10
Netherland	8
Norway	8
Spain	7
Italy	7
Switzerland	6
Belgium	4
Romania	4
Denmark	3
Finland	3
Ireland	3
Portugal	3
Bulgaria	1
Estonia	1
Hungary	1
Israel	1
Poland	1

Table 3 - Number of acquirers and target by country

- Target firms actively operate in one of the high tech sectors conform to 1997 OECD classification. In particular they are divided as showed in the following table classified for different Standard industrial Classification (SIC) codes:

High-Tech sector	SIC
Drugs	283
Computer and office equipment	357
Electronic and other electrical equipment and component, except computer equipment	36
Measuring, analyzing and controlling instruments	38
Computer Programming, Data Processing and Other Computer Related	737

Table 4 – High- Tech SIC classification

- The final stake of the acquirer in the target after the completion of the deal is 100%
- According to Graebner (2010) definition of high-tech acquisition large acquirers and small targets has been selected. In line with my scope, I selected acquirers with more than 1000 employees and target with less than 500 employees at the time of the acquisition.
- In order to ensure that information gathered approximately are aligned with current context, the sample include acquisition deal with announcement date between 01/01/2001 and 31/12/2005. The acquisition distribution by year is represented by the diagram below:

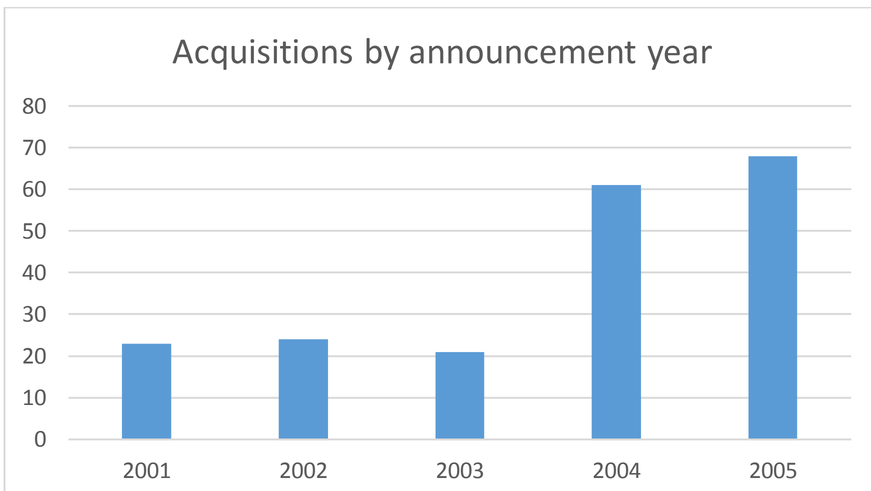


Figure 14 - Acquisition announcement by year

As previously stated, for each transaction I gather information about those profile who managed the deal and that, at the time of the acquisition were CEO respectively of the acquirer and of the target. The information gathered includes:

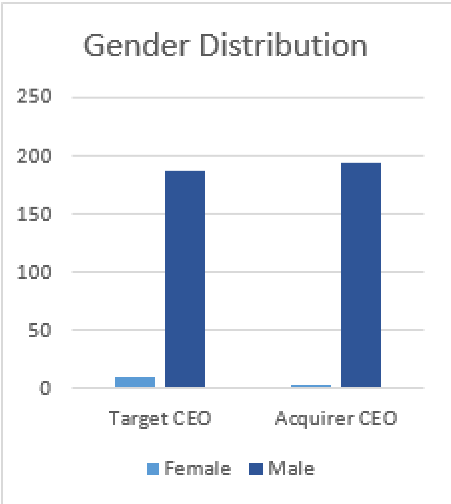
- personal information: age at the time of acquisition, nationality, gender
- education information: degree level, degree type, beginning study year, last study year
- employment information: first employment year, role within the firm, year in which become CEO

Here below, a graphical summary of personal information about age, gender and education:

AGE	Target CEO	Acquirer CEO
Average	42.47	51.42
Max	72	74
Min	27	31
N/A	58	34

GENDER	Target	Acquirer
Female	10	4
Male	187	193

EDUCATION	Target	Acquirer
Only Bachelor	142	134
Bachelor and Master	76	52
PhD	22	41
MBA	17	34
No education information available	51	35



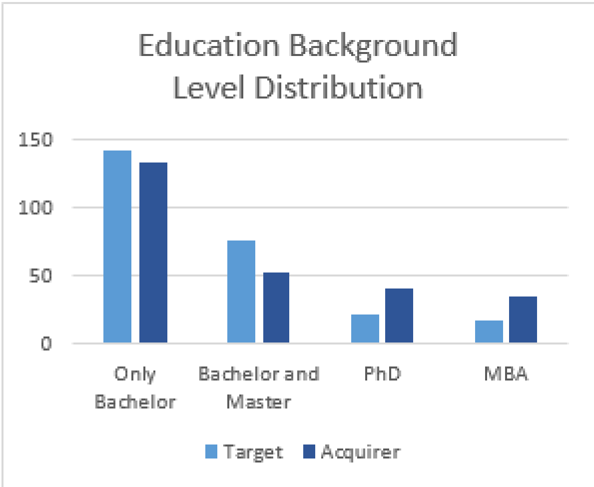


Figure 15 - Distribution of CEOs individual characteristics: Age, Gender and Education Background

Gender distribution doesn't allow for a deepen analysis of this variable. Indeed only a few percentage of the whole sample were female (5% for the target and 2% for the acquirer). On average target CEO where younger than acquirer CEO. This is expected because targets are small high tech firms that have an entrepreneurial origin and are still young. Due to the high number of information unavailability, I didn't perform any statistical analysis about this variable, but only qualitative comment about the relation to target CEO turnover. In term of education, target numerousness of bachelor and master degrees was higher for target CEOs. However only a small percentage of target CEOs looked for a further specialization with a PhD or a MBA. Indeed acquirer CEOs holds more MBA and PhD degrees compared to target CEOs.

10.2 Variable description

10.2.1 ***Dependent variable***

CEO retention/replacement

This analysis is aimed at exploring the association existing between individual similarity of CEOs and the probability of target CEO retention. For this reason the dependent variable at the center of the analysis is the turnover of CEO after the transaction. Similarly to the majority of literature (Walsh J. P., 1988; Walsh J. P., 1989; Hambrick & Cannella, 1993; Walsh & Ellwood, 1991 and Krishnan, Miller, & Judge, 1997) , which analyzed the determinants of CEO turnover instead of retention, I use turnover as indicator and then in the result chapter I will drew conclusion in the opposite direction. The information about turnover were gathered from CEO's CVs, looking at his position within or outside the firm after the acquisition. If the target CEO after the acquisition will still join the firm but with a lower role than CEO (e.g. VP, CTO, MD) I didn't consider it as turnover since he is still part of the same organization. The only case of turnover considered is when the CEO will definitely left the firm, joining other firms or due to retirement.

