

## **ROUGH WINDS?**

### **EMOTIONAL CLIMATE FOLLOWING ACQUISITIONS**

#### **ABSTRACT**

Despite the growing literature, many companies still struggle with post-acquisition integration. In the past couple decades the discussion has turned towards how employees' emotions complicate integration. This paper discusses those emotions paying special attention to the emotional climate surrounding change. The focus is on examining how an organization's emotional climate influences employees' emotions following an acquisition. This paper answers *how organizations can influence the emotional climate surrounding change*, and thereby encourage the emergence of positive rather than negative emotions. The paper takes the acquired company point of view, following a German–Finnish deal completed in January 2017 over one year. The theoretical contribution lies in the introduction of emotional climate rather than organizational culture as a key factor for employees during the integration period. The findings reveal that employees are likely to have emotional reactions even when relatively little integration is intended. In addition, the surrounding emotional climate – whether positive or negative – is likely to trigger similarly valenced emotions. For positivity to dominate, organizations need to make the benefits of the deal and the future of the company clear to the employees.

## INTRODUCTION

Acquisitions are increasing in popularity as an international growth strategy, yet often fail to fully reach the set objectives (e.g. Graebner et al., 2017). Over decades of research, many reasons have been suggested for such failure. One critical factor seems to be post-acquisition integration. During integration, a functioning whole is built from two previously separate organizations. Over the past 30 years or so, increasing attention has been paid to the human side of acquisitions (e.g. Cartwright & Cooper, 1993; Sarala et al., 2017). In the course of integration, organizations may be subject to major changes that employees experience as threats to the distinctive features of the company. This can lead employees to adopt protectionist attitudes and thereby endanger sought synergy benefits. (Menges & Kilduff, 2015.) Consequently, acquisition researchers have turned to employees' negative emotions as a potential cause of integration problems (Clarke & Salleh, 2011).

An emotion is a short-lived, multicomponent response to interpreting the environment (Fredrickson, 2013). In order to become emotional, an event must have personal relevance (Lazarus, 1991; Fredrickson, 2001). During acquisitions, emotions arise for example as a response to perceived changes in accustomed organizational values or objectives (Sinkovics et al., 2011). Positive emotions refer to pleasant sensations, whereas negative emotions are unpleasant experiences (Lazarus, 1991). Although studies focusing on emotions during acquisitions exist, they are few compared to other streams of literature in the field (Sarala et al., 2017). Nevertheless, it is known that negative emotions can hinder integration (Kusstatscher & Cooper, 2005), but positive emotions enhance organizational identification and promote intra-organizational cooperation (Fischer & Manstead, 2008).

A positive emotional climate supports the emergence of positive emotions (Bar-tal et al., 2007). During organizational change, it is therefore important to create and maintain a healthy emotional climate (Ashkanasy & Daus, 2002). An emotional climate can be defined as an objective group phenomenon which can be felt (or experienced) when entering under its sphere (DeRivera, 1992). Although researchers have found that acquisitions also raise positive emotions (Kusstascher, 2006), previous acquisition literature focuses largely on negative emotions such as stress and anxiety (Graebner et al., 2017). An underlying assumption is that emotions altogether are something harmful that must be minimized. However, emotions cannot be simply switched off.

Through emphasis on emotions and particularly the means to increase positivity in the organization's emotional climate this paper questions the dominance of negative outcomes as the focus of integration research (cf. Raitis et al., 2017; Harikkala-Laihininen, 2018). Unlike previous research, however, this paper emphasizes the influence of the organizational climate in which emotions emerge. The focus here is on examining how the surrounding emotional climate influences the emotions emerging during the integration period. More particularly, this paper answers *how organizations can influence the emotional climate surrounding change*, and thereby encourage the emergence of positive rather than negative employee emotions. This question is examined from the acquired company point of view in a German–Finnish deal completed in early 2017.

The findings reveal that even when relatively little integration is intended, employees are likely to react emotionally. The surrounding emotional climate – whether positive or negative – is likely to trigger similarly valenced emotions. However, for positivity and motivation to dominate, the benefits of the deal and future of the company must be made clear to the employees. The emotional climate surrounding change is dynamic, and thus maintaining positivity requires

constant attention from integration management – for example through boosting team spirit and investing in employees' well-being.

