



Exploring the factors influencing the negotiation process in cross-border M&A



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ABSTRACT

This research study provides an empirical examination of the impact of national cultural distance, organizational cultural differences, communication, and planned employee retention on the effectiveness of negotiation process in the cross-border mergers & acquisitions (M&As). We developed and tested a conceptual framework of negotiation process in order to provide a framework for analysis of the key components of the negotiation process in the cross border M&A. The findings indicate that communication positively influence antecedent and concurrent phase of negotiation process. In addition, national cultural distance and organizational cultural differences negatively influence the effectiveness of concurrent phase. We also found that national cultural distance moderates the relationship between communication and effectiveness of concurrent phase of the negotiation process, as such that the positive effect of communication is lower when national cultural distance is higher. Furthermore, we found that planned employee retention positively affect the effectiveness of concurrent phase. Finally, the effectiveness of concurrent phase positively influence the effectiveness of consequent phase i.e. M&A agreement. The contribution of this study lies in providing new insights on negotiation-associated factors for incumbent executives, in order to enable them to better plan and implement cross-border mergers and acquisition deals.

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1. Introduction

The frequency and scale of mergers and acquisitions (M&A) have significantly increased during the past two decades in spite of continuous reports on their high failure rates (e.g., Cartwright & Cooper, 1996, 2000; Reus & Lamont, 2009; Weber, Tarba, & Oberg, 2014). Unfortunately, studies from different scientific streams have generally failed to develop synergistically, hence missing the opportunities from cross-fertilization (Weber, Tarba, & Reichel,

2009). Recent reviews (e.g., Schweiger & Goulet, 2000, 2005; Stahl & Voigt, 2008; Weber, Tarba, & Reichel, 2011) point out that most of the existing research on the human side of M&As has been a-theoretical, fragmented across various disciplines, has not been systematic and linked to any comprehensive theory, and rarely have models been proposed that were applicable across different organizations.

The degree of organizational change, following various post-acquisition integration approaches, may vary substantially across different national and cultural settings. Thus, the impact of M&A on individuals and groups may differ widely between various human resource management practices (Budhwar, Varma, Katou, & Narayan, 2009; Weber & Tarba, 2010), evoked cultural change following acculturation between combining firms (Kavanagh & Ashkanasy, 2004), leadership approaches in M&A (Kavanagh & Ashkanasy, 2006), individual psychological

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and emotional reactions to the organizational change in general and M&A in particular (Kiefer, 2002, 2005; Kusstatscher & Cooper, 2005; Kusstatscher, 2006; Sinkovics, Zagelmeyer, and Kusstatscher, 2011), coping strategies with M&A (Amiot, Terry, Jimmieson, & Callan, 2006; Scheck & Kinicki, 2000), and self-attribution biases in M&A (Billett & Qian, 2008). Yet, rather strikingly the topic of negotiation, and associated with it cultural challenges in the specific context of cross-border M&A, is still rather underexplored (Weber, Belkin, & Tarba, 2011).

Albeit post-merger M&A performance of acquiring firms is disappointing, cross-border M&A is a sought-after corporate strategy (Cartwright & Schoenberg, 2006). There might be some unidentified moderating variables which affect M&A performance (Stahl & Voigt, 2008). Scholars argue that a successful M&A is strongly correlated with early and ongoing cooperative negotiations, until the deal is actually signed (Saorin-Iborra, 2006, 2008; Sebenius, 1998). In addition, many M&A failures can be partially attributed to lack of fruitful contacts and information exchange between acquiring and target firms at various stages (de Beaufort & Lempereur, 2003). Therefore, an understanding of the factor influencing effective negotiation process is vital for the success of cross border M&A.

As noted by Ghauri and Usunier (2003) and Graham, Mintu, and Rodgers (1994) “negotiation” is viewed as an ongoing process consisting of three phases: antecedent, concurrent and consequent. The antecedent part relates to the pre-interaction phase, the preparation and the information gathering. In the particular context of cross-border M&A, acquiring firm needs to collect information regarding the target firm before it starts negotiations with it. The concurrent phase is the process of negotiation per se entailing the interaction between the incumbent parties (Graham, 1985a). Furthermore, as maintained by Greenhalgh, Neslin, and Gilkey (1985) the behaviours and processes during the concurrent stage act as mediators of the outcomes at the consequent phase. In the context of cross-border M&A, the afore-mentioned consequent phase refers to reaching an actual agreement to close an M&A deal. Therefore, in our view, the process perspective on negotiation may advance largely our comprehension of cross-border M&A endeavours.