Given the medium-long term effect of acquisitions on target executive turnover (Walsh J. P., 1988; Hambrick & Cannella, 1993 and Krug & Aguilera, 2005), the dependent variable looks at the target CEO substitution three years after the acquisition and it is defined as follows:

$$tar\_ind\_rep\_3 = \begin{cases} 1 & if\ target\ CEO\ leave\ the\ company\ 3\ years\ after\ the\ acquisition \\ 0 & if\ target\ CEO\ stays\ in\ the\ company\ 3\ years\ after\ the\ acquisition \end{cases}$$

10.2.2 ***Independent variables***

CEO education background difference

One of the most important and discussed dimension of theories about executives similarity and diversity is the nature of educational background. As intensively discussed in the hypotheses chapter, this dimension is at the basis of individual cognitive skills and personality because the kind of degree chapter and represent his perceptions and understandings. Education background has been at the center of several researches but its measure has not a common and shared formula. Indeed some classification were made according to the degree level (Bachelor, Master, PhD or MBA) (Holland, 1973), others on the prestige of the University attended (Wiersema & Bird, 1993). Since what shape individual personality are the subject and the topic faced during the academic experience, I defined the variable education background as the type of the highest obtained university degree (the highest between Bachelor, Master, PhD and MBA) according to the approach proposed by Datta and Guthrie (1994). Then I use a dummy variable to capture CEOs with technical educational background:

$$acq\_ceo\_technical = \begin{cases} 1 & if\ acquirer\ CEO\ have\ a\ technical\ education\ background \\ 0 & if\ acquirer\ CEO\ have\ a\ non-technical\ education\ background \end{cases}$$

$$tar\_ceo\_technical = \begin{cases} 1 & if\ target\ CEO\ have\ a\ technical\ education\ background \\ 0 & if\ target\ CEO\ have\ a\ non-technical\ education\ background \end{cases}$$

Where technical education background includes those degrees in Industrial Engineering, Information Engineering and Natural Science and non-technical education background includes those degrees in Arts Humanities, Business Economics and Formal Science.

Accordingly the independent variable “CEO education background difference” describes the difference between CEOs education in term of technical background and it is formulated as follows:

$$\boxed{edu\_background\_diff = \begin{cases} 1 & if\ \ acq\_ceo\_technical \neq tar\_ceo\_technical \\ 0 & if\ \ acq\_ceo\_technical = tar\_ceo\_technical \end{cases}}$$

CEO organizational tenure difference

Organizational tenure is defined as the duration of employment of an individual with a given firm. the time an individual stays within an organization shape its behavior and cognitive capabilities (Singh & Singh, 2010), hence different tenured individual will have different profiles. Since this analysis is focusing on target and acquirer CEO organizational tenures at the time of acquisition, this independent variables is defined as the numerical differences of the two CEOs tenure. So organizational tenure the time of the acquisition, represents the difference between the acquisition announcement year and the year the individual joined the firm. Accordingly, tenure difference between two CEOs is calculated as follows (Pfeffer, 1983; Wiersema & Bantel, 1992 and Godthelp & Glunk, 2003):

$$\boxed{tenure\_diff = |(tar\_org\_ten) - (acq\_org\_ten)|}$$

With:

$$tar\_org\_ten = (ann\_yr) - (tar\_yr\_arr)$$

$$acq\_org\_ten = (ann\_yr) - (acq\_yr\_arr)$$

Where:

ann_yr = year of the acquisition announcement

acq_yr_arr and tar_yr_arr = year in which, acquirer and target CEO respectively, joined the firm

CEO management style similarity

In order to define an independent variable that describes the difference in management style of the two CEO, I explored the existing literature definitions of insider and outsider. Insider CEO are those who became CEOs after a medium-long period within the organization, while for outsider CEOs, entry time in the firm coincides with CEO's designation. In particular several time the identification between insider and outsider was used as variable and in most of cases it is represented by a dummy variable (Datta & Guthrie, 1994; Parrino, 1997 and Huson, Malatesta, & Parrino, 2004) with the following characteristics:

$$tar\_ceo\_internal = \begin{cases} 1 & if \;\; target\ CEO\ is\ an\ Insider: tar\_yr\_arr \neq tar\_yr\_ceo \\ 0 & if \;\; target\ CEO\ is\ an\ outsider: tar\_yr\_arr = tar\_yr\_ceo \end{cases}$$

$$acq\_ceo\_internal = \begin{cases} 1 & if \;\; acquirer\ CEO\ is\ an\ Insider: acq\_yr\_arr \neq acq\_yr\_ceo \\ 0 & if \;\; acquirer\ CEO\ is\ an\ outsider: acq\_yr\_arr = acq\_yr\_ceo \end{cases}$$

Accordingly the independent variable "CEO management style similarity" describes the difference between CEO origins and it is formulated as follows:

$$\boxed{ceo\_style\_simil = \begin{cases} 1 & if \;\; acq\_ceo\_internal = tar\_ceo\_internal \\ 0 & if \;\; acq\_ceo\_internal \neq tar\_ceo\_internal \end{cases}}$$

10.2.3 ***Control variables***

<u>Target CEO characteristics</u>

Since the analysis will focus on turnover of target CEO, it is necessary to introduce a set of control variable related to personal target CEO characteristics, that may have influences on relation between CEOs similarity and turnover. In this case it is important to focus on those potential influencer that may lead the target CEO to be substituted. In particular I considered one variable about target CEO organizational tenure and two indicators about target CEO education.

