A Comparison of Manager Reactions to Acquisitions by Local and Foreign Companies: Testing the Liability of Emergingness Effect

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ABSTRACT

A major challenge of cross-border acquisitions is high post-acquisition turnover of key target firm talent which can negatively impact acquisition success. A prime motivation of emerging market multinational corporations (EMNCs) such as those from China and India to acquire target firms in developed markets is the desired acquisition of management and professional talent. This study examines whether EMNCs will experience higher levels of post-acquisition turnover than developed market multinationals due to negative reputational effects caused by their country of origin induced ‘liability of emergingness’. Major sociocultural factors that may affect target talent turnover intention will also be identified. Five hypotheses were tested on 252 German, French and American managers and professionals. Using policy capturing, subjects were presented 26 scenarios dealing with hypothetical acquisitions. Respondents indicated their post-acquisition turnover intentions based on randomly assorted cues combining the nationality of the acquiring firm (EMNC, local and U.S. or European), previous inter-firm relationship, previous acquisition experience, intended post-acquisition integration, and acquirer’s management experience. Using hierarchical linear regression testing, EMNCs were found to have significantly higher levels of post-acquisition turnover intention than equivalent local or developed market multinationals. Support was also found for the various hypotheses based on the sociocultural variables.

Keywords: Emerging market multinational corporations; international acquisition; post-acquisition talent turnover; country of origin effect, liability of emergingness

INTRODUCTION

Research within the merger and acquisition literature stream often lists knowledge acquisition as one of the primary strategic goals of international acquisitions (e.g., Mukherji et al. 2013; Vermeulen & Barkema, 2001). When cross-border acquisitions are used to acquire knowledge and capabilities, the ultimate success or failure of the venture itself is reliant on the acquiring firm’s ability to retain key managerial and professional talent in the acquired firm (Kiessling et al. 2012). It has been suggested that the post-acquisition performance of an acquired firm goes down as the number of key acquired managers and executives leave (Kiessling et al. 2008; Krishnan et al. 1997). While it is not unusual for acquisitions to result in certain redundancies requiring some reduction of force in one or both of the organizations involved, in the case of cross-border expansion, it is important not only to retain key talent in non-redundant areas but every attempt should be made to retain all highly competent managers and professionals regardless of their redundancy status (Schweiger & Very, 2003). Unfortunately for the acquiring firm, it is rarely the under-performers of the acquired firm that leave the company. As stated by Buono and Bowditch (1989), “popular belief, of course, is that poor performers […] are the ones most
likely to ‘bail out’ following a merger or acquisition. Research, however, has shown the exact opposite – the better employees, whose skills and expertise are valuable to the company, are the ones most likely to leave” (p. 227). Even in the event that key target personnel are offered a secure position in the future organization, the most capable of these individuals (i.e. the most attractive to other employers) may still opt to leave the firm due to concern over whether past accomplishments would be recognized and a fear of not fitting into the new culture (Marks, 1988).

Cross-Border Acquisitions and the Loss of Key Management Talent

Empirical studies on the effects of mergers and acquisitions on management turnover have shown that post-acquisition turnover of top management is significantly higher than ‘normal’ management turnover rates and can reach as high as 60% within the first five years (Walsh, 1988). International acquisitions can lead to even greater losses of key management talent, with turnover numbers reaching as high as 75% in the first five years of foreign takeover (Krug & Nigh, 2001). The sudden departure of key top managers and executives may also create a shockwave throughout the organization resulting in lower level managers and professionals also leaving the firm, further reducing post-acquisition return on investment (Krug & Nigh, 2001).

An example of a failed cross-border acquisition by an emerging market firm that ended with an exodus of key managers and professionals is the purchase of the handset division of France’s Alcatel by TCL, a Chinese mobile phone manufacturer. TCL’s traditional Chinese management style of highly centralized decision making resulted in a corporate and cultural clash with the French managers of Alcatel who were used to more autonomy and input (Tan, 2005). Even experienced, resource-rich Western multinationals are not immune to the challenges of implementing cross-border acquisitions without losing a significant number of the target firm’s key management talent. As exemplified by Germany’s Daimler’s ill-fated acquisition of America’s Chrysler Corporation. This ill-fated international acquisition was ultimately derailed by differences in national cultures between the two parties (Schoenberg, 2000) which resulted in a “mass exodus of American managers from Chrysler, a common phenomenon in acquired firms” (Peng, 2011, p. 389).

