



# 'Western' professional ethics challenged by foreign acquisitions: German managers' patterns of interpretation surrounding Chinese and Indian investors



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## ABSTRACT

In times of globalisation managers are often involved in crossborder acquisitions. This contribution analyses how German managers interpret their new business partners after acquisition of their companies by foreign investors from China and India. At first glance, managers appear to extend a cosmopolitan welcome to the new owners. However, the methodology of structural hermeneutics reveals that the construal of managers of their foreign counterparts conflicts with sociocultural patterns of interpretation relating to legitimate leadership and functional administration. While regarding themselves as masters, the German managers also develop clear lines of demarcation in order to distance themselves from their international counterparts. The patterns of interpretation revealed in interviews are firmly rooted in the 'Western' professional ethics of managers, which becomes even clearer when analysing interpretations of 'Western' acquirers such as private equity investors. Economic geography can benefit from analysing how managers mobilise patterns of interpretation in a globalising world as such patterns reveal the limits of cosmopolitanism and the motives for lived practices of power within international organisations.

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## 1. Introduction

In times of globalisation cross-border acquisitions of companies frequently occur. For the people involved, such acquisitions often represent drastic events, challenging not only perceptions of their own role in a global context but also interpretations of international business partners. Economic geography, as a sub-discipline, knows little about how actors and, in particular, managers interpret such events, resulting in limited knowledge of the drivers of international management practices and the formation of underlying work identities. This contribution suggests that managers' interpretation of their foreign counterparts should be given a more prominent role in economic geography, in order to better understand the motives and practices of managers in cross-border encounters and how these in turn are shaped by general socio-cultural patterns of interpretation. The study presented here asks how CEOs construe the actions of their international counterparts in cases of takeovers by foreign investors in order to refine the understanding of cross-cultural practices and cosmopolitanism in economic geography. The particular focus is on investors from

China and India who have recently begun to acquire long-established companies in Europe and North America (Duysters et al., 2015).

As Chinese and Indian acquirers are usually financially strong and oriented towards the long term, media reports suggest that such newcomers are mostly highly welcome (Golinski and Henn, 2015). This is confirmed by the interviews in our own research project. All managers of the acquired companies expressly stated – during an early and prominent stage of the interviews – that they welcomed the new owners in the pre-merger and initial post-merger stage. However, the methodology of structural hermeneutics reveals a more differentiated picture, showing that early patterns of cosmopolitan openness and welcome are increasingly replaced by a growing distance to the new owners. During the post-merger process, the expectations and self-attributions of German managers as cosmopolitan leaders are increasingly challenged by the new cross-cultural work setting. The study illustrates that managers' immediate interpretation of the acquisition process (expressed in their descriptions of perceptions, interpretations, views, etc.) conflicts with how they experience the later post-merger process and results in distanced relations in global encounters (see Cranston, 2016; Jones, 2008).

The contribution reveals the existence of socio-cultural patterns of interpretation related to 'Western' professional ethics guiding

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managers' actions and practices during the merger process. These patterns work as underlying normative touchstones for managers against which to measure the business practices observed in the new owners. The finding of managers distancing themselves from their Chinese and Indian counterparts becomes even clearer when compared to a reference base of German managers in takeovers by 'Western' investors.

Our argument begins with an overview of economic geography's perspective on managers' interpretation. Behavioural views drawn from the geography of enterprise and discursive approaches provide useful starting points; studies of mergers and acquisitions (M&A) serve to deepen the understanding of socio-cultural ascriptions of distance and contribute to broadening economic geography's view of socio-cultural distance and cross-cultural management practices in global encounters. We then provide a summary description of so-called 'Western' professional ethics. The methodological part explains the procedure of structural hermeneutics and clarifies the study design. The empirical part highlights the influence of underlying patterns of interpretation that are linked to 'Western' professional ethics. Chinese and Indian investors are found to disrupt such patterns, unlike 'Western' private equity investors which are found to conform to them. The conclusion explains why it is relevant and moreover necessary to analyse the influence of patterns of interpretation on the global economy and in cross-cultural management settings, arguing in favour of intercultural learning to sensitise managers to the requirements of socio-cultural cooperation within international companies.

## 2. Managers' interpretation as a contribution to economic geography

How managers of companies interpret their international counterparts in globalising enterprises is an underexplored issue in economic geography. Mostly, economic geographers are concerned with the organisation of multinational companies and company strategies within their respective institutional environments; the focus tends to be on the spatial structures and processes and less on how space itself is construed. The prevailing perspective thus tends to ignore managers' motivations and with these the 'mental' component as a decisive element of their practices.

