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Article:

Nicholson, R.R., Khan, Z. and Stokes, P. (2016) Making great minds think alike: Emerging market multinational firms' leadership effects on targets' employee psychological safety after cross-border mergers and acquisitions. *International Business Review*, 25 (1). pp. 103-113. ISSN 1873-6149

<https://doi.org/10.1016/j.ibusrev.2015.09.007>

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Making Great Minds Think Alike: Emerging market multinational firms' leadership effects on targets' employee psychological safety after cross-border mergers and acquisitions

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Abstract

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

research finds evidence of target country differences in terms of the effect of EMNEs' leadership on EPS and limited evidence of such effect for acquirer nationality differences.

Keywords: employee psychological safety, leadership, Emerging market multinational firms, M&As, India, China

Highlights

1. We examine the impact of leadership on targets' employee psychological safety (EPS)
2. The cross-border M&As by Indian and Chinese companies is the context of this study
3. The leadership visibility has no impact and the leadership trust has positive effect on the EPS
4. The deal status has a moderating effect on the leadership visibility and positively affect the EPS
5. There is evidence of target country differences in terms of the effect of leadership on EPS

1. Introduction

Mergers and acquisitions (M&As) have received a great deal of news and academic coverage, and most of the M&As fail to accomplish their set objectives (e.g., Cartwright & Schoenberg, 2006; Schoenberg, 2006). Human side factors have been reported to be one of the major causes behind the failure of M&As (Cartwright & Cooper, 1993), and recently scholars have focused on the human side of M&As (Cartwright & Cooper, 1993; Gomes, Weber, Brown, & Tarba, 2011; Haleblian, Devers, McNamara, Carpenter, & Davison, 2009; Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001; Rees & Edwards, 2009; Stahl, et al., 2013). These studies have elucidated the human side of the M&As by focusing on the underexamined influential human factors within organizations involved in these deals such as a fit between the organizations' cultures, similarities between their management styles, cultural tolerance within their organizations and emotions (Sinkovics, et al., 2011; Gunkel, et al., 2015). Recent literature has also examined the stress experienced by the employees during and after the M&As (Ager, 2011; Ashton-James & Ashkanasy, 2008; Huy, 2012; Wilderom, et al., 2011). These emotive moments in the M&As' initiation, conduct and conclusion can deeply influence the emotional state of the target organizations' employees as well as the overall performance of M &As.

The M&As integration process is inherently more complex involving cross-border acquisitions (Aguilera & Dencker, 2004; Buckley, 2010). The national context of the targets and acquirers can greatly influence the outcomes of such process (Rottig, 2013; Weber & Tarba, 2013), and create different emotional challenges for the targets' employees. The cultural distance and its impact on cross-border M&As has been acknowledged (Rottig, Reus, & Tarba, 2014). The gap exists in the works on M&As' success and failure so these studies do not sufficiently engage with the human resource- related issues that might explain some of the high failure rates of cross-border M&As (Aguilera & Dencker, 2004; Capron, 1999; Gunkel, Schlaegel, Rossteutscher, & Wolff, 2015; Öberg & Tarba, 2013; Rees & Edwards,

2009). In spite of the growing interest around the human side of the M&A activity, the research on the human side of M&A integration and the emotional fallout of the M&A activities is still in its infancy (Gunkel, et al., 2015; Sinkovics, et al., 2011). Also, the contemporary research in this area is still mostly focused on the M&As by the developed market companies (Rottig, et al., 2014) and there is limited research on the post-integration process of the emerging market domestic firms and multinational enterprises (EMNEs) (Yipeng & Ping, 2014; Zhang, et al., 2015).

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

competitors (Peng, 2001). The EMNE leadership during M&A negotiations and during the post-integration phase has to demonstrate a degree of openness and willingness to engage with the targets' employees as well as develop trust for the acquirers' motives and processes in the targets' employees' minds (Rottig, 2013). This style of leadership will produce positive post-M&A environment and help EPS climate within the target organization.

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

Based on the above, this paper aims to answer a key question – how does EMNEs' leadership impacts the target employees' psychological safety after a cross-border M&As? By examining the impact of leadership on the employee psychological safety in the context of an EMNE M&A, the study makes three key contributions to the literature. First, earlier

research has typically focused on the cross-border M&As by the developed country companies (Larsson & Lubatkin, 2001; Luo, et al., 2002; Nemanich & Keller, 2007), although this prior research considers the effects of foreignness it does not provide evidence on the liability of the country of origin and its impact on the post-acquisition integration process and EPS. We aim to complement existing research and understand how EMNE leadership during the post-acquisition process can impact the EPS. Second, the status of the deal from the perspective of the employees' is very pertinent for the success of the post-deal integration (Yildiz, 2015). The leadership has the ability to influence the perception of deal status (Zhang, et al., 2015), and similarly, the status of the acquirer and the impressions in the minds of the employees about the deal status can moderate the affect of the leadership. Thus, deal status can moderate the effect of leadership visibility (negative or positive) on EPS. Lastly, by examining the deals from two large emerging markets, India and China, and considering their deals in other emerging markets as well as developed markets, we provide a greater degree of generalizability of our findings. The EPS conditions observed in EMNEs' acquisition in other emerging markets might be different from the EPS circumstances observed in developed markets. This provides us an opportunity to complement as well as extend the theory on EPS in EMNEs' cross-border M&As context.