Enter Chinese and Indian Multinational Corporations

During the early stages of globalization, international acquisitions were mainly the domain of multinational firms from developed nations. Now emerging market multinational corporations (EMNCs) are entering into the international acquisition arena by rapidly acquiring developed nation firms in an attempt to gain greater access to markets and consumers as well as to enhance firm resources and capabilities (Buckley et al. 2014). Despite the fact that empirical research has repeatedly shown that only fifty percent of all mergers and acquisitions achieve their original financial performance goals (Cartwright & Cooper, 1993), the increase in cross-border acquisitions targeting developed market firms in the United States and Western Europe by EMNCs has grown exponentially over the last decade. Although the differences between the various nations included under the name ‘emerging market’ are many, there is a common feature shared by the majority of EMNCs. As pointed out by Ramamurti (2009), they were all latecomers to globalization. In order to overcome this latecomer status, EMNCs have been forced to defend themselves in their home markets against significant levels of inbound FDI activities perpetrated by well-established developed market MNCs by pursing ‘springboard’ (Luo & Tung, 2007) or ‘leapfrog’ (Shenkar, 2006) strategies aimed at acquiring critical technological and managerial know-how through their own outward expansion into international markets (Gammeltoft et al. 2010).
Since firms from China and India have so far been the most active in pursuit of outward FDI into developed nations (Economist, 2010), they will be presented in this study as being 'representative' of emerging market FDI outflows in general. Support for this focus on Chinese and Indian owned firms is found in a PricewaterhouseCoopers’ (2010) report which indicated the formation of new multinationals from China and India far outnumber those from the other emerging market nations. Since 2000, when China and India’s total outward FDI was US$ 1.4 billion (US$ 0.9 billion and US$ 0.5 billion respectively), their combined FDI outflow in 2012 had increased by a staggering factor of 50 times reaching a total of US$71 billion (US$ 62.4 billion and US$ 8.6 billion respectively) (OECD, 2012). The rapid growth in the number of these newly formed multinationals, confirms the projections that cross-border acquisitions by emerging market firms will continue their strong upward growth trend (UNCTAD, 2013).

Previous research has demonstrated that pre-acquisition emerging market multinational firms very seldom possess the essential firm-specific intangible resources needed to compete in a global environment and thus may be pursuing internationalization strategies as a means of accessing critically needed intangible assets (Ramamurti, 2009). In fact, much of the literature stream on emerging market outbound FDI has suggested that a prime motivator driving EMNC outward FDI is knowledge acquisition through the procurement of target firm top managerial know-how as well as professional talent in the form of managers, marketing, design engineers and information technology (IT) workers in general (e.g. Gammeltoft, 2008; Khanna & Palepu, 2006; Luo & Tung, 2007; Rui & Yip, 2008). In their discussion of the difference between EMNCs and developed multinationals, Rugman and Li (2007) propose that developed firms traditionally pursued cross-border acquisitions based on the leveraging of so-called ‘firm specific advantages’ or FSAs. In the case of China, the authors suggest that “its large MNEs have few such knowledge based FSAs. [. . .] Thus, China’s MNEs will likely become knowledge seekers as they go abroad, not knowledge takers” (p. 333).

If, as speculated, a principal motive behind EMNC cross-border acquisitions is the absorption of strategic assets in the form of target firm key management talent (Deng, 2009), a basic research question arises that has not yet been addressed in the literature: Will emerging market firms experience a higher post-acquisition turnover rate than their developed nation counterparts due to a reputational bias based on their country of origin?

Although the acquisition of Western firms by emerging market multinationals is still a relatively new phenomenon, thousands of European and American managers have already experienced its impact. As evidenced by China’s largest automotive parts supplier Wanxiang Group’s 2012 acquisition of the American hi-tech battery manufacturer A123 Systems Inc. along with its some 1,000 U.S. employees (Bathon, 2013), or India’s Tata Consultancy Services Ltd.’s recent purchase of the French software firm Alti S.A. with its 1,200 employees (Thoppil, 2013), thousands of American and European managers and professionals are being confronted with the real possibility of suddenly finding themselves working for an emerging market firm. Despite this fact, there remains a scarcity of research dealing with the human side of this issue. This paper therefore aims to fill this gap by examining the effects of two human oriented pre-acquisition variables in the context of Western firms being acquired by emerging market firms: first, this paper will analyze the impact of pre-acquisition acquirer reputation, as manifested by its liability of emergingness, on the post-acquisition turnover intentions of target firm managers. In order to properly measure and compare the magnitude of the acquiring firm’s country of origin effect, it will be weighed against four factors commonly found in previously published M&A research: the impact of a previous relationship between the acquirer and the target firm (e.g., Ring & Van de Ven, 1994), whether
the acquirer has previous M&A experience (e.g., Very et al. 1997), whether the acquired firm is to be integrated or preserved (e.g., Pablo, 2007), and finally whether the acquiring firm’s executives are experienced in acquisition management or not (e.g., Marks & Mirvis, 2001). In sum, by focusing on these key human oriented pre-acquisition factors, this paper will contribute to addressing the gap in pre-acquisition research literature versus the much more robust body of literature to be found dealing with a variety of post-acquisition dynamics such as integration and conflicts of culture as well as a posteriori acquirer stock valuations and acquisition performance (e.g., Alon et al. 2012; King et. al. 2004).

**HYPOTHESIS DEVELOPMENT**

**The Roles of Culture and Cultural Distance**

Whereas corporate culture has been defined as the beliefs and assumptions held in common by the associates of a firm including all of the various subcultures that typically exist within most organizations (Nahavandi & Malekzehad, 1988); national culture is defined as the collection of values, beliefs and norms held by diverse societies or as Hofstede (1980) described it, the ‘collective programming of the mind’ that distinguishes various societies or nations. Domestic mergers and acquisitions between two firms from the same country typically ‘only’ have to deal with the potential of conflict between their unique organizational cultures.

