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Access to Tacit Knowledge by Executive Retention in Cross-border Acquisitions

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Abstract

For companies that are internationalizing through foreign acquisitions, a major consideration is likely to be access to the technical and social knowledge of the local environment that executives of the acquired companies possess. Despite the importance of this consideration, the literature has not sufficiently addressed the issues it raises. Investigations of the factors that affect the departure of executives of acquired companies have until recently tended to overlook the question of the knowledge that leaves with them. The present paper discusses executive retention in cross-border acquisitions from a knowledge-based perspective. It analyzes three cases of such acquisitions in Brazil. The results show how knowledge can play a critical role in the acquirer's decision to retain or release owners and/or executives after the acquisition. In addition to conventional variables, the characteristics of the knowledge of the acquired companies' owners and/or executives emerge as essential to explain their retention. This paper argues that evaluating the knowledge the acquired company's owners and/or executives possess, especially regarding its degree of tacitness, is one basis for decisions on their retention.

Key words: cross-border acquisitions; executive retention; tacit knowledge.

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Introduction

The strategic significance of knowledge as an organizational asset or resource is well recognized (Boisot, 1999; Chakravarthy, McEvily, Doz, & Rau, 2005; Grant, 1996). There has been growing concern about how knowledge of strategic importance can be secured through acquisitions and alliances (Child, Faulkner, & Tallman, 2005; Hamel, 1991; Lyles & Salk, 1996). In this paper we focus on how characteristics of the knowledge held by acquired companies' owners and executives may be relevant to an understanding of their post-acquisition retention.

For companies that are internationalizing their operations via foreign acquisitions, the most important Foreign Direct Investment (FDI) vehicle today (Zander & Zander, 2010), knowledge about the local environment is likely to be of particular significance. A major consideration is likely to be access to the technical and social knowledge of the local environment that the executives and personnel of the acquired company possess (Child, Faulkner, & Pitkethly, 2001; Deiser, 1994). Retaining this knowledge may determine the acquiring company's policies for managing people-related issues, particularly those that involve the acquired company's executives. Due to the tacitness of part or even most of this knowledge, decisions concerning the retention of executives are challenging. As Wulf and Singh (2011, p. 20) argue, "one of the most significant challenges facing acquiring firms is how to retain the valuable human capital of the firm that you are buying".

Despite the importance of this matter, the literature on post-acquisition integration has not sufficiently addressed the retention of such executives as a means to safeguard this knowledge (Greenberg, Lane, & Bahde, 2005). The departure of owners and top executives of an acquired company may be particularly relevant in cases in which the knowledge contained within the acquired company is a key asset. Thus, an acquisition that is followed by the departure of many of the acquired company's senior executives could result in the loss of some of the knowledge that motivated the acquisition in the first place (Ranft & Lord, 2000). This loss could be serious when owner-entrepreneurs divest their own companies because much of the knowledge that the former have accumulated may remain with them (Hayes, 1979). If there are no alternative sources of this knowledge, the retention of these executives may be a priority rather than an option.

Kay and Shelton (2000) cite a Watson Wyatt survey that indicates that more than three-quarters of top executives from 190 companies in seven countries believe that retaining key talent is a critical requirement for the effective integration of mergers and acquisitions (M&As). Although scholars have begun to investigate the issue, they often focus on the reasons that lead executives to depart (Buchholtz, Ribbens, & Houle, 2003; Child *et al*., 2001; Hambrick & Cannella, 1993; Walsh, 1989, 1988; Walsh & Ellwood, 1991). More limited consideration has been given to whether the knowledge possessed by the executives of an acquired company or their tenure influences the acquiring company's decision to retain or release them (Bergh, 2001; Ivancevich & Stewart, 1989; Kummer, 2008; Ranft & Lord, 2000).

When a large multinational acquires an entrepreneurial company in an emerging economy, particular issues about the retention or dismissal of the acquired company's owners and executives arise. First, companies managed by their owners do not usually have formal policies about knowledge management. This results in lower levels of knowledge codification, with much of their knowledge remaining in tacit form. Second, their owners often manage by means of personalized control (Child, 2005). Consequently, much of the most valuable knowledge is held in the owner's mind and is not shared with the executives or other employees of the company. Thirdly, the informal nature of business arrangements in many emerging countries means that they rely on social capital accumulated by the local participants, again typically the owner-executives. This can reinforce the need to retain owners, regardless of the primary motivation for the acquisition, especially for acquirers that do not already operate in the target country or if there is no alternative source of social capital available. Fourthly, the departure of the owners and/or top executives of the acquired companies may have an impact on other tiers of management (Marks & Mirvis, 1998; Ranft & Lord, 2000). Disregarding these

issues may make the integration process more difficult, particularly for those companies that did not already have any operations in the country of the acquired company.

The paper's objective is to explore how the nature of the acquired knowledge (type, kind, source, availability of alternative sources, and tenure of the owner and/or executives) may determine policy options available to acquiring companies for the retention process and outcome. Previous literature has focused mainly on how characteristics of the deal may explain the departure and succession of acquired executives. Some of the variables (age, relatedness, performance, and so on) identified explain, at least partially, why acquired company executives depart or are replaced. Although some of these variables are important to an understanding of both issues, we argue that their retention should also be examined through the perspective of knowledge. In doing so, we analyse this issue from the acquiring companies' perspective. It examines three cases of Brazilian companies acquired by multinational corporations.

Five sections now follow this introduction. The first section examines the existing literature on the departure and replacement of acquired companies' executives. Then we discuss how the knowledge perspective contributes to an understanding of the retention of an acquired company's executives. The second section addresses methodological issues – selection of the cases, data collection and analysis. Subsequently, we present the three case studies of Brazilian companies (from different industrial sectors) that were acquired by American, British and German multinationals, respectively. Next, we analyze the case studies, taking into account issues examined in the literature review. The last section of the paper summarizes the paper's contribution to knowledge and its implications for practice. It also indicates the limitations of this paper and offers suggestions for future research.

Literature Review

In this section, we first look at the existing literature on the departure and replacement of acquired executives. Both streams seek to identify variables that could explain the departure and replacement of acquired executives. Various factors – company- or individual-related – were found to justify why executives leave or remain and also why they are likely to be replaced. Both streams have, however, two major weaknesses. First, they tend to ignore the retention issue. Secondly, they tend to disregard the relevance of the acquired knowledge in their effort to understand the retention decision-making process. Therefore, we argue that, in addition to the aforementioned factors, knowledge is a critical variable to be considered whenever the retention of acquired executives is analyzed. We consider the following aspects in particular: type, nature, and source of knowledge, availability of alternative sources of knowledge, and tenure of acquired executives.