CEO tenure is an indicator of reliability and experience (Wiersema & Bantel, 1992), so it cloud be a determinant for target CEO turnover. The control variable related to tenure is formulated as follow:

$$\boxed{tar\_org\_ten = (ann\_yr) - (tar\_yr\_arr)}$$

As dependent variable we considered the difference of education background, comparing target and acquirer CEO past academic experiences. In this context, target CEO substitution decision may arise due to his specific technical nature of education experience considered independently from acquirer's one. So as already defined previously for the dependent variable, target CEO technical education background is formulated as follow:

$$tar\_ceo\_technical = \begin{cases} 1 & if\ target\ CEO\ have\ a\ technical\ education\ background \\ 0 & if\ target\ CEO\ have\ a\ non-technical\ education\ background \end{cases}$$

In order to be able to explain in a comprehensive and satisfying way the characteristics of education received by target CEO, I added a control variable measuring the university educational specialty level received in term of Bachelor, Master and PhD. In particular the following variable divide the previous three levels, into two subgroup: undergraduate and graduate level. Together with target CEO technical education background it provide a more complete view of target CEO education, experience and specialized knowledge. It is It is formulated as follow:

$$tar\_ceo\_undergrad = \begin{cases} 1 & if\ target\ CEO\ have\ Bachelor\ degree \\ 0 & if\ target\ CEO\ have\ Master\ or\ PhD\ degree \end{cases}$$

National cultural distance

Since our sample and the final analysis will focus only on cross border acquisitions, it is necessary to use a control variable able to numerically describe all possible differences that exist between two nations. In this kind of acquisition indeed, national culture is one of the main driver influencing cross border acquisitions' success and its exploration in such context is fundamental (Slangen, 2006). So in line with existing statistical studies about national culture (Slangen, 2006 and Chakrabarti, Mukherjee, & Jayaraman, 2009). I measure cultural distance starting from country's scores in the cultural dimension proposed by Hofstede's model: power distance, individualism, masculinity, uncertainty avoidance, long term orientation and indulgence. Hofstede dimensions are considered the best measure for national culture and the scores of the model are available for a large number of countries. Furthermore, its validity has been confirmed by a lot of later studies (e.g. Van Oudenhoven, 2001). So for each country, the national culture is formulated as follow:

$$tar\_index\_hof = \sum_{i=1}^{6} tar\_dimension_i$$

$$acq\_index\_hof = \sum_{i=1}^{6} acq\_dimension_i$$

With $i = 1, \dots, 6$ that represents the six Hofstede's national culture dimensions:

- 1: power distance
- 2: individualism
- 3: masculinity
- 4: uncertainty avoidance
- 5: long term orientation
- 6: indulgence

Accordingly, cultural distance between two countries is defined as the difference between the two national cultures.

$$cultural\_distance = |(tar\_index\_hof) - (acq\_index\_hof)|$$

The only difference with Kogut and Singh (1988) index is that I didn't consider the variance correction and the arithmetical average of the result. However, in proportion, the two indexes have the same trend.

Common language

In addition to the previously defined cultural distance variable, it is important to deepen the nature of difficulties coming from the interaction of different national cultures. Since this study focus on cross border acquisitions, one of the main variable to take into consideration, is the existence of a common language that may support the interaction of individual easing the communication (Vaara, Tienari, Piekkari, & Santti, 2005). It measures whether the target and acquirer country share the same primary language. It is not a dimension included in the Hofstede's model and given its importance during interactions, I include it as control variable. Common language variable is defined according to Chakrabarti et al. (2009) formulation:

$$common\_language = \begin{cases} 1 & if\ target\ and\ acquirer\ country\ shares\ a\ common\ language \\ 0 & if\ target\ and\ acquirer\ country\ have\ different\ languages \end{cases}$$

CEO education level difference

To reinforce the understanding of education background difference effects, I introduced a similar variables that doesn't focus on the kind of degree's faculty, but rather on the level of the degree received. In particular, three level were identified: Bachelor degree, Master Degree and PhD Degree. According to this classification, individual educational level consider the highest degree earned by the CEOs (Datta & Guthrie, 1994) and it is formulated as follows:

$$tar\_ceo\_edu\_level = \begin{cases} 1 & if\ the\ target\ CEO's\ highest\ degree\ is\ a\ Bachelor \\ 2 & if\ the\ target\ CEO'shighest\ degree\ is\ a\ Master \\ 3 & if\ the\ target\ CEO'shighest\ degree\ is\ a\ PhD \end{cases}$$

$$acq\_ceo\_edu\_level = \begin{cases} 1 & if\ the\ acquirer\ CEO's\ highest\ degree\ is\ a\ Bachelor \\ 2 & if\ the\ acquirer\ CEO'shighest\ degree\ is\ a\ Master \\ 3 & if\ the\ acquirer\ CEO'shighest\ degree\ is\ a\ PhD \end{cases}$$

Accordingly the control variable measuring the difference in education level between the two CEOs is equal to:

$$\boxed{edu\_level\_diff1 = (acq\_ceo\_edu\_level) - (tar\_ceo\_edu\_level)}$$

<u>High-tech experience</u>

This variable, measures the pre acquisition experience of the acquirer in the high tech sector. A firm that already have high tech acquisition experience, it may have developed specific and technical capabilities in managing the post acquisition implementation process including the decision about target CEO turnover (Lubatkin, 1987). My focus is on high tech acquisition experience hence this indicator doesn't consider all remaining acquisitions. In particular this control variable is formulated as the total number of high-tech acquisition undertaken by the acquirer before the considered acquisition's announcement:

$$\boxed{hitechexp = \sum(\text{High tech acquisitions before } ann\_yr)^{*}}$$

* For constructing this variable, number of acquisitions in high-tech sectors five years prior to the focal acquisition is calculated. For gathering information about prior acquisitions, I used MergerStat and Corpfin available in Lexis Nexis.

Target age

Target age is a control variable that may be considered a proxy for firm's maturity. Accordingly our interest will focus in effects that this variable may have on turnover decision. CEOs of mature firms have different experience and behavior compared to CEOs of smaller targets. This detail may influence retention decision, based mainly on CEO experience and expected capabilities. In this study I use natural logarithm of the age. Target age is calculated as difference between acquisition announcement year and target year foundation:

$$\boxed{ln\_tar\_age = (ann\_yr) - (\text{Target foundation year})^{*}}$$

* Information about the target's age were collected from Orbis

Relative size

The influence of target size may have potential influences on it executives and CEO's turnover. In particular, what the main variable that affect CEO turnover is target firm size compared to acquirer firm size (Walsh J. P., 1989). The influence of firms relative size on target CEO turnover has been widely considered and often come out to be an important determinant (Hambrick & Cannella, 1993). This measure has been considered particularly crucial because too high or too small values of relative size were associated to poorer performances (Krishnan, Miller, & Judge, 1997). Smaller an target firm relative to its acquirer, more probable that target CEO will leave the firm after the acquisition (Hambrick & Cannella, 1993). This measure has been formulated diving target's total number of employees by acquirer's total number of employees (Halebian & Finkelstein, 1999):

$$\boxed{rel\_size = \frac{(\text{N° of Target Employees})^{*}}{acq\_empl}}$$

* Information related to number of employees are gathered from Orbis

Target firm integration

This control variable is related to the acquirer's decision about separation or integration. indeed after the acquisition, the acquirer may decide to consider the target only as a separate subsidiary or structurally integrate the target firm into its organization (Puranam et al, 2009). So integration is a dummy variable that assumes value equal to 1 when structural integration occurs, and assumes value 0 if it is treated only as a separated subsidiary:

$$integration = \begin{cases} 1 & if\ target\ company\ is\ structurally\ integrated\ in\ acquirer\ organization \\ 0 & if\ target\ company\ is\ only\ a\ separated\ subsidiary \end{cases}$$

* The information related to post-acquisition organizational status of the target, were gathered from news and official deal announcements, usually provided by the acquirer available in Lexis Nexis.

