THE REASONS AND CONSEQUENCES OF VOLUNTARY VERSUS INVOLUNTARY EXECUTIVE TURNOVER FOLLOWING MERGERS AND ACQUISITIONS

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ABSTRACT

THE REASONS AND CONSEQUENCES OF VOLUNTARY VERSUS INVOLUNTARY EXECUTIVE TURNOVER FOLLOWING MERGERS AND ACQUISITIONS

Ingrid S. Russell, Ph.D.

Trident University International, 2017

The purpose of this thesis is to examine the reasons and consequences of executive turnover following merges and acquisitions (M & As). Specifically, this study analyzes the effects of different takeover types on voluntary versus involuntary executive turnover, and its perceived implications for company performance. Building on diverse conceptual perspectives of stewardship theory, agency theory, and top echelon theory, my dissertation contributes to the literature on M & A consequences by investigating the impact of takeover type, ownership type, M & A type, and demographic (gender and age) variables on executive turnover following an M & A. Analysis of the data collected through a survey of firm executives allowed testing of the proposed hypotheses. As conjectured in this study, executive turnover was mostly affected by takeover type. Importantly, hostile takeovers and leveraged buyouts generated higher turnover than friendly takeovers. Moreover, contrary to prior research, demographic variables such as race, age, and gender also had no impact on turnover. Executives' comments suggest that they decided to quit an acquired company not because of low job satisfaction but rather because of their perception that the cultural change following an M & A undermined the foundations of organizational justice. From a practical perspective, these findings show that different types of M & A's have a similarly strong effect on executive turnover (apparently, because of the ensuing cultural change) with the exception

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of friendly M & As. Hence, those acquirers that want to retain more personnel need to be cognizant of the impact of cultural change and its implications for perceived organizational justice, on executive turnover.

Keywords: merges and acquisitions (M & As), voluntary versus involuntary executive turnover, takeover types

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BIOGRAPHICAL SKETCH

Ms. Ingrid S. Russell has over 25 years of international finance, accounting, and auditing experience. She has worked in leading multinational companies such as United Technology and Hewlett Packard in senior positions such as Controller, Director of Finance, and Chief Financial Officer. She had completed international assignments in Brazil, England, and the Netherlands. In addition, she was involved in organizing her companies' mergers, acquisitions, and joint ventures in Germany, Japan, Spain, and the United States. She has also set up manufacturing facilities in China and the United States. Ms. Russell has built a reputable track record in developing and directing talented and highly motivated teams focused on tangible goal achievement through fundamental basics and solution-oriented approaches.

Ms Russell completed her Bachelor of Science degrees in Economics and Finance from Bentley University, She completed her Masters of Business Administration in Business Administration from Western New England University and is in the process of completing her Doctor of Business Administration with a concentration in Accounting and Finance from Trident University International.

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This dissertation is dedicated to my parents Charles and Editha Carr. Sadly they are no longer with us and are not here to see this dream be realized. You both have instilled in me the value of an education. This dream is especially important to our family as my mom was not able to continue her education upon her father's death because her family could no longer afford to send her to school.

This dissertation is also dedicated to my three sisters: Pamela, Kathryn, and Alison. You kept reminding me of the dream. This is also dedicated to my son Isaac, who encouraged me to not give up as I worked through yet another rewrite. I hope I have been able to pass on to you the value of the gift of continuous learning. Also a special thanks to Dr. Jeffrey Kane for all his advice and support

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CHAPTER 1

INTRODUCTION

This study will analyze how executive turnover, voluntary versus involuntary, may be influenced by various types of mergers and acquisitions (M & As). M & As are part of the evolution of many companies. In fact, every industry has experienced M & As, albeit to a different degree. Understanding the impact that M & As could have upon executive turnover may help a company structure its policies with regard to top executives (e.g., by either motivating executives to leave or motivating them to stay) in the interests of improving firm performance.

Companies merge or acquire other firms typically seeking to increase shareholder value, firm profitability, market share, to stimulate growth, or advance technology. Mergers are a combination of two or more firms that may want to join forces and become one entity (in reality, mergers often are acquisitions in disguise). An acquisition is the purchase of the stock or assets of a firm by another firm to gain management control. Literature on M & A performance has been inconsistent in its findings. Some studies established that M & As usually result in performance failures (Schweiger & Very, 2003), destroying the acquired company's competencies and culture, and negatively influencing the acquiring company's profits. In contrast, other studies ascertained that M & As have minimal or negligible effects on performance (Saini & Singla, 2012). Still others have provided evidence that M & As can be successful, at least in some areas (Altunbas & Marques, 2008; Choi & Harmatuck, 2006; Sinha, Kaushik, & Chaudhary, 2010).

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A takeover occurs when the controlling interest in one company is purchased by another company. This study aims to add to our understanding of the impact of different types of M & As, specifically takeover types, on executive turnover, voluntary versus involuntary, and the perceived implications of such turnover for company performance. There are three main types of takeovers identified in literature: hostile, friendly, and reverse.

Hostile takeovers occur when one company pursues the acquisition of the controlling shares of another company despite the fact that the board of the company to be acquired rejects the tender offer. Disregarding this rejection, the acquiring company continues to pursue the acquisition, seeking to get it approved by the shareholders. The shareholders then may approve or disapprove the offer, with other companies often placing alternative bids. Corporate raiders may also acquire a large block of shares of a company so as to gain control. Such type of acquisition can be regarded as a particular kind of hostile takeover.

Friendly takeovers occur when one company makes a bid to buy another company, and the board of the company to be acquired accepts the offer so that the acquisition takes place rather peacefully. Shareholders typically receive cash or shares from the acquiring company. Reverse takeovers occur when a private company acquires a public company. Sometimes private companies acquire public companies instead of launching an IPO. They then transform the acquiring company (i.e., a private company) into the public company.

Research has indicated that the odds of an executive turnover following an M & A are very high (Krug & Nigh, 2001). Acquisitions increase uncertainty and investors do not like uncertainty and seek to avoid it, so that increased uncertainty may lead to investor flight (McMullen & Shepherd, 2006). From this perspective, departure of talented leaders (or stewards of the company) could negatively affect its market value. However, departure of

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incompetent leaders could actually increase the company's market value. How common is executive turnover following an M & A? In domestic acquisitions, 20% of the executives could be expected to leave in the first year and 70% of top executives will leave in 5 years. In international acquisitions, 75% will leave by the fifth year (Krug & Hegarty, 1997). Normal attrition rate for top executives is 8% (Krug & Nigh, 2001). Executive exodus can be disruptive to normal business operations. Top management may leave voluntarily or involuntarily. Turnovers can cause an organization to lose its core competencies, which may undermine the organization's ability to meet its objectives (Ranft & Lord, 2000; Smither, 2003). These departures can be driven by policy changes leading to increased stress and uncertainty as well as reduced job satisfaction and productivity (Krug & Nigh, 2001). However, executive turnover may be beneficial to companies, giving them a chance to benefit from new leaders' innovative ideas and strategies, or at least allowing them to overcome the inertia of the former leadership (Krug, Wright, & Kroll, 2014).

Importance of the Study

In some cases, executive turnover is necessary, as executives in the acquired firm may not possess the requisite knowledge and experience to help improve the combined company's performance and lead it into the future. Also, there may be significant differences between the acquiring and acquired firms in terms of leadership style and strategy, making the acquiring management team and the acquired management team virtually incompatible, and raising the likelihood of destructive (as opposed to constructive) conflicts. The resulting hostilities could make executive turnover unavoidable and beneficial for the company. The acquisition of Promus and Doubletree is an example of such conflict, and the board gladly accepted the resignations of some senior executives (Whitford, 1998).

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However, exodus of top executives of the acquired firm may have a negative impact on the acquirer, if the latter does not have the competencies and experience necessary for running a successful combined operation. Letting go of the acquired company's team may also be done for subjective reasons and have a negative effect on firm performance. Understanding the impact of different takeover types on executive turnover, voluntary versus involuntary, is important as it could help top executives of the acquiring company make the decision whether or not to retain key executives of the acquired company, as well as inform them how to persuade the needed executives to stay. As such, this dissertation broaches an important subject that has not been sufficiently examined in prior research on M & As.

Gaps in the Literature

While hostile takeovers have been examined in prior research (Bhagat, Shleifer, & Vishny, 1990; Copeland, Bullen, & Hermanson, 1989; Franks & Mayer, 1996), the impact of friendly takeovers and reverse takeovers on executive turnover, voluntary versus involuntary, was not addressed in previous studies. A recent study summarized extensive literature on the effects of M & As on executive turnover (Krug et al., 2014). The authors identified the five most important perspectives underlying such studies of executive turnover following M & As: (a) market, (b) top management, (c) industry, (d) firm, and (e) country (Krug et al., 2014). Each perspective has been developed by two or more theories, and arrived at a variety of conclusions (often opposite) with regard to the reasons why top executive retention, or conversely, top executive dismissal should be desired by the acquiring company (Krug et al., 2014).

For example, studies following agency theory and market for corporate control theory (the two overlapping conceptual trends within the market perspective) established that

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executive dismissal was beneficial for the acquirer because the executives of acquired companies were poor performers, and used inside directors and CEO duality in order to buttress their power (Krug et al., 2014). In contrast, studies following empire-building theory, hubris theory, top echelons theory, and top management team complementarity theory (the four main trends within the top management perspective) arrived at opposite conclusions regarding the desirability of executive turnover. Thus, studies following top management complementarity theory established that executive retention was desirable whenever the management skills of the acquiring company and the acquired company were complementary, whereas executive dismissal was desirable whenever the management skills of the acquiring company were redundant. Similarly, studies following upper echelons theory suggested that executive retention was desirable if management skills of the acquiring company and the acquired company were compatible whereas executive dismissal was desirable if management skills of the acquiring company and the acquired company were incompatible. In contrast, studies endorsing empire-building and hubris theories (closely related to agency theory and market control theory) emphasized that imperialistic CEOs were more likely to dismiss executives of acquired companies they usually regarded as incompetent.

Studies within industry perspective, firm perspective, and country perspective also made different conclusions with regard to the desirability of executive retention versus dismissal. For example, studies following industrial organization theory (industry perspective) suggested that executive retention was desirable in high-growth industries or industries with local structure whereas executive dismissal was desirable in mature industries and industries with global structure. Merger wave theorists viewed executive dismissal as a way to realize global efficiencies.

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Studies within the firm perspective (efficiency theory, diversification theory, and resource-based perspective) provided arguments for executive dismissal (e.g., for industry consolidation reasons or because the acquirer had sufficient numbers of its own executives or because the objective was to leverage the acquirer's capabilities) as well as arguments for executive retention such as the acquirer could be lacking knowledge to integrate the target firm (resource-based perspective). Finally, studies following different theories within the country perspective (Uppsala model, internationalization theory, eclectic paradigm or ownership, location, and internalization [OLI] model, and evolutionary view of the multinational enterprise [MNE]) argued that executive retention was desirable if the acquirer lacked international experience or if the executives of the acquired firm had local knowledge which the executives of the acquired firm lacked or could contribute to organizational learning and knowledge transfer. Conversely, the studies within the country perspective deemed executive dismissal desirable in cases where the acquirer had international experience, desired to protect its knowledge assets from potential spillover, or sought to create global efficiencies through consolidation.

Despite these considerable contributions of previous studies to the subject of M & As' influence on executive turnover, there are some gaps in the literature with regard to: (a) how takeover type may influence executive turnover; (b) how the effect of turnover type may vary depending on turnover type - voluntary versus involuntary; (c) how the effect of turnover type may vary depending on ownership type - public versus private; and (d) the perceived implications of executive turnover from the perspective of the executives themselves that decided to quit on their own, were terminated, or observed their colleagues' termination. The purpose of this research is to fill in these gaps in the literature.

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Research Questions

The primary purpose of this study is to examine the impact of the different types of takeover (hostile vs. friendly vs. reverse) on executive turnover (voluntary vs. involuntary) depending on ownership type (public vs. private) and M & A type (U.S. vs. international), as well as the perceived consequences of executive turnover for company performance. The resulting research questions are as follows:

1. Is there a relationship between takeover type and executive turnover?
2. Do takeover types affect the likelihood of voluntary versus involuntary executive turnover?
3. What are the perceived implications of executive turnover from the executives' perspective?
4. Do demographic factors (age, gender) affect the likelihood of voluntary versus involuntary executive turnover?

