The Executive Effect and Firm Acquisition Performance: Three Studies on How Executive Characteristics Affect Acquisition Stock Market and Financial Performance Outcomes

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ABSTRACT

For decades, acquisitions have been a remarkably popular and controversial phenomenon all over the world. However, little is known about how acquisition performance is affected by the characteristics of top executives of the acquiring as well as the target company. Acquisition performance can be examined both as investor reactions to acquisition announcements on the stock market and as post-acquisition performance of the newly integrated company. Drawing upon several research streams (signaling theory, the behavioral decision making perspective, the resource-based view, and social network research), this dissertation reports on three independent but interrelated studies that examine the effects of executive human and social capital characteristics on acquisition performance.

Study 1 focuses on the firm tenure of the acquiring company's CEO and shows that investors responded to acquisition deals more favorably when the deals were made by

either short- or long-tenured CEOs, especially when the CEO was also the chairperson of the board and when he/she had received higher compensation. Study 2 shifts the focus from stock market reactions to post-acquisition firm performance. This study examines post-acquisition integration in the form of knowledge contributions made by the executives from the target company who were retained in the newly integrated company. Results show that the positive effect of retention of target executives was stronger when an acquisition was unrelated and when the target firm was relatively small. Study 3 explores the effects of acquiring CEOs' social ties on investor reactions to acquisition announcements and compares the effects between manufacturing and hospitality industries.

This dissertation contributes to both the acquisition research and the research on corporate executives. It contributes to the acquisition literature by applying a multi-stage view of acquisition performance and explicitly examining the performance implications of key decision makers' characteristics. It also contributes to the executive effect literature by uncovering an unconventional U-shaped curvilinear relationship between executive tenure and acquisition performance. More important, the study examines the corporate governance mechanisms that may modify the executive effects on acquisition performance.

Key words: acquisition performance, investor reactions, post-acquisition performance, CEO, executive retention

論文摘要

企業收購是近幾十年來十分流行而又具有爭議的現象。然而，我們對高管的特徵如何影響企業收購的績效卻知之甚少。收購績效可定義爲收購公告發佈時股票市場的反應和收購完成之後的新公司的財務業績。本文綜合了來自信號理論、決策行爲、資源基礎理論和社會網路方面的文獻，用三個相互獨立而又相互聯繫的三個研究來檢驗高管的人力資本和社會資本對收購績效的影響。首先，本文提出，股市投資者傾向於更加歡迎那些由年資很短或者很長的首席執行官所執行的收購，尤其是當首席執行官同時是董事會主席或者薪酬水準很高的情況下。第二，本文從收購完成後，留用的目標公司高管知識貢獻的大小來考察收購後的整合。研究結果表明，在非相關收購和在兩家公司規模差異較大的情況下，目標公司高管留用對收購後財務業績的正向效應更加明顯。第三，本文還從社會資本的角度出發，探討了收購公司首席執行官的社會關係對股市反應的作用在酒店業收購和製造業收購的差異。本文對收購和公司高管研究的貢獻主要體現在以下三個方面。首先，從收購是多階段現象這一視角，本文檢驗了高管對收購績效的影響，豐富了關於收購的研究。其次，本文通過揭示在收購情形下任期與績效的 U 型關係，拓展了關於高管效應的研究。更重要的是，本文還考察了公司治理機制如何完善高管對收購績效的作用。

關鍵詞：收購績效，投資者反應，收購後绩效，首席執行官，高管留用

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CHAPTER 1 INTRODUCTION

1.1 Research Issue

Acquisitions typically involve acquiring control of a corporation by stock purchase or exchange. The major strategic reasons for acquisition may include, among others, capturing external growth opportunities and gaining market power. For decades, acquisitions have been a remarkably popular and controversial phenomenon all over the world. The value of global mergers and acquisitions (M&As) hit 1.75 trillion dollars in the first six months of 2014, a 75 percent rise on the same period of the last year[1], documented by *The Financial Times*. The acquisition activities soared on all three continents: in the US, the value of M&As announced reached at 748.5 billion dollars, up almost 75 percent on a year earlier; in Asia-Pacific, M&As hit 327.8 billion dollars, up 85 percent and the best year-to-date period in this region since 1980; in Europe, M&As recorded 509 billion dollars and marked a more than doubling over 2013 levels.

Acquisitions appear to be a particularly popular strategic choice in the hospitality industry. The economic significance of M&As transactions in this industry has been substantial, with a total transaction value of 16.63 billion U.S. dollars completed by U.S. hotel and restaurant companies in the year 2012, accounting for nearly 2 percent of the total transaction value of all industries[2]. Moreover, in the middle-level market (with a transaction value worth 1 billion U.S. dollars or less), hotels and casinos sector was one

[1] "Value of M&A hits $1.7tn in first six months of 2014", The Financial Times, http://www.ft.com/intl/cms/s/0/8599d86e-fde8-11e3-acf8-00144feab7de.html#axzz3Kvk3iq3B, retrieved on December 4, 2014.
[2] "2012 Wrap Up", Mergers & Acquisitions, February 2013, 48(2), pp32-47.

of the five most active sectors in 2013, which accounted for around 5 percent of all middle level deals[3]. Hotel and tourism owners and operators have been embracing the acquisition approach, arguing that it offers faster and possibly more economical growth than would new construction or renovating existing properties (Canina, Kim & Ma, 2010).

In the academic literature, acquisitions have been extensively studied in multiple disciplines such as accounting, economics, finance, management, and sociology. These studies fall broadly into two general categories: While some researchers have examined the antecedents of organizational acquisition decisions, others focus on the factors that determine acquisition performance (Haleblian et al., 2009; King et al., 2004). The first category concentrating research on antecedents of acquisition decisions mainly concerns the environmental, organizational and individual factors that may explain such issues as the reasons for acquisitions, the likelihood, frequency, and types of acquisitions, and so on (e.g., Agrawal & Walkling, 1994; Bergh & Lawless, 1998; Haunschild & Beckman, 1998; Haleblian, Kim, & Rajagopalan, 2006; Kim & Singal, 1993). This dissertation, nevertheless, is more in line with the second category of research, which focuses on the performance consequences of acquisitions.

In particular, my research interest starts from one of the most noted puzzles in the acquisition performance literature: the persistent coexistence of two seemingly contradictory phenomenon, i.e., the increasing number of acquisition deals across industries and the high rate of acquisition failure. Considering the various reasons (e.g.,

[3] "2013 Wrap Up", Mergers & Acquisitions, February 2014, 49 (2), pp30-43.

market power, capability learning, and synergy, i.e., the combination of the two firms create more value than each could achieve alone) companies give to their stakeholders to justify their acquisition decisions (Haspeslagh & Jemison, 1991), it is surprising that most acquisitions do not deliver the expected performance gains. For example, *McKinsey Quarterly* reported that up to 80 percent of acquisition activity failed to return greater yields than the annual cost of capital to finance the acquisition. Only 23 percent of the acquisitions were considered successful and 34 percent were later sold for a loss (Bekier, Bogardus & Oldham, 2001). Similarly, *The Economist* provided a dim view of mergers that "study after study of past merger waves has shown that two of every three deals have not worked; the only winners are the shareholders of the acquired firm, who sell their company for more than it is really worth"[4]. More recent studies reported that 83 percent of deals failed to deliver shareholder value and 53 percent actually destroyed shareholder value (Cartwright & McCarthy, 2005; Harding & Rouse, 2007).

Many researchers have paid a great deal of attention to the question why so many acquisitions have failed yet so many companies are still devoting resources to acquisitions. In this dissertation, I would like to focus on a flip side of the same coin. Instead of focusing on failures, my research motivation is to explain why some acquiring companies are able to launch successful acquisitions, not only in the sense of creating positive shareholder values on the stock market but also in terms of generating actual financial gains in the post-acquisition years. While some studies have attributed it to macro-level institutional/market forces (e.g., legitimacy-seeking tendency,

[4] "How to Make Mergers Work", The Economist, January 9, 1999, pp. 21–23.

imitation, or acquisition wave), I am more interested in the organizational and individual factors that distinguish good value-creating acquisition decisions from poor value-destroying acquisition decisions.

1.2 Gaps in Previous Research on Acquisition Performance

Numerous studies have examined the determinants of acquisition performance from different theoretical perspectives (Faulkner, Teerikangas, Joseph, 2012). In brief, the most examined determinants can be classified into several levels: deal characteristics (e.g., payment method, premium), firm characteristics (e.g., firm size, acquisition experience), and environmental factors (e.g., acquisition waves). For example, acquisition scholars were concerned about which payment method (cash payment vs. stock payment) would lead to better performance. Some studies found that cash deals are more beneficial to acquiring firms' shareholders' wealth creation than stock deals (Loughran & Vijh, 1997), while there were other studies reporting no effect of payment method on either accounting performance or market returns (Healy et al., 1992). As suggested by a recent meta-analysis on M&As (King et al., 2004), the existing research including those concerning the determinants of acquisition success still remain inconsistent and inconclusive though there has been considerable size of the acquisition literature (Haleblian et al., 2009).

Several gaps in the previous studies may have caused this empirical ambiguity. The first gap involves a definitional issue. What is meant by "acquisition performance"? This key concept has been defined in different ways (Cording et al., 2010; Papadakis

& Thanos, 2010; Zollo & Singh, 2004; Zollo & Meier, 2008). The most frequently used method of defining acquisition performance have been announcement-effect event study method (Fama et al., 1969) and accounting-based performance method. The former one refers acquisition performance as the creation of the acquirer's shareholder wealth, calculated by cumulative abnormal returns (CARs) generated during a relatively short time frame around the acquisition announcement in the stock market, which represents investors' assessment of the acquisition. The latter one refers acquisition performance as returns based on accounting data (e.g., returns on assets, ROA), which typically is calculated for one- to three-year period after the acquisition. This method takes a longer-term perspective of acquisition performance and represents actual returns earned by the firm as a result of the acquisition (Cording, Christmann & Weigelt, 2010). Given the complexity of the meaning of acquisition performance, it is crucial to interpret previous findings with a clear reference to their outcome measures. More important, because the various definitions capture acquisition performance along different dimensions and within different time frames, a comprehensive understanding of the determinants of acquisition performance should be based on multiple performance outcomes. This comprehensive approach to measuring acquisition performance, unfortunately, has rarely been used in previous studies.

Related to the above-mentioned definitional issue is a problem with choosing appropriate theoretical lenses for examining the key organizational processes and structural arrangements that lead to performance outcomes measured at different points in time. The conceptual literature on acquisition performance identified two types of

"fit" as critical success factors for organizations involved in complex acquisitions: strategic fit and organizational fit (Jemison & Sitkin, 1986). Essentially, strategic fit refers to the degree to which the target firm augments or complements the acquiring firm's strategy in light of industry, market, or technology-related issues. In comparison, organizational fit refers to the match of administrative practices, cultural practices, and personnel characteristics between the target and acquiring firms. Note that the evaluation of strategic fit is more likely to occur in the pre-acquisition stage (target selection, identification, due diligence, and negotiation), whereas organizational fit is something more emphasized in the post-acquisition integration stage. It involves how the two firms can be actually integrated with respect to day-to-day operations once an acquisition has been made. Any impediments associated with the integration of operations can make the acquiring firm unable to effectively manage the integration of the target firm (Haspeslagh & Jemison, 1987). As a result, organizational incompatibilities may negate the anticipated potential synergistic benefits associated with the acquisition (Lubatkin, 1983). This distinction between the two type of "fit" implies that the stock market reaction to deal announcements, a key acquisition performance outcome occurring after the acquisition deal-making stage but before the integration stage is more likely to reflect investors' assessments of the degree of strategic fit between the acquirer and the target, more specifically, their assessments of the acquisition decision makers' abilities to ensure strategic fit. In this sense, the theoretical model on stock market reactions should focus on the investor's perspective and reveal investors' assessment criteria and judgment processes. In contrast,

theoretical explanations for the determinants of post-acquisition financial performance should capture the interactions between the two key players in the integration process, i.e., the acquirer and the target. The theoretical model thus should focus on the characteristics of the two players and organizational structures / processes that facilitate or hinder integration. Simply put, the research on stock market reactions has more to do with the theories related to information processing/behavioral decision making (from stock market investors' side). The key is to understand how investors judge the quality of an acquisition deal. But the research on post-acquisition financial performance needs to highlight the way the acquirer and the target firms actually share knowledge, use their capabilities, and realize the potential strategic fit. To the best of my knowledge, few studies have addressed this theoretical nuance, i.e., the distinction between "judging others' capabilities" and "applying one's own capabilities" when examining acquisition performance.

The third gap rests with the identification of specific determinants of acquisition performance. As mentioned earlier, although numerous studies have examined the situation factors contributing to acquisition success, few have directly investigated the role of "people" in influencing acquisition outcomes. Acquisitions are typically complex and risky decisions, it is not surprising that decision makers' cognitive models tend to shape organizational actions in important aspects. Although managerial characteristics (e.g., their human capital and social capital) have been widely studied in other strategic contexts, the so-called "executive effect" has not yet been systematically examined in the research on acquisition performance, specifically, the effect of CEOs

of acquiring firms and “retained target top executives” (i.e., one or more top executives from target firm may be retained and nominated as TMT members of the combined firm). In fact, acquisitions are such “fundamental strategic decisions” of an organization” that “senior managers, and especially the CEO, have primary influence” (Haleblian & Finkelstein, 1999: 35) given their predominant positions in organizations. Therefore, “the importance of the link between managerial experience and M&As success should not be underestimated” (Hitt et al., 2001: 55). CEOs have been even recognized as decision makers “who survey an efficient marketplace for acquisition opportunities” (Jemison & Sitkin, 1986: 145). However, most of the existing studies linking acquisition performance to CEOs overwhelming rely on the assumption of self-interest that CEOs’ acquisition behaviors were merely motivated by their desire to maximize their own self-interests from the perspective of agency theory (Agrawal & Walkling, 1994; Haleblian et al., 2009; Mueller & Sirower, 2003; Sanders, 2001). Obviously, those CEO-effect-related studies have concentrated largely on CEOs’ motives rather that their capabilities to make successful acquisitions. Given the theoretical and practical importance of CEO effect, a more complete understanding of the role of CEOs in acquisition performance appears to be essential[5].

As for the role of top executives retained from target firm, it has been acknowledged

[5] One may claim that investment banks usually actively involved in acquisitions will provide external advisory during the deal process so that the acquiring firm’s CEO may have little influence. However, CEO’s role in acquisitions is not easily replaced by investment banks. Although investment banks constitute an important source of specialized information and expertise in acquisitions (Calomiris & Hitscherich, 2005; Chemmanur & Fulghieri, 1994; Eccles & Crane, 1988; Servaes & Zenner, 1996), the appropriate information flows from investment banks to the acquiring firm may not run smoothly because of lack of motivation, inadequate incentives, and conflicts of interest (Bebchuk & Kahan, 1989; Hayward, 2003; Kesner, Shapiro, & Sharma, 1994; Rau, 2000). Bruner (2004) documented that in the process of search for targets, AlliedSignal (an American aerospace, automotive and engineering company) reviewed 550 potential targets before initiating negotiations with 28 and finally buying 10. Even if many of the potential targets were initially suggested by an investment bank, the acquiring firm’s CEO still would have to sift through the potential targets to make the final decision

that retention of top managers is necessary for post-acquisition success because of their knowledge of the acquired organization about culture, systems, relationships, and resources (Cannella & Hambrick, 1993; Coff, 1999, 2002; Ranft and Lord, 2000), which may be critical to effective integration and value realization (Bergh, 2001; Graebner, 2004) throughout the post-acquisition stage. Although the theoretical significance of turnover of target top executives has been long recognized in acquisition literature, it is surprising that prior empirical studies on retention of target top executives has concentrated mostly on explaining the high turnover rate of target top executives after the acquisition has completed (e.g., Walsh, 1988; 1989) and the performance implication of their departure on the acquired firms (e.g., Cannella & Hambrick, 1993), whereas the relationship between the retention of target top executives and acquisition performance of the "combined firm" (i.e., the combination of the two firms- the acquiring firm and the target firm) has been rarely examined thoroughly (with few exception, e.g., Krishnan et al., 1997; Zollo & Singh, 2004). Similarly to the case of CEO's effect on acquisition performance discussed above, a fully understanding of the performance consequence of the retention of target top executives is also critical to an eventual comprehensive theory of the management of acquisitions.

1.3 Research Questions

To address these gaps, this dissertation aims to examine the factors that affect two acquisition performance outcomes: the stock market reactions to acquiring firms'

announcements of completed acquisition deals and the post-acquisition financial performance of the combined firm that has gone through the acquirer-target integration process. In particular, I focus on the effects of the human capital and social capital characteristics of the top executives in both the acquiring and the target firms. I also explore some of the different executive effects between manufacturing and hospitality/tourism industries. This dissertation reports on three independent yet related studies that address the following general research questions respectively: (1) how are human and social capital-related characteristics of the acquiring firm's CEO (hereafter referred to as the acquiring CEO) related to stock market returns following an acquisition announcement? (2) Once an acquisition is completed, does the retention of target top executives influence post-acquisition performance and will this relationship be constrained by critical internal and external contextual factors? (3) Do the effects of CEO characteristics on acquiring firms' stock market returns vary between manufacturing and hospitality industries?

1.4 Contributions

This dissertation makes several contributions to the existing literature. First, by examining the executive effect both in the pre- and post-acquisition stages, it addresses one major limitation in the acquisition literature recently identified by acquisition scholars (e.g., Weber et al., 2011), that is, looking at either the pre- or post-acquisition stage and neglecting the fact that acquisitions are a multi-stage phenomenon (Weber et., 1996; Weber, 2012). The different stages of a typical acquisition have been compared

to interpersonal relationships such as courtship versus marriage (Greenwood et al., 1994; Jemison & Sitkin, 1986), based on the temporal nature of the acquisition. The pre-acquisition stage is like the courtship stage. It is the period prior to and around the official acquisition announcement, which is characterized by the search for acquisition candidates, assessment of potential synergy, negotiation of acquisition terms, and due diligence reviews (Buono & Bowditch, 1989). However, while effective management of the courtship stage facilitates deal closing, it does not necessarily have a lasting effect on the synergy realization in the post-acquisition stage (Greenwood et al., 1994; Weber, 2012). The post-acquisition stage is like a marriage. It is the actual implementation of the acquisition, which requires an integration of accounting and legal systems, the consolidation of physical and intangible resources, and, ultimately, the "meshing" of managements (Weber, 2012: 86) in order to realize synergistic benefits. As discussed previously, the two stages of acquisitions require different theoretical models to explain the determinants of acquisition performance. Therefore, by considering both the pre- and post-acquisition stages, the present study provides a comprehensive understanding of the key factors determining acquisition success.

In correspondence with the two primary stages of an acquisition, I use the above-mentioned methods to measure acquisition performance. First, in the pre-acquisition stage acquisition performance is measured as CARs. Acquisition is an important organizational event. The anticipated synergy may influence investors' perceptions of the acquiring firm's future value. Based on the assumption that the stock market is efficient, stock price reaction to the acquisition announcement should reflect investors'

expectation. However, stock price reactions to an acquisition announcement do not reveal the actual outcomes of acquisitions in the long run. In the post-acquisition stage, acquisition performance is thus measured as accounting-based returns as it has been argued that accounting performance represents the realized outcomes of managerial decisions, which are less susceptible to the influence of exogenous factors (Johnson, Young, & Welker, 1993). Because one key issue during the post-acquisition stage is whether or not the expected synergy will be actually realized, post-acquisition accounting returns is incorporated as an appropriate measure of acquisition performance in this stage.

Second, this dissertation also addresses the long-standing debate over the question whether or not managers matter for organizational strategies and performance outcomes (Hambrick & Finkelstein, 1987; Hitt & Tyler, 1991). The external control perspective (Romanelli & Tushman, 1986) suggests that strategic decisions are largely constrained by the external environment and regards managers as unimportant, inactive, or, at most, symbolic (Astley & Van de Ven, 1983; Pfeffer & Salancik, 1978). By contrast, the strategic choice model proposes that people, not organizations, make strategic decisions regarding the goals, domains, technologies and structure of a firm based on human perceptions and evaluations (Child, 1972), which in turn are shaped by needs, values, experiences, expectations, and cognitions of the managers (Child, 1972; Finkelstein, 1988; Montanari, 1978). The external control and the strategic choice perspectives identify different critical factors influencing strategic decisions. The present study integrates key elements of both perspectives. I argue that top executives can

significantly influence strategic decisions. Nevertheless, the effects may be constrained by situational factors. By applying different theories and examining the executive effects within specific strategic contexts, this dissertation responds to the call for strategy research that combines and examines the interaction of the different perspectives (Bourgeois, 1984). It is also consistent with the suggestion that interactions between situational and demographic variables should be examined to understand fully the effects of top executives on decision processes (Hambrick & Mason, 1984).

In sum, this dissertation develops theoretical models that advance both the existing acquisition research by incorporating human factors and multi-stage perspective and executive effect research by looking at acquisition contexts which can represent an appropriate domain for exploring executive effect given their active and extensive involvement in such fundamental strategic decisions as acquisitions. I argue that, first, after controlling for the effects of the most studied deal-/firm-/environment-level characteristics, CEO should have a significant impact on stock market reaction to acquisition announcement; second, after controlling for CEO effect and other conventional factors examined in prior research, the retained target top executives should have a significant impact on post-acquisition financial performance, and this retention effect will be constrained by certain contextual factors.

1.5 Outline of This Dissertation

This dissertation consists of three independent yet related studies (see Figure 1.1). As discussed above, the pre-acquisition stage and post-acquisition stage differs not only

in measures of performance outcomes but also their theoretical perspectives. Building on signaling theory, study 1 focuses on pre-acquisition stage and investors' perception of the extent of strategic fit and uses event study methodology to examine how human capital of CEOs of the acquiring firms are perceived by investors in stock market as signals of the quality of acquisition decisions and thus affect stock market reaction to acquisition announcements, after controlling for frequently studied factors in prior research (e.g., deal and firm characteristics). In comparison, from the perspective of resource-based view, study 2 concentrates on the extent of organizational fit that can be realized in the post-acquisition stage and examines whether retained target top executives will actually cooperate with the acquiring firm' top executives and share their knowledge and expertise to improve post-acquisition financial performance. Study 3 incorporates a contingency view to explore whether CEO effect on stock market returns will be different between manufacturing and hospitality industries.

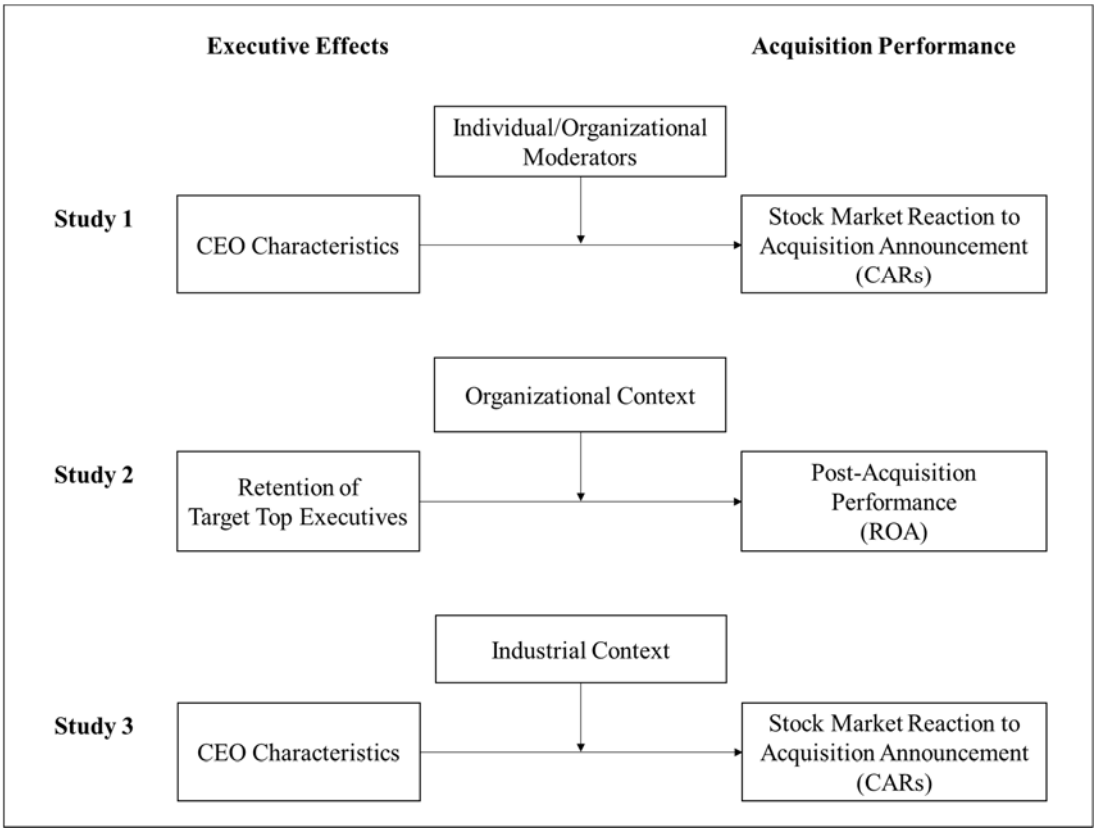


Figure 1. 1 Theoretical Framework of the Dissertation

The rest of this dissertation is organized as follows. Study 1 is presented in Chapter 2, which develops a theoretical model of signaling effects of CEO characteristics on CARs and provides research methods as well as results. Study 2 is presented in Chapter 3, which provides a theoretical model of the retention of target top executives on post-acquisition accounting performance and research methods as well as results. Study 3 is presented in Chapter 4, which investigates whether the signaling effects of CEO characteristics on CARs is contingent upon industrial contexts, i.e., manufacturing vs. hospitality industries and provides research methods and results. Chapter 5 summarizes key findings, discusses the contributions, limitations, and implications and outlines several future research suggestions for advancing the state of research on both acquisition and executive effect.

CHAPTER 2 STUDY 1

NEWCOMERS AND VETERAN CEOS: HOW DO THEY AFFECT STOCK MARKET REACTIONS TO ACQUISITION ANNOUNCEMENTS?

Investors make buy-hold-sell decisions based on information available in the stock market. According to the information economics literature, information asymmetry often exists between the investors and the firms. Most of investors lack sufficient information to evaluate corporate actions especially those complex organizational events while the firms hold private information. For example, when an acquisition is announced, investors often face informational disadvantage given that critical information about the acquisition-both on the target and the acquiring firm, how the acquisition decision was made is generally private (Schijven & Hitt, 2012). Given the presence of information asymmetry, information economics, particularly signaling theory, suggested that investors infer the quality of an acquisition decision, or its value-creating potential from signals that can be observed in the market—readily available pieces of public information assumed to. This means we need to understand how investors identify and interpret those signals because their reactions to acquisition deals will be affected by the information conveyed in the signals. Studies on many other strategic events (e.g., IPO, CEO succession, strategic alliance, etc.) have established that visible executive characteristics often serve as a proxy for the quality of complex corporate decisions. Among the various characteristics, firm tenure appeared to have received the most research attention. The underlying logic of this line of research is that

executive tenure serves as a proxy for his/her cognitive perspective, task interest, and power, which in turn affect his/her decision-making behaviors and ultimate organizational outcomes (Hambrick & Fukutomi, 1991). Prior studies have linked executive tenure to strategic persistence and conformity (Finkelstein and Hambrick, 1990), innovation (Miller & Shamsie, 2001; Wu, Levitas, & Priem, 2005), strategic changes (Wiersema & Bantel, 1992), and firm performance (Miller & Shamsie, 2001). With respect to investors' reactions, scholars have proposed that a CEO's tenure can serve as a signal which can be used by investors to judge the credibility of CEO certification and the quality of the firm's financial statements, which in turn affects the stock market reactions to CEO certification (Zhang & Wiersema, 2009).

In this study, we apply signaling theory and the behavioral decision making perspective to examine this question: Under what conditions does the acquiring CEO's firm tenure affect investor reactions to an acquisition deal and how? When an acquisition announcement is released, investors in the stock market have to use information available to them, assess the degree of value-generating strategic fit present in the acquisition, and then make a "buy or sell" decision. Cumulative abnormal returns (CARs) greatly reflects investors' assessment of the degree of strategic fit between the acquirer and the target, or more specifically, their assessments of the acquisition decision makers' abilities to ensure strategic fit, based on accessible information. Building on signaling theory and information processing / behavioral decision making literature, I first argue that investors will perceive firm tenure of the acquiring firm's CEO (the major decision maker in a firm) as an important signal of the CEO' ability to

achieve strategic fit since firm tenure has been a commonly used indicator of knowledge and skills. However, information provided by a CEO's firm tenure is yet incomplete. Investors still have great concerns about the motivation and capability of the CEO to formulate and implement a successful acquisition because a short-tenured CEO may lack established leadership to exert substantial influence over acquisition initiatives although they may be strongly motivated by need for achievement, while a long-tenured CEO may pursue self-interest using the power and control over his/her organization developed with the passage of time working in the organization although he/she may be experienced and skillful. As a result, investors have to rely on other signals that can provide them with additional pieces of information about the creditability of tenure as a signal and judge whether a CEO is highly motivated and capable of undertaking a good deal to ensure strategic fit. Then I argue that duality, compensation and external directorship of the acquiring firm's CEO can be viewed as signals with which investors may be reassured the signaling effect of firm tenure that both short-tenured and long-tenured CEOs have sufficient motivation and capability to perform a successful acquisition in the presence of CEO duality, high level of compensation and directorship (detailed explanations will be presented in later sections). In other words, the relationship between a CEO's firm tenure and CARs around the acquisition announcement will be moderated by CEO duality, the level of CEO compensation and the level of CEO directorship, respectively. It is worth pointing out that I mainly focus on extreme cases of firm tenure (short vs. long firm tenure) because, for one thing, they are more salient and noticeable in the eyes of investors and for another medium-tenured

CEOs are likely to be “stuck in the saddle”— gradually become comfortably ensconced and satisfied with their increasingly familiar activities so that task interest has started to wane and knowledge has reached a plateau (Hambrick & Fukutomi, 1991). Therefore, this study will only pay attention to short-tenured and long-tenured CEOs as they draw great concern about their motivation and capabilities from investors when reacting to an acquisition announcement.

2.1 Theoretical Background

2.1.1 Behavioral Decision Theory

Market reactions are the results of investors’ buy–hold–sell decisions subsequent to the disclosure of an acquisition. Thus, in order to explicate stock market reactions, it is essential to understand investors’ decision-making processes.

Behavioral decision theory can be used to understand investor’s decision-making behavior in the financial market by relaxing the assumption of individual “rationality” (perfect, rational, deductive reasoning, deriving a conclusion by perfect logical processes from well-defined premises, see Arthur, 1994) held by the traditional finance paradigm. It assumes that investors are bounded-rational rather than fully rational. Due to time and cognitive resource constraints, bounded-rational decision-makers often pursue solutions that are good enough for the circumstances at hand, i.e., “satisficing”, rather than optimal or “maximizing” (Simon, 1945).

Behavioral decision theory also argues that, since time and cognitive resource are limited, individuals cannot optimally analyze information the environment provides

them with. Instead, natural selection has designed minds that implement rules-of-thumb, or “heuristics” selectively to a subset of cues (Hirshleifer, 2001; Simon, 1956). Tversky and Kahneman (1974) outlined heuristics people usually used (i.e., representativeness, availability, adjustment and anchoring) and argued that people relied on heuristic principles to reduce complex tasks such as assessing the probability of an uncertain event and predicting the value of an uncertain quantity. Such heuristics were highly economical (because it requires minimal cognitive effort) and quite effective especially when making judgments and decisions in situations of uncertainty.

Social influence constitutes an important source of heuristic cues (Hirshleifer, 2001). As suggested in social psychology literature, people tend to conform to the judgments and behaviors of others (Asch, 1956). Investors usually take into account judgments and decisions of other market participants, especially if others are thought to be better informed, assuming that those who possess necessary information are likely to have correct perceptions and make better decisions (Bondt et al., 2013; Shiller, 2003; Shleifer, 2000). This is consistent with the notion “expertise heuristic” proposed by Chaiken (1987) in her heuristic-systematic model of information processing. This model suggests that heuristic information processors were likely to agree with messages delivered by experts. They tend to judge the validity of messages by the identity of their source (Eagly & Chaiken, 1993). Studies on source expertise also found that messages conveyed from sources with higher level of expertise were more persuasive because compared to non-expert sources, experts were perceived as more likely to present information that is valid, compelling, or otherwise “correct”. In other words, source

expertise has been shown to serve as a heuristic or peripheral cue to persuasion (Clark et al., 2012) and a piece of evidence relevant to the central merits of an issue (Kruglanski & Thompson, 1999).

As for investors' decision-making behaviors in stock market, their reactions to complex corporate events has been often conceptualized as resulting from a process of "problemistic search" (Greve, 2003; Schijven & Hitt, 2012). The "problem" refers to the informational disadvantage that investors face when the corporate event is announced, while the "search" is aimed at information that can help investors mitigate their lack of detailed insight into a given corporate event. Two distinct approaches proposed by social psychology scholars have been used to explain the underlying mechanisms of problemistic search: the "central" and the "peripheral" approaches. The former "involves effortful cognitive activity whereby the person ... carefully scrutinizes all the information relevant to determining the central merits of the position advocated" (Petty et al., 2009: 132), while the later relies on an "expertise heuristic" (Chaiken, 1987), which was mentioned above, by assuming that those who have the necessary information will generally be correct in their perceptions (Tormala et al., 2006). When they are unable to access relevant information, individuals tend to take the simpler peripheral approach by relying on "expert" perceptions rather that the central approach which is quite cognitively consuming. For example, when an announcement of an acquisition is released, bounded-rational investors' perception of the value-creation potential of the acquisition is to a great extent shaped by management's perception because managers are seen as in a better informed situation (Schijven & Hitt, 2012).

Taken together, these arguments would suggest that investors would evaluate the value-creating potential of an acquisition, for which they do not have perfect information, by checking who made the acquisition decision. They tend to rely on the perceptions of the senior executives, especially the CEO, of the acquiring firm. That being said, it should also be noted that investors may not blindly follow expert perceptions under all circumstances. Social psychology literature on problemistic search has suggested that the degree to which investors rely on the expertise heuristic not only depends on the information source's expertise but also on its reliability (Schijven & Hitt, 2012). Investors can be reasonably confident of the accuracy of their thoughts by accepting the position advocated by the information source only if the source is perceived to be both expert and reliable (Petty et al ., 2009). This is consistent with source credibility in persuasion literature, which refers to a message source's both perceived expertise and trustworthiness (Kelman & Hovland, 1953). It suggested that source credibility can influence the confidence people have in response to persuasive messages (Briñol, Petty, & Tormala, 2004) and high credibility sources have a greater impact on decision making than low credibility sources (Pornpitakpan, 2004; Schwarzkopf, 2007).