2. Theory and hypothesis development

2.1. Employee psychological safety during EMNEs' M&As

The psychological safety in the psychology literature refers to employees' views of the results of taking interpersonal risks in their work environment (Edmondson, Kramer, & Cook, 2004). In this context, the employees are said to experience psychological safety since they are free to be themselves and take decisions freely that can in other situations create job insecurities and negative spillovers on image, career and status. In our study, the psychological safety is derived from the employees' experience of the M&A process. The

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

2.2. Context of EMNEs, Leadership in EMNEs and EPS after cross-border M&As

The psychological safety within an organization is significantly driven by the values espoused by the top management and the beliefs reflected in the managerial actions (Hall, Dollard, & Coward, 2010). The leadership in EMNEs might be different than those observed in the western context, since some of the underlying principles of transformational leadership, which was predominantly developed in the west, might seem incompatible with the collective cultures like those in India, Africa and China or socialist states like those in Eastern Europe and earlier Soviet Union (Walumbwa, Wang, Lawler, & Shi, 2004). The worker and manager relationship is inherently different in the collective and hierarchical system (Hofstede, 1984). Yet, for example, the Chinese managerial culture with its grounding in the Confucian values and paternalistic leadership can be authoritative on one hand and benevolent on the other (Walumbwa, et al., 2004). The benevolence in managerial outlook takes into consideration the welfare of subordinates, and this is especially relevant in the context of M&As for the target companies' employees who might be experiencing situational uncertainties during the post-integration process.

The studies linking psychological safety of the employees and their health outcomes are highly correlated to the wealth of the country and the social inequalities within a country (Dollard & Naser, 2013). The Eastern European countries demonstrated lower worker health outcomes and EPS as compared to the Western European countries. According to Dollard and Naser (2013), presence of strong unions will also have better EPS outcomes for employees. Thus, EMNEs will need to engage with unions in their host countries and experience cross-national differences (Ebbinghaus, 2002). The developed host countries like Sweden and other Nordic countries still have presence of strong unions, while other countries like Britain and the USA have seen de-unionizations over the last 50 years. The EMNEs themselves operate with differing levels of union presence in their home country, limited or no active union presence in countries like China, Thailand to active unionism in countries like Brazil and

India. In fact, only recently China has seen the development of some regulations to implement the “collective wage consultations” and “dispute coordination and management” (Zhu, Warner, & Feng, 2011). The differing levels of engagement with unions in their home country and prior learning from union engagement will equally moderate the EMNEs view of unions in the host countries. Thus, the leadership in EMNEs will face challenges during integration from the perception of their country of origin as well as the process of engagement with local unions that could adversely affect EPS.

The differences in the target’s and acquirer’s culture, both national and organizational, will have negative impact on the legitimacy of the M&A (Rottig, et al., 2014). Thus, the EMNEs’ leadership will have to work closely with both the inside and outside stakeholders in order to establish cultural legitimacy. The benefits of the host country cultural legitimacy are twofold, one, it creates an environment of stability for the target’s employees, and two, helps develop local organizational legitimacy for the acquirer (Rottig, 2013).

2.3. Leadership visibility

The leadership visibility, marked by an active engagement of the top management in the acquisition process, is very important to build the legitimacy of the acquirer in the minds of the target’s employees (Rottig, 2013). The proactive leadership will engage with local stakeholders, including employees, to build a positive image of the M&A activity and help resolve any issues causing the employees’ to withhold their approval and support for the acquirer’s management team. This is especially relevant for the EMNEs, as they will need to build confidence towards the EMNE’s top management team, which might typically be unknown to target’s employees, as well as create foundations for psychological and emotional commitments from the target’s workforce. The failed acquisition move of the Dubai Port’s World of the US port management business is an interesting case in point

(Rottig, 2013). The perceptions of the cultural differences and the political interferences in the M&A activities in the host economies need to be effectively managed by the acquirers.

Also, openness in the organizational matters, including the restricting activities within the target company can influence the employees' engagement with the acquirer (Angwin, Mellahi, Gomes, & Peter, 2014). This is especially true in the case of developed countries, since prior research has argued that most EMNEs' acquisitions in the developed markets are geared towards high-technology and talent acquisition (Sun, Peng, Ren, & Yan, 2012). The highly skilled employees might expect higher degree of autonomy (Ahammad, Glaister, Weber, & Tarba, 2013) and provisions for continued autonomy in the merged company might provide required EPS to these employees. The leadership in the Chinese context tends to use open communication as a means to develop post-acquisition credibility and retain talent within the target companies (Zhang, et al., 2015). EMNEs can also use this strategy in host countries to build their credibility and commitment to their foreign operations (Shen, 2006) and retain local talent. This is especially pertinent since it has been found that EMNEs find it difficult to assemble international management teams that are well-versed in the local business environment as well as local organizational competencies (Shen, 2006). Thus, leadership visibility through proactive engagement with the local stakeholders, employees and their unions, and openness in communications will greatly impact the credibility of the EMNEs (Appelbaum, Lefrancois, Tonna, & Shapiro, 2007b) and higher these activities by the acquiring EMNEs higher is the EPS experienced by the target companies. Thus, we propose:

Hypothesis 1: The acquiring EMNEs' leadership visibility is positively associated with the target workforces' employee psychological safety.

2.4. Leadership trust

Another element important to the integration process and potentially for the employees' emotional state is the trust within an organization towards the leadership and acquirer's motivation for acquiring the particular target (Sinkovics, et al., 2011; Weber, Drori, & Tarba, 2012; Yildiz, 2015). The employee turnover and employees' stress and emotional cost in the post-acquisition period can be effectively mitigated by active engagement of the employees in the target company by the top leadership of the acquiring company (Stahl, Larsson, Kremershof, & Sitkin, 2011). The leadership observed during the M&A integration process can determine the human cost of the M&A activity (Zhang, et al., 2015). The cultural distance between the EMNE acquirer and target countries imply that leadership of the acquirer companies need to find some common goals and processes to make effective transition from two independent organizations to one single entity (Appelbaum, Lefrancois, Tonna, & Shapiro, 2007a). The EMNEs will suffer from both liability of foreignness as well as liability of country of origin (Cartwright & Price, 2003; Elango & Sethi, 2007; Harvey, et al., 2005; Lee & Lee, 2011; Luo, et al., 2002; Moeller, et al., 2013; Stevens & Shenkar, 2012; Zaheer, 1995). The national context of the acquirer can greatly affect the level of trust that target's employees place on the acquirer companies (Rottig, 2013; Stahl, Chua, & Pablo, 2012).

