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# **The impact of leadership style on talent retention during M&A integration:**

## **Evidence from MNE in China**

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### **Jiali Zhang**

Nottingham Business School  
Nottingham Trent University, UK  
[conniezhang2@yahoo.com.cn](mailto:conniezhang2@yahoo.com.cn)

### **Mohammad Faisal Ahammad**

Nottingham Business School  
Nottingham Trent University, UK  
Telephone: +44 0115 848 3831; [mohammad.ahammad@ntu.ac.uk](mailto:mohammad.ahammad@ntu.ac.uk)

### **Cary L. Cooper**

Distinguished Professor of Organizational Psychology and Health,  
The Management School, Lancaster University,  
Bailrigg, Lancaster, LA1 4YX, UK  
Telephone: +44 1524 510750; Email: [c.cooper1@lancaster.ac.uk](mailto:c.cooper1@lancaster.ac.uk)

### **Keith W. Glaister**

Warwick Business School  
University of Warwick, UK  
[k.glaister@sheffield.ac.uk](mailto:k.glaister@sheffield.ac.uk)

### **Shlomo Tarba**

Management School  
University of Sheffield, UK  
[tarba2003@gmail.com](mailto:tarba2003@gmail.com)

### **Jinmin Wang**

Nottingham University Business School  
University of Nottingham, UK  
[jinmin.wang@ntu.ac.uk](mailto:jinmin.wang@ntu.ac.uk)

# **The effect of leadership style on talent retention during Merger & Acquisition integration: Evidence from China**

## **Abstract**

Leadership and talent retention are critical HR-related components in post-merger and acquisition (M&A) integration, but the extent to which these factors interact with each other and eventually contribute to the success of post-M&A integration is under-explored. The present study investigates the effect of leadership styles on talent retention strategies and on the effectiveness of post-M&A integration in a Chinese context. Based on in-depth examination of an M&A case study, we propose that an authoritative, coaching, task-focused, and relationship-focused approach has a positive influence on talent retention and effective post-M&A integration in a Chinese context. As far as talent retention strategies are concerned, authoritative leaders use communication, whereas leaders adopting a coaching style use an incentive structure to positively influence talent retention. Furthermore, task-focused leaders use position and performance in order to identify and retain talented employees. By contrast, relationship-focused leaders emphasize the *guanxi* network, communication, and an incentive structure in their strategies of talent retention.

**Keywords:** Human resource management, post-merger integration, leadership styles, talent retention.

# **The effect of leadership style on talent retention during M&A integration:**

## **Evidence from China**

### **Introduction**

In the past two decades, cross-border mergers and acquisitions (M&A) activity has increased significantly in emerging markets (Chen and Young, 2010; Cooke, 2006; Cooke, Wood, Psychogios, and Szamosi, 2011). M&As involving Chinese enterprises have increased both in deal numbers and value. For example, statistics provided by Thomson Reuters show that over 3,000 M&A transactions involving Chinese enterprises, with a combined value of USD 131.1 billion, were reported in 2010. Among these deals, cross-border transactions amounted to USD 80.7 billion, a 21.2% increase over the amount of USD 63.6 billion recorded in 2009.

Despite the crisis in the global financial markets, M&A activity has increased in every sector across the globe (BCG, 2010). The growth in M&A activity, the volume of capital involved, and the popularity of M&As stand in sharp contrast to their high rate of failure (Schweiger and Lippert, 2005; Weber, Tarba, and Reichel, 2009; 2011). Regarding China, Budden (2007) found that about 75% of M&As by multinational enterprises create no value or less value than expected, and only about 25% of M&As produced the expected growth in China.

Rather strikingly, one of the enduring paradoxes in merger and acquisition (M&A) activity has been the propensity of corporations and executives to engage in M&As despite consistent evidence that post-merger performance of acquiring firms is disappointing. For example, in 2011, global M&A activity shattered previous years' deal volume records, and recent surveys reveal that despite the financial market crisis, executives remain upbeat about their M&A plans around the world (Deloitte, 2012; Bloomberg, 2012). A possible explanation to this paradox is that existing knowledge on M&As provides a limited and insufficient understanding of different parts of this important phenomenon. For instance, it is possible that top executives might perceive an M&A as an important and step for corporate growth at the pre-merger stage, but poorly implemented during the post-merger process (Weber, Tarba, and Oberg, 2014). However despite their popularity, M&As remain poorly understood and poorly executed (Gomes, Weber, Brown, and Tarba, 2011).

Earlier studies have attempted to explain the performance of M&As, but a review of the relevant literature in different research areas such as strategic management, international management, finance, and organizational behavior reveals that findings are inconsistent. For example, meta-analytic studies that examined the most frequently used variables in recent research were not able to establish clear predictors for M&A success or failure (Stahl and Voight, 2008; Haleblian, Devers, McNamara, Carpenter, and Davison, 2009). One meta-analysis found that none of the strategic and financial variables studied are significant in explaining the variance in post-acquisition performance, and suggested that future research pay more attention to non-financial variables (King, Dalton, Daily, and Covin, 2004). The difficulty in making M&As succeed has been traced to inadequate strategic rationale and lack of pre-acquisition evaluation, as well as to the inappropriate management of the post-acquisition integration (Ahammad and Glaister, 2011; Almor, Tarba, and Benjamini, 2009; Weber, Tarba, and Reichel, 2009; 2011; Weber, Tarba, and Rozen-Bachar, 2011).

It is well recognized that the post-M&A integration process is one of the critical factors affecting the success of M&As (Sitkin and Pablo, 2005a; Nemanich and Keller, 2007; Vasilaki, 2011a; 2011b). Successful post-M&A integration depends on a sound leadership style that enables organizational and cultural adaptation as well as alignment of expectations between the amalgamating entities (Sitkin and Pablo, 2005b; Waldman and Javidan, 2009; Gomes, Cohen, and Mellahi, 2011).

Regardless of where the cross-border M&As take place, global talent management has become one of the core issues in the post-M&A integration process (Schuler and Jackson, 2001). Consistent with Huselid et al. (2005) and Collings & Mellahi, (2009), we defined talented employees as the high potential and high performing employees who can fill the key positions that have the potential to have an impact on the competitive advantage of an organization. Earlier studies have found that employees may experience an unstable period during post-M&A integration and leave the company because of uncertainty, which may decrease the value of the newly merged company (Schuler et al., 2004; Gomes et al., 2011). Previous research also shows that long-term instability of executive teams can result in a failure of M&A (Hambrick and Cannella, 1993; Cannella and Hambrick, 1993; Krug, 2003a; 2003b; Krug and Shill, 2008; Lubatkin, Schweiger, and Weber, 1999). Talent retention is therefore one of the important

determinants of post-M&As integration success.

The preceding discussion suggests that leadership and talent retention are critical people-related themes in post-M&A integration, but the extent to which these factors interact with each other and contribute to the success of post-M&A integration is under-researched. The aim of this paper is to investigate the influence of leadership style on talent retention in M&As and in doing so to examine the effectiveness of post-M&A integration in M&As involving Chinese companies. The paper contributes to the literature in several ways. We investigate the leadership styles appropriate during the M&A integration process in Chinese companies. Leadership styles have been studied extensively in a western context, however, there are few studies addressing the issue with regard to Chinese companies. We explore talent retention strategies common in China. Despite a significant degree of academic and practical interest, the topic of talent management remains under-investigated (Collings and Mellahi, 2009; Iles et al., 2010). Although the area of talent management in China has been developing (McComb, 1999), there has been little empirical research on the topic (Cooke, 2008). Further, we examine the underlying relationship between leadership styles and talent retention in the M&A integration process. A study by the Saratoga Institute (Hodges, 2008) based on nearly 20,000 interviews suggests that leadership contributes to almost all of the reasons for talent loss.

The paper is organized as follows: the next section includes the literature review on HR practices, leadership and talent management in the M&A in general and in Chinese contexts. The third section develops the conceptual framework of the paper. The fourth section discusses the research method adopted to investigate the research questions. The following section presents the findings and discussion, and the final section presents the conclusion.

## **Literature review**

### **HR practices during post-M&A integration**

A central question in human resource management (HRM) in emerging economies is whether each nation follows a distinct paradigm or whether these paradigms have converged toward low value-added policies and best-practice HR systems (Wood, Dibben, Stride, and Webster,

2011). Brewster, Wood, and Brookes (2008) found variations in a range of HR practices and concluded that multinational corporation tended to manage their human resources in ways that are distinct from those of their host country. Furthermore, Brewster, Wood, Brookes, and Van Ommeren (2006) showed that the HR component is affected not only by organizational size but also by sector and national location.