Managers' decision-making has been an issue since critics of the general Walrasian postulation questioned the assumption of complete and perfect information of all agents (Simon, 1957). However, in such behavioural approaches perception was usually related to companies as a whole; managers' mindsets were not a subject of research (Dicken, 1971: 429; McDermott and Taylor, 1979; see Maskell, 2001: 329). Perception geography was an exception (e.g. Bunting and Guelke, 1979; Johnston, 1972), yet such studies had no discernible influence on economic geographers' perceptions of 'the firm'. Early calls for opening the black box of 'the firm' came from enterprise geography (Hayter and Watts, 1983); at the same time, managers' minds remained another black box in economic geography despite a surge of interest in the topic in neighbouring disciplines such as organisational studies and psychology (e.g. Cannon-Bowers and Salas, 2001; Tindale et al., 2001). For a long time, the understanding of companies in the globalising world thus suffered from an 'undersocialised' view of economic agents (Dicken and Thrift, 1992; Taylor and Asheim, 2001: 316), as it did not include understanding of socio-cultural patterns of interpretation within cross-border engagements.

Currently, economic geographers are addressing the issue of mindsets in the context of two discourses. The first relates to knowledge in global company networks (see Bathelt and Glückler, 2011). Approaches within this discourse often address

the local knowledge base of international companies; thus their focus is on knowledge as a resource, competence or capability. Their aim is to explain how knowledge contributes to the competitiveness of companies and regions (see Fuchs, 2014). The second discourse is inspired by the cultural turn which has initiated a broad range of new methods and often hermeneutical approaches in economic geography (see Leyshon, 2011). Such contributions analyse a wide array of topics, including for instance the contradictory narratives and diversity of logics that drive a company (O'Neill and Gibson-Graham, 1999), corporate strategists as social agents (Schoenberger, 1994, 2001), borders as a construal and practice in firms (Berndt, 2013), managers' experimental knowledge (Hinchliffe, 2000), managers' voice, i.e. the language representing managerial elites in their different roles and social relationships (Oinas, 1999), and imaginaries, i.e. visuals as tools for spatial planning (Boudreau, 2007; Wetzstein and Le Heron, 2010). Cranston (2014) examines the performative nature of the economy by using narratives to uncover performance as a way to understand the specific practice of knowledge in international encounters. Gertler (2001), Faulconbridge (2008) and Jones (2008) investigate organisational distance, cultures of work and identities in a global context and interfirm practices of learning, and thereby explicitly refer to the 'underlying social actions within the firm' (Schoenberger, 1997: 116). Still, managers' interpretations of their international counterparts, and how these in turn are related to wider socio-cultural principles (including managers' professional ethics) has not yet been explored in detail. The methodology of structural hermeneutics presented here is a new arrival within the broad range of existing approaches in economic geography. It offers a useful method for uncovering how managers mobilise socio-cultural patterns of interpretation in international encounters and a refined way to analyse how the particular international counterpart is imagined in local practices (Cranston, 2014). How meaning is produced in practices of the economic world (Jones and Murphy, 2011) can be analysed from the various milieus and the social spaces that constitute work (Jones, 2008).

### 2.1. Socio-cultural patterns

Culture is a prominent concept in economic geography's analysis of multinational companies operating in different local settings (Depner and Bathelt, 2005; Cranston, 2016). In this context, 'culture' can be understood as the 'norms, rules, convictions, moral codes, and philosophies of life (...) [which] have developed through a history of social relations and are shaped, produced, and reproduced in everyday practices of human action and interaction (and) help create meaning and a cultural identity (...)'. Through this cultural identity, it is possible for the actors to distinguish "insiders" from "outsiders" (Depner and Bathelt, 2005: 58; see also Mullings, 1999) and to differentiate between 'identity' and 'otherness' (Si and Liefner, 2014).

Socio-cultural patterns are discussed more frequently in management studies and organisational studies than in economic geography, where empirical research often focuses on how the variety of managers' views in cross-border M&A affects a firm's competitiveness (Ghosh Ray and Ghosh Ray, 2013; Gomes et al., 2013). Hofstede (1984) was an early proponent using quantitative modelling; he thus suggested *ex ante* categories for analysing culture. Hofstede (1984) shows that many emerging economies have a higher power distance and thus are more hierarchical than core economies or countries with a democratic tradition. Such acceptance of hierarchy is found particularly for the case of Chinese company organisations (Jürgens and Krzywdzinski, 2016: 9). Current M&A studies are aware of differences people *ascribe* to each other, and avoid concepts such as 'cultural fit' or 'cultural clash' (Rottig et al., 2013; Teerikangas, 2007; Weber and Drori, 2008).

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