In the Chinese context, the leadership style can influence the trust in the acquirer organization and help in talent retention after the M&A. In this context, typically, the relationship-focused, authoritative, coaching, and task-focused approach has a positive influence on talent retention in Chinese deals. The differences in these leadership approaches will also determine the process adopted by these managers to retain and develop the employees' talent within the target company. In their domestic acquisitions, the Chinese companies tend to demonstrate a leadership that is nurturing and paternalistic towards their target's employees (Zhang, et al., 2015), and can help in the EPS after acquisition. This type

of leadership is likely to build trust in the top management of the acquirer. And porting this management style to their foreign acquisitions is likely to benefit post-acquisition integration. Yet, some of these approaches might not be easily transferred from the emerging market context to developed countries companies (Shen, 2006). By building leadership trust in the mind of the target's employees gives the EMNEs an opportunity to successfully engage in post-M&A integration and positively influence the EPS. The trust in leadership's ability, integrity, reputation to deliver and value congruence between the acquirer's and target's managerial structure can all positively impact the EPS (Rottig, 2013). Thus:

Hypothesis 2: The acquiring EMNEs' leadership trust is positively associated with the target workforces' employee psychological safety.

2.5. Leadership visibility and the status of deal

The takeover misgivings are greatly manifested by lack of information and proactive information dissemination by the acquirer company (Appelbaum, et al., 2007a; Rottig, 2013). This is especially pertinent in the case of the EMNE M&As where cultural issues and national stereotypes can create stressful situations in the target companies (Appelbaum, et al., 2007b; Rottig, 2013; Rottig, et al., 2014). In case of the friendly takeovers by the EMNEs, the takeover friendliness experienced at the level of top managers and company boards needs to be filtered down to the level of the employees otherwise information paucity can create grapevine news factory which might be detrimental to the post-M&A integration (Sinkovics, et al., 2011; Stahl, et al., 2011). In hostile takeovers situations, the EMNEs' leadership visibility in form of information exchanges and clear communications can dispel any animosity or misgivings in the minds of the employees. This proactive engagement with the target's employees can reduce and limit damage from the hostilities during the pre-M&A stage. Yet, the impact of the deal's perception and the underlying psychological issues experienced by the targets' employees might be hard to mitigate, especially in the cross-

border M&As which are typically laced with cultural challenges. Thus deal status moderates the impact of the leadership visibility on the EPS in the target's employees' minds and improve the EPS during the post-M&A period.

Also, power differential between the target and the acquirer can create problems during the post-M&A period and reduce the EPS in the target firms. Similarly, the differences in target and acquirer sizes and relative firm performances can generate target employees' dissatisfaction of the M&A. If relatively smaller EMNE acquires a larger company in the developed economy, the target employees' responses might be dotted with negativity towards the EMNE. This is equally true in the domestic M&A, what makes it salient for cross-border M&As is the fact that other stereotypes and cultural biases might be in play at the same time making it harder for EMNEs to manage the post-M&A integration process. The proactive and openness in communication between the target and the acquirers can greatly reduce these integration issues and improve the EPS. This argument is equally true if an unknown EMNE buys a popular brand in the developed or developing economies, the national pride of the employees and their suspicion towards a foreign unknown acquirer can influence their EPS. Removing information asymmetries through leadership's constant communication and engagement with the target's employees can greatly reduce these issues and improve the employees' EPS. For example, in case of Chinese and Indian M&As in lesser developed countries, the expectation of positive synergies might drive the impact of leadership visibility. Hence, in this case, we might expect the positive effect of the deal status on the leadership visibility. So, we argue that the impact of status on the leadership visibility is not negligible and will moderate the affect of the leadership visibility:

Hypothesis 3: The leadership visibility of the acquiring EMNE firm will be moderated by the effect of the deal status and is positively or negatively associated with the target workforces' employee psychological safety.

3. Research Methodology

The propositions are tested using the case survey method used in the work of Larsson (1993). This type of integrative research review method has also been seen in other works (Cooper, 1984; Yin, 1981; Yin & Heald, 1975). In this method, the case studies are collected and classified based on some prior agreed criteria and are used to generate statistical analysis (Bullock & Tubbs, 1990; Jauch, Osborn, & Martin, 1980; Larsson & Finkelstein, 1999). The process of creation of case database is as follows – first, based on the research question, select case studies which are pertinent to this research work, second, develop a coding technique to systematically convert the qualitative case study material into quantitative data, third, apply multiple raters to code the information in the cases and calculate the interrater reliability, and finally, statistically analyze the coded material (Larsson, 1993).

In situations where experimental designs are costly or difficult to develop and implement and large – surveys are problematic, case survey method is a powerful way to identify broad range of conditions and capture wide variety of patterns in real-time situations. This method allows for analysis and coding of case material which allows for statistical testing and generalization of findings. The prior research provides ample evidence of the quality and rigor of the method used in this paper and has been used to investigate complex organizational processes (Larsson & Finkelstein, 1999). The case studies on M&As provide a rich set of information, mostly in the longitudinal format which allows for coding of various elements that define the integration process within the target and acquirer companies. The case studies can contain rich description on the social, cultural, and human resources issues involved (Larsson & Lubatkin, 2001). Nevertheless, the validity of this method is limited by the quality, non-random selection of case studies and procedural issues during coding process from simplification of cases (Larsson & Finkelstein, 1999).