Departure and replacement of acquired executives

For more than two decades, scholars have been investigating why executives leave after their companies are acquired. Several studies indicate that executive departure after M&As is very likely. Walsh's study (1988) found that the executive turnover rate in merged companies is significantly higher than turnover rates in non-merged companies, and that very senior executives are the first to leave following an acquisition. Likewise, Hambrick and Cannella (1993) found that four years after acquisition, 67 percent of the acquired company executives had already departed. Lubatkin, Schweiger and Weber (1999) detected a cumulative turnover rate of 52 percent during the first four years after the acquisition of the companies they analyzed. As Hambrick and Cannella (1993, p. 748) state, "The magnitude of this phenomenon reaffirms the importance of the research topic".

Even though studies converge in their predictions of the likelihood of executives leaving after the acquisition, the motivations behind their departures are not clear. Different studies have attempted to identify reasons why leading senior managers leave acquired companies. Walsh, for instance,

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conducted research on post-acquisition turnover in order to explain the reasons behind the generally high rates of executive turnover that follow an acquisition (Walsh, 1989; Walsh & Ellwood, 1991). He examined how the attributes of both the acquiring and the acquired companies, as well as the attributes of the transaction itself, affected the turnover of the acquired company's top management team. However, his research did not find any correlation between these variables. He could only conclude that "nearly 50 per cent of a target company's top managers leave within three years of a merger or acquisition and we do not know why" (Walsh, 1989, p. 319).

Although the reasons for executive departure were not clear, Walsh and Ellwood (1991) found that managers from acquired companies who have the best performance records tended to leave early. Thus, the career fate of the acquired company's managers is under their own control rather than the control of their acquiring company. In other words, a talented manager often makes his or her own decision to leave. This is more likely when they are not involved in the process of deciding on post-acquisition arrangements. As Kay and Shetton (2000, p. 37) note, "if key employees do not feel they are in the loop, they will probably be busy looking for career opportunities elsewhere". If preserving acquired capabilities is valued, this could be a serious concern for acquiring companies.

Similarly, other authors have also tried to explain the departure of the executives of an acquired company from a number of perspectives. These perspectives see the departure of acquired executives to be the result of their own choices. Hambrick and Cannella (1993) analyzed the issue from the perspective of the relative standing of executives. They argued that acquisitions result in lower status for the acquired executives. These executives feel that their new rank or positions are inferior. The acquiring company executives also see the former as inferior and perceive themselves to be superior. The acquired executives lose their autonomy and status and a climate of acrimony prevails. The result is that a high proportion of acquired executives decide to leave. Various factors, such as performance, autonomy, an executive's age, relatedness and the size of the acquiring company can contribute to this lower status. For example, the worse the pre-acquisition performance of an acquired company is, the greater the rate of executive departure. The relative size of the acquired company in comparison to the size of the acquirer also has a significant relationship with executive departure, especially during the first month. Executives in relatively small acquired companies conclude very early that they do not want to be small fish in a large pond (*i.e.*, they would have less power, importance and influence if they were part of a larger group or organization). As Marks and Mirvis (1998, p. 98) point out, it is difficult for most one-time CEOs to play second fiddle after having been in the leader's chair.

Buchholtz, Ribbens and Houle (2003), in turn, discuss the issue from the perspective of a human-capital based cost-benefit. Human capital theory posits that a CEO has an individual repertoire of skills, knowledge and resources that can explain both his or her decision to depart or remain, as well as the likelihood that the acquiring company will wish to retain him or her. From the perspective of both the acquired CEOs and the acquirer, a departure decision should include a careful assessment of the CEO's human capital – the knowledge and skills that he possesses. Age and relatedness are two of the more important factors that affect the rate of CEO post-acquisition departures. Buchholtz *et al.* (2003, pp. 506-507) discovered that the rate of departure was greatest for the oldest and youngest CEOs and lowest for middle-aged CEOs. They also found that the greater the relatedness is, the greater the rate of CEO departure following an acquisition. If the human capital of the acquiring company makes the skills of an acquired CEO redundant, there is less need to retain him or her.

In turn, other scholars understand that the departure of acquired executives results from the acquiring company's decision-making rather than from individual choice. For instance, Siehl, Smith and Omura (1990) argue that whether or not an executive can remain depends upon the strategy adopted by the acquirer. If the top management of the acquirer intends to manage a portfolio of assets, rather than a particular business, managers of the acquired company can probably stay. However, in other situations the managers and/or executives of the acquired company cannot stay. If the acquired company has been targeted for specific and tangible assets, its top managers' talents will usually be redundant and viewed as a liability by the acquiring company. When there is the possibility that they can remain, the acquired executives must decide whether or not they should stay. Various factors influence this decision, including job fit, culture fit, tolerance for being controlled, career path, and so on.

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Although several authors have examined the departures of acquired companies' executives, replacement of these executives is a matter that cannot be neglected. The departure of an acquired company's CEO creates a vacuum of power that the acquiring company must promptly fill (Lee & Alexander, 1998). These authors, who looked at the replacement of the CEOs of acquired companies in related acquisitions, found that the probability of replacement is highest when the participating companies have incompatible owners, or when the acquired company has a CEO of long tenure who balks at reporting to an acquiring company executive. Both situations may inhibit the transfer of knowledge and capabilities to the acquiring company. Lee and Alexander (1998) also found that smaller acquirers are more likely to undergo CEO replacement in related acquisitions than are larger acquirers.

Child, Faulkner and Pitkethly (2001) have observed that an acquirer's appointment of a new CEO tends to vary according to the acquirer's nationality. UK acquirers appointed a new CEO in 78% of the cases studied. This became 53% of the cases for US acquirers and less than 50% of the cases studied for other acquirers (French, German, and Japanese). Although UK acquirers appointed their own CEOs more often than did acquirers of other nationalities, the acquiring companies' level of influence over changes in the management practices of their acquired companies tended to be lower. In companies that were acquired by US-acquirers, relatively more of the acquiring companies' executives held senior management posts in the acquired companies than was the case when the acquirers were of other nationalities. Table 1 summarizes the key arguments, findings and variables considered in the studies just reviewed. As can be observed in Table 1, knowledge has been largely ignored by scholars who studied the departure and replacement of acquired executives.

Table 1

Theoretical Perspectives on the Departure and Replacement of Acquired Executives

Issue	Authors	Arguments/Main ideas/Main findings	Relevant variables
Departure of acquired executives	Walsh (1988, 1989)	High rates of executive turnover following an acquisition.	None found to be significant
	Walsh and Ellwood (1991)	Managers with the best performance histories tended to depart early.	Manager's performance.
	Hambrick and Cannella (1993)	Lower relative status may lead to a high rate of acquired executive departures. Loss of autonomy and status result in a higher rate of acquired executives' departure.	Performance, autonomy, executive's age, relatedness, and size of the acquired company.
	Buchholtz *et al.* (2003)	CEO's repertoire of skills, knowledge and resources can explain both his/her choice of whether or not to depart as well as the likelihood that the acquiring company will wish to retain him or her.	Age and relatedness.