## **THEORETICAL FRAMEWORK**

### Integration and socialization following acquisitions

The human side of acquisitions has been of increasing interest to scholars since the 1990s, increasing the depth of understanding acquisitions not just as hard cold facts, but as softer human processes (Cartwright & Cooper, 1995). These two streams – the hard and the soft – have been combined into a typology of task and human integration, where focus on only one aspect causes sub-optimal success. In this typology, a successful acquisition is carried out by completing both task and human integration at a satisfactory level. Focusing only on human integration will create satisfied employees but prohibit the realization of operational synergies, whereas focusing only on task integration will enable achieving synergies but at the cost of employee welfare. (Birkinshaw et al., 2000.) Here, emphasis is placed on the emotional climate surrounding both integration streams. However, as emotions are an innately human experience, the theoretical focus is on the softer, human side of acquisitions.

Stemming from the human side, acquisitions are seen rather as a process of adaptation than singular events in the involved companies' life cycles (Cartwright & Cooper, 1995). From the human point of view, this process is often called acculturation: the coming together, clashing and adaptation of two previously separate cultures (Nahavandi & Malekzadeh, 1988). Acculturation in acquisitions refers to a process where a unified culture is formed from two previously separate sets of organizational beliefs, assumptions and values. Successful acculturation following acquisitions seems to depend on social controls utilized in the integration process. This requires

including the affected employees in socialization for example through information exchange, training or social gatherings. (Larsson & Lubatkin, 2001.)

Organizational socialization refers to the process through which employees learn the social knowledge and skills to carry out their role in the organization (van Maanen & Schein, 1979). Such socialization is most intense, when an employee joins a new organization – such as following an acquisition. When successful, organizational socialization has significant benefits for integration; a decrease of employee turnover, an increase of commitment, ensuring the continuity of organizational values and norms, and establishing the power dynamics of the organization to new members. (Bauer et al., 1998.) Organizational socialization is also a building block for emotional climate.

Organizational climate “constitutes the collective mood of organizational members toward their jobs, the organization, and management” (Ashkanasy, 2003, p. 38). Similarly, an organization’s emotional climate refers to a collective norm-like experience. It can be considered the outcome as well as the rule of individual emotions within an organization, and is born out of shared values, objectives and beliefs. (Tran, 1998.) Although emotional climates are dynamically stable, they are more susceptible to change than organizational cultures. For example, new leadership can influence the emotional climate of an organization. (DeRivera, 1992.) Thus, it is possible that an acquisition prompts changes also in the emotional climate of an organization.

#### Emotional climate following acquisitions

Considering that during organizational change it is important to create and maintain a healthy emotional climate (Ashkanasy & Daus, 2002), positivity seems crucial for successful integration (cf. Birkinshaw et al., 2000). Indeed, positive emotional climates have been found to help support

organizational transformation. When employees come together to work towards achieving a mutual goal, they are more likely to experience positive emotions that feed into a more positive emotional climate. (Sekerka & Fredrickson, 2008.) In addition, positive emotions enhance organizational identification and promote intra-organizational cooperation (Fischer & Manstead, 2008).

A positive emotional climate refers to “an organizational environment where managers take into consideration the emotional needs and personal growth of employees and encourage the sharing of positive emotions” (Ozcelik et al., 2008, p. 187). It does not mean the absence of negative emotions like anger or fear, but the greater influence of positive factors like trust and security over the negative (Bar-tal et al., 2007). Organizations can influence the development of positive emotional climates through a focus on employee contentment as well as the efficiency of the physical working space and leadership style (Maimone & Sinclair, 2010). This can include sensitivity to employees’ emotional needs, positive encouragement, or active initiatives designed to create a pleasant working atmosphere (Ozcelik et al., 2008).

Nevertheless, both acquirer and target employees react to acquisitions in many ways. Employees can for example be satisfied by improved conditions. However, also sadness and a longing for the pre-acquisition organization can occur, along with anxiety and worry. (Lawlor, 2013.) And in the organization’s emotional climate both positivity and negativity are contagious (cf. Hatfield et al., 1994; Tran, 1998; Maimone & Sinclair, 2014). Thus, it is important to note that although emotions are inherently subjective, they can also become group phenomena. Group emotions refer to a group of individuals experiencing an emotion sufficiently similar to be labelled common (Kemper, 2002). Such group emotions can be born out of group membership, such as

national pride, or out of co-presence, such as the crowd energy at a sports event or rock concert (Menges & Kilduff, 2015).

### Analytical framework

Interestingly, in contrast to the majority of acquisition literature, it has been found that uncertainty is not always dominant; employees may also be steered by motivation. If the consequences of the acquisition are perceived as positive, as bringing out opportunities, attitudes tend to shift towards motivation. If, however, consequences are viewed as negative, uncertainty prevails. (Teerikangas, 2012.) Thus a key question in creating a positive emotional climate can be how the acquisition will affect employees – and more importantly, how employees perceive the effect of the acquisition.

