Top management retention in cross-border acquisitions: the roles of financial incentives, acquirer’s commitment and autonomy

Mohammad Faisal Ahammad*
Division of Accounting & Finance,
Nottingham Business School,
Nottingham Trent University,
Nottingham, UK
Email: mohammad.ahammad@ntu.ac.uk
*Corresponding author

Keith W. Glaister
Management School,
The University of Sheffield,
Sheffield, UK
Email: k.glaister@sheffield.ac.uk

Yaakov Weber
School of Business Administration,
College of Management,
Rishon Lezion, Israel
Email: yweber@bezeqint.net.il

Shlomo Yedidia Tarba
Department of Economics and Management,
The Open University,
Raanana, Israel
Email: tarba2003@gmail.com

Abstract: Using data from a sample of Cross-Border Acquisitions (CBAs) made by UK firms, the present paper investigates the determinants of top management retention in CBAs. Applying both the theory of relative standing and the financial incentive mechanism of retention, we find that post-acquisition autonomy of the acquired firm and the acquirer’s commitment to the acquired organisation significantly affect top management retention. By contrast, and contrary to conventional wisdom, when interacting with other variables financial incentives may have a negative effect on top management retention. The managerial implications of the findings and directions for future research are also discussed.

Keywords: top management retention; cross-border acquisitions; relative standing theory; financial incentives; autonomy; commitment; UK.
1 Introduction

The departure of an acquired firm’s top managers is considered to be an important determinant of poor post-acquisition performance (Walsh, 1988; Cannella and Hambrick, 1993; Gomes et al., 2011; Weber and Tarba, 2011). Executives experienced with M&A
indicated that the most important factor for M&A success is the retention of key talent (Schuler and Jackson, 2001; Schuler et al., 2004). But few scholars and managers appear to understand either the underlying causes of this turnover or how it should be managed. For example, Lubatkin et al. (1999) found that culture clash between the top management teams in a merger and autonomy removal from acquired managers predict turnover. Cultural differences are usually present in domestic and more obvious in cross-border M&As, and the acquiring firm rarely grants the acquired managers full autonomy, especially in related mergers. The practices that would need to be used for the retention of the acquired managers remain under-researched. Weber and Fried (2011a, 2011b) argued that a main reason for the lack of consistent results produced by research on acquisition performance in several disciplines (e.g. strategic management and finance) is that it has failed to account for Human Resource (HR) practices implemented during M&As. Although HR practices have frequently been mentioned as a potential contributor to the effectiveness of M&As (e.g. DeNisi and Shin, 2005; Weber and Tarba, 2010; Weber et al., 2012), there is a dearth of empirical studies of the relationships between HR practices and top management retention. For example, in a study of international M&As, Child et al. (2001) indicated that compensation and reward systems are important in retaining key people after the merger. Nevertheless, empirical findings about the role of reward systems in manager retention are rare.

To fill some of these lacunae, the present paper examines the role of financial incentives in manager turnover and it examines how such incentives affect, together with other important factors such as relatedness, managerial autonomy removal and the acquirer’s commitment to the acquired managers, top management retention in a context of Cross-Border Acquisitions (CBA). A deeper understanding of employee retention techniques may help firms in dealing effectively with employee turnover during the M&A integration process and can lead to the development of more effective top management teams.

2 Literature review and hypothesis development

Significantly high rates of departure among top executives of acquired firms following an acquisition have generated considerable interest in the strategy literature (Walsh, 1988; Walsh, 1989; Walsh and Ellwood, 1991; Cannella and Hambrick, 1993; Hambrick and Cannella, 1993; Krug and Hegarty, 1997; Very et al., 1997; Krug and Nigh, 1998; Lubatkin et al., 1999; Bergh, 2001; Davis and Nair, 2003). Many of these studies focus mainly on macro-level variables at the pre-merger stage, such as the relatedness of the acquisitions (Walsh, 1988), the degree of hostility in negotiating the acquisition deal (Walsh, 1989) and the market for corporate control theories (Walsh and Ellwood, 1991), but they failed to find an explanation for executive turnover.

At the same time, some other research (e.g. Hambrick and Cannella, 1993; Lubatkin et al., 1999) used the theory of relative standing (Frank, 1986) to help understand the reasons for turnover in acquired top management teams. The theory of relative standing stresses the significance of the individual’s feelings of status and worth relative to that of others in a proximate social setting. Researchers have argued that “some acquisitions result in extremely low relative standing for acquired executives – they feel inferior, the acquirers see them as inferior and themselves as superior, autonomy is removed, status is removed and a climate of acrimony prevails” (Hambrick and Cannella, 1993, p.733).
The theory of relative standing primarily emphasises the importance of non-financial incentives such as autonomy provided to the management of the acquired firm, commitment of the acquiring firm to the acquisition, etc. However, financial incentives may substitute at least partially for many of these more intangible factors (Hambrick and Cannella, 1993; Coff, 1997). Financial incentives provide another form of indication of an employee’s worth to an organisation. The use of financial incentives to help achieve strategic and operational objectives has received some attention in the literature (Saura-Diaz and Gomez-Mejia, 1997). In the specific context of acquisitions, however, there is relatively little research on the use and efficacy of financial incentives as a mechanism to enhance retention (Ranft and Lord, 2000).

2.1 Financial incentive and employee retention

Incentives or rewards are discussed frequently in the literature (Agarwal, 1998). An incentive can be extrinsic or intrinsic; it can be a cash reward such as a bonus or it can be recognition, such as naming a worker ‘employee of the month’.