Continues

Table 1 (continued)

Issue	Authors	Arguments/Main ideas/Main findings	Relevant variables
Departure of acquired executives	Siehl *et al.* (1990)	Whether or not an executive can stay depends upon the strategy adopted by the acquiring company. The decision depends upon whether the executive can stay or whether the executive should stay.	Job fit, culture fit, tolerance to being controlled, career path, and so on.
Replacement of acquired executives	Child *et al.* (2001)	Acquiring company's appointment of a new CEO and the senior level executive tends to differ according to the acquirer's nationality.	Nationality of the acquiring company.
	Lee and Alexander (1998)	The probability of replacement is highest when the participating companies have incompatible owners or when the acquired company has a long tenured CEO who balks at working under an executive of the acquiring company. Smaller companies are more likely to experience CEO replacement in related acquisitions than are larger acquired companies.	Tenure, relative size of the acquired company compared to the size of the acquiring company

To summarize, the existing literature has emphasized that executives leave either because acquiring companies make such a decision or because they opt to. These discussions thus leave a critical issue unexplored; namely the extent to which the knowledge possessed by acquired owners and/or executives is a determinant of decisions to release, replace or retain them. The primary reason behind a decision to retain all or some of the acquired company's executives is to prevent the loss of their knowledge and the negative effects that the loss of this knowledge could have for the acquirer (Zander & Zander, 2010). As one executive has said, a merger is a challenge because "the potential for an exodus of talent is very real … in any business deal; the impact on talent has to be at the top of the agenda" (Carey, 2000, p. 153). Such a problem may be greater when acquisitions are of a cross-border nature (Zander & Zander, 2010, p. 32). In other words, the retention of key executives should be a critical and strategic objective of the acquirer. In the following section, we discuss how the knowledge-based perspective can help to understand the retention of owners and/or executives of acquired companies following completion of international acquisitions.

Acquired owner and/or executive retention: a knowledge-based perspective

Acquiring companies often adopt a myopic view of the acquisition process. They normally favor a financial view of the process that ignores other aspects, such as the knowledge possessed by acquired personnel. Since owners and/or executives are repositories of knowledge, the decision of whether to retain them or not is a critical issue following an acquisition. Since their departure is a possibility, acquiring companies must make decisions before their departure undermines the value of the acquired company. We now discuss how the type or nature of knowledge, as well as tenure and the availability of alternative personnel, may influence this decision.

Scholars espousing the resource-based view claim that unique and difficult-to-imitate resources are the primary source of sustainable competitive advantages for firms. "These resources enable firms

to enjoy markedly lower costs or offer higher quality products and performance than their competitors" (Boerner, Macher, & Teece, 2003, p. 108). However, the internal development of competencies, as well as the acquisition of tacit skills and knowledge externally, may pose a challenging task for any organization. This may be particularly acute in international acquisitions because "most acquirers do not know exactly what they are buying, especially in knowledge and capabilities. In addition, acquirers must determine who knows what, and to locate and motivate key employees to stay on board" (Zander & Zander, 2010, pp. 1-2).

Decisions on post-acquisition retention, therefore, must be made with reference to the dimensions and **type of knowledge** that owners and/or executives possess, as well as its significance for the acquirer. The acquired company's knowledge may be technical or relational. The latter can include important business connections as well as the trust that employees place in a company's top executives (Ranft & Lord, 2000). Relational knowledge may be particularly relevant in some contexts and can constitute a form of social capital insofar as this term refers to resources that are embedded in social relations or networks (Baker, 1990; Bourdieu & Wacquant, 1992). Luk *et al*. (2008) argue that the effects of social capital are more pervasive in a transitional economy than in a market economy. They support their argument by reference to the way that having good *guanxi* with managers at other firms may enhance business performance in China. Therefore, the challenge for an acquirer is to identify the knowledge – both technical and social – that it cannot afford to lose and then to locate the individuals who possess it.

The **nature of knowledge** can be tacit or explicit. A major difficulty arises when the valued knowledge is tacit (Polanyi, 1966). Although tacit knowledge is generally the most uniquely valuable form of knowledge that an organization possesses, it is also the most difficult form of knowledge to evaluate and assess (Arvidsson, 2000; Szulanski, 1996). Tacit knowledge usually resides both within particular individuals and within relationships and interactions among teams or groups of individuals (Nonaka, 1994; Ranft & Lord, 2000). Tacit knowledge is highly personal and difficult to articulate and formalize (Chakravarthy *et al*., 2005; Nonaka, Toyama, & Byosière, 2001). Although tacit knowledge can be a collective asset, its realization may depend upon key individuals. The loss of this knowledge can be particularly harmful for acquisitions in countries where personal relationships are highly valued.

The **source of knowledge** can be individual or collective. The dual individual and collective embeddedness of tacit knowledge adds to the difficulty that an acquirer encounters in distinguishing between the unique knowledge of the individuals who should be retained and the collective knowledge that is embedded in the acquired company. This is not a simple task. As Zander and Zander (2010, p. 33) say, "it is unlikely for a potential acquirer to identify someone's knowledge and importance *ex ante*". Ranft and Lord (2000) argue that knowledge resides in both the technical skills of key employees of acquired companies and the greater social context of the organization, relationships among employees, with other professionals and with other outside stakeholders. The retention of key employees is thus not only of critical importance to retain individual knowledge, but also to preserve valuable types of socially embedded knowledge.

The embeddedness of knowledge in acquired company owners or executives draws attention to another factor that cannot be ignored, namely the **availability of alternative personnel** to replace those owners or executives. This is more than just a matter of replacing one person with another. It would be misleading and risky to judge the ease of replacement simply by the availability of alternative sources without knowing how valuable specific knowledge is to the acquired company owners and/or executives. This question may be particularly relevant when acquired companies are led by managers who do not share their knowledge with the executives or other employees of the company.

Another feature that should be taken into account is the **tenure** of owners and/or executives. The typology proposed by Hambrick and Fukutomi (1991) of different CEO tenure stages may help to clarify the dilemma that acquiring companies face. Their analysis of the five seasons through which CEOs accumulate task knowledge and power is particularly relevant. The five distinct stages or

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seasons within an executive's tenure that Hambrick and Fukotomi identified are: (a) response to a mandate; (b) experimentation; (c) selection of an enduring theme; (d) convergence; and (e) dysfunction. They analyzed how certain dimensions evolve during a CEO's tenure.

