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**Employee Emotional Resilience during Post-Merger Integration  
across National Boundaries: Rewards and the Mediating Role of  
Fairness Norms**

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## **ABSTRACT**

This article presents a conceptual framework to advance the understanding of the process and pitfalls of post-merger integration (PMI) across national boundaries. We argue that successful PMI is contingent on employee emotional resilience, which, in turn, depends on the efficacy of reward systems and of the underlying equity. The paper documents the key role played by financial and non-financial rewards, and of reciprocal behaviors conditioned by fairness norms, on employee emotional resilience during PMI, and the impact on them of contextual dynamics. We draw out the implications for theory and practice, again taking into special account of mergers across national boundaries, and those involving MNEs.

**Keywords:** rewards systems, HRM practices, fairness norms, emotional resilience, mergers and acquisitions (M&As), MNEs, organizational sustainability, international HRM.

## INTRODUCTION

Mergers and acquisitions (M&As) have been one of the vital forms of market expansion and growth strategy widely-utilized by firms in recent years, both within and across national boundaries (Gomes *et al.*, 2011; Zollo, 2009; Larsson & Finkelstein, 1999; Rao-Nicholson *et al.*, 2015). M&As may not only enhance competitive advantage, but infuse new skills, capabilities, and efficiencies of particular value to firms seeking to expand across national boundaries (Vermeulen & Barkema, 2001; Zollo & Singh, 2004; Dyer *et al.*, 2004). Yet, many mergers do not fulfill their set objectives; there are generally high failure rates, especially trans-national ones (Cartwright & Schoenberg, 2006; Christensen *et al.*, 2011; Gomes *et al.*, 2013; King *et al.*, 2004; Halebian *et al.*, 2009; Dyer *et al.*, 2004; Zollo & Singh, 2004). Examples of the latter would include the disastrous merger of Daimler and Chrysler, and Shanghai's SAIC Motor Co.'s takeover of Korea's SsangYong motor company. Birkinshaw *et al.* (2000) found that employee satisfaction is an important factor for the success of a merger. Goergen *et al.* (2009) noted that it is very difficult for new owners to accurately cost the worth of a target firm's human assets; hence, it is likely that they can be undervalued, leading to immediate job shedding in the interests of efficiency gains, at the cost of effectiveness and sustainability.

Although it could be argued that mergers may often be the product of irrational hubris or calculated empire building, there is little doubt that many mergers actually fail on account of shortfalls in people management. It has been argued that Human Resource Management (HRM) issues are particularly challenging in the case of those M&As that span different regulatory, cultural, and/or institutional environments (Cartwright & Schoenberg, 2006; Zollo & Singh, 2004; Gomes *et al.*, 2011; Gomes *et al.*, 2013). Although the body of work on the HRM consequences of

M&As is, again, extensive, it can be divided into two key strands. The first explores the general challenges that M&As are likely to pose for employees and how they are likely to respond (Angwin & Meadows, 2015). The second compares the effects of M&As on HRM in different national contexts, devoting particular attention to multinational enterprises (MNEs) (e.g., Goergen *et al.*, 2009). This study brings together these two distinct strands of literature, exploring the relevance and impact of the different dimensions of fairness norms for M&As both generally and when they cross institutional and cultural domains.

Despite the important role played by people related factors, the wider scholarship on M&As has only paid limited attention to the factors behind the development of employee emotional resilience during post-merger integration (PMI) and how these impact on it (Gunkel *et al.*, 2015; Sinkovics *et al.*, 2011). Employee emotional resilience is the ability of the merging entities' employees to cope with uncertainty and bounce back from adversity (Cooper *et al.*, 2013; Lengnick-Hall *et al.*, 2011).

Transnational PMI is particularly challenging: cultural and institutional differences play an important role in determining the overall success of M&As (Gomes *et al.*, 2013; Stahl *et al.*, 2013; Sarala *et al.*, 2016). Indeed, institutions, and specific cultural dynamics, may represent both obstacles and enablers, posing particular challenges—and providing solutions—in helping build employee emotional resilience during the PMI phase (Stahl *et al.*, 2013; Cooper *et al.*, 2013). Although it is recognized that employee emotions play an important role during mergers (Sinkovics *et al.*, 2011), relatively little research has examined employee emotional resilience in the context of PMI, and surprisingly little is known about how it can be enhanced, especially in the case of trans-national mergers. This omission is surprising

as, during PMI, organizations go through high degrees of organizational change that will greatly affect their employees' everyday lives (Vuuren *et al.*, 2010).

We aim to address this gap by developing a conceptual model. We argue that employee emotional resilience during the PMI stage can be improved through specific human resource management initiatives—namely, financial and non-financial rewards—and, in turn, their relative composition and content is closely bound up with fairness perceptions and institutional and cultural settings. In other words, we are sceptical of those accounts that suggest that problems of integration can be simply resolved through efforts to promote better understanding or communication (c.f. Francis, 2003): mergers fundamentally challenge work and employment relationships and established HRM systems and, unless due attention is paid to material issues, mergers are quite likely to fail.