10.3 Methodology and Econometric specification: the logit model

Given the dichotomous nature of dependent variable, the analysis to conduct should be based on a binary response model: the logit model. The logit model is a logistic regression where binary outcomes are related to a number of determinants. It is commonly used in econometric analysis in order to approximately describe the non linear relationship between a dependent variables and one or more independent variables.

Its early origins go back to last years of eighteenth century (Cramer, 2003) but the first who coined the term "logit model" was Joseph Berkson in 1944 within its study about statistical methodologies of bio-essays where he proposed this new model in substitution to the normal probability function.

This model is based on the assumption that an unobservable variables is determined by a certain set of regressors x_1, x_2 … x_t so that:

$$y_t^* = x_t'\beta + \varepsilon_t$$

$$t = 1,2, \dots, T$$

$E(\varepsilon_t) = 0, \forall t$

Where B reflect the impact of changes in x on the probability. Since this variable is not observable, the focus if this model is on the directly related observable variable, in general a specific event, that may assume only two values:

$$y_t = \begin{cases} 1 & if\ y_t^* > 0 \\ 0 & if\ y_t^* \leq 0 \end{cases}$$

So if a certain event occur, the variable will assume the value 1 otherwise 0. Starting from this definition, it is statistically possible to calculate the occurrence probability of this event as:

$$\begin{aligned} P_t = prob(y_t = 1) = prob(y_t^* > 0) = prob(x_t'\beta + \varepsilon_t > 0) = prob(\varepsilon_t > -x_t'\beta) \\ = 1 - \ prob(\varepsilon_t < -x_t'\beta) = 1 - F(-x_t'\beta) \end{aligned}$$

Hypothesizing the logistics causal variable characterized by the following density function:

$$F(\varepsilon_t) = \frac{\exp(\varepsilon_t)}{1 + \exp(\varepsilon_t)}$$

$$F(x) = \frac{e^x}{1 + e^x} = \frac{1}{1 + e^{-x}}$$

It is possible to define the logistic function at the basis of the logit model:

$$\boxed{P_t = F(x_t'\beta) = \frac{\exp(x_t'\beta)}{1 + \exp(x_t'\beta)} = \frac{1}{1 + \exp(-x_t'\beta)}}$$

where y_t is the dependent binary variable) $X_t' = (x_1, x_2 \dots x_t)$ is the vector of regressor and $\beta = (\beta_1, \beta_2 \dots \beta_t)$ is the vector of coefficients.

Translated into graph, this non linear equation is traced by a distribution function of symmetrical density with midpoint zero:

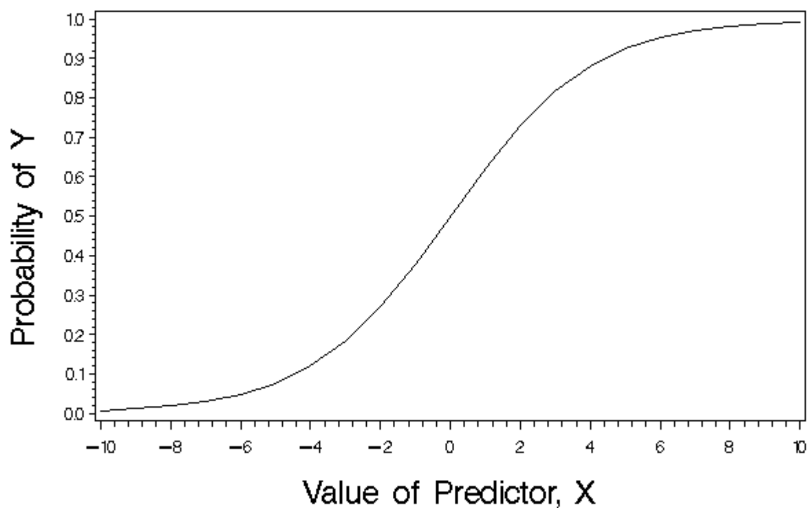


Figure 16 - Logit regression distribution

In order to test the hypotheses formulated in the previous chapter, I will develop a model based on logit regression. This decision is aligned with logit characteristics because, since turnover probability lies between 0 and 1, linear probability models cannot be used for binary dependent variables and a nonlinear function description is more suitable. This model includes turnover event represented by a binary dependent variable, while all other are independent variables represent vector X_t' of regressor and they work as potential influencer of turnover.

One possible of the most common use measures of fit for the logit regression model, is the Mc Fadden R-Squared, that is provided as default output by Stata. This fit measure consider the maximized likelihood for the current model and the corresponding value of likelihood but for the null model. Its value is formulated as follow:

$$R^2 = 1 - \frac{\ln(L_c)}{\ln(L_{null})}$$

With:

L_c : Estimated likelihood for the current fitted model with predictors

L_{null}: Estimated likelihood for the null model without predictors

In general statistics R-Squared is the fraction by which the variance of the errors is less than the variance of the dependent variable and it is used as a goodness of fit measure.

When analyzing a logistic regression an equivalent measure to R-Squared does not exist. So starting from the maximum likelihood estimates, several pseudo R-Squared are identified. They look like R-Squared but only in term of scale because it can varies from 0 to 1, with higher value indicating that the model fit. The most common used pseudo R-Squared is the one proposed by Mc-Fadden and in general values between 0,2 and 0,4 are considered satisfactory.

Chapter 11

Data analysis and results

Table 5 provides the descriptive statistics of the sample for the variables included in the analysis.