A new CEO enters the job with a disadvantage in his knowledge of the task, but quickly overcomes this handicap and acquires a great deal of critical knowledge early in his or her tenure mainly by skillfully gathering information from both external and internal sources. As his or her tenure proceeds, the CEO tends to rely on narrower and more finely filtered information. The executives of an acquired company may be in the last season of their tenure. By the time the last season has been reached, "the positive effects of the continuation of a CEO's tenure (primarily in increasing task knowledge) are outweighed by the negative effects" (Hambrick & Fukutomi, 1991, p. 731). However, with regard to power, the authors observe that in the last season, even though the CEO is disengaged psychologically, his or her power is at an all-time high. He may have appointed many of the board members, selected and retained loyal subordinates, perhaps developed a patriarchal aura, and even secured a substantial block of the company's stock' (Hambrick & Fukutomi, 1991, p. 731). From a perspective that highly values knowledge, the acquired CEO's knowledge of the task is high, even if there is little opportunity of gaining more knowledge and many new sources of information from him or her. If the CEO's knowledge is considered to be valuable, this situation presents a dilemma that acquiring companies can hardly avoid.

The evolution of task knowledge and power through the five seasons therefore creates a challenge for acquiring companies. If acquired CEOs are in their last season of tenure and with their power at an all-time high, they may find it difficult to adapt to a new regime (Marks & Mirvis, 1998). It could involve reporting to someone who is younger and less experienced, and accepting a lower-status title. However, from the point of view of acquiring knowledge assets, the logic is not as straightforward, as the task knowledge held by a CEO is high in his or her last season. Bergh (2001) argues that top executives who have long tenures are the most valuable employees to retain, even though they may have some difficulty in adapting to the changes that the acquiring company introduces. He suggests that the value created by the experience, knowledge and memory of people in the acquired company is greater than the value generated by creativity, flexibility and innovativeness, the usual indicators of adaptability to change. Bergh's argument bears upon the dilemma of whether to retain CEOs in their last season, for it suggests that, despite the power that they will have accumulated, the decision to retain or release them should depend upon the value of their knowledge to the acquiring company.

In short, the retention of acquired owners and/or executives appears to be justifiable mainly by the knowledge that they possess. Their departure or replacement may result in a loss of critical knowledge that, in some instances, was the very reason for the acquisition or was fundamental for the business. In the following section, we discuss the methodological issues of three case studies that illustrate our views.

Methodology

Our empirical data derive from three cases of Brazilian companies that were acquired by American, British and German multinationals, respectively. The cases were investigated between 1997 and 2001 in the wake of a significant number of mergers and acquisitions in Brazil during the late 1990s. The three case studies were initially not undertaken with the primary intention of investigating executive retention. However, the issue of retention often arose during the interviews. It appeared because of the outcome of post-acquisition changes and also because the post-acquisition integration process depended on whether the previous owner and/or main directors would remain or depart. Consequently, it gradually became clear to the authors why and how executive retention, rather than their departure and replacement, may be a critical issue in cross-border acquisitions. These specific

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cases were selected because they best illustrate how characteristics of the acquired knowledge are a factor in decisions to retain or release the owners and/or executives of an acquired company.

Data were obtained by interviews that were conducted in Brazil, each lasting between one and two hours. In the first case – the American acquisition – four interviews were conducted. The respondents were the acquiring company's sales office manager, the Industrial Director, who was appointed after the acquisition, and two middle-managers who had known the previous owner for a long time. The previous owner was not interviewed because this was a condition for cooperation that was stipulated by the company's CEO. In the second case – the British acquisition – interviews were conducted with two of the original shareholders who stayed on following the acquisition and also with the controller who was appointed by the acquiring company after the acquisition. No one from the acquiring company was interviewed because it did not appoint any managers in the acquired company. The third case study was that of an acquisition by a German company. It followed a similar procedure, although with more interviews because of the larger size of the acquired company. Twenty-four managers from both the acquired company and the acquiring company were interviewed. Subsequently it was decided to explore further the relationship between owner and/or executive retention and knowledge. The general managers of the first two acquired companies were therefore re-interviewed, while, in the third case, the Marketing Director and a member of the board who had been a director prior to the acquisition were interviewed. Both respondents had been with the acquired company and stayed on after the acquisition. Table 2 summarizes information on the total of 35 interviews.

Table 2

Overview of Interviews

Case	**Persons interviewed** (Staff are those in the acquired company unless otherwise indicated)	**Dates of interviews**
American acquisition	Industrial Director, Sales Manager, both appointed by the acquiring company, and two middle managers from the acquired company	May-July 1999
	Industrial Director	March 2004
British acquisition	Two former owners remaining in the acquired company as General Manager and Quality Manager respectively. Also the Financial Controller, newly recruited post-acquisition	May-July 1999
	General Manager	March 2004
German acquisition	24 directors, middle managers and supervisors from both the acquiring and acquired company.	February-March 2001
	Commercial Director, plus a member of the acquired company's board, both originating in the acquired company	November 2005
Total number of interviews: 35		

The interview guides used open-ended questions to probe: (a) the reasons why the acquiring company decided to retain executives from the acquired company; (b) the importance of their knowledge for this decision; (c) the kind of knowledge that was perceived to be most relevant; and (d) the decision regarding the time span of retention. The cases were then revised and expanded, and sent back to the general managers for their comments and approval. In the first two cases, they requested that the names of the companies and executives be disguised. Accordingly, we will call the acquired company and the acquiring company AA1 and A1 respectively (the American case), BB1 and B1 (the British case) and GG1 and G1 (the German case).

Although it would have been appropriate to interview persons from both the acquiring and the acquired companies, this was not always possible. In the first two cases, the acquired companies were both small (A1 had less than 100 employees and B1 had 63 employees). Thus, only a limited number of people were able to provide relevant information. In the first case study, access to the acquired company's previous CEO was denied as a precondition of cooperation. In this case, although other managers were interviewed, the Industrial Director who was appointed by the acquiring company to manage the acquired plant was the only person who had a close and lasting relationship with the previous owner. He was therefore the most appropriate person to interview about executive retention and its relation to knowledge. In the second case, the two previous owners, both of whom stayed on after the acquisition, were the only persons who could provide reliable information about their own situation. In the third case, although the company was larger (G1 had 1330 employees when it was acquired) and the number of relevant managers and employees was correspondingly higher, inquiries indicated that only a few were in a position to provide the information that we sought.