The general role of financial and non-financial rewards with regards to employee satisfaction and performance has been well documented (Belaska-Spasova *et al.*, 2017). We argue that rewards can also influence employee emotional resilience. However, employees are not mere self-interested utility maximizers, as suggested by the orthodox/rational model of economic behavior (Aoki, 2010). Employee emotional resilience cannot be simply bought by financial or non-financial rewards. Employee self-interest is bounded by fairness norms of a procedural, distributional, and intentional nature<sup>1</sup>. Procedural fairness norms pertain to what is considered to be acceptable behavior in implementing the processes (rather than the specific outcomes)

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<sup>1</sup> Similar to these fairness norms, studies in social psychology offer a slightly different set of justice norms—namely: procedural, distributional and interactional (Colquitt *et al.*, 2001). While procedural and distributional justice norms are the same as described above, interactional ones refer to fairness in interactions. Individuals assess how they are treated when decisions are developed and implemented and reciprocate accordingly. For this particular study, we focus on the initial set of fairness norms developed by experimental economists.

that individuals use to judge the methods or procedures used to make and implement decisions (Brockner, 2002). They concern the means through which a decision has been made and implemented. What is procedurally fair may be defined by the law and/or convention that is specific to a context (Macdonald, 1979). Distributional fairness refers to what is perceived to be fair in terms of the allocation of benefits or resources, and of the sharing of any costs (Bolton & Ockenfels, 2000). It should be noted that inequality may be more acceptable in some settings than in others; this may reflect institutional or cultural dynamics, or simply how relative material conditions have changed over time (Kelly, 1998). Intentional fairness can be defined as a measure of whether actors intended to treat other players fairly when embarking on a particular action (Haidt, 2001); again, the boundaries of what may be considered fair will vary according to a context (c.f. Jackson & Deeg, 2008). By doing so, we put forward a novel argument to examine the impact of financial and non-financial rewards on employee emotional resilience during a PMI phase involving firms from different institutional settings.

In sum, we argue that fairness norms vary by context and, indeed, in the case of cross-border M&As. Due to information asymmetry and because firms may have to rely on multiple fairness norms in order to enhance PMI and employee emotional resilience, the process of cross-border PMI is intrinsically more challenging. We link notions of fairness to specific reward systems (e.g., financial and non-financial), as a basis for understanding the potential of, and the constraints placed upon, the PMI process under such circumstances. We further seek to provide the basis for synthesis between distinct theoretical traditions, and to promote multi-disciplinary understandings of the human dimensions of the PMI process in cross-border M&As.



Our contributions are four-fold. First, we contribute to the literature that explores the influence of HRM practices on the success of international M&As. Although, HRM practices have been studied in different contexts, including their role in improving organizational performance (Subramony, 2009; Huselid, 1995; MacDuffie, 1995), relatively few studies have examined the role played by HRM practices on PMI integration across national boundaries (Cooke & Huang, 2011). While many HRM practices—including voice, collective representation, and communication—have been shown to influence employee behavior during the PMI phase, the specific role played by rewards systems, despite their well-established role in motivating employees, their influence on employee emotional resilience has neither been studied nor adequately documented in the existing literature. Second, we highlight the importance of bounded self-interest, which has been studied extensively in the experimental economics and social psychology literature, but not, insofar as we are aware, in the context of cross-border M&As. In particular, the mediating role played by fairness norms in the relationship between rewards systems and employee emotional resilience during international PMI stages has not been studied before. The existing studies have suggested that, in order to enhance employee emotional resilience, it is important for firms to address the normative variables that make employees stick to their organization even under stressful conditions (Shimizu & Hitt, 2004; Bock *et al.*, 2012). We particularly highlight how, by paying greater attention to fairness issues, M&A outcomes may be optimized and a sense of equity and equality can be enhanced. Third, while defining and embedding firm-specific fairness norms can be an important variable that enables the enhancement of employee emotional resilience during international PMIs, it is important to note that norms are likely to vary according to contextual settings. In other words, since emerging market firms are

on a global shopping spree, firms located in different institutional and contextual settings come together, introducing the influence of contextual conditions on fairness norms. By discussing the role played by context in shaping fairness norms into the framework of cross-border M&As, we argue that the effect of context on fairness perceptions cannot be discounted in explaining employee behavior during the PMI phase. Fourth, this study takes an international perspective and draws out the broader implications for trans-national mergers; for those involving MNEs, there has been growing interest on why and how MNEs expand through M&As, but only limited attention has been paid to strategies aimed at helping employees cope better in the case of such events.

## **LITERATURE REVIEW AND CONCEPTUAL DEVELOPMENT**

### **Post-Merger Integration and employee emotional resilience**

Many M&As fail due to the lack of a successful PMI between the acquirer and the target firms, a challenge that is particularly daunting when firms cross national boundaries. It is in this context that the PMI stage has been indicated to be vitally important in determining the overall success of M&As (Angwin & Meadows, 2015; Brueller *et al.*, 2016; Stahl *et al.*, 2013; Bauer & Matzler, 2014). This is not to suggest that a full or even a partial integration may be necessary or desirable: each organization has its own unique capabilities, and a disruptive integration process may disrupt existing internal networks and synergies (Purunam *et al.*, 2009; Paruchuri *et al.*, 2006). Indeed, the *cognitive capabilities* of an organization represent something that is accumulated through dense social ties (Aoki, 2010); anything that disrupts this may detract from the overall viability of the acquired firm and, indeed, the base of

value that the acquirer sought to capture. Yet, most M&As involve integration in some form or another.

At the very least, M&As bring with them the threat of disruptive changes to the merging firms' employees; people related issues and internal or contextual cultural misfits have been widely suggested to affect the success of PMI (Stahl *et al.*, 2013; Gomes *et al.*, 2013; Vuuren *et al.*, 2010). Thus far, most of the existing M&A related research has focussed on socio-cultural and psychological factors in order to explain PMI (Gomes *et al.*, 2013; Stahl *et al.*, 2013). For example, Gomes *et al.* (2013) suggested leadership, team, communication, and cultural differences as critical factors for a successful PMI. Stahl *et al.* (2013) highlighted cultural fit, management style similarity, the pattern of dominance between the merging firms, the acquirer's degree of cultural tolerance, and the social climate surrounding a takeover as drivers of performance or underperformance of M&As.