Within a complex organizational context, M&As pose many challenges to both executives and researchers because handling the interface between the two merging organizations is a multi-faceted and multi-stage process (Gomes, Weber, Brown, and Tarba, 2011). Executives and researchers alike face a daunting challenge in attempting to develop and accumulate specific knowledge and capabilities about the M&A process management in general and HRM practices during M&A in particular (Weber and Fried, 2011a; 2011b). Despite the fact that HR has been mentioned frequently as an important factor in M&A success (Goulet and Schweiger, 2006; Nikandrou and Papalexandris, 2007; Budhwar et al., 2009; Melkonian, Monin, and Noorderhaven, 2011), there is a dearth of theoretical and empirical studies about the interrelationship between M&A performance and HR practices applied by the acquiring firm during the integration period following an acquisition. This is particularly the case for cross-border M&As (Weber and Tarba, 2010). After exploring the critical differences between acquirers from various countries in the way in which HR is managed in cross-cultural conflict situations, and after examining the relationship between HR practices and post-merger performance in different countries, Weber, Rachman-Moore, and Tarba (2012) concluded that there is no clear best practice to address the conflict situation and to enhance M&A performance. Specifically, the findings of Weber, Rachman-Moore, and Tarba's (2012) study demonstrate that changes in acquiring firm's HR practices, including training methods, communication, and autonomy granted to HR managers are significantly associated with M&A performance. However, the afore-mentioned relationships are complex and vary in M&A deals done in different countries. While the results indicate that there are some similarities between M&A in general, there are still considerable differences in the approach taken by the acquiring companies of different nationalities. For example, acquirer managers and employees coming from a culture of high power distance (meaning acceptance of status differences between instructor/manager and trainees) and strong uncertainty avoidance (namely unwillingness to take risks and try new approaches) are likely to require and perform better in training programs that rely more heavily on structured and passive learning techniques, such as reading assignments and lectures. However, employees coming with a cultural background that

emphasizes a culture of weak uncertainty avoidance and low power distance will probably perform better with experiential training techniques, such as on-the-job training. According to Weber, Rachman-Moore, and Tarba (2012) this may explain the positive relationships found between on-the-job training and performance of the Danish acquirers (characterized by low uncertainty avoidance and low power distance). Similarly, it may elucidate on the negative relationship between on-the-job training and performance of Belgian acquirers (characterized by high in uncertainty avoidance and high power distance). Finally, since there is a need to match the changes in autonomy and communication with nationality differences, an increase in autonomy granted had a positive impact on performance of Japanese acquirers, but negatively affected the performance of the Belgian acquirers (Weber, Rachman-Moore, and Tarba, 2012). Prior research studies have suggested that the amount and quality of communication have a positive effect on management and employees, leading to improved post-acquisition performance (e.g., Marks and Mirvis, 1998; Fried et al., 1996). However, rather strikingly and contrary to common wisdom, the results of the Weber, Rachman-Moore, and Tarba's (2012) study indicate that an enhanced communication can have negative effects, at least for the German acquirers.

In recent decades, studies examining the success of post-M&A integration have focused more on such soft factors as HR issues rather than on traditional financial growth drivers. The two most frequently mentioned HR issues in prior research on post-M&A integration are leadership (Schuler and Jackson, 2001; Hazy, 2004; Able, 2007; Knilans, 2009) and talent retention (Weber and Camerer, 2003; Wang and Nishiguchi, 2006; Horan et al. 2007).

### **Leadership in M&A context**

Leadership has been long recognized as one of the critical factors affecting the success of post-M&A integration (Lind and Stevens, 2004; Nemanich and Keller, 2007; Sitkin and Pablo, 2005a; 2005b; Vasilaki, 2011a; 2011b). Successful post-M&A integration depends on a sound leadership style that enables organizational and cultural adaptation as well as alignment of expectations between the amalgamating entities (Covin, Kolenko, Sightler, and Tudor, 1997; Gomes, Cohen, and Mellahi, 2011; Kavanagh and Ashkanasy, 2006; Nemanich and Vera, 2009; Sitkin and Pablo, 2005a; 2005b; Thach and Nyman, 2001; Waldman and Javidan, 2009). If during the transitional period of post-M&A integration employees believe that their leaders

care about them, they develop a positive attitude toward the change and commit to greater involvement in the integration (Able, 2007).

Papalexandris and Galanaki (2009) argued that the leader's role is to articulate a vision of what is possible and to motivate people to transform this vision into reality. House and Shamir (1993) suggested that it is the leaders' responsibility to convert the values, needs, preferences, and aspirations of their followers from individual into collective interests. There are different schools of thought in leadership theories that emphasize different leadership styles. Wildermuth and Pauken (2008) contended that transformational and authentic leadership styles can improve employee engagement. Transformational leaders inspire followers to adhere to a common vision, whereas authentic leaders combine ethical and transformational qualities to achieve a common mission. Goleman (2000) contended that an effective leader must require immediate compliance with a coercive leadership style, enlist people in support of a vision with an authoritative leadership style, create harmony and form emotional bonds using an affiliative leadership style, forge consensus through participation using a democratic leadership style, set high standards for performance implementing a pacesetter leadership style, and develop people for the future applying a coaching leadership style.

Waldman and Javidan (2009) on their part proposed that "personalized charisma" results in an absorption strategy and creates resistance to change, resulting in a turnover that varies in degree between the acquiring and the acquired firms. By contrast, "socialized charisma" encourages collaborative vision-formation and decision-making processes that ultimately attain transformation in both combining firms. Using the primary data from a multinational sample of corporate employees in the United States and Europe, Schweizer and Patzelt (2012) applied hierarchical linear modeling (HLM) to reach the conclusion that fast integration has a positive effect on employees' motivation to stay with the firm. The effect of fast integration becomes stronger when the supervisor adopts relational, contextual, inspirational, supportive, and stewardship leadership styles.

## **Talent management in M&A context**

As Farndale, Scullion, and Sparrow (2010) noted, current knowledge about the role of the corporate HR function in multinational corporations in the area of global talent management is still very limited. Mellahi and Collings (2010) stressed the barriers to effective global talent management, and drawing on agency and bounded rationality theories, discussed the underlying causes of talent management failure in multinational corporations. Makela, Bjorkman, and Ehrnrooth (2010) explored decision processes involved in the identification of internal talent. Based on an in-depth case study, they reached the conclusion that three factors are involved in the decision process: cultural and institutional distance between the locations of a potential member of the talent pool and the decision makers, homophily between the individual and the decision makers, and the network position of the individual.

Access to talent is becoming one of the principal reasons for M&As, dominating conventional motives such as market power in horizontal M&As, channel control in vertical M&As, and risk reduction and cost saving in hybrid M&As. Regardless of where the cross-border M&As take place, global talent management has become one of the core issues in the post-M&A integration process (Schuler and Jackson, 2001).

“Global talent management is about systematically utilizing IHRM activities (complementary HRM policies and policies) to attract, develop, and retain individuals with high levels of human capital (e.g., competency, personality, motivation) consistent with the strategic directions of the multinational enterprise in a dynamic, highly competitive, and global environment” (Tarique and Schuler, 2010, p. 124). The four current research streams in talent management are talent management as a collection of “typical HRM practices, functions or activities” (Lewis and Heckman, 2006, p.140); talent management as a categorization of employees into different talent groups (Lewis and Heckman, 2006); talent management as a concept of internal talent pools and succession planning (Boudreau and Ramstad, 2005; Lewis and Heckman, 2006; Hartmann et al., 2010); talent management as the identification of pivotal talent positions that significantly affect the competitive advantage of a company (Collings and Mellahi, 2009).

In this paper, we tend to agree with the fourth perspective of talent management (Huselid et al., 2005 and Collings & Mellahi, 2009), which emphasizes on the identification of key positions

that have the potential to have an impact on the competitive advantage of an organization. Talented employees are subsequently identified and developed to fill the previously identified pivotal talent positions. Thus, the focus of talent management should be the development of a talent pool of high potential and high performing incumbents to fill the key positions that have the potential to have an impact on the competitive advantage of an organization.

Prior studies have found that employees may experience an unstable period during post-M&A integration and leave the company because of uncertainty, reducing the value of the newly merged company (Gomes et al., 2011; Haspeslagh and Jemison, 1991; Schuler et al., 2004). Prior studies also shows that the long-term instability of executive teams may be an important cause of merger failure (Hambrick and Cannella, 1993; Cannella and Hambrick, 1993; Krug, 2003a; 2003b; Krug and Shill, 2008; Lubatkin, Schweiger, and Weber, 1999). Similarly, Weber and Tarba (2011) and Gomes, Weber, Brown, and Tarba (2011) pointed out that cultural clashes during the post-merger integration often increase instability within the top management team of the target company, which in turn has a detrimental effect on the performance of the acquiring firm.