Simplified, a negative climate is likely to cause negative emotions and outcomes, whereas a positive climate is likely to increase positive emotions and outcomes (figure 1). This reasoning is based on the framework of Sinkovics et al. (2011, p. 30), where they describe the role of emotions in acquisitions as a continuum from antecedent events through emotional reactions to outcomes such as employee attitudes and behavior. This logic builds around cognitive appraisal and affective events theory.

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Cognitive appraisal theory argues that emotions are reactions to stimuli. Emotions arise based on how an event is appraised – pleasing or displeasing, positive or negative. (Lazarus, 1991.) Based on cognitive appraisal theory, emotions include an antecedent stimulus, an appraisal of the stimulus, and a reaction to the outcome of the appraisal. The emotional reaction can include for example a subjective experience, facial expressions, or other physiological signs such as

blushing. (Fredrickson, 2001.) Affective events theory links emotions to the workplace, explaining the structure, sources and consequences of emotions in organizations. According to affective events theory, events at the workplace cause emotional reactions. Such reactions in turn have an impact on work-related attitudes and behavior. The work environment influences these affective events in making certain outcomes – and thereby certain emotional reactions – appear more or less likely. (Weiss & Cropanzano, 1996.)

In figure 1 cognitive appraisal theory and affective events theory are built into the integration period, suggesting that should the surrounding work environment appear negative, appraisals and behavioral outcomes are more likely to be negative as well. Conversely, if the work environment is perceived as positive, more positive appraisals and behaviors are likely to emerge. Although it is possible for negative experiences to turn into positive outcomes (for example anger to prompt quick and effective cleaning of the house) or positive experiences to turn into negative outcomes (for example pride over positive feedback turning into lower productivity), in the long term it is more likely that both negativity and positivity turn into similarly valenced behaviors.

Because an emotional climate is a human construction, it can include negative or positive features, which again correlate with negative or positive beliefs and emotions. A threatening, stressful environment is likely to evoke anxiety, whereas a peaceful, harmonious environment is more likely to arouse security and hope. Whereas negative emotional climates likely lead to negative behaviors, positive climates encourage positive behaviors. (Bar-tal et al., 2007.) However, it is important to acknowledge that the integration process is often very lengthy (e.g. Kusstatscher & Cooper, 2005). The emotional climate, employee emotions, and outcomes are not one-off events, but involved in a constant cycle, feeding into each other. Thus, the emotional climate may at some point during integration appear positive, while at another it appears



negative. Nevertheless, this framework suggests that when the emotional climate is more positive than negative, employee emotions are more pleasant and integration is easier.

A positive emotional climate has been found to have a direct relationship with organizational outcomes such as strategic growth (Ozcelik et al., 2008). It has also been suggested that when positive emotions are harnessed to create a positive emotional climate, organizational identification, performance, and relational strength can be improved – and organizational change facilitated (Vacharkulksemsuk et al., 2010). But how can organizations influence the emotional climate surrounding change? This question is examined in practice through a case study of a German–Finnish acquisition.

### **QUALITATIVE CASE STUDY DESIGN**

As research on the relationship between emotional climates and post-acquisition integration is still nascent, the utility of a qualitative approach is evident in allowing for a search of interrelated patterns and deeper understanding in the form of suggestive theory (cf. Edmondson & McManus, 2007). The interest here lies in understanding human experience rather than finding predictable causality patterns (Welch & Piekkari, 2017). This study adopts an interpretive sensemaking lens to theorizing from case studies, seeking to find meaning and in-depth understanding (Welch et al., 2011). The case here is instrumental, in that the study began with a research question and with a pre-understanding from theory, which a case could shed light on – not to understand the particulars of the organization, but to understand the phenomenon (Stake, 1995). Thus, a case that is particularly helpful rather than statistically typical was chosen (cf. Eisenhardt & Graebner, 2007).

The case here is not a company but an acquisition process, and the unit of analysis the evolving emotional climate as seen by informants influenced by the acquisition (cf. Fletcher & Plakoyiannaki, 2011). Case selection was also influenced by convenience (Fletcher & Plakoyiannaki, 2011), as the selected case was geographically and culturally close to the researcher, thus easing data collection and the formation of a co-operation agreement. Nevertheless, this is justifiable due to the extensive access the case provides: the researcher has been able to interview a wide selection of informants, collect primary data via employee diaries, add research-specific questions to a company-wide employee satisfaction survey, as well as gain access to secondary, internal materials.