For data analysis, content analysis was used to organize and interpret the collected data. As Eisenhardt (1989) argues, data analysis is the heart of building theory from case studies. In within-case analysis, the idea is to become intimately familiar with each case as a stand-alone entity to permit its unique patterns to emerge. In the case of a cross-search for patterns, the key to comparing cases is to look at the data in many different ways. The next step is to compare these themes, concepts and hypotheses with a broad range of literature and asking what it is similar to, what it contradicts, and why. Conflicting literature forces researchers into a more creative and frame-breaking mode of thinking than they might otherwise be able to achieve. "The result can be deeper insight into both the emergent theory 'and' the conflicting literature, as well as sharpening of the limits to generalizability of the focal research" (Eisenhardt, 1989, p. 544). This juxtaposition of conflicting, contradictory or paradoxical evidence, which unfreezes thinking, leading to creative insights and generating novel theory, is one of the major strengths of the process of theory building. Throughout the fieldwork process, evidence confirming and contradicting initial assumptions and intuitions emerged. This raised questions and, as Eisenhardt (1989) suggested, forced us to more creatively examine the problem being analyzed.

Results

We have adopted the following sequence in reporting each case: first, a brief history of the acquired company; second, a description of the acquisition process; third, the decision concerning the retention of the acquired company's owners and/or executives; and finally, the aftereffects of this retention. These four sets of information are essential for an understanding of the conditions under which an acquiring company may seek to retain owners and/or executives of an acquired company following its acquisition. The information sheds light on the connection between the options on retaining executives and safeguarding their knowledge and the social context of that knowledge. In other words, these sets of information convey the logic inherent in the relationship between the choice of their retention and the preservation of either their own knowledge or of the stability of the milieu in which the knowledge exists.

The case of an American acquisition

AA1, a medical device manufacturer, was founded by a well-respected cardiologist. He created AA1's main product, which is hand crafted, and also developed the entire production process. In addition, he used the product in his own hospital and was also responsible for marketing it. Since a large part of production was exported, he developed an extensive network with doctors from the cardiovascular community worldwide.

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In September 1996, A1, an American multinational that sells its products in more than 100 countries, acquired AA1. Although A1 was in the same business as AA1, it did not manufacture the same type of product. Thus, the acquisition permitted A1 to improve its business portfolio.

AA1 was the first acquisition by A1 in a developing country. Previously, A1 only had a sales office in São Paulo, which had opened one year previously, in 1995. The Brazilian sales executive had been in the medical device business for a long time, had known AA1's founder well, and had even negotiated the acquisition. When A1 decided to acquire AA1, he clearly warned the former's executives that they could not simply turn up and assume control of AA1. He recommended that AA1's founder be encouraged to stay for a period after the acquisition. In his own words, he stated,

> "No one in the company had the accumulated knowledge that the owner had. From the manufacturing point of view, the owner was absolutely necessary…you need an unspecified period in which this person, who owns the knowledge, continues to run the company and, at the same time, you appoint an assistant who should gain the trust of the owner. Then, after a while, the owner will say that the assistant is a good candidate to replace him".

The founder stayed on for around 18 months, not as an employee, but as a consultant. During the first seven months, from September 1996 to May 1997, he effectively ran the business. He had complete autonomy in making decisions about the administration and the operation of the company. Gradually, he became less involved with the business, although this distancing took place very slowly.

At the same time, a manager from A1 was sent to Brazil once a month for a two-week stay. Then, in May 1997, he moved to Brazil where he stayed until December, when he left A1. The purpose of his trips to Brazil was to understand the production process and also to implement new quality standards for the company's operations. However, the founder perceived the A1 manager's suggestions to be interference and this resulted in some conflict between the foreign manager and AA1's founder. Later, a second manager began to visit Brazil regularly. His mission also was to offer technical – engineering and quality – advice to the company. However, unlike the first manager, he developed a good relationship with the founder.

Then, a Brazilian engineer who had considerable experience in the medical device industry and had been recommended by the sales office manager was appointed as AA1's Industrial Director. He recalled that during his recruitment interview the President of one of A1's Divisions had been very clear about the acquiring company's intention to retain the founder. So, the challenge was to maintain a good relationship with him while at the same time implementing necessary changes. According to this Director, the personality of AA1's former owner was a key variable in the integration process. A smooth transition depended on understanding his personality. Therefore, it was essential to appoint someone whom the founder would trust; someone he would not feel was stealing his child. A1 also realized that the long-established relationship that the acquired company owner had with his employees also had to be taken into account during the integration period.

According to the new Industrial Director, there was a power vacuum in the beginning, because, although A1 had appointed him director, the boundaries between his responsibility and that of the previous owner were not clear. It was difficult for the founder to assume his new role of consultant. In spite of a contract that specified his functions, he found it difficult to stand by when his opinions and recommendations were not accepted. On the one hand, AA1's founder had established some quality assumptions and parameters that he believed in. On the other hand, A1 was embedded in the completely different American institutional environment in which regulatory agencies were more demanding. The Industrial Director therefore had the prime responsibility for harmonizing what A1 expected in financial, quality and production requirements with the operation as it was when it was acquired.

Retaining the founder created some difficulties, but was undoubtedly the best option in the circumstances. His departure would have had a major impact. First, the company would lose his marketing links with the cardiovascular community around the world. A1 has greatly capitalized on these relationships. Secondly, the company would lose his knowledge of the production process. The

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founder had developed the process himself. Third, if he had left, A1 would have needed to re-create the whole process from very little available information, because the key relevant knowledge was not documented, but held only in the founder's head. The Industrial Director said:

> "We have a unique situation in the sense that the previous owner was the creator of the product and a user of it; he knew the process, so he was an extremely rich source of information, from manufacturing to implementation. His insight into the whole process, and not only about one aspect, was extremely complex. He has developed the product, manufactured it and known deeply the nuances of its use. His departure would have meant the loss of knowledge of what not to do. We must also acknowledge that his hospital was a large user of these valves and so he knew all the history of their successes and failures. He therefore held significant information about the use of the product".

The link between A1 and the founder remained for several years. Whenever cardiac surgeons came to visit A1, he was invited to present the product. Because of his extensive product knowledge, he continued to be invited to provide his services as a consultant.

The case of a British acquisition

BB1, an auto component manufacturer located in São Paulo, was founded in March 1993 by three people. In 1995, Visteon, a BB1 buyer and Ford supplier, suggested that BB1 form an alliance with an American company. Despite discussions on the subject, the American company did not proceed with the alliance for financial reasons. In March, 1996, Ford itself put BB1 in touch with B1. After 15 months of negotiation, B1, a British firm which operated in the same industry as BB1 and which viewed an acquisition as an excellent way to enter the Brazilian market, acquired BB1 in March, 1996. BB1 was quite profitable when it was acquired. At that point, B1 had little experience in acquisitions, except for some small deals in England. Also, it had little experience in managing foreign subsidiaries, especially in emerging economies.

One of BB1's three original shareholders, who remained as the Plant Manager following the acquisition, said that B1 had acquired intangible assets in the acquisition rather than tangible assets. These included goodwill and reputation, as well as the social know-how of the previous owners. B1 understood that the major assets of this company resided in its people and their relationships with their customers. As the Plant Manager said:

> "They acquired the reputation BB1 had in the market. They acquired the names of people who managed the company. It was really the good-will. If you acquire a company that is technologically up-to-date, that is fine. However, you have to pay a higher price for that. If it is not technologically up-to-date, maybe it is not an interesting company, but if it has a good profile, a good market penetration, you acquire those and immediately after signing the deal, the name of the company will bring you a financial return".