Talent management is important in the case of China for several reasons. First, the long isolation of the country and its command economy virtually eliminated the HR function (Bruton et al., 2000). M&As in China are therefore liable to encounter significant difficulties in HR management of local firms. Second, because the central government considers private firms to be the cause of declining employment in the state-owned enterprises, western investors are often encouraged to hire large numbers of workers from the acquired state-owned firms, many of whom have inadequate skills or training. This can pose additional difficulties in cross-border M&As (Bruton, Ahlstrom, and Chan, 2000). Third, traditional Chinese education has relied on rote memorization, and tends to discourage creativity and innovative thought, which reduces the human capital of use to Multinational Corporation (McComb, 1999). Consequently, the limited pool of key talent and the keen competition for it makes it difficult to attract and retain people with the requisite skills in the post-M&A phase (Eyring, 2008).

Talent management focuses on the acquisition and retention of talented employees. “The war

for talent” was an important objective of talent management in China (Iles et al., 2010). According to Malila (2007), as a result of acute talent shortages, high attrition rates, and the ease with which quality employees are able to change employers, Multinational corporations operating in China are struggling to attract, train, and retain the talent they need in order to gain a competitive edge. Talent plays a key role in the relationships a firm has with its external stakeholders. Wang and Nishiguchi (2006) suggested that firms should first identify key business and regulatory relationships in the pre-deal phase, then move to identify individuals who must be retained in order to keep the targeted relationships. The most crucial and effective retention factor in China has to do with the career development of employees. Chinese employees are likely to choose to avoid uncertainties and seek other opportunities if the company fails to dispel their misgivings with a clear employment strategy, effective HR assessment, and timely communication.

## **Conceptual Framework**

We argue that the effectiveness of post-M&A integration in China is affected by leadership style and talent retention. We further argue that talent retention is affected by leadership style.

---Please Insert Figure 1 about here---

Goleman (2000) found that the distinctive leadership styles used by successful executives are: coercive, democratic, empowering, authoritative, pacesetter, and coaching. However, following Brewster, Wood, and Brookes (2008) and Brewster, Wood, Brookes, and Van Ommeren (2006), we argue that the leadership styles that are appropriate in the Chinese M&A context may be different from those in western countries. Moreover, following Hom and Xiao (2011), we suggest that leadership style may affect talent retention in China. We also conjecture that talent retention influences the effectiveness of post-M&A integration in China as it does so in other countries.

According to Collings and Mellahi (2009), talent management can improve organizational

performance by identifying pivotal positions. Talent management is mediated by work motivation and organizational commitment, which can affect the performance of the firm. Hartmann et al. (2010) noted that Multinational corporations transfer their talent management practices to China without making many changes, focusing on the development of talented employees and on the creation of an organizational culture. Global talent management has become one of the core issues in the post-M&A integration process irrespective of where the cross-border M&As take place (Schuler and Jackson, 2001).

We argue that the leadership style and talent retention are distinct in the case of Chinese M&As. Because the *guanxi* network is a unique feature of Chinese culture, it is important for western multinational corporations to grasp its significance for leadership and talent retention in post-M&A integration. *Guanxi* has historical roots, embedded in informal social networks developed through relationships such as family, marriage, schooling, and work (Park and Luo, 2001; Wank, 1996). It is critical for Multinational corporations to aggressively develop their own *guanxi* network if they want to ensure the smooth operation of their acquired firms in China.

One of the most effective ways of developing a *guanxi* network is to retain the employees in the acquired company, specifically the employees who have strong connections with the government and with various stakeholders of the acquired firm. Hom and Xiao (2011) concluded that *guanxi* ties reinforce employee retention in Chinese companies. Moreover, prior research indicates that because Chinese leaders show more task-oriented leadership styles than western managers do (Shenkar et al, 1998; Brousseau et al, 2005; Vilkinas, 2008), it is important to consider leadership style and talent retention strategies in exploring the factors that affect the effectiveness of post-M&A integration in China.

## **Research Method**

Given the paucity of research on leadership styles and talent retention with respect to Chinese M&As, we adopted a narrative research approach. Scholars and practitioners have been showing a growing interest in the applicability of qualitative methods to international business

research. This interest is reflected in several recent publications (Marschan-Piekkari and Welch, 2004; Welch, Marschan-Piekkari, Penttinen, and Tahvanainen, 2002) that draw on theoretical and methodological contributions in a cross-disciplinary field encompassing discourse analysis, narratology, organization studies, and others. Stahl and Mendenhall (2005) noted that the majority of researchers in the field of M&A adopt a fairly conventional post-acquisition integration perspective and therefore rely heavily on quantitative methodological and analytical tools. As a result, they do not necessarily capture the socio-cultural aspects of such a complex and multi-faceted organizational change processes as M&As.

Narrative approaches to cultural analysis are particularly appealing because of their ability to capture the richness and complexity of cross-cultural encounters in organizational life (for example, strategic alliances, joint ventures, and M&As) because of their capacity to go beyond what can be assessed by more traditional sources of data such as surveys and structured or semi-structured interviews (Denning, 2008).

Several research studies in the field of M&A have used the case study approach to address various issues that arise following acquisitions, such as the management roles of the acquired firm (Graebner, 2004), the seller's view of the acquisition process (Graebner and Eisenhardt, 2004), explorations of the dynamics of pre-acquisition employee reactions in the acquired firm (Teerikangas, 2012), knowledge transfer in M&As (Ranft and Lord, 2002.; Zou and Ghauri, 2008), trust in M&As (Stahl, Larsson, Kremershof, and Sitkin, 2011) and trust asymmetries in acquisitions of entrepreneurial firms (Graebner, 2009), cultural clashes in high-tech M&As (Drori, Wrzesniewski, and Ellis, 2011), and the implementation of post-acquisition integration approaches (Monin, Noorderhaven, Vaara, and Kroon, 2012; Schweizer, 2006; Teerikangas, Very, and Pisano, 2011). Consistent with earlier research and owing to the interpretive nature of the study, we adopted an in-depth case study together with semi-structured interviews.

### ***Research Design and Data collection***

The case selected for the study is a cross-border acquisition conducted in China by a European company in 2008. To ensure anonymity, the acquiring firm is referred to as FA and the acquired firm as FB. [FA \(part of the FA group\) is headquartered in East China. FA is involved in other](#)

M&A deals in China. Between 2001 and 2011, FA acquired nine international and local firms in China, each with a strong presence in its sector and serving a specific customer demand. Based on the above discussion, it can be argued that FA has vast experience of conducting M&A deals in China.

FA acquired FB in 2008 and adopted an absorption strategy so that the acquired company conforms to the acquirer in corporate culture, working style, and managerial system. Consequently, analysis of FB M&A deal by FA can assist use in examining the post-M&A integration issues such as leadership and talent retention challenges that could be faced by other companies conducting M&A deal in China. As a result, we believe that acquisition of FB by FA is a representative case of Chinese M&A and investigation into this case could generate rich and in-depth information for the exploration of research questions.

Data on the various stages of the acquisition were collected by in-depth interviews with executives who were directly exposed to and involved in the acquisition processes. Data collection and analysis were based on the case study methodology (Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Yin, 1994) and included the following steps: Initial formulation of research questions and identification of important constructs; Selection of the case: the case was chosen for theoretical reasons, based on the replication logic.

According to Eisenhardt (1989) and Eisenhardt and Graebner (2007), the objective of theoretical sampling should be to choose cases that are likely to replicate or extend theory. As noted by Siggelkow (2007) in his seminal paper concerning the persuasiveness and generalizability of case studies, even "a single case can be a very powerful example." In particular, studying a single acquisition in depth allowed us to collect extensive data to help us understand the dynamics of the acquisitions. Although a single case study may limit generalizability (Drori et al., 2011), our aim was to shed light on the dynamics of leadership styles in M&A and not to test a theory of leadership as such. Our case study enabled us to explore the effect of leadership style on key employee retention in the new amalgamated entity and generate new theoretical insights based on the process we have explored (Eisenhardt and Graebner, 2007; Siggelkow, 2007; Yin, 1994).

A strategy of snowball sampling of respondents was used to generate the sampling frame.

Leaders (respondents) from both the acquiring and the acquired company were identified through the personal contacts of one of the authors of the paper. The president of the acquired company, who is one of the respondents, was asked to nominate qualified candidate key talent respondents. Taking into consideration the number of respondents to be interviewed within a limited period, the time available for transcription, translation, and data analysis, and the efforts required for data gathering, the number of interviews was limited to nine: four of the respondents represented the leaders' perspective and five the perspective of the key talent.