In the case of cross-border mergers and acquisitions, the clash of corporate cultures can often become magnified by conflicting national cultures (Chatterjee et al. 1992). In further elaboration of Hofstede’s (1980) research on IBM, Schneider (1988) suggested that firms with a strong corporate culture may in fact elicit even stronger national culture responses from their foreign employees. Although the literature has shown mixed results on the overall effect of cultural distance, key management turnover and subsequent post-acquisition success (e.g., Morosini et al. 1998; Slangen, 2006 Teerikangas, 2012), a large number of merger and acquisition failures have nevertheless been attributed to a collision of cultures (e.g., Buono & Bowditch, 1989; Kiessling et al. 2008; Weber & Camerer, 2003).

Research indicates that managers prefer mergers with firms from ‘similar’ cultural societies (Cartwright & Price, 2003; Krug & Nigh, 2001). When strong cultural incompatibility between parties is present in an acquisition, resistance develops in the target firm and turnover of top management talent may begin to increase regardless of other acquisition related variables such as the proposed mode of integration, prior relationships, and whether or not the acquiring firm and its management have previous M&A experience (Schweiger & Very, 2003). Weber and Drori (2008) suggest that to “the extent that cultural distance produces a ‘culture clash’, such a clash may be strongest where the contact between the adherents of the opposing cultures is greatest, i.e., where the acquiring executives determine goals, strategic choices, and other operations for the acquired company” (p.126).

**The Role of Reputation and ‘Liability of Emergingness’**

Other factors related to the nature of foreign acquirers may also negatively influence target firm management perceptions thus increasing the likelihood of post-acquisition turnover. In their numerous studies on the relationship of trust and employees’ reactions to international acquisitions, Stahl and colleagues (Stahl, Chua, and Pablo, 2003; Stahl, Larsson, Kremershof, and Sitkin, 2011; Stahl and Sitkin, 2010) found that among the significant criteria affecting the trust decisions of employees experiencing a takeover, the attractiveness of the foreign acquirer’s human resource system scored higher than prior inter-firm relationships, type of post-acquisition control, mode of takeover, and cultural differences.
The influence of the acquisition reputation of a foreign acquirer on management’s reactions within the target firm is particularly problematic when the acquisition is conducted by newly globalized emerging market firms. Whereas all multinational firms are subject to a liability of foreignness (Zaheer, 1995), emerging market acquirers may suffer from additional bias and negative images generated by a combination of a country of origin effect and the very nature of their “emergingness” (Madhok & Keyani, 2012; Ramachandran & Pant, 2010). As pointed out by Thite, Wilkinson, and Shah (2012), “the MNCs from emerging economies face a ‘double hurdle’ of liability of foreignness and liability of country of origin with perceived poor global image of their home country” (p. 253). In the context of international acquisitions, ‘emergingness’ may be viewed as a liability as emerging market acquirers are often associated with negative acquisition reputation (e.g., Hirt & Orr, 2006; Spigarelli et al. 2013). The combination of cultural distance, lack of reputation and the liability of emergingness may result in developed nation managers and professionals perceiving emerging market firms as undesirable employers. It is thus hypothesized that the combination of these various cultural factors interpreted herein through the variable of country of ownership will be significant to the respondent’s turnover decision. The first hypothesis therefore states:

**Hypothesis 1:** The likelihood of a working professional leaving their job should their employer be acquired by another firm is higher when there is a high cultural distance between the target firm and the acquirer.

**PRE-ACQUISITION SOCIOCULTURAL VARIABLES**

In addition to the importance of the nationality of the acquiring firm, M&A literature has traditionally looked at the significance of a variety of antecedent variables when analyzing the success or failure of firms engaged in mergers and acquisitions. Stahl and colleagues (2011), for example, argue that sociocultural issues as well as human resource matters may serve an important role as potentially significant variables for use in studying mergers and acquisitions. Since this study is focused on the human side of acquisitions, we will forego economic oriented variables such as method of payment and stock performance indices and concentrate instead on less tangible human resource oriented variables such as prior relationships between the parties, experience with already existing subsidiaries, intended level of post-acquisition integration and previous management experience with acquisitions. Furthermore, by concentrating on these human oriented pre-acquisition variables, this research will contribute to addressing the gap in pre-acquisition era research versus the much more robust body of literature concerned with the post-acquisition era (Teerikangas, 2012).