This approach also allows for contextualized, rich description (Dyer & Wilkins, 1991; Stake, 1995; Welch et al., 2011), increasing the trustworthiness of the findings. The quality of a single case study lies not in the generalizability of the findings to any population, but in the intimacy between the researcher and informants during fieldwork. This occurred in practice through cooperation over one year. Triangulation was used to capture different points of view within the company, and the researcher was personally involved in the data collection in order to capture meaningful findings. (Welch & Piekkari, 2017.)

### The acquisition

Finnish Delta was bought by German Gamma – a large group with operations complementary to Delta's – in January 2017. The deal had been a long time in the making, the first discussions already having taken place but then discontinued in 2014. Prior to the deal Delta was a small industrial company that had struggled to remain profitable among large competitors. At the time of the deal, the company employed 77 workers and had suffered from occasional lay-offs for years. However, Delta had high quality standards and a competitive product range. It had wide

sales across Europe, Middle East and India. Thus, with the acquisition, Gamma sought to expand its product portfolio while Delta sought a way to increase resources and regain competitiveness. This research is carried out from Delta's point of view, thus representing the acquired company perspective. The data therefore consists of Delta employees' reflections of the deal and subsequent changes.

Gamma, as the buyer, was much larger and more powerful than Delta, and consequently also drove the integration. However, Gamma's chosen integration approach was rather slow, with relatively little visible signs of unification having taken place in the first six months after the deal. For example, the company and brand names of Gamma and Delta remained separate. This was due to Gamma's willingness to learn, as their previous acquisition experience involved companies even smaller than Delta. Nevertheless, Gamma was driving a unification of quality standards and procedures such as internal and external reporting, financial systems, and management structures.

#### Data collection and analysis

Primary data was collected over 11 months between May 2017 and March 2018. Multiple informants and data collection methods were used to triangulate the findings and thus increase trustworthiness. In addition to primary data, secondary data were used to gain a thorough understanding of the context – including the first months after the deal. In addition to data collection, the researcher visited Delta on several occasions to introduce and discuss the research with the employees as well as the Board of Directors.

Data collection at Delta began with 17 interviews in summer 2017, complemented with 9 follow-up interviews in spring 2018. The interviewees (table 1) represented a total cross-section of

different functions, including the integration manager from Gamma. The selection was based on the desire to gain as complete a view of Delta as possible. Only one interviewee declined the invitation, claiming to be too busy to participate. The follow-up interviewees were chosen based on convenience and willingness to participate, but in a manner that maintained the wide viewpoint to Delta. Everyone approached for a second interview was willing to participate. A majority of the interviews were conducted face-to-face, but due to the overseas location of the informants, two were conducted via skype. Most of the interviews were conducted in the Finnish language, which was the mother tongue of both parties. Due to their foreign origins, the integration manager and manager from sales were interviewed in English.

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The interviews lasted approximately between 30 minutes and one hour, and were transcribed prior to analysis. The interviews were analyzed with the aid of NVivo software according to themes that arose from the theory-based interview guide as well as from the data. The core themes for each round were the deal itself, changes, communication, emotions, emotional climate, and management. The second-order codes varied slightly between the rounds, as they were formed primarily based on the data. The key second-order codes were, however, similar – centering on what was positive or negative under the first order codes, as well as the employees' suggestions for improvement.

The second set of data was gathered in autumn 2017 and spring 2018 in the form of short, memo-like diaries. The diary method enables the collection of personal, context-specific data (Bolger et al., 2003) that is sensitive and time-bound in nature (Kenten, 2010). The diary method also allows for the researcher to remain objective and detached from data creation (Hurmerinta &

Paavilainen-Mäntymäki, 2013), thus increasing trustworthiness. The diary method is especially suitable for emotion studies, as it allows the respondents to consider sensitive, subjective issues in a safe and private environment. The employees had the opportunity to fill in their diaries either online or in written form. The written diary frame consisted of one A4 sheet per day asking the respondent to rate the emotional climate of that day, share any emotions they may have felt or detected in their colleagues, and contemplate how the company or they themselves could improve the atmosphere at Delta. The diary was asked to be filled in during three to five consecutive working days. In autumn 2017, altogether ten respondents made 44 diary entries: 29 online and 15 manually. In spring 2018, altogether six respondents made 21 online entries. All diaries were written in Finnish. The diaries were analyzed iteratively based on a pre-understanding from theory and from the interview data.