For example, Schijven and Hitt (2012) argued that when an acquisition was announced, investors may perceive the premium paid by the acquiring firm for the acquisition as a reflection of top managers' perception of the acquisition's synergistic potential. However, the premium can be in excess of what is gained by synergy because of hubris (Hayward & Hambrick, 1997), escalation of commitment (Bazerman &

Moore, 2009), and self-interested motivation (Jensen, 1986). Thus, investors must also draw on a variety of additional pieces of information to assess the reliability of top managers' perceptions, such as industry similarity between the acquirer and target, whether the acquirer pays in cash, the role of investment bankers and other deal advisors, whether the target firm initiates defensive tactics and so on. Schijven and Hitt (2012)'s findings revealed that investors would rely on expert opinions to make investment decisions under high uncertainty and information asymmetry and to what extent they relied on expert opinions would depend on the expertise and reliability of the information source they perceive. This line of thinking implies that investors would trust a CEO's acquisition decision to increase firm value only when the CEO is perceived as a "reliable" decision maker, that is, one who is equipped with proper motivation, knowledge, and influence to make the acquisition for the benefits of the company. Study 1 aims to identify the CEO characteristics that would convince investors of the CEO's "reliability" and then lead to positive investor responses to the acquisition deal made by the CEO.

2.1.2 Signaling Theory

How investors process information and make decisions has also been a key issue in signaling theory. Based on the assumption of information asymmetry, this theory suggests that investors will seek "signals" – "crude, but readily available, pieces of public information" (Schijven & Hitt, 2012: 1251) to help them make investment decisions. In the context of acquisitions, bounded-rational investors will look for

publicly available information that can serve as proxies for the “quality” - synergistic potential - of acquisitions.

One party may interpret observable attributes of the other party as signals of the underlying quality when information asymmetry exists between the two parties (Connelly et al., 2011). Signaling theory is founded on the key assumption of asymmetric information (i.e., imperfect information, a deviation from perfect information), which says that in some economic transactions, inequalities in access to information upset the normal market for the exchange of goods and services[6], since some information may be private and only available to a subset of the public (Stiglitz, 2002). Spence (1973) introduced the notion of signaling in economic thinking and proposed that the two parties could get around the problem of asymmetric information by having one party convey a signal that would reveal some pieces of relevant information to the other party. That party would then interpret the signal and adjust his/her decision-making behavior accordingly. Thus signaling is the idea that one party (the sender, or termed as the agent) credibly sends some relevant and meaningful information to the other party (the receiver, or termed as the principal). For example, Spence (1973) demonstrated that education could be used as a signal of ability in labor market. Potential employers did not have adequate information about the quality of job applicants, thereby encounter information asymmetry when attempting to distinguish between high-quality and low-quality applicants. Therefore, the applicants may engage in behaviors, e.g., obtaining higher education to signal their quality so as to reduce

[6] http://en.wikipedia.org/wiki/Signalling_(economics), retrieved on December 27, 2014.

information asymmetry. The higher education can be a reliable signal because low-quality candidates would not be able to withstand the cost and rigors of higher education as the high-quality candidates.

Spence and other scholars' related research inspired an enormous volume of literature applying signaling theory in various disciplines. For example, in marketing literature, scholars have used signaling theory to examine how firms conveying information on unobservable product quality to consumers via signals such as advertising expenditure, brand name, warranty, and money-back guarantee (Kirmani & Rao, 2000). Similarly, financial economics researchers have posited that firm debt (Ross, 1973) and dividends (Bhattacharya, 1979) can be regarded as signals of firm quality because only high-quality firms can afford to make interest and dividend payments over the long term, while low-quality firms are unable to sustain such payments. Consequently, such signals influence outside observers' (e.g., lenders, investors) perceptions of firm quality. It is worth noting that quality here refers to the underlying, unobservable ability of the signaler to fulfill the needs of an outsider who observes the signal, not just the quality of physical products. For example, in Ross's and Bhattacharya's studies, quality refers to the unobservable ability of the organization to gain positive returns in the future, which may be signaled by financial structure or policies.

There are some fundamental concepts in signaling theory. *Signal observability,* or *visibility,* refers to the extent to which outsiders are able to notice or observe the signal. If actions signalers take are not readily observed by outsiders, it is difficult to use those actions to communicate with receivers. *Signal cost* involves the fact that some signalers

are in a better position than others to absorb the associated costs. For example, the costs associated with obtaining ISO9000 certification are high because the certification process is time consuming, and these costs make cheating or false signaling difficult. However, ISO9000 certification is less costly for a high-quality manufacturer as compared with a low-quality manufacturer because a low-quality manufacturer would be required to implement much more improvement to be awarded the certification. *Signal fit* refers to the extent to which the signal is correlated with unobservable quality. *Signal consistency* refers to the agreement between multiple signals from one source (Gao et al., 2008). Conflicting signals may confuse the receiver, making communication less effective (Chung & Kalnins, 2001; Fischer & Reuber, 2007). One of the most important elements of a signal is *signal reliability*, or *credibility*, which refers to the extent to which the signal corresponds with the quality, and the extent to which signalers attempt to deceive. The effectiveness of a signal thus depends on signal reliability (Connelly et al., 2011).

Signaling theory also has been broadly used in management studies to explain how one party may communicate with other parties through signals which can indicate underlying quality so as to mitigate information asymmetry problem in a wide range of research contexts. Among them signaling effect is of particular interest to research on stock market reactions to announcements of many corporate events ranging from IPO, CEO succession to releasing annual reports to dividend declaration. Investors have to make investment decisions based on information which is accessible and available. However, investors are often subject to information asymmetry: most investors often

lack sufficient information to evaluate corporate actions especially those complex organizational events while the firm hold private information. Given the presence of information asymmetry, signaling theory suggests that investors will seek signals from other available information sources to help to understand and evaluate these corporate actions.

Initial public offerings (IPOs), for example, are typically situations of information asymmetry. Firms undertaking IPOs are unknown to potential investors and thus suffer from a liability of market newness (Certo, 2003). IPO firms' core resources and prospects may be difficult for investors to understand and evaluate (Heeley, Matusik, & Jain, 2007; Sanders & Boivie, 2004), and their short track records aggravate such difficulties (e.g., Stuart, Hoang, & Hybels, 1999). Therefore, potential investors have to look for signals which can infer latent and unobservable quality of the IPO firms, i.e., whether the IPO firms can earn positive returns and create value for them in the future. Certo (2003) suggested that board prestige, which was a function of the board's aggregated human capital (e.g., education level, prior work experience) and social capital (e.g., personal network, elite institutional affiliations) could serve as a strong signal of organizational legitimacy, thereby reducing IPO firm's liability of market newness and improving IPO firm stock performance.

Specially, since top executives are highly visible to investors and influential in their organizations, their characteristics have been commonly regarded as signals implying their abilities and in turns the quality of the corporate decisions made by them or the quality of the firm. There have been many empirical studies that examined signaling

function of CEO background, top management team (TMT) characteristics, founder involvement, venture capitalist and angel investor presence (e.g., Busenitz, Fiet, & Moesel, 2005; Elitzur & Gavius, 2003; Lester, Certo, Dalton, Dalton, & Cannella, 2006) in the context of IPO. For example, Cohen and Dean (2005) argued that the legitimacy of the TMT was related to investor evaluation of firms at IPO due to investors' association of managerial credibility and organizational economic potential. They used a sample of 221 U.S. IPOs executed from 1998 to 1999. Following D'Aveni's (1990) approach, the legitimacy of a venture' TMT was measured as a logged sum of the number of top managers with industry experience and prior TMT experience, the number of top managers aged 40 or above, and the number of top managers with master's degrees (or equivalent). Investor evaluation, or underpricing was measured as the adjusted stock price change two weeks after the IPO (expressed as a percentage of the initial price). They found that legitimacy of TMT was negatively related to IPO underpricing, which provided evidence that a legitimate TMT did serve as a signal of firm value-creation to potential investors. Lester et al. (2006) examined whether prestigious TMTs at the time of an IPO enhanced organizational legitimacy and thereby provided a signal to potential investors and influenced their valuations. TMT prestige was measured by five characteristics, prestigious education, corporate board experience, political experience, nonprofit board experience, and previous executive officer experience. Consistent with previous IPO research (e.g., Certo et al. 2003; Nelson, 2003; Welbourne & Andrews, 1996), investor valuation was calculated as follows: percent price premium = (stock price - book value) / stock price, where the stock price equals

the stock price at the time of the IPO. Using a sample of 235 firms undertaking IPOs during 1996 and 1997, they found that there was a positive relationship between TMT prestige and investor valuation, which confirmed that a prestigious TMT can be perceived as a strong signal by potential investors about value creation of the IPO firm.

2.2 Hypotheses

2.2.1 Why Investors Rely On Signals/Indicators?

Behavioral-decision theory can provide an explanation about why investors tend to look for signals which can infer the quality of the acquisition from the acquiring firm's CEO. It explains how the stock market may respond to acquisition announcements by suggesting that investors may look to the acquiring firm's CEO with which to evaluate the quality of the CEO's strategic choice, i.e., the acquisition (since the CEO generally has great influence on the acquisition decision). Investors may favor an acquisition performed by a CEO who is believed to be an expert-possess more and richer information about the acquisition and capable of making informed decisions.

Specifically, according to behavioral decision theory, investors' response to acquisition announcements can be viewed as a result of "problemistic search" (Greve, 2003). The "problem" here refers to inferior situation regarding acquisition-related information that investors face in the context of acquisitions so that investors need to "search" for information that can help to mitigate their lack of detailed insight into acquisitions. Since investors are subject to bounded rationality and have access to

limited information, it is unlikely that investors are able to derive evaluation of acquisitions through rational-deductive reasoning and perfect logical processes (Arthur, 1994), never mention to the time pressure investors may experience since they have to make swift investment decisions once acquisitions are announced. Instead, it is more likely that investors "have little choice but to 'satisfice' (Simon, 1945), as opposed to 'maximize' in their search for information" (Schijven & Hitt, 2012) by taking a so-called "peripheral route", which occurs when individuals decide to agree with a message simply because the source appears to be an expert and knowledgeable rather than based on the ideas in the message. As suggested above, social psychology scholars have stated that there were distinct routes to persuasion: the "central route" and "peripheral route" (see Elaboration Likelihood Model or ELM, Petty & Cacioppo, 1986). Central processing is unlikely to occur if it is difficult for an individual to understanding the ideas in the message. By contrast, peripheral route is like a short-cut. Individuals may lack the ability to "think carefully about the ideas in this message, but it is a fair gamble to go ahead agree with the message if the source appears to be knowledgeable". In a parallel research stream, social psychology scholars proposed two distinct modes regarding social information processing: "the heuristic processing" and "systematic processing" (see Heuristic-Systematic Model or HSM, Chaiken, 1980, 1987). The systematic processing "involves attempts to thoroughly understand any and all available information through careful attention, deep thinking, and intensive reasoning" (Chaiken & Ledgerwood, 2012). On the contrary, heuristic processing entails a focus on a subset of relevant information and use of simple judgmental rules,

known as “heuristic” that are presumed to be learned and stored in memory like other knowledge structures (Chen & Chaiken, 1999). Examples of heuristics include “experts know best”. Because heuristic processing involves focusing on simple and intuitive rules, such as a communicator’s credentials (e.g., expert versus non-expert), it is much less demanding in terms of cognitive resources required and much less dependent on having the ability (e.g., enough knowledge and enough time) to do comprehensive elaboration. As a result, heuristic processing allows people to form judgments quickly and efficiently. In addition, heuristic-systematic model revealed that individuals using heuristic processing were likely agree with messages delivered by experts without fully processing the content of the message in its entirety (Eagly & Chaiken, 1993). Studies also found that messages conveyed from sources with higher level of expertise were more persuasive because compared to non-expert sources, experts were perceived as more likely to present information that is valid, compelling, or otherwise “correct”. In other words, individuals tend to use heuristic processing when they do not have much ability or time to involve critical thinking and need to make a reasonable decision as quickly as possible. These individuals are likely to formulate judgments and subsequent decisions based on experts’ opinion. In sum, given the information asymmetry they face, individuals tend to follow the peripheral route and expertise heuristic by “assuming that those who do possess the necessary information will generally be correct in their perceptions” (Schijven & Hitt, 2012: 1251).

Prior studies on acquisition have shown that in forming their own perception of a deal’s synergistic potential bounded-rational investors relied heavily on management’s

perceptions because the investors believed that managers had more and richer private information about their firms' acquisitions so that they can form better informed perceptions (e.g., Schijven & Hitt, 2012). Because top executives especially the CEO possess rich private information, both on the focal target and the acquirer itself, and they usually have necessary tacit knowledge and skills for conducting acquisitions, they can are generally considered as experts relative to investors. Therefore, investors are likely to utilize the expertise heuristic (i.e., the peripheral approach) by relying heavily on the CEO's perception of the value-creation of a given deal rather than conduct rational-deductive, cognitively demanding evaluations (i.e., the central approach).

From the perspective of signaling theory, when an acquisition was announced, investors often face informational disadvantage given that critical information about the acquisition-both on the focal target and the acquiring firm is generally private (Schijven & Hitt, 2012). Additionally, investors usually lack necessary tacit knowledge and skills, which are usually gained from undertaking and experiencing a deal first-hand, to understand the processes that an acquisition deal may entail, such as due diligence, negotiations, and post-acquisition management planning (Reuer et al., 2012). Since investors have difficulties making inferences about the value-creating potential of an announced acquisition, they may seek alternative sources of information to alleviate concerns over information asymmetry surrounding the acquisition deal and determine its "true" value, which can help to make better investment decision. It is reasonable to expect that the acquiring firm's CEO can be considered as an important information source by investors who are in informational disadvantageous situation

because investors may believe that attributes of the CEO can convey important information to investors, and thus serve as important proxies regarding the "quality" of the acquisition decision. For one thing, as suggested by strategic choice and upper echelon literature (e.g., Hambrick & Mason, 1984), CEOs are experts and firm decisions reflect CEOs' cognitive abilities. CEOs' backgrounds affect their cognitive bases and values, and therefore affect their strategic choices. For example, strategic choice research argued that people, not organizations, make decisions and these decisions depend on prior processes of human perception and evaluation, which was constrained by experience and cognition of the top executives. Upper echelon perspective, developed by Hambrick and Mason's (1984), proposed that organizations serve as reflections of their top executives. TMT's characteristics (especially the CEO) such as age, tenure, work experience, social connections, can substantially influence their value and cognition, and therefore influence their interpretations of the situations they face and, in turn, affect their strategic decision making, and firm performance (Carpenter, Geletkanycz, & Sanders, 2004; Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984; Hambrick, 2007). Therefore, firm outcomes might be considered as "a result of those who command the highest levels in the organization" (Lester et al., 2006: 2). Prior research has provided strong evidence that attributes of a firm's top executives can significantly affect the firm's strategic decisions and its performance (Carpenter, Geletkanycz, & Sanders, 2004; Finkelstein & Hambrick, 1996).

This may be particularly important in the context of acquisitions, since they "are fundamental strategic decisions in which senior managers, and especially the CEO,

have primary influence" (Heleblian & Finkelstein, 1999: 35). Therefore, "the importance of the link between managerial experience and M&As success should not be underestimated" (Hitt et al., 2001: 55). In fact, CEOs have been described as decision makers who "surveying an efficient marketplace for strategically advantageous acquisition opportunities" (Jemison & Sitkin, 1986: 145). Consequently, CEOs of the acquiring firms are likely to be perceived as an important information source by investors, as by virtue of the predominant position in an organization the CEO usually can exert more influence over strategic decisions, especially those will have substantial impact on firm performance such acquisition decisions.

For another, signaling theory (Spence, 1973) has been widely used to explain how executive characteristics play signaling role in conveying firm quality to financial market in the context of high uncertainty and information asymmetry such as initial public offering (IPO) (Certo, 2003; Certo, Daily, & Dalton, 2001; Cohen & Dean, 2005). It has been argued that, observable background characteristics serve as signals and are used by critical external constituents to infer the quality of the firm (Certo, 2003). Empirical studies have found that the prestige of the firm's board of directors (Certo et al., 2001) and the characteristics of the top management team (Cohen & Dean, 2005; Higgins & Gulati, 2006; Lester et al., 2006) are perceived by investors as signals of firm quality, which in turn influences the stock market's valuation of the IPO. As discussed previously, IPO literature suggested that uncertainty and information asymmetry surrounding IPOs make it difficult for investors to ascertain the earnings prospects, and as a result, they come to rely on executive characteristics as "signals" by

which to differentiate quality of those firms and influences the stock market's valuation of the IPO. In addition to IPO context, Zhang and Wiersema (2009) proposed that background attributes of the CEO served as important signals of the credibility of the CEO certification and thus the quality of the firm's financial statements to the investment community, which in turn affect the stock market reaction. All these findings have demonstrated that executive characteristics can be perceived as signals by investors and affect their reactions to corporate events in stock market.

Building on the above, we argue that when an acquisition is publicly released, investors, being subjected to bounded rationality and informational disadvantages, will turn to the acquiring firm's CEO to gain insight into the quality of the acquisition decision, i.e., whether it will be a value-creating or value-destroying acquisition.

It is worth to note that in the present study, the primary focus is the CEO. I adopt this focus because "the highest level officer is the one most likely to possess discretion (Hambrick & Finkelstein, 1987), with least restrictive oversight and thus has the ability to manifest" (Hambrick & Fukutomi, 1991) his/her value and cognition into organizational outcomes.

2.2.2 Why Investors Would Notice CEO Tenure?

One may wonder what particular CEO characteristics can convey information about CEO's decision quality. Although investors tend to rely on CEO's "expertise heuristic", they would be unlikely to blindly follow the CEO's perception. Indeed, the social psychology literature on problemistic search suggested that the degree to which the

investors rely on the expertise heuristic greatly depends on the information source's reliability. More specifically, investors can be reasonably confident of the accuracy of their investment decisions by merely accepting the choices advocated by the CEO only if he/she is perceived to be both expert and reliable (Petty et al ., 2009). It is consistent with the concept of "signal reliability" from signaling theory (Connelly et al., 2011), discussed previously, which refers to the extent to which the signal corresponds with the unobservable quality and the extent to which signalers attempt to deceive. To assess the reliability of CEO's perception of the value-creating of a given acquisition, investors may draw on specific characteristics of the CEO to "evaluate the credibility of [this signal], and thus alleviate concerns over [its] truthfulness" (Zhang & Wiersema, 2009: 697). Put it differently, investors will carefully pick up CEO's characteristics which could serve as reliable signals that infer the underlying quality of the acquisition.

It is reasonable to expect that characteristics chosen to be reliable signals should imply that a CEO has sufficient "motivation" to conduct his/her job well and "influence" put necessary resources into tasks and accomplish them, which are commonly accepted as key underlying determinants of task performance (Blumberg & Pringle, 1982; Schijven & Hitt, 2012). It is believe that a strongly motivated with high discretion is likely to achieve good job performance. *Motivation* refers to the degree to which an individual is inclined to perform a task. It is usually associated with psychological and emotional characteristics such as job involvement, perceived role expectations, self-image, need states, personality, values, and other closely related concepts. However, even if an individual may be willing to engage in a given task, how well this task can

be done may be greatly depend on the extent to which the individual can influence the outcome. Therefore, whether an individual can exert his/her will and take his/her preferred movements is also essential (Finkelstein, 1992). It can help or hinder an individual to perform a task by facilitating or constraining his/her control over preferred directions, necessary resource or support from the organization. In other words, strong motivation combined with high discretion can make good performance more probable.

For my research purpose, here motivation refers to whether the CEO is motivated to carry out promising acquisitions that have a higher probability of creating value for shareholders and avoid value-destroying acquisitions. While discretion refers to whether the CEO takes control of resource and influence over the formulation and implementation of acquisition decisions.

Since motivation and discretion are highly invisible and intangible, investors may turn to look at readily observable characteristics of a CEO which can serve as signals of these underlying factors in order to assess the reliability and trustfulness of the CEO's perception and the acquisition he/she performed.

Specially, CEO's firm tenure has been the most important indicator of a CEO's influence over firm decisions through his/her motivation and discretion. I thus argue that the firm tenure of the acquiring firm's CEO can be indicative of his/her unobservable motivation and discretion that investors may take into consideration when making buy-hold-sell decisions once an acquisition is announced.

Firm tenure is usually defined as the number of years that a person has worked his/her the company. I focus on firm tenure as the primary explanatory variable for the

following reasons. First, tenure has been among the most widely examined variables in the management literature. For example, studies in the upper echelon literature have paid significant attention to executive tenure. The underlying logic of this line of research is that executive tenure serves as a proxy for his/her cognitive perspective, task interest, and power, which in turn affect his/her decision-making behaviors and organizational outcomes (Hambrick & Fukutomi, 1991).Prior studies have linked executive tenure to strategic persistence and conformity (Finkelstein and Hambrick, 1990), innovation (Miller & Shamsie, 2001; Wu, Levitas, & Priem, 2005), strategic changes (Wiersema & Bantel, 1992), and firm performance (Miller & Shamsie, 2001). As a matter of fact, scholars have proposed that a CEO's tenure can serve as a signal which can be used by investors to judge the credibility of CEO certification and the quality of the firm's financial statements, which in turn affects the stock market reactions to CEO certification (Zhang & Wiersema, 2009). Second, limited attention, memory, and processing capacities force individuals to focus on only subsets of available information (Hirshleifer, 2001) since attention requires cognitive effort and must be selective. However, individuals do not randomly select where to put into their attentional resources. They tend to react to information that is salient and familiar (Ozcan & Overby, 2008). In the eyes of investors with selective attention, CEO's firm tenure stands out among all possible attributes which can be served as signals because it is salient and familiar to investors. Information about CEO's firm tenure is readily available, not only from publicly released financial reports but also from media coverage. Moreover, CEO's firm tenure has been frequently linked to CEO capabilities

or motivation in popular press and scholarly research, especially in context of human resource management, talent management, succession planning areas, etc. The properties of salience and familiarity of CEO's firm tenure allow it to be good at hooking investors' attention and at creating associations that facilitate recall. Third, the relationship between tenure and firm performance still remain inconclusive although it has interested strategic management researchers for decades. Some scholars argued that there was a positive linear relationship between tenure on performance. Learning theory and human capital theory research suggested that tenure would be associated with better job performance because individuals gain more tacit knowledge about how to perform their jobs effectively over time (Schmidt, Hunter, & Outerbridge, 1986). Resource-based view (RBV) also suggested that executives with longer tenure would contribute to better organizational performance because they accumulate organization-specific knowledge as tenure grows, thereby improving performance. In contrast, the motivation and job design literatures suggested that long tenure would hinder performance because of decreased motivation and increased feelings of job boredom (Hackman & Oldham, 1980). Further, Hambrick and Fukutomi (1991)'s paradigm of seasons of a CEO's tenure indicated a curvilinear tenure-performance relationship over the CEO's tenure. They suggested that there were discernible phases within CEO's tenure and these phases give rise to distinct forms of executive behavior, and ultimately organizational performance. The pattern was referred to the "seasons" of a CEO's tenure, analogous to the seasons of the year. More specifically, during his/her early tenure seasons, the CEO tends to learn rapidly. As the tenure progresses, he/she gradually expands

knowledge and skill repertoires (Wu, Levitas, & Priem, 2005) and improves firm performance. However, in his/her later seasons, the CEO commits to obsolete paradigms and experience trap, becomes stale in the saddle, tends to adapt less to the external environment (Miller, 1991; Levinthal & March, 1993) and hurts firm performance. In the same vein, some scholars characterized CEO tenures as life cycles in which executives learn rapidly during their initial time in office, but then CEO paradigms would become obsolete and thus firm performance would decline as tenure increased especially in highly dynamic industries.

Taken together, investors will evaluate acquisitions based on their interpretations of CEO firm tenure. As suggested above, investors will not see the effect of CEO's firm tenure on acquisition decision quality as a linear one. CEO's firm tenure influences investors' attention selection and encoding processes in a way that investors are more likely to link short or long tenures to acquisition evaluation. I thus predict a U-shaped relationship between CEO's firm tenure and stock market reactions to acquisition announcements. First, long- or short-tenured CEO are more likely than medium-tenured CEO to be detected by investors who are inclined to selective attention. Acquisition announcements involving newcomers and veteran CEOs should stand out in the information environment, as they provide a sharp contrast and are easily noticed and reported. By contrast, these screening effects diminish the chances of acquisitions conducted by medium-tenured CEOs to be detected and disclosed which is likely to result in greater stock price stability.

2.2.3 Is CEO's Firm Tenure A Reliable Indicator?

As discussed previously, this study will focus on signals that reliably reflect the quality of an acquisition carried out by a CEO, or, whether the CEO can undertake a good acquisition deal. CEO's firm tenure can reflect important information about his/her motivation and discretion that investors may take into consideration when making investment decisions at the time of an acquisition. However, I propose that the tenure-acquisition performance relationship may be not necessarily an "inverted-U" shape as previous research suggested. This relationship could be a U-shaped curve when carefully considering the complex facets of tenure and become even more complex as it may vary across contingency factors.

While signal detecting requires salience (discussed in the previous sections), the following signal encoding demands clarity since a clear signals can be encoded more easily and quickly, consume less cognitive resources, and allow for more speedy judgement and action (Ozcan and Overby, 2008). The underlying behavioral mechanism is that individuals have a propensity of ambiguity aversion, which was illustrated by Ellsberg paradox (Ellsberg, 1961), and prefer clear prospects to vague prospects (Fox and Tversky, 1995). As the alternative interpretations of a signal increases, its clarity declines. Ambiguity, or lack of clarity may put individuals under uncertainties and severe strain of limited cognitive capacity. Therefore, an unclear signal may contain little or no value to investors and lead to a deferral of reaction and inclination towards maintaining the status quo (Ozcan and Overby, 2008; Samuelson and Zeckhauser, 1988).

Although a CEO's firm tenure is readily detected by investors, it is not necessary that it can provide clear information about the quality of an acquisition since there are alternative interpretations of firm tenure. Actually, in the eyes of investors, tenure conveys mixed message about both motivation and discretion of the CEO who carried out an acquisition.

On one hand, motivation and job design literature suggest that short-tenured CEOs would present stronger incentive to work hard and contribute to their firms to show their capability to perform well (Hackman and Oldham, 1980; Ng and Feldman, 2013) than long-tenured CEOs do. There have been considerable evidence showing that CEOs were highly motivated at the very beginning of their tenure in part because of the challenging nature of the job, the intrinsic value of the job, a need to achieve and a desire to appear successful in the business community (Finkelstein & Hambrick, 1988). In the context of acquisitions, early in a CEO's tenure, first this CEO is more likely to demonstrate more enthusiasm and need for achievement and devote a higher level of effort to creating value from acquisitions so as to pave the way to his/her career success in the focal firm (Kauer et al., 2007). Second, short-tenured CEOs tend to be more concerned about firm performance because their compensation may be more dependent upon firm performance given empirical evidences showing that firm performance was a significant determinant of cash compensation for CEOs during the first three years of CEO tenure (Nourayi and Mintz, 2008). Third, generally speaking, since short-tenured CEOs usually have longer career horizon, they tend to be more concerned about that dismissal following poor performance and acquisition failure may weaken their

competitiveness in the CEO labor market (Coates et al., 2011). Consequently, in the eyes of investors, short-tenured CEOs will carefully examine the synergy potential and expected value gained from each acquisition and be unlikely to carry out value-destroying acquisitions given their strong career-based incentives. On the other hand, a short-tenured CEO with a keen motivation to make the focal deal a success may be constrained by organizational forces because of unestablished leadership, resulting from the fact that he/she served in the firm for only a short period and was probably hired from outside the firm, which may hinder him/her from independently allocating necessary resources and effectively formulating or implementing strategic decisions such as acquisitions (Zhang and Rajagopalan, 2010). Studies have shown that the authority of new CEOs will be much weaker than that of veteran CEOs (Hambrick & Fukutomi, 1991; Ocasio, 1994). Early in their tenures CEOs are more vulnerable to power contests with rival senior executives, challenged by those ambitious senior executives and they need time to establish their authority in their top positions (Selznick, 1957; Shen and Cannella, 2002). Therefore, investors are likely to worry about that the benefits of strong motivation might be offset by the drawbacks of lack of discretion to some extent.

Relative to short-tenured CEOs, long-tenured CEOs tend to possess more influence over organizational decision and resource deployment, although long tenure also draw investors' concerns about long-tenured CEOs' decreased motivation to carry out acquisition diligently and wholeheartedly. On one hand, CEO discretion grows as tenure increases. CEOs will establish power base (Goyal and Park, 2002) and authority

in the top position (Shen and Cannella, 2002) over time. Long tenure usually signifies cumulative success because in general CEOs who perform well are more likely to be retained (Hambrick and Fukutomi, 1991). The cumulative success can be a basis of CEO discretion. Additionally, the increase in CEO discretion with the passage of time can also come from the accumulation of stock and stock options that may improve a CEO's influence over the publicly traded firm he/she works with (Hambrick and Fukutomi, 1991). In the context of acquisitions, since a long-tenured CEO have established his/her authority and leadership in office, the CEO is more likely to allocate all the necessary resources for formulating and implementing acquisition decisions at liberty (Zhang and Rajagopalan, 2010). On the other hand, investors may raise great concerns over long-tenured CEOs with respect to their motivation. Long tenure is often associated with lower task interest, which may lead to lower motivation to perform their tasks diligently (Hackman and Oldham, 1980; Loukidou, Loan-Clarke, and Daniels, 2009). For example, employees were more likely to commit mistakes in their core tasks because they found their work less engaging after they have mastered all the skills and knowledge needed for performing them (Frone, 1998). As for a CEO, late in the tenure a CEO may suffer from tedium that came from repetition and relative mastery of a task and he/she may feel less of a challenge and his or her interest in the position may start to wane (Hambrick and Fukutomi, 1991). What is worse, a long-tenured CEO with diminishing motivation and high level of discretion is inclined to misuse his/her power over the firm to pursue objectives which are inconsistent with maximizing shareholder wealth. For example, a powerful CEO may acquire other firms to satisfy their "empire-

building" desire regardless whether the premium is necessary to secure the deal (Schijven and Hitt, 2012), which may lead to overpay for target companies (Agrawal and Mandelker, 1987; Sanders, 2001). Consequently, investors may worry about that the negative effect of losses of motivation may counteract the positive effect of discretion which are accompanied by longer tenure.

In sum, firm tenure of the acquiring firm's CEO itself may be not sufficient to be a clear and reliable signal for investors to determine the credibility of CEO's perception and the true value of the acquisition since there are alternative interpretations in terms of motivation and discretion. Investors thus have to seek additional signals to help determine the quality of the acquisition.

However, additional signals may not necessarily enable investors to make better investment decisions. Information conveyed by multiple signals is valuable and credible only if these signals are consistent. Signal theory have emphasized the importance of signal consistency, defined as agreement between multiple signals (Gao et al., 2008) because conflicting signals result in confusing (Connelly et al., 2011). This is consistent with the notion of "aligned signal combination" proposed by Duffy and Feltovich (2006) when studying strategic behaviors facing multiple signals. They found that subjects reacted positively when signals were "aligned" (all pointing to the same action) but negatively when signals were "crossed" because one signal was reinforced by another in an aligned signal combination, which in turns contained unambiguous and clear implications (Duffy and Feltovich, 2006).

Therefore, additional signals can assuage investors' worries when the combination

between tenure and additional signals contains consistent or aligned information about the acquiring CEO's motivation and discretion. For example, those signals may provide additional pieces of information implying enhanced discretion of short-tenured CEOs, or improved motivation of long-tenured CEOs, which reinforce tenure's discretion role and motivational role, respectively. In other words, the effect of tenure on investor response may depend on those additional signals. Specially, I predict that CEO duality, CEO compensation and CEO directorships, all of which are common corporate governance arrangements, can moderated the U-shaped relationship between the acquiring CEO's firm tenure and investors' reactions to acquisition announcements. As a matter of fact, it has been widely accepted that the tasks of governance arrangements surrounding the upper echelon involves adjusting motivation and discretion of top executives. Corporate governance literature has long prescribed governance mechanisms that are expected to effectively motivate top executives and control their power (Jensen and Murphy, 1990). In particular, how CEO are rewarded (Gomez-Mejia, 1992; Rajagopalan and Finkelstein, 1992), board structure (Baysinger and Hoskisson, 1990) have "weigh heavily in the dialogue on firm governance" (Sanders and Carpenter, 1998: 158). As for CEO's directorships, multiple directorships has been regarded to serve as a mechanism for control. Previous studies have found that networks formed through multiple directorships help enhance corporate control and effectiveness as favorable legislation could be promoted and competition reduced (Bazerman & Schoorman, 1983; Haniffa & Hudaib, 2006).

CEO duality

CEO duality refers to the situation in which the CEO of a firm is also the chairman of the board of directors. It can compensate for lack of discretion resulting from short tenure and losses of insufficient motivation resulting from long tenure. On one hand, as suggested by stewardship theory (Davis, Schoorman and Donaldson, 1997), such CEO duality establishes strong and unambiguous leadership (Chaganti, Mahajan, and Sharma, 1985; Donaldson and Davis, 1991; Finkelstein and D'Aveni, 1994). A dual CEO is usually characterized by great power and executive discretion over influential policy choices of the firm (Hambrick and Finkelstein, 1987). Thus CEO duality represents one type of formal power (Finkelstein and Sydney, 1992). On the other hand, duality also an indicator of motivation from the perspective of organizational identification theory. CEO duality is likely to be associated with high level of organizational identification. Individuals who explicit high degree of organizational identification tend to voluntarily engage in activities which benefit their organization and other organizational members (Bergami and Bagozzi, 2000; Dukerich et al., 2002; Riketta, 2005). Boivie et al. (2011) even proposed the concept of "CEO organizational identification", defined as "the degree to which a CEO' s self-identity is intertwined with the identity of his/her organization, or the degree to which the CEO defines him-/herself in terms of the attributes of the organization" (Boivie et al., 2011: 551). So the degree to which a CEO identified with the organization he/she leads can greatly influence his/her motivation to engage in actions good for the organization. Stronger identification with the firm associated with CEO duality may come from the fact that

the joint possession of CEO and chairman entitle the dual CEO more influence over strategic decisions so that the dual CEO may be more likely to believe that his/her actions have significant influence on the organization's effectiveness, efficiency, and overall organizational performance than a non-dual CEO does (Boivie et al., 2011). In addition, a dual CEO may be more likely to stay vigilant and aware of harmful actions as he/she believes that his/her actions greatly affect the organizational image in the eyes of the media, the public and stakeholder given his/her highly visible and symbolic roles because of the duality status.