3.1. Sample

The focus of this study is on the EMNEs which have engaged in rapid internationalization over the last few years (Boateng, Qian, & Tianle, 2008; Huang & Renyong, 2014; Kohli & Mann, 2012; Ning, Kuo, Strange, & Wang, 2014; Wang, Hong, Kafouros, & Boateng, 2012; Zhang, Zhou, & Ebbers, 2011). We focus on the two largest emerging economies in this study, namely, China and India, which provide an interesting context for research. These two economies provide rich variations in terms of domestic institutional environment for their internationalizing firms (Buckley, Forsans, & Munjal, 2012; Hemphill & White, 2013; Kohli & Mann, 2012; Nayak, 2011; Nicholson & Salaber, 2013; Wang, et al., 2012), industries that engage in outward investment (Nair, et al., 2015) and we also observe variance in terms of social, cultural and psychic distance (Contractor, Lahiri, Elango, & Kundu, 2014; Hofstede, 1984).

In order to ensure quality of the cases and prevent sample bias, we used computerized searches as well as manual searches of published cases. The searches were done on the following databases - Business Source Premier, JSTOR, HBR cases, and direct searches for cases were done using Google search engine. More than 100 cases were identified through this process and 30 cases were selected after they were screened for relevance. To be selected for this study, the case study had to be a real-life case, covered the post-integration period, and tackled issues with regards to HR practices and HR management systems in the post-M&A context. We also considered cases studies based on Fortune articles since in past it has been argued that even cases from such sources which are not considered robust enough have been successfully used for research purposes (Larsson & Finkelstein, 1999). Most of the case studies were between 10-25 pages in length. Also, for case data reliability, we triangulated the information where possible using information from other sources like the newspaper articles and material on company website. Appendix A provides the details on these case studies.

We used the coding method discussed in Larsson and Lubatkin (2001), Larsson and Finkelstein (1999), and Larsson (1993). We also used items developed in this earlier literature for coding our cases. Each variable was measured by using 6- point scales to maximize the amount of information captured through coding, with interrater reliability serving as a quality constraint. All cases were coded by at least two independent raters. Using process observed in other studies (Larsson, 1993; Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001; Neuendorf, 2002; Stahl, et al., 2011), we agreed that Intraclass Correlation Coefficient .70 can be considered satisfactory and those above .80 good. The details on various indicators are provided in Appendix B.

3.2. Dependent variable: Employee Psychological Safety (EPS)

The psychological safety experienced by an employee in their job will change after an M&A event. The accompanying emotional issues could potentially lead to decreased motivation, lower job satisfaction and changed commitment towards the company. We measure the employee psychological safety in terms of their satisfaction to their job safety and *remuneration* safety (Rottig, 2013) (Cronbach's $\alpha = 0.99$).

3.3. Explanatory variable

Leadership visibility (H1) consisted of three items and was measured with 6-point scales from low = 0 to high = 5. *These* three items, Proactive engagement, Engagement with target's employees and Openness, were collapsed into one index (Cronbach's $\alpha = 0.88$).

Leadership trust (H2) consisted of four items and was measured with 6-point scales from low = 0 to high = 5. These four items, Ability, Integrity, Reputation and Value Congruence, were collapsed into one index (Cronbach's $\alpha = 0.93$).

3.4. Other factors

Status consisted of four items and was measured with 6-point scales from low = 0 to high = 5. This index measures the deal responsiveness by the employees based on the deal characteristics (Cronbach's $\alpha = 0.88$).

Integration consisted of three items and was measured with 6-point scales from low = 0 to high = 5. The items used to measure the integration process are derived from prior literature (Angwin, et al., 2014; Liu & Woywode, 2013) (Cronbach's $\alpha = 0.72$).

Cultural similarity consisted of two items and was measured with 6-point scales from low = 0 to high = 5. This index measures the degree of similarity in management style between the two organizations involved in the M&As (Cronbach's $\alpha = 0.74$).

Developed market is a dummy variable that takes value one if the target belonged to developed country (as classified by the OECD) or zero in other cases.

The conceptual model of influences of various factors on employee psychological safety during M&As is shown in Figure 1. The leadership visibility and leadership trust will impact the employee psychological safety directly, whereas, the leadership visibility will moderate the influence of the deal status on the employee psychological safety. The other factors that can impact the employee psychological safety are host country origin, integration process and cultural similarity between the target and acquirer companies (Stahl, et al., 2011).

[Insert Figure 1 here]

4. Results

Table 1 presents the descriptive statistics and Pearson correlation between the key variables. As seen from the table and as expected by prior literature (Larsson & Lubatkin, 2001) we observe high correlation between some of the explanatory variables. These high correlations indicate that multicollinearity might be an issue with our calculated estimates. We take this into account while discussing our results. Nevertheless, the correlation coefficients indicate that leadership visibility and leadership trust variables are highly

correlated, which indicates that these variables are likely to influence each other. Thus, more visible the leadership actions more likely it will improve the trust in leadership and vice versa. Similarly, visible leadership and trust in leadership during M&A will also impact positively the status of acquirer and its relationship with the target company. Integration is also associated with high leadership visibility, trust in leadership and status.

[Insert Table 1 here]

The results of our analysis are presented in Table 2. Column (1) presents the results of our baseline model and contains only our control variables. We observe that status has a negative effect on EPS and integration has a positive effect on EPS. We argue that status of the acquirer, proxied by variable status, captures the negative sentiment observed in the deals by EMNEs. These negative sentiments can manifest from lack of understanding of the EMNEs' strategy as well as preconceived notions of EMNEs. Some employees might be concerned that EMNEs' major motivation for acquisition might be to absorb technology and offshore production to low-cost home countries. Though not completely baseless, this view of the M&As by EMNEs might make it difficult for managers to improve the average EPS in target companies. From Column (2) we see that albeit positive the leadership visibility has no significant impact on EPS. The results in Column (3) show that trust embedded in the acquirer leadership will have a positive impact on the EPS. Though palpable, this result is important since it reiterates and reinforces the argument that trust building activities carried out by the top management can engender companywide trust and improve the EPS in the target company. The result in Column (4) shows that status has a moderating effect on the leadership visibility thus leading to positive and significant impact on EPS. Thus, it can be argued that though status of the acquirer, being an EMNE company, might bias the view of the employees, there is a possibility that visible, proactive, and open leadership by the acquirer company can mitigate this negativity in the employees' minds. Thus, visible

leadership during the M&A process can improve the status of the EMNEs in the eyes of the employees and improve the EPS. The Column (5) presents the combined model with all the three explanatory variables together and we observe that our results hold in this case as well.