Rewards are very important for job satisfaction because they fulfil basic needs as well as helping to attain higher level goals. Earnings are the way in which workers get to know how much they are gaining by dedicating their time, effort and skills in a job (Bokemeier and Lacy, 1986). Attractive remuneration packages are an important factor in retention because they fulfil financial and material desires as well as providing the means of indicating an employee’s status and position of power in the organisation. An organisation’s reward system can affect the performance of employees and their desire to remain employed (e.g. Bamberger and Mesholam, 2000, MacDuffie, 1995).

However, prior research demonstrates that there is a great deal of inter-individual difference in understanding the significance of financial rewards for employee retention (Pfeffer, 1998; Woodruffe, 1999).

The primary focus of the theory of relative standing is on the importance of non-financial incentives for determining post-acquisition employee retention. However, financial incentives may substitute at least partially for many of these more intangible factors (Hambrick and Cannella, 1993; Coff, 1997). Financial incentives offer another form of signal of an employee’s worth to an organisation. The utilisation of financial incentives to assist in achieving strategic and operational objective has received some consideration in the literature (Saura-Diaz and Gomez-Mejia, 1997). For instance, in high-technology industries, the use of financial incentives to retain highly skilled workers is sometimes considered as a key component of employee retention strategies (Balkin and Gomez-Mejia, 1990).

In the specific context of acquisitions, there is relatively little research on the use and efficacy of financial incentives as a mechanism to enhance retention. The study by Ghosh and Ruland (1998) found that ownership sharing was a legitimate incentive to retain acquired top managers. They found that managers of an acquired firm are more likely to remain in the combined firm when they receive shares in the new firm as payment for their ownership interest in the acquired firm. In fact, the findings indicate that jobs were not retained, following payment with stock, in only 10% of the acquisitions. However, their study also indicates that acquiring managers, who value continued control of the acquiring company, prefer to pay cash to avoid diluting their existing holding. With regards to providing incentives, Schweiger and Goulet (2000) suggested that a conscious effort to integrate acquired management into the combined firm must be made by the acquirer and that the sharing of ownership control appears to be an incentive structure that aids in this process, by reducing acquired management turnover.
Some practitioner-oriented literature supports the use of short- and long-term incentives to “help keep valuable executives on board during the transition period and signal key executives that they have important roles to play in the organisation going forward” (Ferracone, 1987, p.61). Financial incentives used to retain employees in acquisitions can take several forms: (a) ‘stay put’ bonuses, generally a large bonus payable after the expiration of a certain period of time; (b) long-term contracts with bonuses payable over a given period of time; (c) stock options that can be exercised over some period of time or after a future date and (d) increased base salary and/or benefits (Ranft and Lord, 2000).

To retain valuable human capital, firms may need to share the wealth they help generate through some form of rent sharing, such as through various types of financial incentives. Sharing the profits generated by knowledge workers’ valuable expertise and skills promotes retention by raising their compensation to a higher level relative to the general labour market, as well as by increasing their perceived status in the firm (Hambrick and Cannella, 1993; Coff, 1997). Economic rewards linked to key employees’ continued employment within the newly merged firm, therefore, are likely to enhance the prospects that these employees will remain after the acquisition is completed. This leads to the following hypothesis.

\textit{Hypothesis 1: The use of financial incentives is positively associated with top management retention in the acquired firm.}

\subsection*{2.2 Autonomy, financial incentives and employee retention}

Autonomy refers to the strategic freedom to act, or the latitude of action that managers have when they formulate strategic activities, including implementation of organisational structure, determination of corporate development strategy and execution of technology transformations (Montanari, 1978; Takeuchi et al., 2008; Weber and Drori, 2011). Limited empirical research exists on the relationship between autonomy and employee retention in the context of CBAs. Managerial autonomy can influence the acquired firm’s intention to leave or stay. Hagedoorn and Hesen (2007) observed that managers with greater managerial discretion tend to be highly motivated and expend additional effort in pursuit of their strategic goals. The degree of autonomy given to the acquired firm increases the relative decision-making latitude of acquired managers’ and employees. In the context of acquisitions, Cannella and Hambrick (1993) found that removal of autonomy from individuals during the first two years after the acquisition was associated with executive departure. Moreover, those acquired executives who were given status were less likely to leave. The negative impact of autonomy removal was also confirmed in a European study by Very et al. (1997) who found that removal of autonomy from individuals accustomed to high levels of autonomy caused performance to deteriorate.

Prior research has identified autonomy removal as a characteristic of relative standing (Frank, 1986). This is a condition which contributes to the executives of the acquired firm feeling inferior relative to the acquiring firm executives or the executives of the acquiring firm viewing them as superior. The implication of this research is that maintaining the relative standing of the executives of the acquired firm will enhance the retention of the acquired firm’s executives (Schweiger and Goulet, 2000). In the context of acquisitions, appointing executives from the acquired firm to the newly merged firm’s management team may help provide them with a positive sense of worth in the new organisation (Ranft and Lord, 2000). Moreover, a greater degree of autonomy increases the relative decision-making latitude of managers and employees of the acquired firm.
Greater autonomy provides incentives for employees of the acquired firm to stay with the firm because they are able to maintain greater control over their surroundings (Hambrick and Cannella, 1993; Huselid, 1995; Very et al., 1997). This is especially likely to be the case in acquisitions aimed at acquiring new skills and capabilities, because highly skilled professionals tend to desire or require relatively high levels of autonomy (Raelin, 1991; Jelinek and Schoonhoven, 1995).

The use of both financial incentives and autonomy granted to the target company managers can enhance the effects of these measures. Thus, these measures may have a moderating effect, and it is likely that in addition to their two independent effects, they encourage managers who were granted high autonomy and high financial incentives to remain in the merged company. The above argument leads to the following hypotheses about main and moderating effects.

**Hypothesis 2:** Post-acquisition autonomy is positively associated with top management retention in the acquired firm.

**Hypothesis 3:** Autonomy moderates the relationships between financial incentives and management retention. Specifically, the positive effect of financial incentives is greatest when autonomy is high.