Some may argue that a powerful CEO especially when holding a dual position will be inclined to engage in self-interest seeking behavior at the expense of shareholders based on agency theory. However, the past two decades have seen dramatic changes in the institutional environment related to corporate governance regulation as well as public awareness of governance and supervision, placing increasing pressures on CEOs. First, one of these significant changes was the requirement issued by the United States Securities and Exchange Commission (SEC) that the firm's financial statements must be certified by the CEO, which was in response to the wave of corporate scandals, e.g., Adelphia, Enron, WorldCom, etc., that began to undermine investor confidence in the financial markets (Zhang & Wiersema, 2009). On 27 June, 2002, the SEC required CEOs and chief financial officers (CFOs) of all publicly traded companies with revenues greater than $1.2 billion to certify their financial statements by 14 August 2002, to address concerns about the quality of companies' financial disclosures (Economist, 2002a). This requirement made the costs of certifying fraudulent financial

statements be borne by the CEO as the certification of fraudulent financial statements will cause damage to reputation and image of the CEO. Second, there are more and more boards of directors of U.S. firms of which the majority of members are outsiders. Outside directors are regarded as more independent than inside directors and can therefore monitor managerial behavior more effectively (Fama, 1980; Chaganti et al., 1985; Dalton & Kesner, 1987). A possible explanation for the impact of outside directors on firm strategies that enhance performance is that outside directors introduce a balance of power into the "upper echelons" (Hambrick & Mason, 1984) of organizations and are willing to stand up to the CEO to protect shareholder interests (Pfeffer & Salancik, 1978; Mizruchi, 1983; Zahra & Pearce, 1989). Recent regulations, including the Sarbanes-Oxley Act of 2002 (SOX) and rules promulgated by the SEC, New York Stock Exchange (NYSE), and National Association of Securities Dealers (NASD), incorporate the idea that outside directors are important custodians of shareholder interests by requiring greater participation of outside directors on the board and key committees (Duchin et al., 2010). So more and more U.S. firms increase the representation of outside directors on their boards. Therefore, it is less likely that a powerful CEO will commit self-interest actions given the presence of strict regulations on corporate governance and board structure which can monitor and control agency problems. Third, rapid development of information technologies have been reshaping the media attention paid to managerial misconduct, which, again, makes CEOs more aware of their reputation and images. Chen et al. (2013) pointed out that mass media coverage has been a major channel of financial information and corporate disclosure.

With the advancement of the Internet and 24/7 financial news TV channels, financial media coverage has become a powerful source of information, which even surfaces far ahead of any legally required regulatory corporate reports and disclosures such as SEC requirements. Li and Shen (2010) asserted that media attention has played an important role in monitor CEO behaviors, improving corporate governance and protecting minority shareholders. Because of these trends, it is reasonable to believe that powerful CEOs do not necessarily intend to pursue their personal interests at the expense of shareholders. Rather, the more power they have (i.e., CEO duality), the more they would consider their professional reputation and be more careful when making significant strategic decisions.

Consequently, in the presence of CEO duality, it can compensate for lack of discretion resulting from short tenure. When the same individual serves simultaneously as CEO of the firm and chairman of its board of directors, he/she possesses high degree of power over the board and discretion over strategic choices and thus has much impact on organizational outcomes, even if the CEO is early in his/her tenure. In the context of acquisition, the dual structure entitles a short-tenured but dual CEO to formal and strong power to exercise influence over acquisition decisions. This dual structure can also allow the CEO to influence attention of the board by allocating more time of board meeting discussion to acquisition-related issues so as to secure the formation of an acquisition plan (Tuggle, Schnatterly & Johnson, 2010). In addition, a short-tenured but dual CEO is more capable of independently deploying firm resources to during the process of acquisition implementation from initiating an acquisition, negotiation to

completion of the deal. In addition, an increased responsiveness and consolidation of power afforded by CEO duality would be particularly desirable under circumstances which decision speed was critical (Boyd, 1995). Issues related to acquisitions usually have to be acted upon immediately (Laamanen & Keil, 2008). Given the time pressure facing during acquisitions, the presence of duality structure may allow faster organizational responses to changing events for a short-tenured CEO. Building on the above, a dual, short-tenured CEO can provide investors with a strong signal of the quality of the acquisition.

On the other hand, CEO duality can compensate for losses of insufficient motivation resulting from long tenure. Although benefits from increased discretion CEO duality bring about as discussed earlier now become less salient as long-tenured CEO already have power over the board and the top management team, CEO duality can represent a strong motivation to protect their reputation and social identification with the firm so that they will avoid any behaviors that may impose costs on their firms and hurt their organizational image at all times. That is, CEO duality's motivational effect become salient in the case of a dual, long-tenured CEO. In the context of acquisition, a dual, long-tenured CEO of the acquiring firm will manifest stronger identification with his/her organization and be strongly motivated to stay focused to carefully conduct strategic analysis to ensure synergy potential and keep vigilant against any value-destroying acquisitions, instead of using power to pursue self-beneficial acquisition deals irrespective of whether they can create value to shareholders (Bliss & Rosen, 2001; Grinstein & Hribar, 2004; Harford & Li, 2007), or handling his/her job based on

habituation rather than strategizing and being less responsive to internal and external changes because of diminishing task interest (Hambrick & Fukutomi, 1991). Therefore, CEO duality can convince investors that enhanced social identification generated by CEO duality can improve a long-tenured CEO's motivation to make an acquisition a success.

To summarize, in the eyes of investors, on one hand CEO duality serves as a facilitator by improving managerial discretion and leadership in formulating and implementing value-creating acquisition decisions which is favorable to firms with short-tenured CEOs. On the other hand, CEO duality serves as a constraint by promoting social identification with organizations to avoid self-interest behaviors as well as inertia which is favorable to firms with long-tenured CEOs. In other words, CEO duality ease investors' concerns over both short tenure and long tenure and reassure them about the benefits. As a result, I expect that in the presence of CEO duality, both short-tenured and long-tenured CEOs can lead to better investor valuation than medium-tenured CEO do. These arguments suggests a U-shaped relationship between CEO's firm tenure and market reaction to acquisition. I therefore predict:

Hypothesis 1: There will be a U-shaped relationship between the acquiring CEO's firm tenure and stock market reaction to the acquisition announcement in the presence of CEO duality.

CEO compensation

Like CEO duality, CEO compensation is also a salient representational factor for

investors to use to assess CEO's discretion of the formation and implementation of a successful acquisition. A CEO's power can be captured by not only formal job titles indicating hierarchical authorities but also his/her compensation, which is a precise, yet less formal, indicator of control and influence (Finkelstein, 1992). On the other hand, compensation can also signify motivation. In fact, compensation was commonly accepted as a form of motivation (Blumberg and Pringle, 1982), both extrinsically and intrinsically. First, it is obvious that high compensation will extrinsically motivate a CEO to work hard because of financial aspirations (Finkelstein and Hambrick, 1988). Second, high compensation may have an intrinsically motivational effect as an important scorecard for CEOs especially those with high needs for achievement and recognition, particularly among publicly held firms whose compensation practices are exposed to the public. Thus CEO compensation can perceived as motivation in such a way that compensation provides a key indicator of achievement and worth (Finkelstein and Hambrick, 1988).

Similarly, a high CEO compensation can interact with CEO's firm tenure in the eyes of investors. As discussed above, a short-tenured CEO may find it difficult to convince investors that he/she will capable of carrying out a value-creating acquisition effectively because of investors' concern about his/her unestablished authority despite his/her strong motivation. However, a high compensation may counteract the negative effect of short tenure. First, a high CEO compensation can be perceived as a strong signal of CEO's outstanding competence in performing CEO's job. As a matter of fact, CEO compensation was determined by a function of supply and demand in the managerial

labor market and viewed as a response to the marketplace for CEO's talent (Finkelstein and Hambrick, 1988). A high compensation indicates that the labor market place a high value on this CEO's ability and expect that he/she will contribute a lot to the firm based on his/her good track record although he/she only has worked with the focal firm for a short time. Second, a high compensation may provide information on CEO discretion in the firm. Actually, CEO compensation could be considered as an important indicator of power (Hambrick and D'Aveni, 1992; Whisler, Meyer, Baum, and Sorensen, 1967). Generally speaking, CEO compensation is set by the board especially the compensation committee across the hierarchical level within a firm (Finkelstein, 1992; Finkelstein and Hambrick, 1988). A high compensation indicates that the CEO's ability is highly recognized by the board. It will become easier for a short-tenured CEO with high recognition to lead the firm, decide directions, and obtain necessary support and resource to formulate and implement strategic decisions. Third, a high compensation can provide a short-tenured CEO with an additional motivational effect. As discuss earlier, short-tenured CEOs usually have longer career horizon. They tend to perform their best because they expect that they will earn much more in the future if they work hard. Consequently, the unmet financial aspiration (extrinsic motivation) and achievement desire (intrinsic motivation) will mutually reinforce each other for short-tenured CEOs. Hence, a high compensation can strongly motivate a short-tenured CEO to perform well and carry out valuable acquisitions.

When it comes to long-tenured CEOs, investors may wonder about their motivation to pursue value-creating acquisitions and avoid value-destroying acquisitions. A high

compensation can counteract the negative effect of decreased motivation resulting from long tenure. First, a high compensation will make long-tenured CEOs be motivated by the afraid of losing high income if they have to leave the firm because of acquisition failure and poor firm performance. What is worse, since their compensation is relatively high in their peer, it is hardly possible that they will find another CEO jobs offering comparable compensation after they leave. Most individuals have a tendency of loss-aversion. The psychological impact of losing is thought to be more powerful than the pleasure of gaining (Rabin, 2000). They would rather avoid losing money than acquire more. Therefore, for long-tenured CEOs, the fear of loss of high compensation and also the chance of retaining high compensation can provide a strong motivation to avoid self-interest behaviors and inertia and keep momentum even after working for their firm for a long time. In addition, compensation can serve as a key indicator of achievement, recognition and worth (Finkelstein and Hambrick, 1988). It may greatly influence how CEOs define self-worth, especially for long-tenured CEO who are more concerned about their well-established reputation and recognition. Thus high compensation will make long-tenure CEOs get more confident about and comfortable with their contribution. Therefore, the fear of financial loss (extrinsic motivation) combined with the concern about self-worth (intrinsic motivation) can motivate long-tenure CEOs to maintain momentum and abstain inertia and be careful to perform acquisitions. Second, a high-compensated CEO will be motivated by their need for preserving high self-esteem and social status in the business elite community. Social comparison theory (Festinger, 1954) suggested that individuals tend to evaluate their own abilities by

comparing themselves to similar others and a positive social comparison outcome will lead to higher self-esteem. CEOs with high compensation earn more than average. These compensation differentials will thus imply relative standing and status of the CEO and his/her fellows (Whistler, Meyer, Baum, and Sorensen, 1967). Therefore, the negative effect of long-tenured CEOs' diminished motivation will be offset by the positive comparison outcome due to high compensation.

To summarize, similar to CEO duality, from the perspective of investors, high CEO compensation serves as a facilitator by signifying highly-recognized ability by the market and the board, improved executive discretion, and enhanced motivation to implementing value-creating acquisition decisions which is favorable to firms with short-tenured CEOs. As for long-tenured CEOs, high CEO compensation also serves as a constraint by increasing their motivation to perform their best and avoid self-interest behaviors and slackness. As a result, I expect both short-tenured and long-tenured CEOs to contribute to better investor valuation than medium-tenured CEO do when CEO compensation is high. These arguments suggests a U-shaped relationship between CEO's firm tenure and market reaction to acquisition. I therefore predict:

Hypothesis 2: There will be a U-shaped relationship between the acquiring CEO's firm tenure and stock market reaction to the acquisition announcement when the level of CEO compensation is high.

CEO directorship

CEO directorship is defined as the number of boards a CEO is sitting on. It has been

widely used in previous studies as an important proxy of executive prestige which can signal quality of IPO firms, organizational legitimacy and credibility of corporate financial statements (Certo, 2003; Certo & Hodge, 2007; Lester et al., 2006). It is a reasonable, though informal, indicator of the relative standing in the institutional environment. Research on directorships has suggested that CEOs may use board memberships to enhance their organizations', and their own legitimacy in the institutional environment (Finkelstein, 1992), and manage inter-organizational dependencies by absorbing uncertainties because of better access to resources (Pennings, 1980; Pfeffer, 1972). In addition, the number of directorships serves as an indicator of the degree to which others seek to link with the CEO, and thus infer the status or prestige of the CEO. So the number of directorships can be an indicator of a CEO's reputation or prestige in the managerial labor market (Certo, 2003; D'Aveni, 1990; Davis & Mizruchi, 1999; Lester et al., 2006) since usually only CEOs with more valuable human capital and social capital will be invited by other companies to serve as their directors (Brickley, Linck, & Coles, 1999; Zhang & Wiersema 2009).

The number of directorship can serve as a signal of motivation. Directorship helps a CEO to establish and maintain contact with other important people in the business elite (Useem, 1979) and further get identified with the business elite group. For a CEO sitting on many boards, he/she will be unwilling to engage in actions which may hurt the organization performance because such actions will definitely undermine his/her business elite identity, stain his/her reputation and hurt his/her own legitimacy in the institutional environment. Fama (1980) even argued that a manager's concern about his

reputation and career can provide such a strong motivation that it can resolve the managerial-incentive problem without the help of explicit incentive contracts. Since CEO's position in the business elite greatly depend on firm performance (Finkelstein & Hambrick, 1988), a CEO sitting on multiple corporate boards will be motivated to perform well so as to protect his/her reputation and elite identity.

Therefore, similar to CEO duality and compensation, CEO directorship can also provide additional signals for investors to verify the reliability of tenure signal of the CEO, thereby enhancing the credibility of CEO's perception and the quality of the acquisition. As discussed above, when an acquisition is announced, investors are unlikely to have confidence in a short-tenured CEO making a successful acquisition because he/she may be restricted by unestablished leadership, which may compromise his/her own ability and motivation to achieve better acquisition performance. However, the signaling effect of multiple directorships can compensate for inadequate discretion resulting from short tenure. CEO directorship can serve as a source of social capital and better access to resources and information (Geletkanycz & Hambrick, 1997; Gulati & Higgins, 2003; Higgins & Gulati, 2006). In fact, CEOs may prefer information obtained from personal contacts especially from board membership to documentary media because the former are more timely and richer, which become more important when it comes to acquisition context. CEOs use their external directorships to build and maintain contact with other individuals and organizations to collect information which may be crucial for a successful acquisition. For example, CEO directorship may help a CEO obtain private information about target candidates during the process of target

selection so as to significantly reduce search cost and lead to better evaluation of targets' earning prospects (Bruner, 2004). Therefore, a CEO sitting on many boards demonstrate strong capability of access to acquisition-related information and resources.

CEO directorship can also compensate for the lack of managerial discretion due to short firm tenure. As mentioned above, CEO directorship can serve as a signal of prestige power (Finkelstein, 1992). Firms that send board invitations to a CEO are signaling they deem this CEO an expert capable of providing valuable counsel and guidance (Geletkanycz & Boyd, 2011). Since the CEO is highly recognized as decision experts (Fama, 1980; Jensen & Meckling, 1976; Kaplan & Reishus, 1990), his/her attractiveness in both the managerial and directorate markets rises (Useem & Karabel, 1986; Zajac & Westphal, 1996), accompanied by elevated prestige and standing in social circles (Useem, 1984). Higher professional standing brought by CEO directorship thus lead to greater intraorganizational power (Finkelstein, 1992), which is particularly important for a successful acquisition, since the CEO have to possess enough power and control to allocate financial resource, human resource and other necessary resources within the acquiring firm and coordinate effort of other top managers and board members to effectively formulate and implement an acquisition.

As for the long-tenured CEOs, they have rich firm-specific knowledge and well-established leadership. But they are not sufficient enough to convince investors of their tendency to pursue value-creating acquisitions and avoid value-destroying acquisitions due to their decreased motivation after serving the same firm for a long time. CEO directorship, again, can resolve the motivation problem resulting from long firm tenure.

As discussed above, the number of directorship can be serve as a signal of motivation. For a CEO who get identified with the business elite group and elevated in professional status both in managerial and directorate markets by serving in many boards (Geletkanycz & Boyd, 2011), the costs of acquisition failure can be substantial. Relative to CEOs who have no or a few directorship, CEOs with many directorship are less likely to undertaking value-destroying acquisitions because they are more aware of the possible reputational sanction and image damage. Hence, long-tenured CEO with many directorship tend to stay careful and vigilant to avoid any self-interest behaviors during the whole process of acquisition from target searching to post-acquisition planning. As a result, investors tend to have higher confidence in CEOs with more directorships (D'Aveni, 1990). In other words, the number of directorships held by the CEO can serve as a signal to investors as to the credibility of the CEO perception and thus the quality of the firm's acquisition.

To summarize, similar to CEO duality and CEO compensation, CEO directorship provides signals of highly-recognized ability by the managerial market and improved executive discretion to perform value-creating acquisitions which is favorable to firms with short-tenured CEOs. CEO directorships also offers signals of enhanced motivation which is favorable to firms with long-tenured CEOs. Therefore, I expect when CEOs sit on many boards both short-tenured and long-tenured CEOs contribute to better investor valuation than medium-tenured CEO do. These arguments suggests a U-shaped relationship between CEO's firm tenure and market reaction to acquisition. I therefore predict:

Hypothesis 3: There will be a U-shaped relationship between the acquiring CEO's firm tenure and stock market reaction to the acquisition announcement when the level of CEO directorship is high.

The theoretical framework of study 1 was presented in Figure 2.1.

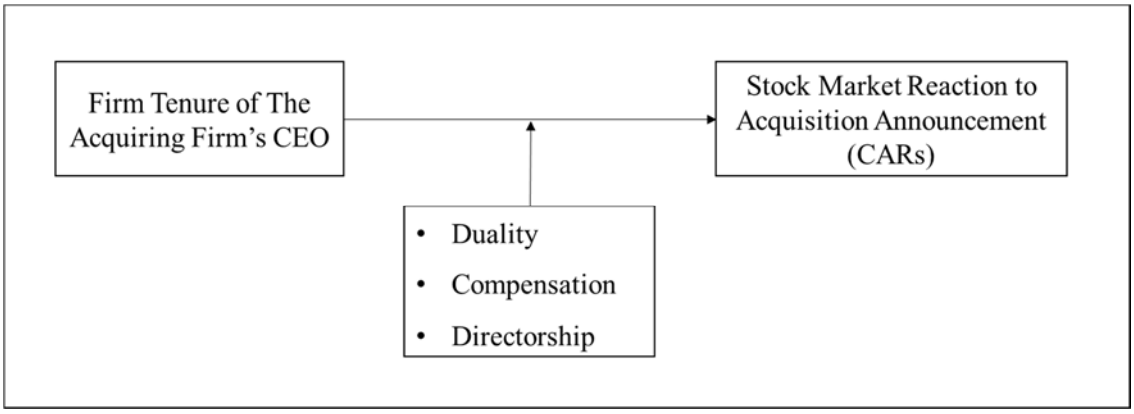


Figure 2. 1 Theoretical Framework of Study 1

2.3 Research Methodology

2.3.1 Sample Selection and Data Sources

Following previous studies on corporate acquisitions (e.g., Cai & Sevilir, 2012; Haleblian & Finkelstein, 1999; Hayward & Hambrick, 1997; Laamanen & Keil, 2008), I first searched the Mergers & Acquisitions transactions database provided by the Thomson Reuters's Securities Data Corporation (SDC) Platinum for acquisition deals during the time period between January 1, 2000 and December 31, 2012. SDC Platinum is the world's foremost financial transactions database which produces the most thorough and accurate account of the financial marketplace. It provides comprehensive details on all announced deals and alliances, whether completed or uncompleted. Data available include full financial details, advisors and fees, premiums paid, etc. For an

acquisition to be included in the sample, the following criteria were employed:

(1) Acquisitions had to be completed. In a completed acquisition, the bidding firm went beyond making an offer and distributes cash or securities to obtain the stock or assets of the target company (Haleblian & Finkelstein, 1999). All of the pending, tentative or withdrawn acquisitions were excluded. The first criterion was used to filter out deals that have potentially litter significance since the hypotheses of the study were to test executive effect in acquisition via both examining market reaction to acquisition announcement and long-term post-acquisition performance. The status of acquisitions (completed, pending, tentative or withdrawn) was provided by SDC Platinum.

(2) The acquiring companies had to be publicly traded U.S. manufacturing companies. Manufacturing companies refer to those companies which primarily operate in the manufacturing industry with a six-digit North American Industry Classification System (NAICS) code between 311111 and 33999. The publicly traded U.S. Manufacturing companies were more likely to have thorough and successive annual reports or other filings to provide complete information about financial data and top management teams. Information about the firms' public status, nations and primary NAICS codes were derived from SDC Platinum. An initial sample of 14,031 deals (only for manufacturing industry, the same hereafter) was thus constructed using the criteria (1) and (2).

(3) Acquisitions had to be "large". Large acquisitions were defined as acquisitions which had a transaction value of greater than 100 million US dollars (Haleblian &

Finkelstein, 1999). By focusing on large completed acquisitions, the sample was limited to acquisitions that were likely to make a considerable impact on market valuation and post-acquisition performance (Chatterjee & Lubatkin, 1990). Small acquisitions were thought to have a less impact, and, perhaps as a reflection of their less impact, CEOs of the acquiring firms tend to spend less time on them (Beatty, 1994). The data on transaction value of acquisitions were obtained from SDC Platinum. A total of 8,802 acquisitions was thus removed using the criterion of "large" acquisitions.

(4) The acquiring firms and target firms had to not be the same. Acquisitions that the acquiring firms were the same with the target firms (mostly due to open market repurchase or self-tender offer) were excluded, which seemed appropriate since this study assumed that the acquiring firms acquired resources from other firms in order to realize synergy. Both the acquiring firms' name and target firms' name were provided by SDC Platinum. A total of 104 acquisitions in which the acquiring firms' name and target firms' name were the same were thus dropped.

(5) The acquiring firms had to be identified using their Committee on Uniform Securities Identification Procedures (CUSIP) number in COMPUSTAT database in order to obtain their financial data from COMPUSTAT. CUSIP system, owned by the American Bankers Association and operated by Standard & Poor's, can be used to identify most securities including stocks of all registered U.S. companies. Data on firms' CUSIP were extracted from both SDC Platinum and COMPUSTAT. The unidentified firms or firms with missing CUSIP indicated that for those firms there

were no sufficient data around the year of announcement found in COMPUSTAT database. Using this criterion a total of 3,213 acquisitions was eliminated due to insufficient COMPUSTAT data.

(6) Since this research aims to test executive effect of career experience and social ties, sufficient information about the CEOs, other TMT members or boards of directors' names, demographic attributes, business experience and social network of the acquiring firms had to be obtained from filings of the corresponding years Securities and Exchange Commission (SEC)'s EDGAR system or BoardEx database. EDGAR, the Electronic Data Gathering, Analysis, and Retrieval system, performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by law to file forms with the U.S. Securities and Exchange Commission (SEC). In particular, SEC requires all public domestic companies to submit their annual reports and proxy statements through EDGAR system, which disclose each executive officer's or director's name and basic biographic information. As for BoardEx, it provides more detailed information about executives or directors' thorough career experience and social ties. BoardEx is a leading database that provides in-depth profiles on individual members of board of directors and senior management of publicly quoted or large private companies worldwide. Details of individual profiles include age, gender, education, current and historic board roles and job positions, notable achievements, participation in social organizations and other activities. BoardEx also can show the social connections between and among these individuals. The database has been widely

used in many previous studies (e.g., Ahern & Dittmar, 2012; Custódio & Metzger, 2013; Engelberg, Gao, & Parsons, 2012; Ertimur, Ferri, & Maber, 2012; Kulich et al., 2011; Meyer-Doyle, 2012). Using the criterion a total of 807 acquisitions were thus excluded because that the CEOs of the acquiring firms cannot be identified due to insufficient information found in EDGAR system or BoardEx database.

It should be noted that archival data from multiple sources were used to construct all the variables used in Study 1. It involved the following steps:

(1) Announcement date. Since the dependent variable was CARs around the announcement date, I had to first identify the date when an acquisition was announced. Information needed for determining the date was obtained from SDC Platinum.

(2) CEO/TMT/Board's information. Next, information about CEOs, other TMT members (holding a title above the rank of vice president) or directors such as their names, ages, job titles and firm tenures of each firm in the year of announcement were manually collected from annual reports, proxy statements and other relevant filings in SEC' EDGAR system. For example, information on the CEO, TMT and directors of an acquiring firm in year 2000 were recorded when the firm once undertook acquisition(s) in the year 2000. Once the list of CEOs, TMTs and boards of directors of each acquiring firm were constructed, more detailed information on their career experience and social ties were then derived from BoardEx.

(3) Financial data. Finally, financial data of the sampled firms were obtained from COMPUSTAT. Stock market returns data were collected from EVENTUS database

in COMPUSTAT, which performs event studies using data directly from Center for Research in Security Prices (CRSP) stock database and extract event study cumulative or compounded abnormal returns for cross-sectional analysis.

After archival data from multiple sources were merged together, a total of 962 acquisitions were excluded because only those observations without any missing value were kept. The final sample that remained after the above exclusions and merging consists of 143 acquisitions made by 102 acquiring firms involving 106 CEOs[7] for testing executive effect on stock market reactions in study 1.

2.3.2 Variable Measurement

Dependent Variable

Cumulative abnormal stock returns (CARs). Event study analysis has been long applied in previous studies on stock market reactions (Brown & Warner, 1980; Brown & Warner, 1985; Woolridge & Snow, 1990). It assumes that markets are informationally efficient, such that stock prices reflect all publicly available information and stock price changes reflect new information. The significance of an event like an acquisition may be assessed by the change to stock price during a relevant time period surrounding this event. This price change is called an abnormal return and is calculated as the difference between the actual return for a stock and the expected or normal return for the same stock. Hence, the effect of an event is measured by the part of the return that is

[7] The reason why 102 acquiring firms were involving 106 CEOs is that there were three of the acquiring firms undertaking multiple acquisitions experienced CEO successions between different acquisitions and one of the acquiring firms undertaking one acquisition had two co-CEOs. For the co-CEO case, all CEO-related variables were taken averaged.

unanticipated by an economic model of anticipated, normal returns. This may be expressed mathematically as follows:

$$e = R_{it} - (\alpha_i + \beta_i R_{mt}),$$

where R_{it} is return on stock i for day t, R_{mt} is return on the market portfolio for day t, α_i is a constant, and β_i is beta of stock i (measure of non-diversifiable risk).

It is assumed that α_i and β_i are stable and are calculated during an arbitrary estimation period. The arbitrary estimation period used in this study is 255 days, from 300 days before the event to 46 days before the event. To determine the impact of an acquisition on a firm, abnormal returns are averaged over an event window. If no information leaks out before the acquisition, the abnormal return may be calculated on the date it becomes publicly available. But research evidence found that information about acquisitions sometimes leaks out to some market participants earlier than to others. Therefore, the window around an acquisition should be set carefully, as small windows may overlook early market reactions while large windows may capture information unrelated to the acquisition. Thus I computed abnormal returns from the day of the announcement to 1 trading days after, i.e., two-day window (0, +1). Data was obtained from EVENTUS database of COMPUSTAT.

Independent Variables

CEO's firm tenure. It was measured as the logarithm of the total number of years since the CEO joined the focal firm. This measure has been widely used in previous studies (e.g., Simsek, 2007; Zhang & Rajagopalan, 2010). Data were collected from

EDGAR system and BoardEx database.

CEO duality was coded 1 if the CEO was also the chairman of the board of directors of the acquiring firm in the year of announcement and 0 otherwise (Zhang & Rajagopalan, 2009). Data were collected from EDGAR system and BoardEx database.

CEO compensation. It was measured as the logarithm of the sum of salary plus bonus at the end of the year before the year of acquisition announcement (Brick, Palmon, & Wald, 2006). Data was obtained from Execucomp database of COMPUSTAT.

CEO directorships. It was measured as the logarithm of a count of the number of boards each CEO had been sitting on by the year of acquisition announcement. All the boards of quoted companies and private companies except for the focal company were counted. Government, army and non-profit organizations such as universities were excluded. The roles of CEO directorships included both executive directors and supervisory directors. Data were collected from BoardEx database.

Control Variables

I included four different sets of control variables, which have been related to acquisition performance in prior empirical studies.

- CEO characteristics

CEO age was measured as the logarithm of CEO's age in the year of the acquisition announcement. CEO age can be seen as a proxy for a CEO's experience and influence (Cannella & Shen, 2001). A number of finance and management literature have

demonstrated important links between age of a CEO and acquisition behavior. For example, Yim (2013) showed for a large sample of S&P 1500 firms during 1992–2007 that younger CEOs tend to make more acquisitions, as such CEOs receive a large and permanent increase in their compensation and younger CEOs usually have a longer career horizon. Data was collected from EDGAR system.

CEO past acquisition experience. Following previous acquisition literature (e.g., Haleblian & Finkelstein, 1999; Nadolska & Barkema, 2013), this variable was measured as the logarithm of cumulative count of acquisitions carried out by the CEO of the acquiring firm in the preceding five years of the acquisition of interest when the CEO held a position as CEO or a TMT members in the focal firm or other firms (Haleblian & Finkelstein, 1999). To construct this variable, a record of all the focal CEOs' acquisition experience which dates back to five years before the focal acquisition had to be created. So I searched BoardEx for each focal CEO's work experience and obtain individual career track record, including job title, name of the firm he/she worked with, and the start and end date if he/she assumed CEO title or other TMT positions (holding a title above the rank of vice president), in five years preceding the focal acquisition was announced. Then the career track record was cross-checked with SDC's M&As database via the firm name to find out whether he/she once carried out acquisitions in ten years preceding the focal acquisition acting as a CEO or other TMT member of the focal firm or other firms. Finally, a record of all the focal CEOs' acquisition experience from 1995 to 2012 was constructed as the earliest acquisition in the sample took place in the year 2000.

CEO financial background. Adapted from previous studies (Geiger, Lennox, & North, 2008; Wang, 2010), it was measured as the logarithm of total number of finance-related job titles, i.e., ‘‘chief financial officer’’, ‘‘CFO’’, ‘‘controller’’, ‘‘chief accounting officer’’, ‘‘CAO’’, ‘‘treasurer’’, ‘‘vice president of finance”, “executive vice president of finance” and “senior vice president of finance” the CEO held at the focal firm or other firms before he/she was appointed to be a CEO. Data were collected from BoardEx database.

Besides, I also controlled for variables concerning CEO’s social ties. Previous studies have provided evidence that social connections could affect acquisition performance, which the authors attributed to increased awareness of acquisition opportunities, reduced search cost and better access to external resources. For example, Bruner (2004) reported that social network led to more efficient deals due to less costs of searching for and evaluating targets. Singh and Schonlau (2009) found that well-connected boards were associated with better performing acquisitions as evidenced higher ROA and positive annual abnormal returns. More specifically, I constructed three social-tie-related variables, i.e., CEO’s CEO ties, board ties and financial expert ties.

CEO’s CEO ties was measured as the total number of other firms’ CEOs in the focal CEO’s social network as of the year of announcement and then log transformed to normality. First, the CEO can be connected with these other firms’ CEOs mainly through active directorship ties (e.g., currently serving on the same board as directors). Second, the ties between a focal CEO and CEO of other companies through former colleagues, alumni, club membership, professional organization/trade association

membership, or charity organization involvement were also included. Memberships in organizations that draw executives from diverse industries for professional discourse have been considered as one of the primary mechanisms for the exchange of social information among organization leaders (e.g., Aldrich & Pfeffer, 1976; DiMaggio & Powell, 1983). Data were collected from BoardEx database.

CEO's board ties was measured as the number of corporate directors in the focal CEO's social network as of the year of announcement and then log transformed to normality. Similar to CEO ties, the CEO was connected with these other firms' directors through active directorship ties, former colleagues, alumni, club membership, professional organization/trade association membership, or charity organization involvement. Data were collected from BoardEx database.

CEO's financial expert ties was measured as the number of persons with financial background who are holding or held finance-related job titles ''chief financial officer'', ''CFO'', ''controller'', ''chief accounting officer'', ''CAO'', ''treasurer'', ''vice president of finance", "executive vice president of finance", "senior vice president of finance" or "financial expert" sitting in the committees of the boards in the focal CEO's social network as of the year of announcement and then log transformed to normality. Similarly, the CEO was connected with these "financial experts" through directorship, former colleagues, alumni, club membership, professional organization/trade association membership, or charity organization involvement. I chose these variables as ties connected with high profile individuals such as other firms' CEOs or directors can provide more detailed, reliable, valuable and timely insights about acquisitions, and

ties connected with financial experts may help better access to external financial resources and professional advice related to acquisitions which may be a crucial factor of acquisition success. Data were collected from BoardEx database.

It is worth to note that all social-ties-related variables used in this study were from archival data. Although most social network studies rely on self-reports and surveys from participants, the data obviously strongly suffer from cognitive biases, errors of perception, and ambiguities. Moreover, senior executives of major firms are generally reluctant to submit to detailed questionnaires, and surveys of senior-most executives typically produce low response rates. Therefore, all data concerning social ties used in this study were archival.

- Deal characteristics

Acquisition attitude. The attitude of an acquisition may vary from friendly to hostile. In hostile acquisitions, potential targets may take actions, such as adopting a “poison pill” defense or arranging to be acquired by a “white knight”, to make it less likely for acquirers to succeed (Brickley, Coles, & Terry, 1994; Mallette & Fowler, 1992). Hostile acquisitions may negatively affect acquirer’s returns by attracting multiple bidders who drive premiums higher. Thus, hostile acquisitions may be negatively related to acquisition success. The SDC Platinum database classifies acquisitions as friendly, neutral, or hostile. I coded friendly acquisitions as 1 and 0 otherwise (Haleblian & Finkelstein, 1999; Laamanen & Keil, 2008; Schijven & Hitt, 2012). Data was obtained from SDC Platinum.

Involvement of acquirer advisors. External advisors who were actively involved in

the following aspects of the deal process including advisory, arranging financing, dealer managers, equity participants, fairness opinion, independent expert report, initiating deal, providing financing, representing board, government, and shareholders (Schijven & Hitt, 2012). This variable was coded as 1 if there were external advisors involving in the focal acquisition and 0 otherwise. Data was obtained from SDC Platinum.

Acquisition premium. I also controlled for acquisition premium as previous studies has found that the acquisition premium paid negatively affects the acquiring firm's stock market return to an acquisition announcement. Acquisition premium was computed as the percentage difference between the actual price paid per target share by the acquirer and the target's share price four weeks prior to the acquisition announcement date (Schijven & Hitt, 2012) and then log transformed to normality. Data was obtained from SDC Platinum.

Payment method. There have been several studies on the effect of the method of payment on bidder's market returns as well as accounting performance. Some of them found that cash-financed deals were more beneficial, or at least less detrimental, to bidding firms' shareholders than stock deals. Adopted from Hayward and Hambrick (1997), I controlled for payment method using two dummy variables: (1) cash payment equals to 1 for cash only; (2) stock payment equals to 1 for stock only. So if cash payment and stock payment both equal to 0, it will represents a combination of cash and stock. Data was obtained from SDC Platinum.

Previous acquisitions. I also controlled for previous acquisitions to identify those firms that acquired other firms in recent years. Laamanen and Keil (2008) argued that

if acquirers carried out several acquisitions over a short time period, they may not have enough time to develop acquisition capability because building acquisition capabilities requires sufficient time to draw reference and learn from one's experiences and therefore negatively affect acquisition performance. Previous acquisitions was coded 1 if the acquiring firm undertook acquisitions in the preceding three years of the focal acquisition and 0 otherwise. Information required to construct this variable was collected from SDC Platinum.