Third, in late October 2017 data was collected through a company-wide employee satisfaction survey, which had 56 respondents (representing some 59 % of Delta employees, at that time totaling 95, including 7 agency contract workers). The survey was conducted by an outside consultant, but four open-ended questions were added to it for the purpose of this research regarding emotions, communication, working atmosphere and management during the acquisition. The questions were based on the key issues found in the interviews in summer 2017. Most respondents were Finnish-speaking, but a few replied in English. Again, the analysis was an iterative process based on the pre-understanding from theory and from the interview data.

The findings from each set of data are intertwined in the following discussion. Any direct quotations have been translated by the author, unless originally in English. To maintain absolute anonymity, direct quotations are completely masked. However, they stem from various

participants from various positions and functions within Delta, and from all three types of primary data.

## EMOTIONAL CLIMATE IN THE GAMMA–DELTA ACQUISITION

### Employee reactions to Gamma

The employees in general found Gamma to be a good buyer – a buyer that would invest in Delta and thus allow a brighter future for Delta. This image remained strong throughout the different sets of data. As a management level employee put it in 2017 “- - *Now we have more resources backing us so that we can develop production. I have been saying for years that we need certain things, more investments and improved efficiency, but it has always been so that we have no money. Now I am hoping there will be some.*”

Gamma was regarded as an interesting, efficient, forward-looking company that made long-term investments. It was important for Delta employees that Gamma remained family-owned, as this was interpreted as having good values. It increased Delta employees’ comfortability with the acquiring company, and raised a feeling that Gamma cares for its employees. Gamma’s attention to quality standards was also appreciated by Delta employees. Nevertheless, the employees at Delta felt that Gamma had not embraced them as part of a new organization. For example, over the period of data collection Delta employees were increasingly of the opinion that their ideas were not adequately heard: “*We can [bring matters to the attention of Gamma], but so far it has had no influence. It is their rules, and we must [follow].*”

Nevertheless, Delta employees were relieved that despite the recent trend of acquisitions between competitors in their field, the buyer in this case was not a direct competitor, but offered a complementary product line. Due to the difficulties in their recent history, the deal made the

future seem brighter for Delta in terms of longevity and potential investments. Delta employees were also excited about the chance to increase sales due to improved international networks. The employees were appreciative of the continuity of work, even though they anticipated that the nature of their work might yet change due to the acquisition. This perception was justified by Gamma's previous acquisitions, where no major lay-offs had occurred. As one employee stated in 2017: “- - *When the new owners were here to introduce themselves it gave me a good feeling. And that they had production all over Europe, they are not concentrated in just one country – I mean, if all their production was in China it would feel like we will be gone too – but now I don't feel like that, as they have production in Europe in many countries, so in that way I feel peaceful.*”

The wider networks of suppliers, customers and colleagues Gamma brought to Delta were seen as very positive. However, the wider networks caused some confusion regarding responsibilities. Similarly, changes in the organizational structure caused concerns over the continuity of some positions at Delta. Although some employees were anxious regarding Delta's place in Gamma's hierarchy, most believed that Delta would continue to exist – at least in some form. Employees were hoping that Delta would remain Delta, but at the same time fearing that at some point in the future, Gamma would take over completely. In 2017, one employee reflected that “- - *somehow you want to hold on to that we are not German but Finnish.*”

#### Employee reactions to changes at Delta

Despite positive first impressions when the deal was announced in January 2017, by the time of the interviews in the summer of 2017 Delta employees saw that growth had brought challenges for production, as is usual in the industry. By the spring of 2018, the outlooks were turning even more negative in some areas. For example changing the financial reporting system was

considered a long, stressful process. Similarly, the intended harmonization of the enterprise resource planning system was dreaded, as it was expected to increase workloads significantly and cause many problems before up-and-running. Altogether, integration-related tasks made employees at Delta feel more stressed and mentally tired: *“I think there is quite a lot of tension.”*

At the same time, it was clear that the acquisition was more visible to some than others. Indeed, very few changes were visible for Delta employees six months into the integration period. In 2017, employees were even hoping to see more changes as proof of integration and completion of the deal. For example changes that would improve quality – such as new machinery – were much anticipated. Despite these expectations, some changes that were carried out were seen as poorly timed. Changes were too slow, or requirements were changed too fast, without time to digest. In 2018, changes were becoming more visible. At the same time, employees felt that processing several changes simultaneously caused a lot of pressure: *“We have no choice, things just have to move forwards, so we just grit our teeth. And then you can’t even take a look around yourself or do anything else, you just have to get the job done and that’s it.”*

The future of the company was not as clear as initially hoped, and in 2017 employees were left to wonder about the strategic direction of the company: *“One [challenge] is making out the future. What we are going to continue, what is left here, and what might move somewhere else. And what it is sensible to do here. There are still many questions; this integration is still in such an early stage. And of course the same questions should be presented to Gamma, how they have perceived us. Have we been what they thought, or have we been a disappointment or the fulfillment of hopes.”* As uncertainty was prevailing, some thought it difficult to find motivation for working, as they did not know whether the future they were building was going to offer continued work at



Delta, or was moving towards shutting down operations in Finland altogether. The future seemed similarly foggy still in 2018.