This former shareholder did not know whether he would remain, but was not worried about this because BB1 was simply a business for him. None of the former shareholders were sentimental about the company. However, B1 had made it clear that it would acquire BB1 only if two of the three shareholders would stay on – one to be plant manager of the acquired company and the other to take charge of quality. Their continuation for a period of five years was negotiated contractually.

From July 1997 to February 1998, two Special Project Managers were sent each month from B1 to Brazil for a two-week stay. The main objective of these visits was to transfer know-how to BB1 in order to adapt the acquired company's management practices to B1's system, principally in terms of reporting and administration. When BB1 felt sufficiently comfortable with B1's system, they reduced the frequency of their visits and the business was then solely managed by the Brazilian managers. B1's only requirement was that a new financial controller be recruited, whom it subsequently appointed. Changes in financial reporting and recruitment of the controller recruitment were critical requirements because B1 is a company whose shares are traded on the London Stock Exchange. Thus its financial reporting needs to be undertaken in accordance with institutional expectations.

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Although B1 was more advanced technologically than BB1 in its production process, it did not intervene frequently in this area. The acquiring company managers were surprised that BB1's products satisfied B1's quality ratings, despite the former's lack of very modern equipment. The absence of interference is also explained by the fact that the low volume of components manufactured in Brazil did not justify the transfer or change of production practices.

Although it is not clear exactly when B1 appreciated the need to retain BB1's executives, the plant manager pointed out that this decision was probably influenced by the fact that B1 was not a very large company. In his opinion, this was a great virtue because appointing expatriates to implement new organizational practices would have been very difficult and could have generated many problems. A policy of retaining acquired company executives was also evident in other companies that B1 acquired. Seven years after the acquisition of BB1, the Plant Manager – a former owner – was still continuing as the principal executive of B1's Brazilian subsidiary.

The case of a German acquisition

GG1, a family-owned company located in Rio Grande do Sul, the southernmost state of Brazil, was founded at the beginning of the 1950s. Initially, the company repaired punch machines, but later began to manufacture elevators. In 1995, the company changed its strategy to redefine its core business. Instead of being simply an elevator manufacturer, the company now focused on services. As a result of these changes, GG1 increased its market-share from 12 percent to 28 percent. However, the opening of the Brazilian market in the 1990s heightened competition. So, in spite of its continuing growth and even though it was the only domestic elevator manufacturer, GG1 was aware that it needed to search for a strategic alliance with a global player. During the next three years, several foreign companies presented themselves as potential buyers. Although selling the company appeared to be the most appropriate course of action, the owner avoided taking this step.

Nevertheless, the issue was discussed within the company and the owner encouraged his managers to help him to decide. Since some companies that had previously been interested in GG1 had now turned to alternatives, only two suitors remained. One was already operating in Brazil, whereas the other (G1) had no Brazilian plant, despite ranking fourth in its field throughout the world. The owner asked 30 of his managers to decide to which company he should sell GG1. Although the other company had offered a higher price, they chose G1 for a number of reasons. Without an existing plant in Brazil, the risk that G1 would cut staff at GG1 was lower. Also, G1 had very advanced technology, an attractive management style driven by a think globally, act locally philosophy, and values that were similar to those of GG1. Therefore, the managers thought that GG1 would become G1 plus those employees who had relationships with clients and suppliers. The deal, which was concluded in August 1999, was ultimately seen as the best for employees, clients, suppliers and shareholders.

Personnel in G1 and GG1 had actually known each other for some time. Both companies had signed a contract in 1989 to jointly manufacture escalators, although this venture did not succeed. Then, when G1 defined the elevator business as a priority in Latin America, it focused on GG1 because it appeared to have a similar core culture. Culture was a major concern because the elevator business has to adapt to local conditions. GG1 had developed its relationships with some clients for more than 30 years and so trust was inherent to them. The elevator industry is one in which success depends on knowing clients well and in being able to satisfy local product requirements and service quality.

After the deal had been signed, the President of G1 in Spain visited Brazil (the acquisition was conducted by the Spanish division of G1). He asked GG1's directors to remain in their original positions for four years and offered them a contract. G1 argued that it was acquiring GG1 for several reasons. However, people constituted the main asset taken into account and thus their retention was a *sine qua non*. It said that it was not buying a company, but its human capital. The Superintendent, the Industrial Director and two other directors agreed to remain, but refused to sign the contract. They

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argued that they would remain as long as G1 believed that they were contributing to the results that it expected. The former owner was invited to become the Chairman of the Board of Directors. However, he refused, contending that, if he had wanted to remain, he would not have sold his company. He was convinced that the directors were well able to ensure the continuity of the business and so he left the company. Two Spaniards were appointed as Financial Director and Director of the escalator business, which became a new product line within G1. One respondent commented that the cultural empathy felt with the Spanish appointees helped to persuade the acquired company's executives to stay.

Several respondents stated that retaining the existing directors guaranteed a smooth transition in a calm atmosphere. For the Marketing Director, who later became a member of the Board, G1's wisdom was to ensure the continuity of the process. It was particularly important to retain the top management because the relationship that GG1 had with its clients was even more significant than its product and services. One interviewee said, "Stable and lasting relationships with clients are based on credibility, transparency, closeness and attitude. If you break a relationship, it is difficult to establish it again". In this respect, the elevator sector differs from G1's other businesses. Whereas its technology and service business has relatively few clients whose contracts are managed from Germany, its elevator business has more than 24,000 customers. As already noted, knowledge of customers' special needs is an important competitive factor in the elevator business. This special knowledge is, in part, technical, which explains the importance of retaining the Industrial Director and Superintendent. However, it also constitutes social capital that is based on the accumulated experience in managing relationships with a large number of customers in a duly sensitive way.

According to the Director, who was responsible for HR in Spain and the post-acquisition integration process in GG1, G1 did not change anything at GG1. He viewed his role as monitoring integration, without stealing the roles of the remaining directors. He also highlighted the importance of the trust between the existing directors and G1's Spanish team. Since GG1's directors had been honest with them, G1 could not afford to lose this asset. Almost six years after the acquisition, the previous Superintendent, who had become the Chairman, still holds the same position. The Industrial Director has also remained and, in addition, become responsible for all plants in the Americas. The other two directors have become members of the Board.

