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RESEARCH NOTES AND COMMUNICATIONS

POSTACQUISITION TURNOVER AMONG U.S. TOP MANAGEMENT TEAMS: AN ANALYSIS OF THE EFFECTS OF FOREIGN VS. DOMESTIC ACQUISITIONS OF U.S. TARGETS

JEFFREY A. KRUG[1] AND W. HARVEY HEGARTY[2]
[1]Fogelman College of Business & Economics, The University of Memphis, Memphis, Tennessee, U.S.A.
[2]Graduate School of Business, Indiana University, Bloomington, Indiana, U.S.A.

An analysis of postacquisition top management turnover among 168 cross-border and 102 purely domestic acquisitions, and a control group of 120 nonacquired U.S. firms, revealed that turnover rates in firms acquired by non-U.S. acquirers were significantly higher than in firms acquired by other U.S. firms or the control group. Further, the timing of postacquisition turnover differed in the foreign vs. domestic acquisitions. Finally, the nationality of the foreign acquirer was found to be an important predictor of turnover in certain acquisition categories. Theoretical and practical implications are discussed. © 1997 by John Wiley & Sons, Ltd.

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INTRODUCTION

A growing body of research has documented abnormally high turnover rates among U.S. top management teams following acquisition by another U.S. firm (Furtado and Karan, 1990; Martin and McConnell, 1991; Walsh, 1988, 1989; Walsh and Ellwood, 1991). To date, no research has specifically examined whether these findings extend to instances in which U.S. firms are acquired by non-U.S. firms. This represents a significant gap in the top management literature, given that cross-border transactions represent about 25 percent of all acquisitions involving U.S. firms (*Mergers & Acquisitions*, 1996) and Cannella and Hambrick's (1993) findings that performance in acquired firms tends to fall as postacquisition top management turnover increases. This research examines top management turnover in U.S. firms acquired by both U.S. and non-U.S. acquirers. In doing so, it is expected to cast new light on the top management turnover effects of a growing number of foreign acquisitions in the U.S. market.

THEORY AND HYPOTHESES

Three theoretical perspectives suggest that top management turnover may be higher in foreign vs. purely domestic acquisitions: (1) the market perspective (acquisition motives); (2) the organizational perspective (organizational differences); and (3) the individual perspective (theories on the causes or antecedents of voluntary turnover).

Key words: mergers and aquisitions; top management teams; turnover; international strategy
* Correspondence to: Jeffrey A. Krug, 202 Fogelman College of Business and Economics, The University of Memphis, Memphis, TN 38152, U.S.A.

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A major motivation of foreign firms investing in the U.S. market is to gain access to U.S. technology and marketing and managerial know-how (Kim and Lyn, 1987). Therefore, the initial transfer of value is often largely one way—from the U.S. target to the foreign acquirer. U.S. managers may play an important role in enabling the foreign acquirer to assimilate new technology and know-how, at least in the short-run. Over time, U.S. managers may become increasingly less important, particularly after the foreign acquirer has repatriated this technology and know-how. Performance may initially be of secondary importance. This may partially explain why foreign firms operating in the United States tend to earn lower profits compared to domestic firms (Laster, 1994). With time, the foreign acquirer may come under increasing pressure to improve performance. It may replace existing managers as a means of market signaling or to improve profits by lowering costs. If internal mechanisms fail to improve performance, outside firms may compete for control of the firm (Eisenhardt, 1989). The replacement of target company management is often an objective in this latter type of acquisition (Davis and Stout, 1992; Walsh and Kosnik, 1993).

The organizational perspective focuses on 'macro' internal factors such as differences in organizational culture and structure, all of which have been shown to have a pervasive effect on worker attitudes, managerial styles, decision-making and organizational success (Shrivastava, 1986). Not only do worker attitudes and values differ across nations (Hofstede, 1980), but national circumstances often dictate how firms are created, organized, and managed (Porter, 1990). In addition, the relationship between organizational factors and outcomes tends to differ from one nation to another (Adler, Doktor, and Redding, 1986). A foreign acquirer may attempt to reduce its uncertainty by imposing more rigid controls on the target firm than would otherwise occur in a domestic merger or by replacing target managers with its own (Nahavandi and Malekzadeh, 1988). Likewise, U.S. managers may choose to leave the organization when they are unwilling or unable to adapt to organizational changes made by the foreign parent (Walsh, 1988).