Also, in 2017 sales numbers had not grown as much as was hoped, and some previous clients had discontinued their orders. This trend was experienced as almost alarming in 2018. Employees were hoping that Gamma would take a more active role in boosting internal sales, as that had been a key strategic shift planned for the acquisition. However, internal sales were not picking up, even though external sales had been moved to local subsidiaries of Gamma. This caused the bottom line of Delta to look rather bleak. The biggest challenge was considered to be *“Raising internal sales now that external clients have been handed over [to local subsidiaries]. Our company will not do very well if our margins fall and our sales fall and our costs rise – it is not a long-term solution.”*

More work was seen as a positive improvement, but in 2017 the hoped-for investments were raising questions regarding future workloads and possible recruitment: *“- - in the latest info we were promised many kinds of investments, so what does that mean – we only have a few people here, so when are we going to hire more. You cannot find ready workers for these tasks and the training periods are rather long.”* These questions were still raised when the welcome investments in machinery as well as new personnel began to materialize in 2018. In addition, employees felt that changes to job descriptions due to the acquisition were sometimes demotivating.

Similarly, employees felt frustration over the new chain of command. Whereas Delta had always been a small company with informal power structures, Gamma was much more hierarchical. This caused some concern over communication and workload requirements, as Gamma had many

employees working on the same tasks for one counterpart at Delta. As a management level employee mentioned in 2017: *“There is still some slowness, and they have a complex organization. It is problematic to know, who is in charge of what. - - It is difficult to identify with whom one should discuss things.”* The same trend continued in 2018, with the addition of concern over Delta’s practices being actually deteriorated when adopting Gamma procedures: *“Well, it doesn’t feel all that nice, when... When things happen that you don’t see as very sensible. Then you start to feel like OK, there’s no point in caring about what we do anymore.”*

Workloads were experienced as unsustainably heavy in some parts of the organization throughout the data collection period. Especially those affected by the requirements of investigative work to facilitate integration, and those in charge of carrying out changes, were experiencing major stress. Similarly, those who were in positions to see the upcoming changes felt overwhelmed by the turmoil of different overlapping projects. A reorganization of human resources seemed desirable. In addition, employees felt that work was scattered due to communication delays or defects in machinery or supplies, and were hoping for more clarity and fluency to ensure efficiency.

Nevertheless, the new colleagues from Gamma were welcomed, and face-to-face meetings with them highly valued throughout the data collection period. Communication regarding the deal in 2017 was deemed rather insufficient, motivating management to take extra initiative that did seem to improve employee views on internal communication in 2018. Nevertheless, employees still felt that quite often information spread through the grapevine. Especially communication from Gamma felt lacking to the employees. Similarly, employees felt like Gamma did not really understand the processes at Delta. Still, as one employee stated in 2017: *“I don’t think it [change] is necessarily a bad thing. It just makes me laugh that some people argue that this is how it has always been, how it was always done, when you are trying to ask for change – to make*

*suggestions how things could be done, bring out your own ideas – some are like this is how it has always been, but not me. - - I am always ready to try. - - I am always willing to learn new things.”*

### Evolving emotional climate at Delta

Emotional climate refers to the felt quality of an organizational environment, a kind of emotional working atmosphere. Employees reported that the climate at Delta had always felt mostly positive. This helped it to stay positive also following the acquisition. The positivity of the emotional climate was visible in that employees enjoyed coming to work and were able to joke and laugh together. Delta had very low employee turnover and employees got along well. During breaks, the conversation would flow onto more social issues, not just work-related matters. Employees also felt that they could talk to anyone at the company – including top management. Delta was seen to treat the employees well, which in turn motivated the employees to treat the company well. In the words of one diarist from 2017: *“I think everyone has been in positive spirits. There has been joyful chat around the coffee and lunch table.”* Feelings of success, such as achieving or even surpassing objectives, increased positive emotions regarding work. The ability to truly concentrate on the task at hand without having to rush was also appreciated.