**The Impact of Prior Relationships and Trust**

Prior positive inter-firm relationships can facilitate the development of trust between the acquirer’s management team and the target firm’s employees which in turn can play a crucial role in the ultimate success or failure of an acquisition (Stahl & Sitkin, 2010). Empirical work has also suggested that prior relationships and alliances between firms have a positive impact on acquisition performance (Porrini, 2004). One of the primary methods for firms to develop trust is through a positive history of previous interactions and collaborations (Stahl & Sitkin, 2005). Pre-existing long-term relationships between the target firm and the acquirer can also serve to inform the management of both sides of prospective problem areas which in turn reduces potential post-acquisition problems such as unwanted turnover (Kogut & Zander, 1992; Porrini, 2004). The importance of previous relationships and the establishment of trust
were emphasized by Stahl and Sitkin (2005) as follows: “For employees of the acquired firm . . . the period following the announcement of the takeover is one of intense personal risk analysis, in which the individual decides whether s/he will leave the organization or stay. During this period employees have to rely on statements of top management concerning their future employment status and roles in the organization” (p. 85). Therefore, it can be assumed that the greater the lack of a previous pre-acquisition inter-firm relationship, the higher the level of uncertainty and premature ‘bail outs’ (Marks & Mirvis, 2001). The second hypothesis therefore states:

**Hypothesis 2:** The likelihood of managers and working professionals leaving their job should their employer be acquired by another firm is higher when there are no prior ties between the target firm and the acquirer.

**The Impact of Prior Organizational Experience with M&As**

When a professional is faced with the decision to stay or leave their firm following an acquisition, in addition to the perceived organizational attractiveness of the acquirer, the existence of country of origin effect and the cultural distance separating the two firms, another important factor shown to play a role in post-acquisition turnover decisions is whether or not the acquiring firm has a positive track record with previous cross-cultural acquisitions (Shenkar, 2001). Dikova and Rao Sahib (2013) found empirical support for a link between the effects of cultural distance between acquirer and target firm and the acquirer’s level of cross-border acquisition experience on post-acquisition performance. This notion is supported by Shenkar (2001) whose research indicated that firm’s may be able to mitigate the influence of cultural distance through the accumulation of knowledge and know-how derived from multiple experiences with cross-border acquisitions.

Although Nadolska and Barkema (2007) found that domestic acquisition experience can also have a positive impact on the success of subsequent international acquisitions by a firm, other scholars point out that not only is most domestic acquisition experience not relevant to cross-border acquisitions, in many cases international acquisition experience, especially in its beginning stage, is not universally transferrable given that the experience gained in one country may or may not be successfully utilized in a different foreign country (Morosini et al. 1998). A common error made by many newly globalizing firms is to assume that successful managerial techniques used in the acquisition of one foreign target will automatically work with future acquisitions of unrelated firms in the same or different foreign countries (Haleblian & Finkelstein, 1999). In order for cross-border acquisition experience to become an advantage however, it has to reach a level such that the lessons and experiences are learned and absorbed into the organizational structure of the acquiring firm (Nadolska & Barkema, 2007). It is therefore assumed that the positive reputation gained from successful acquisition experience will equate to those firms being perceived as more attractive future employers than those organizations with no previous successful acquisition experience in the host-country. This is restated below:

**Hypothesis 3:** The likelihood of managers and working professionals leaving their job should their employer be acquired by a multinational firm is higher when the acquiring firm has no previous successful international acquisition experience.

**The Impact of Intended Integration Strategy**

Due to the stock market implications and regulatory laws surrounding mergers and acquisitions, target firms managers and professionals are often the last to know when the news that their company has been acquired is announced. Consequently, target firm employee reactions which include shock, fear,
anger and mourning are often compared to those following a death in the family (Marks & Mirvis, 2001). It has been proposed that target firm perceptions to an impending acquisition are not always a predictable product of the change itself, but can be effected by the acquiring organization’s behavior and proposed future intentions (Teerikangas, 2012). A pivotal intention is the degree of assimilation or integration that the acquiring company has in mind for the company it acquires. The level of integration between the acquirer and the target firm has been defined as ‘the degree of post-acquisition change in an organization’s technical, administrative, and cultural configuration (Pablo, 1994, p. 806). It is based on the amount of autonomy that the acquiring firm is planning to bestow upon the target firm. As defined by Datta and Grant (1990): “Autonomy, in the context of acquisitions, can be described as the amount of day-to-day freedom the acquired firm management is given to manage its business” (p. 31). Integration is therefore pivotal to the development of post-acquisition value creation and the model of integration used during the process is directly tied to the subsequent success or failure of the acquisition (Pablo, 2007).

When considering the impact of a proposed acquisition, the level of integration whether preservation or total absorption will be viewed by the managers and professionals of the target firm from the point of view of how it impacts their own unit (Vaara, 2003). Previous studies have found that the higher the level of proposed integration, i.e. the greater the perceived loss of autonomy by the acquired firm’s managers and professionals, the greater the likelihood that target firm employees will feel helpless and hostile (e.g., Datta & Grant, 1990; Hambrick & Cannella, 1993; Pablo, 1994; Stahl & Sitkin, 2010). As Very and associates (1997) suggest, “the lowest performance outcomes [from a cross-border acquisition] may occur when the buying firm is perceived as holding an undesirable culture and is seen as aggressively removing the acquired executives’ autonomy” (p. 596). Based on this reasoning, acquiring firms that have announced that the target firm’s culture and practices will be fully assimilated (i.e. no post-facto autonomy) will be seen as less attractive employers by the target firm’s managers and professionals than those firms intending to fully preserve the acquired firm’s culture and operations (i.e. full post-facto autonomy). Hypothesis 4 therefore states:

**Hypothesis 4:** The likelihood of managers and working professionals leaving their job should their employer be acquired by a multinational firm is higher when the target firm is to be fully assimilated into the acquiring firm.