There has been, however, relatively little examination of employee emotional resilience during PMI and its material basis, which can potentially play an important role not only in the success of PMI, but also in other organizational outcomes, such as the organization-wide resilience and survival of the merging firms. Resilience can be defined as positive adaptability in contexts marked by adversity (Luthar *et al.*, 2000). Accordingly, emotional resilience can be defined as the capability to successfully cope with—or maintain competence in the face of—some unforeseen external development or other, reflecting specific emotional capacities (Sameroff & Rosenblum, 2006). Emotional resilience is closely associated with behavioral resilience, which can be defined as the ability to maintain or develop desirable patterns of behavior in the light of changes in circumstances (Luthar *et al.*, 2000). Although our primary focus is on the makers of emotional resilience, it is recognized

that this will feed through to behaviors that will be mediated through the actions of others, reflecting the complex relationship between group and individual choices and embedded societal structures.

So, understanding the factors that contribute towards the development of employee emotional resilience during the PMI phase has important implications for the overall competitive advantage of merging firms. Understanding the antecedents of employee emotional resilience during the PMI phase is critical; different factors at various levels can determine its development. In this article, we specifically focus on the key role played by organizational-level factors, especially key HRM practices, and the impact of wider contextual circumstances on the development and enhancement of employee emotional resilience.

### **Contextual Circumstances and M&As – Regulations, Ties, and Emotional Resilience**

A very wide body of literature has looked at the impact of context on firm practices, most notably in the case of firms that span national boundaries (Brewster *et al.*, 2017). Firstly, national institutional configurations provide both formal rules and informal regulations that define and mould the choices made by firms (Lane & Wood, 2009). A central premise of the literature on comparative capitalism is that, when market coordination is greater, so is employer-employee interdependence (Whitley, 1999). The latter encompasses both security of tenure (in legal and implicit terms) and investment in people (both by the organization and in terms of the relative incentives for employees to develop their organization relevant skills) (*ibid.*). This would suggest that, in lightly regulated liberal markets (e.g., the US and the UK), there is much more room to implement post-merger changes in staffing. A challenge faced by

MNEs from liberal markets in undertaking M&As in formally coordinated ones (e.g., continental Europe, Japan), or in other settings in which markets are more heavily regulated (either by design or through institutional distortions), is that the patterns found at home cannot be simply replicated abroad. Similarly, governance patterns may differ across contexts, which require the enactment of specific organizational practices in shaping employee behaviors during the PMI stage (Capron & Guillen, 2009). Hence, recent work would indicate that, in introducing new HRM practices and changes in staffing, MNEs will lag behind their local counterparts (Brewster *et al.*, 2017). Yet, the circumstances for M&As may make it very difficult to hang on to past HRM models. This makes the nurturing of employee emotional resilience particularly important—and challenging—especially when changes push against embedded informal regulations.

If institutional approaches focus on regulations and relations, socio-cultural approaches highlight embedded shared cultural features. However, again, a key distinction is drawn between individualist cultures and more communitarian ones (Msila, 2015). Again, liberal markets are seen as being characterized by particularly individualist features (Barnett, 2005). In practical terms, this would suggest that, in entering more communitarian societies, social relations within and between firms are more likely to be closely knit; this makes the need for and challenges related to building employee emotional resilience particularly pressing (Msila, 2015). Again, it can be argued that, in developing economies, for instance, not only are communitarian features particularly pronounced (Msila, 2015), but with this, and often in compensation for institutional shortfalls (Ledeneva, 2009), informal extended networks of support become more important. On the one hand, such networks can help individuals cope better with redundancies and, hence, help cushion the shock of

any subsequent downsizing. On the other hand, such networks may bring with them the possibility for greater resistance to change (Torenvliet & Velner, 1998). Again, rapid interventions at the individual employee level may help reduce the risk of tensions escalating and rippling down informal networks across and beyond the organization. Against such backdrop, organization may have to fall back on adopting specific types of HRM practices in order to enhance employee emotional resilience, particularly when two firms decide to merge.

### **HRM practices as key antecedents and their role in fostering employee emotional resilience**

Many different approaches and multiple types of factors can develop or enhance employee emotional resilience. However, we focus on the organizational-level factors that can foster employee emotional resilience during PMI. Many M&As do not yield their anticipated benefits, and employees are often the worst affected (Cartwright & Cooper, 1990; Moody, 1997). Not only are employees a core stakeholder group with sunk capital in the firm, but their cooperation and support during PMI is also a key factor in ensuring a favorable outcome (Gultknecht & Keys, 1993). In coping with mergers, a key dimension is voice; together with exit, it is one of the two principal ways by which employees may seek to alter the circumstances of their work and employment (see Hirschman, 1970). However, exit is an inefficient mechanism in that both sides are often left worse off, and the employer may lack accurate information as to why the employee chose this course (Harcourt *et al.*, 2007). Not only will taking employee voice seriously result in better information flows, but it will feed back to enhance employee morale and worth (*ibid.*). Finally, in contexts in which there is

stronger market mediation and/or group solidarities, the adverse consequences of ignoring employee voice become particularly serious (Whitley, 1999).

At the organizational-level, the most important way to develop and enhance employee emotional resilience during the PMI phase is through targeted HRM practices (Cooper *et al.*, 2013; Lengnick-Hall *et al.*, 2011; Khan *et al.*, 2017); in the case of trans-national events, the contextual relevance of such practices assumes particular importance. Drawing from the wider HRM and resilience literatures, we narrow our focus and identify two sets of HRM practices particularly likely to enhance employee emotional resilience—namely, financial rewards (e.g., increased pay packages, bonuses, and benefits, and paid holidays) and non-financial ones (e.g., career development opportunities, employee recognition programs, and performance-based promotions)—and explore their effects on employee emotional resilience during the PMI phase. Our aim is not to provide a comprehensive account of the HRM practices that contribute to the development of employee emotional resilience but, rather, to highlight the key HRM practices that are vital for the development and enhancement of employee emotional resilience during the PMI stage (Lengnick-Hall *et al.*, 2011), and the relationship between HRM practices and organizational performance and sustainability (Subramony, 2009; Huselid, 1995; Guest, 2011).