The following characteristics were required to qualify as a leader respondent: (a) mid-to-high level management position at the acquiring or the acquired company; (b) involvement in the post-acquisition integration [planning and implementation](#) process.

The selection of talent respondents were guided by the literature on talent management and by the recommendation of top management team of FB. Consistent with Huselid et al. (2005) and Collings & Mellahi (2009), talent management focuses on the identification of key positions which have the potential to differentially impact the competitive advantage of the firm. Thus, talent respondents were those with high potential and high performing employees who call fill those key positions with the greatest potential to contribute to the competitive advantage of the firm. In addition, the characteristics required to qualify as a talent respondent were: (a) being a manager or employee at the acquired company; (b) having been retained after the acquisition or having been involved in the post-acquisition integration process. Using the above criteria, the top management of FB was also asked to provide a list of 10%-20% of the key personnel at the top level and of 70%-80% of employees in key areas of the company at various levels, both middle and operational. [Based on the above criterion, five talent respondents were identified.](#)

To capture a cross-section of views, we involved in the research respondents from various departments (production, sales, financial) and at different levels of the managerial hierarchy. Of the leader respondents, two were from the acquiring and two from the acquired company, three were high-level managers and one a mid-level manager. The five key talent respondents were all from the acquired company and were recognized as key personnel to be retained during the integration process. To ensure anonymity, leader respondents are coded as LR1-4 and talent

respondents as TR1-5. Table 1 lists the respondent and interview details.

---Please Insert Table 1 about here---

An interview guide was prepared in order to remind the interviewer of the main themes that needed to be covered (Saunders et al., 1997). To avoid including misleading or misunderstood questions in the interview guide, a leader respondent from the acquiring company was used as a candidate for a pilot interview. The questionnaire was then revised based on the feedback provided by the leader respondent. The interviews were carried out either in the respondent's office or in a meeting room in the respondent's company. All the leader interviews and one of the five talent interviews were performed by one of the authors. The other four talent interviews were conducted by another experienced interviewer familiar with the FA-FB acquisition. Following procedures identified by Fisher et al. (2007) and Saunders et al. (1997), each question was asked initially in an open manner to encourage the respondent to talk about the topic expansively. As the respondents answered the question, open or closed probing questions were asked to check the detail. To allow thorough and repeated examination of the interviewees' answers, the interviews were recorded with a digital voice recorder. Interviews were conducted in the language of the host country (Mandarin Chinese). To ensure comparability and equivalence, a contract translator (a native speaker of Mandarin and an English major) translated each interview from Mandarin into English and (as a check) back into Mandarin. Transcriptions were proofread and verified by one of the authors to ensure authenticity and reliability (Brislin, 1976).

Given the richness and volume of data involved, Nvivo 8, a software application for analyzing qualitative data recommended by Fisher (2007) as well as Bryman and Bell (2003), was employed to facilitate data organizing, sense making and theorizing processes in this study. With the aid of Nvivo 8, coding of data became easier and more flexible. Following Bryman and Bell (2003) and Fisher et al. (2007)'s instructions, the main themes were first organized into a hierarchical order in accordance with the sequence of questions in the interview guide so as to form a "node tree". The node tree was gradually modified and enriched with later emerged "free nodes", and finally constructed a comprehensive indexing framework for data

analysis.

## ***Case Background***

### **FA group**

The FA group is a world-leading supplier of solutions and systems for the measurement of objects in one, two, or three dimensions, headquartered in Europe. It has more than 11,000 employees in 42 countries worldwide, and its portfolio comprises a large number of world-class brands that represent high quality and reliability. The vision of FA was to be a market leader, first or second in the world, in each strategic business unit in order to generate growth and shareholder value. The rapid growth of FA was achieved mainly by M&As, with M&As being one of the most important strategic tools used by FA to extend its businesses in new and existing markets. The FA acquisition strategy was to monitor a large number of companies in order to identify applicable acquisition targets that could strengthen the product portfolio of the company and improve its distribution network.

FA (part of FA group) is headquartered in East China and has approximately 2,000 employees. It provides world-class integrated solutions to Chinese customers based on its global resources in the application areas of geo-systems, metrology, and technology. By the end of 2011, FA had acquired nine international and local firms in China, each with a strong presence in its sector and serving a specific customer demand.

### **FB**

FB develops, manufactures, and sells professional measuring equipment and instruments. FB is headquartered in Shenzhen and has more than 100 employees, with an extensive country-wide sales and service network. Before the acquisition, it was a medium-sized private manufacturer of measuring instruments. Based on its R&D and production capabilities, FB offered many high-precision measuring products. Differentiated from other subsidiaries of the FA group, which target high-end markets, FB offers “leading technology, better quality, practical function, and moderate price” to customers (source: internal document).

The acquisition took place on August 1st, 2008. The absorption strategy adopted by FA for the

integration of the new entity is described by Marks and Mirvis (1998; 2011) as making the acquired company conform to the acquirer in corporate culture, working style, and managerial system. In the first few months after the acquisition, FA sent several senior managers, including LR1 and LR2, to the headquarters of FB in Shenzhen, helping them to establish the new managerial system.

## **Findings**

During the interview sessions, interviewees are explicitly requested to provide opinions and views of specific M&A under study as well as of Chinese M&As in general. The findings obtained from the interviews are presented in the following three sections. Section A presents the findings related to the effect of leadership style on post-M&A integration in the context of Chinese M&A; section B presents the findings related to the effect of talent retention on post-M&A integration in the context of Chinese M&A; section C reports the findings related to the effect of leadership style on talent retention in the context of Chinese M&A.

### **A. Effect of leadership styles on post-M&A integration**

In this section we investigate the underlying relationship between leadership styles and the effectiveness of post-M&A integration. During the interviews, the respondents were asked about their perceptions of various leadership styles contributing to the successful post-M&A integration process in a Chinese firm.

#### ***I. Empowering, coercive, and democratic leadership styles***

Most LRs indicated that leaders are the final decision makers in most circumstances, especially on strategically important issues. At the same time, leaders also like to allow their staff to make their own decisions on some “less important operational-level issues.” As one LR put it:

*In most cases, the decision-making right is under my own control. But it depends on what decision it is, important or unimportant. Generally speaking, those not so important...can be decided by the employees themselves. As for those important things, I make the final decision myself. (LR1)*

By contrast, all TRs claimed that their leaders had granted them a certain degree of decision-making power (empowering) within their areas of responsibility, and employees appeared comfortable with the situation.

*Generally speaking, the matters concerning policies are still performed according to the leader's instructions. But... he still allows us to act on our own initiative to some extent rather than stipulating everything too rigidly. (TR3)*

The findings suggest that strategic decisions are made by the leaders. Because post-M&A integration is a strategic decision, employees are not granted autonomy in strategic decision making, and thus the empowering leadership style is not appropriate during post-M&A integration.

Although leaders are the decision makers in most strategic decisions, the majority of respondents claimed that autocracy and coercion were not advocated in implementing these decisions, because “autocracy and coercion will impact employees’ morale and will definitely damage team stability” (LR1). Therefore, autocratic or coercive leadership styles are not appropriate.

Concerning the extent to which leaders are willing to consult with employees in the process of decision making, most leaders indicated that they would listen to employees if their suggestions were constructive, but if a controversy occurred, more than half the LRs indicated that they would insist on having their way.

*If I understand that an employee's opinion is right, my style is that I generally can accept the employee's opinion; if... I insist that I am right, I will certainly stick to my opinion. [...] Discussions with employees... may waste some time. Sometimes I am quite decisive in making decisions and I won't spend too much time discussing it [with employees]. (LR1)*

The majority of TRs claimed that their leaders were willing to listen to their suggestions attentively as part of the decision-making process. TRs appeared rather content with making suggestions concerning only the details, leaving important decisions to their leaders. This finding is consistent with the above report about TRs being satisfied with being granted decision making power only within their area of responsibility. It is also consistent with Chen and Tjosvold's (2006) argument that Chinese employees prefer to defer to their leaders rather

than participate in decision making. The viewpoint that best describes this unique democratic leadership style in the perception of most respondents is: “democracy goes first, with centralization at its heels.”