The individual perspective focuses on 'micro' internal factors such as the individual decision-maker, often by identifying the correlates of employee turnover. The many organizational changes that characterize the acquisition process often create uncertainty among target company managers regarding their future role in the organization (Schweiger and Walsh, 1990). This uncertainty leads to increased stress, lower job satisfaction, decreased trust in and commitment to the organization, and increased intent to turnover (Schweiger and DeNisi, 1991). These potential turnover effects may be amplified in cross-border acquisitions. Individual differences become more conspicuous when people of different nationalities interact (Adler *et al.*, 1986) and produce an exaggerated effect on interpersonal behavior (Bouchner and Ohsako, 1977). Perceived differences are highly related to a manager's negative evaluation of a subordinate's performance (Senger, 1971) and to a subordinate's job satisfaction and evaluation of his or her supervisor (Weiss, 1977). Given that role clarity, overall satisfaction, job satisfaction, and satisfaction with supervision are highly correlated with employee turnover (Cotton and Tuttle, 1986), cross-border acquisitions are likely to lead to higher turnover among target company top managers compared to purely domestic acquisitions. Therefore:

> *Hypothesis 1: Top management turnover in U.S. firms following acquisition by a non-U.S. firm is higher over time than top management turnover in U.S. firms acquired by other U.S. firms.*

Additional insights into this phenomenon indicate that turnover in acquired U.S. firms may also differ as a function of the nationality of the foreign acquirer. Previous studies have attempted to find similarities across countries and to focus on the strategic and organizational fits between merging firms. The present approach emphasizes the dissimilarities between merging firms that may exacerbate organizational fit problems and lead to higher acquired executive turnover. We argue that acquisitions of U.S. targets by firms headquartered in countries most culturally similar to the United States in language, religion, and historical development ('Anglo' countries such as the United Kingdom, Canada, and Australia) most closely resemble purely domestic acquisitions. Hofstede (1980) suggested that the U.S. and other Anglo countries could be distinguished from other

nations most by the individualistic nature of the Anglo culture. This is characterized by an emphasis on individual initiative, a high need for achievement and a strong willingness to take risk. These personality or character traits have become strongly embedded in common organizational characteristics such as an emphasis on short-term performance, participative management styles, decentralized and informal organizational structures, and task-oriented information scanning (Schneider, 1989). Therefore, greater cross-national organizational and individual differences between U.S. and non-Anglo firms should lead to higher postacquisition turnover in non-Anglo acquisitions. Therefore:

Hypothesis 2: Top management turnover in U.S. firms following acquisition by a 'non-Anglo' foreign acquirier is higher than turnover in U.S. firms acquired by 'Anglo' foreign acquirers.

Increased acquisition activity in the United States by Japanese companies beginning in the mid-1980s and the reputation of Japanese companies for making heavy use of expatriates (Negandhi, Eshghi, and Yuen, 1985) has fueled speculation that Japanese acquirers prefer to replace U.S. executives with Japanese managers. Perkins (1994) found that Japanese companies tend to increase the use of expatriates as they gain international experience. However, it is unknown how long it may take for these effects to manifest themselves. In cross-cultural management studies, Japan has generally been categorized as an 'independent' country because of its unique pattern of worker values and attitudes (Ronen and Schenkar, 1985). Organizational characteristics that have been attributed to Japanese firms include centralized decision-making, autocratic management styles, management by consensus, the use of specialized knowledge to reduce uncertainty, and strategic planning that is emerging, evolutionary, and incremental (Keegan, 1983; Maruyama, 1984; Nonaka and Johansson, 1985; Schneider, 1989). American managers who remain after acquisition by a Japanese acquirer often believe their career opportunities are limited. They complain they are promoted on the basis of seniority rather than personal effort, are denied job rotation opportunities provided to their Japanese counterparts, are not promoted as rapidly as Japanese managers, are frequently bypassed in the decision-making process and are not given adequate job descriptions or feedback (Filipczak, 1992; Klein, 1992, Simon, 1991). Therefore:

Hypothesis 3: Top management turnover in U.S. firms following acquisition by a Japanese acquirer is higher than top management turnover in U.S. firms acquired by other 'non-Anglo' foreign acquirers.

In summary, we hypothesize turnover to be higher in U.S. firms acquired by non-U.S. vs. U.S. acquirers. Turnover should be greater in U.S. targets acquired by firms headquartered in non-Anglo vs. Anglo countries and most pronounced in U.S. firms acquired by Japanese firms.