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CHAPTER 2

LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

This chapter will present a review of prior literature on the effect of M & As on executive turnover. An influential study that investigated top management turnover within 30 companies found that at least 70% of managers and CEOs left the organization within 5 years of the acquisition (Krug & Nigh, 2001). Turnover of top managers following an M & A depends on the M & A type (Walsh, 1988). For example, hostile takeovers induce a higher executive turnover compared with friendly takeovers. The effect is similar for unrelated mergers where two companies, with different objectives or from different industries, join together. It appears that both hostile takeovers and unrelated or conglomerate takeovers produce high levels of uncertainty, which could be the reason why CEOs and other top managers are more likely to leave the organization (Walsh, 1988). Another study that undertook a longitudinal investigation of M & As revealed that CEO and top managers' turnover remains high even 9 years after an M & A (Krug, 2003). There is also a recent study that found that turnovers can be influenced by interpersonal relationships within the organization; specifically, coworker's support, perceived obligation, and interpersonal relationships may have bearing on the willingness of employees to stay or leave (Mossholder, Settoon, & Henagan, 2005). A comprehensive review of the literature dedicated to the effects of M & As on executive turnover identified five perspectives and fifteen theories used to explain the desirability of executive retention versus executive dismissal following an M & A (Krug et al., 2014).

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Roots and Causes

There are at least five causes that prompt CEOs and managers to leave following an M & A (Krug & Nigh, 2001). These are job satisfaction, job status, security of tenure, autonomy, and personal issues. The researchers found that these reasons are paramount for most of the respondents regardless of whether it was a foreign or domestic acquisition. M & As increase uncertainty and managers experience high levels of stress as a result (Schweizer & Patzelt, 2012). Job satisfaction, for instance, could be adversely affected by additional work and the need to implement new strategies dictated by the acquired company. Loss of job status can also result in decreased job satisfaction, and create anger and frustration (Hambrick & Cannella, 1993).

Involuntary turnover can be caused by the acquired firm's poor financial performance (Mobbs, 2013) as well as by managerial incompetence or simply by industry consolidation or redundant skills of the acquired company's executives that the executives of the acquirer may have as well (Krug et al., 2014). CEO turnover from 2000 to 2007 following an M & A was at 16.8%, with CEO tenure being less than 6 years (Mobbs, 2013, p. 694). Firm stock performance in relation to the industry averages and the market can represent theoretical drivers of termination. When external takeovers were included in the sample, CEO tenure decreased to less than 6 years (Kaplan & Minton, 2012). More vigilant independent boards are disciplining poor management and these tougher boards are leading to greater turnover and hence shorter CEO tenure (Hermalin, 2005).

Another important factor in executive turnover is executives' diminishing autonomy in the wake of an M & A. The acquiring company could introduce new policies that may undermine CEO authority. The "merger syndrome" (Marks & Mirvis, 2001, p. 164) afflicts CEOs and executives as they experience unsettling events and problems after the merger or

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the acquisition deal is closed (Marks & Mirvis, 2001). Stahl and Voigt (2005) identified the differences in the merging cultures and the necessity to change both in order to achieve optimum integration benefits. The authors claimed that, while there are benefits to a multicultural workplace, such diversity in culture may hinder swift achievement of M & A objectives (Stahl & Voigt, 2005). These prior studies identify several reasons for top manager turnover in the wake of M & As. Understanding these reasons is important not only to explain and make sense of such turnovers, but also for organizations seeking to reverse the flight of top executives, or conversely, seeking to terminate underperforming managers that may be stale in the saddle.

The Human Side of Takeovers

Not all takeovers integrate smoothly or achieve the desired outcomes. On a personal level takeovers bring about uncertainty and stress. Rumors of an impending acquisition may strongly affect the mood of executives in the acquired company: "Shock, disbelief, anger, bargaining and finally acceptance … It was both brain and bone wearing … long faces and slumped shoulders" (Harshbarger, 1987, p. 341). These are some of the emotions employees experience on hearing of a company merger. They feel anxiety while waiting for their fate to be decided. Employees may experience a sense of loss as their friends and colleagues leave the organization and an old culture is replaced by new culture. The selective removal or retention of pillars of the former power structure is inevitable as the conquerors establish a new power structure. Some of the old must, in effect, die or be forced out, while others may stay and be reeducated, and others may be allowed to leave of their own accord (Harshbarger, 1987).

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Grief, adjustment, and change often follow loss (Margolis et al., 1985). This is a period of uncertainty (Schweiger & Ivancevich, 1985). Some executives take action and leave voluntarily and yet others wait for a decision to be made and then they may leave, sometimes involuntarily.

> I worked for 18 years and gave them everything I had. Look how I end up, just like a run-over flat can in the street. There is no loyalty, no commitment, no feeling. When it got through, they bailed out and let us sink (in a hostile acquisition). (Schweiger & Ivancevich, 1985, p. 47)

Stewardship Theory, Agency Theory, and Upper Echelon Theory

There are multiple theories that explain executives' motivation, values, attitudes, and loyalty towards the company (Krug et al., 2014). We will consider three such theories that generate opposite predictions with regard to desirability of top executive retention versus dismissal following an M & A.

Stewardship Theory: Top Executive Retention Is Desirable

According to stewardship theory, managers are motivated to act as good stewards of corporate assets and seek to do the best job they can (Donaldson & Davis, 1991). Due to this optimistic portrayal of managers' motivations, personal integrity, and competencies, stewardship theory promotes openness and communication among top managers as conducive to improving firm performance. As stewards are highly committed to the organization, putting service to the company before themselves (Reinke, 2004), the relationship between owners and managers is based upon mutual trust and respect. "A steward protects and maximizes shareholders' wealth through firm performance because by so doing the steward's utility functions are maximized" (Davis, Schoorman, & Donaldson, 1997, p. 25). Stewards work to

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achieve the organization's goals and find self-actualization and a sense of achievement and growth in the success of the organization and its principals (Angwin, Stern, & Bradley, 2004).

Stewards lead by example, communicating the new organizational culture to the employees tacitly, helping them internalize and adopt the new value and belief systems more readily through constant and repeated interactions (Schweizer & Patzelt, 2012). Stewards are the glue that keeps the organization together. Stewards that place the organization's needs above their own promote communication and trust that help to improve organizational performance (Reinke, 2004). This loyalty to the firm, as Maignan, Ferrell, and Hute (1999) argued, increases employee engagement and commitment. Further, strong ethical values also increase organizational commitment (Vitell & Singhapakdi, 2008).

Despite its merits in helping to understand employees' goodwill and motivation, stewardship theory has its limitations. M & As bring uncertainty regarding the inevitable change during the transition period. The diverging interpretations of the process, new roles, changes, and expectations add to the problems and uncertainties that managers themselves have to contend with. New relationships need to be formed. This break in continuity could lead to uneasiness and frustration in executives. Thus, stewardship theory may not take into account the complex relationship between power, conflict, and dogma (Hung, 1998). Stewardship theory suggests that, when an executive has to choose, the executive will always choose the organization above self (Angwin et al., 2004). This is not a very realistic assumption in a difficult situation following an M & A.

Agency Theory

Agency theory explains the relationship between principals and agents. Principals hire agents to perform services. The challenge that the principal has is to ensure that the agent acts

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in the interests of the principal. Agents acting in their own interests can disregard the principal's goals and objectives (Ekanayake, 2004).

Enron, Tyco, WorldCom, and Hollinger are company names that have made front page news and became synonymous with managerial transgressions. These scandals have hurt shareholders as a result of self-interested actions from agents. Heath (2009) says such deceit and financial misconduct demonstrate clearly the types of moral problems inherent in principal-agent relationships. Obviously these types of actions have led to involuntary turnover as the acquirer is likely to dismiss an underperforming, incompetent, and self-willed agent (Krug et al., 2014). This is the conclusion of studies following the market perspective, such as agency theory and market for corporate control theory (Krug et al., 2014). Furthermore, empire-building theory and hubris theory came to similar conclusions regarding those acquirers that may pursue ineffective acquisitions to satisfy their own ambitions even though they contradict shareholders' interests (Krug et al., 2014).

Upper Echelon Theory

Upper echelon theory holds that executive decisions and choices are affected by executives' experiences, values, and personalities (Hambrick, 2007). Upper echelon theory is based on the premise that executives are human, fallible, and subject to the same human weaknesses as everyone else (Hambrick, 2007). This highlights the human side and vulnerability of executives. "Executives make decisions and engage in behaviors that affect the health, wealth and welfare of others - they do so as flawed human beings" (Hambrick, 2007, p. 341). Therefore the decisions that leaders make may be based on what has been learnt and experienced during the life of the executive (Seaton & Boyd, 2007). From this perspective the acquisition process is difficult for employees, who – for their part –

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experience diverse problems and issues after the acquisition (Risberg, 2001). The multiple interpretations of the post-acquisition integration process, new roles to be learned, changes, and expectations lead to chaos, hampering managers' ability to exercise control. Upper echelon theory suggests that the desirability of top executive retention versus dismissal can be affected respectively by their compatibility or incompatibility with the leadership styles and personalities of top managers in the acquiring company (Krug et al., 2014). In contrast, resource-based perspective and evolutionary view of the MNE asserts that it would be undesirable to dismiss managers that possess unique skills and capabilities or local knowledge and thus can contribute to organizational learning and knowledge transfer beneficial for the acquirer (Krug et al., 2014). Conversely, dismissal of top executives could be advisable if the acquirer seeks to leverage its own capabilities or generate global efficiencies by expediting industry consolidation and rationalization of production (Krug et al., 2014).

Merger Impacts

Malatesta (1983) pointed out that M & As should maximize value. Synergy enables companies to achieve managerial efficiency and bottom-line financial improvements that neither firm would have achieved individually. Eiler (2009) defined synergy as creating value where it did not occur before. Synergistic gains are significant for competitive advantage because they underpin the optimum conditions where two companies are successfully combined, that is, when both their resources are pooled together to achieve the organizational objective.

However, Betton & Eckbo (2000) showed that M & As often yield mixed results for the organizations involved. Doytch and Cakan (2011) cited two important reasons behind a positive impact of M & As. The first is at the organizational level: There is an expectation of

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the *spill-over* principle wherein technology, know-how, expertise, and other resources are transferred to the combined organizations, resulting in a far superior firm. These are some of the unforeseen benefits. For example, the capability to manufacture can be significantly increased, leading to better economies of scale. Secondly, international M & As can benefit from easier access to foreign markets. This access may come in the form of access to foreign financial funding sources (Jang, 2012). Firms that acquire businesses overseas benefit from the knowledge, technologies, skills, and resources that are crucial in penetrating a new market. “The argument,” Doytch and Cakan (2011) wrote, “is that in order for a foreign company to survive, it needs to have a competitive advantage to domestic firms” (p. 121). Aside from productivity effect, international mergers and acquisitions positively impact investment in the domestic economy because capital inflows can expand domestic capital due to the capital investment.

Prior research has established that M & As resulting in decreased value may lead to CEO and executive turnover. For instance, one study found that CEOs who make poor acquisitions (i.e., those that reduce value) may pay for those decisions by losing their jobs (Lehn & Mengxin, 2006). This suggests that “corporate governance and the external market for corporate control generally work well in disciplining managers who pursue acquisitions to the detriment of their stockholders” (Lehn & Mengxin, 2006, p. 1761). Here, the acquiring company is exercising a prerogative to discipline CEOs or top managers by replacing them as a result of poor or failed organizational performance. Executive turnover can also be a part of what Lee and Alexander (1998) called a mechanism to integrate two merging companies, where replacing a CEO or executive management is part of a change intervention strategy that

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will enable the merged organizations to perform better or to move towards a specific orientation or goal.

One disadvantage of M & As is layoffs. This subject has been the target of intensive studies in the past and the interest may be attributed to the human aspect of the subject matter. Many studies revealed that the public believed that M & As do more harm than good, at least with regard to layoffs (Brown & Medoff, 1988). One example is the case of the 6,000 layoffs that resulted from Procter and Gamble's acquisition of Gillette in 2005, an acquisition considered at the time as the biggest in the industry since 1999 (Isidore, 2005; Matthews & Chandra, 2005). The job loss at Gillette was well played out in the media, adding to a growing negative perception about the impact of takeovers on workers.