[Insert Table 2 here]

Among the controls, the status of the deal has a negative effect on the EPS in deals carried out by the Chinese acquirers, and at the same time, the cultural similarity between the target and acquirer has positive influence over the EPS in the Chinese deals. For Indian deals, we observe that integration process followed after the M&A has a positive and significant effect on the EPS.

5. Discussion and Conclusion

There has been an increase interest in research on M&As and most of the extant literature has focused on understanding the performance related outcomes of such deals. Research also noted a high failure rate of cross-border M&As, and people related factors have been noted to play a major role behind the success and failure of M&As, and recently scholars have suggested to pay more attention to the human side of M&As (Cartwright & Cooper, 1993; Gomes, et al., 2011; Haleblian, et al., 2009; Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001; Rees & Edwards, 2009; Stahl, et al., 2013). People related issues gain centre stage especially when acquisition takes place between firms from different countries, as the cross-border integration is more complex compared to the domestic acquisitions (Aguilera & Dencker, 2004). despite the surge in M&As related research, the people management side of the cross-border M&As is still at the early stage (Gunkel, et al., 2015; Sinkovics, et al., 2011). There has also been limited investigations on the human side issues involving firms from the emerging economies (Yipeng & Ping, 2014; Zhang, et al., 2015). Above all, there has not been any systematic investigation undertaken on the role of leadership in the post M&As integrations, as it can affect employees well-being when organizations from different setting come together (Zineldin & Hytter, 2012) as well as

employee psychological safety (Gunkel, et al., 2015; Nemanich & Keller, 2007). The leadership role becomes more important in cross-border deals due to greater cultural distance (Vasilaki, 2011a), as it could affect the psychological safety of the employees in the post-merger or acquisition stage (Chung, Du, & Choi, 2014). Moreover limited attention has been directed towards understanding the impact of leadership of the acquirer firm on the psychological safety experienced by the employees of the target during the acquisition process. In this paper, we present the interesting context of EMNEs acquiring the developed and developing-economy targets and examine employees psychological safety. We observe that visible and open leadership has a limited impact on the employees psychological safety and one argument for this could be that employees in the target firms might experience negative emotions from a vocal EMNE leadership especially if the narrative presented by the acquirers' demonstrates potential loss of autonomy for managers and employees in the target company. This effect is considerably strong for the targets in developed economies, which further support our argument that employees in developed economies might find it difficult to psychologically reconcile leadership from EMNEs. Examples of post-acquisition integration challenges like that of Tata-Corus and Sun-Taro Pharmaceuticals demonstrate the flashpoints that EMNEs' M&As in developed economies can generate.

Our findings indicate that the trust in leadership will have a positive effect on the employees psychological safety and this effect is important for generating employees psychological safety in the developing economies M&As by EMNEs. The trust in leadership ability and leadership's integrity and reputation is essential to engender positive psychological climate within an organization and leadership that invests in the activities that develop these characteristics and provides evidence of value congruence between the acquirer and target to employees are likely to do well in the post-M&A integration stage.

Our study makes three key contributions to the limited literature on employees psychological safety and how it is shaped during post M&A integration phase by leadership visibility and trust and what are the key moderators that influence employees psychological safety: (1) earlier research has mainly focused on the cross-border M&As by the developed country companies (Larsson & Lubatkin, 2001; Luo, et al., 2002; Nemanich & Keller, 2007), although this prior research considers the effects of foreignness it does not provide evidence on the liability of the country of origin and its impact on the post-acquisition integration process and employees psychological safety. This study complements existing studies and examines how EMNE leadership during the post M&As integration can impact employees psychological safety. Some of the recent research has focused on human side related issues such as emotions (Sinkovics, et al., 2011), impact of management practice, cultural norms and values on employees emotions during M&As (Gunkel, et al., 2015). This study extends these findings to the context of EMNEs by integrating leadership visibility and trust related antecedents and employees psychological safety during M&As integration stage. (2) the status of the deal from the perspective of the employees' is very pertinent for the success of the post-deal integration (Yildiz, 2015). The leadership has the ability to influence the perception of deal status (Zhang, et al., 2015), and similarly, the status of the acquirer and the impressions in the minds of the employees about the deal status can moderate the affect of the leadership on employees psychological safety. (3) lastly, we examine the M&As deals from two large emerging markets of India and China, and investigate these deals in other emerging markets as well as developed markets, thus by so doing the study provides a greater degree of generalizability.

Overall, we contribute to the emerging literature focusing on understanding the people management related issues in cross-border M&As (Gomes et al., 2011; Sinkovics et al., 2011, Stahl et al., 2013, Gunkel et al., 2015), especially we illuminate the important role

of leadership in facilitating cross-border post M&As integration and employees psychological safety involving EMNEs. These findings have important implications for the wider literature investigating the motives and behavior of EMNEs and how these firms establish legitimacy in host markets (Kedia, Gaffney, & Clampit, 2012; Madhok & Keyhani, 2012). Our study provides important insights on the key role of leadership in enhancing post M&As integration and enhancing the legitimacy of EMNEs in host markets.