Discussion

The arguments raised in the literature suggest several reasons to believe that the owners or executives of the three companies acquired in this analysis would have been replaced. The three cases were related acquisitions and, as argued by some authors, "the greater the relatedness, the greater the rate of CEO departure after an acquisition" (Buchholtz *et al.*, 2003). Also, these authors suggest that the rate of departure is greatest for the oldest and youngest CEOs and lowest for middle-aged CEOs. In both the A1 and B1 cases, the owners were respectively older or younger. Thus, it was likely that they would be replaced. In the same vein, if we look at the relative size of acquired companies in comparison to the size of the acquirer, the replacement of owners and/or executives could be expected. Again, as Buchholtz *et al.* (2003) have argued, executives in relatively small acquired companies conclude very early that they do not want to be small fish in a large pond.

Similarly, if we look at the variables of tenure and nationality, replacement would appear to be likely in the three cases. Lee and Alexander (1998), who examined the replacement of CEOs of acquired companies in related acquisitions, found that the probability of replacement is highest when the acquired company has a long-tenured CEO who balks at working under an executive of the acquiring company. This is clearly the case of A1 and G1. In turn, Child *et al.* (2001) have found that an acquirer's appointment of a CEO tends to differ according to the acquirer's nationality. In their study of UK acquired companies, UK acquirers were found to be most likely to appoint a new CEO, followed by American and German acquirers. Thus, while some replacement could be expected in all three cases, it was thought more likely in the British and American cases than in the German.

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Despite reasons indicating the probability of replacement and/or departure of owners and/or executives in the three cases, they in fact remained. Both A1 and B1 owners remained, and although the owner left in the G1 case, the directors remained. The G1 owner was convinced that they were able to ensure the continuity of the business. We argue that knowledge is a key variable to an understanding of their retention. The three cases described above illustrate how knowledge assets can play a critical role in the decision made by an acquiring company to attempt to retain owners and/or executives in an acquired company following the acquisition.

These knowledge assets are of two main types. The first type is technical knowledge of products and/or processes. The second type is relational knowledge, a form of social capital. In the medical device manufacturer case, A1, both types applied. The founder's knowledge of the product's development, production process and use, as well as his extensive network of doctors using the product, were key factors in deciding to retain him. In the British case, it was relational knowledge – especially relationships with customers – that the previous owners possessed that led the acquiring company to make the acquisition conditional on their staying on. In the third case, both technical and relational knowledge were the prime consideration. Their knowledge of the product and service requirements in Brazil, and of clients on a personal basis, were the key considerations in the decision to retain top executives.

The more the knowledge that they hold is tacit in nature, the more critical the retention of top executives in acquired companies is. Thus, the less codified the knowledge, the more likely it is that the owner and/or top executives of the acquired company will be retained. The cases suggest that knowledge will tend to be more tacit and less codified when an owner directly controls and manages the company. Acquiring companies retain the owner and/or top executives because of their extensive tacit knowledge that the acquiring company does not have, and because that knowledge is very specific to them. This knowledge is mainly relational and amounts to social capital that is embedded in relationships that are both internal and external to the acquired firm.

The capital embodied in these relationships is not only based on mutual knowledge and social familiarity between the executive and others. It can have a symbolic aspect, denoting the credibility and trust accorded to the owner and/or executive. So intimately associated are relational knowledge and social standing that an acquirer must recognize this when deciding whether to retain the owner and/or the executive(s) of an acquired company. For example, A1 was aware that AA1's founder had a deep emotional link to his employees and enjoyed high personal and professional respect among his customers. A failure to retain him could have been very disruptive and negatively affected the whole business.

The cases also point to another consideration in decisions to retain the top executives of an acquired company. In the American and British acquisitions, knowledge was concentrated in the owners themselves and was barely disseminated and little codified. Therefore, the departure of these owners would have meant the loss of the acquired company's most critical and valuable knowledge. The acquisition of small companies, like AA1 and BB1, which are strictly controlled and managed by their owners, does not normally offer the decision to let existing executives go and to replace them by others, contrary to what is suggested in the literature. Because there are no alternative sources of this crucial knowledge, the acquiring company either retains the owner or must cope with managing a brainless company while operating in an unknown environment. This points to the importance of their retention to the extent that the key knowledge is specific to them, rather than available substitutes who might also posses that knowledge.

Relevant to the question of executive substitutability is the distinction between an acquirer that already has an operation in the country in which the acquisition takes place and an acquirer that is active in the acquired company's specific field of business. The difference is subtle, but significant for owner and/or executive retention. If the acquirer has an operation in the country, but not in the acquired company's business, it may be misled into feeling comfortable and confident with its knowledge of the country and thus naïvely replace people in the acquired company. This would overlook the probability that different business domains may require distinctive social, if not technical,

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knowledge. If it does appreciate the specificities of the business, the acquirer is likely to decide to maintain executives in the acquired company because it may be unable to find adequate replacements. This is what G1 did. It had existing operations in Brazil, but not in the elevator business. However, it is not sufficient for an acquirer to have operations in the host country. It needs to be in the same business and, if it is not, to acquire the knowledge specific to that business.

These considerations identify two variables that may be of general relevance to understanding the rationales of acquirers' policies on the retention of acquired company executives. The first variable is the degree of **tacitness and lack of codification** of the knowledge that such executives possess. The second variable is the degree to which the acquired company's **knowledge is specific to its executives** and is not widely available from other sources with the result that it cannot be readily substituted.

In the AA1 case, knowledge that is vital to the continued value of the acquired company as a business concern is tacit in nature and specific to an owner and/or a few executives in the acquired company. Alternative sources of this knowledge do not exist. This vital knowledge might concern key technical aspects of the company's products or processes. It may equally relate to key market networks, both downstream or upstream, that are personalized to the acquired company's owner or other executives. These relationships cannot just be acquired. They take years to develop and are based on intangible factors such as trust, credibility and reputation. In cases such as AA1, the acquiring company's need to retain the knowledge-possessing acquired company executives is extremely high. Undefined retention or retention in the original position may, however, hinder changes that the acquiring company may wish to implement. So, it may have distinctive features, as in the case analyzed (*e.g.*, a defined time-span of retention and in an informal consulting position). The objective is to build trust between both parties so that knowledge can be gradually transferred to the managers appointed by the acquiring company.

In the BB1 case, in which product, process and market-related knowledge is not tacit, but rather codified, there are persons other than the executives of the acquired company who possess this knowledge and are available for hire. Therefore the knowledge and the executives to apply it or monitor its use are available in the market. This places a low premium on owner/executive retention, except insofar as this may be a less costly or resource-stretching alternative than appointing expatriate managers to take charge of the acquired company. However, there were other also intangible assets, such as goodwill, reputation and the social know-how of the previous owners. In addition, the acquiring company's inexperience with making acquisitions and managing foreign affiliates, together with its relatively small size for a multinational, caused it to decide to retain the existing managers in the company that it purchased. Moreover, these existing managers were performing very well, especially with regard to product quality. Unlike the previous case, the acquiring company asked the owners to remain in their original positions for a defined period of time (five years). They continued even after this initial period. Rather than a transfer of knowledge, the acquiring company seemed to want to preserve the existing intangible assets and also the way in which the acquired company was managed.