The contradiction between LRs and TRs on the perceived degree of democracy may be the result of the fact that LRs consider important issues when answering this question whereas TRs consider problems within their areas of responsibility. This situation may be explained by Weick’s (1995) sensemaking property of plausibility, which emphasizes people's intuitive judgment in their process of sensemaking in a complex environment. As discussed above, employees seem content to make suggestions only on details and leave important decisions to their leaders. In the post-M&A integration process, TRs may also feel uneasy about freely expressing their views to their leaders. Concerning the extent to which employees are allowed to act on their own initiative, all respondents indicated unanimously that as long as employees can finish their work on time, leaders are willing to allow them to act on their own initiative.

*I hope they had better undertake all matters, and then I can be totally free from worry [Smile]. (LR2)*

Clearly, this sentiment is based on the premise that the newly merged company has established certain rules and procedures for employees to follow, and employees are clear about what they should do to attain the objectives of the company, which may be difficult to achieve at an early stage of post-M&A integration. As Goleman (2000) suggested, the democratic style makes less sense when employees are not competent or sufficiently informed to be offering sound advice. In the present study, although several LRs described themselves as democratic leaders, democracy may not be practiced in full at an early stage of post-M&A integration, as LR1 suggested:

*Fully democratic styles will not possibly work [immediately after the acquisition], because they [employees from the acquired firm] don’t even know what to do. (LR1)*

## **II. Pacesetting**

Most LRs claimed that the standards they set for employees were quite practical and achievable:

*I will set a relatively high target for the employees; if they can easily attain it, they will not make progress. [...] But generally I won’t push them too hard. [...] If they cannot achieve*

*the target, I will give them some specific instructions [to help them out]. (LR2)*

All TRs agreed that their leaders made certain demands of them, but in most circumstances they were able to achieve the targets their leaders set because the requirements were usually reasonable. Furthermore, an overwhelming majority of LRs and TRs indicated that leaders did not often replace employees when those were not able to reach the required goals. The leaders usually “provide training programs for” those who failed to meet requirements (LR1, TR1, TR3, TR5), or “transfer them to other positions” (LR2, LR4). Only those who are “subjectively unwilling to do the job well” (LR1) or those who “are not loyal to the company or use dishonest methods in their work” (TR3) were fired. Thus, the findings do not support pacesetting as an influential style in the studied context and indicate that the traditional pacesetting leadership style has been gradually abandoned by Chinese leaders.

### ***III. Authoritative***

An overwhelming majority of respondents claimed that it was very important for employees to understand the vision of the company and that leaders should communicate their vision. Moreover, leaders should share information about the domestic and global macro-economy with employees (TR1, TR3). The main occasions for leaders to share this information with employees are the annual meeting as well as regular meetings (LR3, TR1, TR3, TR5) and casual talks (TR4, TR5). Some respondents stressed that keeping employees informed about the vision and objectives of the company may help contribute to the stability of the workforce (LR1, LR4, TR5).

*Being aware of the company's vision and the future development direction of the company... will certainly be beneficial for [the employees'] personal development, as well as the stability of the team. If an employee is caught up in the trivia of everyday things without seeing the future, and feels what he is going to do tomorrow is the same as what he has done today, [and] if he is not clear about where the company is heading, he may definitely feel frustrated as time goes by, and he may probably quit in that case. (LR1)*

*[If I am well informed about the objectives of the company] I'll be dead set on working at the company. [...] As the saying goes, if the nation is prosperous, the people of the nation can be strong and powerful. Similarly, if the firm is prosperous, the employees of the firm*

*can be strong and powerful. (TR5)*

All respondents were of the view that leaders can lead their staff to achieve the vision of the company as long as staff follow the leader. Most of the LRs had great confidence in their role in the post-M&A integration:

*Now I'm basically the spiritual leader of FB [smile]. [A spiritual leader] is needed at the beginning [of the post-acquisition integration]. I hope that when I leave FB someday, these things will be passed down from one generation to another. (LR2)*

Moreover, the findings indicate that leaders in the studied context would like to serve as role models for employees to follow:

*[My leader] always sets a good example for us to follow, and this pushes us to do a better job in line with the company's plans and his thoughts.' (TR1)*

*I think the leader should take the lead in doing things in a down-to-earth way. [...] [My leader is so successful because] he has developed a hands-on leadership style. Seeing him work so hard, his subordinates also made utmost efforts to do their jobs. (LR3)*

It is clear that many respondents emphasized the importance of leaders being all-around role models for employees because of the employees' confusion and ignorance concerning the newly established working practices at the early stage of M&A integration. Several LRs considered it important for post-M&A leaders to explicitly tell their staff what to do because most employees at the acquired firm did not know what to do and how to do it.

*During the early period of the integration, you do not need to give too much decision making power [to employees]. Because even if you give it to them, they do not know how to do it. It would be better if you give them some frameworks or stipulate some procedures for them to follow. [...] The more detailed and more operational the procedures are, the better. [...] Be sure not to let them make the choice. [...] When they begin to know how to do it, you can empower them to some extent. (LR2)*

The above findings suggest that an authoritative leadership style is appropriate during post-M&A integration at Chinese firms.

#### **IV. Coaching**

All the respondents claimed that leaders would like to help their staff develop. Many of the

leaders did not mind teaching employees how to do their jobs.

*If you can't do it, it doesn't matter. Look at the way I do it. Even if you still can't do it after that, it doesn't matter and we can try again. I'll teach them slowly, train them, and let them gradually adapt to the new requirements. (LR1)*

Several TRs (TR1, TR2, and TR5) expressed their willingness to learn from leaders through daily instruction. The coaching style works particularly well when employees are already aware of their weaknesses and would like to improve their performance.

*I certainly hope [he can give me some instruction], because when he teaches me I can learn from his experience, this is a good opportunity for learning and growth. (TR2)*

A vast majority of respondents indicated that leaders would like to help employees establish long-term development goals for their personal careers. Leaders' conversations with employees about their future careers usually took place during the annual review of their performance (LR1, LR2, TR3), whenever employees encountered some difficulty or made some mistake (LR1, TR2), on the day they joined the company (LR2), or on random informal occasions (LR1). LR2 said:

*I think I'm now qualified to give them some instruction about their personal development. I usually talk with employees for two or three hours on the first day of their joining the company. A very important part of the conversation is about their career planning after they enter the company [...] Additionally, for those key employees, at the end of each year, I will ask them to write a personal development plan about their blueprint for next year's work, about the direction in which they want to develop, or the current shortcomings in their work. (LR2)*

Based on the above findings, we conclude that a coaching leadership style has a positive effect on the motivation and performance of employees, which in turn enhances the effectiveness of post-M&A integration.

## **V. Task-focused**

A clear majority of respondents indicated that in their working with employees, leaders always focus on tasks and goals, and attach great importance to rules and workflows. According to the respondents, the leader's emphasis on goals and workflows may be closely related to the

management style of FA.

*Yes, [I always focus on tasks and goals]. FA itself is goal-oriented and financial data-oriented. (LR2)*

*Yes, my leader attaches great importance to rules and workflows especially after we joined the FA Group, ISO is the guarantee for rules and workflows. [...] The Group will also have a spot-check of some of our forms and contracts to see whether they have been done according to the workflows and rules. (TR1)*

These findings indicate that leaders stress rules and workflows during the post-M&A integration, which is consistent with Brousseau et al. (2005), who suggests that Chinese leaders show a markedly greater inclination to use task-oriented styles than Western leaders do.

## **VI. Relationship-focused**

All respondents indicated that leaders care about the employees' sense of belonging and about a harmonious atmosphere within the team. Many claimed that this could be regarded as part of the corporate culture of FA.

*I'm highly concerned about it. [...] When employees have a sense of belonging to the team they may stay longer and their enthusiasm can be aroused. (LR1)*

*If an employee has no sense of belonging to a company... even if he sits there in the office for eight hours, he may not be doing his work. If he has a sense of belonging, he may work even beyond the working hours. (TR2)*

A sense of belonging and harmony within the team are established mainly by organizing team-building or entertainment activities (LR1, LR2, LR4, TR4) and by improving the employees' working, dining, or accommodation environment (LR2, TR3). Furthermore, employees greatly appreciated an easy-going and amiable personality, which can also be viewed as a feature of a relationship-focused leader:

*I think [a successful leader] shouldn't be tough and harsh, he should be easy-going. Because in an integration process employees will keep considering whether they will be fired, there will be mental fluctuation in their mind. I think a tough leadership style may intensify the employee's distress. [...] Generally, if the firm isn't too bad, employees actually are unwilling to leave. If the leader is not too tough, the process of change won't*

*be that intense. (TR4)*

*I think an amiable leadership style is the most helpful. [...] You feel he is trustworthy in the first place, and you can pour out your heart to him, and you feel free to make suggestions to him on the future development of the company. (TR1)*

More than half the respondents indicated that in their working environment leaders care about employees' emotional changes, communicate with them, and try to comfort them if necessary. However, none of the respondents indicated that leaders had ever inquired proactively about the employees' personal lives. Weick's (1995) sensemaking property of social context is relevant in this case. In Shenzhen, relationships between colleagues are not as close as those in inland cities. Leaders may consider asking about an employee's personal life as a violation of individual privacy. Similarly, most respondents claimed that usually there is no private relationship between leaders and employees, and if there was such a relationship it was usually limited to idle chatter.