METHODOLOGY

Sample and data

A pooled sample of 715 acquisitions reported in *Mergers & Acquisitions* was drawn for the 3-year period 1986–88. The population of acquisitions reported during this time was divided into two groups before the sample was drawn: (1) U.S. acquisitions of other U.S. firms and (2) foreign acquisitions of U.S. firms. The small number of acquisitions from individual countries precluded an analysis of turnover differences at the country level. Thus, foreign acquisitions were broken into groups of countries based on the typology developed by Ronen and Shenkar (1985). A random sample was drawn from each category, with 52 percent representing U.S. acquisitions and 48 percent representing cross-border acquisitions. This sample included acquisitions by firms headquartered in 17 countries. Sixty-seven acquisitions were eliminated because they did not involve the transfer of management, they represented a U.S. bank failure that resulted in a transfer of assets from a failed to a solvent bank, or the target company declared bankruptcy within 5 years of the acquisition. This left 648 acquisitions.

Standard & Poor's *Register of Corporations, Executives and Directors (Register*) was used to identify members of each target company's top management team immediately prior to the acquisition. If a top management team could not be identified in the *Register*, an attempt was made to identify it in Dun & Bradstreet's *Million Dollar*

Directory. Each target firm's 'top management team' was defined by the list of managers and job titles provided to the *Register* or *Million Dollar Directory* by the reporting company. It was assumed that the firm was in the best position to identify those managers who make strategic and operating decisions. Therefore, the list of reported job titles was quite broad and included chairman, chief executive officer, president, chief operating officer, vice president, controller, treasurer, and corporate secretary.

Of the 648 acquisitions, 285 of the top management teams could not be identified. This was because the target company was a small private firm or start-up company that did not meet the requirements for inclusion in these publications; fell into the category of engineering firm, hospital, consulting firm, or credit agency which was not reported in the reference sources; or was a subsidiary, division, or branch of a larger firm. Top management team data were available for 363 of the 648 acquisitions reported in *Mergers & Acquisitions*. Once members of each U.S. management team were identified, each executive was followed in the reference source for each of 5 years following the acquisition. This is consistent with previous research findings that the major impact of an acquisition occurs within 5 years. Overall, complete top management team data were available for 290 (80%) of the 363 target companies. In order to eliminate potential biases in the sample, 20 acquisitions were eliminated because the U.S. target company was involved in a second acquisition within 2 years of the initial observation. This left 270 target firms with complete top management team data.

A control group of 600 firms was randomly sampled from the *Register* for the same period. Of the 600, the *Register* stopped reporting data for 477 of the firms (80%) within 5 years of the firm's initial observation. This was primarily because the identified firm declared bankruptcy, was acquired, or stopped reporting data to the *Register* for an unknown reason. This left 123 firms. An examination of the annual *Mergers & Acquisitions* almanacs revealed that three additional firms were involved in an acquisition during the period of the study. These firms were excluded, leaving 120 firms in the control group. In order to maintain the randomness of the sample, neither the control nor the experimental group was matched by size or other financial variables. An analysis of the data revealed that there was not a significant correlation between target company size, as measured by the number of employees at the time of acquisition, and postacquisition top management turnover.

The final sample consisted of 270 acquired U.S. firms and 120 U.S. firms not involved in an acquisition. Of the 270 U.S. targets, 168 (62%) were acquired by foreign buyers, while 102 (38%) were acquired by U.S. buyers. The average top management team consisted of 8.76 (standard deviation of 5.71) and 8.19 (standard deviation of 6.48) managers in the foreign and U.S. acquisition groups, respectively. The control group average was 7.18 managers (standard deviation of 6.28).

Turnover in each of the 5 years following the acquisition was calculated by dividing the number of managers employed by the target company in the year prior to the acquisition who departed the firm during the year in question by the total number of managers employed in the year prior to the acquisition. We were interested in isolating the employment effects of the acquisition on target company managers employed in the year prior to the acquisition; therefore, departures of managers hired after the acquisition were excluded from the turnover calculation. It should be noted that the available data did not allow us to separate voluntary from involuntary turnover.