### 2.3 Commitment as a determinant of employee retention

Organisational support theory employs the social exchange perspective to explain employee–employer relationships (Loi et al., 2006). Eisenberger et al. (1986) developed Perceived organisational Support (POS) to understand employee–employer exchange relationships. POS refers to an individual’s perception regarding the extent to which a firm values employees’ contributions and cares about employees’ well-being (i.e. the degree to which the organisation is committed to its employees) (Eisenberger et al., 1986). Thus, employees tend to seek a balance in their exchange associations with their organisations by having their attitudes and behaviours based on their employer’s commitment to them individually (Eisenberger et al., 1990).

Enhanced POS makes employees feel compelled to care about the firm’s wellbeing and to help the firm reach its objectives (Eisenberger et al., 2001). POS increases employees’ effort-outcome expectancy, which makes employees believe that their efforts will be rewarded in the future (Eisenberger et al., 1986). Employees who perceive high POS tend to be strongly affiliated with and loyal to their organisation (Loi et al., 2006). Based on high effort-outcome expectancy and employees’ willingness to maintain membership with the organisation because of enhanced POS, Loi et al. (2006) further proposed that enhanced POS will lower employees’ intention to leave the firm.

Managers act as organisational agents who are responsible for guiding and evaluating subordinates’ performance. Therefore, employee tends to view their managers’ attitudes and behaviour towards employees as indicative of the firm’s support and commitment towards employees (Cho, et al., 2009). In acquisitions without commitment to the task, managers would not be able to realise the synergistic benefits and hence will not enhance organisational performance. Moreover, if the top management team does not demonstrate high levels of commitment to the strategy chosen, then it would be extremely difficult to empower subordinates and create a sense of belonging in the new combined firm (Vasilaki and O’Regan, 2008).

In the context of acquisitions, evidence of the acquiring firm’s commitment to the success of the acquisition is likely to increase feelings of importance among the acquired firm’s managers and employees. Such commitment may be articulated through positive
internal and external media emphasising the importance of the skills and capabilities of the acquired firm to the newly combined firm (Ranft and Lord, 2000, Ranft and Lord, 2002; Ranft, 2006). This positive publicity may increase acquired employees’ feelings of worth within the new firm. Other kinds of indication of the acquiring firm’s commitment might include mechanisms such as greater resources for training and professional development for the acquired firm’s managers and employees. Highly skilled employees are likely to value opportunities for continued learning, training and other forms of personal development in order to further increase their expertise and skills (Pfeffer, 1994; Huselid, 1995; Coff, 1997). Investment in such opportunities by the acquiring firm demonstrates its commitment to the success of the acquisition. In line with the predictions of the theory of relative standing, these positive indications of commitment are likely to increase the likelihood of the acquired firm’s employees remaining after the acquisition.

Commitment is also expected to moderate the relationship between financial incentives and management retention. It is likely, therefore, that in addition to the main effect, higher financial incentives are given to those who do not receive signs of commitment. For example, commitment toward acquired managers may be demonstrated by training and support for travel and liaison between acquiring and acquired firms located in different countries. Others will need financial incentives. Thus, the higher commitment of the acquiring firm will be evident for those who receive less financial incentives while those with higher financial incentives will face less commitment. Accordingly, there may be greater probability for lower retention when commitment his high while and financial incentives are low. These arguments lead to the following two hypotheses.

Hypothesis 4: The acquiring firm’s post-acquisition commitment to the acquired firm is positively associated with top management retention in the acquired firm.

Hypotheses 5: The acquiring firm’s commitment negatively moderates the relationship between financial incentives and management retention. Specifically, the positive effect of financial incentives is lowest when the acquiring firm’s commitment is highest.

2.4 Relatedness and turnover

Walsh (1988) suggested that top management turnover following a related merger or acquisition would be higher than the turnover following an unrelated merger or acquisition. He argued that the acquiring firm’s management team is familiar with a target firm’s business in a related merger or acquisition. Consequently, the acquiring company can afford to lose many of the target firms managers. However, in an unrelated merger or acquisition, the acquiring firm might be dependent upon the target firm’s managers and thus the management of the acquiring firm should be interested in retaining managers of the target firm (Walsh, 1989). Pitts (1976) suggested that in an unrelated merger or acquisition, the acquiring firm cannot afford to lose the product and market experience of the target firm’s management.

Relatedness has long been associated with synergy potential in related M&As. In related mergers a high level of integration between the two companies is needed to exploit the potential synergies. But high levels of integration are associated with loss of autonomy for acquired managers, and loss of autonomy may encourage turnover among acquired top executives. This happens because high integration and loss of autonomy can lead to HR problems such as stress, negative attitudes, low cooperation and low commitment to the success of the merger, and in turn to turnover among top executives (Weber and Drori, 2011). Therefore, high relatedness may predict high turnover,
although the situation may be different in the case of international M&As. In related cross-border M&As, the acquirer needs the operation of the acquired company and wants to learn its practices (Morosini, 1998). In such cases, the acquiring company needs the top management of the acquired firm and seeks to retain it. This is especially in the case given the fact that international M&As are oriented toward economies of scope and market extension rather than costs cutting and economies of scale. Furthermore, it is likely that the acquiring company that moves into another country is interested in retaining the key managers of the acquired firm, who know the industry and the company good performance. In addition to the main effect, relatedness may also have a moderating effect on the relationships between financial incentives and turnover. In this case, the acquiring company is interested in granting incentives only to the key talent and in cutting costs by eliminating duplications due to relatedness through turnover. Therefore, relatedness may reduce the effect of financial incentives on acquired top management retention, leading to the following two hypotheses.

**Hypothesis 6:** The higher the level of relatedness, the higher the retention of acquired top managers is.

**Hypothesis 7:** Relatedness negatively moderates the relationships between financial incentives and management retention. Specifically, the positive effect of financial incentives is lower in related mergers.

