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ENTREPRENEURIAL ACQUISITION: FOUNDER RETENTION POST ACQUISITION, ASSET OR LIABILITY?

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Abstract

A growing trend is the acquisition of startups as a source of competitive advantage. In this context, the presence of the founder creates a unique tension that must be considered. Employing a human capital we examine the impact the founders of acquired startups have on post-acquisition success, specifically on employee turnover. We analyze feedback from 369 employees of acquired startups. The findings indicate that levels of entrepreneurial culture and employee commitment post-acquisition are inversely related to employee turnover within the acquired firm. These relationships are found to be fully mediated by whether or not the founder is still in place.

Introduction

Historically, mergers and acquisitions (hereafter referred to as acquisitions) have been important activities for firms at all stages of business as a strategic tool to grow, improve performance, or become a market leader and has reached unprecedented levels in recent years (Barkema & Schijven, 2008). The value of acquisitions has reached a new high topping an annual $3.46 trillion USD (Dealogic, 2006) despite the fact that acquisition success is achieved by acquirers less than 30% of the time, the use of acquisitions continues to increase (King, Dalton, Daily, & Covin, 2004; Selden & Colvin 2003). An increasing number of acquisitions are targeting relatively young firms or startups as a source of potential competitive advantage and growth creating unique contexts for understanding the outcomes of acquisition activity (Zendrian, 2009). These startups are a rich source of innovation and new technologies, new or high growth markets, and even as a source of barriers to potential future competitors (Puranam & Srikanth, 2007). However, the acquisition of startups presents unique challenges for acquiring firms, specifically when deciding whether to retain the founding team post-acquisition and understanding the impact of that decision on the ability of the acquiring organization to retain key employees that produce the acquisition’s desired value.

In considering the role of the unique relationships between founders and their employees, established research streams on acquisitions have established paradigms through which the management team of the acquired firm is analyzed. For instance, through the market for corporate control paradigm, the founding management team is seen as inefficient and should be replaced to ensure increased operational effectiveness yielding financial gains (Agrawal & Walkling, 1994; Boeker & Wiltbank, 2005). Other researchers provide an opposing view that top management team loss results in the loss of knowledge and experience from key leaders (Canella & Hambrick, 1993; Krug & Hegarty, 2001). Additional research has also studied the turnover rates of top management teams and found that acquired firms experience high levels of turnover (Walsh, 1989). The presence of the founder within the top management team of an acquisition target has a
unique impact within his or her organization. The founder is chiefly responsible for the origins of the firm and the blueprint or path the firm has since followed (Baron, Hannan & Burton, 2001; He, 2008). The founder is the basis of the technologies of the startup, the selection of employees and the resulting levels of commitment by the employees, and is primarily responsible for the culture developed in the firm (Baron et al., 2001; He, 2008). The founder is also most often associated with the growth and potential success or failure of the firm as the decision maker who directs employees in the development and use of the capabilities of the firm (Baum & Locke, 2004). Each of these elements contribute to the ability of the acquiring firm to retain employees and reduce turnover which is especially important so as not to lose contributing factors that may help lead to future success (Haleblian, Devers, McNamara, Carpenter, & Davison, 2009). These contrasting world views, founding elements, and the recent explosion of acquisition activity involving startup firms, makes it is essential to develop a clearer understanding of the impact of the founder of the startup on the acquired firm during an acquisition, especially the impact of the founder on the ability to retain the employees post-acquisition.

The question then is, should the founder be kept after being acquired or should the founder be replaced by a professional management team to ensure future success? Considering this question through a human capital lens, two potential perspectives exist. One is that the founder may be a roadblock and act as a resistance lever to the employees accepting the acquisition increasing the potential for high levels of employee turnover creating the need to replace the founder. The alternative explanation is that the founder is essential in transferring the tacit knowledge of the acquired firm through the ability to ease the integration process for the acquired firm's employees which can positively affect the integration process. The role of the founder in the acquisitions of startup firms is an important factor to understand, especially as startup acquisitions continue to increase. However, it may not be suitable to treat founders as traditional TMT’s during the acquisition process due to the unique nature of the founder-employee relationships that exist in startup firms.

This paper examines the effects of the founder of an acquired startup firm using a human capital based lens to better understand the relationship between the founder's presence post-acquisition and employee turnover rates. Specifically we examine the impact of the founder's presence during an acquisition on the relationship that exists between the levels of entrepreneurial culture of the acquired firm and turnover rates post-acquisition as well as on the relationship between the acquired startup employees' level of commitment and post-acquisition turnover rates. In so doing, several contributions are brought forward adding to our current understanding of acquisitions.