Most LRs restricted caring for employees to working hours and did not advocate a genuine private relationship. LR2 thought that private relationships between leaders and employees may have a negative effect on work. Some leaders indicated that they would rather make friends with peers than with their subordinates, without involving a superior-to-subordinate relationship. LR1 said:

*I will only build private relationships with those who have similar personalities or common interests with me. [...] I don't intend to have a closer relationship with anybody intentionally. The employees of my department have never intended to be closer with me either. (LR1)*

This finding suggests that relationship-focused leadership can be appropriate at a Chinese firm, where *guanxi* is highly valued (Alston, 1989; Chen and Tjosvold, 2006; Tse et al., 1988; Wong and Leung, 2001), especially at the stage of post-M&A integration, when team harmony, increased morale, and improved communication must be built (Goleman, 2000). This is reflected in the respondents' attitude toward the significance of building a sense of belonging, trust, and harmony in the team.

In preceding sections reported the findings regarding the influence of leadership style on the effectiveness of post-M&A integration. The findings indicate that empowering, coercive,

democratic, and pacesetter leadership styles are not appropriate in Chinese firms. In contrast, task-focused, relationship-focused, authoritative, and coaching leadership styles had a positive influence on the effectiveness of post-M&A integration. Based on the above findings, we formulate the following proposition:

*Proposition 1 (P1): Task-focused, relationship-focused, authoritative, and coaching leadership styles positively influence the effectiveness of post-M&A integration in Chinese firms.*

## **B. Effect of talent retention on post-M&A integration**

In this section we investigate the influence of talent retention on the effectiveness of post-M&A integration. According to LR1, after the acquisition all former employees were taken over by the new combined entity, except those who left of their own will. FA management was prudent and decided not to replace former employees, recognizing that this may cause instability in the acquired company. LR2 said:

*I don't recommend immediately replacing former members of the company either. [...] The retention of a respected figure [remaining employees] in the company may stabilize a great number of employees. (LR2)*

The FB management team was very young, and most mid-level managers were in their twenties, but the team was quite stable. One important reason for this was that the tradition of human concern advocated by FA has been largely inherited and widely accepted by FB employees. FB employees felt that they were cared for (TR1). The HR stability after the deal may have served as a significant factor in the success of post-acquisition integration. LR3 stated:

*The former FB was always replacing staff. [...] But this seldom happens now. [...] President H said: "Few employees at FB would stay if I continue to [fire employees]. [I realized that] I should nurture them and tolerate their mistakes." (LR3)*

We conclude that talent retention was considered to be an important factor influencing the effectiveness of post-M&A integration. Consequently, we formulate the following proposition:

*Proposition 2 (P2): Talent retention positively influences the effectiveness of post-M&A integration in Chinese firms.*

### **C. Effect of leadership style on talent retention**

In this section we investigate the manner in which leadership style affects talent retention during post-M&A integration and we explore the strategies employed by various leaders to retain talented employees. Respondents were asked to discuss the possible effects of leadership style on talent retention. An overwhelming majority of respondents indicated that the employees' decision to stay with the company is often greatly related to leadership style.

*Employees may choose to stay if they think the leader's working style is reasonable. If they don't think so, and they can't change the status quo, they will certainly choose to leave. (TR3)*

*[The employee's choice to stay with the company] proves his recognition of [...] the leader's moral quality and personality. (LR3)*

When focusing on detailed leadership issues, most respondents indicated that the replacement of a leader is likely to cause loss of talent in that leader's team if the style of the new leader is not accepted by team members (LR1, TR3, TR4) or if the original leader was so influential that he was regarded as a spiritual leader by his followers (LR1). Based on the above findings, we formulate the following general proposition:

*Proposition 3 (P3): Leadership style affects talent retention at Chinese firms.*

We further investigated the specific strategies employed by various leaders to retain talented employees. These strategies include position, performance, *guanxi* network, communication, and incentive structures.

#### **I. Position**

Most respondents considered it more logical to identify key positions first, then fill these positions with talented people, than to identify talent first and find suitable positions for them, because "you need a person to fit the position but not the position to fit the person" (LR1). This is consistent with Collings and Mellahi (2009) who argued that the starting point of talent management is identification of pivotal positions rather than of talented individuals.

LR2 emphasized in particular that retaining talent in key positions can be crucial for the stability of the newly formed firm during the transition period:

*Talent in key positions must be retained at the beginning of the integration process. This has a bearing on whether the company can have a steady transition [...] and it is important for the fusion and inheritance of some original things into the new company. (LR2)*

The strategically important positions that contribute to the sustainable competitive advantage of the organization and that were recognized by respondents were mostly in production and R&D because “FB is a manufacturer in the first place” (LR1), and in managerial operation, which is “the lifeblood of a firm” (LR4).

In view of the great importance ascribed by respondents to both task-focused leadership style and to identification of key positions to be retained, we formulate the following proposition:

*Proposition 3a (P3a): A task-focused leader tends to identify key positions to be retained and thereby exerts a positive influence on successful talent retention.*

## **II. Employee performance**

All LRs suggested that there is no need to invest in the training of the entire staff or to bring everyone to a high level of performance, because time and energy are limited, they should be devoted to key personnel. LR1 commented:

*If all employees in a company are excellent, this company certainly can't retain them. The composition of a company's human resource is just like five fingers. 10%-20% of them are good performers, 60%-70% are in the middle range, and 10%-20% are at the bottom and on the verge of being fired. (LR1)*

The majority of respondents claimed that performance appraisal was necessary. According to LR1, this is because “it is related to the employees’ salary and promotion” and because “the cultivation of a firm’s talent also relies on performance appraisals.” This is consistent with Collings and Mellahi’s (2009) argument that the focus of talent management systems should be on the high-performing employees rather than on all the employees in the organization.

In light of the importance that respondents ascribed to a task-focused leadership style and to performance appraisal, we formulate the following proposition:

*Proposition 3b (P3b): A task-focused leader tends to differentiate talent based on performance, and thereby exerts a positive influence on successful talent retention.*

Many TRs suggested that performance appraisal should be conducted in a moderate way.

According to them, a rigorous performance appraisal may “put too much pressure on employees” (TR2, LR1, LR4). They indicated that “loyalty and honesty to the company” (TR1, TR4, TR5) are more important than business performance. TR1 concluded that:

*In fact, performance appraisal is only a means by which we can differentiate the performance among employees and then communicate with them about it [to find solutions for poor performers]. (TR1)*

The distribution of appraisal results should be carefully considered. The practice of posting appraisal results for public viewing was unanimously opposed by all LRs and TRs because it may cause employees to lose face (or *mianzi*).

*My view is that such information should by no means be made public. We should respect employees' dignity. If everybody knows one is poor in performance, he may feel embarrassed. (LR1)*

All LRs and TRs indicated that poor performers should not be immediately fired. First, the employee's contribution should be assessed using a comprehensive standard, with special regard to the employee's honesty and loyalty to the company, which was emphasized by many respondents (LR3, TR3, TR4, TR5). Moreover, poor performers should be given a second opportunity (LR1, LR2, LR4).

### **III. Guanxi network**

The literature identifies *guanxi* as a significant resource in China (Alston, 1989; Chen and Tjosvold, 2006; Tse et al., 1988; Wong and Leung, 2001). Wang and Nishiguchi (2006) even suggested that firms should first identify key business and regulatory relationships, then focus on the individuals who should be retained in order to keep the targeted relationship. This view is supported by the findings of this study.

All LRs claimed that relationships with customers, distributors, and suppliers are very important. Many of them indicated that because FB is a manufacturing firm, the stability of the customer base (LR1, LR2, LR3, LR4, TR4), the robustness of the supply chain (LR1, LR2), and the effectiveness of the distribution channel (LR2, LR3, LR4, TR3) may have “a direct bearing on the company's lifeline” (LR2). As LR2 suggested, “people who control the customer resources of the company are a very important talent to retain.”