Acquirer-to-target relatedness. Based on Morck, Shleifer, and Vishny (1990) and Haleblian and Finkelstein (1999), relatedness was measured using 4-digit NAIC codes from the six main lines of business (by sales) in which an acquiring firm and target firm operated. If a firm operated in fewer than six 4-digit industries, all industries were taken into considered. An acquirer and target were classified as "related" if they had at least one 4-digit NAIC code in common among the top six in which they operated at the time of the acquisition. Otherwise, they were classified as "unrelated". I created a dummy variable to identify either related acquisitions or unrelated acquisitions, which was coded 1 if the acquirer and target were classified as "related" and 0 otherwise. Data was obtained from SDC Platinum.

- Firm characteristics

Acquirer's firm size. Previous acquisition literature have found that firm size affected both announcement returns and post-acquisition accounting performance (Cornett & Tehranian, 1992; Moeller et al., 2004; Healy et al., 1992). It was measured by the logarithm of the acquiring firm's total assets when the acquisition was announced

(Amburgey & Miner, 1992; Laamanen & Keil, 2008). Data was obtained from SDC Platinum.

Acquirer's pre-acquisition performance. Acquiring firms' previous performance tends to be positively related to acquisition success as research indicated that firms with better financial performance were better acquirers (Morck, Shleifer, & Vishny, 1990). Pre-acquisition acquirer performance was measured as industry-adjusted performance by subtracting the median six-digit NAICS level industry return on assets (ROA) value from firm-level ROA at the end of the year before the acquisition year (Haleblian & Finkelstein, 1999). Data was obtained from COMPUSTAT.

Acquirer's diversification. An entropy measure of diversification was used in this study, which was originally proposed by Jacquemin and Berry (1979) and further developed by Palepu (1985). It was based on two elements of a firm's diversity of operations: (1) the number of product segments in which the firm operates; (2) the distribution of the firm's total sales across the product segments. Consider a firm operating in N industry segments. The entropy measure of diversification was defined as follows:

$$E = \sum_{i=1}^{N} P_i \times \ln(1/P_i)$$

where P_i was the share of the i segment in the total sales of the firm. The above expression was a weighted average of the shares of the segments, the weight for each segment being the logarithm of the inverse of its share. Data on the production segments were obtained from the Segment database of COMPUSTAT.

Acquirer's board size. I also controlled for corporate governance variable that may

affect acquisition decision and outcomes. An acquiring firm's board size was measured as the total number of directors sitting on the board in the year of announcement (Zhang & Rajagopalan, 2010). Data was collected from EDGAR system.

- Industry and period characteristics

Industry growth. It was measured as the 5-year sales growth in the 4-digit NAICS code industry, as this variable can also influence acquisition activity in the industry (Owen & Yawson, 2010). Data was obtained from COMPUSTAT.

Period effect. Adapted from Haunschild (1993) and Haleblian and Finkelstein (1999), I controlled for the potential effects of macroeconomic environment on acquisition activity by entering certain years as a set of dummy variables into the models. Specifically, two dummy variables were created: (1) Year 2002 equals to 1 if the acquisition was carried out in year 2002 and 0 otherwise, after 9/11 terrorist attack in year 2001; and (2) Year 2009 equals to 1 if the acquisition was carried out in year 2009, as the Global Financial Crisis of 2007–2008 was considered by many economists the worst financial crisis since the Great Depression of the 1930s. Both these two event were believed to have significant influence on economy, so as acquisition activity.

2.3.3 Data Analysis

Event study methodology has been long employed to analyze stock market reaction to the announcement of acquisition in the previous literature (Haleblian & Finkelstein, 1999). As for Study 1, the market model was estimated using 255 days of daily returns, from 300 days before the event to 46 days before the event, based on the equally

weighted CRSP index (Shen et al., 2003). The estimation was then used to generate stock return prediction errors for the various event windows. The daily prediction errors were summed to obtain the cumulative abnormal returns (CARs) for individual firms, which were then averaged across sample firms to obtain mean CARs. The dependent variable for study 1 was the CARs for the two-day window (0, +1). McWilliams and Siegel (1997) suggested that an event window should be as short as possible because it is much more difficult to control for confounding effects when long windows are used.

The data were structured as a pooled cross section and time series. They were unbalanced because the number of observations varies among firms. Therefore I used the generalized least squares (GLS) regression method to analyze the pooled cross-sectional time-series data (xtgls, Stata 13) to address the issue of homoskedastic as well as autocorrelation (Zhang & Rajagopalan, 2009). Following Aiken and West (1991)'s approach, firm tenure variable, firm tenure squared variable and the moderator variables (duality, compensation and directorship) were mean-centered prior to the creation of the interaction term to address the issue of potential multicollinearity between the main effect and interaction terms.

2.4 Results

2.4.1 Descriptive statistics

Table 2.1 provides some descriptions of the sample of manufacturing companies. It can be seen that in the sample events were distributed across years unevenly. The most active acquisition activities (12.59%) took place in the year of 2007, before the peak of

the global financial crisis. There were only 3.5% acquisitions undertaking in the year of 2002, which may indicate the substantial impact of the 911 terrorist attack on economic activities including acquisitions. Acquiring firms of the sample came from multiple industries. The largest subgroup was from computer and electronic product manufacturing (64 firms, accounting for 44.77% of the sample). The second largest subgroup was from chemical manufacturing (33 firms, accounting for 23.09% of the sample). These two subgroup accounted for about two thirds of acquisitions in the sample. As for the target firms, i.e., the firms being acquired, the largest subgroup was also from computer and electronic product manufacturing (47 firms, accounting for 32.89% of the sample). Similar to the case of acquiring firms, the second largest subgroup of target firms was also from chemical manufacturing (32 firms, accounting for 22.38% of the sample). These two subgroup accounted for more than a half of acquisitions in the sample.

Table 2.2 reported the means, standard deviations, and correlations of variables in study 1 for the manufacturing industry. The average CARs using two-day window (0, +1) was -1.79% (s. d. = 5.49%) with a range from -17.84% to 12.01%. On average, each CEO in the sample had been working with the focal firm for almost 14 years (s. d. = 10.38 years). There were about 57% CEOs serving the focal firms for more than 10 years. 66% of the CEOs also assumed the responsibility of the chairman of the boards of directors of the focal firms. The amount of annual compensation (salary and bonus) each CEO earned was about 1.63 million on average. The average number of directorships CEOs held was 3.77 (s. d. = 2.59), ranging from 1 to 14.

Table 2. 1 Sample Distributions of Manufacturing Industry

Description	N	Percentage
Year of Announcement		
2001	7	4.9
2002	5	3.5
2003	12	8.39
2004	14	9.79
2005	17	11.89
2006	13	9.09
2007	18	12.59
2008	12	8.39
2009	14	9.79
2010	16	11.19
2011	7	4.9
2012	8	5.59
Total	***143***	***100***
Acquirer's Industry		
Computer and Electronic Product Manufacturing	64	44.77
Chemical Manufacturing	33	23.09
Machinery Manufacturing	14	9.8
Transportation Equipment Manufacturing	9	6.3
Miscellaneous Manufacturing	7	4.9
Fabricated Metal Product Manufacturing	6	4.2
Food Manufacturing	6	4.2
Leather and Allied Product Manufacturing	5	3.5
Electrical Equipment, Appliance, and Component Manufacturing	4	2.8
Textile Product Mills	4	2.8
Paper Manufacturing	3	2.1
Primary Metal Manufacturing	3	2.1
Office Machinery Manufacturing	2	1.4
Total	***143***	***100***
Target's Industry		
Computer and Electronic Product Manufacturing	47	32.89
Chemical Manufacturing	32	22.38
Machinery Manufacturing	17	11.9
Transportation Equipment Manufacturing	7	4.9
Miscellaneous Manufacturing	6	4.2
Professional, Scientific, and Technical Services	6	4.2

Publishing Industries (except Internet)	4	2.8
Computer and Electronic Product Manufacturing	3	2.1
Nonmetallic Mineral Product Manufacturing	3	2.1
Administrative and Support Services	3	2.1
Food Manufacturing	2	1.4
Plastics and Rubber Products Manufacturing	2	1.4
Fabricated Metal Product Manufacturing	2	1.4
Telecommunications	2	1.4
Support Activities for Mining	1	0.7
Heavy and Civil Engineering Construction	1	0.7
Leather and Allied Product Manufacturing	1	0.7
Paper Manufacturing	1	0.7
Electrical Equipment, Appliance, and Component Manufacturing	1	0.7
Merchant Wholesalers, Durable Goods	1	0.7
Funds, Trusts, and Other Financial Vehicles	1	0.7
Total	***143***	***100***

The CEOs were 55 years old on average. Each CEO took part in 1.61 acquisitions acting as either CEO or other TMT members in the focal firm or other firms in the previous five year of the year of announcement on average. Among them, about 30% were never involved in acquisitions as either CEO or other TMT members in the focal firm or other firms. In contrast, about 9% were once involved in more than five acquisitions. Most of the CEO (86.71%) had nerve assumed finance-related job titles such as “chief financial officer”, “CFO”, “controller’’, ‘‘chief accounting officer’’, ‘‘CAO’’, ‘‘treasurer’’, ‘‘vice president of finance”, “executive vice president of finance” and “senior vice president of finance” in either the focal firm or other firms. With respect to the social ties, on average, each CEO was linked to 12.66 CEO of other organizations, 92.36 directors and 65.11 financial experts (i.e., persons holding finance-related job titles) through directorships, former colleagues, alumni network, club membership, professional organization/trade association membership, or charity

organization involvement.

As for the deal characteristics, more than 90% of the acquisitions in the sample were friendly ones. More than 90% of them had external advisors involving in the deal process which included advisory, arranging financing, dealer managers, equity participants, fairness opinion, independent expert report, initiating deal, providing financing, representing board, government, and shareholders. Surprisingly, the average acquisition premium was up to 46.14% with a substantial variation of 36.03%, ranging from 2.70% to 261.54%. There were 60% of the acquisitions that were solely paid by cash, 12% were paid by stock only, and remaining 18% were paid by a combination of cash and stock. There were about 31% of the firms in the sample that carried out acquisition(s) in the past three years before the focal acquisition. About 73% were related acquisitions, i.e., the primary industries in which the acquirer and target operated at the time of the acquisition share the same 6-digit NAIC code.

Concerning firm characteristics, on average each firm had a total assets of 10.35 billion (s. d. = 16.08 billion). The average ROA in the previous year of the acquisition announcement was 10.57% (s. d. = 8.29%). More than 90% of the firms enjoyed a positive ROA one year before the announcement. The average entropy index of diversification was 0.67 (s. d. = 0.58). About one third of the firms had an entropy index that equaled to 0 and another one third of them had an entropy index bigger than 1. On average, the total number of directors on the board of each firm was about 10 (s. d. = 2.17), ranging from 6 to 15 persons. The average ratio of outside directors sitting in the board was about 0.80 (s. d. = 0.11), ranging from 0.25 to 0.93 persons.

Several significant correlations shown in Table 2.2 were worth mentioning. For example, there was a positive correlation between CEO duality and CEO's CEO ties ($r = 0.23$, $p < 0.01$), CEO duality and CEO's board ties ($r = 0.29$, $p < 0.001$), CEO duality and CEO's financial expert ties ($r = 0.27$, $p < 0.01$). Similar to CEO duality, there was a positive correlation between CEO compensation and CEO's CEO ties ($r = 0.34$, $p < 0.001$), CEO compensation and CEO's board ties ($r = 0.28$, $p < 0.001$), CEO compensation and CEO's financial expert ties ($r = 0.48$, $p < 0.001$). There was also a positive correlation between CEO directorships and CEO's CEO ties ($r = 0.34$, $p < 0.001$), CEO directorships and CEO's board ties ($r = 0.47$, $p < 0.001$), CEO directorships and CEO's financial expert ties ($r = 0.24$, $p < 0.01$). .

Table 2. 2 Mean, Standard Deviation, and Correlation[a]
(Study 1, manufacturing sample)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
1. CAR (0, +1)	-0.02	0.05																						
2. CEO firm tenure	2.31	0.89	-0.06																					
3. CEO duality	0.66	0.48	-0.01	0.15†																				
4. CEO compensation	13.89	1.46	0.18*	0.04	0.23**																			
5. CEO directorships	1.11	0.68	0.06	-0.21*	0.23**	0.08																		
6. CEO age	4.00	0.11	-0.02	0.19*	0.30***	0.06	0.38***																	
7. CEO past acquisition experience	0.44	0.60	0.11	0.00	0.06	0.42***	0.11	0.02																
8. CEO financial background	0.10	0.42	0.05	-0.04	0.04	-0.08	0.12	0.11	-0.11															
9. CEO's CEO ties	2.22	0.84	0.02	-0.02	0.23**	0.34***	0.33***	0.19*	0.20*	0.02														
10. CEO's board ties	4.36	0.61	0.06	0.15†	0.29***	0.28***	0.46***	0.33***	0.21*	0.14	0.72***													

11. CEO's financial expert ties	3.77	0.95	0.05	0.02	0.27**	0.48***	0.22**	0.17*	0.33***	-0.06	0.86***	0.72***									
12. Acquisition attitude	0.97	0.17	-0.07	-0.02	0.06	-0.09	-0.03	-0.06	-0.14†	0.04	0.07	0.10	0.03								
13. Involvement of acquirer advisors	0.92	0.28	-0.05	0.02	-0.01	0.03	-0.11	-0.09	-0.07	-0.17*	-0.11	-0.07	-0.04	-0.05							
14. Acquisition premium	3.60	0.71	0.04	-0.12	0.13	0.17*	0.20*	0.03	0.16†	0.13	0.20*	0.25**	0.15†	0.02	-0.01						
15. Cash payment	0.60	0.49	0.42***	0.08	0.01	0.15†	0.06	0.04	0.13	-0.06	0.09	0.16†	0.15†	0.04	-0.20*	0.19*					
16. Stock payment	0.12	0.32	-0.39***	-0.07	-0.10	-0.17*	-0.03	0.02	-0.15†	0.01	-0.10	-0.14†	-0.12	0.06	0.11	-0.10	-0.45***				
17. Previous acquisitions	0.31	0.46	0.04	0.00	0.03	0.32***	0.01	-0.06	0.21*	-0.09	0.06	0.11	0.14†	-0.16†	0.09	0.07	0.05	-0.06			
18. Acquirer-to-target relatedness	0.71	0.46	-0.10	0.02	0.05	-0.13	0.05	-0.01	0.03	-0.16†	-0.01	0.10	0.06	0.08	0.08	0.09	0.01	0.00	-0.10		
19. Acquirer's firm size	8.17	1.56	0.05	0.15†	0.29***	0.53***	0.06	0.10	0.49***	-0.05	0.45***	0.43***	0.55***	0.00	0.01	0.28***	0.09	-0.08	0.11	0.12	
20. Acquirer's pre-acquisition performance	0.11	0.08	0.19*	0.15†	0.10	0.17*	-0.03	0.20*	0.14	0.04	-0.03	0.11	0.03	-0.04	0.05	0.13	-0.03	0.01	0.04	-0.01	0.12
21. Acquirer's diversification	0.67	0.58	0.08	0.13	0.18*	0.19*	-0.03	0.05	0.19*	0.11	0.25**	0.21*	0.31***	-0.02	-0.20*	-0.05	0.12	-0.10	0.18*	-0.10	0.20*

22. Acquirer's board size	2.26	0.22	0.10	0.37***	0.33***	0.40***	-0.01	0.14	0.29***	0.08	0.38***	0.47***	0.46***	0.06	-0.01	0.20*	0.17*	-0.11	0.19*	0.11	0.62***	0.25**	0.30***	
23. Industry growth	0.05	0.09	0.03	0.11	0.08	0.03	-0.11	-0.07	0.12	-0.01	-0.11	-0.10	-0.05	0.04	-0.09	0.07	0.12	-0.08	0.02	0.07	0.15†	0.00	0.08	0.13

N=143.

[a] Significant levels: *** p < 0.001, ** p < 0.01, * p < 0.05, † p < 0.10, two-tailed tests.

2.4.2 Regression results

For the sample of manufacturing industry, five models were estimated to test hypotheses 1 to 3. Table 2.3 reported estimates of CARs models. Model 1 included the control variables only. Model 2 added the effects of CEO firm tenure, its squared term, duality, compensation and directorship variables to Model 1. The interaction terms between CEO firm tenure, firm tenure squared variables and the duality, compensation and directorship variables were added in Model 3a to Model 3c. Overall chi-squares for these models indicate significant explanatory power.

Hypothesis 1 predicted that in the presence of CEO duality, there will be a U-shaped relationship between CEO's firm tenure and stock market reaction to the announcement of an acquisition. In Model 3a, the effect of CEO firm tenure is negative and marginally significant ($b = -0.018$, $p < 0.10$), the effect of its squared term is negative and significant ($b = -0.020$, $p < 0.05$), but the interaction of CEO firm tenure squared and CEO duality is positive and significant ($b = 0.023$, $p < 0.05$), although the interaction of CEO firm tenure and CEO duality is not significant ($b = 0.003$, n.s.). These results suggest that while CEO duality does not moderate the linear effect of the level of CEO firm tenure on market reaction, it does moderate the curvilinear effect of the level of CEO firm tenure on market reaction, which provide strong support for Hypothesis 1. To further probe this finding, I plotted the results in Figure 2.2. To create this figure, all of the variables in Model 3a in Table 2.3 except CEO firm tenure (and CEO firm tenure squared) and CEO duality were constrained to their mean values. CEO firm tenure took

values ranging from three standard deviations below the mean to three standard deviations above the mean (and CEO firm tenure squared was calculated accordingly). CEO duality took the values one and zero. Figure 2.2 indicates a U-shaped relationship between CEO firm tenure and CARs when the CEO is a dual CEO, i.e., the CEO is also the chairman of the board. Overall, these results are consistent with the prediction of Hypothesis 1.

Hypothesis 2 predicted that when the compensation of the CEO is high, there will be a U-shaped relationship between CEO's firm tenure and stock market reaction to the announcement of an acquisition. In Model 3b of Table 2.3, the effect of CEO firm tenure is negative and marginally significant ($b = -0.011$, $p < 0.05$), the effect of its squared term is negative and marginally significant ($b = -0.009$, $p < 0.10$), but the interaction of CEO firm tenure squared and CEO compensation is positive and significant ($b = 0.013$, $p < 0.05$), and the interaction of CEO firm tenure and CEO compensation is negative and marginally significant ($b = -0.009$, $p < 0.10$). These results suggest that CEO compensation moderate both the linear effect and the curvilinear effect of the level of CEO firm tenure on market reaction, which indicates strong support for Hypothesis 2. Again, to further probe this finding, I plotted these results in Figure 2.3. To create this figure, all of the variables in Model 3b in Table 2.3 except CEO firm tenure (and CEO firm tenure squared) and CEO compensation were constrained to their mean values. CEO firm tenure took values ranging from three standard deviations below the mean to three standard deviations above the mean (and CEO firm tenure squared was calculated accordingly). CEO compensation took the values one standard deviation below the

mean and one standard deviation above the mean. Figure 2.3 indicates a U-shaped relationship between CEO firm tenure and CARs when CEO compensation is high. Taken together, these results are consistent with the prediction of Hypothesis 2.

Unfortunately, hypothesis 3, which predicted that there will be a U-shaped relationship between CEO's firm tenure and stock market reaction to the announcement of an acquisition when the CEO has many directorships, is not supported by Model 3c of Table 2.3. Both the effect of CEO firm tenure squared and its interaction effect with CEO directorships are not significant.

Table 2. 3 CEO Firm Tenure and CARs[ab]

(Study 1, manufacturing sample)

Variables	Model 1	Model 2	Model 3a	Model 3b	Model 3c
Constant	0.130	0.077	0.021	0.005	0.072
	(0.145)	(0.157)	(0.154)	(0.156)	(0.164)
Controls					
CEO age	-0.040	-0.018	-0.018	-0.016	-0.023
	(0.036)	(0.038)	(0.037)	(0.037)	(0.039)
CEO past acquisition experience	0.004	0.002	0.004	0.002	0.003
	(0.008)	(0.008)	(0.008)	(0.008)	(0.008)
CEO financial background	0.010	0.007	0.005	0.004	0.006
	(0.010)	(0.010)	(0.010)	(0.010)	(0.010)
CEO's CEO ties	0.010	0.003	0.003	0.003	0.005
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
CEO's board ties	0.011	0.018	0.028†	0.027†	0.019
	(0.014)	(0.014)	(0.015)	(0.015)	(0.014)
CEO's financial expert ties	-0.018†	-0.019*	-0.020*	-0.022*	-0.020*
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquisition attitude	-0.014	-0.019	-0.019	-0.020	-0.021
	(0.024)	(0.023)	(0.023)	(0.023)	(0.023)
Involvement of acquirer advisors	0.017	0.017	0.014	0.018	0.017
	(0.015)	(0.014)	(0.014)	(0.014)	(0.015)
Acquisition premium	-0.011†	-0.014*	-0.014*	-0.014*	-0.014*
	(0.006)	(0.006)	(0.006)	(0.006)	(0.006)
Cash payment	0.048***	0.048***	0.050***	0.051***	0.050***
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Stock payment	-0.045**	-0.049***	-0.042**	-0.050***	-0.049***
	(0.013)	(0.013)	(0.013)	(0.013)	(0.013)
Previous acquisitions	-0.004	-0.007	-0.010	-0.007	-0.008
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer-to-target relatedness	-0.009	-0.012	-0.012	-0.016†	-0.011
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer's firm size	0.003	0.005	0.004	0.005	0.005
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Acquirer's pre-acquisition performance	0.127**	0.124*	0.121*	0.127*	0.125*
	(0.051)	(0.050)	(0.049)	(0.050)	(0.050)
Acquirer's diversification	0.004	0.005	0.006	0.005	0.005
	(0.008)	(0.008)	(0.007)	(0.007)	(0.008)
Acquirer's board size	-0.001	0.006	-0.000	-0.001	-0.000
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Industry growth	-0.021	-0.019	-0.013	-0.018	-0.021
	(0.046)	(0.046)	(0.040)	(0.045)	(0.046)
Predictors					
CEO firm tenure		-0.014*	-0.018†	-0.011*	-0.014*

		(0.006)	(0.010)	(0.006)	(0.006)
CEO firm tenure squared		-0.003	-0.020*	-0.009†	-0.003
		(0.004)	(0.008)	(0.005)	(0.004)
CEO duality		-0.005	-0.020†	-0.006	-0.006
		(0.009)	(0.011)	(0.009)	(0.009)
CEO compensation		-0.002	-0.002	-0.009	-0.002
		(0.003)	(0.003)	(0.008)	(0.003)
CEO directorships		-0.000	-0.005	-0.004	-0.002
		(0.007)	(0.007)	(0.007)	(0.009)
Interactions					
CEO firm tenure			0.003		
X CEO duality			(0.011)		
CEO firm tenure squared			0.023*		
X CEO duality			(0.010)		
CEO firm tenure				-0.009†	
X CEO compensation				(0.005)	
CEO firm tenure squared				0.013*	
X CEO compensation				(0.006)	
CEO firm tenure					-0.005
X CEO directorships					(0.007)
CEO firm tenure squared					0.001
X CEO directorships					(0.006)
Log likelihood	243.78	247.28	250.28	250.73	247.74
Wald χ^2	78.02***	89.10***	99.05***	100.58***	90.58***
N	143	143	143	143	143

[a] Standard errors are in parentheses (significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05, † p < 0.10, two-tailed tests).

[b] The Wald χ^2 statistic is for the hypothesis that all of the independent variables of the model are jointly equal to zero.

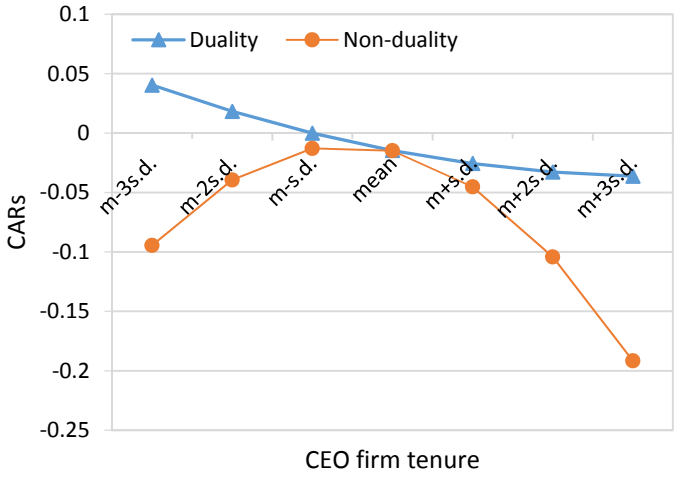


Figure 2. 2 CEO firm tenure and CARs: the difference between dual CEOs and non-dual CEOs (Study 1, manufacturing sample)

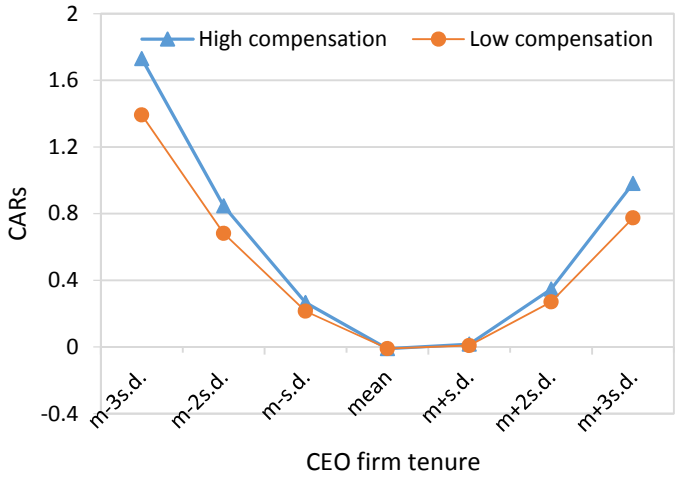


Figure 2. 3 CEO firm tenure and CARs: the difference between high-compensated CEOs and low-compensated CEOs (Study 1, manufacturing sample)

2.5. Supplementary Analysis

In addition, I used a larger sample consisting of acquisitions in manufacturing and hospitality industries to test hypotheses 1 to 3. To obtain the combined sample of manufacturing and hospitality acquisitions, a sub-sample of hospitality acquisitions was added into the sample of manufacturing acquisitions. Similar to the procedures of sample selection mentioned above, to construct a sub-sample of acquisitions carried out in hospitality industry, I first searched the Mergers & Acquisitions transactions database provided by the Thomson Reuters's Securities Data Corporation (SDC) Platinum for acquisition deals during the time period between January 1, 2000 and December 31, 2012 (Cai & Sevilir, 2012; Haleblian & Finkelstein, 1999; Hayward & Hambrick, 1997; Laamanen & Keil, 2008) and then used the similar criteria (i.e., completed acquisitions, publicly traded U.S. companies, large acquisitions, separate acquiring firms and target firms, identifiable CUSIP number, sufficient information about the CEOs' demographic attributes, business experience and social network). Although there are no specific NAICS codes assigned to the hospitality industry according to the U.S. Census Bureau, some scholars suggested a list of elected NAICS codes pertaining to hospitality industry[8]. Adapted to their suggestion, hospitality companies in the present study refer to those who reported to have their primary business in a two-digit NAICS code 72 (which covers accommodation, food services and drinking places), three-digit NAICS codes 713 (which covers amusement parks, gambling, and recreation industries) and 487 (which covers scenic and sightseeing transportation industries), a four-digit NAICS

[8] "Selected NAICS Codes for Hospitality and Tourism", http://libguides.utsa.edu/tourism, retrieved on April 4, 2014.

code 5615 (which covers travel agencies, tour operators and other travel arrangement and reservation services), and four-digit NAICS codes 481111 (scheduled passenger air transportation), 481211 (nonscheduled chartered passenger air transportation), 481219 (other nonscheduled air transportation), 483112 (deep sea passenger transportation), 483114 (coastal and great lakes passenger transportation), 483212 (inland water passenger transportation) and 485320 (limousine service). With pooling all archival data from multiple source, eventually a total of 62 acquisitions conducted in hospitality industry were obtained. The size of the combined sample for the supplementary analysis therefore reached to 205 acquisitions (143 acquisitions from manufacturing industry, and 62 acquisitions from hospitality industry).

Table 2.4 provides some descriptions of the sub-sample of hospitality companies. It can be seen that in this sample acquisition events were distributed across years unevenly. The most active acquisition activities (16.13%) took place in the year of 2012. Acquiring firms of the sample came from various industries. The largest subgroups were from accommodation and food service (24 firms, accounting for 38.71% of the sample) and entertainment and recreation (24 firms, accounting for 38.71%). These two subgroups accounted for over three quarters of the sample. As for the target firms, i.e., the firms being acquired, the largest subgroup was also from accommodation and food service (24 firms, accounting for 38.71% of the sample).

Table 2. 4 Sample Distributions of Hospitality Industry

Description	N	Percentage
Year of Announcement		
2000	5	8.06
2001	4	6.45
2002	5	8.06
2003	3	4.84
2004	8	12.9
2005	3	4.84
2006	6	9.68
2007	8	12.9
2008	2	3.23
2009	3	4.84
2010	3	4.84
2011	2	3.23
2012	10	16.13
Total	***62***	***100***
Acquirer's Industry		
Accommodation and Food Services	24	38.71
Entertainment and Recreation	24	38.71
Transportation	10	16.13
Travel Arrangement and Reservation Services	4	6.45
Total	***62***	***100***
Target's Industry		
Accommodation and Food Services	24	38.71
Entertainment and Recreation	13	20.96
Transportation	11	17.75
Manufacturing	5	8.06
Real Estate and Rental and Leasing	3	4.83
Travel Arrangement and Reservation Services	3	4.84
Retail Trade	1	1.61
Finance and Insurance	1	1.61
Other Services (except Public Administration)	1	1.61
Total	***62***	***100***

Table 2.5 reported the means, standard deviations, and correlations of variables in study 1 for the combined industry. The average CARs using two-day window (0, +1) was -0.44% (s. d. = 6.18%), ranging from -17.84% to 24.60%. On average, each CEO had been working with the focal firm for 13.34 years (s. d. = 9.83 years), with a range from 0.5 to 39 years. There were 63.41% of the CEOs also assuming the responsibility of the chairman of the boards of directors of the focal firms. The amount of annual compensation (salary and bonus) each CEO earned was about 1.62 million on average. The CEOs were 55 years old on average. As for the deal characteristics, more than 90% of the acquisitions in the sample were friendly ones. More than 80% of them had external advisors involving in the deal process which included advisory, arranging financing, dealer managers, equity participants, fairness opinion, independent expert report, initiating deal, providing financing, representing board, government, and shareholders. There were about 50% acquisitions that were solely paid by cash, 10% were paid by stock only, and remaining 40% were paid by a combination of cash and stock. There were about 31% of the firms in the sample that carried out acquisition(s) in the past three years before the focal acquisition. Concerning firm characteristics, on average each firm had a total assets of 8.48 billion (s. d. = 14.27 billion). The average ROA in the previous year of the acquisition announcement was 10.50% (s. d. = 7.83%).

Table 2.5 Mean, Standard Deviation, and Correlation[a]

(Study 1, combined sample)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1. CAR (0, +1)	-0.004	0.062																	
2. CEO firm tenure	2.27	0.89	-0.02																
3. CEO duality	0.63	0.48	-0.01	0.20**															
4. CEO compensation	13.94	1.28	0.14*	-0.04	0.09														
5. CEO directorships	1.15	0.73	0.04	-0.14*	0.24***	0.03													
6. CEO age	4.00	0.13	-0.01	0.23**	0.24***	0.05	0.38***												
7. CEO's board ties	4.18	0.76	-0.13†	-0.01	0.07	0.00	0.29***	0.11											
8. CEO's financial expert ties	3.50	1.03	-0.12†	-0.03	0.15*	0.05	0.23***	0.08	0.86***										
9. Acquisition attitude	0.97	0.18	-0.04	-0.10	0.02	-0.04	-0.04	-0.06	0.06	0.05									
10. Involvement of acquirer advisors	0.84	0.37	-0.01	0.03	0.03	-0.02	-0.09	-0.08	0.11	0.13†	-0.08								
11. Cash payment	0.53	0.50	0.21**	0.09	0.05	0.12†	-0.04	0.02	0.20**	0.24***	0.09	-0.04							
12. Stock payment	0.10	0.30	-0.33***	-0.06	-0.04	-0.13†	0.01	0.04	0.00	-0.03	-0.11	0.15*	-0.36***						
13. Previous acquisitions	0.31	0.46	0.02	-0.04	-0.01	0.15*	0.08	0.06	0.07	0.09	-0.16*	0.01	0.03	-0.02					
14. Acquirer-to-target relatedness	0.68	0.47	-0.06	0.01	0.11	-0.11	0.04	-0.03	0.15*	0.17*	0.10	0.07	0.02	-0.01	-0.10				
15. Acquirer's firm size	8.00	1.47	-0.06	0.19**	0.22**	0.17*	0.12†	0.10	0.53***	0.63***	-0.04	0.07	0.14*	-0.05	0.16*	0.10			

16.	Acquirer's pre-acquisition performance	0.11	0.08	0.08	0.12†	0.09	0.05	-0.06	0.09	0.03	0.03	0.01	-0.04	0.05	-0.05	0.03	-0.03	0.13†	
17.	Board size	2.22	0.29	-0.07	0.23**	0.11	0.08	0.04	0.14*	0.47***	0.47***	0.04	0.03	0.18*	-0.07	0.13†	0.09	0.58***	0.09
18.	Industry growth	0.05	0.09	-0.04	0.13†	0.13†	-0.01	-0.17*	-0.10	-0.12†	-0.10	0.01	-0.02	0.06	-0.06	0.00	0.03	0.18*	0.08	0.06

N=205.

[a] Significant levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$, two-tailed tests.

Similarly, for the combined sample of manufacturing and hospitality industries, five models were estimated to test hypotheses 1 to 3. Table 2.6 reported estimates of CARs models. Model 4 included the control variables only. Model 5 added the effects of CEO firm tenure, its squared term, duality, compensation and directorship variables to Model 4. The interaction terms between CEO firm tenure, firm tenure squared variables and CEO duality, compensation and directorship variables were added in Model 6a to Model 6c. Overall chi-squares for these models indicate significant explanatory power.

Unfortunately, none of hypothesis 1 (which predicted that in the presence of CEO duality, there will be a U-shaped relationship between CEO's firm tenure and stock market reaction), hypothesis 2 (which predicted that when the level of CEO compensation was high, there will be a U-shaped relationship between CEO's firm tenure and stock market reaction) and hypothesis 3 (which predicted that when the level of CEO directorships was high. there will be a U-shaped relationship between CEO's firm tenure and stock market reaction in the presence of small boards), is not supported by Model 6a to 6c of Table 2.6. It indicated that the pattern of U-shaped tenure-CARs relationship found to exist in manufacturing acquisitions did not exist in the expanded sample of manufacturing and hospitality acquisitions.