First of all, this research provides a better understanding of what factors may lead to post-acquisition success by examining the impacts of retaining or removing founders during an acquisition on post-acquisition integration success. Although much of the existing research discusses elements of fit, operational similarities, resource combinations, diversification, or strategic growth. This study adds an important additional element by clarifying the role and impact of entrepreneurial founders on the post-acquisition integration of culture and employees and the effects of each on post-acquisition turnover rates. This is important as human capital has been identified as one of the key resources of any firm and the effect of employee turnover is often the cause of future performance challenges (Jo & Joo, 2011).
The second contribution is the extension of boundary conditions in acquisition research. Whereas much of management and finance literature on acquisition deals with structure, fit, financial impact, or strategic direction, this study examines the human capital perspective of entrepreneurial acquisitions and presents a discussion of the unique nature of acquiring a startup venture with the founder still in place. In doing so, we address several core causes of acquisition failure identified by Schmidt (2003), as well as the negative effects of turnover on a firm’s ability to maintain or even develop competitive advantage (Baron et al., 2001; Coff & Kryscynski, 2011).

Finally, through the use of a human capital lens in RBV, this study answers the call of recent acquisition studies to better understand the human capital impacts of acquisition (Chaterjee et al., 1992; Graebner, 2004). The results show that founders have an important impact on the post-acquisition process of integration and on the potential for future firm success. Although much of the existing research on acquisitions and managers discuss the challenges of acquired firms’ top management teams, this study looks at the positive benefits, specifically of founders of acquired firms. A central contention of this study is that through the perspective of viewing founders as important and valuable resources, the potential for post-acquisition success increases.

**Theory Development**

**Acquisitions Research**

Acquisitions as a type of growth and diversification strategy continue to be a common activity undertaken in the marketplace. Even though roughly 70% of acquisitions fail to yield financial premiums to the acquiring firm, acquisition activity continues to increase (Selden & Colvin, 2003). As the total value of acquisition activity has continued to increase over the years, the focus of acquisition activity is shifting (Zendrian, 2009). Whereas a large portion of acquisitions have often involved the purchase and integration of existing and established firms, recent trends are moving toward the increased opportunity to acquire younger startup targets (Zendrian, 2009). This shift towards startup firms as acquisition targets is projected to continue by market analysts for several reasons including the ability to quickly acquire new technologies, organizational units with the ability to develop future innovation, tacit knowledge in targets essential in creating competitive advantage, and other important resources that may take too long or cost too much to develop in-house (Puranam & Srikanth, 2007).

Traditional research on acquisitions has focused on the antecedents to acquisition activity acquisition behavior of firms, acquisition outcomes, and factors moderating acquisition the acquisition behavior/outcome relationship (Haleblian et al., 2009). In each of these streams of acquisitions research, an important relationship of interest is the link between top management team (TMT) of the acquired firm and turnover (Cannella & Hambrick, 1993). Turnover has been examined and argued to be both important to the success of an acquisition as well as a pitfall for acquisition success. Various lenses have been used to examine turnover, especially through the role and impact of the acquired TMT which has contributed to the creation of opposing views of integrating acquired TMTs. One view presented through the market for corporate control perspective is the need to replace TMT members in order to realize the potential of the underperforming acquired firm (Agrawal & Walkling, 1994). Contrasting this view is the work of Cannella and Hambrick (1993) and others who, through an agency and strategic management lens, argued that TMT and employee turnover leads to important losses of knowledge and
experience at the senior levels of a firm which can create barriers to achieving post-acquisition success. An additional view involves the notion of TMT members and firm employees as key resources that can augment the acquiring firm’s resource stocks (Dierickx & Cool, 1989; Rumelt, 1974). Each perspective presents additional understanding of the impact TMT members can have on the acquisition process; however these perspectives are limited in their ability to explain the impact of the founder in comparison to an established TMT; specifically, the ability to account for the unique impact of the founder on the human capital via culture and commitment of an acquired startup firm.