**Insert figure 1 here**

## **Financial and non-financial rewards and employee emotional resilience during PMI**

In M&A, employees often experience feelings of isolation during integration, suffer the loss of co-workers and their role importance, and may experience a reduction in the benefits they once enjoyed in their previous organization (Buono & Bowditch, 1989; Seo & Hill, 2005); this may particularly be the case when there is a significant geographic, cultural, and/or institutional divide between the parties. Moreover, an M&A is an anxiety provoking and stressful experience for employees (Buono & Nurick, 1992; Marks & Mirvis, 1992). Resilient individuals have the ability to think positively and to try to make sense of negative events (Luthans, Vogelgesang & Lester, 2006). In this article, we argue that financial and non-financial rewards could also assist employees in developing emotional resilience during the post-M&A integration phase.

Appropriate financial and non-financial compensation and incentive plans have been recognized as being vital to attract and retain key talent during acquisitions (Schuler & Jackson, 2001). Moreover, Ahammad *et al.* (2012) argued that the use of financial incentives is positively associated with top management intention to stay in the acquired firm during the post-acquisition phase. One of the roles played by incentive schemes may be to bring about those behavioral changes that were seen as the core of a successful transformational change by Kotter and Cohen (2002). Moreover, bonuses tied to performance and clear career development paths signals to employees that they are valued and that their contribution is recognized, even if the firm's headquarters are geographically remote. Such importance and recognition will assist employees in thinking positively about the merger. For example, Child *et al.*'s (2001) study on cross-border acquisitions indicates that bonuses linked with



performance and clear career development paths send employees the message that they are highly regarded and that their contributions are recognized.

It should be noted that the relative efficacy of bonuses will vary from setting to setting; in some contexts, there is a high degree of expectation that bonuses will be automatically rewarded; in others, they are either very unusual or discretionary (Belaska-Spasova *et al.*, 2017). Again, when collective bargaining arrangements are well developed, the room for discretion in setting pay levels is more limited (*ibid.*). Again, in more communitarian cultures, any bonuses may be expected to have a collective dimension (Mzila, 2013).

Finally, pensions represent an important form of deferred reward; the breaching of implicit pension undertakings undermines the basis of the psychological contract, even if it may be quite legal (De Thierry *et al.*, 2014). Acquisitions may result in fundamental changes in pension regimes; here, a key challenge is reconciling the need for equity and fairness with past undertakings. In the case of international M&As, new managers from abroad may lack awareness of national level norms in pension regimes, and of the subtle differences between what is legally obligatory and what is accepted practice. It could be argued that, given that they have already chosen a context on account of the benefits it confers, MNEs tend to be more cautious in departing from such national norms; hence, they have less interest in disrupting an existing balance of practice (Brewster *et al.*, 2017). Again, as mergers may enable a consolidation of functions, job shedding often takes place: good pension plans may incentivize older workers to voluntarily quit, and hence make for less disruptive downsizing. Such measures will help employees to think more positively about mergers, enhancing emotional resilience. This argument leads to the following proposition:

***Proposition 1a:*** Financial and non-financial rewards positively influence employee emotional resilience during the PMI phase.

We argue that both financial and non-financial incentives positively influence employee emotional resilience. However, given that some employees might see financial rewards in highly instrumental terms, we emphasize that non-financial rewards—in the forms of employee recognition programs and performance-based promotions—can potentially have an impact on employee emotional resilience similar to that of financial ones. Again, mergers involve a considerable financial stretch by the acquirers, and it may be difficult to maintain an overall enhancement of real wages. It has been argued that financial incentives are not sufficient to buy hard work or long-term loyalty (Erickson & Troy, 2008). Although the close correlation, found in both the US and the UK, between wage stagnation and decline in specific types of job and poor productivity would suggest that no amount of non-financial rewards can compensate for poor pay, non-financial rewards, including proper career prospects, represent a key part of the picture. It could be argued that low wages are particularly debilitating when there is no room for their enhancement through career progression. In the absence of the latter, post-merger organizational commitment levels may be low. As Roberts *et al.* (2005:718) noted, “occasions in which organizations have planned and institutionalized opportunities to endow individuals with expressions of positive affirmation” have resulted in superior HRM and broader organizational outcomes. In the case of trans-national M&As, it is worth considering the rationale behind the acquisitions; where, for example, it was simply to acquire existing proprietary knowledge, the prospects for upward progression may well be reduced;

yet, a failure to take into account non-financial incentives may make even the attainment of short-term operational objectives much more difficult. Based on the above discussion, we propose the following:

***Proposition 1b:*** non-financial rewards will have stronger or at least equal influence on employee emotional resilience than financial rewards during the PMI stage.

### **FAIRNESS DURING PMI**

The research on rewards is found to be heavily grounded in economic theories such as transaction cost economics (Williamson, 1979), resource dependence theory (Taylor, Beechler & Napier, 1996) and agency theory (Gomez-Mejia & Balkin, 1992). As Granovetter (1985) pointed out, all these theories are undersocialized; they pay little attention to values other than the economic exchange value that employees may seek. Decades of research on fairness have found that individuals give importance to equity considerations in addition to efficiency and economic value. In other words, actor behavior is conditioned by “bounded self-interest” and what is perceived to be the right thing in a particular setting (Bosse, Harrison & Phillips, 2009). Bounded self-interest refers to conditional fair and unfair behavior (Fehr & Gächter, 2000). Accordingly, fairness norms (i.e., procedural, intentional, and distributive ones) are relevant to context guided employee behavior.

Numerous studies have found that individuals will be willing “to sacrifice resources for rewarding fair and punishing unfair behavior even if this is costly and provides neither present nor future material rewards for the reciprocator” (Fischbacher & Gächter, 2002:2). Indeed, individuals reciprocate even under high

stake conditions (Fehr, Fischbacher & Tougareva, 2002) and under informational asymmetry and uncertainty (Hoffman, McCabe & Smith, 1996; Sethi & Somanathan, 2003). In contrast, to reciprocal behavior, altruistic behavior is unconditionally kind and one-sided (Bossee *et al.*, 2009; Ostrom, 1998).