### 3 Research methods

#### 3.1 Data collection

The data were gathered via a cross-sectional survey using a self-administered questionnaire on a sample of UK firms that had acquired North American and European firms during the five year period from 2000 to 2004 inclusive. The development of the questionnaire was guided by a review of previous mergers and acquisitions research (e.g. Shanley, 1994; Ranft and Lord, 2000; Schoenberg, 2004).

A list of potential sample firms was generated from the Mergers and Acquisitions Database of Thomson One Banker. The Thomson One Banker database provides comprehensive secondary information about mergers and acquisitions including cross border deals. The sample includes those deals in which the acquirer bought a 100% equity stake in the acquired company. Based on the results of the website search and telephone enquiries, a list of key informants and potential survey participants was assembled. This resulted in a final sampling frame of 591 international acquirers.

In April 2007, 591 questionnaires each with a covering letter and return envelope were posted to potential survey participants (i.e. UK acquiring firm managers). Efforts were made to identify the individual in the acquiring firm that was involved with the acquisition decision and implementation process. In order to provide motivation for accurate responses, the respondents were guaranteed anonymity and were promised a summary report of research findings if requested. After three reminders, 69 questionnaires were returned, of which 65 were fully completed and usable, effectively a response rate of 11%. Given the well-documented difficulties of obtaining questionnaire responses from executives (Harzing, 1997) and the decreasing rate of response from executives (Cycyota and Harrison, 2006) the study’s response rate of 11% can be considered reasonable. This response rate is similar to that reported in other academic studies of executives. For instance, Graham and Harvey (2001) achieved a
response rate of nearly 9% from CFOs and Mukherjee et al. (2004) obtained an 11.8% response rate in a survey mailed to 636 CFOs who were involved in acquisitions management. All of the respondents had been directly involved in managing the CBA process. An examination of the job titles revealed 12 Chief Executive Officers, 16 Finance Directors or Chief Financial Officers, 23 Business Development Directors, eight Managing Directors and six Executive Directors. The sample represents acquisition activity on two continents: North America and Europe. In North America, the acquired firms are from the USA and Canada (21 and nine, respectively). Europe is represented by 35 acquisitions.

Since the dependent variable (top management retention), the key independent variables (post-acquisition autonomy, acquirer’s commitment and financial incentives) and the controls are based on data provided by a single individual, they may be affected by common method bias. This is unlikely, however, because the items measuring these variables are dissimilar in content. These constructs are measured through a large number of items, and top managers are familiar with them.

Using survey research to investigate past events requires respondents to recollect information. Potentially this exposed the study to retrospective bias, because some information may be lost or distorted over time. We adopted a research design and survey instrument intended to minimise retrospective bias. In order to assess potential retrospective bias, responses concerning acquisitions made in 2004 were compared to acquisitions made in 2000. The \( t \)-tests for mean differences in variables were calculated and evinced no statistically significant differences in means between responses concerning acquisitions made in 2000 compared to acquisitions made in 2004. These findings suggest that retrospective bias does not pose a problem for the study.

The possibility of non-response bias was checked by using two procedures (Ranft and Lord, 2000). First, non-response bias was tested by implementing a test comparing early and late respondents along a number of key descriptive variables. Differences between the two groups were not statistically significant, suggesting that non-response bias is not a major problem. Second, the possibility of non-response bias was checked by comparing respondent and non-respondent firms with respect to their relative size and primary sector of operation. The \( t \)-tests of mean difference were insignificant, confirming no systematic bias between the responding firms and non-responding firms.

To avoid problems of common method variance and the creation of pseudo-relationships between variables by methodological and process artefacts, provisions were made against consistency and priming effects following the recommendations of Podsakoff et al. (2003). Furthermore, some variables, such as relatedness, are more factual than perceptual and add to the credibility of the results. Finally, the presence of complex relationships, such as interaction, among dependent and independent variables that are unlikely to be part of the individual rater’s cognitive map reduce the chances for common method variance effects (Chang et al., 2010).

3.2 Measurement of key variables

In general, the study adapted scales used by other researchers in the field of international business and strategy research. Three management researchers examined the survey instrument for both content and face validity. In addition, five managers from the acquiring firms participated in a pre-test of the survey. Following the pre-tests, slight wording and ordering modifications were made to improve the clarity and organisation of the survey instrument.
3.2.1 Dependent variables – top management retention

The top management retention of the acquired firm was measured using an item adapted from Shanley (1994). First, respondents were asked to indicate the importance of retaining top management (1 = not important to 5 = extremely important). This is an essential step for overcoming validity concerns about the measure of retention (or turnover). For example, there is no sure way to reliably distinguishing voluntary from involuntary turnover (Lubatkin et al., 1999), and therefore it is difficult to explain predictors of turnover. Similarly, Cannella and Hambrick (1993) divided their sample of executive departures into “more senior” vs. “less senior” to better explain the effects on turnover. Understanding the importance of acquired manager turnover to the acquiring company is accomplished in the present research in a direct way that increases the validity of the study.

Respondents were also asked to indicate the extent to which the prior top management team of the acquired firm had been retained one year after acquisition, on a Likert-type scale anchored from 1 (‘no retention’) and 5 (‘full retention’). The first year after mergers has the highest level of turnover (Walsh, 1988) and previous studies found significant relationships between predictors and first year of turnover (Hambrick and Cannella, 1993; Lubatkin et al., 1999) but no relationships with second and third years after the mergers. A composite measure of top management retention was calculated by multiplying level of ‘importance’ with extent of ‘retention’.