The public perception that M & As result in excessive numbers of layoffs may be valid. However, layoffs can also play a positive role making companies leaner and more effective. For example, M & As tend to eliminate redundancy in the workforce. A report released by the Government Accountability Office (Hecker, 2009) demonstrated that merged organizations eliminate duplicate service, labor, and operations as part of a cost-saving strategy (p. 29).

Some studies found that retrenchments and workforce layoffs occur because mergers could produce redundancy in the workforce (Pagano & Volpin, 2005). But other studies have found minimal changes in the workforce. For example, Lenovo's acquisition of IBM's computer division resulted in minimal workforce layoffs because the merged company effectively divided the organization according to domestic (China) and global productions (Liu, 2007, p. 576). Lenovo's acquisition was driven by an international expansion strategy, so retaining a multinational and diverse workforce was a necessity.

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Alavi and Leidner (2001) identified knowledge as an asset that provides competitive advantage because knowledge is difficult and complex to imitate, making it necessary to retain employees that have accumulated such knowledge. This finding was corroborated by several studies, such as Cravens and Olivers' (2006) investigation on the role of the workforce in corporate reputation management, and Meso and Smith's (2000) research on organizational knowledge management systems. The former identified a tangible link between employees as unique resources and positive financial performance; the latter established the importance of intellectual capital as a strategic asset.

Companies are constrained by several factors in the way they deal with the workforce after a merger or acquisition. This is because in some countries labor is protected by union contracts and labor laws concerning the ability of acquirers to dismiss employees (Sherman & Hart, 2006). This means that companies cannot always eliminate executives that they may want to terminate for their underperformance or insufficient competencies.

Theory Development

Acquisitions may undermine the bonds of trust and foster uncertainty and uneasiness. The fewer uncertainties employees of an acquired firm perceive in the new organization, the more likely they are to remain with the company (Schweizer & Patzelt, 2012). But takeovers bring change in people, relationships, work requirements, and sometimes work location. Changes such as these are the norm when firms are acquired. Getting people together to work and find solutions to common problems builds solidarity, understanding, and reduced uncertainty, which makes employees want to stay in the newly acquired firm (Schweizer & Patzelt, 2012). Cisco, a company that is especially successful at M & As, often makes a *no-layoff pledge*. Its turnover rate is at 2.1% versus an industry average of more than 20%

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(Goldblatt, 1999). This no-layoff pledge helps reduce the uncertainty that employees feel with regard to job security.

According to stewardship theory, stewards are committed to the organization and motivated to do a good job: As good stewards, executives in the acquired companies will continue to work as hard as they can. However, agency theory and market for corporate control theory emphasized that M & As could be the result of management inefficiency in acquired companies, making termination of unfit executives or executives acting against shareholders' interests inevitable (Krug et al., 2014). Therefore, the stewardship commitment to an organization may not be sufficient to keep an executive in an organization, and a hostile takeover may increase executive turnover. Overall, a number of different factors may affect an executive's job situation following an acquisition (retention vs. dismissal vs. quitting), from takeover type (hostile vs. friendly vs. reverse) to acquisition type (U.S. vs. international) to ownership type of the acquired company (private vs. public). The assumption is that a comparison of an executive's turnover expectations (staying with the company vs. quitting or being dismissed) and his or her job situation following an acquisition will vary depending on a number of factors and affect the executive's perception regarding the acquisition's consequences (See Figure 1).

Hypothesis Development

This section includes a brief outline of prior works on the takeover approaches and their impact. This research will focus on how takeover type, gender, and ownership structure affect executive turnover after an acquisition. Seven sets of hypotheses were developed and they guided the research methods and data collection in this study.

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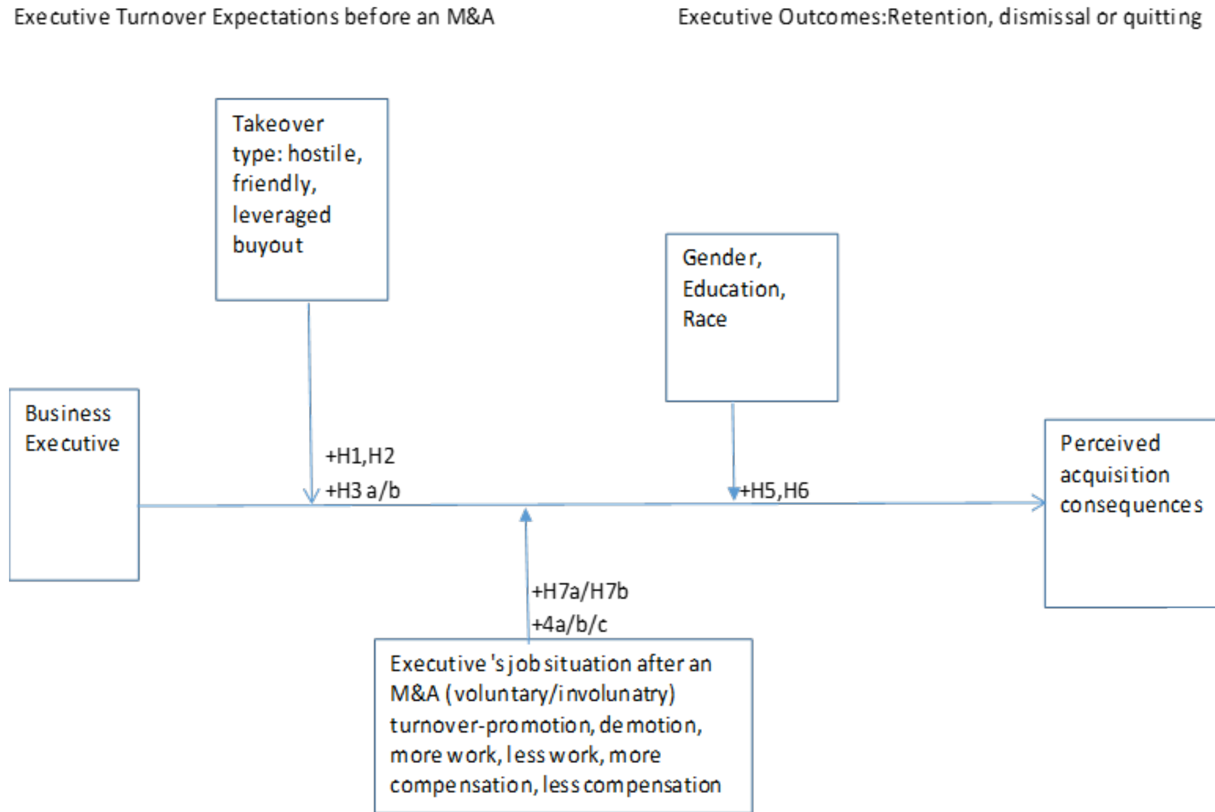
Figure 1. Conceptual framework of this study.



Takeover Characteristics

Hostile takeover. In 2014, the *New York Times* (Gelles, 2014) wrote that hostile takeovers were making a comeback across all industries as bidders were increasingly making unwelcome offers. The author discussed Pfizer's $119 billion bid to acquire Astra Zeneca as well as Valeart Pharmaceuticals' $53 billion bid to acquire Allegra. He said that hostile offers accounted for 7% of global offer volume and that this increase was the largest since the 2007 "deal boom" (Gelles, 2014, para. 7). A spokesman for Morgan Stanley, a leading investment

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firm, commented that bidders were willing to go after "prized assets" (Gelles, 2014, para. 16) as they sensed economic stability. All this activity was taking place even when a company had not advertised that they were for sale. These hostile takeover bids often resulted in bidding wars for highly desirable assets (Gelles, 2014).

Executives can personally be impacted as a result of hostile takeovers. Hostile takeovers have both a monetary and nonmonetary impact on executive compensation. Irfan (2011) concluded that executives manipulate research and development expenses and advertising expense by making investments in these areas so as to make companies unattractive to take-over attempts. If a company is unattractive they will be passed over as a takeover target.

Armour and Skeel (2007) wrote "hostile takeovers are commonly thought to play a key role in rendering managers accountable to dispersed shareholders in 'Anglo-American' system of corporate governance" (p. 1727). This is all driven in an attempt to make managers accountable to shareholders and accountable to increase and drive firm price.

Hostile takeovers are an aggressive or unfriendly form of acquisition, as a bid is not solicited by the target. In October 2015, Suncor announced a hostile bid offer to purchase Canadian Oil Sands for $6.6 billion. This came after Canadian Oil Sands had earlier on in the year rejected a friendly takeover bid from Suncor (Austen, 2015). The body of M & A literature on this theme is focused on the actual process, and among those that do explore its impact on the firm, focus on executive turnover is scarce. The available studies, however, can demonstrate the interaction between the acquirer, which in takeover context is analogous to the predator, and the target firm. This study found a consensus, however, in the body of literature that the target firm almost always adopts a defense against the takeover to deter the

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bid, resulting in a costly battle that could impact firm performance once the takeover is effectively completed (Sanders & Carpenter, 2003; Sundaramurthy, Mahoney, & Mahoney, 1997). Thus a company takeover takes place in spite of resistance from the acquiring company.

There are specific studies, however, that show a direct link between hostile takeovers and CEO turnovers. For example, the works of Agrawal and Walkling (1994) and Kini, Kracaw, and Mian (2004) both show that CEO turnover increases after hostile takeovers. The findings in the study by Kini et al. (2004) are consistent with the framework of using a hostile takeover as an external source of intervention to discipline the target firm's leadership for being weak and ineffective (pp. 1511, 1550). Even Agrawal and Jaffe (2003), who have proposed that hostile takeovers are primarily initiated to take advantage of the target's resources, recognized that there are hostile takeovers that aim to correct poor firm performance by removing poorly performing managers (p. 744). Hostile takeover can also remove ineffective management due to lack of manager's capabilities, in line with agency theory. Franks and Mayer (1996) noted that takeovers can be a means to discipline management.

Deloitte (2012) wrote that, despite any issues at upper levels, leadership must be prepared to deal with and engage its new employees from the very first day after a takeover. Communication is essential so as to reduce uncertainty. Stewards need to feel comfortable in the new organization, in line with stewardship theory. Inwardly, hostile takeovers have an emotional impact on executives as well as other employees. This uncertainty drives executives to leave where uncertainty is high. Kini et al. (2004) noted post-acquisition turnover to be a result of aggressive bargaining and expected future performance. Franks and

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Mayer (1996) stated "There is no evidence of either high bid premiums or poor pre-bid performance when takeovers involve managerial control changes. The market for corporate control does not therefore function as a disciplinary device for poorly performing companies" (p. 180). Based upon the above discussion the following hypothesis has been developed.

> H1: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of *involuntary* turnover is in companies acquired via hostile takeover rather than in companies acquired via friendly takeover.

Leveraged buyouts. Leveraged buyouts and leveraged cash-outs are a response by company's management to avert a hostile take-over bid. Private equity normally pays a premium of 15 to 50% to acquire a public company (Kaplan & Stromberg, 2009). One of the world's largest leveraged buyout deals was the 2008 transaction between BCE Inc., Canada's largest phone company, and the Ontario Teacher's Pension Plan for $52B (Fournier & Tomesco, 2008). Herbalife also participated in a leveraged buyout to address buyout pressure from Bill Ackman, who accused the company of operating a pyramid scheme (Stanford, 2013).

An acquiring firm – usually a specialized investment organization often known as a private equity firm – relies on a high percentage of debt in order to execute the takeover. Specifically, those transactions that involve debt financing as more than 50% of the total deal are classified as a leveraged buyout (Gaughan, 2002, p. 285).

Many of the leveraged buyouts during the 1980s and early 1990s ended in failure and bankruptcy. This information is included in Kaplan and Stromberg's study (2009), which described and analyzed the boom and bust cycles of leveraged buyouts. Guo, Hotchkiss, and Song (2011) noted that buyouts that were completed between 1990 and 2006 were priced conservatively and less leveraged in pricing. Where returns decline, commitments to private

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equity also decline. Lower returns are likely to coincide with some failed transactions, including debt defaults and bankruptcies (Kaplan & Stromberg, 2009).