Based on the assessment of the behavior of others against these fairness norms, individuals may reciprocate either positively or negatively (Bossee *et al.*, 2009; McCabe *et al.*, 2003). Positive reciprocity refers to the friendly actions undertaken by individuals against the friendly actions of others. Research has shown that individuals even sacrifice their own benefits to positively reciprocate fair behavior (Fehr & Gächter, 1998; McCabe *et al.*, 2003). Negative reciprocity refers to unfriendly actions undertaken by individuals against the unfriendly actions of others (Bossee *et al.*, 2009; Fehr & Gächter, 1998). When individuals perceive that the actions of others are unfair in terms of procedure, intention, or distribution, they reciprocate negatively; the existing research suggests that they will do so even if it is costly (Eisenberger *et al.*, 2004).

Accordingly, we argue that the ways in which employees respond to changes during the PMI process are contingent on whether they see them as fair or not. When employees perceive that they are being treated fairly by their organization, they are more likely to make an effort to come back from the challenges that PMI imposes on them. When they perceive that they are being treated unfairly, they will be ready to punish the organization even if it is a costly endeavor. Therefore, we argue that fairness norms mediate the relationship between rewards system and employee emotional resilience. Put differently, the impact of financial and non-financial rewards may not be uniform across different individuals and settings. They will shape

the impact of both these reward systems on employee behaviors and attitudes during the PMI phase.

Further, research has also shown that the meaning and importance of fairness is influenced by situational and contextual factors, including culture (Li & Cropanzano, 2009) and regulatory focus (Brockner, De Cremer, Fishman & Spiegel, 2008). What is important and relevant to the context of M&A is that the nature and extent of reciprocal behavior will vary from context to context. For example, the literature on comparative institutional analysis suggests that ties between individual actors are denser or thicker within contexts in which market coordination is more advanced (Lane & Wood, 2009; Jackson & Deeg, 2008). In contrast, in liberal markets, relations tend to be more 'arm's length' and transactional (*ibid.*). Again, in more communitarian cultures, there will be higher expectations of reciprocity (Msila, 2013). Various other contextual conditions may have a similar influence on how differently or similarly individuals reciprocate.

In any context, employees assess whether the methods, intentions, or outcomes are fair, and reciprocate accordingly. For example, in contexts in which employment protection is strict, employees may be less immediately concerned for their jobs following on an M&A (Gugler & Yortoglu, 2004). By the same measure, in such contexts, wage compression is often more pronounced (Koeniger *et al.*, 2007); challenges to embedded notions of fairness through, for example, radical changes in rewards for senior managers may undermine established conventions. As Bockermann *et al.* (2011) noted, greater wage inequality is associated with lower levels of wellbeing.

Recent experimental work has shown that fairness and reciprocity are relatively fragile and may be disrupted through top down interventions that undermine

the basis of existing patterns of decision-making. Whilst complex organizations depend on established patterns of reciprocity, these cannot be taken for granted (Schaufeli *et al.*, 1996). At the same time, the dominant institutional configurations and associated modes of corporate governance in the host and target countries will both enable and constrain how the target firm is reorganized (Capron & Guillen, 2009). In other words, even if local workplace dynamics are relatively fragile, they may well be sustained by specific institutional arrangements. However, the existence of very different institutional arrangements in the country of origin of the acquirer may result in contending pressures, resulting in policy incoherence, which may be highly disruptive even if the circumstances of individual employees are not immediately threatened. As Homburg and Bucerius (2006; 2005) noted, when there are great differences in internal relatedness—characterized by differences in managerial style and practice—PMI is likely to prove more challenging, and rapid integration is particularly likely to lead to sub-optimal outcomes.

As mentioned, what constitutes fairness is socially conditioned. Firms should recognize that gross inequality in organizations may represent a significant cause in contexts in which productivity is sub-optimal (Pfeffer & Langton, 1993); fairness encompasses both subjective and objective dimensions and, in the case of transnational firms, due consideration must be given to what might constitute the optimal mix of local and global practices that might serve to promote greater workplace fairness. It should be noted that, in large and complex organizations and in those with an extended geographical scope, the translation of broad policy choices into practice may be particularly challenging, necessitating greater attention to ensure basic norms of fairness in practice. At the same time, it should be acknowledged that PMI is an open ended and uneven process; in some cases, it is pursued more vigorously than in

others. This would reflect the underlying rationale for an M&A. If it was to benefit from the existing competitive advantages conferred by a particular context, then there may be substantially less appetite for rapid integration and the imposition of conformity in intra-organization practices than in, say, cases in which an M&A was prompted by a desire for market access or to subsume a competitor (Morgan & Kristensen, 2006). As Slangen (2006) noted, the relative closeness of integration will affect whether and how context-specific established informal modes of regulation and culturally bound expectations will impact on M&A outcomes.

### **The mediating role played by fairness norms**

As mentioned, organizations may use financial and non-financial rewards to improve employee emotional resilience during PMI. In addition to what is set by formal regulations, employees will judge any changes in reward systems in term of fairness norms (Bidwell *et al.*, 2013). When employees are emotionally stressed during the PMI stage, a standardized and inflexible reward structure that is not the outcome of collective bargaining may do little to ease matters. The ability to give employees room to negotiate or impact on their rewards may enhance emotional resilience in the absence of collective wage setting mechanisms. For example, Walumbwa *et al.* (2008) argued that procedural fairness mediates the relationship between the rewards accruing to leaders and follower satisfaction. Similarly, Folger and Konovsky (1989) suggested that procedural justice has a significant impact on pay satisfaction. Again, Williams *et al.* (2000) encountered a similar pattern in terms of non-financial rewards. When employees feel that their voices are taken into consideration while designing their financial and non-financial rewards, they may reciprocate positively and take a more positive view of organizational changes. Even when other organizations that are

broadly alike offer more rewards or try to attract employees during the PMI stage, employees may remain committed to their organization if they perceive its actions as being fair

Depending upon national contexts, there is much variety in the terms of dominant voice mechanisms. In the case of trans-national M&As, a key challenge is to accurately cost the benefits—and limitations—of established non-statutory voice mechanisms in the target firm's context; in the short-term, it may well be worth putting up with existing imperfections in the interest of enhancing employee emotional resilience and, indeed, behavioral resilience. When employee voice and expectations are not considered when deciding the reward structure, it is likely that the rank and file may consider it procedurally unfair (Kickul, 2001). As Hirschmann (1970) warned, when voice is ignored, employees will, wherever possible, resort to the exit alternative; should the latter not be feasible, they may only remain committed to the organization in the most negative sense, resulting in low levels of productivity throughout the PMI period (Morrison & Robinson, 1997; Wayne *et al.*, 2002).