Managerial implications

Our findings offer several implications for managers. First, our findings provide important insights to managers about important variables affecting employees psychological safety during post M&As integration. Second, our results suggest that trust in the leadership plays an important role in overcoming employee psychological safety during the post M&As integration involving EMNEs acquirers. Positive employee psychological safety will greatly enhance the post M&As integration, thus managers need to pay attention to trust building mechanisms during the post M&As process. The lower trust in the leader will adversely affect employee psychological safety and acquiring company performance. A high visible and trust worthy leader will send a positive message to the target firm's employees and can help in facilitating employees-leader interactions thus leading to greater level of employee psychological safety. Employees who trust their leader will adjust quickly to the new management style of their acquirers and it can lead to higher productivity. Third, our findings indirectly indicate that developing employee psychological safety will help EMNEs to develop competitive advantage, as through enhancing employee psychological safety managers and firms can also improve employees creativity, resilience, and commitment (Youssef & Luthans, 2007). In addition, George (2003: 9) notes “we need leaders who lead with purpose, values, and integrity; leaders who build enduring organizations, motivate their employees to provide superior customer service, and create long-term value for

shareholders". The findings of this study support these views in the context of the EMNEs post M&As integration. Lastly, keeping in mind the findings of this study, firms need to carefully select leaders as leaders trust worthy behavior will have a positive impact on employee psychological safety and productivity.

6. Limitation and future Research

The major limitation of the work as also highlighted in other works of similar nature (Larsson, 1993; Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001; Stahl, et al., 2011) is that it is a case survey method and does not present the whole population of deals for analysis. The appropriateness of the study method is quite critical to understanding whether this method can appropriately answer the research question. At the same time, prior research has established the usefulness of this research method as well as its appropriateness for looking at the post-acquisition process and examine the human side of M&A activity (Larsson, 1993; Larsson & Finkelstein, 1999; Larsson & Lubatkin, 2001; Stahl, et al., 2011). Following Stahl et al. (2011), we used multiple sources to collect our data related to M&A activities and this can potentially reduce sample biases. This type of work is very much dependent on the quality of coding and case data analysis by coders. Nevertheless, it can be argued that works like these present exploratory avenues for authors' engagement with the ideas like leadership visibility, EPS. The case survey method is also useful in studies like ours where we would like to collect data on larger number of firms and conduct multi-country analysis but lack financial and temporal means to achieve this. Also, using historical data directly from the case studies and newspaper articles might mitigate some of the biases that might emerge from data collection through interviews or surveys at a later date. Using information which was created at the time or closer to the time of the event reduces the chances of flawed memories and information lapse from managerial changes within an organization.

This work also creates opportunities for future research. The future research can focus on creating either survey or primary data based empirical work on leadership effects on EPS. Also, we have only considered EMNEs from two large emerging economies, and future research can test whether the results of this work can be empirically tested in other emerging economies, namely, Russia, Brazil and South Africa which are also engaged actively in cross-border acquisitions. Also, as suggested by Stahl et al. (2011), attempts should be made to further increase the number of M&As studied to provide opportunities for cross-industry, cross-country and cross-time comparisons. This is especially true for studies that focus on EMNEs as there are limited studies in the area of post-M&A integration process and impact on the employees in the target company. This study focuses on the target companies' EPS profile, and does not consider the acquirer companies' employees' reaction to cross-border M&As. Future studies can focus on both or acquirer firms' EPS profile since it might be interesting to see how EMNE acquirer's employees might react to foreign acquisitions. On one hand, cross-border acquisitions might indicate specialization of activities by the EMNEs, yet on the other hand, it can also imply some of the domestic high-end activities might be centralized in developed economies to achieve economies of scale or low skill activities moved to subsidiaries in locations which are further lower in the economic development. For example, there is the case of Chinese textile companies' offshoring some of their low-skilled manufacturing activities to Vietnam and Cambodia. In these cases, EMNEs domestic constituents might react differently to their acquisitions in foreign countries and it might be interesting to understand how EMNEs manage their home operations. The future research opportunities also exist in examining the impact of leadership types on the EPS and potentially examine this in the comparative context of India and China which have different management styles (Liu & Woywode, 2013; Nayak, 2011; Shen, 2006; Zhang, et al., 2015).