RESULTS

Table 1 shows the postacquisition cumulative top management turnover rates. Multivariate repeated measures tests revealed that turnover rates in U.S. target companies acquired by either a non-U.S. acquirer ($F = 11.47$, $p < 0.001$) or another U.S. firm ($F = 7.28$, $p < 0.001$) were significantly higher than turnover rates in the non-acquired U.S. firms (control group) beginning in the first year and continuing through the fifth year. Postacquisition turnover increased from 20.9 percent in the first year to 74.8 percent in the fifth year in the non-U.S. acquisitions. Turnover in the U.S. acquisitions rose from 20.4 percent in the first year to 69.0 percent in the fifth year. This compared with turnover in the control group of 8.1 and 36.9 percent. A series of *t*-tests was then performed to identify differences in turnover

between the foreign and domestic firms in each of the 5 years following the acquisition. Results indicated that while turnover was almost equal in the two groups through the third year following the acquisition, turnover in the foreign acquisitions began to increase at a greater rate than the domestic acquisitions beginning in year 4. The *t*-test performed in year 5 indicated that turnover in the foreign acquisitions was greater than turnover in the domestic acquisitions at the 0.05 level (see Figure 1a). Therefore, Hypothesis 1 was supported.

In order to test Hypothesis 2, the sample of U.S. targets acquired by foreign firms was divided into two groups: (1) those acquired by firms headquartered in the 'Anglo' countries (United Kingdom, Canada, and Australia) and (2) those acquired by firms headquartered in the 'non-Anglo' countries. T-tests were performed to test for cumulative turnover differences between the two groups in each of the 5 years following the acquisition. Turnover in firms acquired by 'Anglo' firms rose from 18.9 percent in the first year to 76.4 percent in the fifth year following the acquisition. Turnover in firms acquired by 'non-Anglo' firms increased from 21.0 percent in the first year to 76.0 in the fifth year. The analysis revealed no significant differences at the 0.05 level (see Figure 1b). Therefore, Hypothesis 2 was not supported.

In order to test Hypothesis 3, *t*-tests were performed to compare differences in cumulative turnover between U.S. firms acquired by Japanese firms and U.S. firms acquired by 'non-Anglo' foreign firms in each of the 5 years following the acquisition. Turnover in firms acquired by Japanese acquirers rose from 27.4 percent in the first year to 66.8 percent in the fifth year following the acquisition. Contrary to our argument, mean turnover rates in firms acquired by Japanese