**Acquisition Integration and Human Capital**

The success of an acquisition is integrally linked to the ability to achieve successful post-acquisition integration (Larsson and Finkelstein, 1999). This is especially true when acquiring a younger startup. These firms are often blueprints resulting from the influence of the founder (Baron et al., 2001). This blueprinting process creates an entrepreneurial culture and a deep sense of commitment by the employees that is essential to the overall success of the venture (Baron et al., 2001). This interaction creates a unique level of importance for the human capital of the startup to be considered by the acquiring firm. One of the key elements in acquisition integration efforts is the ability to incorporate this human element or the firm’s human capital and thus reduce turnover (Schmidt, 2003). Human capital refers to the knowledge, skills, and abilities (KSAs) found within the human resources of a firm (Coff, 2002). Human capital is not just the core instructional knowledge associated with experience and learning, but it also incorporates the tacit knowledge embedded in the organization which is difficult to pass on through teaching others which can ultimately contribute to a firm’s quest to achieve a competitive advantage (Polanyi, 1966).

Both the explicit and tacit knowledge components of human capital are important for a firm to consider during acquisition integration and have been shown to be contributors to overall firm performance (Andrews, 1965; Hambrick & Mason, 1984; Larsson & Finkelstein, 1999). Linked to the human capital/performance relationship is the concept of social complexity (Coff & Kryscynski, 2011). Social complexity is the set of relationships that develops through a culture in an organization. It can often lead to intangible yet extremely valuable, costly to imitate resources thus creating isolating mechanisms which can be a determinant of sustainable competitive advantage for firms (Barney, 1991; Coff & Kryscynski, 2011; Lippman & Rumelt, 1982). It is this development of human capital as a contributor to competitive advantage through the isolating mechanism of social complexity that makes this issue relevant to better understanding the potential for success when acquiring startup firms. Two important characteristics that evolve through social complexity that lead to firm advantages is the culture of the firm as embedded in the employees and the commitment of the employees to the organization (Jo & Joo, 2011).

**Entrepreneurial Culture**

Culture is defined as a set of beliefs shared within an organization that help to determine the actions and behaviors of members of that organization (Sathe, 1985). Culture has often been linked to strategy as an important determinant of firm success (Ackerman, 1984). Where this is true for large established firms, it is especially true for entrepreneurial startups due to the process of founder imprinting which establishes the entrepreneurial culture of the startup (Baron et al., 2001; He, 2008; Minguzzi & Passaro, 2001). Entrepreneurial culture has been defined in many different ways and in many different settings.
It involves elements such as risk tolerance, innovation, creativity, and agility at the employee level. Entrepreneurial culture is often linked to both new firm success as well as the ability of established firms to innovate or to renew themselves in order to sustain performance success (Dimitratos & Plakaoyiannaki, 2003; Ireland, Hitt, & Sirmon, 2003; Minguzzi & Passaro, 2001). It has been established that the elements of entrepreneurial culture listed above lead to greater firm performance and often are some of the reasons entrepreneurial startups are important acquisition targets for more established firms (Arora, Fosfuri, & Gambardella, 2001; Lumpkin & Dess, 1996). This prior research links the presence of an entrepreneurial culture to long term company success as well as to the ability of existing firms to refresh their presence in the market.

With the acquisition of young startup firms, it is important to understand the role that the entrepreneurial culture of the acquired firm plays in relation to the overall culture of the acquiring organization. The integration of an acquired culture into the new firm is an important balance of autonomy and coordination (Graebner, 2004). Through this integration, the right balance allows for the continuation of the entrepreneurial culture without hindering the acquisition process. It is accepted that a firm may have a dominant culture as well as many subcultures (Sathe, 1985) and that a firm’s culture is critical in determining its potential for success (Peters & Waterman, 1982). Therefore, it is logical to assume that one of the key elements of acquisition success is the appropriate level of cultural integration (the ability to maintain the dominant culture of the acquiring firm while preserving the entrepreneurial culture of the acquired firm) that takes place. In discussions on acquisition success, Shrivastava (1986) examined the importance of effective post-merger integration of two companies involved in an acquisition. He presented three levels of integration: (a) procedural, (b) physical, and (c) sociocultural. The first two levels of integration have been discussed extensively in the literature from a strategic and financial perspective (Shrivastava, 1986). However, sociocultural integration or the focus on human capital has traditionally not been thoroughly examined and yet, as mentioned above, has been identified as a potential source of advantage in the market through the social complexity elements of human capital resources (Coff & Kryscynski, 2011; Haleblian et al., 2009; Nahvandi & Malekzadeh, 1988).

The entrepreneurial culture of the acquired firm is an important source of tacit knowledge and a critical component of the ability of the acquiring firm to capitalize on the capabilities accessed through the acquisition (Puranam & Srikanth, 2007). It is shown in firms that the strength of the culture has a direct effect on organizational performance measures (Jo & Joo, 2011).