Table 2.6 CEO Firm Tenure and CARs[abc]

(Study 1, combined sample)

Variables	Model 4	Model 5	Model 6a	Model 6b	Model 6c
Constant	0.053	0.050	0.051	0.114	0.110
	(0.131)	(0.151)	(0.151)	(0.147)	(0.150)
Controls					
CEO age	0.001	-0.013	-0.012	-0.013	-0.026
	(0.032)	(0.036)	(0.036)	(0.036)	(0.036)
CEO's board ties	-0.004	-0.007	-0.006	-0.004	-0.010
	(0.010)	(0.011)	(0.011)	(0.011)	(0.010)
CEO's financial expert ties	-0.008	-0.008	-0.009	-0.011	-0.006
	(0.008)	(0.008)	(0.009)	(0.009)	(0.008)
Acquisition attitude	-0.021	-0.020	-0.020	-0.021	-0.019
	(0.023)	(0.023)	(0.022)	(0.022)	(0.022)
Involvement of acquirer advisors	0.011	0.014	0.013	0.011	0.017
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Cash payment	0.020*	0.021*	0.021*	0.021*	0.022*
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Stock payment	-0.063***	-0.061***	-0.060***	-0.061***	-0.060***
	(0.014)	(0.014)	(0.014)	(0.014)	(0.014)
Previous acquisitions	0.002	0.000	0.000	0.001	-0.000
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer-to-target relatedness	-0.003	-0.002	-0.001	-0.001	-0.002
	(0.009)	(0.009)	(0.009)	(0.009)	(0.009)
Acquirer's firm size	0.002	0.002	0.001	0.000	0.001
	(0.004)	(0.004)	(0.004)	(0.004)	(0.004)
Acquirer's pre-acquisition	0.053*	0.066	0.064	0.060	0.074
performance	(0.053)	(0.053)	(0.053)	(0.053)	(0.052)
Acquirer's board size	-0.012	-0.006	-0.007	-0.007	-0.004
	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
Industry growth	-0.067	-0.050	-0.051	-0.049	-0.045
	(0.049)	(0.049)	(0.049)	(0.049)	(0.049)
Predictors					
CEO firm tenure		-0.002	-0.004	-0.002	-0.000
		(0.006)	(0.010)	(0.006)	(0.006)
CEO firm tenure squared		-0.000	-0.004	-0.000	0.001
		(0.004)	(0.007)	(0.004)	(0.004)
CEO duality		-0.005	-0.009	-0.007	-0.006
		(0.009)	(0.011)	(0.009)	(0.009)
CEO compensation		0.004	0.004	0.008	0.004
		(0.003)	(0.003)	(0.008)	(0.003)
CEO directorships		0.010	0.009	0.010	0.018
		(0.007)	(0.007)	(0.007)	(0.008)
Interactions					

CEO firm tenure			0.002		
X CEO duality			(0.011)		
CEO firm tenure squared			0.007		
X CEO duality			(0.009)		
CEO firm tenure				-0.007	
X CEO compensation				(0.005)	
CEO firm tenure squared				-0.000	
X CEO compensation				(0.005)	
CEO firm tenure					-0.004
X CEO directorships					(0.007)
CEO firm tenure squared					-0.003
X CEO directorships					(0.006)
Log likelihood	299.85	301.97	302.29	302.75	304.27
Wald χ^2	43.12^{***}	48.30^{***}	49.10^{***}	50.25^{***}	54.05^{***}
N	205	205	205	205	205

[a] Standard errors are in parentheses (significance levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$, two-tailed tests).

[b] The Wald χ^2 statistic is for the hypothesis that all of the independent variables of the model are jointly equal to zero.

[c] The variables used were slightly different from those used in manufacturing sample because some variables were not available for hospitality acquisitions (e.g., acquisition premium, since many hospitality targets were private firms).

2.6 Conclusions

The first study examined the non-linear relationship between CEO's firm tenure and stock market performance in the short run. Investors may consider the CEO of the acquiring firm as an important information source given their informational disadvantageous situation and may perceive CEO's firm tenure as a strong signal of the "quality" of the acquisition, or the degree of strategic fit that can be achieved. Firm tenure itself as a signal is not reliable enough to convince investors because they were concerned about discretion (mainly associated with short tenure) and motivation (mainly associated with long tenure). Thus investors will seek additional signals which indicate governance practices, such as CEO duality, CEO compensation and CEO

directorships to verify the signal effect of firm tenure. The results have shown that both of CEO duality, CEO compensation moderate the U-shaped relationship between CEO firm tenure and CARs surrounding the acquisition announcement. The results also revealed that for non-dual CEOs, there was an invert U-shaped relationship between CEO firm tenure and CARs, which was consistent with the traditional belief about the seasons paradigm of CEO tenure, which argued that the firm performance was related to CEO tenure in an inverted-U manner (Hambrick & Fukutomi, 1991). The results implied that duality may not be a bad thing at all times and an opposite view against traditional agency theory and provided support to stewardship theory. Additionally, results of supplementary analysis showed that U-shaped tenure-CARs relationship found to exist in manufacturing acquisitions did not exist in the expanded sample of manufacturing and hospitality acquisitions.

CHAPTER 3 STUDY 2

ACQUIRING CEOS AND RETAINED TARGET TOP EXECUTIVES: HOW DO THEY AFFECT POST-ACQUISITION FINANCIAL PERFORMANCE?

We may have observed that some acquisitions failed within a few years even if investors' reaction was positive when the transactions were announced. *McKinsey Quarterly* reported that up to 80% of acquisition activity failed to return greater yields than the annual cost of capital to finance the acquisition. Only 23% of the acquisitions were considered successful and 34% were later sold for a loss[9]. These figures explicitly demonstrated the substantial risk involved in these corporate combinations and the difficulty to improve financial performance once an acquisition deal closes (Butler, Perryman & Ranft, 2012). After all, the organizational complexity of an acquisition can be quite different from the strategic considerations driving the transaction (Jemison & Sitkin, 1986).

It has been well accepted that organizational fit, defined as the match between the managerial, personnel and cultural characteristics of the acquiring and acquired firms is one of the primary reason for acquisition failure (Datta, 1991; Jemison & Sitkin, 1986). Study 2 thus focuses on organizational fit in the post-acquisition stage. Organizational fit is particularly important at the top levels of the organization (Krishnan et al., 1997), i.e., the top management team, especially when considering that after an acquisition the composition of the TMT will change so as the team

[9] "Why mergers fail", McKinsey Quarterly, 2001 (4), pp. 6-10.

dynamics because some top executives originally from target firm may be retained and join the TMT of the newly combined firm. This means we need to understand whether the retained target top executives can affect post-acquisition performance by cooperating with the acquiring CEO and sharing their knowledge and skills. Prior studies have found that the retention of target top executives' human capital and social capital was one of the key determinants of post-acquisition success (Cannella & Hambrick, 1993). Thus, study 2 aims answer the following research questions: (1) Does the retention of target top executives affect post-acquisition performance? (2) Will this retention effect be constrained by some particular contextual factors (e.g., organizational factors)?

3.1 Theoretical Background

3.1.1 Organizational Fit And Post-Acquisition Performance

Since organizational fit and the realization of synergistic benefits are determinants of acquisition success in post-acquisition stage, it is important to insure a good organizational fit between the acquiring firm and the acquired entity (Jemison & Sitkin, 1986). It involves how they can be actually integrated with respect to day-to-day operations once an acquisition has been made (Jemison & Sitkin, 1986; Haspeslagh & Jemison, 1991).

Organizational fit can be assessed along a number of dimensions, such as business operation, administrative practice, reward and evaluation systems (Datta, 1991). However, the fit of TMT of the combined firm is one of the key dimension of

organizational fit. In fact, organizational fit has been found to be particularly important at the top levels of the organization (Krishnan et al., 1997). For one thing, given their position as apex of their organization (Mintzberg, 1979), TMT's substantial influence on firm strategy and performance through has been widely discussed in studies on upper echelon theory and strategic choice (e.g., Carpenter, Geletkanycz & Sanders, 2004; Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984; Hambrick, 2007). For another, the fit of TMT become especially relevant because the fact that after an acquisition some of top executives originally from the target firm now are retained and join the combined firm's TMT, which will change TMT composition as well as its team dynamics.

3.1.2 TMT Complementarity And Compatibility

Essentially, the fit of the combined firm's TMT is mainly about the TMT's complementarity and compatibility. As a matter of fact, one of the critical elements of organizational fit affecting acquisition performance is whether the TMT from the acquiring and acquired firm is complementary and compatible with one another (Haspeslagh & Jemison, 1991; Wiersema & Bantel, 1992). Mitsuhashi and Greve (2009) once introduced the concepts of complementary and compatibility as two critical matching criteria in alliance formation. They argued that the match quality of potential partners depended on the extent of complementary and compatibility of the combination. Two parties are defined the as "complementary" if they are different in a way that can be combined to create greater value. In other words, complementarity

contributes to fit through differences. From a resource-based perspective, whether an acquiring firm can achieve improved performance after an acquisition greatly depends on interdependence between its own resources and those of the target firm (King et al., 2008). Studies have shown that resource complementarity between the acquirer and target firm is associated with synergy realization and positive abnormal returns (Haleblian et al., 2009; Larsson & Finkelstein, 1999). By contrast, compatibility refers that the capabilities or resources can be combined to create value because they are similar or they share a standard interface. In other words, compatibility contributes to fit through similarities. Compatibility has been most used to describe a situation in which an element can function with other elements in a system without deterioration in overall performance (Farrell & Saloner, 1985). Studies have shown that incompatibility in culture between the acquirer and target firm is often related to so-called “cultural clash”, which may bring difficulties to post-acquisition stage. Since post-acquisition integration also involves combining managerial resource held by two firms, it is reasonable to apply the concepts of complementary and compatibility to post-acquisition context at TMT level.

In acquisition context, TMT complementarity is largely to be manifested by complementarity of competency which refers to that different or dissimilar skill sets and backgrounds offset one another (Barney, 1986) as any actions top managers take to manage post-acquisition integration are based on their interpretation of both internal and external environment shaped by their backgrounds and experience. In the presence of competency complementarity, top executives from the acquiring and target firm are

familiar with and specialized in their own organization and such competency complementarity is crucial to post-acquisition performance because weakness in one organization's TMT can be offset by corresponding strength in the other organization's TMT (Porter, 1987; Haspeslagh & Jemison, 1991; Krishnan et al., 1997). Therefore, both researchers and managers have emphasized the importance of complementarity, or fit, between the two joining top management teams and its positive influence on post-acquisition performance (Datta, 1991; Haspeslagh & Jemison, 1991; Jemison & Sitkin, 1986; Krishnan et al., 1997; Ravenscraft & Scherer, 1987). As for TMT compatibility, it is largely reflected by compatibility in goals, value and motivation between the TMT members from the acquiring firm and the target firm. Group and diversity literature has suggested that dissimilarities in value, goals and motives would result in interpersonal disagreements, which in turns cause emotional conflict and performance loss (Eisenhardt & Pelled, 1999; Jehn, Northcraft & Neale, 1999; Pelled, 1996).

In the following sections, I first develop a baseline model to examine the effect of retained target top executives on post-acquisition performance. Then I examine whether the retention effect will be constrained by critical organizational factors which may be indicative of the extent of complementary and compatibility.

3.2 Hypotheses

3.2.1 Retention of Target Top Executives

In previous studies on post-acquisition, acquisition failure was often attributed to the departure of target top executives. The retention of target top executives' human capital

and social capital was considered as one of the key determinants of post-acquisition success (e.g., Cannella & Hambrick, 1993).

First of all, from a resource-based perspective, , executives from acquired firms are considered to be an intrinsic component of the acquired firm's resource base (Cannella & Hambrick, 1993; Castanias & Helfat, 1991) and was critical to acquisition success (Jemison & Sitkin, 1986). Acquisitions are perceived as to create uniquely valuable and difficult-to-imitate combinations of its resources with those of the acquired firm by the acquiring firm in order to gain economies of scale and scope and earn positive returns on its investment (Barney, 1991; Lubatkin, 1987; Rumelt, 1974; Salter & Weinhold, 1979; Singh & Montgomery, 1987). One of the most valuable part of the resources obtained in the acquisition is the human and social capital embedded in the acquired firm's employees, particularly in its top management team (Zollo & Singh, 2004). It is often referred as managerial resources, which are embodied in the experience, judgment, knowledge, skills, and expertise possessed by the managers (Castanias & Helfat, 1991; 2001).

Executives from the acquired firm have a deep understanding of their own organization, including its values, traditions, operations and processes (Mintzberg, 1987). Their firm-specific knowledge of the acquired company's history, its culture, relationships with significant others (e.g., suppliers, buyers, competitors) and the underlying political structure of the organization would be valuable for effective implementation of the acquisition (Bergh, 2001). In particular, these knowledge can facilitate resource reconfiguration and aid in realizing the potential value from an

acquisition in the post-acquisition phase. Graebner (2004) even argued that the retained top managers can not only interact with the acquiring firm to reconfigure resources and realize planned synergies but also uncover new opportunities for resource recombination and unlock the potential for entirely unexpected forms of synergy.

By contrast, unlike the top executives from the acquired firm, those from the acquiring firm may initially possess insufficient information about where valuable resource resides in the acquired organization, especially when those resources are knowledge-based and socially complex (Coff, 1999; Ranft & Lord, 2002; Ranft et al., 2010). If these executive depart, because their tacit knowledge of the acquired organization, its culture, systems, relationships, and resources was intimate and nontransferable, they will not be easily observed or replaced from outside the acquired firm. It will be costly and time-consuming for new executives to gain familiarity in their new positions and establish new networks of contacts to accomplish managerial activities (Cannella & Hambrick, 1993), which may result in distraction and delayed realization of synergies, leading the combined firm to miss a probably short market window for its product or service (Graebner, 2004).

Second, the retention of top executives from the acquired firm can provide leadership continuity that helps alleviate problems such as uncertainty and negative reactions as well as “culture clash” (Weber et al., 1996), which are usually prevailing in an acquisition. The retained top executives can help in communication with employees within the acquired units as the acquired employees will first turn to these executives for information (Ranft et al., 2010). Studies have found that such communication during

the acquisition integration can help reduce potential dysfunctional outcomes such as increased stress and uncertainty (Schweiger & Denisi, 1991), and in turns, reduce the turnover of employees from the acquired organization especially those key employees (Krug & Hegarty, 2001) and increase acquisition satisfaction (Saxton & Dollinger, 2004). The retention of top executives can also help to solve conflicts and build trust between acquired and acquiring employees, and therefore promote transferring and integrating knowledge (Ranft & Lord, 2002; Ranft et al., 2010). By contrast, a dramatic executive succession may be considered with suspicion or alert by acquired employees and its external stakeholders (Siehl, Smith & Omura, 1990) and push the acquired organization to a state of "anxious paralysis" (Cannella & Hambrick, 1993) or an internally induced "threat-rigidity response" (Staw, Sandelands & Dutton, 1981) and potentially jeopardize the prospects of the acquisition, particularly given the fact that those employees have already experienced anxiety and ambiguity caused by the acquisition itself.

Besides, the effect of retention of target top executives can be also examined from learning perspective. The acquiring firm's top management can learn about the acquired firm and its resources from the retained target top executives, including learning about its new markets, long-term relationships with suppliers and buyers, traditions and history of its culture, intangible capabilities and routines, and its underlying political structure (Jemison & Sitkin, 1986; Haspeslagh & Jemison, 1992; Nadolska & Barkema, 2007).

Previous studies have provided empirical evidence showing the relationships

between top executive retention and acquisition outcomes. For example, using a sample of 96 acquisitions that took place between 1980 and 1984, Cannella and Hambrick (1993) concluded that the departure of executives from acquired firms is harmful to post-acquisition performance, measured by scores given by expert informants consisting of executives and security analysts. Krishnan et al. (1997) used a sample of a sample of 147 publicly held firms that undertook acquisitions during 1986, 1987, and 1988 and reported that top management team turnover among acquired managers is negatively related to post-acquisition financial performance. Zollo and Singh (2004) used a sample of 228 acquisitions in the U.S. commercial banking industry and found that replacing top managers in the acquired firm negatively impacts post-acquisition performance, measured as the difference between return on assets (ROA) of the acquiring bank three years after the acquisition and that of one year before the acquisition, arguing that because it entailed the loss of human and social capital caused by the departure of top executives from acquired firms. I therefore predict:

Hypothesis 4: There will be a positive relationship between retention of target top executive and post-acquisition financial performance.

However, the retention of target top executives is simply a prerequisite to post-acquisition success. To what extent the knowledge and skills of these top executives are actually used and contribute to post-acquisition performance may be largely influenced by whether their knowledge and skills complement those of acquiring firm's top executive and whether their motivations are compatible, or whether those retained target top executives are willing to cooperate and share their knowledge and skills. Put

differently, retaining target top executives merely implies the availability of target top executives' knowledge and skills, or the "presence" of their knowledge and skills. Nevertheless, the presence of target top executives' knowledge and skills does not guarantee the "use" of such knowledge and skills. The distinct between the presence and use of knowledge and skills has been discussed in studies on board process (e.g., Forbes & Milliken, 1999; Jackson, 1992). Scholars argued that the presence of board's knowledge and skills was an "input" variable representing that the knowledge and skills were present on the board, while the use of board's knowledge and skills was a "process" variable representing how the board tap the knowledge and skills and apply them to its tasks (Forbes & Milliken, 1999). When it comes to post-acquisition context, retention of target top executives represents the presence of their knowledge and skills, while the use of knowledge and skills refers to the way in which retained target top executives share their knowledge and skills to facilitate the integration of the two firms and improve post-acquisition performance.

In particular, the extent of which retained knowledge and skills can be used depends upon the complementarity of knowledge and skills and compatibility of motivation between the acquiring firm's top executives and the target top executives. The use of knowledge and skills will be largely compromised if expertise and competencies of the acquiring firm's top executives and the target top executives are highly similar, or the target top executives are unwilling to share or cooperate. As discussed in previous section, the retention of target top executives is of significant importance is mainly because it brings firm-specific knowledge about target firm's business, operations,

processes and cultures, which is necessary for the post-acquisition integration yet the acquiring firm's executives does not have. However, their knowledge and skill sets may be similar to some extent if the two firms operate in similar industries. Comparable firm size may also hurt post-acquisition integration since it may jeopardize retained target executives' motivation to cooperate and sharing their knowledge and skills. Consequently, the retention of target top executives will become less important for acquisition cases in which the acquiring and target firms come from highly related industries and they are comparable in firm size.

Therefore, I argue that acquisition relatedness and relative acquisition size, which are two of the most important deal characteristics, can represent the TMT competency complementarity and motivation compatibility and have a great impact on the extent to which retained target top executives contributes to post-acquisition integration.

3.2.2 The Moderating Effect of Acquisition Relatedness

Acquisition relatedness is defined as the extent to which the acquiring and acquired firms serve similar customer, operate in similar markets s or utilize similar production processes (Rumelt, 1974; Porter, 1987). Accordingly, it is likely that top executives from the two firms share similar experience and background and possess similar knowledge and skills when the acquisition is highly related. Since complementarity has been regularly interpreted as different or dissimilar skill sets and backgrounds, the degree of complementary of knowledge and skills between top executives from the acquiring and acquired firms tends to be low for related acquisition. As a result, the

acquiring CEO may be not so eager to have the target top executives to transfer their expertise and capabilities even they are retained after the acquisition as they are likely to become redundant and replaceable in related acquisition.

There is little managerial resource complementary but managerial resource redundancy in related acquisitions. Thus the retention of target top executives becomes less relevant to post-acquisition performance. Higher relatedness between the acquiring and acquired firms suggests greater redundancies and duplication in their activities (Krishnan, Hitt & Park, 2007). Therefore, the acquiring firm's top executives are more likely to have enough knowledge and skills relevant to the operation of acquired businesses (Cannella & Hambrick, 1993), which can attribute to the similar field of expertise, shared concepts (Huff, 1982), industry recipes (Spender, 1987) as well as homogeneous industrial environment shared by the two firms. Obviously, industry familiarity can eliminate or significantly diminish the need for acquiring firm managers to "learn" the business of the acquired firm (Hitt, Harrison, & Ireland, 2001) and is often perceived as a key factor to the successful post-acquisition integration of the acquired business. The acquiring firm's executives are more likely to effectively employ their "dominant logic" or common conceptualization of the success requirements in an acquired business (Prahalad & Bettis, 1986). As a result, the acquiring firm's TMT can assume most of the former responsibilities of the acquired firm's TMT (Porter, 1987). It will make the retained target top executives redundant, irrelevant and replaceable (Walsh, 1989).

Compare to related acquisitions, however, in unrelated acquisitions, the acquiring

firm has little experience relevant to the operation of acquired businesses. Since there are considerable differences in their knowledge and skills, the acquiring firm may be greatly dependent upon the retained top executives because they cannot afford to lose the specialized competencies of the retained top executives (Krishnan et al., 1997). Haspeslagh and Jemison (1991:54) once observed that "the farther a potential acquisition candidate is from [an acquiring] manager's experience base, the less capable he or she will be of asking the right questions or searching for the right information". Thus, when the acquiring firm and target firm are from different industries and are unlikely to share many organizational characteristics, the utility of knowledge flows from target executives to acquirer executives is likely to be relatively greater than when the acquirer and the target operated in the same industry. The effect of acquisition relatedness is consistent with studies examining the work force reduction in acquired firms and its impact on subsequent performance (Bowman & Singh, 1993; Walsh, 1988). Also building from the perspective of resource-based view, they argued that work force reduction would be more pronounced in related acquisitions because of perceived redundancies (Healy et al., 1992), and in turns would result in operational synergies, such as economies of scale and scope, in the process of integrating the acquired firm into the new organization (Lubatkin, 1983; Capron, 1999).

In addition, team diversity literature also provide some insights regarding the role of relatedness acquisition in the relationship between retention and post-acquisition performance. Diversity is referred to the distribution of differences among members of a unit with respect to some particular attributes (Harrison & Klein, 2007). From a

decision-making perspective, the “value-in-diversity hypothesis” asserts that diversity can enrich the supply of ideas, unique approaches, and increase the information and knowledge available for problem solving and in turn enhance the group’s ability to generate correct or creative solutions to problem and lead to enhancing unit creativity, quality of decision making, and complex performance (Williamson & O’Reilly, 1998). In the context of acquisition, for unrelated acquisitions, a high degree of complementary between top executives from the acquiring firm and target firm will indicate a highly diverse top management team as they have built different knowledge background from previous work experience with their original organizations. As suggested by diversity literature, these diverse top management team can bring unique expertise, knowledge, ideas and perspectives to discussion and improve its problem-solving ability and creativity, which can lead to high quality strategic decisions concerning how to build on existing capabilities and grasp new growth opportunities (Haspeslagh & Jemison, 1991).

There are little empirical studies examining the contextual effect of acquisition relatedness on the departure/retention-acquisition performance relationship except a few (Cannella & Hambrick; 1993). However, there are some empirical studies examining the effect of acquisition relatedness on post-acquisition turnover of target executives. Buchholtz, Ribbens and Houle (2003) argued that both the acquiring firms and acquired CEOs appeared to weigh the costs of firm-specific CEO human capital investment against the perceived value of those returns. In a sample of 181 firms that completed tender offers during the period 1987-1990, they used survival analysis to test

their hypotheses and found that the level of relatedness between an acquiring firm and a target firm had a positive relationship with the rate of post-acquisition departure of target firms' CEOs. In the present study, I therefore predict:

Hypothesis 5: The positive relationship between retention of target top executives and post-acquisition financial performance will be stronger when the acquisition is unrelated.

3.2.3 The Moderating Effect of Relative Acquisition Size

Relative acquisition size is defined as relative firm size of the acquired firm to the acquiring firm (i.e., the ratio of firm size of the two firms) (Haleblian & Finkelstein, 1999). Relative acquisition size is closely related to the compatibility between the acquiring firm's and target firm's top executives in terms of motivation. While TMT complementarity in related acquisitions mainly focuses on the heterogeneity of knowledge and skills about production process itself, TMT compatibility considering in relativeness of acquisition size emphasizes the homogeneity of goals and motivation. Comparable-size acquisitions may cause motivation and coordination problems during the post-acquisition integration. From the perspectives of retained target top executives, relative acquisition size may have a substantial influence their motivation to devote their human and social capital to post-acquisition integration because of power asymmetry (Finkelstein, 1992; Hambrick, 2007) and difference in bargaining position.

First of all, relative size of the acquired firm to the acquiring firm also affect power distribution among subgroups splitting by their origins (acquired firm or acquiring firm)

in the joining TMT (Carpenter et al., 2004; Finkelstein & Hambrick,1996). Relative size can contribute to relative subgroup power and the likelihood of subgroup members voicing their opinions and enacting their suggestions (Lau & Murnighan, 1998). Pfeffer (1981) defined power as the capacity (or potential) of an individual to exert influence to change the behavior of a person or group in some intended fashion and was always relative to other social actors (e.g., other TMT members). Powerful executives have the ability to influence strategic decision such as resource allocation. Finkelstein (1992) firstly explored the role of intra-TMT power distributions in strategic behaviors. He found that those companies with powerful TMT members with finance backgrounds tended to make more acquisitions. As for the retention of target top executives, it created two subgroups splitting along their original firms. The relative size of the acquired firm to the acquiring firm implies their relative subgroup power. When the acquired firm is relatively large compared with the acquiring firm, the retained executives tend to possess more social power and receive more internal support. They are more likely to have more opportunities to influence strategic decisions when discussing important issues such as how many resources will be transferred from or to the acquired firm, rather than share their knowledge and skill and cooperate with other TMT members from the acquiring firm. Therefore, when the acquired firm is relatively large, it may lead to negative reactions from the retained executives such as resisting any strategic changes of post-acquisition integration, being rigid and committed to established courses of action (Hambrick & Fukutomi, 1991), committed to the strategic status quo (Hambrick, Geletkanycz & Fredrickson, 1993) and vulnerable to a “stale in

the saddle" syndrome (Miller, 1991).

Second, when the acquired firm is relatively large compared with the acquiring firm, the retained top executives are likely to leverage their relatively favorable negotiating position and use tactics to require exchanges of resources in the pursuit of their self-interest, even at the expense of the acquiring firm. Once an acquisition is completed, the retained target top executives will experience a process of organizational socialization, or so-called "getting on board", which refers to the process by which newcomers make the transition from being organizational outsiders to being insiders (Ashforth et al., 2007; Bauer et al., 2007). As suggested by organizational socialization literature, newcomers will use a variety of adjustment strategies to realize this transition, including proving, giving, exchanging and negotiating (Cooper-Thomas et al., 2012). For the strategy of proving, newcomers aim to advertise or demonstrate their abilities in order to gain credibility, and hence to obtain a preferred role or boss, or be assigned to a specific project or team. A strategy of giving basically means giving information, where the newcomers provide information or advice to oldtimers. The remaining two strategies, exchanging and negotiating, are more power-related. Exchanging refers to the newcomers trading resources with oldtimers, i.e., providing industry contacts, expertise or experience in return for desired roles, project/team assignments or other useful resources. As for negotiating, it refers to discussing on role expectations with oldtimers who will rely on newcomers in some capacity (e.g. to provide industry information). Which adjustment strategies the newcomers will use may be contingent upon their needs. Consequently, newcomers are more likely to use proving and giving

strategies when they need for achievement and affiliation, whereas use exchanging and negotiating strategies when the need for autonomy and dominance are more salient. In the context of post-acquisition, during the organizational socialization process, when the acquired firm is relatively large compared with the acquiring firm, the retained top executives' desire for autonomy and dominance may become salient and therefore use strategies of exchanging and negotiating. They are unwilling to share their knowledge, skills, expertise, information and network regarding the acquired business and the industry where it operated unless the oldtimers, i.e., TMT members from the acquiring firm offer them with valuable resources and favorable treatment and nominate them to desirable roles (e.g., pay rise, privilege, and promotion), even at the expense of the new organization. By contrast, when the acquired firm is relatively small compared with the acquiring firm, the retained top executives will be strongly eager to fit into the new organization and show their legitimacy. Therefore they are more likely to have a strong propensity to work hard, share their knowledge, skills, expertise, information, cooperate with other TMT members and proactively integrate into the new organization without asking for too much economic return, in order to demonstrate their abilities and gain acceptance from other TMT members coming from the acquiring firm.

In sum, when the acquired firm is relatively large compared with the acquiring firm, the retained target top executives may be unwilling to share their knowledge and skills, resist organizational changes, exert influence on strategic decisions in favor of their own benefit, and set organizational benefit aside for their self-interest. Therefore, one may expect that conflicts and disputes become more probable, while agreement and

cohesion become more difficult. The joining TMT will thus experience more intense team dynamics and successful completion of mutual team tasks, i.e., post-acquisition integration, will be greatly jeopardized.

There has been little empirical evidence showing the moderating role of relative acquisition size on the relationship between retention of target top executives and post-acquisition performance. However, there are some empirical studies examining the effect of relative size on post-acquisition performance. For example, Kusewitt (1985) used a sample of 138 active acquiring firms which had accomplished about 3500 acquisitions during the 1967-1976 time period in U.S. and found that there was a significant negative relationship between relative size and post-acquisition performance. The measure of relative size is the target's asset as a percentage of the acquirer's assets at the end of the year prior to acquisition. Post-acquisition performance was measured as accounting return on assets (ROA) one year after the acquisition. Gerpott (1995) used a sample of 92 acquisitions made by German companies in 1988 and found that relative size was negatively related to post-acquisition performance. I therefor predict:

Hypothesis 6: The positive relationship between retention of target top executives and post-acquisition financial performance will be stronger when the target firm is relatively small to the acquiring firm.

The theoretical framework of study 2 was presented in Figure 3.1.

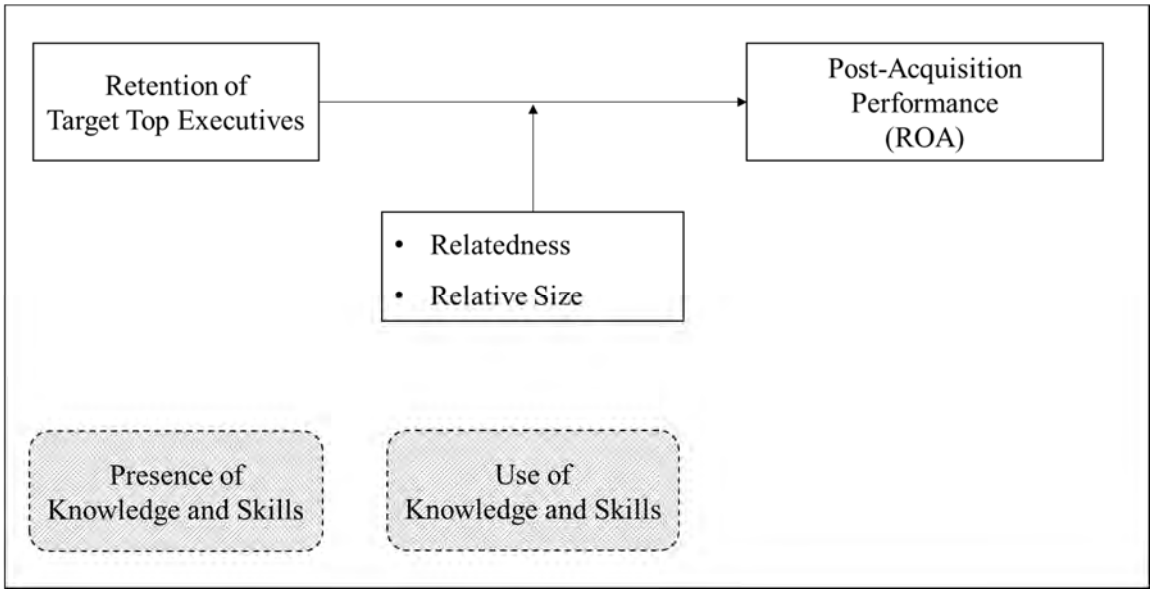


Figure 3. 1 Theoretical Framework of Study 2

3.3 Research Methodology

3.3.1 Sample Selection and Data Sources

Similar to the procedures of sample selection in Study 1, I first searched the Mergers & Acquisitions transactions database provided by the Thomson Reuters's Securities Data Corporation (SDC) Platinum for acquisition deals during the time period between January 1, 2000 and December 31, 2012 (Cai & Sevilir, 2012; Haleblian & Finkelstein, 1999; Hayward & Hambrick, 1997; Laamanen & Keil, 2008) and then used the same criteria (i.e., completed acquisitions, publicly traded U.S. manufacturing companies, large acquisitions, separate acquiring firms and target firms, identifiable CUSIP number, sufficient information about the CEOs' demographic attributes, business experience and social network) to obtain a sample of 1,105 acquisitions made by 540 acquiring firms. However, for an acquisition to be included in the sample of Study 2, an important criterion, which was different from those in Study 1, was further employed. Because

study 2 focuses on the effect of retained target top executives on firm performance after acquisitions, only those acquisitions in which the acquiring firm's CEO the year when the acquisition was announced and the new firm's CEO the year following the focal acquisitions was the same person were kept in the sample of Study 2 to eliminate as many confounding events as possible, e.g., CEO succession. If the CEO of the acquiring firm changed after the acquisition, CEO succession accompanied acquisition would have an influence on firm performance other than the acquisition itself. If the CEO stayed after the acquisition, other things being equal, any improvements in firm performance may be attributed to the retention of target top executives. For example, for an acquisition taking place in year 2000, I will compare whether the CEO of the acquiring firm in year 2000 was the same as that in year 2001. An acquisition would be excluded from the sample if the CEO stepped down one year after the acquisition was announced. A total of 381 acquisitions was thus removed using this "same-CEO" criterion.

Similar to study 1, archival data from multiple sources were used to construct all the variables used in study 2. It involved the following steps:

(1) Announcement date. Since the dependent variable was ROA one year after the acquisition, I had to first identify the date when an acquisition was announced. Information needed for determining the date was obtained from SDC Platinum.

(2) CEO/TMT/Board's information. Next, information about CEOs, other TMT members (holding a title above the rank of vice president) or directors such as their names, ages, job titles and firm tenures of each firm one year after the

announcement were manually collected from annual reports, proxy statements and other relevant filings in SEC' EDGAR system. For example, information on the CEO, TMT and directors of an acquiring firm in year 2001 were recorded when the firm once undertook acquisition(s) in the year 2000. Once the list of CEOs, TMTs and boards of directors of each acquiring firm were constructed, more detailed information on their career experience and social ties were then derived from BoardEx.

(3) Financial data. Finally, financial data of the sampled firms were obtained from COMPUSTAT. In particular, financial data required to calculate ROA were derived from COMPUSTAT.

After archival data from multiple sources were merged together, a total of 572 acquisitions were excluded because only those observations without any missing value were kept. The final sample that remained after the above exclusions and merging consists of 162 acquisitions made by 123 acquiring firms involving 127 CEOs[10] for testing executive effect on post-acquisition performance in Study 2.