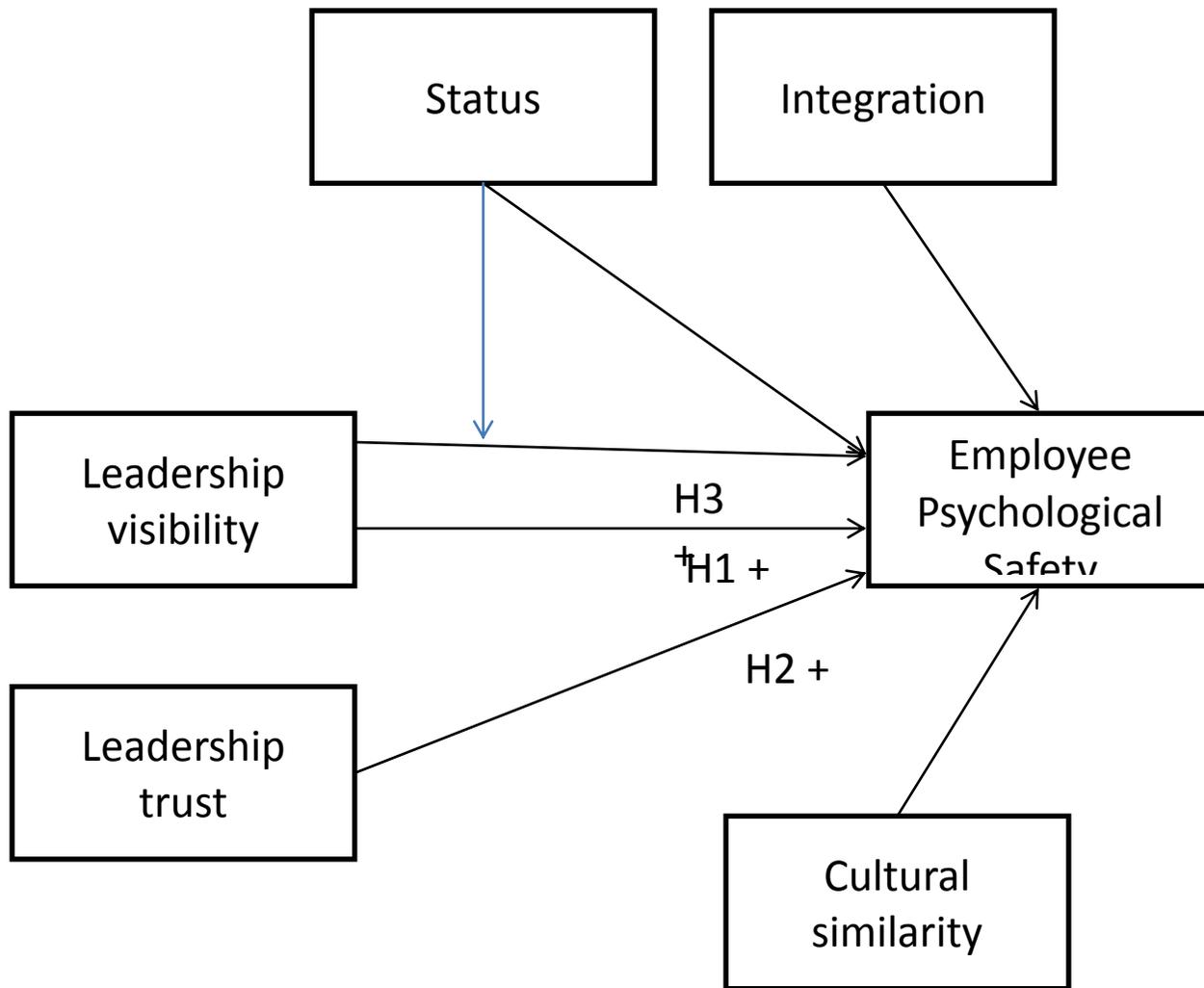


Figure 1. The conceptual framework for impact of leadership on Employee Psychological Safety

Table 1. Descriptive statistics and Pearson correlation coefficients of all variables in study

Variable	Mean	Median	Std. Dev.	<i>EPS</i>	<i>Leadership visibility</i>	<i>Leadership trust</i>	<i>Status</i>	<i>Integration</i>	<i>Cultural similarity</i>	<i>Developed Market</i>
<i>EPS</i>	2.7833	3.0000	1.2572	1.0000						
<i>Leadership visibility</i>	3.3777	3.6666	0.9815	0.6181*	1.0000					
<i>Leadership trust</i>	2.8333	3.0000	0.8287	0.7584*	0.6629*	1.0000				
<i>Status</i>	2.9666	2.7500	0.8653	0.3259*	0.5871*	0.5269*	1.0000			
<i>Integration</i>	2.5777	3.0000	0.6428	0.7859*	0.7108*	0.6940*	0.5833*	1.0000		
<i>Cultural similarity</i>	2.2666	2.5000	0.6260	0.5359*	0.5692*	0.4292*	0.3989*	0.7321*	1.0000	
<i>Developed Market</i>	0.4666	1.0000	0.5074	0.1099	0.2800	0.1503	0.5864*	0.0289	0.2020	1.0000

* p<0.01

Table 2. Regression analysis on Employee Psychological Safety (EPS)

VARIABLES	(1) EPS	(2) EPS	(3) EPS	(4) EPS	(5) EPS
Leadership visibility		0.262 (0.279)			-0.208 (0.270)
Leadership trust			0.699*** (0.209)		0.759** (0.276)
Leadership visibility x Status				0.0979* (0.0531)	0.123** (0.0593)
Status	-0.459** (0.173)	-0.537** (0.211)	-0.686*** (0.172)	-0.769*** (0.249)	-1.031*** (0.282)
Integration	1.809*** (0.289)	1.614*** (0.389)	1.143** (0.436)	1.749*** (0.320)	1.165** (0.449)
Cultural similarity	-0.255 (0.247)	-0.316 (0.255)	-0.108 (0.323)	-0.221 (0.266)	-0.00508 (0.345)
Developed market	0.209 (0.261)	0.192 (0.255)	0.405 (0.259)	0.0623 (0.271)	0.252 (0.250)
Observations	30	30	30	30	30
R-squared	0.939	0.942	0.956	0.945	0.962

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Appendix A Case studies used in this research *

EMNE in EM			
Acquirer	Acquirer country	Target	Target country
Dr Reddy	India	Roche	Mexico
Bharati Airtel	India	Zain	South Africa
Bharati Airtel	India	Zain	Nigeria
Bharati Airtel	India	Zain	Gabon
Bharati Airtel	India	Zain	Chad
Bharati Airtel	India	Zain	Tanzania
Tata	India	Daewoo	South Korea
Lenovo	China	CCE	Brazil
Shanda Interactive	China	Actoz Soft	South Korea
Jinchuan Group	China	Metorex Ltd	South Africa
Jinchuan Group	China	Wesizwe Platinum	South Africa
Mahindra and Mahindra	India	SsangYong	South Korea
SAIC	China	SsangYong	South Korea
Shougang Group	China	Iron Mine Co. Ltd	Peru
Tata Steel Ltd	India	Millennium Steel	Thailand
EMNE in DM			
Acquirer	Acquirer country	Target	Target country
Piramal	India	Morpeth	UK
Tata	India	Tyco	USA
Bluestar	China	Adisseo	France
Tata Chemical	India	Brunner Mond	UK
Shuanghui	China	Smithfield	USA
Yanzhou coal	China	Felix Resources	Australia
Hindalco	India	Novelis	US
Havells	India	Sylvania	UK
Sichuan Tengzhong Heavy Industrial Machinery	China	Hummer	USA

Haier	China	Sanyo	Japan
Dr Reddy	India	Betapharma	Germany
Sun Pharmaceutical	India	Taro	Israel
Lenovo	China	IBM	USA
Clutch Auto	India	Pioneer	USA
TCL	China	Alcatel	France

* Case details obtained from textbooks, free source case studies as well as paid case material like HBR, Ivey, IMD cases, journal articles and internet searches.