In a recent review of the existing research on acquisitions, one of the important performance measures discussed was the level of turnover in the acquired firm (Haleblian et al., 2009). In fact, one of the common outcomes of an acquisition is increased turnover rates within the acquired firm (Walsh, 1989). In some cases turnover is an expected and welcome outcome, especially through the agency or market for corporate control perspectives used to conduct acquisition research (Haveman, 1995; Agrawal & Walkling, 1994). However, it is also recognized that turnover results in the loss of important experience and knowledge which can often time weaken the ability or lengthen the time needed to effectively access the acquired capabilities or technologies (Cannella & Hambrick, 1993). Within startup firms, the loss of employees directly impacts the culture of the firm and the intangible resources derived through social complexity. It is also the contention of this study that the level of entrepreneurial culture will directly impact the level of turnover of employees of an acquired startup. A strong entrepreneurial culture is one important element in reducing turnover, leading to the following hypothesis:
**Employee Commitment**

Larsson and Finkelstein (1999) discuss an important element in considering acquisition success, employee resistance to the changes associated with the acquisition. The ability to minimize employee resistance to the acquisition process as well as the negative impact employee resistance can have on future success is an important element contributing to successful post-acquisition integration and a link to being able to access the capabilities accumulated through the acquisition leading the greater potential of achieving post-acquisition success (Larsson & Finkelstein, 1999; Puranam & Srikanth, 2007). It is thus logical to assume that an important way to overcome the challenges presented through employee resistance is to strengthen the commitment level of employees to the newly formed organization post-acquisition.

Commitment takes many different forms and is measured at many different levels. Commitment of employees has been examined in relation to job satisfaction, turnover, and job performance (Cooper-Hakim & Viswesvaran, 2005; Meyer & Allen, 1984), as well as in view of the overall organization (Rogg et al., 2001). The commitment of employees to their organization is defined as “the strength of an individual’s identification with and involvement in a particular organization” (Porter, Steers, Mowday, & Boulian, 1974, p. 604). “A person who is high in organizational commitment wants to (a) stay with his or her organization, (b) work for the good of the organization, and (c) adhere to the prominent values of the organization” (Cooper-Hakim & Viswesvaran, 2005: p. 243). Commitment is an important determinant of job performance as well as the potential to achieve organizational outcomes through reduced turnover (Cooper-Hakim & Viswesvaran, 2005; Meyer & Allen, 1984; Rogg et al., 2001).

As the commitment level of employees to the organization increases, the ability to accept changes and engage in behaviors that are for the good of the company increases (Meyer & Allen, 1984; Meyer, Allen, & Gellatly, 1990). An acquisition is a process that entails great change and uncertainty, especially for the employees of the acquired firm (Fried, Tiegs, Naughton, & Ashforth, 1996). These challenges can create increased resistance to the acquisition if not handled appropriately (Larsson & Finkelstein, 1999). Therefore increased levels of commitment to the organization throughout an acquisition can facilitate dealing with the uncertainty and the changes associated with the acquisition and thus minimize employee resistance and decrease potentially high turnover rates commonly associated with the acquisition process. Therefore, we contend the following:

**H2:** The level of employee commitment in the acquired firm post-acquisition will be negatively related to the turnover rate within the acquired firm.

**The Founder**

Through the process of acquiring a startup firm, as noted above, the level of entrepreneurial culture and employee commitment are important factors relating to the acquiring firm’s need to deal with turnover causing the loss of important human capital. Essential in this discussion is the role the founder has in these relationships. The founder of a startup firm plays a role which,
although similar in some respects, is quite different than that of a professional management team (He, 2008). The founder is often central to the organization and is by definition integrally linked to the origins and history of the firm (Shane, Locke, & Collins, 2003). The founder is typically associated with the growth and potential success or failure of the firm and is often integrally linked to both the capabilities of the firm as well as to the employees within the firm (Baum & Locke, 2004). Through these characteristics, the founder has been intrinsically linked to the employee motivation and culture of his/her firm more so than professional managers (He, 2008). The founder has the unique opportunity to establish a blueprint for the startup and develop the culture and employee connection to the organization (Baron et al., 2001). Thus, it is the contention of this paper that the acquisition of a young startup firm with the founder in place presents important integration considerations that are outside the traditional assumptions of TMT/Acquisition research streams which treats TMT’s from established firms and startup firms as primarily the same. In the process of acquiring a startup firm with the founder in place, the founder is an essential component in the challenge to reduce turnover. It is the central contention of this paper that the founder is pivotal in understanding the relationship between culture and commitment and post-acquisition turnover. Therefore the following hypotheses are proposed:

**H3**: The presence of the founder post-acquisition will mediate the relationship between the level of entrepreneurial culture and turnover within the acquired firm.