> Employees' decisions to stay with an acquired firm depends on the level of uncertainty they perceive to be associated with continued commitment…employees are more likely to stay with an acquired firm if they perceive fewer uncertainties in their new organizational environment. (Schweizer & Patzelt, 2012, p. 299)

A leveraged buyout can result in the inability of the merged organization to recoup the investment paid for the acquisition: the so-called winner's curse. With leveraged buyouts, however, the excessive debt payments are the cause of the financial risks that contribute to organizational instability. This condition is, therefore, significant to CEO turnover because it contributes not just to the complexity of work to be done but also to the difficulty in reconciling CEO responsibilities with the expectations of the private equity owners. To illustrate this further, Gilson and Vetsuypens (1993) found that senior management often suffers personally when their firms struggle financially. In a given year, almost one-third of the CEOs in their study sample were replaced, and many of those that remained experienced substantial salary and bonus decreases. When the CEO was replaced from within the company, the replacement CEO usually received substantially less pay than the previous CEO, the median salary being 35% less than the predecessor's (p. 426).

It appears that leveraged buyouts often make matters worse for the acquired company and its CEO, especially when the firm was already financially distressed before the M & A. Lambrecht and Myers (2007) provided numerous case studies where managers, through M & As, effectively abandoned businesses with products that had fallen to unsatisfactory levels. There were also instances of inefficient managers being forced out by takeovers, in line with agency theory:

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> The takeover battles in the oil industry in the late 1970s and early 1980s, including Boone Pickens's raids on Cities Service and Phillips Petroleum are other classic examples, as are the "diet deals" of the LBO boom of the late 1980s. The banking industry is another good example. The United States was "overbanked" in the 1970s, partly as a result of restrictive state banking regulations. As regulation eased, a wave of takeovers started. "Super-regionals" have grown by taking over dozens of banks, in each case shedding employees and consolidating operations. (Lambrecht & Myers, 2007, p. 809)

In 1986, Safeway's worldwide sales were twenty billion dollars. The leveraged buyout by Kohlberg Kravis Roberts & Co. changed managers into being company owners. Managers share the risk and reward of the company's success. The leveraged buyout transformed the company. Once managers invested in the company, they made better decisions on how money was to be spent (Magowan, 1989). Based upon the above discussion, the following hypothesis has been developed.

> H2: Former executives of companies formed as a result of takeovers will express stronger agreement with the notion that the likelihood of overall turnover following a takeover is highest when the merger is accomplished through a hostile takeover rather than when it is accomplished through a friendly takeover.

Management buyouts. Management buyouts tend to adopt cost-saving programs after the buyout phase in the pursuit of further profits. Many firms in the post-buyout phase also divest heavily (Liebeskind, Wiersema, & Hansen, 1992, p. 85). Cost saving is an inevitable outcome, if not one of the primary objectives of management buyouts. Since most acquired firms targeted for management buyout are distressed and perform poorly, management buyouts are primarily geared towards value creation. However, adoption of cost-saving strategies could lead to a decrease in resources, which can also greatly undermine the CEO's authority and performance. Management buyouts can also complicate a CEO's job during the postacquisition phase. Cost cutting may entail a decrease in compensation for employees and managers, which can create dissension and conflict within the company.

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Improvements initiated to create value can increase executives' responsibility as well as the difficulty of their work, particularly if drastic changes in the corporate culture are required. For instance, Bruining, Bonnet, and Wright (2004) revealed that buyouts often entail improving quality of information, increasing formal controls, and introducing new managerial philosophies and accounting techniques (p. 156). These actions to enhance efficiency can lead to executive turnover (Wright, Hoskisson, Busenitz, & Dial, 2000). Based upon the above discussion the following hypothesis has been developed:

> H3a: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under a hostile takeover

> H3b: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under a friendly takeover.

> H3c: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under a leveraged buyout

Friendly takeovers: Block purchases. Friendly takeovers occur when one company makes a bid to buy another company. The board of the company to be acquired accepts the offer and the acquisition takes place. For example, EMC Corporation's board has agreed to be acquired by Dell for $67 billion, Allergan agreed to be purchased by Actavis for $73 billion, and Williams Cos consented to be acquired by Energy Transfer Equity for $48 billion (Benoit, 2015).

Block purchase is a takeover approach involving the acquisition of a large quantity of securities. This is often executed as a friendly takeover to achieve several benefits, which include alignment of interests and the provision of cash so that the target firm avails itself of

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fresh investment opportunities (Sudarsanam & Mahate, 2006). The Securities and Exchange Commission (SEC) defines block ownership as 5% or more direct ownership (Ferris, 2008).

Studying 519 United Kingdom acquisitions, Sudarsanam and Mahate (2006) concluded that top managers from friendly acquirers had more job loss than did top managers involved in hostile acquisitions, possibly due to poorer performance in creating value. Liao (2010) provides another perspective on a potential link between block purchase as an M & A approach and CEO turnover when it found very little evidence that poorly governed firms were targets of block purchases (p. 3). Shivdasani (1993, p. 170) discussed studies by Anne Coughlan and Ronald Schmidt (1985), Jerold Warner, Ross Watts, and Karen Wruck (1988), and Michael Weisbach (1988) which found that, when a firm does not perform, this can cause an increase in changes in top management. But do block purchases cause this turnover, or is turnover driven by firm performance? In a study of German ownership structure, Franks and Mayer (2001) found "little relation between concentration of ownership and the disciplining of management of poorly performing firms and between the types of concentrated owner and board turnover" (p. 974). This is a contradiction to the wider perception that block purchases are generally pursued to help financially constrained firms. Morck, Shleifer, and Vishny (1988) analyzed 454 publically traded companies, of which 42 were friendly takeovers, to understand the source of takeover gains. They found that tender offers, which are more likely to be hostile, had higher gains than did mergers, which are often friendly.

Block purchases are defined as affiliated and unaffiliated. Affiliated purchases are typically family, retirement, or employee stock ownership of 5% or more. Unaffiliated purchases are defined as all other purchases (Shivdasani, 1993). Permanent block purchases

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are held for three years or more and temporary block purchases are held for less than three years (Ferris, 2008).

Crespi-Cladera and Gispert (2002), in a review of Spanish capital structure companies from 1990 to 1995, found that block purchases are typically associated with smaller companies. Typically, after a block purchase, the largest shareholder's shares increase and there are also "significant changes within the board and nonexecutive ones" (p. 251). Kim (2005), in studying 698 block holders between 1990 and 1998, noticed that board members of large block acquirers within 250 miles of a target are likely to be appointed to the board of the acquired company, thereby generating board turnover. This is typically seen in small companies (Kim, 2005).

"Ethical stewardship incorporates shared governance, a transformational commitment to the best interest of all stakeholders, and the application of values that are internally congruent and reflective of the organizations mission and purpose" (C. Caldwell, Hays, & Long, 2010, p. 502).

According to stewardship theory, the executive wants to be a good steward of the corporate assets and is committed to the organization and the long term. In block purchases the organizational dynamics and relationships change. Uncertainty drives change. The long-term view of the steward is reflective of a different mission from that of the block owner, which may be short-term. This drives uncertainly in the mind of the steward as to how they fit into the new organization. Based upon the above discussion, the following hypothesis has been developed:

> H4a: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of overall turnover is in companies acquired via a leveraged buyout rather than in those acquired by hostile takeovers.

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H4b: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of overall turnover is in companies acquired via a leveraged buyout rather than in those acquired by friendly takeovers.

Voluntary Versus Involuntary Turnover

Voluntary turnover, also called voluntary attrition, occurs when workers that the employer thought might stay, and would like to keep, choose to leave voluntarily (Frank, Finnegan, & Taylor, 2004). Owners of postacquisition organizations tend to keep existing employees such as the CEO because it saves them money spent in hiring and training a new CEO. In cases where an organization has to source talent outside of the organization, literature reveals that it can prove to be more expensive (Gilson & Vetsuypens, 1993).

Prior works identified specific causes that trigger voluntary departures, including compensation, career opportunities, age, working conditions, and security of tenure (Jackson et al., 1991). Communication is also an issue or a direct cause of turnover. During M & As it can contribute to the level of chaos, stress, and fear that employees feel during the process. For example, the following account in He's (2009) study can provide better insight:

> After the announcement of the acquisition, the whole firm was turned upside down. Everyone wanted to move to a better post after the takeover. Everyone was socializing with colleagues and nobody cared about work. There were new rumors every day and those who had "inside information" were really popular. One senior manager's instruction was often ignored, as it was suspected that he would be replaced soon. (p. 128)

According to Mitchell, Holtom, Lee, and Graske (2001), employee satisfaction, with their job, the workplace, and their relationships with their coworkers, helps predict whether an employee will remain; those who are satisfied are more likely to stay, and those who are not are more likely to leave (Mitchell et al., 2001). Distributive justice becomes an important determinant of success in post-merger integration. For instance, it contributes to integration

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success because it addresses professional and personal challenges that arise during M & A integration (Monin, Noorderhaven, Vaara, & Kroon, 2013). They cite that if people perceive an organization to be fair and just, they more readily accept changes; however organizational problems are aggravated if the organization is perceived to be unjust (Monin et al., 2013). “However under social preference-based explanation workers quit because they are less happy in the merged firm due to unfairness or lower status” (Kwon & Milgrom, 2006, p. 23), and “people care about social value derived from relative standing this is status” (Kwon & Milgrom, 2006, p. 27). People identify with their jobs and the associated social status that it brings.

> Depending on the type of M & A turnover can be influenced through justice, recognition, supervisor support, skills, routinization, stress and autonomy. It is therefore important for managers to identify which type of M & A their organization is undergoing and to take steps accordingly to diminish turnover. (Veen, 2013, p. 54)

Involuntary turnover points to three important insights. First, involuntary turnover occurs as punishment for a poorly performing CEO. This is particularly true in instances of hostile takeovers of slow performing or bankrupt firms. Here, there is an objective of making the company more efficient and the incumbent CEO’s performance is often blamed for the problems that needed to be addressed. It must be underscored that studies reveal that CEO turnovers after M & As occur more frequently in hostile takeovers (Kini et al., 2004; Shleifer & Vishny, 1997; Walsh, 1988). Secondly, it becomes part of the reorganization effort wherein the mismatch in skills is taken into consideration (Lee & Alexander, 1998). This can be demonstrated in divestiture or leveraged buyouts where the owners cut costs by selling assets or replacing high-salaried CEOs. Finally, there is the case of performance. A CEO is replaced based on the postintegration performance of the organization. For instance, one can turn to the

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case of bad bidding where the CEO who initiated the failed M & A is punished with a decrease in salary or termination (Lehn & Mengxin, 2006). This is also applicable in the integration performance where the outcome is used to evaluate the CEO performance.

Finally, when it comes to turnover, how do we know what is the driver? Kwon and Milgrom's study (2010) points to the difficulty in determining whether the postacquisition turnover is voluntary or involuntary. They treated this as a drawback, which limited the applicability of their findings in areas covering performance. Based upon the above discussion the following hypothesis has been developed:

> H5: Low job satisfaction will be associated with voluntary employment termination among executives after a takeover.

Geographic Differences

Geographic differences as a result of companies coming from two different countries can cause difficulties due to an increase in diversity, changes, and clashes that contribute to the chaos that is already inherent in M & As. The case study of an acquired firm in China can clarify this point:

> After the acquisition, the foreign parent firm required a 360 degree evaluation of each manager at the end of the year. Everyone would get a vote on their manager's performance. The promotion of the managers would depend on the result of evaluations. Maybe in the U.S. this was a good idea. But in China, this was not practical. If everyone could have the right to oppose an HR appointment, where is the authority of the leaders of the company? (He, 2009, p. 129)

Fludd (2015) notes that there is a high turnover of executives in Asia. He believes that western-headquartered companies do not understand the cultural differences of doing business in Asia. Turnover rates for overall Asian executives was 31% whereas in India it was 25%. The Indian executives believed that western executives understood the East whereas other Asian countries did not share this belief (p. 14).

