



How do employees adapt to organizational change driven by cross-border M&As? A case in China

Goo Hyeok Chung^{a,1}, Jing Du^{b,2}, Jin Nam Choi^{a,*}

^a College of Business Administration, Seoul National University, Gwanak-ro 1, Gwanak-gu, Seoul 151-916, Republic of Korea

^b Economics and Management School, Wuhan University, Luoyu Road, Wuhan 430071, China

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ABSTRACT

Globalization has encouraged merger and acquisitions (M&As) across countries. We propose a theoretical model that explains the process through which employees adapt to changes introduced by cross-border M&As. Empirical analyses based on 174 Chinese employees who experienced an unexpected M&A initiated by a Western company suggest that the relationship between change management practices (i.e., provision of training and assurance of job security) and post-change performance is mediated by employees' person–change (P–C) fit perceptions. Integrating the quantitative results with interviews, we further theorize that underlying cultural dynamics (e.g., collectivism and Confucian doctrines) drive change-related attitudes and behavior among Chinese employees.

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“Mathematically, one and one always make two, but practically, one and one make more than two sometimes or less than two more frequently.” – Unknown

Merger and acquisition (M&A) is one of the most difficult organizational changes employees may experience in their professional careers. The spread of globalization in the past several decades has led numerous companies to adopt cross-border M&As as a strategic tool for expanding markets across countries (Chakrabarti, Gupta-Mukherjee, & Jayaraman, 2009). Cross-border M&As often have negative consequences for organizations and their members because of cultural distance (Hofstede, 1980), cultural clash (Chakrabarti et al., 2009), and work alienation (Brannen & Peterson, 2009). These barriers to synergistic integration are more serious in cross-border M&As than in within-border M&As because employees experience psychological anxiety and distress not only in dealing with different organizational cultures but also in interacting with different national cultures.

Previous studies on M&A have mostly investigated within-border M&As (Clark, Gioia, Ketchen, & Thomas, 2010). Moreover, several studies on cross-border M&As have focused on macro-level dynamics from a strategic perspective, thus overlooking micro-

employee-level processes that often pose a great barrier to synergistic organizational integration (Larsson & Lubatkin, 2001). Furthermore, although some studies have revealed the importance of managerial practices, such as cultural learning intervention and communication initiative (e.g., Schweiger & Denisi, 1991; Schweiger & Goulet, 2005), little attention has been paid to the mechanism through which such interventions lead to favorable outcomes.

In the present study, we examine the micro-processes of cross-border M&As in the context of China. With its increasing role in world economy (Lardy, 1994), China has emerged as one of the largest global M&A markets (e.g., Branstetter & Lardy, 2006; Denga & Moore, 2004). Western companies have used cross-border M&As as a strategic tool for globalization in China such as in the case of Tesco PLC's acquisition of Le Gao Shopping in 2004 (Woodard & Wang, 2004). These cross-border M&A events in China initiated by Western companies present dramatic situations. Chinese employees who are familiar with traditional Chinese culture, which is characterized by Confucianism, collectivism, and socialism, have difficulty adapting to Western management styles, which are often characterized by liberalism, individualism, and capitalism (Du & Choi, 2010).

Maintaining harmony and traditional customs advocated by the collectivistic and Confucian culture do not encourage flexible attitudes toward and proactive engagement in change among Chinese (Hempel & Martinsons, 2009). Nevertheless, administrative changes can be successfully implemented when the Chinese are exposed to participative organizational culture (Zhou, Tse, & Li, 2006). Employees tend to be less skeptical about change when

* Corresponding author. Tel.: +82 2 880 2527; fax: +82 2 884 0408.

E-mail addresses: ghchung@snu.ac.kr (G.H. Chung), rossjing.du@gmail.com

(J. Du), jnchoi@snu.ac.kr (J.N. Choi).

¹ Tel.: +82 2 880 2527; fax: +82 2 884 0408.

² Tel.: +86 27 68753117; fax: +86 27 68753117.

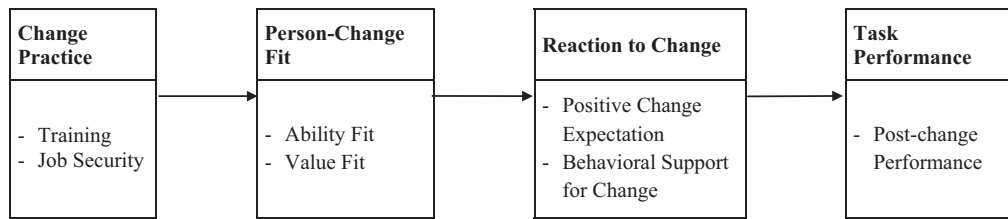


Fig. 1. Theoretical framework of employee adaptation to organizational change.

their firm underscores flexibility (Lau, Tse, & Zhou, 2002). These previous studies suggested that organizational changes in China can be more successfully managed by more thoroughly examining micro-level processes perhaps by using both quantitative and qualitative approaches (Hempel & Martinsons, 2009; Lau et al., 2002).