Variable	Obs	Mean	Std. Dev.	Min	Max
tar_ind_rep_3	109	0.541284	0.50059	0	1
ceo_style_simil	109	0.449541	0.49975	0	1
tenure_diff	109	9.018349	8.66665	0	37
edu_background_diff	109	0.559633	0.49872	0	1
tar_org_tenure	109	7.330275	5.69772	0	28
tar_ceo_technical	109	0.458716	0.50059	0	1
tar_ceo_undergrad	109	0.357798	0.48157	0	1
common_language	109	0.266055	0.44393	0	1
cultural_distance	109	35.80734	26.7244	9	108
edu_level_diff1	109	-0.13761	1.07555	-2	2
ln_tar_age	109	2.560614	0.73743	0.6931472	4.962845
rel_size	109	0.031802	0.05832	0.0000577	0.400746
hitechexp	109	13.59633	17.4691	0	114
integration	109	0.183486	0.38885	0	1

Table 5 - Variables descriptive statistic

It shows that turnover rate of target CEO three years after the acquisition is equal to 54%. This means that three years after the acquisition, it is more probable that the target CEO will depart instead of be retained within the new organization. This is in line with Walsh's (1988) findings, that showed an abnormal executives turnover in merged firm compared to turnover in unmerged firms. Accordingly, acquisition's characteristics such as uncertainty and cultural shock will tend to produce a sense of hostility and discomfort easing the turnover of target CEO (Walsh, 1988 and Walsh, 1989). This shock is even more pronounced for very senior executives like Presidents and CEOs. This is the reason why the rate resulting from this analysis is a little bit higher than the one showed by Walsh (1988: Executives turnover rate after three year equal to 46%).

As anticipated in the variables description, this analysis consider large firms that acquire small high tech targets. The latter indeed represent on average only 3% of acquirer size. The inferiority of target firm in relation with acquirer, is in line with target age: natural logarithm of target age is on average equal to 2,56 that correspond on average to 13 year of age among the targets, much lower than those firms which existed for decades.

Moreover acquirers, together with their size, showed a high experience in high tech acquisition: on average acquirer performed 13/14 acquisition in the high tech industry.

As it was expectable, since the entirely sample of acquisition were performed cross border, culture is an important variable. Indeed on average the indicator of Hofstede national cultural distance is 35 (on average 6/7 for each dimension) and only 26% of transactions involved firms belonging to country sharing the same primary language.

An interesting detail is that large acquirers tend to keep the target only as an external foreign subsidiary instead of integrate it within the organization structure. Only in 18% of cases target results to be structurally integrated in the acquirer organization.

Data about independent variables for our three analysis resulted well distributed, numerically significant and suitable for a statistical analysis. Distribution of CEO style similarity were well balanced along the sample with 54% insider-insider or outsider-outsider interaction against and 46% of outsider-insider CEOs interaction. Also education background differences between CEOs were well distributed: in 56% of cases CEOs had a technical education background and the remaining 44% of transaction involved the interaction of different education background. Finally on average, CEOs difference about tenure was 9 year, with some transaction that involved equal tenured CEOs and others that involved different tenured CEO up to a maximum difference value of 37 years. These numerical bases allowed a correct and reliable analysis, at least in term of value distribution.

The correlation matrix (Table 6) reveals the relationship of two variables without considering the effects of others:

CORRELATION MATRIX

tar_ind_rep_3	(1)	1,0000													
ceo_style_simil	(2)	-0,2414	1,0000												
tenure_diff	(3)	0,1023	-0,0233	1,0000											
edu_background_diff	(4)	0,1106	0,0586	-0,1224	1,0000										
tar_org_tenure	(5)	-0,1704	-0,0526	-0,1700	0,0451	1,0000									
tar_ceo_technical	(6)	-0,1132	-0,0547	0,1538	0,1490	-0,0374	1,0000								
tar_ceo_undergrad	(7)	0,0726	-0,0589	-0,0326	-0,3788	0,0510	-0,2646	1,0000							
common_language	(8)	0,0126	-0,1685	-0,0975	-0,0096	0,0345	-0,0126	0,1570	1,0000						
cultural_distance	(9)	0,1186	0,0773	0,0066	0,0742	-0,0508	0,0177	-0,1601	-0,5388	1,0000					
edu_level_diff1	(10)	-0,0323	0,0473	0,0033	0,1276	0,1737	0,1871	-0,6191	-0,0971	0,1302	1,0000				
ln_tar_age	(11)	-0,2077	0,0074	0,2720	-0,0153	0,4169	0,0489	-0,0377	-0,1311	0,0177	0,1589	1,0000			
rel_size	(12)	-0,0649	-0,1065	-0,2042	-0,0996	0,1957	0,1015	0,0627	0,1065	-0,0551	0,0547	0,0205	1,0000		
hitechexp	(13)	0,0962	-0,1169	0,0522	-0,0907	0,0254	-0,1512	0,2209	-0,0159	0,1461	-0,2055	-0,0383	-0,1748	1,0000	
integration	(14)	0,1510	0,0004	0,0100	-0,0569	-0,1279	0,0868	0,0417	0,0364	-0,0286	-0,0719	-0,2267	-0,1331	0,0723	1,0000
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)

Table 6 - Correlation matrix

Correlation between personal CEO characteristics and his turnover are aligned with arguments developed by human capital theory applied to acquisitions. This theory consider target executives an important source of value because thanks to their preparation and experience may support the firm in increasing future performances. So if executives represent an investment cost, its amount is much lower, higher their knowledge and capabilities in the industry are. Accordingly firms tend to retain those executives who already own great experiences and knowledge (Wulf & Singh, 2011). Target CEO organizational tenure seems to be negatively associated to turnover (-*0,1704*). This results confirm Bergh's (2001) findings long tenured executives have more specific knowledge that may ease the implementation of the transaction but even support the firm in improving its future performance. Accordingly their turnover is less probable. CEO technical background and undergraduate CEOs are respectively negatively and positively related to target CEO turnover (correlation values respectively *-0,1132* and *0,0726*). As said for tenure, these results are in line with acquisition human capital perspective studies.

Variables describing the difference in national culture between the two firms, such as cultural distance and common language, seems to be positively associated to target CEO turnover (respectively their correlations are 0,1186 and 0,0126). This is coherent with Krug and Hegarty's (1997) results. They showed that in cross border acquisitions, turnover is much higher than in domestics ones due to difficulties in communication and understandings.

Correlation matrix for the last four control variables, shows negative association with turnover for target age and relative size, and positive association with turnover for high tech experience and structural integration. These results are all aligned with the existing literature. High tech experience is positive related to turnover. This means that the greater the acquirer's experience, greater the probability that he is able to manage the post acquisition integration thanks to his high tech experience. So in this situation the target CEO is not needed and his turnover is probable. On the contrary if the acquirer has no experience, the target CEO retention likelihood increases (Ranft & Lord, 2000). With the same reasoning, the negative association between target age and target CEO turnover is reasonable because less experienced CEOs tend to be more likely replaced, also according to human capital approach. The positive value of correlation (0,1510) between integration and turnover, indicates that when acquirers decide to structurally integrate the target, target CEO is more likely to be replaced.