**H4**: The presence of the founder post-acquisition will mediate the relationship between the level of employee commitment and turnover within the acquired firm.

**Methods**

**Sample and Datasets**

In order to test the hypotheses regarding the impact of the retention or replacement of founders on the acquisition success of startups we collected data from an established firm in the energy industry based in the Southwest US that had engaged in multiple acquisitions of young entrepreneurial startup firms over a 5 year period. Industry analysts predict that the future of acquisitions in the energy industry will undergo a series of startup acquisitions rather than a limited number of larger acquisitions or mergers (Zendrian, 2009). We were able to collect data for 19 acquisitions of startups, 9 of the acquired firms had their founders in place and 10 of the acquired firms had their founders replaced by a team of professional managers by the acquiring firm. The acquired firms ranged in size from 2 employees to 88 employees providing greater insight into trends and consistent results versus the challenges of garnering insights based on single firm acquisition events, as well as control for unique differences between firms that can influence cultural issues and employee commitment levels (Barkema & Shijven, 2008). Within this sample, the 19 acquisitions were evaluated generating 369 data points comprised of surveys and interviews.

We received access to data that was gathered through organizational surveys, as well as a series of interviews with management team members within the organization. The surveys were commissioned by the acquiring firm to specifically measure the effects of the post-acquisition integration process and administered to the acquired company employees at a time frame ranging from 2 years to 4 years following the acquisition. Accordingly, our analysis sample includes 186
responses from the 9 acquisitions where the founder had been retained and 183 responses from the 10 acquisitions where the founder had been replaced by a team of professional managers.

Measures

**Dependent variable measure.** The dependent variable used for this study was turnover. As turnover is noted to be an important organizational performance measure when dealing with human capital based research, this became a useful and accessible measure (Coff & Kryscynski, 2011; Haleblian et al., 2009). The turnover rate was gathered through interviews with the acquiring firm’s management and was reported by acquired firm. The turnover statistic represents the number of employees that left the organization post-acquisition. To better reflect the effect of turnover on the acquired firm, the number was then transformed to represent the percent of turnover to help address any concerns regarding differences in firm size and turnover rates.

**Independent variable measures.** We used two independent variables to test our hypotheses, the level of entrepreneurial culture post-acquisition and the level of employee commitment post-acquisition. The 7 items testing entrepreneurial culture examined levels of innovation, risk tolerance, and agility/decision making speed of the organization from the employees’ perspective and included statements like “I am encouraged to try new approaches” (Glick, 1985). The 5 items testing employee commitment were items focusing on the overall level of organizational commitment from employees and include such statements like “I would recommend this place as a good place to work.” (Rogg et al., 2001). Each of the variables above is a composite scale and each item measured on a 5 point scale with end points of 1 = “Strongly Disagree” to 5 “Strongly Agree”.

A factor analysis of the items used on the overall survey was performed to determine the fit for each item with the two variables mentioned above as well as to assess the correlation between the variables. The loadings on each item were well above the accepted .4 level and ranged from .588 to .834 with an alpha of .836 for entrepreneurial culture. Similar results were obtained for employee commitment with loadings from .852 to .874 and an alpha of .914 (cf. Hair, Anderson, Tatham, & Black, 1998). The correlation between each scale was -0.036 indicating divergent validity between the two measures used.

**Mediating variable measure.** The mediating variable was a binary variable based on having founders or professional managers left in place. This was set up as a dummy variable based on whether or not an acquired business unit had the founder still in place or if the founders had been replaced with a team of professional managers inserted by the acquiring company. Acquisitions where a team of professional managers was inserted were coded 0 and acquisitions with the founders left in place were coded 1. According to the acquiring firm, it had deemed performance acceptable for each unit so the decision to keep founders in place was not based on acquired firm performance, but based on the decisions of the top management team of the acquiring firm.