Bound up with this are relative employee expectations. In contexts that are characterized by stronger market coordination, employees are likely to expect to have access to legitimate and effective voice mechanisms (Dore, 2000). In more communitarian societies, even if formal voice is weak, employers are more likely to be bound to employees through denser webs of informal conventions governing behavior; even when employees may have few legal rights, there are more likely to be entrenched notions of mutual (even if unequal) obligations (Wood *et al.* 2010; Msila, 2015). Based on these arguments, we propose the following:



***Proposition 2:*** Institutionally configured and culturally embedded procedural fairness norms found in the country of the acquired firm mediate the relationship between (financial and non-financial) rewards and employee emotional resilience during the PMI phase: in contexts in which market coordination is more pronounced, and/or in more communitarian cultures, such norms are likely to be more extensive.

In addition to assessing the procedures through which employee rewards are decided, employees also assess their financial and non-financial rewards against their expectations of distributive fairness norms (Folger & Konovsky, 1989). They are likely to compare their rewards with similar employees involved in the PMI process within their organization or, indeed, in other comparable firms. Given the operation of inter-personal networks, it is not likely for pay information to remain confidential. Such information is also available on platforms such as Glassdoor, an online platform that provides salary estimates and commentary by existing and past employees on individual organizations (see [www.glassdoor.co.uk](http://www.glassdoor.co.uk)). Using such information, individuals can assess whether their rewards are comparatively fair (Colquitt *et al.*, 2001; Folger & Konovsky, 1989).

Even when they perceive the procedure through which their rewards are decided as fair, they may view any changes as unfair on equity grounds. A wide body of literature has highlighted the extent to which inequality within organizations—or, indeed, across society at large—may undermine individual emotional resilience (Deutsch, 1975). Again, as employees may see voice as ineffective when matters appear very unfair, they may once more respond by exercising the exit option. In other words, emotionally distressed employees are easy targets for poaching (Griffeth

& Hom, 2001; Fairbrother & Warn, 2003). Unhappy employees may also seek to recover value through unorthodox mechanisms (Thompson & Smith, 2010). For example, Tang and Chiu (2003) found that employees engage in unethical behaviors when they perceive that they are victims of inequality in rewards. They may also engage in low key game playing or in the misuse of organizational resources, and in other informal and ad hoc methods of retaliation. However, if they perceive that their rewards are relatively better or equivalent to those of comparable employees involved in the PMI process, they will be more resilient to the shocks and stresses of an M&A, and contribute better to the organization (Folger & Konovsky, 1989).

Again, what defines distributional fairness is conditioned by the contextual conditions of both parties involved in M&A; in particular, institutional configurations and embedded cultural dynamics. In contexts in which market coordination is more pronounced, employees may expect any rewards to be distributed more fairly compared to employees in other contexts (e.g., Dore, 2000). There is no direct relationship between communitarianism and social equality: many communitarian societies are quite unequal. However, embedded notions of mutual obligation remain that impact on distributional issues (Wood *et al.* 2010). For example, it is common for paternalist managers to compensate for low wages by giving preference to relatives of existing staff members when hiring new ones, and/or by extending informal loans or special leave in cases of unexpected hardship (*ibid.*). Therefore, we propose the following:

***Proposition 3:*** Institutionally configured and culturally embedded distributive fairness norms found in the country of the acquired firm mediate the relationship between (financial and non-financial) rewards and employee

emotional resilience during the PMI phase: in contexts in which market coordination is more pronounced, and/or in more communitarian cultures, such norms are likely to be more extensive.

While procedural fairness norms frame how employees view the composition of financial and non-financial rewards, intentional fairness norms enable employees to assess the goals or intentions behind them. As noted above, employees will find themselves under essentially emotionally stressful conditions during the PMI stage (Buono & Nurick, 1992; Marks & Mirvis, 1992). Donovan and Kelemen (2011) found that individuals perceive every initial action as intentional and reciprocate accordingly. Therefore, when employees perceive that their rewards during the PMI stage are driven by procedural or distributive fairness, they immediately ascribe good intentions to their organization; hence, they are more likely to work for its betterment during the stressful PMI stage. Even if the rewards are procedurally unfair or unequally distributed, if the employees perceive such organizational behaviors to be unintentional, they may forgive them.

In contrast, when employees perceive that their rewards during the PMI stage are unfair in terms of procedure or distribution, they may see the organization as acting unfairly and may reciprocate negatively. It would then take great efforts for organizations to regain trust. Subsequent accidental unfair actions may also be seen as intentionally so (Haidt & Graham, 2007).