In the case of GG1, the need to retain executives from the acquired company arose due to the acquiring company's dependence upon personnel who were sensitive to the local culture and who were accepted within the local social context. As noted earlier, GG1 and its acquirer operate in a business whose success depends on knowing the customers well, and on following local concepts of product and service quality. While personal relationships with clients are specific to certain executives in the acquired company, knowledge of local concepts is not necessarily specific to these executives. Thus, it should have been possible to replace them over time, if necessary. Although the owner left, senior executives remained. Unlike the two previous cases, the source of knowledge at G1 – collective rather than individual – may explain why the retention of the owner in this case was not critical as in the A1 and B1 cases. Since knowledge was more disseminated, retention of executives seemed more relevant. The considerations raised by the three cases are summarized in Table 3.

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Table 3

Characteristics of the Acquired Knowledge

Characteristics of the acquired knowledge	The American Case	The British Case	The German Case
Types of knowledge	Technical and relational	Relational	Technical and relational
Nature of knowledge	Tacit	Tacit	Both codified and tacit
Source of knowledge	Mainly individual	Mainly individual	Mainly collective
Availability of alternative source	Lower	Higher	Higher
Tenure of the owner and/or executive	Later stage	Earlier stage	Later stage (owner)

Conclusions

The justification for this paper lies in the contrast between the importance of obtaining and preserving the knowledge held by acquired companies' executives and the limited attention given to this subject in studies of post-acquisition integration. Investigations of the factors that affect the departure and replacement of owners and/or executives have until recently tended to overlook the question of the knowledge they take with them. Moreover, this still incipient strand of literature has principally investigated large, domestic or high-technology acquisition cases. Cross-border acquisitions of small, owner-managed companies by multinationals have been almost entirely ignored.

The case studies of three cross-border acquisitions of owner-controlled Brazilian companies by foreign multinationals add to our understanding in several ways. First, they highlight the significance of the knowledge residing in the owner and/or senior executives of acquired companies as a key asset that acquiring companies should secure. Second, they identify two different types of knowledge asset – technical and relational. The former may include crucial local knowledge of product design and quality, while the latter may take the form of embedded social relations both with employees and parties outside the acquired firm, such as customers and suppliers. The importance of such relationships to the success of the acquired business deserves greater recognition. Third, a systematic analysis has been offered of the knowledge-related factors that bear upon the criticality of the retention of an acquired company's executives by the acquiring firm. When owner-controlled companies operating in an emerging economy are being acquired by foreign multinationals, as in the cases studied, features of the knowledge that the acquirers seek to preserve, namely those aspects that are tacit and person-specific, underscore the importance of executive retention.

Thus, the three cases contribute to the theoretical debate about the decision to retain or replace acquired company executives. We argue that the knowledge held by such executives, especially its degree of tacitness, is one basis for owner and/or executive retention decision-making which deserves to be given greater attention in the literature. However, other factors also play a part, including the experience of the acquiring company in the host market and the availability of alternative personnel who possess knowledge similar to that required. Relational knowledge in particular may be associated with subtle characteristics of the holder's personal reputation and be very difficult to substitute for.

The availability of alternative personnel who possess requisite knowledge is a further consideration on which this paper offers a theoretical insight. If the acquiring company believes that there is no reason to retain any of the acquired company's owner and/or executives, it may replace them by ones from its own operations. Their knowledge will be the basis for implementing needed

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changes. These changes are likely to follow the acquiring company's organizational practices and culture. However, this may create a dilemma for the acquiring company managers, especially when the managers have enjoyed lengthy tenures.

Take the situation where they acknowledge that the acquired company's knowledge is highly tacit in nature, but decide to not retain that company's owners and/or executives. Instead, they decide to replace them by their own managers. In this case, if managers from the acquiring company carry out changes following their company's practices, they risk eventually destroying the value inherent in this tacit knowledge. Alternatively, if they decide not to carry out any changes in order to preserve the value of the tacit knowledge, this also may affect the value creation process. So, the decision to retain and/or replace acquired company owners and/or executives may be particularly difficult, even in these cases when CEO replacement is more likely to occur – smaller companies in related acquisitions and when the need for integration is high (Lee & Alexander, 1998).

A third theoretical contribution of our study concerns the tenure of acquirer managers who are appointed to the acquired company. As previously discussed, the decision to replace an acquired company's managers is often not straightforward. It may be particularly complex when there is a need for executives who are sensitive to high context knowledge or when the need for integration is high. If there are such needs, the tenure phase of the acquirer executive is likely to determine the success of both the retention decision and the post-acquisition integration process. We have suggested that Hambrick and Fukutomi's (1991) typology of different CEO tenure seasons may be helpful to understand this issue.

As indicated earlier, these authors have argued that new CEOs take up their positions with a disadvantage in task knowledge. By skillfully gathering information from both external and internal sources, they may overcome this handicap. In contrast, CEOs in later tenure seasons tend to rely on narrower and more finely filtered information. The replacement of acquired company executives by executives early in their tenures as opposed to executives in later tenure seasons may have distinct effects on retention decision-making and integration. Acquiring company CEOs in a late tenure season, whose power "is at an all-time high" (Hambrick & Fukutomi, 1991, p. 731) may in related acquisitions undervalue the knowledge of the acquired company's CEO and/or encourage replacement of acquired company CEOs in order to facilitate integrative changes. In opposition, CEOs in earlier tenure seasons may adopt a completely different attitude. In order to gain critical knowledge, they may prefer to retain the acquired company executives and avoid initiating integrative changes so that the acquired company knowledge is not compromised. Therefore, the retention decision-making is based on the availability of alternative personnel and also on their tenure. Their tenure season may be a key variable in judging the ability of acquiring company executives' ability to face the dilemma that the interplay between retention and integration raises.

This study has some limitations. In the first two cases, only a small number of actors were interviewed. It is likely that access to more interviewees would have permitted a more complete understanding of the retention issue. This limitation was mainly due to the small size of the acquired companies, with only a few people able to provide relevant information. Another limitation is that the cases address a very specific situation, namely the acquisition by multinationals of small companies that are controlled and managed by their owners. These limitations point to opportunities for further research. Another issue that deserves further examination is the trade-offs in post-acquisition executive retention, such as that between executive autonomy and control by the acquiring company. A further candidate for future research is the process whereby knowledge from retained executives can be successfully acquired. The first case suggests that when the knowledge is tacit and/or individually-specific in nature, securing the trust of acquired company executives is a particularly vital requirement for knowledge transfer. This also deserves further investigation.

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