The Role of Prior Management Experience with Mergers & Acquisitions

It has been posited that prior successful cross-border acquisition experience at the organizational level can serve to mitigate the concern and resistance of target firm managers and professionals. When viewed at the managerial level, it has been suggested that acquiring firm managers experienced with acquisitions are more likely to engage in culturally sensitive pre-acquisition discourse with target firm personnel thus rendering the acquiring firm less threatening in the eyes of key target firm talent (Shenkar, 2001; Very et al. 1997). The importance of the pre-acquisition experience of acquiring firm managers is supported by the tendency of many firms with prior acquisition experience to use multi-functional teams of ‘veterans’ of prior acquisitions to help their less experienced managers cope with the challenges of post-acquisition management (Marks & Mirvis, 2001). Finally, Teerikangas (2012) found that when the managers of the target firm were proactively engaged with the management of the acquiring firm, target firm management often became cheerleaders for the acquisition itself which included swaying overall target firm employee motivation towards the deal. These works lend support to the belief that prior experience in acquisition management by individual managers from the acquiring firm is extremely
important and can have a direct impact on target firm managers and professionals’ perception of the acquirer’s attractiveness as an employer. This concept is restated below:

**Hypothesis 5:** The likelihood of managers and working professionals leaving their job should their employer be acquired by a multinational firm is higher when the acquiring firm’s management has had no previous experience managing cross-border acquisitions.

**METHODOLOGY**

In order to determine a potential model of the judgment criteria used by managers and working professionals when faced with the decision to stay or leave following the acquisition of their firm by a foreign multinational, an experimental decision making exercise was employed through the application of a policy capturing study. Policy capturing allows the researcher to analyze decision making behavior by means of ‘real-life’ scenarios that are more focused than the comparatively abstract questions asked in opinion surveys (Dülmer, 2007). Data was collected from a representative base of the type of American, French and German executives, middle managers and professionals employed in a variety of industries that an acquiring firm might find valuable for post-acquisition retention. In all, a total of 252 respondents from some 225 different companies involved in twelve primary industries were surveyed. The responding executives and working professionals are evenly divided between the three nationalities (i.e. 84 each). The focus on this study was to determine if acquisition by an EMNC would result in a higher intention to quit on the part of the respondents than an acquisition by a locally owned firm or a developed nation MNC (an American owned firm for German and French respondents or a European owned firm for American managers).

**RESULTS**

Analysis of the sample population revealed that 81% of the final sample base of respondents (n = 252) had statistically significant individual decision assessments (p < 0.05) with a mean $R^2$ of 0.66. These findings, which are consistent with prior research, demonstrate that the individual managers and professionals involved in this study performed the conjoint experiment in a consistent manner (Choi & Shepherd, 2004; Patzelt & Shepherd, 2008). A high value for within-subject variance contributes to the overall power of the experiment because when respondents are highly consistent in their decisions, “policy-capturing studies can be expected to yield larger effect sizes than more traditional survey research designs” (Aiman-Smith et al. 2002, p.400). When the first step of the model was run using the composite variable for MNC (i.e. all four countries of origin included) along with the other four sociocultural variables an $R^2$ of .19 is achieved. When the full model is run by adding the control variables for the individual demographic and firm specific differences the $R^2$ is .21. Thus only an additional two percent of variance of respondent judgments is related to the individual differences between decision makers.

As recommended by Stahl and Zimmerer (1984), the decision responses of the sample population were tested for possible interaction effects. In order to test the interaction effects, a total of ten two-way interactions were tested between the five primary independent variables. The only two-way interaction variable which received a significant response rate from greater than ten percent of the survey population was the interaction between the variable ‘MNE’ and ‘Management Experience’. In order to further isolate this interaction effect, the same ten two-way interactions were tested using each of the three country of origin variables (EMNC, EU or USA and Local). These tests indicated that
approximately 30% of respondents indicated a significant interaction between the country of origin variable and the management experience with prior acquisitions variable. Three two-way dummy variables were subsequently created between the three country of origin variables and the management experience variable. These dummy variables were then entered into the regression models one at a time. The results of this test indicated that none of the three two-way dummies were significant. These interaction variables were consequently dropped from the model. The data further indicated that for the remaining two-way interactions, the total number of individuals exhibiting a significant interaction effect was less than ten percent of the total sample population. Furthermore, the significant two-way interactions were spread randomly among the possible interactions yielding a minimum additional explanatory power (incremental change in $R^2$). It is therefore assumed that there are no non-hypothesized higher-order effects confounding the results of the data analysis since it has been shown that these types of interactions rarely account for a significant amount of the variance (Choi & Shepherd, 2004). Based on these findings, this study will concentrate on the HLM performed using the original five main effects.