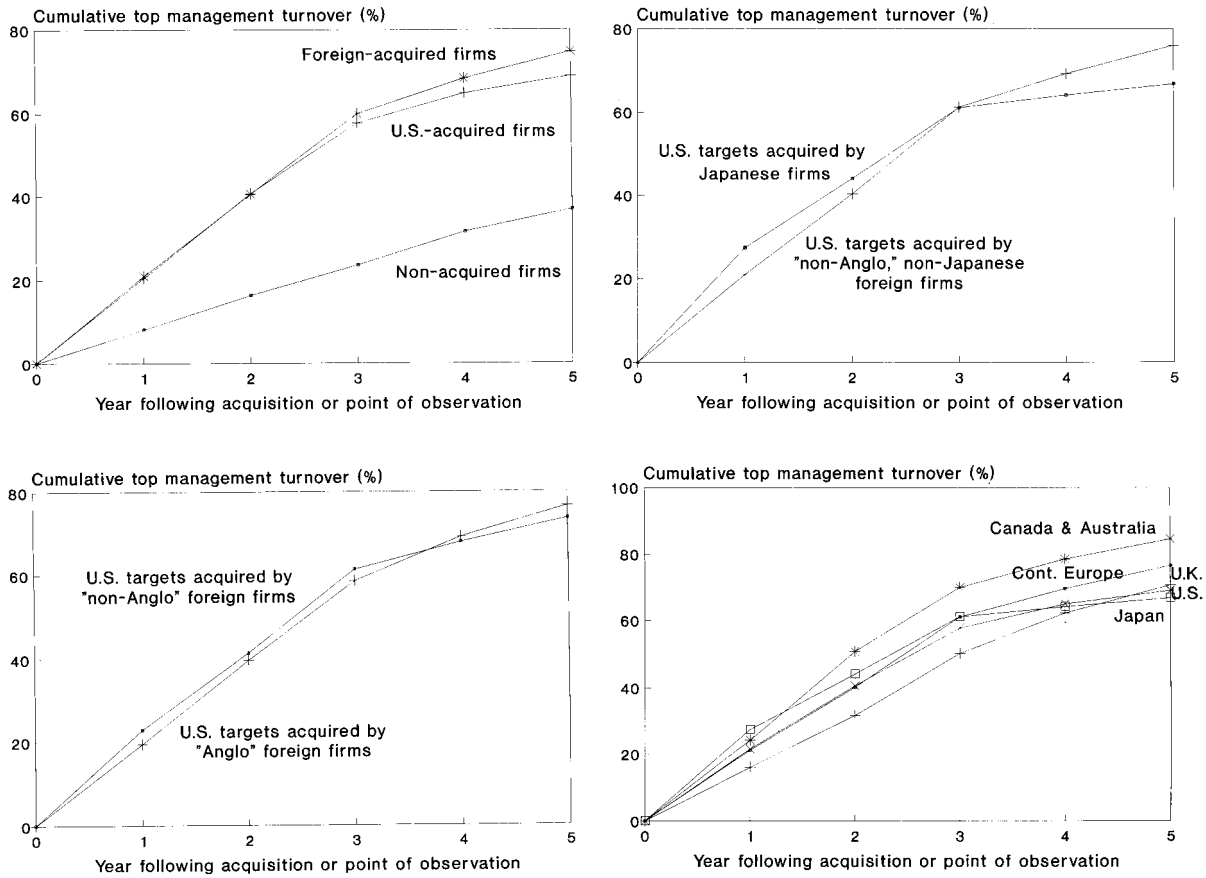

Figure 1. Target company top management turnover. (a) Foreign vs. domestic acquisitions and control group. (b) 'Non-Anglo' vs. 'Anglo' acquisitions. (c) Japanese vs. 'non-Anglo,' non-Japanese acquisitions. (d) Acquisition by country of orgin of acquirer

Table 1. Cumulative target company top management turnover rates

Country	*n*	Cumulative turnover <----------Year following acquisition----------> 1	2	3	4	5
Denmark	1	0.0	0.0	58.3	58.3	91.6
Finland	4	6.3	27.7	58.9	86.0	86.0
Sweden	8	26.7	52.3	59.2	69.9	72.5
Nordic region	13	18.4	40.7	59.1	74.0	78.1
Germany	15	17.0	39.1	58.5	64.6	80.2
Switzerland	5	9.5	57.5	63.5	77.8	77.8
Germanic region	20	15.2	43.7	59.8	67.9	79.6
Belgium	2	22.2	27.8	56.3	56.3	88.9
France	12	36.2	42.6	65.1	69.4	70.0
Italy	3	26.0	26.0	54.9	54.7	60.0
Monaco	1	0.0	0.0	100.0	100.0	100.0
Latin Europe	18	28.9	33.4	66.3	69.4	73.8
Netherlands	8	22.7	45.3	55.3	66.8	72.7
U.K.	46	15.9	31.7	50.2	62.2	70.6
Europe	105	18.8	36.4	56.3	66.3	74.0
Europe excl. U.K.	59	21.1	40.1	61.0	69.5	76.6
Canada	23	23.1	53.6	65.7	77.9	80.9
Australia	10	26.6	44.1	79.5	80.0	92.9
Venezuela	1	0.0	16.7	33.3	33.3	33.3
Hong Kong	4	24.6	48.8	71.9	73.7	78.6
Japan	25	27.4	44.0	61.1	64.1	66.8
Anglo region excl. U.S.A.	79	18.9	39.3	58.4	69.0	76.4
Non-Anglo region	64	21.0	40.3	61.2	69.2	76.0
Foreign acquisitions	168	20.9	40.5	59.9	68.4	74.8
U.S. acquisitions	102	20.4	40.6	57.7	64.9	69.0
Total merged firms	270	21.3	40.6	59.1	67.1	72.6
Nonacquired firms	120	8.1	16.3	23.6	31.6	36.9
Total sample	390					

firms were found to be significantly lower than mean turnover rates in the 'non-Anglo' acquisitions in the fourth ($p<0.03$) and fifth (<0.05) years following the acquisition (see Figure 1c). Therefore, no support was found for Hypothesis 3.

In an exploratory analysis, the sample was split into the culturally similar regions developed by Ronen and Shenkar (1985) (Nordic, Germanic, Latin Europe, Anglo, Japan, and other). Analyses of the variance (ANOVA) performed in each of 5 years following the acquisition revealed no differences across these six regions. The sample was then split into the following categories: (1) continental Europe; (2) the United Kingdom; (3) Canada and Australia; (4) Japan; and (5) the United States. ANOVAs performed in each year following the acquisition revealed that turnover was significantly higher in U.S. firms acquired by Canadian and Australian firms compared to purely domestic acquisitions in the fifth year following the acquisition (see Figure 1d).

