



Making great minds think alike: Emerging market multinational firms' leadership effects on targets' employee psychological safety after cross-border mergers and acquisitions



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ARTICLE INFO

Article history:

Received 20 July 2015

Accepted 21 September 2015

Available online 9 October 2015

Keywords:

Employee psychological safety

Leadership

Emerging market multinational firms

M&As

India

China

ABSTRACT

This paper examines the impact of leadership on targets' employee psychological safety (EPS), characterized by employees' expectation of job and remuneration stability, during the cross-border mergers and acquisitions (M&As) by emerging market multinational companies (EMNEs). The M&As by Indian and Chinese companies forms the empirical context of this study and the case survey method is used to examine the effect of leadership on EPS. The results show that the EMNEs' leadership visibility during the M&A process has no impact on the EPS, whereas, the trust in the EMNEs' leadership has positive effect on the EPS. The deal status has a moderating effect on the leadership visibility and positively affects the EPS. This research finds evidence of target country differences in terms of the effect of EMNEs' leadership on EPS and limited evidence of such effect for acquirer nationality differences.

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1. Introduction

Mergers and acquisitions (M&As) have received a great deal of news and academic coverage, and most of the M&As fail to accomplish their set objectives (e.g., Cartwright & Schoenberg, 2006; Schoenberg, 2006). Human side factors have been reported to be one of the major causes behind the failure of M&As (Cartwright & Cooper, 1993), and recently scholars have focused on the human side of M&As (Cartwright & Cooper, 1993; Gomes, Weber, Brown, & Tarba, 2011; Haleblan, Devers, McNamara, Carpenter, & Davison, 2009; Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001; Rees & Edwards, 2009; Stahl et al., 2013). These studies have elucidated the human side of the M&As by focusing on the underexamined influential human factors within organizations involved in these deals such as a fit between the organizations' cultures, similarities between their management styles, cultural tolerance within their organizations and emotions (Sinkovics, Zagelmeyer, & Kusstatscher, 2011; Gunkel, Schlaegel, Rossteutscher, & Wolff, 2015). Recent literature has also examined

the stress experienced by the employees during and after the M&As (Ager, 2011; Ashton-James & Ashkanasy, 2008; Huy, 2012; Wilderom et al., 2011). These emotive moments in the M&As' initiation, conduct and conclusion can deeply influence the emotional state of the target organizations' employees as well as the overall performance of M & As.

The M&As integration process is inherently more complex involving cross-border acquisitions (Aguilera & Dencker, 2004; Buckley, 2010). The national context of the targets and acquirers can greatly influence the outcomes of such process (Rottig, 2013; Weber & Tarba, 2013), and create different emotional challenges for the targets' employees. The cultural distance and its impact on cross-border M&As have been acknowledged (Rottig, Reus, & Tarba, 2014). The gap exists in the works on M&As' success and failure so these studies do not sufficiently engage with the human resource-related issues that might explain some of the high failure rates of cross-border M&As (Aguilera & Dencker, 2004; Capron, 1999; Gunkel et al., 2015; Öberg & Tarba, 2013; Rees & Edwards, 2009). In spite of the growing interest around the human side of the M&A activity, the research on the human side of M&A integration and the emotional fallout of the M&A activities is still in its infancy (Gunkel et al., 2015; Sinkovics et al., 2011). Also, the contemporary research in this area is still mostly focused on the M&As by the developed market companies (Rottig et al., 2014) and

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there is limited research on the post-integration process of the emerging market domestic firms and multinational enterprises (EMNEs) (Yipeng & Ping, 2014; Zhang et al., 2015).

Leadership style can greatly affect employees' well-being (Zineldin & Hytter, 2012) and employee psychological safety (EPS) (Nemanich & Keller, 2007). Although leadership has been acknowledged as an important element for post-acquisition firm-level performance and employee well-being (Cartwright & Cooper, 2000; Robertson & Flint-Taylor, 2009), there is limited research on post-acquisition performance and leadership (Sitkin & Pablo, 2005; Vasilaki, 2011b; Waldman & Javidan, 2009). The leadership is especially important in M&As that involve high cultural distance between the targets and the acquirers, both institutional as well as organizational distance (Vasilaki, 2011a). This is very relevant for cross-border deals which involve liability of foreignness for the acquirers (Harvey, Novicevic, Buckley, & Fung, 2005; Lee & Lee, 2011; Luo, Shenkar, & Nyaw, 2002; Moeller, Harvey, Griffith, & Richey, 2013; Zaheer, 1995), and in case of EMNEs, also liability of the country of origin (Cartwright & Price, 2003; Elango & Sethi, 2007) and liability of home institutions (Stevens & Shenkar, 2012). The leadership style and approach will need to be geared to address the issues of stigmatization and stereotyping of acquirers' as well as in-patriate managers from target companies and develop pluralistic managerial process both within the acquirer as well as the target organization (Harvey et al., 2005; Matsuo, 2000). The firms that value their employees as sources of competitive advantage and engage in activities to preserve their well-being are likely to attain higher performance compared to their competitors (Peng, 2001). The EMNE leadership during M&A negotiations and during the post-integration phase has to demonstrate a degree of openness and willingness to engage with the targets' employees as well as develop trust for the acquirers' motives and processes in the targets' employees' minds (Rottig, 2013). This style of leadership will produce positive post-M&A environment and help EPS climate within the target organization.