In order to differentiate between the various countries of origin, three dummy variables were created; ‘EMNC’ for Chinese and Indian owned firms, ‘EU or USA’ (European for Americans or American for Europeans) and ‘Local’ which matched the nationality of the firm with the country of the respondent. The results indicate that the managers and working professionals surveyed in this study showed a significantly higher likelihood of quitting their firm following an acquisition by more culturally distant firms from emerging market nations ($\beta = .320, p < .001$). The results for the EU or USA and Local owned firms show that as the cultural distance of the acquiring firm is reduced, there is a significant lowering of the likelihood of key talent turnover. As might be expected, the acquisition by a locally owned firm has the most positive effect on reducing key talent turnover ($\beta = -.238, p < .001$), however, even acquisition by developed nation multinationals, viewed by the respondents as having less cultural distance, significantly reduce key talent turnover intentions ($\beta = -.153, p < .001$). The signs on both of these findings confirm the model’s predictions; as a positive sign indicates a higher likelihood of leaving the firm and a negative sign indicates a lower likelihood of turnover.

Further examination of the data revealed that the liability of emergingness or country or origin effect is the most significant predictor of variance among the five decision criteria. The beta value for the EMNC (i.e. the combination of Chinese and Indian owned firms) was $\beta = .320$ ($p < .001$, $\Delta R^2 = .05$) indicating that this factor was the second most important determinant of variance among respondents. With respect to the relationship of variance prediction among the other two nationalities of origin and the M&A related decision criteria, the beta for the EU or USA owned firm ($\beta = -.153, p < .001$, $\Delta R^2 = .02$) was not the most important predictor among the five variables. The beta for the locally owned firm ($\beta = -.238, p < .001$, $\Delta R^2 = .056$) however, was the most important predictor although it was just slightly greater than the variable ‘Management Experience’ ($\beta = -.235, p < .001$, $\Delta R^2 = .054$). These results provide clear support for the first hypothesis.

The Level II control variables explain a relatively small amount of the overall variance ($\Delta R^2 = .02$). In addition, only half of the twelve Level II variables were significant: the demographic variables gender, age, nationality and the firm specific variables of industry, firm size and type of ownership. The control variables covering the number of years with the firm, respondent job level, the nationality of the parent
firm, firm ranking, international experience and previous experience with M&A activities were not significant and therefore dropped from the model.

With respect to the results of the data analysis for the other four sociocultural decision cues, the independent variable ‘Unknown’ was operationalized through a respondent cue that indicated the acquiring firm was not known to the target firm through a previous relationship. When presented with this cue, the existence of a previous relationship was a significant predictor of variance for all three nationalities with the following beta values: \( \beta = 101 \) (\( p < .001 \)) for EMNC firms, \( \beta = .123 \) (\( p < .001 \)) for EU or USA firm and \( \beta = .118 \) (\( p < .001 \)) for Local firms. These results lend clear support for Hypothesis 2.

The next sociocultural decision criterion was the independent variable labeled ‘Inexperienced’. This variable was operationalized through a respondent cue that indicated the acquiring firm had no existing subsidiaries in the target firm’s country. When presented with this cue, no previous experience in the host country was also a significant predictor of variance for all three nationalities with the following beta values: \( \beta = 100 \) (\( p < .001 \)) for emerging market owned firms, \( \beta = .110 \) (\( p < .001 \)) for developed nation MNCs and \( \beta = .108 \) (\( p < .001 \)) for locally owned firms. Based on these findings, Hypothesis 3 is fully supported.

The labels ‘Assimilate’ was used for the third sociocultural decision criterion indicating the intended degree of target firm integration into the acquiring firm. This variable was operationalized by informing the respondents that the acquiring firm would absorb the firm completely following the acquisition. Once again, this decision criterion was found to be a significant predictor of variance for all three nationalities with the following beta values: \( \beta = .176 \) (\( p < .001 \)) for emerging market owned firms, \( \beta = .167 \) (\( p < .001 \)) for developed nation MNCs and \( \beta = .169 \) (\( p < .001 \)) for locally owned firms. Hypothesis 4 is also supported.

The final sociocultural decision criterion, labeled ‘Mgt-Inexperienced’, was used to indicate whether the management of the acquiring firm was experienced in dealing with post-merger relations with target firms. This variable was operationalized by informing the respondents that the acquiring firm’s management did not have experience with the various aspects of post-acquisition management. As was the case with other independent variables, this decision criterion was also found to be a significant predictor of variance for all three nationalities with the following beta values: \( \beta = .228 \) (\( p < .001 \)) for emerging market owned firms, \( \beta = .237 \) (\( p < .001 \)) for developed nation MNCs and \( \beta = .235 \) (\( p < .001 \)) for locally owned firms. The fifth hypothesis is therefore fully supported.

