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## The emotions of top managers and key persons in cross-border M&As: Evidence from a longitudinal case study

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## ABSTRACT

Building on prior research on emotions in M&A, this paper analyses the post-M&A emotions of top managers and key persons from the acquired company by examining what triggers emotions during the post-acquisition integration stage, and what the consequences of those emotions are. This study applies cognitive appraisal and affective event theories with empirical evidence based on a longitudinal, single case study of an Indian–Finnish acquisition. The main findings imply that M&As are very emotional for top managers and key persons. Our findings reveal that they experience a wide range of positive and negative emotions triggered by individual and company-level triggers. Interestingly various triggers can have different and opposite appraisal outcomes in the short and long-term. In addition, top managers and key persons are often restricted in the range of behavioural outcomes caused by emotions.

## 1. Introduction

Cross-border mergers and acquisitions (M&As) have become increasingly popular as a means of organisational growth and internationalisation. However, studies suggest that acquisition success rate has remained mediocre at best (e.g. King, Dalton, Daily, & Covin, 2004; Schoenberg, 2006). Cultural diversity, and organisational and cultural incompatibility (i.e. a lack of organisational and cultural fit) is often reported as the main cause for poor acquisition performance (cf. Cartwright & Schoenberg, 2006; Stahl & Voigt, 2008; Teerikangas & Joseph, 2012). Consequently, research on socio-cultural integration in M&As has largely focused on acquired employees' negative emotions and attitudes, and on the “merger syndrome” as a typical post-merger phenomenon (e.g. Kusstatscher & Cooper, 2005; Marks & Mirvis, 2001; Sinkovics, Zagelmeyer, & Kusstatscher, 2011). Yet, M&As evoke a wide range of emotions in both employees and top managers (e.g. Kiefer, 2002; Kusstatscher & Cooper, 2005; Kusstatscher, 2006). It has been suggested that emotions provide a critical “missing” socio-cultural mechanism that connects many of the key aspects discussed in the “human” literature (Sarala, Vaara, & Junni, *in press*). This research contributes to the post-M&A socio-cultural integration research by focusing on a wide range of emotions, positive and negative emotions, experienced by top managers and key persons.

Emotions have been of scholarly interest for decades in disciplines such as psychology, sociology, communication studies, anthropology, management and marketing (cf. Kusstatscher & Cooper, 2005). Interest in emotion research is relatively recent among business scientists, only having started in the last twenty years (cf. Ashkanasy & Humphrey, 2011). In international business (IB), research on emotions is still scarce. Whilst emotions have been bypassed in much of the previous M&A research, some studies have placed emotions in the spotlight. Prior M&A research focusing on emotions has focused on the role of emotions in M&As (Kusstatscher & Cooper, 2005; Kusstatscher, 2006; Sinkovics et al., 2011), the emotional experience of employees during organisational change (Ager, 2011; Kiefer, 2002), employee emotional resilience during post-M&A integration (Khan, Soundararajan, Wood & Ahammad, *in press*), the role of management communication and other factors on emotions of employees (Gunkel, Schlaegel, Rossteutscher, & Wolff, 2015; Zagelmeyer, Sinkovics, Sinkovics, & Kusstatscher, 2016), the role of culture in emotional attendance (Reus, 2012) and how employees manage their emotions (Clarke & Salleh, 2011). Few studies focus on managers; Vince (2006) analyses managers' emotions and rationalizations during M&As, Reus (2012) explored acquirers' emotional attending during cross-border M&A, and Durand (2016) focuses on middle managers and demonstrates the relevance of critical incident technique to assess managerial perceptions, emotions and stress in post-

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M&A stage. There is a research gap regarding top managers individual level emotional experience during post-M&A integration.

With this research we aim to identify and describe the emotional experience of acquired top managers and key persons following an M&A. In this study we conceptualise *emotional experience* following Kiefer (2002) definition: “*emotional experience describes the emotions and related cognitions and behaviours surrounding events during change*” (p. 40). According to Kiefer (2002), the continuous experience of different emotions over time, connected with the interpretation of ongoing events, form the individual experience of change. Hence, the individual experience of an M&A is part of a complex set of interdependent emotions. Key persons are defined as those managers and/or employees in the acquired organisation who are critical for ensuring the success of the acquisition and the continuity of business in the acquired organisation (Ranft & Lord, 2002).

A deeper and more comprehensive understanding of the post-M&A emotions of top managers and key persons is critical for many reasons. Firstly, employees tend to mirror their managers’ emotions (Ashkanasy & Daus, 2002). Managers and key persons, whether staying or leaving post-M&A, can have a significant influence on the atmosphere and the affective experience of an M&A (cf. Gooty, Connelly, Griffith, & Gupta, 2010; Kaplan, Cortina, Ruark, LaPorte, & Nicolaidis, 2014; Krug & Hegarty, 2001; Kusstatscher, 2006). This is particularly important from an “emotional contagion” perspective; in organisations, emotions are shared and groups may experience collective emotions (cf. Barsade, 2002; Elfenbein, 2014). Secondly, emotions are triggered because of something, vary in intensity and tend to lead to behavioural outcomes (Frijda, 1993; Larsen, Augustine, & Prizmic, 2009; Rank & Frese, 2008; Solomon, 2008). Previous studies indicate that employees’ emotions influence their willingness to contribute towards successful post-M&A integration (e.g. Kusstatscher, 2006), thus it seems reasonable to assume that this is also the case for top and middle managers and other key persons. If so, they can considerably influence the integration process of the whole merging organisation. Understanding the emotional experience of top managers and key persons during this difficult period might shed some light on how to retain key managers. The top management in the acquired organisation is often replaced shortly after the acquisition (Jagersma, 2005), yet often, retaining them is considered valuable (Angwin & Meadows, 2015), especially when the acquirer is unfamiliar with the business and/or the external business environment.