**Control variable measures.** Since this data set was a naturally occurring sample, many validity concerns are minimized. Additional control variables were set up to eliminate other potentially spurious internal effects where possible. Such variables included the age of each employee to determine any differences in perceptions of acquisition integration by generation age groups, gender, the time since acquisition for each acquired firm, labeled as time, to control for time differences between the time since an acquisition took place, and the geographic location of the
acquisition to consider the impact of various geographic factors in acquisition perceptions. We also included a control variable for the business unit of each employee to separate the effects of being a part of particular business unit from the variables of interest.

Since the control variables were categorical variables, the process of setting up as many as 30 dummy variables for each control variable was deemed not useful. Instead, we followed Toothaker (1992) and Sharfman and Fernando (2008) and ran an analysis of variance (ANOVA) using the dependent variable as the DV and each control variable separately as the IV. We then ran a post hoc analysis on those significant differences using both Bonferroni and Dunnett’s T3 tests to determine where exactly the differences were in the data. Using these results, we checked to ensure the differences aligned with the founder and non-founder classification and set up dummy variables to use in future testing. In doing this, we also determined which control variables seemed to impact the model of interest for each DV – IV relationship. The control variables listed above were all included in the models allowing for a stronger comparison between models and greater confidence in the reliability of the findings.

Results

Table 1 reports the descriptive statistics as well as the correlations for each of the variables discussed in this study. To ensure that there was not a colinearity issue between the variables, we ran a test for colinearity for each model. The VIF statistics for each of the different variables at each point in time in the study were at or marginally above 1.0 indicating a lack of colinearity issues and that no single variable exerted undue influence on the analytic results (Neter, Wasserman, & Kutner, 1985).

Once we completed the series of ANOVA tests discussed above for each of the variables in the study, we used various regression techniques based on the characteristics of the data to test the hypotheses presented. Each technique was chosen specifically to be able to test the relationship of the theoretical variables compared to the control variables in order to assist in ruling out possible alternative explanations (Sharfman & Fernando, 2008). We followed the steps outlined by Baron and Kenny (1986) to test a mediation model as proposed in this study. Hypothesis 1 discussed the proposed positive relationship between entrepreneurial culture and turnover. To examine this question, we used single limit Tobit regression to account for potential clustering of turnover data for firms that experienced no turnover, setting the lower limit to 0. Table 2 below reports the findings from this analysis. As can be seen, the findings were significant establishing support hypothesis 1.

Similar analytical techniques were used to test hypotheses 2 which examined the relationship between employee commitment and turnover rates within the acquired firm. Table 2 displays the results of this analysis. The findings show a highly significant relationship between the level of employee commitment of the acquired firm and the ability to reduce turnover rates within the acquired firm.

Hypotheses 3a and 3b presented the mediating influence of the founder on the relationships discussed above. To test for mediation, we examined the relationships between commitment and culture and the founder/non-founder variable as well as the direct effect of the founder on turnover (Baron & Kenny, 1986). The relationship between entrepreneurial culture and commitment with
the founder is measured using probit to account for the binary nature of the dependent variable and are both found to be positively correlated to the presence of the founder and significant. The full model with the mediator, IV’s, and control variable was then tested and found to be significant. The relationship between the founder and turnover is significant as hypothesized providing support for hypothesis 3. The findings show that the effects of entrepreneurial culture and employee commitment on turnover become non-significant when the variable capturing founder presence is introduced to the model. The overall results indicated that the presence of the founder fully mediates the relationship between culture, commitment and turnover.

**Discussion**

The market for corporate control is a well accepted theoretical perspective used to conduct acquisitions research. It positions an acquisition target’s management team as inefficient and needing to be replaced in order to maximize the target’s true performance potential, creating a market for the management of organizations (Jensen & Ruback, 1983). Additional research has employed organizational fit perspectives (Datta, 1991), ownership and agency perspectives (Goranova, Dharwadkar, & Brandes, 2010), and many other theoretical paradigms which discuss the organizational level outcomes of acquisitions and in many cases, the top management and employee turnover issues associated with acquisitions (Siegel & Simons, 2010; Walsh, 1989). This study’s principle focus is on the positive impact a startup acquisition target’s founder can have on post-acquisition integration success, specifically on the importance of the ability to reduce turnover within acquired startup firms.