The aim of the paper is to investigate the factors influencing the effectiveness of negotiation process in cross border acquisitions. Specifically, the paper examines the impact of cultures, communication and planned employee retention on the effectiveness of negotiation process in the context of cross border acquisitions.

Our paper is organized as follows. First, we provide an exhaustive review of the literature on the negotiations in general and then in the specific context of M&A. Afterwards we present the hypotheses development, methodology used, and the results. In the following section we discuss the findings and finally present the conclusions and managerial implications.

2. Literature review and hypotheses development

Negotiation has been investigated mainly from social psychological and behavioural decision perspectives (Bazerman, Curhan, Moore, & Valley, 2000; Ghauri, 2003; Thompson, Wang, & Gunia, 2010). International business negotiations received increasing attention as a full part of the managerial process, highly relevant to the implementation of international business strategies ranging from macro-strategic perspective on organizations to micro-behavioural perspectives on individuals (Ghauri & Usunier, 2003; Weiss, 2006). From the negotiation process perspective, Ghauri (2003) structures the international business negotiation process in terms of the pre-negotiation, negotiation, and post-negotiation stages. These stages are influenced by factors, such as culture, strategy, background, and atmosphere.

As a metaphor, inter-cultural negotiation process resembles a dance, where one person does a waltz with another doing a tango (Adair & Brett, 2005). Viewing a kind of ‘dilemma of differences’, the different cultural scripts present procedural conflict at the bargaining table, while differences in preferences present opportunities for both parties (Tinsley, 2001; Tinsley, Curhan, & Kwak, 1999). Multiple models of negotiation exist (Lewicki, Weiss, & Lewin, 1992), such as the parties’ relationship and parties’ behaviours (Weiss, 1993), the stages view of negotiation (Graham, 1985b), cultural influences (Gelfand & Brett, 2004), self-regulation (Brett, Northcraft, & Pinkley, 1999) and dynamics of relational self (Gelfand, Major, Raver, Nishii, & O’Brien, 2006). There is increasing literature on culture and negotiation, however, the influence of culture on negotiation tactics and outcomes awaits further scholarly inquiry (Gelfand & Dyer, 2000). Culture is a major determinant of strategies and tactics in international business negotiation, because negotiations involve communication, time, and power and these variables vary across different cultures (Ghauri & Usunier, 2003). We believe cross-border merger and acquisition (M&A) can offer the ideal empirical setting to advance our understanding by investigating the negotiation process.

In this section, we will review the literature streams of cultural differences, communication and planned employee retention in cross-border M&A negotiation, developing our hypothetical constructs accordingly. Culture can influence the process of business negotiations (Graham, 1985b), and business negotiations vary across cultural groups (Graham et al., 1994). In today’s globalized and interdependent world, understanding culture and cross-cultural issues is central to understand negotiation (Gelfand & Brett, 2004). Two functions of negotiations exist, namely, “value creation” via integrative negotiation (win-win) and “value claiming” via distributive negotiation (win-lose) (Thompson et al., 2010). In the context of cross-border M&A, value creation via integrative negotiation is supposed to be what acquiring and target firms aim to achieve.

2.1. The process perspective of negotiation in cross border acquisitions

2.1.1. Communication

Communication is of critical importance in affecting negotiation process. It is urged to take a contextual view of communication in order to understand negotiation process, whereas different situational conditions can affect the patterns of frequencies, sequences, and phases of negotiation communication (Weingart & Olekalns, 2004). Despite similarities between the negotiating parties in national culture and language, the merger negotiation between two large telecom operators the Swedish Telia and the Norwegian Telenor, eventually failed largely due to communication strategies (Fang, Fridh, & Schultzberg, 2004; Meyer & Altenborg, 2008). The medium choice of communication affects the negotiation process and outcomes (Valley, Moag, & Bazerman, 1998). Face-to-face communication enabled participants to foster greater rapport and cooperation than audio-only communication (Drolet & Morris, 2000). However, when arousal is high, audio-only communication may reduce the likelihood of pressure tactics (Lewis & Fry, 1977). The technological advancement and availability of communication channels, such as telephone, fax, email, etc., can affect the negotiation process. Moreover, media accounts of acquisition can promote international relations, which may affect international acquisitions (Riad, Vaara, & Zhang, 2012).

“Communication” is regarded as the most important ingredient for post-acquisition integration. Contact between employees of the two companies is needed for managerial and cultural integration (Shrivastava, 1986), and the creation of communication channels can facilitate the coordination and knowledge flows between firms (Chesbrough & Teece, 2002). The release of preview of merger

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