Considering the importance respondents ascribed to a relationship-focused leadership style and to the retention of talent associated with crucial business resources, we formulate the following proposition:

*Proposition 3c (P3c): A relationship-focused leader tends to recognize the competence of talent with connection to crucial business resources or with a guanxi network, thereby exerting a positive influence on successful talent retention.*

Surprisingly, the relationship with government at various levels, which is regarded as a competitive advantage for foreign companies doing business in China (Chen and Tjosvold, 2006), was not endorsed by respondents. Many respondents indicated that government authorities, media, and industrial associations had nothing to do with the operation of a company, unless it was undertaking some government-related business (LR1, LR3). This finding may have to do with the higher level of economic development in Shenzhen than in underdeveloped or inland cities, as TR2 suggested:

*If the city's economy is highly developed, the relationship with the government may not be so important; but in the underdeveloped areas or inland cities, such a relationship can be very important because every document must depend on the government to approve. In the developed cities, norms have been formulated, and you don't have to rely on relationships. What you should do is just follow the procedures and fill out some forms. (TR2)*

#### **IV. Communication with talented employees**

Earlier literature indicates that under the influence of the Confucian concepts of *zhongyong* (seeking means) and harmony Chinese people prefer to compromise in private (Wong and Leung, 2001). This can also be applied to communication between leaders and employees. Findings indicate that all LRs recognized the importance of private communication for talent retention.

*I will communicate with employees in private and try to figure out why on earth they decide to leave. (LR3)*

Similarly, more than half the TRs indicated that they preferred to communicate privately than by means of formal notices.

*I prefer the informal way [of communication]. Because it's not so formal, I can fully express myself without worrying too much. (TR3)*

In light of the great importance that respondents ascribed to a relationship-focused leadership style and to private communication in talent retention, we formulate the following proposition:

*Proposition 3d (P3d): A relationship-focused leader tends to communicate with talent privately, thereby exerting a positive influence on successful talent retention.*

Hodges (2008) argued that communicating with employees consistently about the goals and about the strategies needed to achieve these goals can make employees feel valued and respected, and therefore reduce the possibility of their leaving. This finding raises the issue of the content of communication between leaders and their staff. Most leaders involved in the present study indicated that if they decided to retain certain employees they would keep them informed about the changes expected in the firm after the acquisition. They also provided several success stories to illustrate this point:

*Now we are considering promoting a young man as financial manager. One and a half years ago he said he wanted to leave. At that time, he was an ordinary staff member... but I could see he has potential. [...] We had a very open talk for two hours about the company's future development, including the strategic development plan of FA, which he didn't know before. Besides, I told him heart-to-heart about my own experiences and my personal growth in these years. [...] Immediately after our talk he expressed his inclination to stay. (LR1)*

*[A medium level manager] told me that he couldn't stay any longer. [...] He wanted to hear my ideas and later I fully reassured him. I told him to wait for two months because there would be some real changes [in the company], changes completely different from past... and he stayed. (LR2)*

In the same vein, all TRs indicated that they hoped to learn more about the future development of the company from their leaders.

*I hope to receive information about the company's future development because it's not good to be absorbed only in work, even for an ordinary employee. The development of the company determines personal development. [...] When the river rises, the boat floats high.*

(TR3)

In light of the great importance that respondents ascribed to authoritative leadership style and to communicating company goals and strategies, we formulated the following proposition:

*Proposition 3e (P3e): An authoritative leader tends to communicate with talent about company goals and strategies, thereby exerting a positive influence on successful talent retention.*

## **V. Incentive structure**

Findings indicate that salary increase is regarded as an effective retention incentive. All respondents indicated that higher salary is to some an effective means of retaining talent. As TR2 commented, “it is the simplest and most direct way to retain talent.” Wages also rank first among possible reasons for loss of talent. This finding may also have to do with the importance people ascribe to money in Shenzhen. In this respect, Weick’s (1995) sensemaking property of social context is applicable. Despite the solid endorsement of monetary incentives, LR1 explained its limitations and considered it only as a “secondary and temporary” measure for talent retention:

*‘Raising salary is only a secondary means by which the company can retain talent temporarily. Even if talent is retained with money in the short term, they may choose to leave soon. (LR1)*

Similarly, many respondents showed keen interest in granting employees the option of buying shares in the company. Some respondents even deemed it as the most attractive incentive for talent retention because employees “benefit from shareholding materially by sharing the bonus” (LR4). Owning shares in the company may “give employees a sense of belonging” (TR2) because they are in the same boat as the company. Many people in Shenzhen are interested in developing their own business, and holding company shares satisfies their desire to some extent. Findings also show that promotion to more senior levels and in the absence of immediate promotion, providing an attractive plan for personal career development in the medium or long term are considered to be highly effective incentives as well. To some extent, a promising future is perceived to be equal to a salary increase and to an elevated sense of self-worth. LR1 said:

*If you are promoted and your career develops well in the future, it’ll definitely bring*

*changes in salary. [...] As long as your career development is guaranteed, you'll certainly be spiritually contented. These aspects are interconnected. (LR1)*

LR3 noted that the personal development plan promised by the company should be realized within two to three years, otherwise the trust between the company and employees will be damaged. Providing comprehensive training in professional skills, which is not as material as the financial incentives noted above, proved to be highly valued.

*It is more important that the company... gives you opportunities to develop yourself. [...] If... your staying at the company is just like staying at school, you not only work but also can study and improve yourself, you certainly won't leave. (TR5)*

Next in importance to these incentives are improved welfare, such as paid annual holidays, medical care, shuttle buses to and from work, canteens, tours, a care system for the employees' family and children, etc.; opportunities for employees to move laterally to positions of interest; and the possibility of moving to more convenient working locations. These incentives seem relevant to human concern, which is consistently valued at FB as a corporate culture inherited from FA. TR1 said:

*There certainly should be human concern. No matter how high the salary you give him, if you don't treat him well, he won't [work with you...] Not everybody wants only money. People need emotional communication, they need to feel that the company's environment is harmonious and relaxed. [...] People want happiness, they want to work happily. (TR1)*

The above findings suggest that providing comprehensive training and showing human concern were used as strategies for talent retention. In light of the great importance respondents ascribed to a relationship-focused leadership style and incentives showing human concern, we formulate the following proposition:

*Proposition 3f (P3f): A relationship-focused leader attaches great importance to providing incentives that show human concern, thereby exerting a positive influence on successful talent retention.*

In light of the great importance respondents ascribed to a coaching leadership style and to comprehensive training, we formulate the following proposition:

*Proposition 3g (P3g): A coaching leader attaches great importance to employees' training programs, thereby exerting a positive influence on successful talent retention.*

## **Conceptual framework with propositions**

Based on the findings presented in the preceding sections, we extended our conceptual framework with specific propositions, as shown in Figure 2. The first proposition suggests that authoritative, coaching, task-focused, and relationship-focused styles are the ones that respondents claimed to be successful and applicable in post-M&A integration in Chinese firms (P1). The second proposition suggests that talent retention exerts a positive influence on the effectiveness of post-M&A integration in China (P2). The third proposition suggests that leadership styles affect talent retention (P3).

---Please Insert Figure 2 about here---

Due to the variations in the strategies employed by leaders with different leadership styles, we have formulated specific propositions relevant to the four leadership styles. Leaders pursuing task-focused leadership styles use position (P3a) and performance (P3b) to identify and retain talented employees. In contrast, leaders adopting relationship-focused leadership styles employ the *guanxi* network (P3c), communication (P3d), and an incentive structure (P3f) as strategies for identifying and retaining talented employees. Whereas authoritative leaders use communication with employees, leaders pursuing coaching leadership styles use incentives as a strategy for retaining talented employees.

## **Discussion and implications**

### **Effect of leadership style on post-M&A integration**

Findings indicate that authoritative, coaching, task-focused, and relationship-focused leadership styles are appropriate for achieving effective post-M&A integration in China. Autocratic, empowering, democratic, and pacesetter leadership styles were found to be inappropriate during post-M&A integration in China.

An authoritative leadership style contributes to effective post-M&A integration in two ways. First, authoritative leaders assist employees in understanding the vision and objectives of the

company (Goleman, 2000; Strange and Mumford, 2002) by clearly communicating and sharing the relevant information at annual and regular meetings. Keeping employees informed about the vision and objectives of the company contributes to the stability of the workforce, that is, to talent retention, which in turn contributes to effective post-M&A integration. Second, authoritative leaders attempt to serve as role models for employees, which reduces confusion and ambiguity regarding the newly established work practices at the early stages of post-M&A integration. Moreover, authoritative leaders provide explicit instructions to employees about the tasks they are required to perform in order to achieve smooth post-acquisition integration. Therefore, the authoritative leadership style may be appropriate during the post-M&A integration in China.