A first support to our hypotheses, come from the analysis of Correlation matrix (Table 2) for the three independent variables. In particular Table 6 shows positive and significant values for the correlation between target CEO turnover and the three independent variables. CEOs tenure differences and educational background difference have a positive correlation with target CEO turnover and are respectively 0,1023 and 0,1106. On the contrary the independent variable that measure the similarity in style of two CEOs as we hypothesized is negatively correlated with target CEO turnover with a value of 0,2414. So from a first analysis, our hypotheses seem to be aligned with values of correlation matrix.

Table 7 shows the result of the estimates for the model in particular highlighting the non-linear coefficient that link independent and control variables with the dependent variable. Unlike correlation matrix, this table give a more realistic value, because it allows to look at the relation between two variables considering also the effect of others.

Variable	**Coeff**	**dy/dx**	**Std. Err.**
ceo_style_simil	-1.471329 ***	-0.266018	0.5009773
tenure_diff	0.064068 *	0.0115836	0.0352329
edu_background_diff	1.140486 **	0.2062012	0.5542571
tar_org_tenure	-0.05008	-0.0090554	0.0497654
tar_ceo_technical	-0.91741 *	-0.1658679	0.5315666
tar_ceo_undergrad	1.269308 *	0.2294924	0.7286956
common_language	0.553248	0.100028	0.6706698
cultural_distance	0.018238	0.0032975	0.0116572
edu_level_diff1	0.389418	0.0704071	0.2918937
ln_tar_age	-0.77805 *	-0.1406717	0.405071
rel_size	-0.56676	-0.1024702	4.185373
hitechexp	-0.00379	-0.0006851	0.0157974
integration	0.923772	0.1670191	0.6692361
constant	-0.4803215	-	1.526308

Year dummy	Included	Included	Included
Number of observations	109		
Pseudo R²	0.2203		

** p < 0.10;   ** p < 0.05;   ***p < 0.01*

Table 7 - Results from the logit estimation: coefficients and marginal effects

Coherently to correlation matrix values, CEO technical background and undergraduate CEOs' relation to turnover is also confirmed by logit coefficient values (respectively -*0,9174051* and *1,269308*) and in both cases they resulted to be statistically significant (* $p < 0{,}1$). These results are in line with acquisitions human capital perspective studies. Indeed technical background and more specialized studies, reduce required firm efforts and investments for formation and training of people, in particular in the high tech sector where very technical knowledge is necessary. Accordingly firms tend to retain those individuals who already have the required capabilities and substitute the ones who are not suitable (Hambrick & Cannella, 1993). Unlike these variable, even if correlation matrix shows a negative association between tenure and turnover, this relationship doesn't receive statistical support in the logit model.

Although values of correlation matrix show a potential association between cultural distance and turnover, this relationship is not confirmed by the coefficient of the developed model because results doesn't reach statistical significance. So the role of culture in cross border acquisition is not fully clear. Some researchers reached the same ambiguous and sometimes contradictory results and justified them stating that probably cultural differences matter in cross border acquisitions, but they have a double effect, positive and negative, that makes the final result null (Stahl & Voigt, 2005 and Zollo & Meier, 2008).

Despite the coherent and reasonable results coming from the correlation matrix, among the last four control variables (*ln_tar_age, rel_size, hitechexp and integration*), only target age found statistical support from the model (* $p < 0{,}1$). This finding is in line with human capital approach because CEOs of young firms could be less experienced and for this reason they are not considered value added by the acquirer. As a consequence they tend to be more likely replaced.

A further confirmation for the hypotheses come also from Table 7 where estimation of hypotheses H1, H2 and H3 are shown. In particular Table 3 presents results from the regression analysis conducted on the part of the sample where information where available (N=108).

Individual difference of CEO in term of education background received was positively and significantly related to target CEO turnover likelihood (** $p < 0.05$), supporting Hypothesis 1. Thus my data gave confirmation to the argument that education background difference is an important determinant for turnover (Jackson, et al., 1991; Wiersema & Bird, 1993 and Carpenter, 2002), extending its validity even in a high tech cross border acquisitions with a focus toward CEO role.

To test Hypothesis 2, which predicts that higher CEOs tenure differences will result in higher target CEO turnover decisions, a regression analysis was carried out considering the first one as dependent variable and the second as independent variable. Results in table 3 give support for this hypothesis (* $p < 0.1$), but the coefficient identify a weak increase of turnover rate against an increase in tenure difference (*coeff* = *0,064*). Thus also hypothesis 2 is confirmed, and the statement that tenure differences are positively associated to turnover holds (Pfeffer, 1985; Wiersema & Bantel, 1993 and Li & Hambrick, 2005), and its application is valid also considering CEO roles in a high tech cross border acquisitions.

Results from Table 7, gave support also for the last hypothesis: target CEO were more likely to depart, in high tech cross border acquisitions, when his management style was different from the one of acquirer CEO. In particular these result gave a strong support to the hypothesis (*** $p < 0.01$), highlighting a large increase of turnover against the increase of CEO management style (*coeff* = *-1,47*).These findings where consistent with all the literature about the positive relation between individual differences and conflict, based on theories such as social categorization and similarity-attraction.

In order to have a more intuitive view of relation between target CEO turnover and the selected three independent variables, Table 7 contains also marginal effects of each independent variable on the probability of the dependent variable.

If we consider marginal effects (*dx/dy*) summarized for the three independent variables in table 7, is it possible to consider separately their effects on the dependent variable so to be able to compare them.

Independent Variable	**Variation**	**Variation (%)**	**Level of significance ($P > \|z\|$)**
CEO education background difference (*edu_background_diff*)	0.2062012	20.62%	** $p < 0.05$
CEO organizational tenure difference (*tenure_diff*)	0.0115836	1,16 %	* $p < 0.1$
CEO style similarity (*ceo_style_simil*)	-0.266018	26,6 %	*** $p < 0.01$

Table 8 - Marginal effects of independent variables

This mean that, with different level of statistical significance (the stronger for CEO style similarity with $p < 0{,}01$) my three hypotheses found support with these data. In particular values of marginal effects means that:

- A unitary increase in CEOs education background differences make the target CEO turnover likelihood increase of 20,62 %
- A unitary increase in CEOs organizational tenure differences make the target CEO turnover likelihood increase of 1,16 %
- A unitary increase in CEOs style similarity make the target CEO turnover likelihood decrease of 26,6 %. This can be translated in: a unitary increase in CEOs style differences make the target CEO turnover likelihood increase of 26,6 %.