The last couple of decades has seen the rapid growth of cross-border transactions by the EMNEs (Huang, 2015; Nair, Demirbag, & Mellahi, 2015; Nicholson & Salaber, 2013; Yipeng & Ping, 2014). Though theoretically the elements of post-M&A integration are clearly identifiable, it is not evidenced by empirical data. The anecdotal evidence shows that EMNEs have struggled to find a balance between inorganic growth through M&As and seamless integration of acquired entities to derive value from their M&A activity. The major issues have surfaced on the issues of human resources management and effective business management after M&A. For example, Tata's acquisition of Corus in the UK was followed by a lengthy discussion in the media about the future of the European steel industry (Servini, 2010). This narrative was further accentuated by the restructuring of the UK operations, closure of steel plants and large scale cutback of the local employees (Servini, 2010). In 2015, issues emerged around the pension package that the UK employees were expected to receive (Powley, 2015). In this particular transaction, Tata has struggled with its integration of Corus's operations and effective management of their UK and European employees. The factors like status and similarity are pertinent to explain the performance differences between different M&As (Yildiz, 2015).

Based on the above, this paper aims to answer a key question – how does EMNEs' leadership impacts the target employees' psychological safety after a cross-border M&As? By examining the impact of leadership on the employee psychological safety in the context of an EMNE M&A, the study makes three key contributions to the literature. First, earlier research has typically focused on the cross-border M&As by the developed country companies (Larsson & Lubatkin, 2001; Luo et al., 2002; Nemanich & Keller, 2007), although this prior research considers the effects of

foreignness it does not provide evidence on the liability of the country of origin and its impact on the post-acquisition integration process and EPS. We aim to complement existing research and understand how EMNE leadership during the post-acquisition process can impact the EPS. Second, the status of the deal from the perspective of the employees' is very pertinent for the success of the post-deal integration (Yildiz, 2015). The leadership has the ability to influence the perception of deal status (Zhang et al., 2015), and similarly, the status of the acquirer and the impressions in the minds of the employees about the deal status can moderate the affect of the leadership. Thus, deal status can moderate the effect of leadership visibility (negative or positive) on EPS. Lastly, by examining the deals from two large emerging markets, India and China, and considering their deals in other emerging markets as well as developed markets, we provide a greater degree of generalizability of our findings. The EPS conditions observed in EMNEs' acquisition in other emerging markets might be different from the EPS circumstances observed in developed markets. This provides us an opportunity to complement as well as extend the theory on EPS in EMNEs' cross-border M&As context.

2. Theory and hypothesis development

2.1. Employee psychological safety during EMNEs' M&As

The psychological safety in the psychology literature refers to employees' views of the results of taking interpersonal risks in their work environment (Edmondson, Kramer, & Cook, 2004). In this context, the employees are said to experience psychological safety since they are free to be themselves and take decisions freely that can in other situations create job insecurities and negative spillovers on image, career and status. In our study, the psychological safety is derived from the employees' experience of the M&A process. The M&As' reactions and effect on groups and individuals within an organization can vary widely between various human resource management system (Weber & Tarba, 2010, 2013) and leadership style (Nemanich & Keller, 2007). The post-acquisition performance is also closely related to the leadership approaches and employees perception of this leadership during M&A process (Vasilaki, 2011b). Thus, leadership within an organization can create conducive environment for psychological conditions which support employees in their current jobs and it has been found to impact the psychological safety of the employees (Carmeli, Sheaffer, Binyamin, Reiter-Palmon, & Shimoni, 2014). The organizational conditions can influence the psychological safety of the employees making them feel a sense of safety and openness and projecting an organizational willingness to allow employees' take interpersonal risks (Carmeli et al., 2014; Edmondson et al., 2004). During the M&As, when there is lot of uncertainty with regards to the future positions and tenure, the psychological safety factors might be embedded in the organizations' ability to absorb all "other kinds of uncertainty" (Katinka, 2001). For example, the EMNEs' M&As in the developed markets might be fraught with issues of offshoring the host country jobs to home country locations and EMNEs have to manage this expectation with proactive strategies to mitigate the negative spillovers from employees' dissatisfaction with the M&A. Also, issues might arise from changes in the salary structure and perks associated with the job, if the company decides to adopt a universal model of pay and perks across their global operations. Thus, for this study, the EPS emerges from dual factors of job and remuneration stability and employees who experience certainties in terms of their job and remuneration will experience higher job satisfaction and engagement and be effective in managing their interpersonal risks during day to day activities. By paying attention to EPS related issues, the EMNEs could also establish legitimacy in the host markets.

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