The positive climate was seen to improve work in many ways. Employees were proactive and often also completed tasks that were not directly part of their job description. They helped each other and cared about their colleagues’ well-being. They felt free to ask questions related to their work, and always received constructive advice. The employees also reported that the positive climate increased productivity in terms of working pace. In 2017, one employee considered that *“It [a positive emotional climate] is – in terms of working atmosphere it is essential. That it is nice to come [to work] and work goes well. That there is more than just completing tasks at your*

*post, that you have breaks and what not. It is essential. If we didn't have that, this would be quite a gloomy toil."*

Nevertheless, some problems also existed. The acquisition had raised many rumors, which were not subsiding and which raised anxiety, deteriorating the emotional climate. Many considered this to be the consequence of too little communication. As mentioned, many employees were experiencing a lot of stress following the acquisition. This caused for example tempers to shorten, so that interaction with colleagues became less pleasant. The disparity between individuals' workloads also seemed unfair, causing friction. Similarly, it was noted in the satisfaction survey that *"The work load doesn't allow to carry out tasks properly. Many tasks cannot be handled at all."* At the same time, some employees felt like they could barely influence their own future at the company, deteriorating their motivation to work. Altogether, many employees were anxious about the continuity of their work, despite assurances from management that work would continue.

Communication between different functions and levels of the organization was often found lacking, causing annoyance. Openness and honesty were called for to discourage rumoring and speculation. As was noted in the employee satisfaction survey, *"The only thing I look back on negatively is that communication emphasized that for customers or employees nothing will change. In reality changes will occur and especially for customers the channels will change."* Improvements in the flow of communication throughout the company were considered especially important. Management was encouraged to focus also on the way messages are delivered; employees felt that creating a positive image would increase unity and motivation. The employees felt that management was not listening to all employees equally, and may not have cared about the uneven workloads or correct resourcing.

In 2017, management was also called upon to “*Listen to employees (at all levels) and make an effort in fixing problems. There are real problems, but no-one cares, and some are overworked, which slows down others.*” In addition, employees felt that a full-time human resources manager was needed, as the position was then combined to other management tasks. A feeling of rushing and not progressing was the main cause of “bad” days at work. One diarist from 2017 even mentioned feeling “*Hopeless. Because there is too much work.*” Employees were feeling expectant, wanting to find clarity regarding the future of Delta.

In 2018, the employees felt that the atmosphere at Delta had become more critical and achievement-centered than before. In fact, the pressures of integration were seen as the likely cause of some resignations that had occurred. It still felt like Delta was “us” and Gamma “them”. Rumors had not ceased to circulate, and concern over Delta’s future still existed. Especially the continuance of two separate brands was raising questions. Additionally, a worry over Gamma’s interpretation of Delta’s books was rising. The amount of hurry and pressure made employees wary of future coping, and colleagues seemed more tense than before: “*People are rather irritable and tired, and you can see that the positivity I always thought was our strength has decreased considerably.*”

Nevertheless, closing some of the integration projects successfully was viewed as positive. Despite some deterioration in overall positivity, the friendliness and helpfulness that had characterized Delta’s emotional climate were still strong, and teams enjoyed good atmosphere among colleagues. Similarly, a positive atmosphere was felt when meeting Gamma colleagues, and in company gatherings such as the Christmas party. The continuance of work was seen as a very positive thing, and the made investments increased employees’ security over the future of

Delta: *“In the end I feel better than last autumn, and we have now had many positive things like investments and such, so of course they build faith in the future.”*

In 2018, employees suggested that the company could make priorities in tasks clearer. Employees were also hoping that Gamma might return some of Delta’s old flexibility, and boost other subsidiaries’ efforts in Delta sales. Delta employees also wished that Gamma would allow for some differences in practices, especially when Delta’s old way of doing things might be better than what Gamma wanted to enforce. The role of immediate supervisors was seen as very important in boosting morale, and they were asked to take an even more proactive role in trying to increase positivity. At the same time, supervisors themselves were *“feeling confused... and at the same time you should try not to show the negative emotions.”*

All in all, in 2017 the diarists evaluated their working days at Delta at 6.85 out of 10, and in 2018 6.75 out of 10. In 2017, the responses varied between 3 and 9, in 2018 between 2 and 9. Interestingly, in October 2017 the wider group that responded to the employee satisfaction survey evaluated their job satisfaction at 7.8 out of 10, clearly signaling a very good level of overall job satisfaction. Thus these can be considered rather positive results, although considering the wide range of diary entries many employees were experiencing a lot of pressure and negative emotions at work. Although the number of respondents is too low for trustworthy statistical analysis, the figures support the qualitative findings.