Chapter 12

Discussion and conclusion

12.1 Comments on the obtained results

The present study, contributes to the development of the literature about determinants of target CEO turnover during high tech cross border acquisition by investigating areas that are yet unexplored.

Previous studies on determinants of post-acquisition target CEO turnover focused on several aspects, but only individual characteristics of CEOs received statistical support. According to human capital theories, acquirers after the acquisition, tend to retain the target CEOs who own specific characteristics that may be useful for enhancing firm's future value. Other studies instead, focused not only on target CEO characteristics, but on the comparison between two CEOs profiles. Their focus mainly was only on two dimensions. Krishnam, Miller and Judge (1997) stated that similar functional background between executives, increases the likelihood of target executives turnover because they were considered redundant and duplicated resources. On the other hand similarities in term of national culture between executives were analyzed but, even if results showed a positive relation between cultural distance and target executives turnover, researchers stated that cultural difference is a very complex factor and it shouldn't be analyzed alone (Krug & Nigh, 1998).

The aim of this work is to contribute to the existing literature, following in the footstep of these studies that focused on effects of individual similarities between executives or CEOs during acquisitions.

The first characteristic this study analyzes is the existence of similarities in term of education background between the two CEOs. My findings demonstrate that similar education background increase the probability of target CEO retention and on the contrary if CEOs received different education background the probability of turnover would increase by 20,62 %. What I argued in the hypotheses received statistical support and it can be useful as initial contribution for future studies about individual similarity. Different education background leads not only to different knowledge, but also to different personalities and cognitive skills (Goldberg, 1993 and Holland, 1997). Moreover, education influences even individual relational capabilities that play a central role during social interactions. Hence, CEOs with different profiles in term of education background will experience a complex and hostile interaction that increase the likelihood of target CEO turnover. Social homophily and similarity-attraction approaches find confirmation in my results stating that CEOs experience hostile interaction due to differences and this hostility may provoke interpersonal conflicts.

According to these problems of integration due to different educational background, results of my study showed that target CEO is more likely to leave the firm if his relationship with the acquirer CEO raises to tensions and conflicts.

The second contribution of this study, regards the extent CEOs organizational tenure differences influence target CEO turnover. Results show that an unitary increase in CEOs tenure difference, will increase the target CEO turnover likelihood by 1,15 %. It seems to be a less strong result compared to educational background effects, but tenure is not a dummy variable so this dimension has to be understood more carefully. An increase in CEOs tenure difference by one, increase target CEO turnover by around 1%, which is much lower than variation from different educational background. But if we consider higher values of tenure difference, it is possible to reach a variation in turnover aligned with educational background level. Indeed during an interaction between CEOs whose difference in organizational tenure is equal to 20 years, the probability that the target CEO will depart increase by 23 %, which is much higher than educational background effects. So these values, provide empirical evidence for the hypothesized negative relation between CEOs tenure difference and target CEO turnover.

Accordingly, the theoretical support at the basis of the second hypothesis resulted to be valid and strong. Highly tenured CEOs develop specific abilities and cognitive capabilities in a different way compared to low tenured CEOs. During the period an individual is joining the firm, regardless his position in the organization, he encounters different situation and different experiences that shape both his knowledge and his personality (Super, 1957 and Hambrick & Fukutomi, 1991). So CEOs similarly tenured, according to similarity-attraction theory, feel attracted each other, facilitating communication and collaboration. On the contrary if CEOs are different, their interaction may generate misunderstandings and conflicts.

In line with existing literature about tenure differences and turnover (), results of this study show that the more CEOs are different tenured, the higher the likelihood that target CEO will leave the firm in high-tech cross border acquisitions.

The third and most interesting findings this study provides, is about a low explored variable that has never been analyzed in acquisition context by the existing literature. This variable is the management CEO style that identifies the classification of CEOs between insiders or outsiders. The differences coming from these two categories imply for the firm different approaches and as a consequence, different future growth. The CEO who comes directly from the firm owns industry and firm specific knowledge that only the experience within the firm can generate. He is able to handle the specific problems of the industry and is able to understand what his firm needs are. On the contrary, an outsider CEO doesn't have such type of knowledge because he comes from different contexts. His abilities are related to the specific CEO role, and most of times they are more innovative and tend to implement important changes in the new firm. Outsider and insider CEOs bring different experiences to the firm they lead and as a consequence its performances will be influenced in different ways (Finkelstein, Hambrick, & Cannella, 2009).

Starting from these different managerial approach, instead of focus the attention on the effects that these two different styles may have on future firm's performances, my study is directed toward the impacts that these differences will have on the likelihood that target CEO turnover will leave the firm after the acquisition. In other words, Hypotheses 3 tried to investigate how these different experiences may influence CEOs cognitive capabilities and personality, and how CEOs with different management styles interact with each other. The interaction during negotiation and post-acquisition process, may generate, on one side tensions and conflicts if two different profiles come in contact, and on the other side friendly integration if the two individual share common experiences. According to those studies that analyzed the effect individual dissatisfaction during the interaction (De Dreu & Weingart, 2003), in the latter case an easier integration is more likely to occur, while in the first case target CEO is more likely to depart because of a feeling of personal dissatisfaction.

Result of hypothesis testing gave strong and interesting information, supporting what we argued. CEO management style similarities are strongly positive associated to target CEO turnover in high-tech cross border acquisitions. In particular if target CEO is an insider and acquirer CEO is an outsider, or vice versa, the likelihood that the target CEO will leave the firm after the acquisition increase by 26,6 %. This means that not only this individual characteristic is an important determinants of turnover, but its effect are even stronger than other considered independent variables.

So the primary research question I set at the beginning of this study finds supporting and interesting answers. Individual similarity revealed to be a real determinant of target CEO turnover in high-tech cross border acquisitions, at least for the considered dimensions. The importance of human resources in high-tech acquisition were already clear (Barney, 1991 and Ranft & Lord, 2000), but my results show a further interesting detail. During acquisition not only individual characteristics alone are significant, but they influence turnover also if differences or similarities between the two CEOs exist.

Another interesting result that comes from the analysis regards the role of cultural distance. From a first analysis, national cultural distance between the two firms seemed to be positive correlated to target CEO turnover indeed the value of correlation was positive (Weber & Schweiger, 1989). This finding is in line with several researches (Krug & Aguilera, 2005 and Krug, Wright, & Kroll, 2014) that showed difficulties in communication and cooperation due to cultural differences. Therefore, considered alone, cultural distance matter in cross border acquisition as determinant for target CEO turnover. However, what is interesting, is that when this variable is inserted in a comprehensive model and considered together with a larger group of influencing variables, its effects are almost null and without statistical significance. What this result suggests, is that culture matter in cross border acquisitions, but its effect are much lower to other influencing variables.