To explore the micro-level process of organizational change in China, we propose that the assurance of job security and the provision of training promote positive reactions among employees and improve their post-change task performance. Such practices are called for because employees involved in cross-border M&As encounter major challenges, including uncertain job prospects, deficient task skills, and cultural misunderstandings (Amiot, Terry, Jimmieson, & Callen, 2006; Marmenout, 2010). In explaining the link between those change management practices and positive reactions and performance of employees, we draw on the person-environment (P-E) fit theory (Kristof-Brown, Zimmerman, & Johnson, 2005) and isolate employee perceptions of fit between person and change (P-C fit) as immediate psychological reactions toward M&A. Fig. 1 delineates the overall mechanism by which P-C fit conveys the positive effects of job security and training on post-change performance.

The present study makes three important contributions to the literature on organizational change, M&A, and international business. First, by analyzing an international, cross-border M&A case in China, we extend the M&A literature that has mostly focused on within-border issues. Second, we theorize and validate the critical role of P-C fit as the employee-level psychological process through which change management practices operate to improve employee reactions and post-change performance. Our focus on the micro-level adaptation process based on the well-established micro-level theories of P-E fit (Caldwell, Herold, & Fedor, 2004) complements the M&A and international business literature with prevailing macro-level orientations. Finally, considering the substantial cultural implications of cross-border M&As and the idiosyncratic traditional values of China, it is critical to develop deeper understanding and interpretations of employee adaptation processes through qualitative exploration of the research setting. We offer such an in-depth account of cross-border M&A and accompanying employee changes by providing qualitative interpretations of quantitative research findings. In so doing, we reveal the intriguing underlying dynamics of M&A-driven changes and offer additional insights into potential clashes and adaptation during cross-border M&As.

1. Conceptual framework and hypotheses

In examining human factors in M&As, researchers have employed psychological, social, and cultural perspectives (Marmenout, 2010). The psychological perspective shows that employees affected by M&As are frequently exposed to high levels of psychological distress, role ambiguity, and anxiety from uncertainty (Cooper, Dewe, & O'Driscoll, 2001). According to the social perspective, employees both in acquired and acquiring firms tend to classify people based on the origin of their firms (cf. social

identity theory; Tajfel & Turner, 1986) so they experience difficulties in overcoming biases (Amiot, Terry, & Callan, 2007). The cultural perspective maintains that combining two distinct organizations with different cultures often leads to a cultural clash or collision that undermines performance (Barry & Slocum, 2003; Marmenout, 2010).

In the present study, we adopt the psychological and cultural perspectives to explain the psychological and behavioral reactions of Eastern employees who are forced to adapt to the Western management style of the acquiring company. In this context, employees may experience unexpected psychological and cultural turmoil caused by cross-border M&A-driven organizational changes. Employees undergoing cross-border M&As experience high levels of job insecurity and career uncertainty, and they are unwillingly exposed to different corporate practices formed from a different national culture. Thus, similar to other organizational change contexts (e.g., Rafferty & Restubog, 2010; Schweiger & Denisi, 1991), the two most severe strains for employees who encounter cross-border M&As are uncertainty of their future career and their anxiety about their competence to fulfill new roles and demands following M&A. Considering these critical challenges of organizational change, we identify the assurance of job security and the provision of training as critical managerial interventions. These change management practices alleviate employee resistance to change by diminishing employees' concern over an uncertain future career and supplying them with clear guidelines and abilities to fulfill the new task and role requirements (Bordia, Hunt, Paulsen, Tourish, & DiFonzo, 2004; Piening, 2011). Training also involves the organization's effort to communicate the intention and benefit of the change, encourage employee participation and feedback regarding the change (Beer, 2011; Coyle-Shapiro, 1999).

As depicted in Fig. 1, we propose that these change practices lead to desirable employee adaptation outcomes, such as positive reactions to change and post-change performance, because they promote employee perceptions of P-C fit. Drawing on the P-E fit and organizational change literature (Burke & Litwin, 1992; Kristof-Brown et al., 2005), we propose that employees react positively to organizational changes when they perceive the congruence of their own values and the values endorsed by the post-M&A company (value fit) as well as the post-M&A congruence between their own abilities and the skills required by new tasks (ability fit). We provide the theoretical justifications of the relationships proposed in our framework.

1.1. Change management practices: training and job security

Organizational changes, such as those brought by M&As, often result in unfavorable employee consequences, developing employee resistance (Rafferty & Restubog, 2010). With the goal of reducing such negative reactions, scholars have introduced various change management practices mainly focused on communication and training. Employee participation and information sharing during M&As increase self-efficacy and reduce the level of uncertainty and dysfunctional outcomes among employees (Amiot et al., 2006; Schweiger & Denisi, 1991). Similarly, training

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