3.2.2 Independent variables

Post-Acquisition Autonomy of the Acquired Firm: The degree of organisational autonomy granted to the acquired company in the post acquisition period was measured using an instrument adapted from that previously utilised by Datta and Grant (1990) and Schoenberg (2004). Respondents were asked to indicate the locus of decision making (1 = acquiring firm; 2 = jointly and 3 = acquired company) for 18 separate operational and strategic decisions affecting the acquired firm (listed in Appendix A). All of the eighteen decision items loaded strongly (> 0.6) onto a single component. An aggregate measure of autonomy was calculated by averaging the factor scores on all the items. Results for this measure were compared with responses on the single-item measure developed by Hambrick and Cannella (1993) to assess ‘overall autonomy’, which was also included in the survey. The two measures were highly correlated ($r = 0.91$, $p < 0.001$). The aggregate measure of autonomy was used in subsequent analysis.

Acquirer’s Commitment to the Acquired Firm: Acquirer commitment was measured using an instrument adapted from that previously utilised by Ranft and Lord (2000). The four items in this measure assessed various dimensions of the acquirer’s corporate commitment to the success of the acquisition. First, respondents indicated to what extent they agreed or disagreed with the statement that the acquirer was visibly committed to making the acquisition a success (1 = strongly disagree; 5 = strongly agree). The remaining items assessed other potential indicators of commitment: support for continued training and development of the acquired firm’s employees, support for travel and liaison between the acquired firm and the acquiring firm, the use of positive public relations. Factor analysis of the items extracted a single factor. An aggregate measure of commitment was calculated by averaging factor scores on the four items.
Financial Incentives: The survey presented respondents with items assessing the use of four different types of financial incentives (Ranft and Lord, 2000) that might be used to encourage employees to stay with a company. These items included (a) short-run incentives; (b) long-term contracts; (c) stock options and (d) performance bonuses (Balkin and Gomez-Mejia, 1990; Gerhart and Milkovich, 1990). Respondents were asked to indicate on a five-point scale the extent to which each type of incentive were offered (1 = no extent; 5 = great extent). Factor analysis on these items (with varimax rotation) extracted two factors (with eigenvalues > 1). The first factor consisted of short-run incentives and long-term contracts, i.e. each linked to a specific time frame for retaining an employee. The second factor consisted of stock options and other types of bonuses, i.e. linked directly to performance outcomes of the newly merged business. An overall score for each of the factors was calculated by averaging the scores for the items that loaded on each factor. Because each measure appeared to tap into a different type of financial incentive, both measures were used in subsequent analyses.

Relatedness: The acquisition was considered related if the acquirer and the acquired firm operated in the same industry, and not related if they operated in different industries. The respondents were asked to indicate the industry the acquiring firm was operating in as well as the industry of the target firm. To control for potential effects of relatedness, the relatedness of the acquired firm and the acquirer was coded ‘1’ if ‘related’ acquisitions and ‘0’ if ‘not related’ acquisitions.

3.2.3 Control variables

The control variables included are relative size of the acquired firm, acquisition relatedness and attitude of the acquired firm. The size differences between an acquiring firm and target firm can affect the top management turnover (Walsh, 1989). A very large firm is likely to have a supply of skilled managers to replace the managers in a smaller acquired firm. This would not be the case as the size differences between the acquiring and target firm reduces. Moreover, the managers in the smaller target firm may be less skilful when managing in a larger and perhaps more bureaucratic context. Consequently, target firm top management retention is likely to vary negatively with an increase in the size differences between the acquiring firm and target firm. Relative size was operationalised as the ratio of the sales turnover of the acquired firm to that of the acquiring firm at the time of the acquisition (Krishnan et al., 1997; Schoenberg, 2004).

Target firms’ top managers who express open hostility to the prospect of a merger or acquisition are unlikely to remain in the target firm (Walsh, 1989). To control for the potential effect of the attitude of the target firms’ management, the respondents were asked to indicate on a five-point scale (Schoenberg, 2004) the attitude of the acquired firm’s board towards the acquisition (1 = No resistance to being acquired; 5 = Major resistance to being acquired).

4 Findings and discussion

The survey data were screened to check for outliers, out-of-range values, missing data, and assumptions of normality and homoscedasticity by examining univariate statistics and scatter plots of the residuals (Tabachnick and Fidell, 1996). Descriptive statistics and correlations for each of the variables used in the analyses are presented in Table 1.
Table 1: Descriptive statistics and Pearson’s correlations

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<th>Variables</th>
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<tr>
<td>Incentive - performance/long term</td>
<td>0.00</td>
<td>1.00</td>
<td>0.21</td>
<td>0.37**</td>
<td>-0.16</td>
<td>0.10</td>
<td>0.01</td>
<td>0.00</td>
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<tr>
<td>Commitment</td>
<td>0.00</td>
<td>1.00</td>
<td>0.36**</td>
<td>0.34**</td>
<td>0.10</td>
<td>0.12</td>
<td>-0.12</td>
<td>0.33**</td>
<td>0.32**</td>
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<tr>
<td>Commitment × Incentive (Time)</td>
<td>0.32</td>
<td>1.53</td>
<td>-0.20</td>
<td>-0.26*</td>
<td>-0.09</td>
<td>-0.03</td>
<td>0.08</td>
<td>-0.16</td>
<td>-0.39**</td>
<td>-0.65**</td>
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<tr>
<td>Commitment × Incentive (performance)</td>
<td>0.31</td>
<td>1.40</td>
<td>-0.20</td>
<td>-0.30*</td>
<td>-0.13</td>
<td>-0.13</td>
<td>-0.01</td>
<td>-0.43**</td>
<td>-0.14</td>
<td>-0.51**</td>
<td>0.71**</td>
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<tr>
<td>Autonomy (Operation) × Incentive (Time)</td>
<td>-0.03</td>
<td>1.12</td>
<td>0.09</td>
<td>-0.31*</td>
<td>0.03</td>
<td>-0.38**</td>
<td>0.04</td>
<td>-0.02</td>
<td>-0.07</td>
<td>-0.05</td>
<td>0.23</td>
<td>0.13</td>
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Table 1
Descriptive statistics and Pearson’s correlations (continued)