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Differences in countries, role, and gender also can impact whether an executive decides to stay or leave a company. To put this in context, one can consider a U.S. firm acquiring a target based in China. As part of some diversity initiative promoting gender parity, aimed at supporting an organizational strategy in the United States, the acquiring firm appoints a female CEO. The body of literature indicates that her tenure will not last long, especially within the chaotic context of the M & A integration process. This is because she will encounter a higher level of problems than a male CEO. Scholars report that this is partly because there are few women officers and few women holding board seats who could have served as checks to organizational bias against women leaders (Adams & Ferreira, 2009). Most importantly, there is still a pervasive and institutionalized gender bias even here in the United States. Kwon and Milgrom's (2010) work underscored this when they found that society's traditional values and customs still lead to opposition against female managers, as they investigated the performance of female managers in Sweden.

The issue of age is also related to geographic differences as well. For instance, China has a mandatory retirement age for CEOs, which is 60 for men and 55 for women. This is the reason why Kato and Long (2006) found that the majority of voluntary CEO turnovers in the country involve 59-year-olds. Retirement based on age is different in each country. Previous studies do confirm the correlation between age and CEO turnover (Murphy & Zimmerman, 1993). For this reason, Goyal and Park (2002) used age as a control variable in their study that revealed turnovers of CEOs around the age of 65 are more likely due to normal retirement rather than forced departure. There are no available studies that directly cite age as a determinant for CEO departure in postacquisition or takeover organizations.

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In analyzing gender from an upper echelon perspective, Krishnan and Park (2005) note that "gender is more complex… its effects have roots in socio-cognitive base of managers…their management styles and strong personal relationships may enable women to enrich decision making within the TMTs [top management teams] and thereby improve overall performance" (p. 1718).

It is also possible that race (ethnicity) could influence voluntary versus involuntary turnover following an M & A, even though the findings of prior research on the relationship between race and turnover have been inconclusive (Robertson, Griffeth, & Hom, 2004). Race (ethnicity) could be an issue if the acquirer has racist ideology or prejudices. In this case, racial (ethnic) minorities may be viewed by the acquirer as less competent, and hence, are more likely to be terminated. However, racial minorities may also be more visible, so that dismissing them would cause a lot of attention. In this case, racial minorities could be less likely to be terminated. It could also be more difficult for racial minorities to find employment. For this reason, racial minorities could be less likely to quit voluntarily following an M & A. However, racial minorities that often encounter discrimination could also be more sensitive to violations of procedural, interpersonal, or other types of justice following an M & A. If so, racial minorities could be more likely to quit voluntarily following an M & A. Based upon the above discussion the following hypotheses has been developed:

> H6: There are different rates of voluntary and involuntary employment termination following a takeover among minority and non-minority executives.
>
> H7a: The rates of voluntary and involuntary employment terminations following a takeover differ between male and female executives.
>
> H7b: The rates of voluntary and involuntary employment termination following a takeover differ between younger and older executives.

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Anticipated Contributions to Literature

Advancing extensive literature on the effect of M & As on executive turnover (Krug et al., 2014), this study will add the following: (a) examination of executives' perceptions of a M & A's consequences; (b) examination of the effect of turnover type on executives' job continuation; (c) examination of the effect of an executive's job situation on job outcomes following an M & A; (d) examination of the effect of demographic variables (gender and age) on job continuation on job continuation. Overall, this study seems to examine the possible role of many additional factors (takeover type, ownership type, M & A type, demographic variables, and changes in the job situation) on executives' job continuation and subjective perceptions of an M & A's consequences in terms of the new, merged company's performance.

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CHAPTER 3

METHODOLOGY

This study set out to understand the impact that mergers and acquisitions have on executive turnover. It employed quantitative, quasi-experimental research. I examined whether or not mergers and acquisitions (M & As) produced executive turnover, voluntary versus involuntary, and whether or not such effect was influenced by takeover type. This explanatory research study attempted to explain and predict executive turnover (job continuation) as a result of a number of variables that have not been studied in prior research (e.g., comparing executives' pre-M & A assessment of job prospects with the job situation following an M & A, and job continuation outcomes). Probability sampling was employed. This study attempts to explain the different factors contributing to executive turnover (Sue & Ritter, 2007, p. 3). Neuman (2003) noted that researchers are ethically required to maintain confidentiality of study participants. This research will maintain the confidentiality and anonymity of participants. In the survey request it explained the need for the survey, provided a decline-to-participate option, and no emails were sent out using fake headers (Sue & Ritter, 2007).

The Sample

Top management team in this study was defined as key executives entitled to make strategic and operational decisions for the firm. This included chairman, chief executive officer (CEO), president, controller, treasurer, directors, vice presidents, etc. (Krug & Hegarty, 1997).

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Scale Development

Scale development was based upon Delobelle, Rawlinson, Malatsi, Decock, and Depoorter's (2010) and Hinkin's (1995) reviews on scale development. Facets of interest included turnover type, takeover type, gender, company type, age, and U.S. versus international. A five-point Likert scale was utilized with answers that range from *strongly disagree* to *strongly agree*. This survey captured the perception of executives regarding M & A's consequences based upon their changed job situation and job continuation outcomes. A pilot study was conducted using five participants to review the survey questions. No data was collected during this pilot feedback session.

Data Source

This study employed a survey. Executive participants (holding or having held the title of Chairman, CEO, President, VP, CFO, Director, Corporate Officer, Controller, Treasurer, or other executive position) were invited to participate via Linkedin (Appendix A). Linkedin has a large global membership. Participants were asked to consent to participate in the survey (Appendix B) and respond to 43 questions on a survey powered by Survey Monkey (Appendix C). Feedback on the survey was based upon personal experience. Pincott and Braithwaite (2000) in a study on the internet wrote:

> In the overall scheme of things, how the market research industry goes about collecting its data is a fairly minor affair, but at the end of the day it is the industry from which we earn a living. Unless we have developed strategies to meet the changes, the internet will have the capacity of turning the research world as we know it inside out. (p. 137)

The internet was used to conduct research because it adds a dimension and span of available sample population that I could not have achieved using any other research

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instruments. This added dimension makes the potential global feedback of greater value to academics and practitioners.

Baruch and Holtom (2008) found that giving incentives and issuing reminders did not result in higher response, and they advised following well-documented and established methods: for example, "pre-notify participants, publicize the survey, design the survey carefully, manage survey length, provide ample response opportunities, monitor survey responses, establish survey importance, foster survey commitment and provide survey feedback" (p. 1156). Along with this advice the authors concluded that the younger population is more technology savvy and using technology to conduct surveys will become the norm.

Internet surveys significantly reduce the collection costs of conducting the survey. An internet survey was employed in this research given my limited budget and my need to quickly obtain data collection. Schmidt (1997) noted that internet surveys provide quick access to a geographically unrestricted worldwide population. This enabled strong validity, reduced collection costs, and reduced data entry. Issues such as missing data or incomplete data can arise if respondents are allowed to move on to the next question without completing questions. However one area that was difficult to detect was if respondent completed multiple submissions in an effort to sway the survey outcome. However, given that this requires a substantial effort, such threat seems insignificant. Statistical Package for the Social Sciences (SPSS) was used to analyze the responses.

Variables: Dependent and Independent Variables

A research variable refers to a characteristic under study and could be independent or dependent in nature (Brandimarte, 2012, p. 200). The independent variables pertain to those

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that cause or influence the outcome of other variables, while dependent variables include those being influenced or caused by other variables (Hall, 2008, p. 60). The independent variables in this study included gender, age, takeover type (hostile vs. friendly), M & A type (U.S. vs. international), acquired company's ownership (public vs. private), job prospects prior to an M & A, and job situation following an M & A (demotion vs. promotion; increase in compensation vs. decrease in compensation). I tested the effect of the independent variables on the dependent variables: job continuation following an M & A (retention vs. dismissal vs. quitting) and the executive's perceptions regarding M & A's consequences.

Dependent Variables: Job Continuation and M & A Consequences

According to prior research, an M & A can either lead to an executive's retention or dismissal (Krug et al., 2014). In addition, turnover can be voluntary (quitting) or involuntary (dismissal). Hence, the first dependent variable in this study is job continuation (retention vs. dismissal vs. quitting). Naturally, job continuation may affect an executive's perceptions regarding M & As' consequences.

Independent Variables

The independent variables analyzed include age, gender, race (ethnicity), education, work experience, M & A type (U.S. vs. international), takeover type (hostile vs. friendly vs. reverse), acquired company's ownership type (public vs. private), an executive's assessment of his or her job prospects before an M & A, and the executive's job situation following an M & A (demotion vs. promotion; higher vs. lower compensation).

Age. Differences in age are used to gauge impact on turnover by type of turnover. Healy, Lehman, and McDaniel (1995) found "Age and tenure have zero relationship with

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voluntary turnover" (p. 342), suggesting that age has no impact on voluntary turnover. It would be interesting to understand if the result is the same by turnover type and if the result is the same for involuntary turnover. For this review each respondent will write in their exact age. Prior studies have found that older workers are more satisfied with their jobs because they "are more accepting of authority and expect less from their jobs" (Metle, 2005, p. 50).

Gender. The respondents were asked to indicate their gender.

Race (ethnicity). The respondents were asked to indicate their race (ethnicity) and indicate if they consider themselves to be a racial (ethnic) minority.

Education. The respondents were asked to indicate their level of education. In this research education was measured by years of schooling.

Work experience. Buchholtz and Ribbens (1994) wrote that CEOs with long tenure might have the power and ability to resist a takeover, but just because they have the ability does not mean they want to take advantage of it. Their desire to use their power depends on their situation and motivation. Many older CEOs may decide to retire rather than fight to maintain their position. Each respondent was requested to write in their number of years of work experience.

M & A type. U.S. versus international.

Takeover type. This variable was defined as being in one of three categories: friendly, hostile, and reverse. Hostile was further subdivided into leveraged buyouts and management buyouts. The type of takeover sets the tone for the business. This study analyzed the impact of executive turnover as a result of the takeover type.

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Statistical Analysis

Multiple statistical methods were used in this study: descriptive statistics, analysis of variance (ANOVA), and the Chi-square test.

Descriptive Statistics

Descriptive statistics (mean, standard deviation, median, and coefficient of variation) were used to describe and interpret the data that was collected. The central tendency allows understanding of characteristics of the data and the frequency distribution. This enables further understanding of the population dispersion and explains the impacts of the selected sample categories: gender, age, country grouping, ownership, takeover type, and tenure. Tables, ratios, and percentage are utilized to measure subsequent impacts, for example, male versus female; takeover type - hostile, friendly, or reverse; etc. Understanding the standard deviation provides another perspective on the data.

Analysis of Variance (ANOVA)

ANOVA was used to compare means. Prior studies have used ANOVA to understand and compare the variation in the study variables (Creswell, 2008; Kumar & Kasilingam, 2015). ANOVA was chosen as it is the most widely used technique to compare means. One-way ANOVA and repeated-measures ANOVA were used. SPSS was used to perform this analysis.

Chi-Square Test

In this study the Chi-square test was used to determine if two or more observations are dependent upon each other. The resulting value from these calculations helped identify the

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significance of this test; patterns of distribution provide valuable insights into this study's statistical hypothesis around the sample data (S. Caldwell, 2004).

Limitations

A survey was the data source in this study. This method was chosen because of the ability to provide information about executives' job prospects before an M & A, job situation following an M & A, and job continuation outcomes as well as subjective assessments of M & A's consequences. The one potential pitfall was that there was no means to validate who was completing the survey or if a person is completing the survey more than once. However, I checked for similarity of answers and did not have to delete any answers from the survey as none appeared to be suspicious.

This survey was subject to selection bias as a portion of the target population without internet access was not represented in the survey results. Self-selection bias occurred with this survey as respondents choose to respond or not. To reduce this bias, a face-to-face or telephone interview would have been needed. This type of contact is expensive and not affordable and would most likely not be global due to cost considerations. Further, standard error estimates would also increase with the smaller survey (Bethlehem, 2010). Therefore I chose to continue with the current survey as outlined, taking into consideration the noted limitations.

Summary of Chapter 3

It is important to note that this study primarily resolved to test several hypotheses. The quantitative method provided the appropriate framework and mechanisms in order to achieve these objectives. This research design allowed for the evaluation and analysis of hypotheses outcomes because the collected data was translated into numerical variables, making them and

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their associations easier to compare. The statistical analysis was considered critical in this respect. In order to negate or validate the hypotheses, it was necessary to prove the existence of certain relationships between variables in this type of study and this could only be achieved through statistical evidence (Hara, 1995).