Similar to procedural and distributional fairness, intentional fairness is also conditioned by the institutional configurations and cultural dynamics found in the contexts in which employees are located. In culturally communitarian societies, informal restraints are likely to be more extensive (Msila, 2015), while, in contexts

with high levels of institutional coordination, formal ones will assume greater importance (Dore, 2000). In each, even a small change in how organizations procedurally and distributionally treat employees may challenge formal or informal rules and conventions and lead to employees questioning the intentions behind such changes. In a communitarian culture, the closer ties between employees may enable them to rapidly become aware of any changes and irregularities in their procedural or distributional treatment (Msila, 2015). In more coordinated contexts, employees are likely to possess wide-ranging entitlements to consultation and information sharing (Dore, 2000). Again, this means that they will be better informed about any changes than they would be in contexts in which such rights do not exist. Therefore, we propose the following:

***Proposition 4:*** Institutionally configured and culturally embedded intentional fairness norms found in the country of the acquired firm mediate the relationship between (financial and non-financial) rewards and employee emotional resilience during the PMI phase: in contexts in which market coordination is more pronounced, and/or in more communitarian cultures, such norms are likely to be more extensive.

Although, as noted above, the promotion of fairness in one area does not necessarily have any—or positive—effects in other areas, it is evident that all three dimensions of fairness will impact on how employees cope and respond during the PMI phase. In some national contexts, what organizations are able to do will be circumscribed by the law, for example, in helping set the parameters of what is procedurally or distributionally fair. In turn, in less regulated areas, firms may have

more room for strategic choices and, hence, they may devise complementary or compensatory strategies. Given the uneven effect of formal and informal rules and conventions, no standardized template can be defined for the implementation of fairness measures: what we rather seek to do is highlight the implications of the different dimensions of fairness for PMI, as a basis for an informed conceptual analysis and applied decision making.

## **DISCUSSION AND CONCLUSIONS**

The aim of this article is to develop a conceptual framework that explains how employee emotional resilience can be fostered during the PMI phase (Cooper *et al.*, 2013; Lengnick-Hall *et al.*, 2011). As noted above, many mergers fail, and this is often due to HRM issues (Gomes *et al.*, 2013; Stahl *et al.*, 2013; Dyer *et al.*, 2004). Nevertheless, research on people management in the context of M&A is still in its infancy. Specifically, there still is an insufficient understanding of the key organizational-level antecedents of effective and efficient HRM during PMI, and of how such practices enhance employee emotional resilience across national boundaries. We address this gap by focussing on the influence of organizational-level antecedents—in particular, rewards—on employee emotional resilience during PMI. By doing so, we also address Weber and colleagues' (2011, 2012) emphasis on a pressing need to develop theoretical frameworks that can explain successful post-acquisition integration and the development of a competitive advantage for the merging entities.

## **Theoretical Implications**

Recent research has focused on the social, cultural, and psychological factors in play in M&A success (Gomes *et al.*, 2013; Stahl *et al.*, 2013); yet, to date, only limited attention has been paid to understanding the organizational level antecedents that foster employee emotional resilience, and their relationship to context (Sinkovics *et al.*, 2011; Khan *et al.*, 2017). We contribute to the extant M&As research by examining the organizational-level antecedents of employee emotional resilience and explore the role played by financial and non-financial rewards in the development and enhancement of employee emotional resilience (Gardner *et al.*, 2011; Lepak *et al.*, 2004; McClean & Collins, 2011; Brueller *et al.*, 2016; Lepak *et al.*, 2006). In this conceptual article, we seek to bring novel insights into the resilience literature by making the case that organizational fairness can play a vital role in the development and enhancement of employee emotional resilience; one that can contribute to the success of transnational mergers. In bringing together the perspectives of comparative institutional analysis, cross-cultural management, philosophy, and organizational psychology, we seek to provide the basis for further theoretical synthesis by highlighting the broadly compatible components of different theoretical traditions, which, so far, have not been brought together in exploring the role and impact of employee emotional resilience during PMI.

As highlighted in the propositions, the relative importance of considerations of fairness will be moulded by context; in greater market coordination settings and/or more communitarian ones, the impact of these issues will be accentuated. At the same time, what firms do will be constrained not only by convention, but also under the law. In coordinated markets in which quite high standards are set for fairness, what firms do is constrained by centralized wage setting institutions and high employment

protection; at the same time, such regulation does not preclude firms from departing from fairness norms in managerial pay settings. Again, as Kelly (1998) noted, employees are more tolerant of poor pay and conditions in hard times; if the target firm is distressed, then workers may put up with adverse changes to the terms and conditions of their service for the sake of preserving their jobs. Hence, how individuals perceive fairness will depend on their current circumstances, comparing with their past ones and their wider social environment; they cannot be divorced from context and, in some circumstances, there will be much higher expectations than in others (Golden, 1992).

It could be argued that the existing literature on M&As is theoretically very fragmented, with competing perspectives from economics, psychology, and sociology. However, central to this article is the assumption that individual choices cannot be understood when removed from a group environment and from a wider socio-economic context. From a broad political economy perspective, it can be argued that material conditions—and variations in material conditions between settings—do matter: all the entreaties or assumptions in the world cannot resolve the structural problems associated with M&As unless the consequences of potential changes in rewards, tenure, and the manner in which individuals and groups may be differentially treated are taken into account. Aoki (2010) argued that, in addition to the lump sum of human capital, organizational success depends on cognitive capabilities: how individuals work together and how their collective efforts and understanding make for an overall degree of organizational effectiveness that is greater than its constituent parts. This perspective helps us understand why M&As so often fail. Outsiders may struggle to account accurately for the worth of a target firm's human assets; this explains why M&As across national contexts and between organizations with fundamentally

different cultures are particularly ill-starred. However, without insights from other fields, it is also an incomplete view: in particular, the theoretical and applied literature on organizational fairness and that on the centrality of rewards in the work and employment relationship provides the conceptual and applied framework for understanding the core interventions necessary to husband and enhance such capabilities. In more communitarian contexts and in those in which market mediation is greater, the issue of fairness assumes particular importance. Many M&As are associated with job losses, both on account of the bureaucratic economies of scale reaped by larger organizations (Brewster *et al.* 2006), and because, sometimes, firms are targeted on an account of a desire to acquire only a part of their operations or assets, shedding the rest. However, a better understanding of fairness and rewards, and of how they work together in a group context, may make such a process of adjustment less destructive. If it seems that generally accepted rules and fairness norms are adhered to, the process will be perceived as less arbitrary; hence, individual employees are more likely to cope with the changes. It may similarly reduce the possibility of breaking informal regulatory norms and understandings.