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<th>Variables</th>
<th>Mean</th>
<th>SD</th>
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<th>4</th>
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</thead>
<tbody>
<tr>
<td>Autonomy (Operation) × Incentive (Performance)</td>
<td>0.09</td>
<td>1.10</td>
<td>0.20</td>
<td>−0.135</td>
<td>−0.06</td>
<td>−0.36**</td>
<td>−0.08</td>
<td>−0.07</td>
<td>−0.03</td>
<td>−0.17</td>
<td>0.09</td>
<td>0.09</td>
<td>0.50**</td>
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<tr>
<td>Autonomy (strategic) × Incentive (Time)</td>
<td>0.20</td>
<td>0.99</td>
<td>0.237</td>
<td>−0.036</td>
<td>−0.18</td>
<td>0.05</td>
<td>−0.18</td>
<td>−0.01</td>
<td>−0.18</td>
<td>0.13</td>
<td>−0.03</td>
<td>−0.18</td>
<td>0.31*</td>
<td>0.13</td>
<td></td>
<td></td>
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<tr>
<td>Autonomy (Strategic) × Incentive (performance)</td>
<td>0.01</td>
<td>1.03</td>
<td>0.28*</td>
<td>0.013</td>
<td>−0.05</td>
<td>−0.09</td>
<td>−0.162</td>
<td>−0.17</td>
<td>0.01</td>
<td>−0.01</td>
<td>−0.12</td>
<td>−0.24</td>
<td>0.14</td>
<td>0.30*</td>
<td>0.15</td>
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<tr>
<td>Relatedness × Incentive (Time)</td>
<td>0.04</td>
<td>0.94</td>
<td>0.01</td>
<td>0.32**</td>
<td>0.01</td>
<td>0.00</td>
<td>0.26*</td>
<td>0.95**</td>
<td>−0.06</td>
<td>0.20</td>
<td>0.02</td>
<td>−0.26*</td>
<td>−0.09</td>
<td>−0.15</td>
<td>−0.16</td>
<td>−0.27*</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Relatedness × Incentive (performance)</td>
<td>0.06</td>
<td>0.92</td>
<td>0.02</td>
<td>0.30*</td>
<td>−0.16</td>
<td>0.17</td>
<td>0.10</td>
<td>−0.07</td>
<td>0.93**</td>
<td>0.21</td>
<td>−0.25*</td>
<td>0.05</td>
<td>−0.14</td>
<td>−0.12</td>
<td>−0.31*</td>
<td>−0.15</td>
<td>−0.07</td>
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</tr>
<tr>
<td>Employee retention</td>
<td>3.31</td>
<td>0.85</td>
<td>0.29*</td>
<td>0.43**</td>
<td>−0.04</td>
<td>0.54**</td>
<td>0.19</td>
<td>0.31*</td>
<td>0.31*</td>
<td>0.51**</td>
<td>−0.51**</td>
<td>−0.59**</td>
<td>−0.23</td>
<td>−0.15</td>
<td>0.14</td>
<td>0.08</td>
<td>0.17</td>
<td>0.21</td>
<td></td>
</tr>
</tbody>
</table>

Notes:  N = 65; SD = Standard deviation; *p < 0.01, *p < 0.05; Two-tailed test.
Condition indices and variance inflation factors were analysed for the model to assess any potential problems with multi-collinearity (Tabachnick and Fidell, 1996). Multicollinearity is not a problem as the variance inflation factor scores (VIFs: 1.23-1.71) are well within the cut-off of ten recommended by Neter et al. (1985). Moreover, the Durbin–Watson test statistic for autocorrelation of the residuals indicates no existence of autocorrelation (Durbin–Watson statistic = 2.033).

The correlations in Table 1 provide support for the measures of this study. For example, the significant correlation between commitment and financial incentive (time) is expected. Long-term contracts for acquired managers show commitment of the acquiring firm to them and to the merger. The correlation between autonomy and retention provides initial support for Hypothesis 3, which predicts such a positive relationship.

Table 2 shows the results regression models: Model 1 contains only the control variables; Model 2 contains the control variables and the explanatory variables. For Model 2, the regression equation has a significant $F$ value ($p < 0.01$). In terms of explanatory power, about 36% of the variation in top management retention is explained by the independent variables.

The explanatory variables relatedness ($B = 0.160, p < 0.05$), autonomy ($\beta = 0.586, p < 0.01$) and acquirer commitment ($\beta = 0.202, p < 0.10$) are positive and significant predictors of top management retention during post acquisition integration, providing support for Hypotheses 2, 4 and 6. The coefficient of the financial incentive (time) variable is significant, but not for financial incentive (performance), thus provide partial support for Hypothesis 1 stating that the higher the financial incentive the higher the retention of top executives. Of much interest is the interaction term of relatedness and incentive. The results are significant and negative and as such support Hypothesis 7 stating that in related mergers the effect of financial incentives will be lower. Model 3 provides similar results for financial incentives (performance) and provides further support to Hypothesis 7.

Models 4 and 5 provide support for Hypothesis 5 about the negative moderating effect of commitment on the relationships between financial incentives and retention. However, the interaction variables that include autonomy and financial incentives were not found to be significant, providing no support for Hypothesis 3.