The quantitative model was proven to effectively determine causal relationships, necessary in validating this study's hypotheses. In the context of this study's objectives, the current model was the only approach that could successfully analyze and interpret them.

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CHAPTER 4

DATA ANALYSIS AND RESULTS

This chapter presents the results of the statistical method that was outlined in Chapter 3.

Pilot Study

A pilot study was conducted with five executives to review the survey questions and obtain feedback. This group helped clarify questions and identified the time it took to complete the survey. All the pilot survey participants completed the survey in less than 15 minutes. No data was retained during the pilot study.

Sample

The sample for this survey was gathered from participants that are members of the professional social network Linkedin. A request to participate was posted in subdirectories of Linkedin such as CFO Network, Finance Professionals Worldwide, Super CFO, Finance, Accounting, Tax, IFRS, Executive Suite, and CXO Community.

The obtained sample consisted of 127 respondents to the survey. The demographic characteristics of the sample are summarized in Tables 1 and 2.

The sample was predominantly white males residing in the United States, although the representation of Blacks in the sample approximately matched their proportion in the U.S. population, but Hispanics were substantially under-represented relative to their presence in the U.S. population. Nearly one-quarter of the sample self-classified themselves as minorities. Respondents were close to evenly divided between those who left their jobs after their employers' mergers voluntarily and involuntarily. The mean age of the respondents was 68

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Table 1

Demographic Characteristics of Sample on Categorical Variables

Variable	Characteristic	Frequency	Percent non-missing	Percent total
Gender	Female	38	30.2	29.7
	Male	88	69.8	68.8
	Total non-missing	126	100	98.4
	Missing	2		1.6
	Total	128		100
U.S. Resident	Yes	102	80.3	79.7
	No	25	19.7	19.5
	Total non-missing	127	100	99.2
	Missing	1		0.8
	Total	128		100
Race	Hispanic	4	3.3	3.1
	Black or African American	14	11.6	10.9
	Pacific Islander or Hawaiian	2	1.7	1.6
	White	85	70.2	66.4
	Mixed (2 or more races)	16	13.2	12.5
	Total non-missing	121	100	94.5
	Missing	7		5.5
	Total	128		100
Self-classified as minority	Yes	30	23.6	23.4
	No	97	76.4	75.8
	Total non-missing	127	100	99.2
	Missing	1		0.8
	Total	128		100
Nature of termination	Voluntary	59	48.8	46.1
	Involuntary	62	51.2	48.4
	Total non-missing	121	100	94.5
	Missing	7		5.5
	Total	128		100

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Table 2

Demographic Characteristics of Sample on Continuous Variables

Characteristic	N	Minimum	Maximum	Mean	Standard deviation
Education (years)	127	10	19	18.1	1.40
Age	127	1	7	4.7	1.00
Experience (years)	125	3	50	28.8	10.20

years and their mean level of education corresponded to some graduate school. Finally, the respondents had an average of 28.8 years of experience in their professions. About 2/3 of the participants had been in corporate officer level jobs at the time of their companies' mergers. About 2/3 of the participants had been employed in publicly-held companies, with the balance of the participants having been employed in privately held (i.e., private or family) companies.

This study proposed seven sets of hypotheses. The first hypothesis proposed that former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of *involuntary* turnover is in companies acquired via hostile takeover rather than in companies acquired via friendly takeover. This hypothesis was tested by comparing respondents' ratings of agreement with the statements asserting that the highest likelihood of involuntary turnover occurs in each of these two takeover situations using the paired t-test (Figure 2).

The distribution of differences between the variables deviated slightly from normality (i.e., Shapiro-Wilk $W = .853$). Consequently, bootstrapping was used to estimate the standard

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Figure 2. The paired *t*-test.

$$t_n = \frac{\sqrt{n}\bar{D}}{S_D}$$

Where: $\bar{D} = \frac{1}{n}\sum_{i=1}^{n} D_i$

$$S_D = \sqrt{\frac{1}{n}\sum_{i=1}^{n}(D_i - \bar{D})^2}$$

n = the number of pairs
D_i = the difference between the two variables for subject i
$\bar{D}$ = the mean difference between the two variables
S_D = the standard deviation of the mean difference

Null hypothesis: Mean difference between pairs equals zero.

error of the difference. The resulting *t*-value was 4.786 with 116 df for which $p < .001$. The mean agreement ratings for the two variables were: 3.65 for hostile takeovers and 3.11 for friendly takeovers. The null hypothesis was rejected. Respondents indicated higher agreement that involuntary turnover is most likely after hostile takeovers rather than after friendly takeovers.

Hypothesis 2 proposed that former executives of companies formed as a result of takeovers will express stronger agreement with the notion that the likelihood of overall turnover following a takeover is highest when the merger is accomplished through a hostile takeover rather than when it is accomplished through a friendly takeover. This hypothesis was tested by comparing respondents' mean ratings of agreement with the statements asserting the highest likelihood of voluntary and involuntary turnover in friendly and hostile takeover situations using the paired *t*-test (See Figure 2). The distributions of within-subject differences on overall (i.e., mean) turnover under both takeover situations deviated slightly from

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normality (i.e., Shapiro-Wilk $W = .876$). Consequently, bootstrapping was used to estimate the standard error of the difference. The mean agreement ratings for the two types of takeover were: 3.13 for friendly and 3.59 for hostile. The resulting t-value was 5.448 with 124 df for which $p < .001$. The null hypothesis is rejected. The sample data provide evidence that terminated executives express stronger agreement with the notion that overall turnover is most likely after a hostile takeover than with the notion that it is most likely after a friendly takeover.

The third set of hypotheses proposed that former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under all three takeover scenarios: hostile, friendly, and leveraged buyout. These hypotheses were tested by comparing respondents' ratings of agreement with the statements asserting that each type of turnover (i.e., involuntary and voluntary) was highest under each of the three takeover scenarios using a two-way within-subjects ANOVA (Figure 3) and comparing the turnover type mean ratings within each of the three takeover scenarios using simple effects analysis with the Sidak correction for multiple comparisons.

The data departed slightly from normality, but ANOVA was sufficiently robust to such modest normality violations as to resist more than negligible effects on inferred Type I error levels. The mean agreement ratings for the two types of turnover within each takeover scenario are reported in Table 3. The results of the simple effects comparisons are reported in Table 4. The null hypothesis was not rejected for Hypotheses 3A and 3B. The sample data provided no evidence of any difference in the perceived likelihood of the two types of turnover occurring under the hostile and friendly takeover scenarios.

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Figure 3. Two-way within-subjects analysis of variance (ANOVA)

$$F_A = \frac{MS_A}{MS_{Error}}$$

$$F_B = \frac{MS_B}{MS_{Error}}$$

$$F_{AxB} = \frac{MS_{AxB}}{MS_{Error}}$$

Where: MS_A = Mean Square of Factor A
MS_B = Mean Square of Factor A
MS_{AxB} = Mean Square of Interaction of A and B
MS_{Error} = Mean Square Error

Null hypotheses: Means of Factor A levels are equal.
Means of Factor B levels are equal.
Means of all combinations A x B categories are equal.

Table 3

Descriptive Statistics for Perceived Agreement with the Higher Likelihood of Each Turnover Type within Each Takeover Scenario

Takeover scenario	Turnover type	N	Mean	SD
Hostile	Involuntary	112	3.70	0.97
	Voluntary	112	3.54	0.91
Friendly	Involuntary	112	3.13	1.07
	Voluntary	112	3.23	0.93
Leveraged buyout	Involuntary	112	3.73	0.89
	Voluntary	112	3.25	1.02

Null Hypothesis 3C is rejected. The sample data provided evidence that terminated executives express higher agreement with the likelihood of involuntary turnover occurring compared to voluntary turnover under the leveraged buyout scenario.

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Table 4

Results of Simple Effects Comparisons of Turnover Type Within Takeover Scenario

Merger scenario	(1) Involuntary	(2) Voluntary	Mean difference (I-J)	Standard error	p^a
Hostile	1	2	.161	.108	.364
Friendly	1	2	-.107	.112	.711
Leveraged buyout	1	2	.482*	.116	<.001

Note. [a] Corrected by the Sidak correction for multiple comparisons

Hypotheses 4A and 4B proposed that former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of overall turnover is in companies acquired via a leveraged buyout rather than in those acquired by hostile takeovers or by friendly takeovers, respectively. These two hypotheses were tested by conducting a repeated measures ANOVA (Figure 4) on respondents' mean ratings of agreement with the statements asserting the higher likelihood of voluntary and involuntary turnover following each of the three types of mergers and examining the results of the pairwise comparisons with the Sidak correction for family-wise error.

Figure 4. One-way repeated measures analysis of variance (ANOVA).

$$F = \frac{MS_{Between}}{MS_{Within}}$$

Where: $MS_{Between}$ = Mean Square Between
MS_{Within} = Mean Square Within

Null hypothesis: Means of repeated measures are equal.

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The data satisfied the normality assumption of this analysis. Table 5 presents the mean agreement ratings with the assertions of overall turnover being most likely under the three types of mergers. Table 6 presents the results of the pairwise comparisons of the mean agreement for the hostile takeover situation vs. the mean agreement ratings for the hostile and friendly takeover situations. The pairwise comparison addressing Hypothesis 4A (i.e., that terminated former executives of companies formed as the result of takeover express stronger mean agreement that the likelihoods of both types of turnover are higher in leveraged buyouts than in hostile takeover situations) produced a $p = .302$. Consequently, the null of this hypothesis was not rejected. The sample data provide no evidence that terminated executives of companies formed as the result of takeover express higher agreement with the notion that the likelihood of overall turnover is most likely after a leveraged buyout than with the notion that overall turnover is most likely after a hostile takeover. The pairwise comparison addressing Hypothesis 4B (i.e., that terminated former executives of private companies formed as the result of takeover express stronger agreement that the likelihood of overall turnover is highest in leveraged buyout than in friendly takeover situations) produced a $p < .001$.

Table 5

Mean Agreement Ratings with the Assertions of Executive Turnover Being Most Likely Under the Three Types of Mergers

Merger type	Mean agreement	Standard error
Leveraged Buyout	3.52	.731
Hostile	3.61	.768
Friendly	3.14	.838

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Table 6

Pairwise Comparisons of the Mean Agreement for the Leveraged Buyout Situation vs. the Mean Agreement Ratings for the Hostile and Friendly Takeover Situations

Merger type (I)	Merger type (J)	Mean difference (I-J)	F	*p*
Leveraged Buyout	Hostile	-.009	1.074	.302
	Friendly	.380	17.066	<.001

Consequently, the null of this hypothesis was rejected. The sample data provided evidence that terminated executives of companies formed as the result of takeover express higher agreement with the notion that overall turnover is most likely after a leveraged buyout than with the notion that executive turnover is most likely after a friendly takeover.

Hypothesis 5 proposed that low job satisfaction will be associated with voluntary employment termination among executives after a takeover. This hypothesis was tested by evaluating the direction and significance of the difference from the neutral level of ratings of agreement with the statement that "Low job satisfaction was the reason I decided to quit my job" using the one-sample *t*-test (Figure 5)

Figure 5. One-sample *t*-test.

$$t = \frac{\bar{x} - \mu}{S_{\bar{x}}}$$

Where: $S_{\bar{x}} = \frac{s}{\sqrt{n}}$ = standard error of the mean of x

s = standard deviation of x

Null hypothesis: The mean of x does not differ from the hypothesized mean, μ.

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Only executives who had voluntarily terminated their employment after a takeover were included in this analysis. The distribution of scores on the variable under consideration marginally satisfied the assumption of normality with a Shapiro-Wilk $W = .864$. The analysis produced a $t(55) = 1.137$, $p = .130$, 1-tailed (mean = 3.214; SE = .188). A supplemental bootstrap analysis conducted to check the results given the marginality of the fulfillment of the normality assumption produced a $Z = 1.147$, $p = .126$. The null hypothesis was not rejected. The sample data provided no evidence that executives who had voluntarily terminated their employment after a takeover agreed with the notion that their reason for resigning was low job satisfaction.