Appendix B. M&A Employee Psychological Safety Case Survey Coding

Dependent Variable

Employee Psychological Safety (EPS). Equal to the average of these two items (all 6-point scales from low = 0 to high = 5) which indicates the job as well as the remuneration stability within an organization following a merger or acquisition and employees psychological safety derived from this job and remuneration safety:

Estimate the degree to which the merger or acquisition created the following benefits (coded as high value) or conflict (coded as low value) in the employees' psychological safety:

- *Job Safety* – estimate average acquired employees' job safety expectation after merger or acquisition. This is defined as vocal discussion of job safety in the media, vocal opposition to restructuring, employees' reaction in form of protests to news of probable restructuring after merger or acquisition, symbolic discussion of job safety in the media with presentation of posters on company sites after merger or acquisition, talks of voluntary exits or talks of forced exits by employees in media, evidence of voluntary exits, union organized strikes, sabotages and absenteeism.
- *Remuneration Safety* - estimate average acquired employees' pay safety (includes salary, pensions and other monetary perks in the current job) expectation after merger or acquisition. This is defined as vocal discussion of pay safety in the media, vocal opposition to potential reduced hours or changes in salary structure following restructuring, employees' reaction in form of protests to news of probable offshoring and pay loss after merger or acquisition, symbolic discussion of pay safety in the media with presentation of posters on company sites after merger or acquisition, talks of voluntary exits or talks of forced exits by employees in media due to potential pay cuts or changes in the perks, evidence of voluntary exits, union organized strikes, sabotages and absenteeism to negotiate the changes in salary or perks.

Independent Variables

Leadership visibility. (H1, three items, each 6-point scales from low = 0 to high = 5)

- *Proactive engagement* of the acquirer's top leadership in M&A activities. This can be inferred from how extensively involved were the top managers of the acquirer firms in the decision-making during and after the merger or acquisition, and how vocal were these managers in the media regarding their involvement and engagement with this M&A process. The press releases consisting of quotes from these managers on their expectations and responses to the M&A progress and potential outcomes.

- *Engagement with target's employees.* Estimate the acquirer's leadership's engagement with target's employees through face-to-face meetings or meetings with trade union leaders. This information can be assimilated through various sources like print media, internal documents, strategic decisions and new releases on the company website.
- *Openness with target firm's employees.* Estimate the degree of openness demonstrated by the acquirer's leadership towards target's employees in terms of rationale behind strategic decision-making and policies adopted during and after the M&A. These communications can be witnessed in day to day activities and reflected in media interviews, internal memos, or annual report and one-off press releases. The openness of the acquirer's leadership can also be mentioned in the press and media through the target employees' perspective or through the union's spokesperson or media releases.

Leadership trust. . (H2, four items, each 6-point scales from low = 0 to high = 5)

- Trust in the *Ability* of the acquirer's leadership. Estimate the degree of trust in the ability of the acquirer's leadership by the target company's employees. This factor reflects in the ability to manage effectively the integration process as well as the post-integration operations. These communications can be witnessed in day to day activities and reflected in media interviews, internal memos, or annual report and one-off press releases.
- Trust in the *Integrity* of the acquirer's leadership. Estimate the degree of trust in the integrity of the acquirer's leadership by the target company's employees. This factor measures the target employees' beliefs that acquirer's leadership will deliver on their commitments to the target firm after the integration process and continue with this commitment during the post-integration operations.
- Trust from the *Reputation* of the acquirer's leadership. Estimate the degree of trust derived from the reputation of the acquirer's leadership. In absence of other information, the target employees might derive information on the reputation of the acquirer's leadership and use it as an indicator of the trust in leadership.
- Trust in the *Value Congruence* of the target and acquirer's leadership. Estimate the degree of trust that employees place on the potential for value congruence between the target's and acquirer's leadership. The information on the value congruence can be inferred from information in the media outlets and witnessed in day to day activities.

Control variables

Status. (four items, each 6-point scales from low = 0 to high = 5)

- *Takeover friendliness*. Estimate the takeover friendliness between the target and the acquirer and this information can be obtained from press releases.
- *Power differential* between the target and the acquirer. Estimate the power imbalance between the target and the acquirer. Here the power relates to perceived power of the target as compared to the power of the acquirer and this information can be obtained from discussions in the media.
- *Relative firm size*. Estimate the relative firm size, measured as number of employees, this information is obtained from the acquirer and target annual reports in the year prior to the M&A. In the absence of these annual reports, the information from media reports is used to estimate this measure.
- *Relative firm performance*. Estimate the relative firm performance, measured as net income, this information is obtained from the acquirer and target annual reports in the year prior to the M&A. In the absence of these annual reports, the information from media reports is used to estimate this measure.

Integration. (three items, each 6-point scales from low = 0 to high = 5)

- *Cultural tolerance and sensitivity*. The degree of cultural tolerance and sensitivity demonstrated within target and acquirer companies. Information regarding the cultural sensitivity and tolerance can be inferred from information in the media reports.
- *Communication quality*. Estimate the quality of communication between the target and acquirer companies. The information regarding this can be inferred from information in the news releases and internal memos.
- *Speed*. Estimate the speed of integration of the target and acquirer companies.

Cultural similarity. (two items, each 6-point scales from low = 0 to high = 5)

- *Shared meaning* of the management and business process. If both target and acquirer countries had similar business environment and comparable institutional environment, then these companies are likely to experience synergies from cultural commonness. Estimate the degree of shared meaning between the firms.
- *Management style similarity*. Estimate the degree of management style similarity between the two companies involved in the M&A process. In this case, the management style is regarded in relations to degrees (low versus high) of formality, employee involvement, and any other factors underscored by the case author.

Developed market. (Developed market = 1 if OECD country, or else, 0)

- What was the nationality of the target firm? Is it an OECD country?

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