3.3.2 Variable Measurement

Dependent Variable

Return on assets (ROA). A major difference between study 1 and study 2 is that the performance outcome of acquisition in study 2 was defined as the firm's post-

[10] The reason why 123 acquiring firms were involving 127 CEOs is that there were three of the acquiring firms undertaking multiple acquisitions experienced CEO successions between different acquisitions (not before and after a single acquisition) and one of the acquiring firms undertaking one acquisition had two co-CEOs. For the co-CEO case, all CEO-related variables were taken averaged.

acquisition accounting performance, i.e., return on assets (ROA) one year after for the combined firm because the purpose of study 2 is to examine the actual outcomes of those acquisitions, or whether or not the expected synergistic potential would be realized in the post-acquisition phase, and firm performance would be improved in the long run. Studies have pointed out that accounting performance represent the realized outcomes of managerial decisions since they are less susceptible to the influence of exogenous factors unrelated to managerial actions (Finkelstein & D'Aveni, 1994). As a common gauge of organizational profitability, ROA can capture the degree to which management has effectively deployed firm assets so it is useful in assessing the performance implications of business strategies. In acquisition literature, for example, Kusewitt (1985) investigated the relationship of common factors of acquisition strategy to the post-merger financial performance of acquiring firms in the long run, which was measured by ROA. In the present study, post-acquisition performance was thus measure as ROA for the combined firm in the year following the acquisition. The measure was taken for t+1 in recognition of the delay between the time when acquisitions were undertaken and their impact was reflected in performance data to give enough time to realize effects associated with synergy. Data for ROA were obtained from COMPUSTAT.

Independent Variables

Retention of target top executives. I created a dummy variable to identify whether or not there were any TMT members in the combined firm who were target top executives

retained from the target firm one year after the acquisition, which was coded 1 if there were any target top executives who were retained in the combined firm and 0 otherwise. Data was obtained from annual reports of EDGAR system.

Acquirer-to-target relatedness. The measure was the same with that in study 1.

Relative acquisition size. Adopted from Asquith, Bruner, and Mullins (1983) and Haleblian and Finkelstein (1999), I first calculated the ratio of target's total assets to acquirer's total assets. Consistent with then I developed a discrete variable to classify relative acquisition size as "big" and "small". The relative size of an acquisition was classified as "big" when the ratio of target's total assets to acquirer's total assets was over the 50^{th} percentile. Otherwise, they were classified as "small". An acquisition with big relative size was coded as 1 and 0 otherwise. Data was obtained from SDC Platinum and EDGAR system.

Control Variables

Similar to study 1, I included four different sets of control variables, which have been related to acquisition performance in prior empirical studies.

- CEO characteristics

CEO age. The measure was the same with that in study 1.

CEO's functional diversity. CEO's functional diversity gauges the extent to which a CEO is a narrow functional specialist or broad generalist (Bunderson & Sutcliffe, 2002). To measure functional diversity, I modified the approach suggested by Bunderson and Sutcliffe (2002) and Cannella, Park and Lee (2008). According to their approach, first

a CEO's career track record was reviewed to see whether he/she has worked in one of eight functional tracks (production-operations; R&D and engineering; accounting and finance; management and administration; marketing and sales; law; personnel and labor relations; other). Second, a functional diversity score was computed as follows:

$$1 - \sum_{i=1} P_i^2$$

P_i was the proportion of total years spent in function i. However, because I were unable to obtain sufficient information on time spent in each function, I weighted each functional areas equally. Then, this variable was normalized so that it ranged from 0 (low functional diversity) to 1 (high functional diversity) and log transformed. Data were collected from BoardEx database.

CEO's firm tenure. The measure was the same with that in study 1.

CEO duality. The measure was the same with that in study 1.

CEO's CEO ties. The measure was the same with that in study 1.

CEO's board ties. The measure was the same with that in study 1.

CEO's financial expert ties. The measure was the same with that in study 1.

- Deal characteristics

Acquisition attitude. The measure was the same with that in study 1.

Involvement of acquirer advisors. The measure was the same with that in study 1.

Payment method. The measure was the same with that in study 1.

Previous acquisitions. The measure was the same with that in study 1.

- Firm characteristics

Acquirer's pre-acquisition performance. The measure was the same with that in study

1.

Acquirer's diversification. The measure was the same with that in study 1.

- Industry and period characteristics

Industry growth. The measure was the same with that in study 1.

Period effect. The measure was the same with that in study 1.

3.3.3 Data Analysis

Similarly to Study 1, I also used the generalized least squares (GLS) regression method to analyze the pooled cross-sectional time-series data (xtgls, Stata 13) to address the issue of homoskedastic as well as autocorrelation (zhang & Rajagopalan, 2010).

3.4 Results

3.4.1 Descriptive statistics

Table 3.1 reported the means, standard deviations, and correlations of variables in study 2 for the manufacturing industry. The average post-acquisition ROA was 7.56% (s. d. = 9.97%) with a range from -47.57% to 36.73%.

On average, each CEO in the sample had been working with the focal firm for almost 13 years (s. d. = 9.58 years). There were more than 50% CEOs serving the focal firms for more than 10 years. 56% of the CEOs also assumed the responsibility of the chairman of the boards of directors of the focal firms. The CEOs were 53 years old on average. Each CEO took part in 1.33 acquisitions acting as either CEO or other TMT

members in the focal firm or other firms in the previous five year of the year of announcement on average. Among them, about 41% were never involved in acquisitions as either CEO or other TMT members in the focal firm or other firms. In contrast, about 5% were once involved in more than five acquisitions. With respect to the social ties, on average, each CEO was linked to 10.53 CEO of other organizations, 74.07 directors and 51.98 financial experts (i.e., persons holding finance-related job titles) through directorships, former colleagues, alumni network, club membership, professional organization/trade association membership, or charity organization involvement. It is worth to note that there were about 10% of the sampled firms that retained at least one top executives from the target.

As for the deal characteristics, about 98% of the acquisitions in the sample were friendly ones. About 78% of them had external advisors involving in the deal process. There were 51% of the acquisitions that were solely paid by cash, 11% were paid by stock only, and remaining 38% were paid by a combination of cash and stock. There were 35% of the firms in the sample which have carried out acquisition(s) in the past three years before the focal acquisition. There were about 73% of the acquisitions which were related acquisitions, i.e., the top six industries in which the acquirer and target operated at the time of the acquisition shared the same 4-digit NAIC code. The average relative size of target to acquirer was 25% (s. d. = 1.88).

Concerning firm characteristics, the average ROA in the previous year of the acquisition announcement was 8.29% (s. d. = 9.53%). The average entropy index of diversification was 0.62 (s. d. = 0.55). About 34% of the firms had an entropy index

that equaled to 0 and 29% of them had an entropy index bigger than 1.

Several significant correlations shown in Table 3.1 were worth mentioning. For example, there were positive correlations between post-acquisition ROA and CEO's past acquisition experience ($r = 0.16$, $p < 0.05$), CEO's CEO ties ($r = 0.16$, $p < 0.05$), CEO's board ties ($r = 0.22$, $p < 0.01$), CEO's financial expert ties ($r = 0.22$, $p < 0.01$). There were negative correlations between relative size of target to acquirer and CEO's past acquisition experience ($r = -0.33$, $p < 0.01$), CEO's functional diversity ($r = -0.16$, $p < 0.05$), CEO's CEO ties ($r = -0.21$, $p < 0.01$), CEO's board ties ($r = -0.26$, $p < 0.001$), CEO's financial expert ties ($r = -0.39$, $p < 0.001$), acquisition attitude ($r = -0.16$, $p < 0.05$) and a positive correlation between relative size of target to acquirer and involvement of acquirer advisors ($r = 0.20$, $p < 0.05$).

Table 3. 1 Mean, Standard Deviation, and Correlation[a]

(Study 2, manufacturing sample)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1. Post-acquisition ROA	.08	.10																		
2. Retention	.10	.30	-.02																	
3. Acquirer-to-target relatedness	.73	.44	.09	-.04																
4. Relative size	.51	.50	-.09	.12	.11															
5. CEO age	3.97	.12	.13	-.02	.02	-.03														
6. CEO functional diversity	-1.35	.34	.04	.10	.00	-.16*	-.12													
7. CEO firm tenure	2.18	.89	.15†	-.12	.05	-.01	.29***	.07												
8. CEO's CEO ties	2.01	.84	.16*	-.07	.08	-.21**	.29***	.08	-.03											
9. CEO's board ties	4.14	.59	.22**	-.09	.15†	-.26***	.27***	.14†	.12	.83***										
10. CEO's financial expert ties	3.50	.96	.22**	-.03	.09	-.39***	.13	.17*	.03	.74***	.82***									
11. Acquisition attitude	.98	.16	-.01	-.08	.08	-.16*	-.11	-.04	-.10	.06	.05	.08								
12. Involvement of acquirer advisors	.78	.41	.02	.07	.09	.20*	-.04	-.11	-.03	.01	-.03	-.05	-.08							
13. Cash payment	.51	.50	.30***	-.05	-.08	-.20*	.13†	.02	.09	.09	.09	.16*	.08	-.09						
14. Stock payment	.11	.32	-.33***	.01	.03	.11	-.07	-.01	-.14†	-.14†	-.18*	-.11	.06	.09	-.36***					
15. Previous acquisitions	.35	.48	.20*	-.11	-.03	-.19*	.02	.03	.14†	.16*	.24**	.32***	-.22**	.00	.16*	-.09				

16. Acquirer's pre-acquisition performance	.08	.11	.58***	-.06	-.02	-.23**	.19*	.06	.23**	.13	.20**	.25**	-.05	.02	.23**	-.22**	.21**		
17. Acquirer's diversification	.62	.55	.16*	-.11	-.06	-.31***	.11	-.06	.11	.28***	.31***	.44***	.01	-.02	.21**	-.08	.29***	.18*	
18. CEO duality	.56	.50	.12	-.08	.00	-.09	.32***	-.05	.19*	.10	.23**	.16*	.02	-.05	-.05	-.04	.13	.08	.18*
19. Industry growth	.05	.10	-.05	-.08	.05	-.08	.03	.04	.19*	-.06	.04	.06	.12	-.07	.04	.01	.10	-.03	.09	.08

N=162.

[a] Significant levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$, two-tailed tests.

3.4.2 Regression results

Four models were estimated to test hypotheses 4 to 6. Table 3.2 reported estimates of post-acquisition ROA models. Model 7 included the control variables only. Model 8 added the effects of retention, acquirer-to-target relatedness, and relative size of target to acquirer variables to Model 7. The interaction terms between retention variable and acquirer-to-target relatedness and relative size of target to acquirer variables were added in Model 9a to Model 9b. Overall chi-squares for these models indicate significant explanatory power.

Hypothesis 4, which predicted that there would be a positive relationship between retention of target top executives and post-acquisition accounting performance, is not supported by Model 8 of Table 3.2. The effect of retention is not significant.

Hypothesis 5 predicted that in unrelated acquisitions, the positive relationship between retention of target top executives and post-acquisition accounting performance would be stronger. In Model 9a, the effect of retention is positive and marginally significant ($b = 0.068$, $p < 0.10$), the interaction effect of retention and acquisition relatedness is negative and marginally significant ($b = -0.081$, $p < 0.10$), and the effect of acquisition relatedness is positive and marginally significant ($b = 0.027$, $p < 0.10$). These results suggest that acquisition relatedness moderate the effect of retention, which indicates partial support for Hypothesis 5. To further probe this finding, I plotted these results in Figure 3.2. It indicates a positive relationship between retention and post-acquisition ROA when the acquisition is unrelated but a negative relationship between retention and post-acquisition ROA when the acquisition is related. Simple slope analysis was also conducted for each interaction plot.

Taken together, these results are consistent with the prediction of Hypothesis 5.

Hypothesis 6 predicted that when the relative size of target to acquirer was small, the positive relationship between retention of target top executives and post-acquisition accounting performance would be stronger. In Model 9b, the effect of retention is positive and marginally significant ($b = 0.066$, $p < 0.10$), the interaction effect of retention and relative size is negative and marginally significant ($b = -0.078$, $p < 0.10$), and the effect of relative size is positive and marginally significant ($b = 0.025$, $p < 0.10$). These results suggest that relative size of target to acquirer moderate the effect of retention, which indicates partial support for Hypothesis 6. Again, to further probe this finding, I plotted these results in Figure 3.3. It indicates a positive relationship between retention and post-acquisition ROA when the target was relatively small to the acquirer but a negative relationship between retention and post-acquisition ROA when the target was relatively large. Simple slope analysis was also conducted for each interaction plot. Taken together, these results are consistent with the prediction of Hypothesis 6.

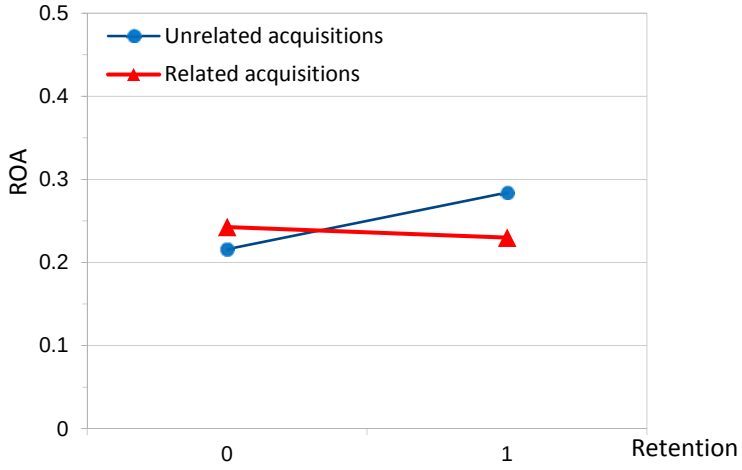
Table 3. 2 Retention and Post-Acquisition ROA[ab]
(Study 2, manufacturing sample)

Variables	Model 7	Model 8	Model 9a	Model 9b
Constant	0.220	0.209	0.216	0.257
	(0.236)	(0.234)	(0.232)	(0.233)
Controls				
CEO age	-0.052	-0.054	-0.064	-0.068
	(0.058)	(0.058)	(0.057)	(0.058)
CEO functional background	0.009	0.010	0.009	0.008
	(0.018)	(0.018)	(0.018)	(0.018)
CEO firm tenure	-0.000	-0.001	-0.001	-0.000
	(0.007)	(0.007)	(0.007)	(0.007)
CEO's CEO ties	0.006	0.008	0.008	0.010
	(0.014)	(0.014)	(0.014)	(0.014)
CEO's board ties	0.012	0.007	0.013	0.007
	(0.022)	(0.022)	(0.022)	(0.022)
CEO's financial expert ties	-0.011	-0.009	-0.010	-0.009
	(0.012)	(0.013)	(0.012)	(0.012)
Acquisition attitude	-0.010	-0.004	0.007	-0.008
	(0.041)	(0.041)	(0.041)	(0.041)
Involvement of acquirer advisors	0.003	-0.002	-0.003	-0.006
	(0.015)	(0.015)	(0.015)	(0.015)
Cash payment	0.020	0.023†	0.019	0.024†
	(0.013)	(0.013)	(0.013)	(0.013)
Stock payment	-0.039†	-0.041*	-0.039†	-0.042*
	(0.021)	(0.021)	(0.020)	(0.020)
Previous acquisitions	0.009	0.011	0.010	0.010
	(0.014)	(0.014)	(0.014)	(0.014)
Acquirer's pre-acquisition performance	0.443***	0.456***	0.460***	0.469***
	(0.058)	(0.058)	(0.058)	(0.058)
Acquirer's diversification	0.002	0.006	0.008	0.009
	(0.012)	(0.012)	(0.012)	(0.012)
CEO duality	0.025†	0.026*	0.022†	0.029*
	(0.013)	(0.013)	(0.013)	(0.013)
Industry growth	-0.028	-0.030	-0.031	-0.016
	(0.062)	(0.061)	(0.060)	(0.061)
Predictors				
Retention		0.012	0.068†	0.066†
		(0.020)	(0.037)	(0.036)
Acquirer-to-target relatedness		0.020	0.027†	0.021
		(0.014)	(0.014)	(0.013)
Relative size		0.016	0.017	0.025†
		(0.014)	(0.014)	(0.014)

Interactions				
Retention X relatedness			-0.081†	
			(0.044)	
Retention X relative size				-0.078†
				(0.043)
Log likelihood	193.85	196.01	197.67	197.63
Wald χ^2	136.96***	145.03***	151.39***	151.24***
N	162	162	162	162

[a] Standard errors are in parentheses (significance levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$, two-tailed tests).

[b] The Wald χ^2 statistic is for the hypothesis that all of the independent variables of the model are jointly equal to zero.

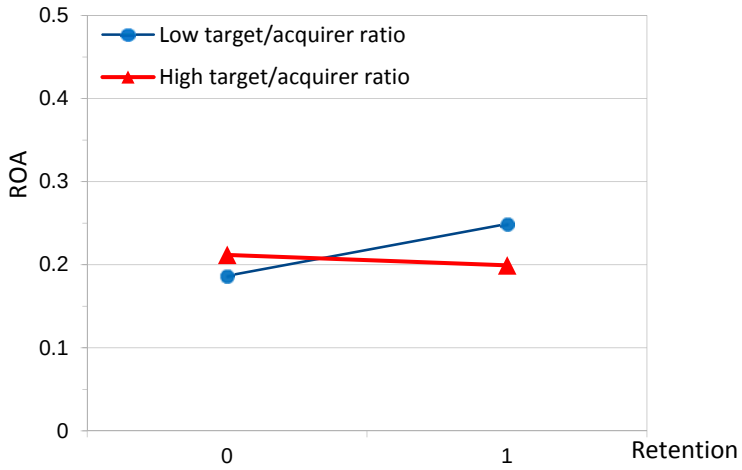


Simple slopes:

(Related acquisitions) $b_{Retention} = -0.01$, *n.s.*

(Unrelated acquisitions) $b_{Retention} = 0.07$, $p<0.10$

Figure 3. 2 Retention and post-acquisition ROA: the difference between large and small boards (Study 2, manufacturing sample)



Simple slopes:

(High target/acquirer ratio) $b_{Retention} = -0.01$, *n.s.*

(Low target/acquirer ratio) $b_{Retention} = 0.06$, $p<0.10$

Figure 3. 3 Retention and post-acquisition ROA: the difference between high and low target-to-acquirer size ratio (Study 2, manufacturing sample)

3.5. Supplementary Analysis

In addition, I used a larger sample consisting of acquisitions in manufacturing and hospitality industries to test hypotheses 4 to 6. To obtain the combined sample of manufacturing and hospitality acquisitions, a sub-sample of hospitality acquisitions was added into the sample of manufacturing acquisitions. Similar to the procedures of sample selection mentioned in section 3.3, I first searched the Mergers & Acquisitions transactions database provided by the Thomson Reuters's Securities Data Corporation (SDC) Platinum for acquisition deals during the time period between January 1, 2000 and December 31, 2012 (Cai & Sevilir, 2012; Haleblian & Finkelstein, 1999; Hayward & Hambrick, 1997; Laamanen & Keil, 2008) and then used the same criteria (i.e., completed acquisitions, publicly traded U.S. hospitality companies, large acquisitions, separate acquiring firms and target firms, identifiable CUSIP number, sufficient information about the CEOs' demographic attributes, business experience and social network). However, as suggested in section 3.3, for an acquisition to be included in the sample of study 2, the "same-CEO" criterion was further employed. After pooling all archival data from multiple sources, eventually a total of 30 hospitality acquisitions were obtained. The sample size of the combined sample for study 2 therefore reached to 192 acquisitions (162 acquisitions from manufacturing industry, and 30 acquisitions from hospitality industry).

Table 3.3 reported the means, standard deviations, and correlations of variables in study 2 for the combined sample The average post-acquisition ROA was 7.71% (s. d. = 9.37%) with a range from -47.57% to 36.73%.

On average, each CEO in the sample had been working with the focal firm for 12.51

years (s. d. = 9.42 years). There were about 55% of the CEOs also taking the responsibility of the chairman of the boards of directors of the focal firms. The CEOs were 53 years old on average. It is worth to note that there were about 11% of the sampled firms that retained at least one top executives from the target.

As for the deal characteristics, about 97% of the acquisitions in the sample were friendly ones. About 79% of them had external advisors involving in the deal process. There were less than 50% of the acquisitions that were solely paid by cash, 11% were paid by stock only, and remaining more than 40% were paid by a combination of cash and stock. There were 36% of the firms in the sample which have carried out acquisition(s) in the past three years before the focal acquisition. There were about 70% of the acquisitions which were related acquisitions, i.e., the top six industries in which the acquirer and target operated at the time of the acquisition shared the same 4-digit NAIC code. The average relative size of target to acquirer was 0.29 (s. d. = 0.38). Concerning firm characteristics, the average ROA in the previous year of the acquisition announcement was 8.68% (s. d. = 10.45%).

Table 3.3 Mean, Standard Deviation, and Correlation[a]

(Study 2, combined sample)

Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Post-acquisition ROA	0.08	0.09													
2. Retention	0.11	0.31	-0.02												
3. Acquirer-to-target relatedness	0.70	0.46	0.06	-0.06											
4. Relative size	0.51	0.50	-0.10	0.05	0.14*										
5. CEO age	3.97	0.13	0.12	-0.01	0.09	0.00									
6. CEO firm tenure	2.19	0.89	0.15*	-0.05	0.01	-0.01	0.26***								
7. Acquisition attitude	0.97	0.16	-0.01	-0.05	0.11	-0.16*	-0.07	-0.12							
8. Involvement of acquirer advisors	0.79	0.41	0.00	0.10	0.13†	0.20**	0.02	-0.04	-0.09						
9. Cash payment	0.49	0.50	0.30***	-0.08	-0.04	-0.18*	0.08	0.04	0.09	-0.10					
10. Stock payment	0.11	0.31	-0.31***	-0.02	0.01	0.11	-0.06	-0.13†	-0.05	0.10	-0.34***				
11. Previous acquisitions	0.36	0.48	0.18*	-0.16*	-0.03	-0.11	0.06	0.13†	-0.22**	-0.03	0.11	-0.09			
12. Acquirer's pre-acquisition performance	0.09	0.10	0.59***	-0.05	-0.03	-0.22**	0.18*	0.21**	-0.04	0.00	0.25***	-0.22**	0.20**		
13. CEO duality	0.55	0.50	0.13†	-0.05	0.02	-0.04	0.29***	0.22**	-0.02	0.01	-0.03	-0.05	0.09	0.09	
14. Industry growth	0.05	0.10	-0.00	-0.09	-0.01	-0.05	0.04	0.21**	-0.01	-0.07	-0.01	0.05	0.13†	-0.01	0.12†

N=192.

[a] Significant levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$, two-tailed tests.

Similarly, four models were estimated to test hypotheses 4 to 6. Table 3.3 reported estimates of post-acquisition ROA models. Model 10 included the control variables only. Model 11 added the effects of retention, acquirer-to-target relatedness, and relative size of target to acquirer variables to Model 10. The interaction terms between retention variable and acquirer-to-target relatedness and relative size of target to acquirer variables were added in Model 12a to Model 12b. Overall chi-squares for these models indicate significant explanatory power.

Hypothesis 4, which predicted that there would be a positive relationship between retention of target top executives and post-acquisition accounting performance, is not supported by Model 11 of Table 3.4. The effect of retention is not significant.

As shown in Model 12a, hypothesis 5, which predicted that in unrelated acquisitions, the positive relationship between retention of target top executives and post-acquisition accounting performance would be stronger, was not supported.

Hypothesis 6 predicted that when the firm size of target was relatively small to the acquirer, the positive relationship between retention of target top executives and post-acquisition accounting performance would be stronger. In Model 12b, the effect of retention is positive and marginally significant ($b = 0.043$, $p < 0.10$), the interaction effect of retention and relative size is negative and marginally significant ($b = -0.059$, $p < 0.10$). These results suggest that relative size of target to acquirer moderate the effect of retention, which indicates partial support for Hypothesis 6. Again, to further probe this finding, I plotted these results in Figure 3.4. It indicates a positive relationship between retention and post-acquisition ROA when the target was relatively

small to the acquirer but a negative relationship between retention and post-acquisition ROA when the target was relatively large. Simple slope analysis was also conducted for each interaction plot. Taken together, these results are consistent with the prediction of Hypothesis 6. The results indicated that the moderating effect of relative size on the relationship between retention and post-acquisition ROA found in manufacturing sample also existed in the combined sample.

Table 3.4 Retention and Post-Acquisition ROA[abc]
(Study 2, combined sample)

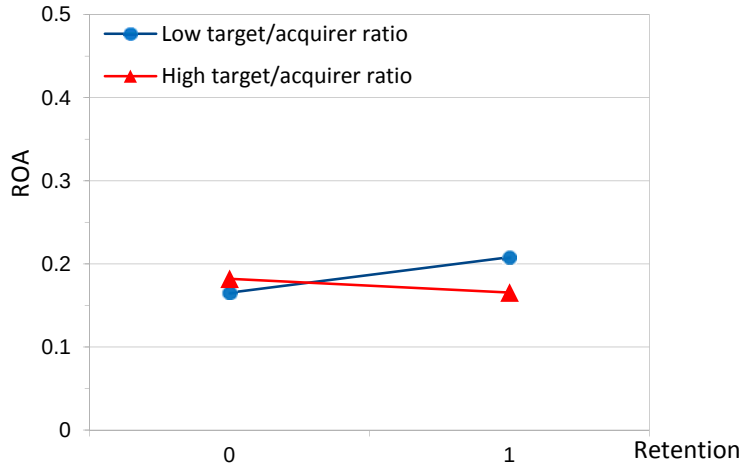
Variables	Model 10	Model 11	Model 12a	Model 12b
Constant	0.136	0.149	0.166	0.165
	(0.169)	(0.168)	(0.168)	(0.167)
Controls				
CEO age	-0.027	-0.033	-0.039	-0.038
	(0.042)	(0.042)	(0.042)	(0.042)
CEO firm tenure	-0.000	-0.000	-0.001	-0.001
	(0.006)	(0.006)	(0.006)	(0.006)
Acquisition attitude	-0.012	-0.012	-0.009	-0.014
	(0.033)	(0.034)	(0.034)	(0.034)
Involvement of acquirer advisors	0.003	-0.001	-0.002	-0.005
	(0.013)	(0.013)	(0.013)	(0.013)
Cash payment	0.017†	0.019†	0.018	0.021†
	(0.011)	(0.011)	(0.011)	(0.011)
Stock payment	-0.040*	-0.039*	-0.038*	-0.040*
	(0.018)	(0.018)	(0.018)	(0.017)
Previous acquisitions	0.008	0.009	0.009	0.010
	(0.011)	(0.011)	(0.011)	(0.011)
Acquirer's pre-acquisition performance	0.451***	0.462***	0.465***	0.471***
	(0.053)	(0.053)	(0.053)	(0.053)
CEO duality	0.021*	0.022*	0.022*	0.024*
	(0.011)	(0.011)	(0.011)	(0.011)
Industry growth	0.017	0.020	0.022	0.026
	(0.052)	(0.051)	(0.051)	(0.051)
Predictors				
Retention		0.008	0.036	0.043†
		(0.016)	(0.027)	(0.025)
Acquirer-to-target relatedness		0.015	0.020†	0.015
		(0.011)	(0.012)	(0.011)
Relative size		0.009	0.009	0.017
		(0.011)	(0.011)	(0.012)
Interactions				
Retention X relatedness			-0.043	
			(0.034)	
Retention X relative size				-0.059†
				(0.033)
Log likelihood	238.94	240.39	241.20	241.99
Wald χ^2	153.09***	158.36***	161.32***	164.23***
N	192	192	192	192

[a] Standard errors are in parentheses (significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05, † p < 0.10,

two-tailed tests).

[b] The Wald χ^2 statistic is for the hypothesis that all of the independent variables of the model are jointly equal to zero.

[c] The variables used were slightly different from those used in manufacturing sample because some variables were not available for hospitality acquisitions.



Simple slopes:

(High target/acquirer ratio) $b_{Retention} = -0.01$, *n.s.*

(Low target/acquirer ratio) $b_{Retention} = 0.04$, $p<0.10$

Figure 3. 4 Retention and post-acquisition ROA: the difference between high and low target-to-acquirer size ratio
(Study 2, combined sample)

3.6 Conclusions

The second study examined effect of the retained target top executives on post-acquisition performance in the long run. The retained executives could be valuable human capital and social capital which may of critical importance for successful integration during post-acquisition process. However, the actual value of those retained executives may depend on whether they are relevant to value creation and whether they are willing to help unlock the synergistic potential of the target. The relevance of the retained target top executives could be represented by whether the acquired business is related to the acquiring firm, while the motivation of those retained executives could be reflected by the relative firm size of the target to the acquiring firm. The results have shown that the retention of target top executives has no main effect but significant interacting effects with both acquisition relatedness and relative size on post-acquisition financial performance. Put differently, the relationship between retention of target top executives and post-acquisition financial performance was moderated by acquisition relatedness and relative size. Supplementary analysis found that while both acquisition relatedness and relative size can moderate retention-post-acquisition performance relationship in manufacturing acquisitions, only relative size moderates this relationship in the combined sample of manufacturing and hospitality acquisitions.

CHAPTER 4 STUDY 3

CEOS' SOCIAL TIES AND ACQUISITION PERFORMANCE: ARE THERE ANY DIFFERENCES BETWEEN MANUFACTURING AND HOSPITALITY INDUSTRIES?

It is surprising that some studies on acquisitions taking place in hospitality industry have found that the success rate of M&As in hospitality industry is relatively high compared with their counterparts in other industries. For example, Kwansa (1994) reported that the average cumulative abnormal returns (CARs) of hospitality firms around acquisitions was significantly higher than that of non-hospitality firms. One may wonder whether the signaling effect of executive characteristics on stock market returns to acquisition announcement will depend upon the context of industry.

In particular, study 3 will concentrate on the signaling role of CEO's social ties and examine the moderating effect of industry on the relationship between CEO's social ties and CARs. The reason why social ties draw special attention is that first hospitality industry is often described as "people business" (Hayes & Ninemeier, 2009) and requires more frequent and closer interactions not only with customers and between employees but also with co-producing actors and even competitors (Haugland et al., 2011), which makes interpersonal ties is a critical element of business success in this industry. Second, hospitality executives show a distinct pattern of career mobility. According to a survey conducted in year 2011[11], the hotel industry has shown a higher

[11] "Turnover of Hotel Chief Executives on the up", http://www.bighospitality.co.uk/Venues/Turnover-of-hotel-

CEO turnover rate and a stronger tendency of internal promotions and appointments from within the industry. The higher and internal career mobility allows hospitality executives to accumulate intensive social ties over their careers (Tian et al., 2013).

Therefore, it is reasonable to expect that research on executive effect on acquisition performance can greatly benefit from investigating whether the effect of CEO's social ties will differ across industry settings (manufacturing vs. hospitality industries). In particular, study 3 aims to address this research question: are there any differences in the effect of the acquiring CEO's social ties on investor reactions to acquisition announcements between the hospitality and the manufacturing industries?

4.1 Theoretical Background

4.1.1 A Social Capital Approach

In Chapter 1, I have focused on the executive effect on firm performance through the lens of human capital, which is mainly about linking an executive's work experience to his/her information processing capabilities (Carpenter, Geletkanycz & Sanders, 2004). However, there is another prevailing approach to examine executive effect, or social capital approach, is to understand how an executive's social ties help the company access strategic information and resources, which in turn, lead to high quality decisions and improved firm performance (Adler & Kwon, 2002).

Social ties is defined as connections among people that are used for sharing information, knowledge, feelings, and experiences (Cruz-Cunha et al., 2011).

chief-executives-on-the-up?utm_source=copyright&utm_medium=OnSite&utm_campaign=copyright, retrieved on November 20, 2014.

Geletkanycz and Hambrick (1997) referred executives' social networking activities as boundary-spanning interaction (Mintzberg, 1973) inside and outside their industry and argued that their external social ties would affect strategic choices and therefore be reflected by strategic profiles and organizational performance. The value of social ties can be considerable when it comes to acquisitions because acquisition-related information is often private and tacit and available via interpersonal social interaction. Studies have shown that informational advantages brought about by social ties included more awareness of acquisition opportunities and relatively lower acquisition information asymmetries which are critical success factors of an acquisition.

However, the value of social ties on organizational performance may vary across different environmental contingencies. Adler and Kwon (2002) asserted that the ultimate value of social capital depended on contextual factors such as task demands. For example, social ties may become more desirable when the key tasks are informational or require highly cooperation. I therefore examine the contingent effect of social ties in different settings.

4.1.2 Social Ties and Firm Performance

There has been a large volume of research suggests that social ties is quite valuable to organizations, which points to critical information and learning benefits (e.g., Haunschild, 1993; Westphal et al., 2001), as well as relational assets (e.g., trust, access) that not only enhance firm's ability to obtain critical resources (D'Aveni, 1990; Pfeffer & Salancik, 1978), but also play an important role in the successful implementation of

chosen strategies (D'Aveni & Kesner, 1993). Because these benefits are socially complex and difficult to replicate, several scholars have argued executives' social ties constitute an important competitive resource (Pennings & Lee, 1999; Podolny, 1993).

In particular, the benefits provided by executives' social ties can be considered as information and influence. First, social ties of executives facilitate their access to broader sources of information and improves information's quality, relevance, and timeliness (Adler and Kwon, 2002). As suggested by information theory (Galbraith, 1973), organizations need to access to and utilize information in order to reduce uncertainty, make choices and take actions to improve performance. Given the complexity and ambiguity of external contingencies and their cognitive limitations, strategic decision makers, i.e., the top executives, tend to economize on search and choice processes and rely on established channels to acquire information and on external referents for insight into viable alternatives (Cyert & March, 1963). More specifically, through interaction with external entities, information gained from these social ties not only helps executives to shape managerial views of the environment but also provides them with precedents of a set of strategic options. Executives acquire environmental information from the external contacts as well as their understanding and interpretation of the external context. Geletkanycz and Hambrick (1997) even argued that although documentary media also convey information about environmental changes and trends, executives greatly prefer information from personal contacts because of several advantages including timeliness, richness, and the circumvention of intra-organizational biases. Collins and Clark (2003) suggested that social ties of top

executives constituted as a chief source of timely and relevant information on the state of external environment. Further, external referents may offer examples that expand the range of strategic alternatives available for selection. Executives can thus learn about policies and practices that have turned out to effectively deal with critical environmental contingencies, which may extend beyond their limited repertoires (DiMaggio & Powell, 1983; Geletkanycz & Hambrick, 1997).

Second, extensive social ties provide executives with social influence to access to critical resources so as to enable them to reduce critical resource dependencies and thus absorb uncertainty in the environment (Pfeffer & Salancik, 1978). Studies have shown that executives are likely to form network ties with sectors that provide or withhold access to critical resources (Pfeffer, 1972; Burt, 1980). For example, to cope with capital dependency, a firm tend to build linkages with financial institutions to obtain external financing. When a firm conducts business in a transition economy, given the absence of strong institutions, it will seek to establish social ties to government officials, i.e., managerial political ties (Peng & Luo, 2000), which provide firms with various forms of institutional support by facilitating access to a variety of essential resources (Li, Poppo, & Zhou, 2008). Such support help firms sustain competitive advantage (Guo, Xu & Jacobs, 2014) and enhance legitimacy (Baum & Oliver, 1991; Hillman, 2005).