The sixth hypothesis proposed that there are different rates of voluntary and involuntary employment termination following a takeover among minority and nonminority executives. This hypothesis was tested by computing the chi-square test (Figure 6) for the cross-tabulation of voluntary versus involuntary termination by minority versus nonminority.

Figure 6. Chi-squared test of independence.

$$\chi^2 = \sum (O_i - E_i)^2 / E_i$$

Where: O_i = the observed score for case i
E_i = the expected score for case i

Null hypothesis: There is no difference between levels 1 to k on variable 1 in their rates of occurrence of any given level of variable 2. In other words, there is no relationship between the rates of occurrence on the two variables that are cross-tabulated.

Table 7 presents this cross-tabulation. The analysis produced a χ^2 (1) = .628, $p = .428$. The null hypothesis is not rejected. The sample data provides no evidence that there was a relationship between minority status and type of employment termination experienced by

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executives following a takeover. In fact, there was a slight tendency for involuntary termination to occur at a greater rate among nonminority executives than among minority ones.

Table 7

Cross-Tabulation of Type of Termination by Self-Described Minority Status

	Termination Type		
Minority?	Voluntary	Involuntary	Total
Yes	16	13	29
No	43	49	92
Total	59	62	121

The seventh and final set of hypotheses consists of two subhypotheses, each addressing the relationship between a demographic variable and executive employment termination following a takeover. Hypothesis 7A proposed that the rates of voluntary and involuntary employment terminations following a takeover differ between male and female executives. This hypothesis was tested by evaluating the direction and significance of the cross-tabulation of gender by type of termination (i.e., voluntary vs. involuntary) using the chi-square test of independence (Figure 6). Table 8 presents this cross-tabulation. The analysis produced a χ^2 (1) = .014, p = .905. Therefore, the null hypothesis was not rejected. The sample data provided no evidence that males and females differ in their rates of voluntary and involuntary employment termination following a takeover.

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Table 8

Cross-Tabulation of Type of Termination by Gender

Gender	Type of termination		Total
	Voluntary	Involuntary	
Female	18	18	36
Male	41	43	84
Total	59	61	120

Hypothesis 7B proposed that the rates of voluntary and involuntary employment termination following a takeover differ between younger and older executives. This hypothesis was tested by evaluating the direction and significance of the cross-tabulation of age group by type of employment termination (i.e., voluntary vs. involuntary) using the chi-square test of independence (Figure 6). The original age variable had seven categories dividing the age range from 18 to 75 or older. Examination of rates of voluntary versus involuntary termination over these original seven groups revealed a clear transition from predominantly voluntary to predominantly involuntary at age 55. Consequently, it was decided to divide the age range into two groups at the age 55 level for the purpose of testing whether this disparity in type of termination reached statistical significance. Table 9 presents the resulting cross-tabulation. The analysis produced a χ^2 (1) = 2.932, p = .087. Therefore, the null hypothesis was not rejected. The sample data provided no evidence that rates of voluntary and involuntary employment termination following a takeover differ between younger and older executives.

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Table 9

Cross-Tabulation of Age Group by Type of Termination

	Type of termination		
Age Group	Voluntary	Involuntary	Total
18-54	27	19	46
55 or older	32	43	75
Total	59	62	121

See Appendix D for a summary of the hypotheses and the study results.

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CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

This chapter concludes the thesis and provides recommendations for future research.

Conclusions

This study examines the perceived reasons for voluntary versus involuntary executive turnover following an M & A. Mergers and acquisitions continue today. In 2016 the top acquisitions included the acquisition of Time Warner by AT&T for $66 billion, Microsoft acquiring Linkedin for $26.2 billion, and Verizon acquiring Yahoo for $4.83 billion (Fabpromocodes, 2017). Staff retentions remain of critical importance because of the industry knowledge and the ability to provide time to market experience. These are all key factors in remaining globally competitive.

Leveraged buyouts bring baggage, as the leveraged buyout is typically formed to avert a hostile takeover. This brings high debt, making the deliverables and expectations of the executive team extremely difficult to attain. These financially distressed companies drive a high level of deliverables which changes the work environment. Survey results noted that executive express stronger agreement that leveraged buyouts did have higher involuntary turnover compared to voluntary turnover. Schweizer and Patzelt (2012) conveyed that, with few uncertainties, executives tend to remain with the company. This further reinforces why Cisco has only a 2.1% turnover rate compared to the industry average 20% due to their *no-layoff pledge* for newly acquired firms (Goldblatt, 1999). The friendly nature of the takeover drives openness and promotes communication in line with stewardship theory, thereby initiating executive management commitment to the organization. Stewards are typically

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optimistic about the organization, and when these highly committed executives elect to leave, this sends a clear signal to the organization that the bonds of trust and respect are broken. Stewards are typically the glue that keep the organization intact. High turnover negatively impacts firm profitability and overall business performance at a time when the organization has significant financial deliverables, leading in some cases to failure and bankruptcy. Lambrecht and Myers (2007) noted many studies where leveraged buy-out businesses were abandoned as a result of unsatisfactory performance levels. High turnover impacts firm performance.

Survey results from executives indicate that involuntary turnover is indeed higher in hostile takeovers versus friendly takeovers. This is no surprise. These results vary however from the findings of Sudarsanam and Mahate (2006) who found that friendly acquirers had greater job loss than those involved with hostile takeovers. This implies that hostile environments are antagonistic and unfriendly in comparison to friendly environments, which are approachable and welcoming. Executives prefer to work in friendly environments.

Contrary to expectations, I found no evidence from survey analysis that race played a part in driving executive turnover. Prior research from Robertson et al. (2004) yielded inconclusive results. This investigation revealed that there is no relationship between minority status and employment terminations. Nonminorities had a slightly higher rate of involuntary termination compared to minorities. Nonminority survey participants represented the largest ethnic group represented in the survey.

Gender is another area where expectations were not confirmed. It was assumed that female executives would more likely leave voluntarily than male executives following an M & A. Evidence proved that this assumption had no merit. The mean age of survey

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participants was 68. This is past the childbearing age and this may have influenced the survey outcome. It is also refreshing to see that the male majority that influenced the outcome of the survey did not hold the view that women are more likely to leave voluntarily than men.

In prior studies Murphy and Zimmerman (1993) found a correlation between age and executive turnover. Goyal and Park (2002) noted that CEO turnover of executives 65 years and older was due to normal retirement. In 2009, Ng and Feldman examined age and turnover and concluded that age is strongly related to turnover. This study provided no evidence that the older an executive was the more likely they would be targeted for involuntary termination or leave voluntarily. This was surprising, given that the mean age of respondents was 68; it would have been assumed that they would be close to retirement and would consider leaving voluntarily given further uncertainties. This point is unexpected given that Americans typically retire around age 62.

A critical survey question addressed whether the acquired company's financial return was affected positively or negatively after the M & A. A majority, 54.1%, of the respondents indicated that the company financials were positively impacted. Given the favorable impact to the company's bottom line, more companies are inclined to pursue additional M & As. M & As are disruptive and lead to terminations as companies work to find synergies to drive bottom-line-favorable financial impact. The global economy has slowed down, therefore companies will continue to merge to achieve growth. It is interesting to note that 86.1% of respondents did not feel an acquirer being a foreign owner had anything to do with their termination. Hence, one may assume that the national origin of company ownership has no impact on executives' perception of the likelihood of turnover in the company. Therefore this demographic has no effect on an executive's decision to leave or stay.

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Recommendations for Future Research

This study analyzed the reasons for and consequences of executive turnover. A number of executives indicated that the reasons that they quit voluntarily were because they felt threatened, did not feel safe, and did not trust new leadership. These areas should be studied further because low job satisfaction was not a reason for voluntary leaving and these talented individuals could possibly be retained.

Another area for further research is in the area of severance payouts. Would executives leave if they did not receive voluntary or involuntary executive parachutes? The questions being, would executives leave if they did not have guaranteed severance payout packages and change of control contract provisions? One executive wrote:

> I also had an extra incentive written into my contract of a large severance payment if I left upon a change of control. I didn't trust the acquiring company to keep that severance payment in place so I opted to take it on the last day of the prior ownership rather than risk losing and potentially being let go after the deal.

Some acquirers do not want to pay a severance to executives, so they try to persuade executive to leave voluntarily. How many executives leave companies due to this type of provocation? This is an interesting area for future research. A respondent wrote:

> The acquiring company had no interest in knowing the capabilities of the acquired talent pool. They did small, petty things to try to persuade us to leave voluntarily and thereby forego severance. Cancel meetings at the last minute; Exclude people from meetings; Last minute requests for data needed asap, etc.

Discussion

Executives may leave an acquired company because acquisitions bring changes, whether they are real or perceived. If an executive does not want to change, it is best to go elsewhere. One respondent wrote:

> I left primarily because the acquiring company culture was not one I would want to be a part of. As an executive I couldn't support the way they were going to treat people.

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Another respondent wrote that the companies were sold to another company that did not understand the business and employees had “no voice.”

> They bought a small company in an industry they didn't understand. The changes imposed were because they were so large, we had no voice. Ultimately they sold us to someone else because it wasn't a good fit for them. They took a good company and destroyed it in the process.

Agency theory highlights that principals hire agents to perform services but executives are not robots; they want to have input. Where employees perceive that they cannot impact change, they leave and go where they believe they can have an impact. This incompatibility of leadership style clearly points to insensitive executives that don’t care about the impact on people in takeovers. Executives are vulnerable people. Exclusion promotes fight or flight within the executive. Where an executive perceives that they cannot win, they choose flight.

> Although I was the controller that took the company public in a spin-off, new management was brought in to run the public company. New management decided "to go in a different direction" with financial staff even though we had been part of a public company previously. The change was not surprising as the selling company didn't believe current management of the spin-off was capable of running a public company. The management that left went on to run several successful public companies and the spin-off was out of business within 6 years.

There is a popular book titled “Should I Stay or Should I Go?” The title of this book reflects the dilemma that executive face as they experience an M&A. Do they stay and await a decision or do they make the decision to leave on their own. Approximately one third, 32.5%, of executives had expected to be promoted prior to the acquisition. These high performance individuals are not going to await a decision if they cannot influence the outcome. Twenty percent of executives indicated that they planned to quit. Retaining key executive talent helps to ensure acquisition success. Job security needs to be communicated to individuals that the organization wishes to retain. Executives do not like uncertainty. Krug & Hegarty (1997) noted that 20% of individuals will leave an acquisition in the first year and

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70% in 5 years. Normal attrition rates are 8% (Krug & Nigh, 2001). Maintaining organizational stability is critical at this time. Some change is beneficial to the company, but these executives are the agents of organizational change and critical to company success. One executive wrote:

> I have found that when I voluntarily left my positions, it was usually because I had a new job at a higher salary. Anytime I left involuntarily, usually much later in my career, it was because I made to much money and they wanted to lower the payroll. My salary also suffered because of it. It seems to be the American way in corporate America.

In some cases executive are being terminated not due to competence but because of higher levels of distrust. This is the predicament that companies face. Should trust be valued higher within the organization versus executive competence? From another perspective, employees leave the acquirer due to a decline in trust. One respondent wrote:

> I was an extremely high performer in the acquired company. The process for taking a package was made available to all employees regardless of position with the proviso that you could not speak to your immediate supervisor and that if you chose not to take the package, you could be terminated. For me, I had lost all trust in the system. And if performance was no longer the key factor, then the uncertainty was too great. I was extremely disappointed with the process as I felt it was solely an exercise in reducing headcount. After years of laying people off in the acquired company every quarter, there was no reason to believe that things would change in the new organization, and, if fact, they didn't. Layoffs continued for years in the new organization after the acquisition. Both the acquired and acquiring company's senior management continued to make bad strategic decisions and the employees paid the price.

The Workplace Bullying Institute’s (n.d.) definition of bullying includes threats. Among the executives in this study, 32.8% felt threatened and quit voluntarily. Employers are required by law to provide safe work environments for employees. The Occupational Safety and Health Administration (OSHA) covers this requirement. But while U.S. labor law has this requirement, many executives voluntarily resign rather than seek recourse. This is because most threats are in a verbal form and difficult to prove.