In order to quantify and compare the variance in respondent evaluation between Chinese and Indian owned firms, an additional dummy variable was created for each nationality. Individual hierarchical regressions were then performed using each of these dummy variables. The relationship of variance prediction changes when the countries are examined separately. The beta value for Chinese owned firms (\( \beta = .241, p < .001, \Delta R^2 = .056 \)) was still the most significant predictor of variance of the five decision criteria. The opposite results were found however when a separate regression was run for the Indian owned firm. In this case, the beta value for Indian owned firm (\( \beta = .097, p < .001, \Delta R^2 = .009 \)) was the least powerful predictor of the five decision criteria.

Since the sample was comprised of three different nationalities, following the method suggested by Pablo (1994), potential moderating effects created by the unique cultural differences of the respondents (operationalized by nationality), were controlled using multiple regressions to find each respondent’s beta values for each of their judgment criterion. Once these betas were obtained, they were combined separately for each nationality so that a mean beta weight associated with each decision cue was determined for the German, French and American respondents. These weights were tested using one-way
ANOVA to determine significant differences in respondent decision making based on nationality. There was no significant difference in the mean beta weights between the three nationalities for the first independent variable which was the country of origin of the acquiring firm. There were however two sociocultural decision criteria exhibiting significant differences in the three nationality grouping of mean beta weights. There was a significant difference in the mean beta weights between the German and French respondents for both the variables ‘Unknown’ and ‘Mgt-Inexperienced’. There were no pair-wise differences between the German and American and the French and American respondents.

**DISCUSSION**

In researching the liability of emergingness effect on a respondent’s post-acquisition turnover decision, support for the first hypothesis was found. This research demonstrated that the country of origin of the acquiring firm (and the implied cultural distance thereof) was the most important criterion of the managers and working professionals’ turnover decision. Additional support for the first hypothesis was added by the fact that in spite of significant differences in age, positional levels, and time with employer between the German, French and American respondents, there was no significant difference on the evaluation of the primary decision factor of country of origin between the three nationalities. In addition to the positive correlation between emerging market owned firms and turnover intention, there was a similar negative correlation, indicating the intention to stay, found for both local and developed nation multinationals. The results of this study lend additional support to previous research showing that target firm employees typically prefer to be acquired by firms that are more culturally ‘close’ than by culturally ‘distant’ firms (Cartwright & Price, 2003; Schweiger & Very, 2003). These findings therefore also contribute to the IB literature by extending research on cross-border acquisitions by emerging market multinationals to include a multicultural, developed nation perspective.

**Assessing the Importance of Sociocultural Variables**

On a secondary level, the results of this study also contribution to the merger and acquisition literature stream by reconfirming the importance of the four sociocultural independent variables that were used in the research model. The importance of prior relationships and the subsequent development of trust between firms involved in mergers and acquisitions has been a major focus of previous M&A research (e.g., Porrini, 2004; Ring & Van de Ven, 1992; Stahl & Sitkin, 2010). The findings of this research indicate that a prior relationship between firms serves to mitigate the post-acquisition turnover decision. With respect to the second sociocultural variable of prior firm experience with mergers and acquisitions, the findings were also in agreement with the work of previous researchers (Nadolska & Barkema, 2007; Shenkar, 2001). Prior firm-level acquisition experience was therefore judged by the respondents to be the least important decision criterion. These findings were consistent across all three nationalities as there were no significant between-group differences. As previously noted, the case for the importance of management experience with mergers and acquisitions has also been made in the M&A literature (e.g., Shenkar, 2001; Walsh & Ungson, 1991). Weber and associates (1996) found that culturally sophisticated and experienced managers acting on behalf of the acquiring firm can play a significant role in reducing the post-acquisition loss of key target firm talent. The significant nature of the beta values exhibited for this decision criterion clearly supports the fifth hypothesis. In addition, these findings are also consistent with previous M&A research (Kogut & Zander, 1992).
From a cross-cultural perspective, previous management experience also showed some significant differences across the three nationalities. Once again, French working professionals exhibited the highest mean beta values for this variable. The American respondents had the second highest mean beta scores for this decision cue whereas the German professionals had the lowest relative mean beta value. As with the variable for previous relationship, the significant difference was only between the German and French respondents. An explanation for this difference might once again be found in Hofstede’s (1980) research. The difference between the French and Germans and the French and Americans may again be partially due to the French tendency towards higher uncertainty avoidance as discussed above. Another possible cultural dimension affecting this issue may however be the average French worker’s greater tolerance of authority. In accordance with Hofstede’s (1980) research on the cultural dimension known as power distance, if the acquiring firm’s management team is perceived to be professionally experienced and culturally adept, French target firm employees may be more likely to accept and respect the new managers and would therefore place a high value on this decision criterion. Given the amount of research dedicated to this topic, it is not surprising that this decision criterion was judged to be significant by the respondents but it was somewhat unexpected that this factor would have the highest beta values of the four sociocultural decision cues presented.