The results that provide support for the positive influence of continued autonomy of the acquired organisation on retention of the top management team are consistent with previous research. Past research indicates that granting autonomy to an acquired firm’s managers increases their feelings of relative standing in the firm and, therefore, minimises their tendency to leave. Consistent with the theory of relative standing and Hambrick and Cannella’s (1993) findings for top executives, the data suggest that the ‘preservation’ (Haseslagh and Jemison, 1991, p.147) mode of acquisition implementation (i.e. acquisitions requiring a high level of organisational autonomy and a low need for strategic interdependence) may be sometimes appropriate for acquisitions aiming to acquire knowledge-based resources in order to prevent the loss of key resources through personnel turnover.
Table 2: Regression results: determinants of top management retention

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative size</td>
<td>0.443***</td>
<td>0.01</td>
<td>-0.069</td>
<td>-0.028</td>
<td>-0.037</td>
<td>-0.036</td>
<td>-0.017</td>
<td>-0.010</td>
<td>-0.03</td>
</tr>
<tr>
<td>Attitude of acquired firm</td>
<td>0.026</td>
<td>-0.01</td>
<td>0.103</td>
<td>-0.104</td>
<td>-0.120</td>
<td>-0.079</td>
<td>-0.075</td>
<td>-0.053</td>
<td>-0.074</td>
</tr>
<tr>
<td>Acquisition relatedness</td>
<td>0.16**</td>
<td>-0.137</td>
<td>0.285***</td>
<td>0.242**</td>
<td>0.267</td>
<td>0.228</td>
<td>0.233*</td>
<td>0.201*</td>
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</tr>
<tr>
<td>Autonomy (Operational)</td>
<td>0.56***</td>
<td>0.586***</td>
<td>0.537***</td>
<td>0.475***</td>
<td>.484***</td>
<td>0.538***</td>
<td>0.500***</td>
<td>0.527***</td>
<td></td>
</tr>
<tr>
<td>Autonomy (Strategic)</td>
<td>0.34***</td>
<td>0.364***</td>
<td>0.325***</td>
<td>0.312***</td>
<td>.321***</td>
<td>0.308***</td>
<td>0.310***</td>
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<tr>
<td>Acquirer commitment</td>
<td>0.20**</td>
<td>0.318***</td>
<td>0.096</td>
<td>0.200**</td>
<td>.342***</td>
<td>0.357***</td>
<td>0.318***</td>
<td>0.348***</td>
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</tr>
<tr>
<td>Financial incentive (Time)</td>
<td>1.46***</td>
<td>0.100</td>
<td>0.139*</td>
<td>0.009</td>
<td>.126</td>
<td>0.133</td>
<td>0.136</td>
<td>0.167*</td>
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<td>Financial incentive (Performance)</td>
<td>0.05</td>
<td>0.929***</td>
<td>0.001</td>
<td>0.087</td>
<td>.090</td>
<td>0.090</td>
<td>0.120</td>
<td>0.102</td>
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<tr>
<td>Relatedness × Incentive (Time)</td>
<td>-1.35***</td>
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<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Relatedness × Incentive (Performance)</td>
<td>-0.848***</td>
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<tr>
<td>Commitment × Incentive (Time)</td>
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<td></td>
<td></td>
<td>-0.396**</td>
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Note: *** p < 0.001, ** p < 0.01, * p < 0.05.
Table 2 Regression results: determinants of top management retention (continued)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
<th>Model 6</th>
<th>Model 7</th>
<th>Model 8</th>
<th>Model 9</th>
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</thead>
<tbody>
<tr>
<td>Commitment × Incentive (Performance)</td>
<td>-0.390***</td>
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<tr>
<td>Autonomy (Operational) × Incentive (Time)</td>
<td></td>
<td>-0.075</td>
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<tr>
<td>Autonomy (Operational) × Incentive (Performance)</td>
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<td>0.092</td>
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<tr>
<td>Autonomy (Strategic) × Incentive (Time)</td>
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<td>0.091</td>
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<tr>
<td>Autonomy (Strategic) × Incentive (Performance)</td>
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<td>0.160</td>
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<td>$R^2$</td>
<td>0.193</td>
<td>0.773</td>
<td>0.710</td>
<td>0.732</td>
<td>0.748</td>
<td>0.655</td>
<td>0.658</td>
<td>0.658</td>
<td>0.673</td>
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<tr>
<td>Adjusted $R^2$</td>
<td>0.166</td>
<td>0.735</td>
<td>0.662</td>
<td>0.687</td>
<td>0.706</td>
<td>0.598</td>
<td>0.600</td>
<td>0.601</td>
<td>0.618</td>
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<tr>
<td>$F$-statistics</td>
<td>7.28***</td>
<td>20.40***</td>
<td>14.76***</td>
<td>16.35***</td>
<td>17.81***</td>
<td>11.40***</td>
<td>11.52***</td>
<td>11.52***</td>
<td>12.32***</td>
</tr>
</tbody>
</table>

Notes: $N = 65$; Standardised beta coefficients: significant at ***$p < 0.01$, **$p < 0.05$, *$p < 0.10$; the $t$-test on each regression coefficient is two-tailed. Model 1 represents regression with control variables. Model 2 to Model 9 represents regression with explanatory, control variables and each of the interaction variables.
Some researchers (e.g. Ashkenas et al., 1998) have recommended relatively rapid and complete integration of acquisitions in order to increase the chances of acquisition success. For some types of acquisitions, implementation strategies based on quick integration may be appropriate. However, the positive significant finding for autonomy in this sample of CBAs suggests a more cautious consideration of such recommendations. Critical aspects of acquisition implementation strategies, such as levels of autonomy, should be informed more by the specific motivations and resources of the particular acquisition situation rather than by some general prescription for all acquisitions.

The acquirer’s corporate commitment to the acquisition was also found to have a positive influence on the retention of the top management team. Indications of commitment to the success of the acquisition integration (e.g. support for training and travel and positive public relations on the part of the acquirer) appear to enhance acquired employees’ comfort within and commitment to, the newly combined organisation. The finding is consistent with Ranft and Lord (2000) who found a significant positive association between the acquirer’s commitment towards the acquisition and employee retention.