These results suggest that after the acquisition of a startup firm has been implemented for a period of time, increased levels of entrepreneurial culture and employee commitment helps the acquiring firm reduce turnover rates within the acquired firm. This is especially true when the founder is present post-acquisition. As we continue to develop the human capital perspective of acquisitions research, this finding contributes to a deeper understanding of the impact of culture, commitment on performance and the ability to potentially achieve and explain positive acquisition performance. One specific contribution is the continued extension of the human capital lens within RBV to acquisitions research, and specifically in relation to the acquisition of entrepreneurial startup firms. This offers an alternative framework in which to examine mergers and acquisitions and analyze the results of acquisitions.

In turn, the study contributes to the acquisition research by creating potential boundary conditions making a case for examining startup acquisitions differently from more traditional acquisition research that prescribes to the need to change management teams. This study also proposes that in the acquisition of entrepreneurial startup firms that the replacement of the founders with professional management teams should be considered cautiously. In fact these results suggest that founders are potentially important keys to post acquisition integration success through the ability to help reduce turnover within the acquired firm and may need to be considered as important resources versus liabilities to the acquiring firm. In this light, an additional contribution is a clearer understanding of how the retention of a founder post-acquisition can impact future success.

Additionally, the use of RBV as a lens through which acquisitions, and specifically managers in acquisitions, can be evaluated and studied is a growing focus in management research. This study
helps extend the RBV to entrepreneurial acquisition research creating an additional framework for evaluating and studying TMT’s during and after an acquisition has been made. The findings help to define post-acquisition success for the acquisitions of startup entrepreneurial firms in a way other than traditional accounting measures as well as shed insight into potential leading indicators of future financial success post acquisition.

Future Research and Limitations

The findings in this study not only offer insights into existing acquisitions research, but open up additional areas of opportunity for important new research. One such research implication is in the further examination of the positive impact of founding managers post acquisition. This study focused specifically on the differences between entrepreneurial founders kept in place as the head of their organization versus their replacement by a team of professional managers post acquisition and their resulting impact on the human capital of the acquired firm. Future research could further examine the specific roles of founders post acquisition and the impact different roles have on the acquisition's success. For example, does moving the founder to a key leadership position within the corporate headquarters of the acquiring firm impact employees in a positive or negative manner or lead to greater post acquisition integration success and future performance success?

An additional area of future research stems from the findings of this study relating directly to the presence of entrepreneurial culture at the time of acquisition versus at a later point in time post acquisition. The findings suggest that there is exists a positive relationship between the level of entrepreneurial culture post-acquisition and turnover. Future research could examine the factors that influence the levels of entrepreneurial culture at the time of acquisition and how time permits the culture to re-develop under the influence of founders after a period of acquisition implementation.

Along these lines, employee commitment levels are found to be significantly related to turnover. At the same time, the consideration of acquisition location is related to employee commitment. In these findings, we find that acquisitions made by a US firm of a US entrepreneurial target where the founder is kept in place results in stronger levels of employee commitment immediately following the acquisition than those outside the US and without the founder in place. This adds additional insight into past research discussing the effects of cross border acquisitions and extends the findings to entrepreneurial firms (Krug & Hegarty, 1997). Interestingly, however, the findings also suggest that the effects of geographic location on employee commitment disappear after a period time. Although significant, it may be useful to understand to factors contributing to this relationship as well as potential substitutes over time. In this vein, additional research along these lines will help clarify understanding and the impact of these findings over time and what factors evolve to replace the role of founder in sustaining high levels of employee commitment well after the acquisition has taken place.

The findings of this study add to existing acquisitions research and provide an interesting course of direction for future research and management practice; however the results should be considered carefully and in the appropriate context. This study, as with all studies, has potential concerns that should be addressed when interpreting the results. The primary concern may be the overall generalizability of the findings. Although the data for this study come from a unique single firm setting in real world practice, they are limited to one organization’s set of acquisitions.
involving young startup firms. This type of design, although rich in its ability to provide focus, compromises some ability to generalize the findings across settings. This concern was weighed against the benefits of this type of design. The current study design provided the opportunity to examine rich data on the impact of managers in a partially controlled setting during and after a series of growth oriented acquisitions. The data also provided the opportunity to analyze data over multiple points in time providing a richer opportunity to better assess the findings over time.

**CONCLUSION**

As seen in the vast body of acquisition research as well in the forecasts of public economic and financial groups (Forbes, Fortune, etc.) the role of acquisitions, and especially the acquisition of startup firms, is an important strategic choice for many established firms (Zendrian, 2009). Existing firms target acquisitions for growth while at the same time entrepreneurial firms tend to target being acquired as one option to quickly gain access to needed resources, both tangible and intangible, for continued growth. Due to the resources and time required by established firms to innovate and continue to grow, the projected future focus of many acquisitions is on innovative entrepreneurial startup firms as a growth strategy (Lee & Lieberman, 2010).