As discussed in the Results section of this paper, of the various Level II variables tested, only respondent age had a relatively high degree of variance prediction ($\beta = .095$, $p < .001$) when compared to the other control variables. Given that this value was stable across all three countries of origin regressions; these results indicate that older respondents have a higher post-acquisition turnover likelihood following an acquisition regardless of the nationality of the acquiring firm. These findings are in line with previous research that has shown older employees to be less tolerant of risk and adverse to change in the later stages of their careers (Thomas et al. 2005; Tung, 1998). With respect to gender, the negative sign on the beta value ($\beta = -.042$, $p < .001$) indicates that the male respondents of this survey were somewhat less likely to quit than the female respondents. These findings are consistent with previous research showing that females tend to view locally owned firms as being more attractive over foreign headquartered firms (Newburry et al. 2006) and more specifically with Tung’s (2007) research in which the female respondents reported significantly higher misgivings about working for a Chinese owned firm than the male respondents.

CONCLUSION

This study constitutes one of the first experimental research projects to investigate the human side of the relatively new phenomenon of emerging market multinationals’ acquisition of developed market firms. The goal of this research was two pronged: first, to determine whether or not developed nation working professionals would exhibit a negative bias towards emerging market firms and secondly, whether or not this bias would be the strongest deciding factor when compared to other major sociocultural merger and acquisition factors.

Although a rather comprehensive body of literature has been dedicated to the subject of emerging market OFDI strategy (e.g., Alon et al. 2012; Child & Rodrigues, 2005, Rugman & Li, 2007, etc.) as well as to the human side of mergers and acquisitions in general (e.g. Stahl et al. 2003; Teerikangas & Very, 2006; Weber & Dori, 2008, etc.), to our knowledge, only a few researchers have focused on the human side of EMNC cross-border acquisitions. For example, Tung (2007) was the first to confirm the existence of bias against Chinese owned firms in her student-based study of Canadian and Chinese nationals studying in Canada. Her study was limited however to the issue of attraction and whether or not the
research subjects would pursue employment with a Chinese owned firm. Liu and Woywode (2013) investigated the post-acquisition cultural and managerial aspects of Chinese firms in Germany. Neither of these studies addressed the issue of acquisition related retention and/or turnover of key target firm managerial and professional talent.

When cross-border acquisitions by emerging market firms are motivated by the potential for improving the economies of scale, the purchased firm is quite often highly integrated into the acquiring firm’s organization to ensure efficiency and the realization of synergies (Slangen, 2006). Problems that might arise from this high level of cultural integration with respect to target firm personnel retention may not be considered a top priority and are often attempted to be resolved by simply replacing lost talent with the acquirer’s own managers (Hambrick & Cannella, 1993). If on the other hand, as posited in much of the EMNC OFDI literature, acquiring developed nation target firm top management and professionals is indeed a major goal of emerging market cross-border M&A activity, then EMNCs may need to take proactive measures to ensure that the key talent of their newly purchased firms is retained (Walsh, 1988). This is especially critical since one of the commonly cited weaknesses of emerging market firms is their lack of global management talent (Bartlett & Ghoshal, 2000; Rugman & Li, 2007).

When Japanese firms began acquiring companies in the United States and Europe during the 1990’s, they were met with similar skepticism on behalf of Western talent workers. Stories of gender discrimination and glass ceilings imposed against non-Japanese executives entered the popular media (Brannen & Perterson, 2008). Emerging market firms are now experiencing the same levels of skepticism and in some cases, the same type of negative treatment in popular Western media (Yeung, 2000). As suggested by Gardberg and Fombrun (2006), EMNCs participating in cross-border acquisitions can reduce the potential problems resulting from major organizational and institutional differences through the establishment of programs based on the promotion of corporate citizenship that attempt to equalize the legitimacy of the foreign acquirer with the requirements of localization demanded by the target firm. Some of the more successful Japanese firms learned to mitigate this problem by employing social control practices designed to help in the post-acquisition acculturation process. They would begin by sending groups of target firm employees to the parent firm’s Japanese headquarters and then follow-up the process by sending cadres of Japanese managers to the target firm in order to promote cross-cultural training and relationships (Brannen & Perterson, 2008). Research has shown that the implementation of social control practices on behalf of the acquiring firm can help to reduce culture clashes and contribute to overall acquisition success rates (Larsson & Lubatkin, 2001).

In order to reduce or eliminate the unwanted turnover of key talent in their newly acquired firms, emerging market firms should plan on implementing aggressive socially oriented activities aimed at reducing cultural conflict and promoting the acculturation of target firm personnel as quickly as possible following the announcement of an impending acquisition. Finally, a working example of just how successful this type of proactive policy can be is exemplified by a program implemented by Lenovo’s managers following their acquisition of IBM’s PC Division under which groups of IBM PC employees were sent to Lenovo’s Chinese headquarters for training and senior Chinese executives were moved to a newly formed U.S. headquarters in South Carolina to work alongside their American co-workers (Liu, 2007). In addition, once the acquisition was completed, Lenovo moved its headquarters to New York and made English the official corporate language. This proactive approach, targeted specifically at retaining key management and professional talent, has obviously worked for Lenovo. Despite the difficult challenges faced in its early years (Lemon, 2008), the IBM PC acquisition has subsequently proven to have been a success as evidenced by Lenovo’s being named the world’s number one manufacturer of personal computers in 2013 (Metha, 2013).
REFERENCES