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Voluntary terminations represented 48.8% of survey participants. Some companies provide extended severance payments as a retirement inducement to enable them to reduce headcount. One executive commented:

> Before the acquisition I was planning on retiring in 1-2 years. The voluntary retirement with 14 month's severance pay gave me the opportunity to move up my retirement plans.

Voluntary terminations are driven by having another opportunity, not wanting to move, retirement, harassment, lack of trust, not having the new skills required, feeling threatened, interpersonal and cultural conflict, or other personal reasons. The average age of survey participants was 68. The Age Discrimination in Employment Act (ADEA) protects employees over age 40. Therefore employers can't make older workers retire. Companies do entice older workers by adding additional severance benefits to incentivize older worker to voluntarily retire. I postulate that many executives voluntarily resigned by means of early retirement because of the uncertainty and change that a new leadership management brings. The added severance benefits added financial comfort in uncertain times. These decision are made in line with upper echelon theory as a result of their interpretation of the postacquisition process.

How will you know if you are to be terminated or retained in an acquisition? There are a few leading indicators to help one anticipate what is happening in the organization. Executive respondents to this study noted that overhead functions, such as Accounting, Marketing, and Human Resources, are usually consolidated in an M&A. There are notable savings to the company's bottom line by reducing the staff to help drive synergy savings. Personal workplace disruption and change is to be expected. Where there are duplicate skills, expect to be terminated by the acquirer; it is business decision to reduce redundancy. From a religious perspective, Pope Frances said, "Those who for economic reasons or to conclude

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unclear negotiations, close factories and business ventures and take away jobs, this person is committing a very grave sin" ("Pope Warns of 'Very Grave Sin,'" 2017, para 3).

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APPENDICES

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APPENDIX A

SURVEY REQUEST/INVITATION

Linked in / FENG Survey Request

I am conducting an international survey on *The Reasons and Consequences of Voluntary versus Involuntary Executive Turnover Following Mergers and Acquisitions*.

Greetings Survey Participant,

You are kindly invited to participate in this survey on *The Reasons and Consequences of Voluntary versus Involuntary Executive Turnover Following Mergers and Acquisitions*.

The survey is targeting business executives holding or having held positions such as Chairman, CEO, President, VP, CFO, Director, Corporate Officer, Controller, Treasurer, or other executive position are asked to participate and provide your opinion to some of the study questions. I welcome participation from domestic –US as well as international (non-US) executives.

It has been designed to be easily filled out, it will take [less than 15 minutes] to complete the questionnaire.

Link to the survey page:

https://www.surveymonkey.com/r/EXec_Turnover

Your participation in this study is completely voluntary. There are no foreseeable risks associated with this project. All results will be exclusively used for my PHD thesis research. This is why your participation is important.

Thank you very much for your time and support.

Best regards,

Ingrid Russell

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APPENDIX B

CONSENT FORM

Dear Survey Participant:

Thank you for agreeing to participate in my survey. My name is Ingrid Russell and I am pursuing a Ph.D degree at Trident University International. I am conducting research on *The Reasons and Consequence of Voluntary versus Involuntary Executive Turnover Following an M & A*. The purpose of my research is to gain an understanding of the reasons for different types of executive turnover (voluntary vs. involuntary) as a result of different takeover types and the perceived implications to the company of such executive turnover. Executives holding or having held positions such as Chairman, CEO, President, VP, CFO, Director, Corporate Officer, Controller, Treasurer, or other executive position are invited to participate. Merger and Acquisitions are a common industry practice today and their impact on executive turnover needs to be understood by academics and practitioners. Your participation will help to advance knowledge in this area of business science.

Survey responses will be retained for two years in a password protected computer. Your responses will remain confidential and will be seen, reviewed and analyzed my me and the University Review Board. The University Review Board is an oversight group that protects human participants. All responses are will be combined and reviewed collectively so as to ensure your privacy and confidentially. Your individual response will not be shared but the results of the consolidated feedback will be reviewed by my dissertation committee and future research scholars.

This research is being conducted under the guidance of Dr. Dmitry Khanin at Trident University International. If you have questions with regard to this research please contact me, Ingrid Russell or Dr. Khanin.

Contact information: *email addresses*

This survey will take less than 15 minutes. The survey process is as follows:

-You will enter a code for your survey that you select and is known only by you.

-Questions on the survey will probe the impact that executive turnover has had to the organizations that you participate in or have participated in. Please answer all questions honestly and to the best of your ability.

Please note that your participation in this survey is voluntary. Your participation helps advance the understanding of *The Reasons and Consequences of Voluntary versus Involuntary*

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Executive Turnover Following an M & A. Any questions with regard to your rights as a voluntary research participant should be directed to:

Trident University-Institutional Review Board for the Protection of Human Subjects 57A7 Plaza Drive, Suite 100, Cypress, California 90630.Telephone: 800-579-3197. Email: IRB@Trident.edu.

I have read the informed consent listed above and I choose to:

o. I agree to participate

o. I do not agree to participate

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APPENDIX C

SURVEY QUESTIONNAIRE

THE REASONS AND CONSEQUENCES OF VOLUNTARY VERSUS INVOLUNTARY TURNOVER FOLLOWING MERGERS AND ACQUISITIONS

Please answer the following survey questions.

1) I have read the informed consent listed above and I choose to:

o. I agree to participate

o. I do not agree to participate

2) What is your gender?

☐ Male ☐ Female

3) Where do you live?

US
Non-US

4) What is your race?

-Hispanic
-American Indian or Alaska Native
-Asian
-Black or African American
-Pacific Islander or Hawaiian Native
-White
-Mixed (2 or more races)

5) Do you consider yourself as a racial (ethnic) minority in your company?

Yes ☐ No ☐

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6) What is your level of education?

-Completed High school
-Completed Undergraduate College
-Complete Graduate school
-Doctoral degree
-Other –write in

7) What is your past or current executive position?

-Chairman of the board
-Chief Executive Officer, Chief Operations Officer
-Chief Financial Officer
-Executive Director
-President
-Corporate Officer
-Controller, Treasurer
-Other executive- write in

8) What is your age?

18 to 24
25 to 34
35 to 44
45 to 54
55 to 64
65 to 74
75 and older

9) What Industry do you work in?

Automobile
Conglomerate
Construction
Electronics
Financial Services
Food
Housing
Oil and gas
Retail
Telecommunications
Utility
Other (write-in)

10) How many years of work experience do you have in this industry and in general?

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11) My company was acquired by what type of company?

☐	☐	☐	☐
Public	Private	Family	Other

12) Your termination was:

☐	☐
Voluntary	Involuntary

13) If your termination was voluntary answer this question (if involuntary skip to the next question). I left because I was:

	Strongly Disagree	Disagree	Neither	Agree	Strongly Agree
Demoted	☐	☐	☐	☐	☐
Did not feel safe	☐	☐	☐	☐	☐
Didn't have new skills required	☐	☐	☐	☐	☐
Felt threatened	☐	☐	☐	☐	☐
Interpersonal conflict	☐	☐	☐	☐	☐
Lost power/authority	☐	☐	☐	☐	☐
Disliked new leadership style	☐	☐	☐	☐	☐
Did not trust new leadership	☐	☐	☐	☐	☐
Culture conflict	☐	☐	☐	☐	☐
Task-related conflict	☐	☐	☐	☐	☐
Other (Write in)					

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14) Involuntary turnover in the acquired company is most likely following a hostile takeover.

☐ Strongly Disagree ☐ Disagree ☐ Neither ☐ Agree ☐ Strongly Agree

15) Voluntary turnover in the acquired company is most likely following a hostile takeover.

☐ Strongly Disagree ☐ Disagree ☐ Neither ☐ Agree ☐ Strongly Agree

16) Involuntary turnover in the acquired company is most likely following a friendly takeover.

☐ Strongly Disagree ☐ Disagree ☐ Neither ☐ Agree ☐ Strongly Agree

17) Voluntary turnover in the acquired company is most likely following a friendly takeover.

☐ Strongly Disagree ☐ Disagree ☐ Neither ☐ Agree ☐ Strongly Agree

18) Involuntary turnover in the acquired company is most likely following a reverse takeovers (when a private company acquires a public company).

☐ Strongly Disagree ☐ Disagree ☐ Neither ☐ Agree ☐ Strongly Agree

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19) Voluntary turnover in the acquired company is most likely following a reverse takeover (when a private company acquires a public company).

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

20) Low job satisfaction was the reason I decided to quit my job:

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

21) The higher the executive's age the more likely they will leave voluntarily following an M & A:

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

22) The higher the executive's age the more likely they will be terminated by the acquiring company:

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

23) Female executives will be more likely to leave voluntarily the acquired company than male executives:

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

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24) Female executives will be more likely to be terminated by the acquiring company than male executives:

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

25) Racial (ethnic) minorities will be more likely to be terminated by the acquiring company

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

26) Racial (ethnic) minorities will be more likely to quit voluntarily following an M & A.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

27) Involuntary turnover is most likely to occur following leveraged buy-outs.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

28) Voluntary turnover is most likely following management buy-outs.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

29) Voluntary turnover in the acquired company is most likely to occur in the affiliated block purchases (by family, for retirement purposes or employees).

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

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30) Involuntary turnover in the acquired company is most likely when the acquired company is a public company.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

31) Voluntary turnover in the acquired company is most likely when the acquired company is a private company.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

32) Voluntary turnover in the acquired company is most likely when the acquired company is a family business.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

33) Involuntary turnover helps maintain employee morale.

☐	☐	☐	☐	☐
Strongly Disagree	Disagree	Neither	Agree	Strongly Agree

34) To the best of your knowledge was the acquired company's financial return as a result of the M&A affected positively or negatively?

☐	☐
Positive	Negative

35) The reasons for my termination can be explained by the differences between the acquiring company and the acquired company's national culture:

☐	☐	☐
Yes	No	n/a

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36) The fact that the acquirer was a foreign company can explain my termination:

☐	☐	☐
Yes	No	n/a

37) The fact that the acquirer was a (non-US) company can explain why I decided to quit

☐	☐	☐
Yes	No	n/a

38) Prior to the acquisition I expected a promotion?

Yes	No
☐	☐

39) Prior to the acquisition I expected a demotion?

Yes	No
☐	☐

40) Prior to the acquisition I was going to quit?

Yes	No
☐	☐

41) Prior to the acquisition I expected that I could be dismissed?

Yes	No
☐	☐

42) My compensation after the acquisition is

Higher	Lower	The same
☐	☐	☐

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43) Please share your story about the effect of acquisition on voluntary versus involuntary turnover, please specify whether it was you, a friend of yours or just somebody you knew: (write in)

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APPENDIX D

CONCLUSIONS

Table D presents the results and conclusions derived from the data collected in this study.

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Table D

Study Results and Conclusions

Hypothesis	Method	Supported/Not supported
H1: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of *involuntary* turnover is in companies acquired via hostile takeover rather than in companies acquired via friendly takeover.	Paired *t*-test	Supported
H2: Former executives of companies formed as a result of takeovers will express stronger agreement with the notion that the likelihood of overall turnover following a takeover is highest when the merger is accomplished through a hostile takeover rather than when it is accomplished through a friendly takeover.	Paired *t*-test	Supported
H3a: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under a hostile takeover.	ANOVA	Not supported
H3b: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under a friendly takeover.	ANOVA	Not supported
H3c: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the likelihood of involuntary turnover was higher than that of voluntary turnover in companies acquired under a leveraged buyout.	ANOVA	Supported

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Table D (Continued)

Hypothesis	Method	Supported/Not supported
H4a: Former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of overall turnover is in companies acquired via a leveraged buyout rather than in those acquired by hostile takeovers.	ANOVA	Not supported
H4b Former executives of companies that were the targets of successful takeovers will express stronger agreement that the highest likelihood of overall turnover is in companies acquired via a leveraged buyout rather than in those acquired by friendly takeovers.	ANOVA	Supported
H5: Low job satisfaction will be associated with voluntary employment termination among executives after a takeover.	*t*-test	Not supported
H6: There are different rates of voluntary and involuntary employment termination following a takeover among minority and non-minority executives.	Chi-squared	Not supported
H7a: The rates of voluntary and involuntary employment terminations following a takeover differ between male and female executives.	Chi-squared	Not supported
H7b: The rates of voluntary and involuntary employment termination following a takeover differ between younger and older executives.	Chi-squared	Not supported

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