In the existing literature the unclear effects of culture during cross border acquisition is an issue that frequently exists. First studies focused on cultural distance effects on firm's future performance. Some results showed negative effects between cultural distance and acquisition performances addressing the causes to high cost of integration and difficulties in the post integration process (Datta & Puia, 1995 and Stahl & Voigt, 2005). Other studies instead highlighted the positive effect of cultural distance coming from the interaction between two different world with new mechanisms and ideas embedded in the national culture (Morosini, Shane, & Singh, 1998). So from these first explorations were already clear that the cultural issue was a multifaceted and complex topic.

Later studies focused on the relation between national culture and turnover during acquisitions. They reached higher support, but even in these cases results lead to interesting interpretations (Krug & Aguilera, 2005). Cultural distance revealed in several studies to be positive related to target CEO turnover likelihood, but with some limitation. Krug and Nigh (1998) showed that cultural effects on turnover are strongly influenced by other factors. In particular they analyzed the role of acquirer international experience but expressed the need of future analysis in order to better understand the role of culture in cross border acquisitions. These results, as their authors suggested, showed that cultural distance is a variable that cannot be considered alone, not even in cross border acquisitions. Its effect should be considered together with other moderators and influencing factors.

Connecting these conclusions with our results, since cultural effects should be considered together with other variables, it is possible to state that cultural distance alone is positive correlated to target CEO turnover, but introducing other influencing variables cultural distance effects are overshadowed. In particular my study shows the higher importance of individual characteristic compared to culture. In addition cultural distance from my results, not only didn't receive support for the low reached significance, but also marginally speaking its effects are not important. Indeed an unitary increase in cultural distance, would increase the target CEO turnover likelihood only by 0,3%. This leads to a further confirmation: probably cultural differences matter in cross border acquisitions, but they have a double effect, positive and negative, that makes the final result null (Stahl & Voigt, 2005 and Zollo & Meier, 2008).

12.2 Suggestion for future researches and practical implications

The statistical support that this study received, open interesting directions for further researches. In my sample, I considered specific subsets of cross border high tech acquisition following the criteria explained in Chapter 9. It would be interesting if further studies could explore those areas not included in my analysis. In particular these are my suggestion for further studies about changes in the selection criteria:

- This study focuses only on three individual characteristics of CEO. Thanks to the statistical support they received it would be interesting to understand if CEOs similarities in other personal characteristics may influence target CEO turnover likelihood. Some examples, used a lot by homophily and social identity theories, can be age, gender, ethnicity or functional background.
- This study focuses on the comparison between the two CEOs profiles. Since all executives participate during the acquisition process, it would be interesting to understand if other profiles will influence target CEO turnover. So what I suggest, is to explore individual similarities and differences non only between the two CEOs but also among all other involved executives like CFO, COO and CTO
- One of the criteria applied to the sample, was that firms involved were headquartered only in Europe and USA. It would be interesting to investigate the effect of individual similarities even outside these borders, for example including countries from South American or Asia. In this case, since cultural distance could be more significant, results may lead to interesting interpretations.
- Given the importance of human resources in post acquisition integration in high-tech industry it would be interesting to understand if the effects of individual characteristics are significant even considering non high-tech firms. Indeed these results support my hypotheses, but they may have been potentially influenced by the central role that individuals have in high-tech acquisitions.

- In the sample I considered only small high-tech firm that were acquired by large firms. Future researches may investigate the role of individual characteristics in acquisitions involving large firms. In this case CEOs' power is similar and their interaction could be completely different than in the context analyzed by this study. They may establish a friendly integration because of the similarity of their role, or on the contrary there could be the risk that they want to demonstrate who is more powerful, generating interpersonal conflicts.
- A last suggestion regards the timing of the acquisition. Our sample considered acquisitions from 2001 to 2005 and the turnover were analyzed only three years after the acquisition. Future researches may not only focus on more recent acquisitions, but also analyze the temporal effects of turnover, performing a comparison between short term effects of individual similarity on turnover (e.g. one year after the acquisition) and long term effects (e.g. five years after the acquisition).
- This study consider turnover only when target CEO is not more part of the firm. It would be interesting to investigate the mechanism that lead to turnover, making a separate analysis between voluntary and involuntary target CEO turnover. CEO may leave the firm voluntary because he decides to look at new opportunities. But most important, this differentiation, allows understanding whether the acquirer make the decision to substitute target CEO being aware of possible consequence of this decision.

As final conclusion of this study it is important to understand which are the practical implications of my findings, both on the target and on the acquirer side.

The target should carefully evaluate the consequences of being acquired by a large firm, focusing also on the individual side of the acquisition. Indeed, as my results suggests, executives but in particular target CEO should evaluate the individual characteristics of acquirer's individuals and understand if there could be potential tensions and conflicts. In particular if acquirer CEO is completely different at an individual point of view from target CEO, than the deal is risky because the likelihood that the target CEO will leave the firm after the acquisition will significantly increase. The main variable that target should give importance to is the style similarity, because it resulted to have stronger impact of target CEO turnover.

On the other side, more interesting discussion can be developed for the acquirer's implications. As said in first chapters, acquisitions are a bet for the acquirer, who tends to make strategic and organizational evaluation of the deal in order to understand if it will create future value for the firm. Literature states that in general acquisitions are driven by the aim of increasing economic value, exploiting potential synergies or diversification benefits. In high-tech acquisitions instead, acquirers decide to undertake an acquisition in order to access new technologies and resources with specialized and technical knowledge. Also managerial motives are important and they focus on the individual side of the acquisitions, in particular on executives. A practical implication of this study, is that during the evaluation of the deal, in addition to all these acquisition determinants, also individual characteristics of the two CEOs should be evaluated. Indeed operational integration will fail if individuals won't efficiently interact with each other. This argument is especially valid for CEOs. If they have difficulties during the interaction, they can cause conflicts or even turnover, threatening the success of the deal. As this thesis argued, these conflicts may be generated by differences in individual characteristics of the CEOs due to different experiences and cognitive skills.

So summarizing, the last suggestion of this study is that, in addition to all reasons that make acquisitions an attractive opportunity, acquirer should carefully evaluate the potential generation of conflict and turnover, caused by individual differences with the target CEO.

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