Empirical work has demonstrated the effect of social ties on organizational strategy and performance outcomes. Using a multiyear sample of 55 U.S. firms operating in the branded foods and computer industries over a five-year period (fiscal years 1983-1987),

Geletkanycz and Hambrick (1997) examined the relationship between external ties of top executives and organizational strategy and performance and found that executives' external ties affect strategic conformity, i.e., the degree to which the organization's strategy conforms to the central tendencies of its industry and that the alignment of executives' external ties with the firm's strategy was positively associated with firm performance. In their study, external ties of top executives measured included outside directorships, membership of trade associations/professional associations, and hiring of executives from inside/outside the focal firm's primary industry, and firm performance was measured as the firm's average return on assets (ROA) in years *t+2* and *t+3*. Using survey data from 127 Chinese companies in year 1997, Peng and Luo (2000) found that executives' interpersonal ties with top executives of other companies (business ties) and with government officials (political ties) helped to improve performance. Both business ties and political ties were measured using a seven-point scale, and performance was measured using two variables, return on assets (ROA) and market share.

4.1.3 Effects of Social Ties in Acquisitions

In the context of acquisition, extensive social ties tend to be particularly beneficial to acquisition performance, given the complexity of an acquisition and the fact that acquisition-related information is often private and tacit. Studies have shown that well-connected boards have informational advantages which allowed them to be more aware of acquisition opportunities and to face relatively lower acquisition information asymmetries so that those boards are more likely to perform better acquisitions (e.g.,

Schonlau & Singh, 2009). Consistent with the previous research, in this study I believe that social ties of executives provide them information and resources necessary for an acquisition, from efficient target selection to successful post-merger integration.

First, social ties can provide acquisition-related information about potential target firms which can help to reduce potentially large search costs (Bruner, 2004) and information asymmetry associated with opportunistic behavior of targets (Akerlof, 1970; Myers & Majluf, 1984) and lead to more efficient identification and better evaluation. Information about target firms and their top managers available via social network ties can be the potential target firm's capabilities, existing governance practices, potential synergies, possible post-acquisition economies of scope or scale, and whether target top executives are willing to be acquired (Schonlau & Singh, 2009). Through social ties, executives of the acquiring firms can obtain reliable and possibly private information about the target firms, which is otherwise difficult to obtain, and thus save search effort and make better target selection, evaluation and negotiation.

Second, knowledge of target firm will also facilitate post-acquisition activities (Schonlau & Singh, 2009). More information about the target firm will help the acquiring firm understand how to realize value from the acquisition, such as how best to integrate the target after the acquisition, as whether to retain target key executives and employees, how much autonomy to offer, and how to deal with possible differences in corporate cultures.

Third, executives can learn about other firms' previous acquisition experiences via social ties (Beckman & Haunschild, 2002). Executives can learn from their peers about

issues such as how to prepare for acquisitions, how to approach targets, how to deal with investment banks, negotiation strategies and legal issues. They can even learn the lesson from other firms' past mistakes in dealing with similar acquisition situations.

And lastly, social ties may provide better access to critical resources necessary for acquisitions such as financial resource that can be obtain via social ties with financial institutions. Consequently, investors in stock market will place high value on acquisitions made by executives with extensive social ties. For example, using a sample of 3,115 acquisitions made by publicly-traded U.S. firms during 1991-2006, Sleptsov, Anand, and Vasudeva (2013) reported that acquiring firms' relationships with investment banks had a positive effect on stock market returns, measured as the abnormal returns accruing to the acquiring firm in a two-day window around the acquisition announcement.

4.2 Hypotheses

However, the relationship between social ties and acquisition performance may be contingent upon different environmental contexts. For example, in some industries with more frequent interpersonal interaction, the utility of social ties is likely to be relatively higher. In the present study, I chose manufacturing and hospitality industries as appropriate contexts in which to examine executives' social ties on firm acquisition performance in order to make a comparison of the contextual influence of different industrial environment. Manufacturing industry is based on the fabrication, processing, or preparation of products from raw materials and commodities. It is typically highly

capital-intensive and usually relies more on physical capital such as plant and equipment, and technology to achieve business goals (Quinn, Anderson, & Finkelstein, 1996; Joshi & Roh, 2009).

In contrast to manufacturing industry, hospitality industry comprises a significant proportion of service industry. Often described as "people business" (Hayes & Ninemeier, 2009), hospitality industry requires more frequent and closer interactions with customers and between employees which makes interpersonal ties is a critical element of business success in this industry. More importantly, hospitality firms are embedded in a complex social system often characterized as a network involving a large number of co-producing actors delivering a variety of products and services (Haugland et al., 2011) and hospitality managers often rely on a wide set of relationships to access resources and information (Nahapiet & Ghoshal, 1998). For example, hotels are embedded in a network involving other local lodging firms, travel agencies and tour operators, cultural companies, entertainment firms, destination management organizations, local associations, etc. Additionally, the hospitality industry has seen an increasing use of strategic alliances to foster growth and build market share (Dev & Klein, 1993). These industry-specific conditions offer hospitality executives with plenty chances to establish a variety of social ties and hospitality executives are likely to utilize these social ties to gain informational advantages. Moreover, hospitality executives tend to experience high career mobility within the sector. According to a survey conducted in year 2011[12], CEO turnover doubled in 2011 amongst the world's

[12] "Turnover of Hotel Chief Executives on the up", http://www.bighospitality.co.uk/Venues/Turnover-of-hotel-chief-executives-on-the-up?utm_source=copyright&utm_medium=OnSite&utm_campaign=copyright, retrieved on November 20, 2014.

50 largest hotel companies compared to 2009, and the hotel industry is very conservative in selecting candidates in executive hiring searches, with internal promotions more common, or appointments from within the industry. According to the survey, there were 43 percent of CEO appointments from within the hotel industry. As a result, the career mobility make it possible for hospitality executives to accumulate more social ties over their careers (Tian et al., 2013). In fact, using a sample of 84 hotels in the Italy, Sainaghi and Baggio (2014) found that social capital had a strong positive effect on hotel performance (measured as occupancy) and the correlation between social capital and performance is higher in off-peak periods than peak periods. Their findings confirmed that social capital is a valuable asset and able to influence performance.

Accordingly, it is reasonable to expect that industrial context (manufacturing versus hospitality) will have a relevant influence on the relationship between social ties and firm strategic choices such as acquisitions and their outcomes. Specifically, compared with manufacturing companies, for hospitality companies, the positive effect of social ties on acquisition performance will be stronger, i.e., the investors in stock market tend to perceive extensive social ties of hospitality executives as a stronger signal.

In the present study, I focused on social ties of the acquiring firm's CEO and examined three different types of social ties, CEO ties, board ties and financial expert ties. *CEO's CEO ties* was defined as the total number of other firms' CEOs in the focal CEO's social network as of the year of announcement. The CEO can be connected with these other firms' CEOs mainly through active directorship ties (e.g., currently serving

on the same board as directors). Besides, the ties between a focal CEO and CEO of other companies can be formed through former colleagues, alumni, club membership, professional organization/trade association membership, or charity organization involvement. *CEO's board ties* was defined as the number of corporate directors in the focal CEO's social network as of the year of announcement. Similar to CEO ties, the CEO was connected with these other firms' directors through active directorship ties, former colleagues, alumni, club membership, professional organization/trade association membership, or charity organization involvement. *CEO's financial expert ties* was defined as the number of persons with financial background who are holding or held finance-related job titles ''chief financial officer'', ''CFO'', ''controller'', ''chief accounting officer'', ''CAO'', ''treasurer'', ''vice president of finance", "executive vice president of finance", "senior vice president of finance" or "financial expert" sitting in the committees of the boards in the focal CEO's social network as of the year of announcement. Similarly, the CEO was connected with these "financial experts" through directorship, former colleagues, alumni, club membership, professional organization/trade association membership, or charity organization involvement.

I chose these particular types of ties because ties connected with high profile individuals such as other firms' CEOs, directors, CFOs were more likely to deliver private, tacit, soft, detailed, reliable, and timely acquisition-related information and insights. Furthermore, except for the general benefit mentioned above, these different ties may convey additional piece of information since they were linked to different person.

4.2.1 CEO Ties

Typically, during the process of an acquisition decision, the CEO and other top executives are responsible for proposing, planning and implementing an acquisition, while the board is responsible for determining whether the company should initiate the proposed transaction and whether this transaction is in the best interests of the company and its shareholders[13]. Accordingly, CEO ties may enable the focal CEO to learn how to propose, plan and implement an acquisition from other firm CEO's experience since usually it is the CEO who lead the whole firm to perform an acquisition. In fact, CEO's role in acquisitions is often described as a "decision maker surveying an efficient marketplace for strategically advantageous acquisition opportunities" (Jemison & Sitkin, 1986: 145). The focal CEO can learn from their peers about acquisition-related issues such as how to prepare for acquisitions, how to approach targets, how to deal with investment banks, negotiation strategies and legal issues, how to assemble acquisition team and how to manage post-acquisition activities. They can learn from other firms' past success as well as mistakes in dealing with similar acquisition situations.

Hypothesis 7: The positive relationship between the acquiring CEO's CEO ties and stock market reaction to the acquisition announcement will be stronger in hospitality industry than that in manufacturing industry.

[13] "The Board's Role in M&A", https://www.directorship.com/the-board%E2%80%99s-role-in-mergers-and-acquisitions/

4.2.2 Board Ties

Board ties, in the other hand, can provide the focal CEO valuable insights about how to evaluate potential target from shareholders' perspectives. Corporate boards are likely to be engaged in the process of acquisition decisions actively and deeply since acquisitions have been considered as "fundamental strategic decisions" (Haleblian & Finkelstein, 1999: 35) so that the board has a responsibility to oversee and govern strategic plans and provide strategic perspectives regarding acquisition-related issues. Specifically, board role in acquisitions usually include evaluate and approve proposed acquisitions, assess whether the proposed acquisition is the best use of firm resources since they usually have a strategic view of the company's resource base (both financial and managerial resources), oversee management's efforts to implement the acquisition, and identify and mitigate associated risks[14]. The focal CEO can learn from his/her board contacts to increase the acquisition-related knowledge and review critical issues to make a better acquisition decision.

Hypothesis 8: The positive relationship between the acquiring CEO's board ties and stock market reaction to the acquisition announcement will be stronger in hospitality industry than that in manufacturing industry.

4.2.3 Financial Expert Ties

As for social ties linking to financial experts, the uncertainty of the target value to the acquiring firm and the risk associated with the variation in post-acquisition

[14] "The Role of the Board in Mergers & Acquisitions", http://www.srr.com/article/role-board-mergers-acquisitions, retrieved on November 28, 2014.

performance make financial expertise particularly relevant (Pablo, Sitkin & Jemison, 1996). The financial experts who possess domain-specific knowledge in financial area are more likely to provide better oversight of financial reporting and excel at identifying and interpreting valuable pieces of information to make critical judgments and estimates, which can facilitate strategic decision making. Acquisitions require complicate and deliberate financial analysis in series of acquisition decision processes such as choosing a better target, negotiating a good agreement, and expertly identifying and sharing key strategic complementarities (Pablo, Sitkin & Jemison, 1996). CEO's financial expert ties may help the CEO to do due diligence, improve the screening of the target candidates via their financial reports, identify valuable targets, negotiate acquisition terms, especially the acquisition premium and payment methods thereby dodging value-destroying acquisitions and increasing the share of gains towards the acquiring firm. In addition, professional advice provided by financial expert ties may enable the focal CEO to reduce the reliance on outside advisory services and negotiate a lower advisory fee paid to outside consultants. They also provide better access to external financial market from which the acquiring firm can more easily obtain financial resources because of more efficient communication the financial prospects of the firm with external investors such as loan officers and/or financial analysts (Custódio & Metzger, 2013).

Hypothesis 9: The positive relationship between the acquiring CEO's financial expert ties and stock market reaction to the acquisition announcement will be stronger in hospitality industry than that in manufacturing industry.

The theoretical framework of study 3 was presented in Figure 4.1.

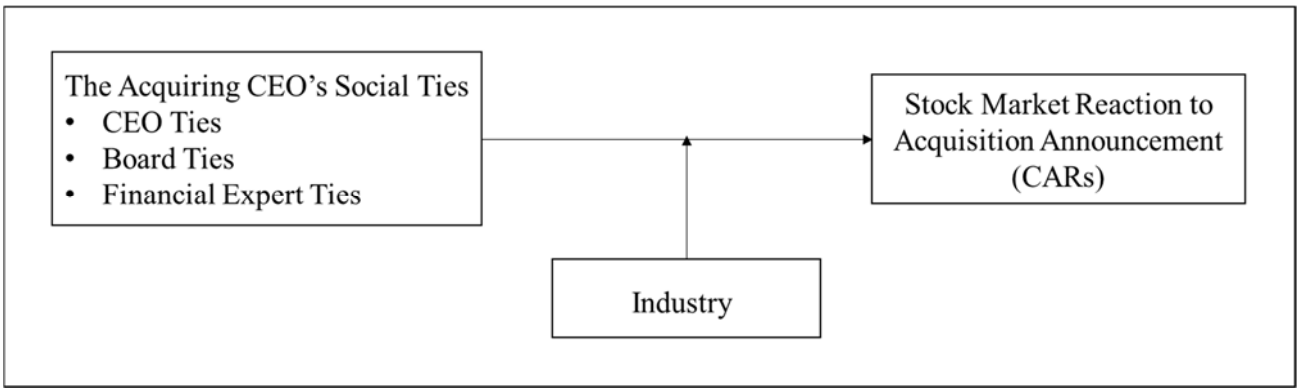


Figure 4. 1 Theoretical Framework of Study 3

4.3 Research Methodology

4.3.1 Sample Selection and Data Sources

To obtain a combined sample of manufacturing and hospitality acquisition, a sub-sample of hospitality acquisitions should be added into the sample of study 1. Similar to the procedures of sample selection in study 1, to construct a sub-sample of acquisitions carried out in hospitality industry, I first searched the Mergers & Acquisitions transactions database provided by the Thomson Reuters's Securities Data Corporation (SDC) Platinum for acquisition deals during the time period between January 1, 2000 and December 31, 2012 (Cai & Sevilir, 2012; Haleblian & Finkelstein, 1999; Hayward & Hambrick, 1997; Laamanen & Keil, 2008) and then used the similar criteria (i.e., completed acquisitions, publicly traded U.S. companies, large acquisitions, separate acquiring firms and target firms, identifiable CUSIP number, sufficient information about the CEOs' demographic attributes, business experience and social network). Although there are no specific NAICS codes assigned to the hospitality

industry according to the U.S. Census Bureau, some scholars suggested a list of elected NAICS codes pertaining to hospitality industry[15]. Adapted to their suggestion, hospitality companies in the present study refer to those who reported to have their primary business in a two-digit NAICS code 72 (which covers accommodation, food services and drinking places), three-digit NAICS codes 713 (which covers amusement parks, gambling, and recreation industries) and 487 (which covers scenic and sightseeing transportation industries), a four-digit NAICS code 5615 (which covers travel agencies, tour operators and other travel arrangement and reservation services), and four-digit NAICS codes 481111 (scheduled passenger air transportation), 481211 (nonscheduled chartered passenger air transportation), 481219 (other nonscheduled air transportation), 483112 (deep sea passenger transportation), 483114 (coastal and great lakes passenger transportation), 483212 (inland water passenger transportation) and 485320 (limousine service). With pooling all archival data from multiple sources (discussed in study 1), eventually a total of 62 acquisitions conducted in hospitality industry were obtained. The sample size of the combined sample for study 3 therefore reached to 205 acquisitions (143 acquisitions from manufacturing industry, and 62 acquisitions from hospitality industry).

4.3.2 Variable Measurement

Dependent Variable

Cumulative abnormal stock returns (CARs). The measure was the same with that in

[15] http://libguides.utsa.edu/tourism

study 1.

Independent Variables

CEO's CEO ties. The measure was the same with that in study 1.

CEO's board ties. The measure was the same with that in study 1.

CEO's financial expert ties. The measure was the same with that in study 1.

Hospitality industry. I created a dummy variable to indicate which industry the focal acquisition was from. Hospitality acquisitions was coded as 1 and 0 otherwise.

Control Variables

Similar to study 1, I included four different sets of control variables, which have been related to acquisition performance in prior empirical studies.

- CEO characteristics

CEO age. The measure was the same with that in study 1.

CEO's firm tenure. The measure was the same with that in study 1.

CEO duality. The measure was the same with that in study 1.

CEO compensation. The measure was the same with that in study 1.

- Deal characteristics

Acquisition attitude. The measure was the same with that in study 1.

Involvement of acquirer advisors. The measure was the same with that in study 1.

Payment method. The measure was the same with that in study 1.

Previous acquisitions. The measure was the same with that in study 1.

Acquirer-to-target relatedness. The measure was the same with that in study 1.

- Firm characteristics

Acquirer's firm size. The measure was the same with that in study 1.

Acquirer's pre-acquisition performance. The measure was the same with that in study 1.

Acquirer's board size. The measure was the same with that in study 1.

- Industry and period characteristics

Industry growth. The measure was the same with that in study 1.

Period effect. The measure was the same with that in study 1.

4.3.3 Data Analysis

Similarly to Study 1, I also used the generalized least squares (GLS) regression method to analyze the pooled cross-sectional time-series data (xtgls, Stata 13) to address the issue of homoskedastic as well as autocorrelation (zhang & Rajagopalan, 2010). Following Aiken and West (1991), CEO's CEO ties, board ties, and financial expert ties were mean-centered prior to the creation of the interaction term to address the issue of potential multicollinearity between the main effect and interaction terms.

4.4 Results

4.4.1 Descriptive statistics

Table 4.1 shows some comparisons between manufacturing and hospitality acquisitions in the combined sample. Compared to manufacturing acquisitions, hospitality acquisitions show a significantly higher CARs, smaller firm size of

acquiring firms, smaller transaction value, smaller proportion of cash payment method, and less involvement of outsider advisors hired by acquiring firms. As for CEO's characteristics, CEOs performing hospitality acquisitions tend to assume more outside directorships, have less acquisition experience, less CEO ties, board ties and financial expert ties.

Table 4.2 reported the means, standard deviations, and correlations of variables for the combined sample. The average CARs using two-day window (0, +1) was -0.41% (s. d. = 6.18%) with a range from -17.84% to 24.60%.

On average, each CEO in the sample had been working with the focal firm for almost 14 years (s. d. = 9.82 years). There were about 57% CEOs serving the focal firms for more than 10 years. 63% of the CEOs also assumed the responsibility of the chairman of the boards of directors of the focal firms. The amount of annual compensation (salary and bonus) each CEO earned was about 1.63 million on average. The average number of directorships CEOs held was 4.08 (s. d. = 2.99).

The CEOs were 55 years old on average. Each CEO took part in 1.42 acquisitions acting as either CEO or other TMT members in the focal firm or other firms in the previous five year of the year of announcement on average. Most of the CEO (83.41%) had nerve assumed finance-related job titles in either the focal firm or other firms. With respect to the social ties, on average, each CEO was linked to 10.89 CEO of other organizations, 83.40 directors and 53.21 financial experts through directorships, former colleagues, alumni network, club membership, professional organization/trade association membership, or charity organization involvement.

Table 4. 1 A Comparison of Manufacturing and Hospitality Industries

Variables	Manufacturing Industry	Hospitality Industry	t-statistic
CAR (0, +1)	-.1.79%	2.75%	-5.12***
Post-acquisition ROA	7.56%	8.52%	-0.52
Acquirer's pre-acquisition performance	0.11	0.10	0.50
Acquirer's firm size	10350.41	4093.21	2.94**
Value of transaction	2450.75	683.75	1.83†
Friendly acquisitions	97.20%	95.16%	0.74
Sole cash payment	60.14%	35.48%	3.32**
Sole stock payment	11.89%	6.45%	1.18
Involvement of acquirer advisors	91.61%	66.13%	4.79***
Related acquisitions	70.63%	61.29%	1.31
Previous acquisitions	30.77%	33.87%	-0.44
CEO age	54.90	54.74	0.13
CEO compensation	1626238	1636173	-0.05
CEO firm tenure	13.95	12.09	1.25
CEO directorships	3.77	4.81	-2.31*
CEO past acquisition experience	1.61	1.00	2.68**
CEO financial background	0.48	0.82	-1.14
CEO's CEO ties	12.66	6.79	4.01***
CEO's board ties	92.36	62.73	3.61***
CEO's financial expert ties	65.11	25.76	5.16***
CEO duality	65.73%	58.06%	1.04
Board size	9.84	8.81	2.99*

As for the deal characteristics, more than 90% of the acquisitions in the sample were friendly ones. 84% of them had external advisors involving in the deal process. There were 53% of the acquisitions that were solely paid by cash, 10% were paid by stock only, and remaining 37% were paid by a combination of cash and stock. There were only 32% of the firms in the sample carried out acquisition(s) in the past three years before the focal acquisition. There were about two thirds of the acquisitions which were related acquisitions, i.e., the primary industries in which the acquirer and target

operated at the time of the acquisition share the same 6-digit NAIC code.

Concerning firm characteristics, on average each firm had a total assets of 8.46 billion (s. d. = 14.28 billion). The average ROA in the previous year of the acquisition announcement was 10.39% (s. d. = 7.70%). More than 90% of the firms enjoyed a positive ROA one year before the announcement. The average entropy index of diversification was 0.73 (s. d. = .60). About 23% of the firms had an entropy index that equaled to 0 and one third of them had an entropy index bigger than 1. On average, the total number of directors on the board of each firm was about 10 (s. d. = 2.33).

Several significant correlations shown in Table 4.3 were worth mentioning. For example, there was a positive correlation between CARs and hospitality industry ($r = .34$, $p < .001$), which indicates that hospitality acquisitions tend to earn higher CARs. There were positive correlations between CEO directorships and CEO's CEO ties ($r = .29$, $p < .001$), CEO's board ties ($r = .37$, $p < .001$), and CEO's financial expert ties ($r = .14$, $p < .05$). Similar to CEO directorships, there were positive correlations between CEO past acquisition experience and CEO's CEO ties ($r = .18$, $p < .01$), CEO's board ties ($r = .16$, $p < .05$), and CEO's financial expert ties ($r = .32$, $p < .001$).

Table 4. 2 Mean, Standard Deviation, and Correlation[a]

(Study 3, combined sample)

Variables	Mean	S.D.	1	2	3	4	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1. CAR (0, +1)	-0.004	0.060																		
2. CEO firm tenure	2.27	0.89	-0.04																	
3. CEO duality	0.63	0.48	-0.01	0.20**																
4. CEO compensation	13.94	1.28	-0.07	0.07	0.21**															
6. CEO age	4.00	0.13	0.00	0.21**	0.20**	0.10														
7. CEO's CEO ties	1.99	0.96	-0.13†	-0.04	0.13†	0.25***	-0.01													
8. CEO's board ties	4.18	0.76	-0.10	0.08	0.14*	0.17*	0.08	0.75***												
9. CEO's financial expert ties	3.50	1.03	-0.07	0.03	0.20**	0.36***	0.06	0.85***	0.70***											
10. Acquisition attitude	0.97	0.18	-0.04	-0.06	0.02	-0.05	-0.05	0.06	0.09	0.04										
11. Involvement of acquirer advisors	0.84	0.37	-0.01	0.06	0.03	0.04	-0.09	0.04	0.09	0.10	-0.08									
12. Cash payment	0.53	0.50	0.20**	0.13†	0.05	0.08	-0.03	0.13†	0.14*	0.19**	0.09	-0.04								
13. Stock payment	0.10	0.30	-0.34***	-0.05	-0.04	-0.11	0.03	-0.03	-0.02	-0.06	-0.11	0.15*	-0.36***							
14. Previous acquisitions	0.31	0.46	0.02	-0.01	0.00	0.21**	0.09	0.02	0.05	0.08	-0.16*	0.01	0.02	-0.02						
15. Acquirer-to-target relatedness	0.68	0.47	-0.05	0.02	0.11	-0.04	-0.03	0.04	0.14*	0.11	0.10	0.07	0.02	-0.01	-0.09					
16. Acquirer's firm size	8.00	1.47	-0.05	0.15*	0.22**	0.43***	0.06	0.45***	0.43***	0.55***	-0.01	0.11	0.09	-0.04	0.11	0.12†				

17.	Acquirer's pre-acquisition performance	0.11	0.08	0.09	0.13†	0.08	0.10	0.09	-0.03	0.04	0.03	0.01	-0.05	0.06	-0.04	0.04	-0.04	0.10		
18.	Acquirer's board size	2.22	0.29	-0.06	0.30***	0.19**	0.30***	0.14*	0.18**	0.15*	0.20**	0.05	0.08	0.18**	-0.06	0.13†	0.10	0.55***	0.13†	
19.	Industry growth	0.05	0.09	-0.03	0.14*	0.12†	0.02	-0.08	0.36***	0.43***	0.44***	0.01	-0.03	0.08	-0.05	0.00	0.02	0.15*	0.05	0.09
20.	Hospitality industry	0.30	0.46	0.34***	-0.09	-0.07	0.00	-0.01	-0.10	-0.08	-0.05	-0.05	-0.32***	-0.23**	-0.08	0.03	-0.09	-0.20**	-0.04	-0.24***	-0.06

N=205.

[a] Significant levels: *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, † $p < 0.10$, two-tailed tests.

4.4.2 Regression results

For the combined sample of manufacturing and hospitality industries, five models were estimated to test hypotheses 7 to 9. Table 4.3 reported estimates of CARs models. Model 13 included the control variables only. Model 14 added the effects of CEO's CEO ties, board ties and financial expert ties and hospitality industry variables to Model 13. The interaction terms between CEO ties, board ties and financial expert ties and hospitality industry variables were added in Model 15a to Model 15c. Again, overall chi-squares for these models indicate significant explanatory power.

Unfortunately, all of the three hypotheses, which predicted that the relationship between three types of CEO's social ties and stock market reaction to the announcement of an acquisition will be strong in hospitality acquisitions, is not supported by Model 15a, 15b, or 15c of Table 4.3. Both the effect of social ties and its interaction effect with hospitality industry are not significant.

Table 4. 3 Social Ties and CARs[ab]
(Study 3, combined sample)

Variables	Model 13	Model 14	Model 15a	Model 15b	Model 15c
Constant	-0.011	-0.052	-0.028	-0.005	-0.049
	(0.143)	(0.132)	(0.134)	(0.143)	(0.136)
Controls					
CEO age	0.005	-0.000	-0.013	-0.007	0.003
	(0.034)	(0.031)	(0.032)	(0.032)	(0.032)
CEO firm tenure	-0.002	-0.002	-0.002	-0.003	-0.002
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
CEO duality	-0.003	-0.001	-0.004	-0.003	-0.001
	(0.009)	(0.008)	(0.008)	(0.009)	(0.009)
CEO compensation	0.004	0.003	0.002	0.003	0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Acquisition attitude	-0.025	-0.019	-0.020	-0.021	-0.018
	(0.023)	(0.021)	(0.021)	(0.021)	(0.021)
Involvement of acquirer advisors	0.010	0.028*	0.029**	0.028**	0.027**
	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
Cash payment	0.017†	0.029**	0.029**	0.029**	0.029**
	(0.009)	(0.009)	(0.008)	(0.008)	(0.009)
Stock payment	-0.064***	-0.053***	-0.051***	-0.051***	-0.053***
	(0.014)	(0.013)	(0.013)	(0.013)	(0.013)
Previous acquisitions	0.001	-0.002	-0.003	-0.003	-0.002
	(0.009)	(0.009)	(0.008)	(0.009)	(0.009)
Acquirer-to-target relatedness	-0.003	-0.004	-0.003	-0.004	-0.004
	(0.009)	(0.008)	(0.008)	(0.008)	(0.008)
Acquirer's firm size	-0.002	-0.001	-0.002	-0.002	-0.001
	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)
Acquirer's pre-acquisition performance	0.056	0.052	0.049	0.045	0.053
	(0.053)	(0.049)	(0.049)	(0.050)	(0.050)
Acquirer's board size	-0.016	-0.002	-0.002	-0.002	-0.003
	(0.017)	(0.016)	(0.016)	(0.016)	(0.017)
Industry growth	-0.033	-0.042	-0.043	-0.041	-0.041
	(0.048)	(0.046)	(0.046)	(0.046)	(0.046)
Predictors					
CEO's CEO ties		-0.006	-0.002	-0.007	-0.005
		(0.008)	(0.009)	(0.008)	(0.008)
CEO's board ties		0.001	0.009	0.012	-0.001
		(0.012)	(0.013)	(0.015)	(0.013)
CEO's financial expert ties		0.003	0.000	0.001	0.001

		(0.008)	(0.008)	(0.008)	(0.009)
Hospitality industry		0.052***	0.050***	0.051***	0.053***
		(0.010)	(0.010)	(0.010)	(0.010)
Interactions					
CEO ties X hospitality industry			-0.016		
			(0.010)		
Board ties X hospitality industry				-0,014	
				(0.012)	
Financial expert ties X hospitality industry					0.005
					(0.010)
Log likelihood	298.98	315.17	316.49	315.84	315.28
Wald χ^2	41.02***	83.11***	86.85***	85.02***	83.43***
N	205	205	205	205	205

[a] Standard errors are in parentheses (significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05, † p < 0.10, two-tailed tests).

[b] The Wald χ^2 statistic is for the hypothesis that all of the independent variables of the model are jointly equal to zero.

4.5 Supplement Analysis

I further run generalized least squares (GLS) regression in the sub-sample of hospitality industry to examine whether CEO's CEO ties, board ties and financial experts ties will have positive effect on investor reactions to acquisition announcements. As shown in Table 4.4, Model 16 included the control variables only. Model 17a, 17b, 17c added the effects of CEO's CEO ties, board ties and financial expert ties to Model 13, respectively. Again, overall chi-squares for these models indicate significant explanatory power. However, none of the effects of CEO ties, board ties and financial expert ties was significant[16].

[16] In Model 17c, the effect of CEO's financial expert ties is positive and marginally significant (b = 0.015, p < 0.10) if we conduct one-tailed t-test.

Table 4. 4 Social Ties and CARs[ab]
(Study 3, hospitality sample)

Variables	Model 16	Model 17a	Model 17b	Model 17c
Constant	-0.039	0.013	-0.038	-0.127
	(0.267)	(0.278)	(0.280)	(0.269)
Controls				
CEO age	-0.013	-0.023	-0.013	0.002
	(0.052)	(0.054)	(0.053)	(0.052)
CEO firm tenure	0.011	0.010	0.011	0.013
	(0.010)	(0.010)	(0.010)	(0.010)
CEO duality	-0.007	-0.008	-0.007	-0.007
	(0.018)	(0.018)	(0.018)	(0.018)
CEO compensation	0.016	0.015	0.016	0.019
	(0.013)	(0.013)	(0.014)	(0.013)
Acquisition attitude	-0.020	-0.016	-0.020	-0.022
	(0.041)	(0.041)	(0.041)	(0.040)
Involvement of acquirer advisors	0.054**	0.054**	0.054**	0.053**
	(0.016)	(0.016)	(0.016)	(0.016)
Cash payment	0.003	0.003	0.003	0.001
	(0.016)	(0.016)	(0.016)	(0.016)
Stock payment	-0.068†	-0.063†	-0.068†	-0.078*
	(0.054)	(0.036)	(0.037)	(0.035)
Previous acquisitions	0.010	0.010	0.010	0.012
	(0.016)	(0.016)	(0.016)	(0.015)
Acquirer-to-target relatedness	0.021	0.021	0.021	0.015
	(0.015)	(0.015)	(0.015)	(0.015)
Acquirer's firm size	-0.019*	-0.017*	-0.019*	-0.024**
	(0.007)	(0.008)	(0.009)	(0.008)
Acquirer's pre-acquisition performance	-0.095	-0.096	-0.095	-0.116
	(0.125)	(0.125)	(0.125)	(0.124)
Acquirer's board size	-0.002	-0.001	-0.002	-0.010
	(0.021)	(0.021)	(0.021)	(0.021)
Industry growth	-0.044	-0.066	-0.045	0.022
	(0.096)	(0.101)	(0.101)	(0.103)
Predictors				
CEO's CEO ties		-0.006		
		(0.009)		
CEO's board ties			-0.000	
			(0.010)	
CEO's financial expert ties				0.015

				(0.010)
Log likelihood	93.77	93.77	93.77	94.91
Wald χ^2	31.17*	31.79*	31.17*	34.67**
N	62	62	62	62

[a] Standard errors are in parentheses (significance levels: *** p < 0.001, ** p < 0.01, * p < 0.05, † p < 0.10, two-tailed tests).

[b] The Wald χ^2 statistic is for the hypothesis that all of the independent variables of the model are jointly equal to zero.

4.6 Conclusions

The third study examined whether the signaling effect of CEO's social ties on stock market reactions to acquisition announcement was moderated by industrial contexts. CEO's social ties can be perceived as strong signals by investors because private and timely information convey via social ties and a CEO can utilize the information to make a good acquisition. The signal effect of social ties could be stronger in hospitality industry compared to manufacturing industry. However, it was found that industry has no moderating effect on the relationship between all three types of social ties (i.e., CEO ties, board ties, and financial expert ties) and stock market reaction to acquisition announcements. Supplement analysis which focused on the sub-sample of hospitality industry did not found that CEO's ties, board ties, and financial expert ties had effects on investor reactions to acquisition announcements. I will leave possible explanations for these findings to Chapter 5.

CHAPTER 5 DISCUSSION

5.1 Summary of the Three Studies

This dissertation consists of three related studies on executive effect on firm performance in the context of acquisition based on signaling theory, behavioral decision-making theory, resource-based view, upper echelon perspective, learning theory and social identity theory, etc. It responds to the call from acquisition scholars that reconsider acquisition as a multi-stage and multi-disciplinary phenomenon, as a major drawback of existing literature is most of the research tend to be conducted in a single stage and in a single disciplinary and lack a systematic framework to combine different stages (Weber, 2012) by examining the instant stock market reaction surrounding the acquisition announcement (short-term acquisition performance) and the post-acquisition accounting performance (long-term acquisition performance) simultaneously.

The first study examined the non-linear relationship between CEO's firm tenure and stock market performance in the short run. Investors may consider the CEO of the acquiring firm as an important information source given their informational disadvantageous situation and may perceive long firm tenure as a strong signal of the good "quality" of the acquisition as long-tenure CEOs means that they are experienced, accumulate rich firm-specific knowledge and have good ability to pick the suitable resource which can create value to the acquiring firm. However, longer tenure is also associated with low task interest and decreased motivation to perform their tasks

diligently, which could make the relationship between tenure and market returns not simple linear but curvilinear. And investors tend to seek additional signals from the CEO to verify his/her judgment about the acquisition.