Accordingly, the purpose of our study is two-fold: to explore what emotions top managers and key persons experience during the post-M&A integration stage, and what the emotional experience of top managers and key persons during the post-M&A integration stage is. Consequently, our main argument is that understanding the post-M&A emotional experiences of top managers and key persons is essential to the successful management of the post-M&A integration stage. Moreover, in cross-border M&As, emotions are managed from a distance and cultural differences add an additional challenge to managing emotions; identifying points of stress and choosing effective managers to implement the M&A (Sinkovics et al., 2011). The M&A process can be divided into two main stages, namely pre- and post-M&A stage (cf. Jemison & Sitkin, 1986; Haspeslagh & Jemison, 1991). This research focuses on the post-M&A stage for two reasons: 1. access to data is easier once the deal has been completed and has been announced, and 2. emotions tends to be higher after the deal due to completion of the deal and the complexity of the integration stage. This research is a fine-grained temporal analysis of emotions during the post-M&A integration stage, which forms the temporal context of this research (cf. Tian, Nicholson, Eklinder-Frick, & Johanson, *in press*).

This study applies cognitive appraisal and affective event theories. Our study is inspired by Kiefer’s (2002) research on emotional experience during M&A, and builds on and extends the work by Kusstatscher and Cooper (2005) and Sinkovics et al. (2011). Our study contributes by focusing on the emotions of top managers and key persons, by

exploring more broadly the various triggers/antecedents to emotions, and by adopting a longitudinal approach, which enables us to focus on emotional experiences for two years during the post-M&A integration process. The empirical research is based on a longitudinal, single case of an Indian–Finnish acquisition in the IT field. This research focuses on the acquired firm. The underlying assumption is that emotions tend to run much higher in acquired organisations, as managers must adapt to a new owner, management style, and organisational culture. Understanding acquired top managers’ and key persons’ emotions is particularly important in strategic and/or unrelated as well as international M&As, in which there is a greater need to retain and rely on local acquired top managers and key persons to achieve synergies. Prior research suggests that acquired subsidiaries are promising sources of reverse knowledge transfer (Mudambi, Piscitello, & Rabbiosi, 2014) and that acquired subsidiaries located in more developed countries, such as those in the Western Europe, are more likely to transfer knowledge to the headquarters (Rabbiosi, 2011). Cross-border M&As involving emerging economies, especially China and India, have increased dramatically during the past decade (e.g. World Investment Report, 2017), rendering this case study an appropriate context in which to study emotions.

This paper is organised as follows. First, we define emotions and develop the theoretical background to emotional reactions during post-M&A integration stage. We then introduce our case study and the research methodology. In the third section, we present our main findings. Finally, we discuss our contributions, limitations and conclusions. This paper contributes to the M&A and emotion literature by focusing on the role of emotions in more fine-grained way, and by demonstrating the dynamic nature of the emotional experience of top managers and key persons during the post-M&A integration stage (see e.g. Sarala et al., *in press*).

## 2. Discussion of prior literature and analytical framework

### 2.1. Emotions and theories about emotions

Within emotion literature emotions are seldom explicitly defined (Gooty et al., 2010). For example, mood, feelings and emotions are often used interchangeably. Moods refer to a longer time spans than emotions, and to the larger, pervasive, existential issues of one’s life than acute emotions (Lazarus 1991, 48). Feelings refer to the awareness of bodily sensations, while emotions refer to situations when there has been an (immediate) appraisal of harm or benefit (Lazarus 1991, 57). Philosophers often distinguish between occurrents (emotion episodes) and endurants (states, mood). Being in a state of sadness, or in a mood of melancholy can be enduring, continuous. Arousal is often categorized as a state, and to distinct between arousal and emotions, it is argued that arousal may carry on, endure, after an emotion has occurred. (Mulligan & Scherer, 2012.) We make a distinction between emotions and moods/feelings, and concentrate on emotions that are short-term and more easily identifiable to certain triggers and outcomes (Frijda, 1993).

Following Kusstatscher and Cooper (2005, p. 48) and Sinkovics et al. (2011, p. 28), we define emotions as “*a mental state of (action) readiness that arises from cognitive appraisals of events, social interaction of thoughts. It has a phenomenological tone, is accompanied by physiological processes, and is often expressed physically*” (see Bagozzi, Gobinath, & Nyer, 1999). Emotions are focused on concrete events, objects and situations and last a relatively short time (Mulligan & Scherer, 2012). Emotions are not continuous, but episodic. For example, the death of a loved one triggers numerous episodes of feeling sad about loss, and may consist of short periods of relieved emotions. Nonetheless, the emotions themselves do not continue, only the feeling. (Mulligan & Scherer, 2012.) *Emotion episodes* are used in emotion literature to refer to the experience of a single emotion including its duration and intensity (see e.g. Lazarus, 1991; Scherer 2009; Verduyn, Mechelen, Tuerlinckx,

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