A coaching leadership style was also found to be effective in China. Coaching leadership assists employees in improving the skills and competences required to perform well in the combined firm. Therefore, a coaching leadership style has a positive effect on the motivation and performance of employees, which in turn enhances the effectiveness of post-M&A integration. Moreover, a relationship-focused leadership style exerts a positive influence on the effectiveness of post-M&A integration and can build team harmony, increase morale, and improve communication.

We found that a task-focused leadership style is also appropriate in China. According to earlier studies, task-focused leadership emphasizes tasks as well as clear goals, rules, processes, and procedures (Brousseau et al., 2005). In this study, the vast majority of respondents indicated that when working with employees, leaders always focus on tasks and goals, and attach great importance to rules and workflows. Findings indicate that leaders emphasize the need to establish rules and workflows during the post-M&A integration in China. This finding is consistent with Brousseau et al. (2005), who suggest that Chinese leaders showed a markedly greater inclination to use task-oriented styles than their western counterparts.

### **Effect of talent retention on post-M&A integration**

The findings of the study indicated that talent retention was considered by respondents to be one of the significant factors affecting the success of post-M&A integration in China. Leaders tend to avoid dismissing employees in the acquired Chinese firm immediately after the

acquisition. To be consistent with the pre-M&A tradition of the acquired firm, the acquiring firm adopts a humane approach in employee management because the stability of HR after the M&A deal is considered to be a significant factor in the success of post-M&A integration. Therefore, in China, talent retention has been found to exert a positive influence on post-M&A integration.

### **Effect of leadership style on talent retention**

The study found that leadership style has a significant effect on talent retention during post-M&A integration. An overwhelming majority of respondents indicated that the employee's decision to stay with the company is generally related to a great extent to leadership style. Most respondents indicated that the replacement of a leader is likely to result in loss of talent in the leader's team if team members do not accept the new leader's style.

Various leaders employed a range of strategies to identify and retain talented employees in the acquired firm. Task-focused leaders tend to emphasize retaining talent in key *positions* because it can be crucial for the stability of the newly formed firm during post-M&A integration. Task-focused leaders identify and retain strategically important *positions* that contribute to the competitive advantage of the firm. Moreover, task-focused leaders tend to differentiate talent based on performance, thereby exerting a positive influence on talent retention. However, our findings suggest that performance appraisal should be moderate in order to avoid unnecessary pressure on employees, and the outcome of the review should be communicated to employees directly and not made public. Making performance reviews public can result in deep injury to the employees' *mianzi* or pride. Employees performing below the expected standards should not be dismissed immediately. Rather, the employee's contribution should be assessed comprehensively; many respondents emphasized especially the employee's honesty and loyalty to the company. Further, poor performers should be given a second opportunity.

Leaders who adopt a relationship-focused leadership style tend to use the *guanxi* network as a strategy for identifying and retaining talented people. Consistent with earlier research (e.g., Wong and Leung, 2001), the *guanxi* network or employee relationships with customers, distributors, and suppliers are crucial resources in China. Therefore, employees with a *guanxi* network should be identified and retained. In this study, however, relationship or *guanxi* with

government at various levels was not found to be important. Contrary to prior research (e.g., Chen and Tjosvold, 2006), we found *guanxi* with government to be insignificant if the operation of the acquired Chinese company is not directly affected by the government or if the acquired firm is located in an economically developed area of China.

Relationship-focused leaders also communicate privately with employees whom they decided to retain. Consistent with prior research (e.g., Wong and Leung, 2001), private communication was found to be important for talent retention in China. Furthermore, leaders practicing a relationship-focused leadership style tend to provide incentives in the form of improved welfare such as paid holidays, medical care, and a care system for the employee's family. These incentives, inherited from the parent company and implemented in the acquired Chinese firm, exerted a positive influence on talent retention.

Consistent with Hodges (2008), authoritative leaders tend to communicate with talented employees about company goals and strategies when they decide to retain these employees, thereby exerting a positive influence on successful talent retention. We found that if the leaders decide to retain an employee, they keep him/her informed about changes expected in the firm after acquisition. Communication of this type motivates employees and reduces employee turnover.

Leaders who adopt a coaching leadership style tend to attach importance to incentives in the form of employee development, such as training programmes, thereby exerting a positive influence on successful talent retention. Employees valued highly the incentives in the area of personal career development, such as comprehensive training, which increased their motivation to stay with company. To maintain the trust between the company and employees, the personal development plan should be implemented within two or three years of promising such incentives.

## **Conclusion**

It is noteworthy that the success of post-merger integration is one of the key measures of success because this is critical to the enhancement of overall M&A performance (Ahammad & Glaister, 2011; Almor, Tarba, and Benjamini, 2009; Lakshman, 2011; Sarala, 2009; Sarala and

Vaara, 2010; Weber, Reichel, and Tarba, 2009; 2011; Weber, Tarba, and Rozen Bachar, 2011). The leadership and talent retention are critical people-related themes in post-M&A integration, but the extent to which these factors interact with each other and contribute to the success of post-M&A integration is under-researched.

The aim of our paper was to explore the effect of leadership styles on talent retention strategies and on the effectiveness of post-merger integration in China. The findings of our study show that authoritative, coaching, task-focused, and relationship-focused leadership styles are appropriate for accomplishing an effective post-merger integration in Chinese context. Specifically, autocratic, empowering, democratic, and pacesetter leadership styles have been found to be unsuitable during post-merger integration in China. As far as talent retention strategies are concerned, authoritative leaders use communication, whereas leaders adopting a coaching style use an incentive structure to positively influence talent retention. Furthermore, task-focused leaders use position and performance in order to identify and retain talented employees. By contrast, relationship-focused leaders emphasize the *guanxi* network, communication, and an incentive structure in their strategies of talent retention.

As is typical of the case study approach, the generalizability of the findings in this study may be limited because the study involved only one M&A case. Also, because of the specific corporate cultures of FA and FB the findings may not be generalizable to other M&A cases. Future empirical studies applying statistical tests to a large sample of M&A deals could further investigate the aspects of Chinese M&As that have been examined in this study and in particular it would be beneficial to empirically test the propositions developed in this paper.

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**Table 1: Respondent and interview details**

<b>Respondent code</b>	<b>Company</b>	<b>Position</b>	<b>Date of interview</b>	<b>Interview duration (minutes)</b>
LR1	FA	CFO of Greater China Region	17/8/2011	63
LR2	Transferred to FB from FA 1.5 years after the acquisition	At FA: Production Manager At FB: President	06/09/2011	77
LR3	FB	VP	07/09/2011	74
LR4	FB	Financial Manager	07/09/2011	46
TR1	FB	Financial Manager	06/09/2011	44
TR2	FB	Engineer	07/09/2011	38
TR3	FB	Production Team Leader	07/09/2011	58
TR4	FB	Sales Representative	07/09/2011	56
TR5	FB	Sales Representative	07/09/2011	58

**Figure 1 - Conceptual framework**

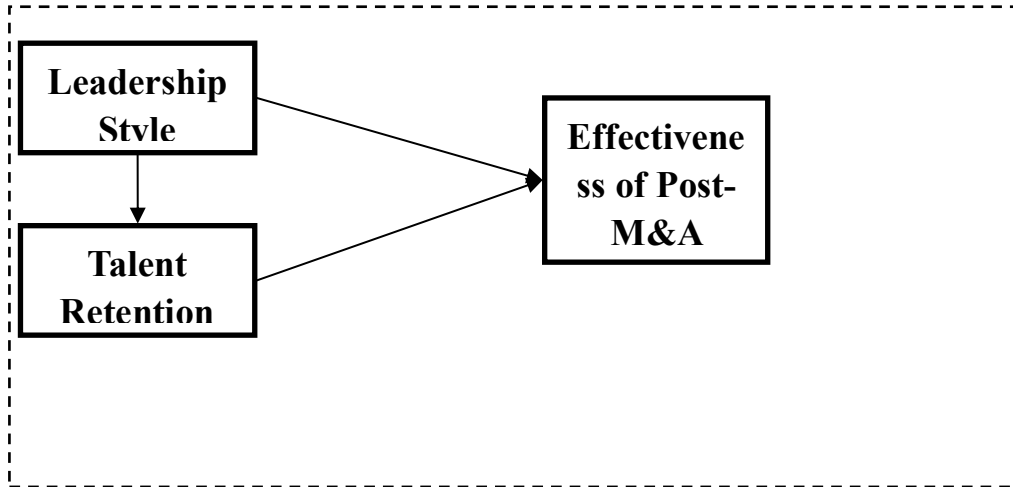


Figure 2 - Conceptual framework with propositions