Whilst it is fashionable to call for greater inter-disciplinary collaboration in business and management studies, an analysis of the human dimensions of M&As sheds particular light on the intersection of concepts and understandings of quite different disciplinary fields. Above all, it underscores the interconnection between material circumstances, varieties in material circumstances between different components of the merged organization, and action, the latter being underpinned by the processes of individual and group decision making in response to changes in ownership and structure.



What this study highlights is that group and individual decision making is closely inter-penetrated, that it is difficult for outsiders to accurately gauge the collective worth of an organization and the basis of informal conventions and understandings, and that emotional resilience amongst employees may be fostered by enhancements in material and non-material rewards, contingent on their being founded on fairness and equity. In his classic sociological writings, Simmel (1980) highlighted the central tension between objective process and the subjective re-interpretations thereof. The matching of objective changes in ownership with compatible or compensatory objective changes or enhancements in everyday HRM processes and systems will enhance subjective perceptions that the process of change is coherent and possesses beneficial features. In other words, objective improvements at the micro-level will result in employees having more positive views of objective changes at the commanding heights of the organization.

In turn, employee responses will impact back on the organization and on its post M&A sustainability and performance. Although the interplay between, on the one hand, structure and rules and, on the other hand, action is often understood in broad societal terms (Giddens, 1984); this study highlights the extent to which similar processes may be at work within organizations; indeed, such dynamics may be more readily visible at the micro-level, and the operation of feedback loops more rapid (Sztompka, 1991; Simmel, 1980).

### **Implications for Practice**

The article has several implications for practitioners. First, it highlights that integrating financial and non-financial reward oriented HRM initiatives is important to foster employee emotional resilience during the PMI phase. Although it is

generally acknowledged that human factors are critical to the success and failure of M&As (Gultknecht & Keys, 1993), this study highlights the key role played by financial and non-financial rewards, and the operation of core principles of equity as a key dimension of employee emotional resilience. Secondly, the article highlights the differential effects of financial and non-financial rewards, and the relative importance of the latter. The success of M&As is contingent on the recognition of good work; performance based promotion represents a targeted and relatively cost effective mechanism for bringing this about. Third, the article suggests that employee emotional resilience can be fostered to improve the success of M&As and deal effectively with PMI related issues by achieving both distributive and procedural organizational fairness, which, in turn, can further enhance employee emotional resilience. It should not be assumed that procedural, distributional, and intentional fairness norms are necessarily complementary. As Ellis *et al.* (2009) noted, the relationship between them is complex; at different stages of the M&A process, one may assume greater importance than the other and, indeed, a focus on one may challenge or undermine the effects of another. If the relative attention dedicated to each is circumscribed by law and convention, firms may be unable to fully compensate for the effects of one through adjustments to another. However, through a better understanding of what each may do, managers may be able to make more informed decisions as to what is most viable at a particular stage.

What are the implications of this for M&As that cross national boundaries? Firstly, the process of understanding the worth of the human assets of the target organization becomes very much more difficult. This does not simply represent a product of cultural distance: it also reflects any distinctions in the dominant institutional configurations found in the national context of both the acquiring and

acquired organizations, and the associated informal conventions that go with them. Although it is often held that MNEs pioneer new practices, recent work has indicated that they often take great pains to fit in in order to reap some of the benefits of operating in a particular national context (Brewster *et al.*, 2017). Whilst this is often couched in terms of the specific types of complementarity that manifest themselves in particular settings, it also can be seen in terms of inter-organizational patterns of behavior and collective capabilities. As noted above, material rewards and HR planning both represent objective interventions that may help bring about enhanced emotional resilience and better performance.

### **Future Research Directions**

This article represents a first step towards a deeper understanding of the key organizational-level antecedents of employee emotional resilience. First, future studies could empirically test the proposed relationships developed in this article by conducting case studies and/or surveys. Second, future studies could examine possible additional antecedents and potential micro-macro level factors, such as the roles played by leadership, gender organizational culture, and other HRM practices (such as ability-motivation and opportunity enhancing ones) that can affect the development of employee emotional resilience during the PMI phase. In turn, this could shed further light on the interplay between objective changes and subjective responses. Third, there is a need to compare the M&As from developed and emerging economies, and examine the extent to which financial and non-financial rewards and perceptions of different organizational justice hinder or enhance employee emotional resilience under such circumstances. Fourth, PMI may not only be affected by context, but also by the characteristics of the firm, most notably its stage within the industry lifecycle

(Bauer *et al.*, 2016). Although what defines sunset industries is, to a significant extent, bound up with national and regional circumstances, the ways in which this internal dimension will impact employee emotional resilience would represent a fertile area for future research. Similarly, existing work has suggested that the acquisition of competitors in the same product segment negatively affects performance, as does retaliation by other firms in kind (Keil *et al.*, 2013); again, whether the M&A is aimed at competitors or not is likely to impact back on employee responses, an area that goes beyond the scope of this present study. Fifth, the employees and managers of merging firms may be sensitive to specific fairness norms; thus, future research needs to pay much closer attention and provide a more fine-grained view of merging firms' employees and managers and of their responsiveness to a variety of fairness norms. Such studies can examine the impact of different fairness norms on employee wellbeing and emotional resilience and link it with organizational resilience. Sixth, future studies could conduct a closer exploration of the effects of specific institutional features as a moderator in explicating the effect of different rewards systems on PMI and employee emotional resilience. Finally, the study could contribute to future theory building on an interdisciplinary basis, centering on the interplay between structure and action, the subjective and the objective, within organizational boundaries.

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**Figure 1: Rewards, Fairness Norms, and Employee Emotional Resilience During PMI**