The focus of this study is on the role that founders of acquired entrepreneurial startup firms can play post-acquisition specifically in regards to the human capital of the acquired firms. This study’s primary contribution is the finding that founders can be a critical resource to the acquiring firm and can play an important role in post-acquisition success of entrepreneurial acquisitions primarily through culture and employee commitment. It is well accepted that acquisitions have limited financial success for the acquirers as measured in existing research (King et al., 2004). As organizations look to acquisitions as a future growth strategy, the ability to understand factors that can lead to successful entrepreneurial acquisition and post-acquisition success factors will become increasingly important.

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**REFERENCES**


### TABLE 1: Means, Standard Deviations, and Correlations among all Variables

<table>
<thead>
<tr>
<th>Mean</th>
<th>StDev</th>
<th>Percent Turnover</th>
<th>Age</th>
<th>Gender</th>
<th>Tenure</th>
<th>Location</th>
<th>Firm Type</th>
<th>Ent Com</th>
<th>Ent Cult</th>
<th>Founder</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.1029377</td>
<td>0.0736941</td>
<td>1.0000</td>
<td>0.2384624</td>
<td>0.4267342</td>
<td>0.0075</td>
<td>1.0000</td>
<td>0.5880759</td>
<td>0.4928498</td>
<td>0.0835</td>
<td>-0.0963 **</td>
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<tr>
<td>2.04607</td>
<td>2.800532</td>
<td>0.0270</td>
<td>1.227642</td>
<td>1.331963</td>
<td>0.1236 *</td>
<td>0.0018</td>
<td>0.0699 *</td>
<td>-0.0885</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>5983.333</td>
<td>3897.09</td>
<td>-0.1194 *</td>
<td>0.0461</td>
<td>0.1608 ***</td>
<td>-0.1150 **</td>
<td>0.1368 ***</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.3322008</td>
<td>0.5163803</td>
<td>-0.2179 ***</td>
<td>0.1358 ***</td>
<td>-0.0153</td>
<td>0.0309</td>
<td>0.1181 **</td>
<td>0.1366 ***</td>
<td>1.0000</td>
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<td></td>
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<tr>
<td>0.0492565</td>
<td>0.9756504</td>
<td>-0.1575 **</td>
<td>0.0192</td>
<td>0.0803 *</td>
<td>-0.0139</td>
<td>0.0899 †</td>
<td>0.1301 ***</td>
<td>-0.0046</td>
<td>1.0000</td>
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<tr>
<td>0.495935</td>
<td>0.5006623</td>
<td>-0.8089 ***</td>
<td>0.0045</td>
<td>-0.0729</td>
<td>-0.0222</td>
<td>-0.0883 †</td>
<td>-0.1323 †</td>
<td>0.3736 ***</td>
<td>0.1109 *</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

### TABLE 2: Mediated Model

**DV: Percent Turnover**

<table>
<thead>
<tr>
<th>Controls: Intercept</th>
<th>Model 1: Controls</th>
<th>Model 2: IV-DV</th>
<th>Model 3: Mediated Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.0955332 ***</td>
<td>0.1198897 ***</td>
<td>1.89E-01 ***</td>
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<tr>
<td>0.0024135 *</td>
<td>0.0101114 *</td>
<td>-0.0032746</td>
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<tr>
<td>0.0094272 *</td>
<td>0.0087567 **</td>
<td>-0.0034789</td>
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</tr>
<tr>
<td>0.0012259</td>
<td>0.0016066</td>
<td>0.000225</td>
<td></td>
</tr>
<tr>
<td>0.0072931 *</td>
<td>0.0066896</td>
<td>0.0032295 *</td>
<td></td>
</tr>
<tr>
<td>-1.99E-06 †</td>
<td>-3.75E-06 †</td>
<td>-4.41E-06 ***</td>
<td></td>
</tr>
</tbody>
</table>

**Independent Variables:**

- Entrepreneurial Culture: -0.0086739 *** -0.0015512
- Employee Commitment: -4.49E-02 * 0.0007661

**Mediator:** Founder -0.1251979 ***

**Model Statistics:**

- Log Pseudo likelihood: 388.12369 407.22885 602.7583
- Pseudo $R^2$: 0.017 0.067 0.579
- F-statistic: 2.320 * 7.390 *** 154.850 ***