Then the second study examined the executive effect on post-acquisition performance in the long run but from the side of the retention of target top executives. The retained executives could be valuable human capital and social capital which may of critical importance for successful integration during post-acquisition process. However, the actual value of those retained executives may depend on whether they are relevant and whether they are willing to help unlock the synergistic potential of the target. The relevance of the retained target top executives could be represented by whether the acquired business is related to the acquiring firm, while the motivation of those retained executives could be reflected by the relative firm size of the target to the acquiring firm.

The third study examined whether the executive effect on firm performance was moderated by industrial contexts, specifically, a contingency view of social ties that whether the effect of social ties on acquisition performance would vary across different industries. CEO's social ties can be perceived as strong signals by investors as private and timely information convey via social ties and CEO is likely to utilize the information to make a good acquisition. And in industries where interpersonal interactions are more frequent and social ties are more highly-valued, the signal effect of social ties could be stronger.

Based on these above theoretical arguments, in study 1 I examined whether the

curvilinear effect of CEO firm tenure on firm performance was moderated by some other characteristics of the CEO in the context of acquisition. Three types of CEO characteristics were proposed: CEO duality, CEO compensation, and CEO outside directorship. Each of them has an influence of the tenure performance relationship in its particular way. In the eyes of investors, short-tenured CEOs do not have sufficient firm-specific knowledge and strong discretion to allocate resources but they are highly motivated by career-based incentive to perform value-creating acquisitions, while long-tenured CEOs have rich firm-specific knowledge and enough power to determine the resource allocation but they may lost motivation because of low task interest and increased inertia. Duality refers to the situation in which the CEO of a firm is also the chairman of the board of directors thus representing one type of formal power. It can compensate for lack of discretion and unestablished leadership resulting from short tenure. On the other hand, duality allows the long-tenured CEO to be strongly identified with his/her own organization so that it can compensate for insufficient motivation resulting from long tenure via strong organizational identification. As a result, I expected both short-tenured and long-tenured CEOs to lead to better investor valuation, than medium-tenured CEO do in the presence of CEO duality, which suggested a U-shaped relationship between CEO's firm tenure and market reaction to acquisition when the CEO is a dual CEO. Similar to CEO duality, high CEO compensation and many CEO directorships indicated highly-recognized ability, improved executive discretion, and enhanced motivation to implementing value-creating acquisition decisions which is favorable to firms with short-tenured CEOs, whereas high CEO compensation and

many CEO directorships also improve motivation to avoid slackness and inertia, avoid making value-destroying acquisitions which is favorable to firms with long-tenured CEOs because of the fear of loss (money and/or reputation). Accordingly, I expected a U-shaped relationship between CEO's firm tenure and market reaction to acquisition when CEO compensation is high/when the CEO has many directorships. These arguments were examined in a sample of 143 acquisition events that took place between 2000 and 2012.

In study 2 I examined whether the retention of target top executives can affect post-acquisition accounting performance and whether the retention-performance relationship was moderated by some contextual factors. It was common that even if stock market investors welcomed some acquisitions when the announcements were released, some of them may end up with failure. Acquisition failure has been often attributed to the departure of target top executives. The retention of target top executives is beneficial to post-acquisition performance because those executives can provide firm-specific knowledge of the acquired business that facilitates resource reconfiguration and unlock potential synergy and leadership continuity that helps alleviate problems such as uncertainty and negative reactions as well as "culture clash". So I expect that after the acquisition if some top executives are retained from the target firm and work for the new firm, the post-acquisition performance will be better. In addition, the effect of the retained target top executives are likely to be moderated by contextual factors, such as the relevance of their knowledge and their motivation to share their knowledge. In particular, for unrelated acquisitions, the retention of target

top executives will have a greater positive effect on post-acquisition performance, as the acquiring firm executives has little experience and expertise about the operation of acquired businesses thus the retention become more relevant. For acquisitions in which the target firm is relative small, the retention of target top executives will have a greater positive effect on post-acquisition performance, as the retained target top executives from relative small target may be more willing to share their knowledge and prove their ability, motivated by the need for achievement and getting affiliated. These arguments were examined in a sample of 162 acquisition events that took place between 2000 and 2012. It is worth to point out that for an acquisition event to be included in the sample the CEO of the acquiring firm in the year of announcement should be the same one year after the focal acquisitions (i.e., the CEO who performed the focal acquisition still served as the CEO of the new firm one year after the acquisition) in order to eliminate at least one confounding event, i.e., CEO succession. That is, other things being equal, the retention of target top executives may be associated with better post-acquisition performance.

The third study examined whether the effect of CEO's social ties of the acquiring firm on stock market performance will be moderated by industrial contexts. Informational advantages provided by social ties include more awareness of acquisition opportunities, reduced search cost, more efficient target identification and better evaluation and therefore lead to increased acquisition performance. In particular, three types of CEO's social ties crucial for acquisition were selected: CEO ties, board tie, and financial expert ties. Apart from the general benefits of social ties mentioned above,

ties linking to other firms' CEOs help the focal CEO learn about how to propose, plan and implement acquisition, while ties linking to other firms' boards of directors help the focal CEO learn about how to evaluate and monitor acquisitions. Ties linking to financial experts provide the focal CEO with better access to external financing as well as professional advices. Therefore, CEO ties, board ties and financial expert ties can be considered as strong signals of the reliable quality of an acquisition so that investors are likely to welcome those acquisition performing by CEOs with extensive CEO ties, board ties or financial expert ties. However, the extent to which the focal CEO's social ties can affect acquisition performance may vary across different industries. In industries that value social interactions and interpersonal skills, the focal CEO's CEO ties, board ties and financial expert ties may have stronger effects on acquisition performance. These arguments were examined in a sample of 205 acquisition events that was carried out in manufacturing industry and hospitality industry (143 from manufacturing industry and 62 from hospitality industry) between 2000 and 2012.

5.2 Key Findings

Several findings concerning the hypotheses are worth discussing. In study 1 it was found that there was a U-shaped relationship between CEO's firm tenure and stock market reaction to the acquisition announcement when a CEO is a dual CEO. This finding is consistent with the theoretical argument that for short-tenured CEOs who have strong motivation for achievement but insufficient discretion, CEO duality can improve managerial discretion, while long-tenured CEOs who have sufficient firm-

specific knowledge and managerial discretion but diminishing motivation, CEO duality can promote social identification with organizations to avoid slackness and inertia. Similarly, in study 1 it was also found that there was a U-shaped relationship between CEO's firm tenure and stock market reaction to the acquisition announcement when CEO compensation is high. This finding is consistent with the theoretical argument that high CEO compensation can provide signal of highly-recognized ability by the market and the board, high executive discretion for short-tenured CEOs, and improve motivation to avoid slackness and inertia and keep performing their best because of the fear of loss for long-tenured CEOs.

Interestingly, it was found that the U-shaped relationship between CEO's firm tenure and stock market reaction to the acquisition announcement also existed when CEO compensation was relatively low. But this U-shaped relationship differs between firms led by high-compensated CEOs and firms led by low-compensated CEO. As shown in Figure 2.3, both the negative effect of CEO firm tenure on stock market reaction in the early years of CEO firm tenure and the positive effect of CEO firm tenure on stock market reaction in the late years of CEO firm tenure were stronger for high-compensated CEOs. It seems that both the benefits and drawbacks of firm tenure can be intensified by the leadership of high-compensated CEOs. As for a low-compensated CEO, the compensation received is not high enough to provide sufficient recognition concerning ability and control of firm resources to convince potential investors that he/she is capable to carry out a value-creating acquisition if his/her firm tenure is short. Similarly, if his/her firm tenure is long, low compensation is unlikely to provide enough

motivation to overcome slackness and avoid a value-destroying acquisition in the eyes of potential investors.

These finding first help reconcile the opposite views about tenure effect on performance, i.e., positive tenure effect in learning theory and human capital theory vs. negative tenure effect in motivation and job design literature. Second, these findings closely parallel the studies of seasonal paradigm of CEO tenure that there are discernible phases (seasons) within CEO's tenure and these seasons give rise to distinct patterns of executive behavior, and ultimately organizational performance (Hambrick & Fukutomi, 1991). However, the CEO seasons model suggested a invert U-shaped relationship between CEO tenure and performance, as CEOs will experience their peak performance at intermediate point in their time in office, and performance will be lower very early and very late in the tenure. In contrast, a different pattern of tenure-performance relationship emerged from study 1, i.e., a U-shaped relationship between CEO tenure and performance moderated by CEO duality and CEO compensation. Third, the moderating effects of CEO compensation also echoed the views proposed by Hambrick and Fukutomi (1991) that the seasons of a CEO's tenure and its implications for organizational performance depend on the level of discretion the CEO possesses in such a way that the greater the CEO's discretion, the greater the manifestations of the seasons. In study 1, it was pointed out that CEO compensation can serve as a proxy of the level of managerial discretion and both the negative effect of CEO firm tenure on stock market reaction in the early years of CEO firm tenure and the positive effect of CEO firm tenure on stock market reaction in the late years of CEO firm tenure were

found to be more pronounced for high-compensated CEOs than for low-compensated CEOs. Lastly, these findings made a response to recent controversy over dual leadership structure, i.e., whether to combine or separate the roles of the chief executive officer (CEO) and the chairman of the board. One of the primary roles of the board is to effectively monitor the decisions and actions of management. Advocates of separating the roles of CEO and chairman argue that if the CEO is also the chairman of the board, agency costs increase since the board's ability to monitor the CEO is reduced, suggested by the entrenchment theory (Fama & Jensen, 1983; Lipton & Lorsch, 1992). On the other hand, proponents of CEO duality argue that board leadership is likely to be a response to the external environment and leadership requirements, and "vesting the two positions to one individual may be best suited to a firm's business conditions" (Dey, Engel & Liu, 2011: 1596), suggested the efficiency theory (Anderson & Anthony, 1986; Brickley et al., 1997). These findings provide evidences that CEO duality is not always a bad thing. On one hand, CEO duality does not necessarily hinder the effectiveness of corporate governance in the presence of dramatic improvement in the institutional environment related to corporate governance regulation as well as enhanced public awareness of governance and supervision. On the other hand, as suggested in study 1, CEO duality implies not only more managerial discretion but also more organizational identification, which can help to increase motivation to work hard. These findings are consistent with Dey, Engel and Liu (2011) in which they reported that firms splitting the CEO and chairman positions due to investor pressure had significantly lower announcement returns and subsequent performance, and lower

contributions of investments to shareholder wealth.

As for study 2, it was found that there was a positive relationship between retention of target top executives and post-acquisition accounting performance when the acquisition was unrelated. This finding is consistent with the theoretical argument that the retained target top executives are more relevant to post-acquisition success in unrelated acquisitions because the managerial resources embedded in the acquiring firm and target firm is complementary, diverse and the firm-/industry-specific knowledge possessed by the target top executives is tacit and difficult to replace, retention of target top executives is of critical importance to integration process and thus post-acquisition performance. Similarly, it was also found that there was a positive relationship between retention of target top executives and post-acquisition accounting performance when the target firm was small relative to the acquiring firm. This finding is consistent with the theoretical argument that for target firms with relatively small firm size, the retained target top executives tend to have strong motivation to share their knowledge and cooperate with the acquiring firm executives because their low relative standing and weak position of power make them eager to achieve something to prove their value and get affiliated by the new organization.

Some surprising findings also emerged from study 2. The results of the simple slope analysis (see Figure 3.2 and 3.3) have shown that retention of target top executives actually hurt post-acquisition accounting performance when the acquisition is highly related and when the target firm is large relative to the acquiring firm. One possible explanation for the negative effect of retention for highly related acquisition is that the

great similarity in knowledge and expertise between retained target top executives and acquiring firm lead to high resource redundancy, which cause considerable costs and inefficiency to the new firm. And this similarity are likely to make retained target top executives' knowledge less relevant and thus bring about less benefits, which may be not enough to counterbalance the costs. Hence the retention of target top executives has an overall negative effect on post-acquisition performance. As for the negative effect of retention on post-acquisition performance when the target firm relatively large, although some target top executives are retained in the new firm's TMT after the acquisition, they are not likely to have strong motivation to contribute to the process of post-acquisition as the relatively large firm size provide them with high relative standing and relative strong position of power. Instead of sharing and cooperation, these retained target top executives tend to negotiate and exchange information and resource for favorable positions and treatment to pursue self-interest even at the expense of the new firm. Consequently, in highly related acquisitions and large relative acquisition size, it will be hardly to take advantage of retained target top executives' knowledge and expertise to unlock the potential synergy of those acquisitions as expected.

These findings are consistent with many prior studies examining the relationship between acquisition relatedness and post-acquisition turnover and the resultant post-acquisition performance based on the underlying rationale that higher relatedness implied that executives from acquired firms were more easily replaced by acquiring firms and therefore departure of executives from acquired firms would be more harmful to post-acquisition performance in unrelated acquisitions (Rumelt, 1974; Salter &

Weinhold, 1979). But most of them has failed in finding a significant correlation between departure and relatedness and their interaction effect on post-acquisition performance (Walsh, 1988; 1989; Cannella & Hambrick, 1993). Walsh (1988) was the first to systematically investigate the phenomenon of post-acquisition turnover. He hypothesized, but failed to find, a relationship between departure level and the relatedness of acquisitions. Then Cannella and Hambrick (1993) hypotheses that the harmful effects of acquired executive departure will be greater for unrelated acquisitions than for related acquisitions. According to their study, departure was defined as the proportion of executives present at the time of the acquisition who had departed by the end of the second post-acquisition year. Relatedness was measured by both expert opinions and SIC codes. Acquisition performance was measured using expert raters (executives from the acquiring firms and security analysts). Contrary to their hypothesis, their findings did not show a significant moderating effect of relatedness on the relationship between departure of acquired executives and post-acquisition performance. The departure- performance relationship did not differ across the types of acquisitions (related vs. unrelated). However, the findings in study 2 have provided significant evidences that the relationship between retention of target top executives and post-acquisition performance is moderated by acquisition relatedness in such a way that retention has a positive effect on post-acquisition performance in unrelated acquisitions but a disruptive effect on post-acquisition performance in related acquisitions. As for relative size, Walsh (1989) once hypothesized, but failed to find, a relationship between turnover of target executives and relative size of the merging firms.

He argued that target company top management turnover rates would be positively associated with the size difference between the acquiring and target companies because larger company was likely to have a supply of skilled managers on hand to replace the managers in a smaller target company and those target managers may be less skillful when managing in a larger context. These arguments overlooked not only the heterogeneity of managerial resources but also the underlying team dynamics of the joining TMT, which may influence the motivation of retained target top executives to share and cooperate. The findings in study 2 uncovered the moderating role of size difference on the retention-performance relationship. Specifically, the retention of target top executives has a positive effect on post-acquisition performance when the target firm is small relative to the acquiring firm but a disruptive effect on post-acquisition performance when the target firm is large relative to the acquiring firm.

5.3 "Surprising" Findings and Possible Explanations

Several "surprising" results that are inconsistent with some of the hypotheses emerged from the analysis. First, CEO directorship was hypothesized to have moderating effect on the tenure-performance relationship as CEO duality and CEO compensation. However, it was found that there was no U-shaped relationship between CEO firm tenure and stock market reaction. One possible explanation is that CEO directorship may be less visible to investors than CEO duality and CEO compensation. Information about CEO duality and CEO compensation can be easily obtained by public documents such as annual reports. But detailed information about the number of

boards a CEO is sitting on may not be easily accessible to investors as not all of firm' financial reports may cover this information. As mentioned in previous chapters, signal observability, or signal visibility is one of the key elements of a signal. It is referred to the extent to which outsiders are able to notice or observe the signal. If the actions signalers take are not readily observed by outsiders, it is difficult to use those actions to communicate with receivers, not mention to make decisions based on information convey via those actions. Therefore, CEO directorship does not qualify for a good signal since it may be difficult to be observed by investors. In study 1, CEO directorship was hypothesized to provide additional signals for investors to verify the reliability of tenure signal of the CEO, since a CEO sitting on multiple boards signals enhanced ability to access to information, increased inter-/intra-organizational power which favored short-tenured CEOs, and improved motivation associated with the fear of reputational sanction and image damage. However, in fact CEO directorship is not easily "observed" (collect information from publicly released documents) by investors so that it may provide little information about the creditability of tenure signal.

Second, inconsistent with Hypothesis 4, it was found that retention of target top executives did not have a direct effect on post-acquisition performance. It indicated that the effect of retained target top executives was contingent upon contextual factors. One explanation is that retention is not always beneficial to value realization in post-acquisition as expected before. As suggested by Hypothesis 5 and 6, the effect of retention may be amplified or mitigated by acquisition characteristics (e.g., acquisition relatedness or relative acquisition size). For example, the value of specific human

capital is usually associated with the general availability of that type of human capital (Buchholtz, Ribbens, & Houle, 2003). When specific knowledge and skills are in relatively short supply, the individual who has them possesses some monopoly power ex post. The fewer the available alternatives for a given executive' knowledge and skills, the more the firm will value that executive (Frederickson, Hambrick, & Baumrin, 1988). Thus, the value an acquiring firm places upon a target top executive's firm-/industry-specific knowledge and skills depends on the relative abundance of those knowledge and skills within the acquiring firm. When the acquiring firm's existing businesses are in areas unrelated to that of an acquisition, the acquiring firm's executives will lack the specific human capital needed to manage the acquired business as well as post-acquisition integration. The firm will need and value the executive's firm-/industry-specific expertise. This expertise thus are is likely to make more contribution to post-acquisition integration. Conversely, when the acquiring firm's businesses are in related areas, the executive's knowledge and skill set is more likely to be redundant with skills already available within the acquiring firm. This redundancy lessens the value the target top executive's human capital and decrease the likelihood that this executive contributes to the new combined firm. Indeed, it was found that retention had a positive effect on post-acquisition performance in unrelated acquisitions but a disruptive effect on post-acquisition performance in related acquisitions. Therefore, it seems that post-acquisition success may lie in who to retain and when to retain, instead of whether to retain or not.

Third, it was found that industry has no moderating effect on the stock market

reaction to the acquisition announcement. Interestingly, however, as shown in Table 4.3, it appears that industry has a significant direct effect on stock market reaction. The cumulative abnormal returns (CARs) is significant higher in hospitality industry than that in manufacturing industry, which suggests that the stock market reacts more favorably to acquisition announcement made by hospitality companies. The results was consistent with findings by Kwansa (1994) in which the author made a comparison of average cumulative abnormal returns (CARs) between hospitality and non-hospitality industry found that the average excess return in hotel industry is 31.5 percent (1980-1990), compared to non-hospitality industry which reported an average excess return of 30 percent (1980-1985). There may be three possible explanations for the tendency that acquisitions in hospitality industry have been considered as more valuable from the stock market's perspective. First, most of the acquisitions in the hospitality industry involve companies with the same core business (Canina, 2001). Those acquisitions are more likely to succeed when companies acquire businesses with which they are familiar. The costs and difficulty associated with the acquisition implementation may be lower than those in other industries. Second, elimination of redundant facilities and personnel may be easier to achieve in the hospitality industry. Third, increased market power may improve performance and yield more revenue through offering a broader range of service to its customer base.

Industry was hypothesized, but failed to find, a moderating effect of industry on the relationship between three types of social ties of CEO (i.e., CEO ties, board ties, and financial expert ties). One possible explanation would be that there are considerable

differences in many aspects between hospitality and manufacturing companies so that acquisitions carried out in the two industries have to be studied separately instead of combining them together. As shown in Table 4.1, there was significant difference in variables to be studies, i.e., CEO ties, board ties, and financial expert ties between CEOs of hospitality industry and CEOs of manufacturing industry. Moreover, the difference in CARs and other variables, which were often considered as key factors to acquisition success such as acquiring firms' size, value of transaction, cash payment, and involvement of acquirer advisors, was also significant. These differences may imply that hospitality companies and acquisitions they made follow a distinct pattern which is worth studying independently. The distinct pattern of acquisitions in hospitality industry can be demonstrated by the relatively higher success rate of acquisition in hospitality industry compared with their counterparts in other industries, which has been discussed previously. Further, acquisitions in the hospitality industry generally have resulted in gains for both the acquired and the acquirers. For example, Canina (2001) reported significantly positive abnormal returns for both lodging targets and acquirers. The evidence has shown great differences in what happens in many other industries, in which the stockholders of target firms are clear winners because almost all of them earn excess returns surrounding the acquisition announcements, while the expected benefits acquisition announcements bring to the acquiring firm's stock prices is often doubtful, with approximately half of all the acquiring firms were found to earn negative returns (Malatesta, 1983; Canina, 2001). The implications of these results will be discussed later in more details in the section about limitation and directions for future

research.

5.4 Contributions

5.4.1 Theoretical Contributions

A major drawback of the existing acquisition literature recently proposed by some scholars (Weber et al., 2011) is that, while acquisition is a multi-stage phenomenon, most of studies were conducted in a single stage (e.g., either pre- or post-acquisition). The equivocal results of current research on the relationship between the expected success factors and acquisition performance may be attributed to their lack of a systematic framework that combining these two distinct but related stages and integrating perspectives from various disciplinary (Weber, 2012). The present study therefore contributes to the literature on acquisition in the following aspects. First, it attempts to incorporate pre- and post-acquisition stages by examining executive effect on acquisition performance in both of the two stages. To date most of studies on acquisition have been conducted either in pre-acquisition stage or post-acquisition stage (Weber, 2012). The first research stream focuses on the pre-acquisition stage and examines the relationship between firm-level and deal-level variables and financial performance and emphasizes the strategic fit between the acquiring and target firms and the potential synergy and value-creating from the acquisition to the acquiring firm, devoting less attention to its actual implementation. The research stream also implicitly assumed that the acquiring firm's activities are the solo determinants of acquisition success. By contrast, the second research stream focuses on the post-acquisition stage

and examines the culture fit between the acquiring and target firms and its relationship with the success of the combined firm. By examining executive effects across acquisition stages and their performance outcomes, the present study recognizes the complexity of acquisition phenomenon and that research focus on the pre-acquisition stage can only predict the potential of acquisition success, while the integration management of the acquired firm especially the interaction between the acquiring and acquired firms is also crucial to acquisition success by determining the extent to which the expected potential synergy can be realized.

Second, the present research allows interaction between variables which have been studied independently in different research stream in acquisition literature before. Given their distinct research foci, two research stream differ in the variables examined in prior acquisition research. The research stream with a focus on pre-acquisition stage usually studied *context* variables, e.g., acquisition relatedness, relative size, and previous acquisition experience, etc., while the research stream with a focus on post-acquisition stage usually studied *process* variables, e.g., executive turnover, communication, identity, etc. Traditionally, although they share some common definitions and terms, scholars from those two research streams "generally refrain from stepping onto each other's territory, thereby missing out on opportunities to fully understand M&A process" (Weber, 2012: xi). Therefore, discovering relationships between context and process variables and its possible influence on acquisition performance may help shed light on what may lead to acquisition success. Study 2 thus examined the interactive effect between retention of target top executives (process

variable) and acquisition relatedness (context variable), and retention of target top executives (process variable) and relative size of the target firm to the acquiring firm (context variable) and found that the interactive effects on post-acquisition performance were significantly, suggesting that the interaction of context and process variables do make a difference in unlocking the potential synergy.

Third, the present study also contributes to acquisition literature by incorporating human factor and providing a more comprehensive understanding of executive effect, especially CEO effect in study 1. Although there have been some studies showing the association between CEO and acquisition propensity as well as outcomes, it is surprising that most of them adopt an agency theory perspective concentrating on CEO self-interest motive and CEO hubris (e.g., Hayward & Hambrick, 1997), whereas CEOs' role as decision-makers in acquisitions has been rarely examined in the existing literature. Study1 found that after controlling for the conventionally studied variables (e.g., deal- and firm-level characteristics), CEO's ability-, motivation-, and power-related characteristics did make a difference in stock market reaction to acquisition announcements. That is, other things being equal, investors tend to more welcome an acquisition carried out by a highly-motivated, powerful, and capable CEO.

This study also contributes to executive effect literature by uncovering the multi-facet nature of firm tenure and an unconventional U-shaped curvilinear relationship between tenure and firm performance in the context of acquisitions, as well as the interaction effect between demographic variables (i.e., tenure) and corporate governance variables (i.e., duality and compensation). First, this study reveals that

shorter tenure may imply higher motivation resulting from need for achievement but lower discretion because of unestablished leadership while longer tenure acts the opposite. Second, the results demonstrates a U-shaped curvilinear relationship between tenure and firm performance in the presence of duality or high compensation, while traditionally the relationship between tenure and firm performance should be an inverted-U shape. This dissertation finds out that CEO duality improves managerial discretion and leadership in formulating and implementing value-creating acquisition decisions (i.e., to compensate for inadequate power) which is favorable to firms with short-tenured CEOs. This formal corporate structure also promotes social identification with organizations to avoid slackness and inertia (i.e., to compensate for insufficient motivation) which is favorable to firms with long-tenured CEOs. Hence, both short-tenured and long-tenured CEOs to lead to better investor valuation, than medium-tenured CEO do in the presence of CEO duality. This U-shaped relationship between tenure and firm performance in the context of acquisitions and the interaction effect between demographic variables (i.e., tenure) and corporate governance variables (i.e., duality and compensation) extends the seasons perspective of CEO tenure and offers a more nuanced understanding of firm tenure, one of the most conventionally used variables among all demographic characteristics.

5.4.2 Methodological Contributions

This study uses publicly available archival data to test executive effect. There has been a long tradition of using observable demographic variables as valid proxies of

subjective and psychological variables such as cognition and value in the organization and strategy literatures. Pfeffer suggested that demographic variables were superior to subjective variables because they were easily observable and measurable and offered us a more parsimonious explanation (Pfeffer, 1983). It is particular important for research on TMTs, given the difficulties of collecting data on managerial cognition and other unobservable psychological processes of top managers, especially those of major companies, using interview or survey.

In particular, all social-ties-related variables used in this study were also from archival-based data. Although most of studies on social network rely on self-reports and surveys from participants, the data obviously strongly suffer from cognitive biases, errors of perception, and ambiguities. Moreover, since top executives of major firms are generally reluctant to submit to detailed questionnaires, surveys of these executives typically produce low response rates.

It is worth to note that, to my best knowledge, this may be the first empirical study using archival-based, objective data to test executive effect in the hospitality industry. Although there have been anecdotal notes and survey/interview findings on managerial roles in hospitality companies (e.g., Cichy & Schmidgall, 1996; Jogaratnam & Law, 2006; Nebel, Lee, & Vidakovic, 1995), little has been done to examine executive effect using objective data. By using archival-based data, the findings will be less susceptible to the sampling and psychological biases often associated with interview/survey findings (Podsakoff et al., 2003).

5.4.3 Practical Contributions

First, these findings suggest important implications for firms' human-capital development strategy and its relationship with the choice of board leadership structure and the design of executive compensation plan in the context of acquisition (not only for the CEO position but also more generally for other upper echelon positions). The prevailing viewpoint on CEO tenure suggest that a CEO may experience seasons of tenure or life cycles of tenure and he/she may exhibit distinct patterns of behavior and ultimately influence organizational performance. It has been described in an article by Luo, Kanuri and Andrews (2013) publish in *Harvard Business Review* as follows[17]:

It's a familiar cycle: A CEO takes office, begins gaining knowledge and experience, and is soon launching initiatives that boost the bottom line. Fast-forward a decade, and the same executive is risk-averse and slow to adapt to change-and the company's performance is on the decline.

However, the findings in study 1 further highlight possible ways to alter this pattern by board leadership structure and compensation plan, particularly when the CEO tenure becomes longer. It appears that duality and high compensation can help a long-tenured CEO recover motivation and keep performing to his/her best. Thus long tenure does not necessarily lead to downturn in performance. It makes the mandatory retirement policies and practice many firms conduct for their top officers doubtful.

In addition, this study to some extent reconciles the debate over the board-CEO

[17] "Long CEO Tenure Can Hurt Performance", Harvard Business Review, https://hbr.org/2013/03/long-ceo-tenure-can-hurt-performance/ar/1, retrieved on November 17, 2014.

relationship by demonstrating that CEO duality may provide several benefits. The debate over the board-CEO relationship has long been centered on power and control. The control philosophy would caution against board attributes that suggest any possibility of directors' being influenced by the CEO and try all mean to constrain CEO's power. Accordingly, the recent controversy over dual leadership structures has focused on whether to combine or separate of the roles of the CEO and the chairman of the board. Some argue that the combination of the roles of CEO and the chairman may hinder the effectiveness of corporate governance structure, agency costs may increase as the board's ability to monitor the CEO's behavior and decisions is compromised in the dual leadership structure. Therefore, combining the roles of the CEO and the chairman may not be highly recommended. In contrast to the conventional belief, the present study reported that firms were likely to benefit from having dual CEOs both early and late in their tenure, even if the CEOs usually accumulate power as a function of time in office. The recent proposals for firms to separate the CEO and chairman roles therefore warrant more careful consideration.

Second, these results support the contingency view of managerial resources and offer implications by cautioning the acquiring firms against the unconditional use of retention of target top executives, regardless of whether their business is relate to the target firm's and whether the target firm's size is small or big relative to their firm size. The results further suggest that one reason for the high frequency of post-acquisition failure might be because of the inappropriate retention as the contributions of the retained target top executives may be not so valuable afterwards in related acquisitions

and acquisitions with large relative size. Indeed, retention of these executives were found to be associated with decreased acquisition performance. Therefore, post-acquisition success may lie in who to retain and when to retain, instead of whether to retain or not. On the same track, Bergh (2001) found that organizational tenure of retained acquired company top executives was related positively to post-acquisition success (operationalized as retention or divestiture of the acquired company), which suggested that the longer tenured top executives are the more valuable to retain than the shorter tenured top executives as those executives had firm-specific knowledge that would facilitate effective implementation of the acquisition. The findings of the present study further highlight conditional value of the retained target top executives that depends on different acquisition characteristics. It appears that the value an acquiring firm places upon retained target top executives' firm-/industry-specific experience and skills may be substantially discounted by redundancy in related acquisitions, and the extent to which this value can be actually realized may greatly depend on their motivation to make contributions, which is related to relative acquisition size. The results offer implications to practitioners by suggesting when is best to keep target top executives, and when should allow them to leave after the acquisition. Therefore, the study results offer guidance as to when the retention of target top executives are likely to improve the eventual outcome of the acquisition.

5.5 Limitations and Directions for Future Research

These foregoing results and implications should be considered in light of several

limitations, which, in turn, suggest some interesting avenues for future research. A first limitation of the present study is its exclusive reliance on secondary data. Like most research on executive leadership, the present study relied on archival data rather than direct observations of CEO behaviors. CEO tenure, CEO duality and CEO compensation was used to indicate unobservable differences such as ability, motivation and power between CEOs. While compelling evidence on the differential effect of CEO duality and CEO compensation on the relationship between CEO tenure and performance was found, they can only provide indirect insight into the underlying mechanisms of CEO behavior and acquisition decision-making because of the reliance on archival data. An interesting avenue for future research, therefore, would be to use rich primary data (e.g., obtained through executive surveys and interviews) and its combination with "policy-capturing" methodology (Pablo, 1994) in order to gain a more nuanced understanding of the mechanism behind the differences in the tenure-performance relationship between dual CEOs and non-dual CEOs, high-compensated CEOs and low-compensated CEOs.

Second, study 1 examined the stock market performance effect of CEO firm tenure around acquisition announcement, which has been often perceived as an indication of firm-specific experience. However, future studies may introduce more indicators of other experience-based human capital to provide more insights of experience-performance relationship. In fact, as suggested by Tesluk & Jacobs (1998) and Kor (2003), work experience is a multi-level construct that may include task-/job-/function-/group-/firm-/industry-level experience. For example, in the context of acquisition,

task-specific experience refers to acquisition experience. From the perspective of learning theory, a CEO will learn from prior acquisition experience and develop acquisition capability that can help him/her perform well in acquisitions. Therefore, it may be worth to examine the relationship between acquisition experience and acquisition performance. On the other hand, future research can extend study 1's model in other contextual settings such as strategic alliances to examine CEO's executive effect on stock market returns when the firm announced to form strategic alliances with others.

Third, study 2 has examined the effect of retention of target top executive in terms of whether there were any top executives retained from the target firm in the TMT of the new firm or not on post-acquisition performance and whether this relationship was moderated by specific acquisition characteristics. However, it did not take the roles of other TMT members of the joining TMT after the acquisition was closed and target top executive was retained into consideration. Studies have found that the whole TMT was also actively involved in the post-acquisition integration (e.g., Nadolska & Barkema, 2013). Therefore, the concept of faultline (Lau & Murnighan, 1998) can be extended to this line of research to determine whether a faultline will emerge in the joining team and whether the faultline can influence the integration process and post-acquisition performance. Different demographic diversity may interact to influence group process and outcomes. Faultline refers to a compositional dynamics of multiple demographic attributes (e.g., age, gender, race/ethnicity, tenure, education, functional background) that potentially subdivide a group. Faultlines become stronger as more attributes align

themselves in the same way. It leads to relationship conflict and group politics and thus hamper group performance. In the context of acquisition, faultline may be very strong if many demographic attributes of TMT members align themselves along their origins (from the acquirer or the target) and generate sub-groups. The integration may be very difficult as the faultline becomes strong, which may decrease the likelihood of post-acquisition success. However, if few demographic attributes of TMT members align themselves along their origins, faultline may be very weak or even deactivated. Therefore the integration is not likely to be compromised.

Fourth, the sample was constructed based on several strict criteria, e.g., large acquisitions made by manufacturing firms. The main purpose was to create a sample of as "clean" as possible acquisition events so that the effect of CEO firm tenure and retention of target top executives could be isolated. However, this may limit the generalizability of our findings to other contexts. Future research needs to replicate and extend our model in other organizational and environmental contexts.

Lastly, as discussed above, the inconsistent findings with hypotheses 7, 8 and 9 indicate that acquisitions performed by hospitality companies exhibit a distinct pattern and deserve a separate and throughout study. However, the limited size of the sub-sample of hospitality acquisitions (only 62 acquisition events) used in the present study made it impossible to run regression analysis. The reasons for limited sample size are probably that most of acquisitions in hospitality industry had relative small value of truncations and were carried out by non-U.S. and private hospitality companies, while the criteria employed to construct the sample included that (1) the acquiring companies

had to be publicly traded companies; (2) the acquiring companies had to be U.S. companies; (3) the acquisitions had to be “large”, with a transaction value of greater than 100 million US dollars. A large number of hospitality acquisition events were thus removed. Future studies can be done in a bigger sample by relaxing the criterion of “large” acquisitions and extending the period of time of observation.

5.6 Conclusions

In conclusion, the studies considers two different phases of acquisitions and provides empirical evidence on the effects of CEO firm tenure on stock market reactions around the announcement of an acquisition in a short term and the retention of top executives from the target firm on post-acquisition accounting performance in a long term. By demonstrating the U-shaped relationship between CEO firm tenure and acquisition performance and how CEO duality and compensation moderates this relationship, and the role of acquisition relatedness and relative acquisition size in moderating the relationship between retention of target top executives and acquisition performance, it is hoped that the findings contribute toward a more completely specified theory of corporate acquisition.

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