5 Summary and conclusions

The present study provides systematic evidence for the effects of actions by the acquiring company aimed at the retention of executives of the acquired firm in cross-border M&As. Actions such as the granting of financial incentives, autonomy and commitment in the part of the acquiring company to the acquired managers increase retention. However, the results also provide evidence about the role of financial incentives to the retention of top executives in international M&As that is counter-intuitive. Specifically, financial incentives have a negative effect on retention when they interact with the acquirer’s commitment and relatedness. The findings have practical significance because they show that acquiring companies should not depend exclusively on financial incentives for the retention of key talent and top executives of the acquired firm.

The less economically related and more socially oriented issues associated with autonomy and commitments are found to be more important determinants of top management team retention than are financial incentives at least in some situations. This finding appears to support the contention of Ranft and Lord (2000, p.315) who argued that “the broader social logic behind the theory of relative standing therefore appears to be a better predictor of employee retention than a theory simply based on direct, personal economic interests”. Firms offer financial incentives in the expectations that employees will stay after the acquisition. However, it is critical that the acquiring firm understands the limitations of financial incentives in an M&A situation. Financial incentives are is not sufficient to buy hard work or long term loyalty (Erickson and Troy, 2008). The acquiring firm should regain employee trust and commitment, otherwise, once the incentives are paid, employees may be more likely to consider other employment opportunities. The amount of money paid to the employees as retention incentives might have only a short-term temporal impact if not renewed or extended. An alternative explanation is that top management that are worthy of financial incentives for retention, are likely to be in demand not just by the acquirer, but also by other firms that may offer even greater incentives for the top management team to leave.
In many M&A, one of the most valuable resources of the firm is the retention of the acquired firm’s top management team and key employees (Kiessling and Harvey, 2006; Gomes et al., 2011; Weber and Tarba, 2011; Weber et al., 2012). The firm’s culture, strategy and dynamics are dependent to a large extent on the top management team of the acquired firm (Pfeffer, 1981) and for continued superior performance of a successful target firm, the top management team need to be retained (Finkelstein and Hambrick, 1996; Koch and McGrath, 1996). This study contributes to the existing literature by assessing the determinants of top management team retention in CBAs in terms of the impact of autonomy given to the acquired firm, the acquirer’s commitment to the acquired firm and financial incentives provided to employees. This has been attempted by very few prior studies. A particular distinguishing feature of this study is that it investigates the determinants of top management retention in CBAs by applying both the theory of relative standing and the financial incentive mechanism of retention. Identifying the factors leading to employee retention can help the managers of the acquiring firm to manage the target firms’ top management team more effectively after an acquisition.

From the perspective of management practice, this study provides managers with some indication of where to focus their efforts and expend their resources in order to retain valuable human capital during CBA integration. A major contribution of the study is that the relatively direct approach of using financial incentives to encourage retention does not appear to be particularly effective when combined with other actions. In contrast, other less tangible and more social factors may prove more significant determinants of retention. Rather than solely focusing on compensation issues, managers of the acquiring firms should pay increased attention to issues related to autonomy and commitment during acquisition integration. For instance, in order to enhance employee retention, firms should invest in training and development of the acquired firm. Employee training is an indication of management commitment to building a life-long relationship with the employees thereby influencing their turnover decisions.

The findings of the present study offer a useful basis for future empirical investigation of top management retention in CBAs. The findings relating to autonomy highlight a persistent dilemma when high levels of autonomy are granted to an acquired firm. With a high level of autonomy and consequently a low level of integration of the acquired and acquiring firms, it may be difficult for the resources and capabilities of the two firms to be transferred successfully, shared and combined. Assuming that in many acquisition cases there are synergies to be realized through integration, the need to maintain a large degree of post-acquisition autonomy for the acquired firm (in order to retain employees) creates a serious challenge. How this tension can be managed successfully is a question for future research.

The impact of financial incentives on employee retention is worthy of further consideration in future research, especially given the apparent popularity of such incentives in many acquisition implementation plans. At least for some groups of employees, broader issues related to their relative standing ultimately may prove to be more important than financial incentives in determining whether they decide to remain with the acquired firm. A detailed comparison of the effects of economic incentives and social standing on post-acquisition employee retention would be a fruitful avenue for future research.
As with any research, this study has limitations. The study relies on data provided by managers in 65 UK firms, so the generalisation of the findings may be limited. However, selecting acquiring firms from one country was a purposeful way of dealing with the otherwise high variability in the studied firms’ backgrounds. It should be further recognised that the sample selection was also guided by pragmatic reasoning based on time and cost constraints.

References
Top management retention in cross-border acquisitions


Appendix A

Activities along which the autonomy given to the acquired firm managers was measured

Product/Market decisions in the acquired firm
(a) Introducing a new product line/service.
(b) Discontinuing an existing product line/service.
(c) Expanding into new geographic markets.
(d) Deciding brand names.
(e) Change in distribution channels/Outlet sites.
(f) Investing in major assets to expand capacity for existing product/services.
(g) Determining Research and Development content.
(h) Determining Research and Development budget.

Operating Decisions in the acquired firm
(i) Purchasing important raw materials/services.
(j) Changing the selling price on a major product or service.
(k) Changing selling and marketing techniques.
(l) Changing level of expenditure for advertising and promotion.

Personnel/Administrative decisions in the acquired firm
(m) Hiring, promoting, firing high-level managers (Board/one-below board).
(n) Hiring, promoting, firing lower level managers.
(o) Changing salary and fringe benefit levels for salaried personnel.
(p) Determining and changing budget plans.
(q) Changes in high-level reporting relationships/Organisational structure.
(r) Changes in lower level reporting relationships/Organisational structure.