DISCUSSION AND FUTURE RESEARCH DIRECTIONS

This research is the first empirical examination to compare top management turnover rates in foreign vs domestic acquisitions. As hypothesized, acquisitions by foreign firms resulted in significantly higher turnover when compared to purely domestic acquisitions. In an analysis of domestic acquisitions, Walsh (1989) found that the full effect of the acquisition did not become evident until the fourth year following the acquisition. This is consistent with our findings. Beyond the third year, turnover in the domestic acquisitions rose at about the same rate as turnover in firms not involved in an acquisition. However, turnover in firms acquired by a non-U.S. firm continued to rise at a significantly higher rate in the fourth and fifth years following the acquisition. This suggests that additional turnover effects occur beyond the third year in the case of foreign acquisitions that do not occur in domestic acquisitions.

The fact that turnover rose at almost identical rates in both the foreign and domestic acquisitions through the third year following the acquisition may reflect dissimilar rather than similar phenomena. It was argued that cross-national organizational and individual differences between foreign and domestic firms may exacerbate existing differences between domestic firms. The finding that turnover rates were not significantly different through the third year may, on first examination, lead some to conclude that cross-national differences are unimportant in predicting postacquisition top management team turnover. This may be an erroneous conclusion. The findings do indicate turnover differences during the fourth and fifth years. Therefore, it is possible that cross-national organizational and individual differences do not manifest themselves until the later stages of the postacquisition period. It is equally plausible that cross-national differences are offset by other phenomena during the first 3 years following the acquisition. Consistent with the market perspective, when a foreign firm acquires a U.S. firm in order to gain control of technology or know-how, or is investing in the United States for the first time, it may be content to operate the acquired U.S. firm as a semi-autonomous unit until it has gained a certain level of experience and comfort operating in the United States. This suggests that foreign firms may attempt to retain acquired executives during the first 3 years following the acquisition. Given that U.S. acquiring firms are more familiar with the U.S. market than many foreign firms, it is reasonable to expect U.S. acquirers to more quickly integrate the acquired company. Foreign acquirers may be more inclined to make changes, increase control, and employ expatriates in the acquired U.S. firm at a later stage following the acquisition. Such may be the case because foreign acquirers may mimic the actions of the U.S. counterparts during the first few years following the acquisition or because legal agreements require the foreign acquirer to retain acquired top managers for at least 3 years after the acquisition (DiMaggio and Powell, 1983). Future research needs to address these issues.

Exploratory analysis revealed that acquisitions from Canada and Australia led to higher turnover compared to domestic acquisitions, while acquisitions from the United Kingdom led to relatively low turnover. This finding is intriguing, given that Canada, Australia, and the United Kingdom are 'Anglo' countries similar to the United States in language, religion, and culture. It is possible that acquisition motivations and implementation strategies may explain these differences. One may speculate that acquirers from the United Kingdom are more experienced making acquisitions in the U.S. market. Therefore, they may be better able to minimize cultural conflicts and implementation problems than are Canadian and Australian firms. This may explain the higher rates of turnover in acquisitions from Canada and Australia. This unexpected finding seems worthy of future investigation.

The research findings also indicate that Japanese firms are no more inclined to terminate U.S. executives and replace them with their own managers than are either foreign or U.S. acquirers. Moreover, they appear to be less inclined to do so compared to other 'non-Anglo' foreign acquirers. This finding stands in direct contrast to the fear-mongering in the U.S. press surrounding the acquisition of U.S. assets and companies by the Japanese. It warrants future research as the sample size of Japanese acquisitions in this study may have been too small to give an accurate picture of the true effects of Japanese acquisitions in the United States. A more extensive examination of Japanese acquisitions may lead to different results.

The findings of this research indicate that cross-border acquisitions are associated with higher rates of turnover over time when compared to turnover in purely domestic acquisitions. According to Cannella and Hambrick (1993), high top management turnover may have a negative effect on the long-term success of an acquisition. Although market, organizational, and individual forces do not appear to produce differences in top management turnover rates in foreign vs. domestic acquisitions in the early stages of acquisition, such forces apparently trigger higher turnover in foreign acquisitions over time. Future research needs to focus on country, industry, and company-specific variables in order to sort out these complex, and often opposing, forces and explain the higher rate of turnover in foreign acquisitions.

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