## **THEORETICAL DISCUSSION**

Gamma chose an approach where relatively little change was intended for the acquired organization. Accordingly, what Gamma did was to enforce mainly task-related integration (Birkinshaw et al., 2000), with very few (if any) human integration taking place – especially in

the first six months following the deal. Nevertheless, the employees still felt that they had to adapt to a new normal (Cartwright & Cooper, 1995), meaning that the employees very likely experienced some level of acculturation and organizational socialization (Bauer et al., 1998; Larsson & Lubatkin, 2001), even though this was not prompted by a full unification of organizational cultures. Thus, it is important for acquirers to note that even though they may perceive the changes made to the acquired company minor, the acquired employees are still likely to react emotionally. This seems to coincide with the argument of Birkinshaw et al. (2000) on the importance of a well-balanced integration endeavor; employees seem to experience human integration, even if the companies choose the way of task integration.

As the integration approach did not directly aim at melding the organizational cultures, acculturation as such was still minimal. This was visible for example in the employees' appreciation of the Delta name and brand remaining intact. Nevertheless, as was predicted by Larsson and Lubatkin (2001), Delta employees responded very well to social controls such as informal gatherings. Socialization was, however, not entirely successful as many employees still reported confusion over responsibilities. Thus the social knowledge that would allow the successful completion of tasks (van Maanen & Schein, 1979) was not yet complete.

The emotional climate at Delta seemed rather positive and stable when this research began. The collective mood reflected the member's perceptions regarding their work and the organization (cf. Ashkanasy, 2003), with the influence of the deal mostly visible as a means to secure the future of Delta. Managers at Delta reported that they tried to always be open to the concerns of their employees and motivate them through open communication and positive feedback. This shows an attempt at building a positive emotional climate (cf. Ozelik et al., 2008). Similarly, employees did feel the need for psychological comfort at the workplace (cf. Maimone & Sinclair,

2010). However, the emotional climate was dynamic (DeRivera, 1992) in that changes in the organization triggered changes in the surrounding climate. However, by the second round of data collection, when more changes had become visible, the climate was deteriorating somewhat.

Employees experienced many different emotions regarding the acquisition (cf. Lawlor, 2013). Motivation to make the deal a success was experienced with regard to a future brightened by the acquisition (cf. Teerikangas, 2012). However, the strategy of Delta seemed foggy to the employees, and the anxiety regarding the future that in the beginning was overpowered by excitement did not reduce when the “honeymoon period” ended. Thus it seems that mutual goal to work for was not clearly present at Delta, and thus could not trigger positive emotions in the long term (cf. Sekerka & Fredrickson, 2008). Motivation started to disappear and turn into increased stress, anxiety and inferior performance – thus highlighting the need for positivity for successful integration (cf. Birkinshaw et al., 2000). An “us” versus “them” attitude still persisted in Delta in 2018 – possibly related to the need for positive emotions in promoting organizational identification and intra-organizational cooperation (Fischer & Manstead, 2008).

As was predicted in figure 1, both positive and negative experiences of the climate seemed to trigger similarly valenced emotions. For example, employees that reported to experience the climate at Delta as positive also seemed more positive towards the deal itself and towards the changes that occurred at Delta. Conversely, employees that reported to experience deterioration in the emotional climate also reported feeling stressed and anxious regarding the deal. Thus, as discussed, these experiences seemed to be cyclical in nature; the climate triggering emotions and outcomes, and vice versa. Although employees did report negative emotions and perceptions of the climate, positive features seemed to be stronger in 2017. However, viewpoints became slightly more negative in 2018. Thus it can be considered that the emotional climate at Delta



shortly after the acquisition was positive (Bar-tal et al., 2007), but showed signs of deteriorating as the integration progressed. This is slightly alarming in that should employees lose the experience of a positive emotional climate at the workplace, they would likely become less productive and less prone to positive emotional triggers, making change much more difficult.

Employees did seem to experience emotions according to cognitive appraisal theory and affective events theory. They did connect their experiences to certain events at work, and judge whether those events seemed pleasing or displeasing to the self at the workplace. Most employees were able to describe their subjective experiences, but interestingly were not able to pinpoint why they thought colleagues were experiencing certain emotions. Often it was stated that “you just see it in their faces”. This points towards the importance of physiological signs of emotions (Fredrickson, 2001), but opens the accuracy of emotion perceptions in this volatile context to debate. It would be interesting to look further into the matter in terms of how conscious or unconscious, accurate or inaccurate, is emotion perception in the post-acquisition integration context.

The findings also support the notion that emotions can become group phenomena, as many employees reported to experience similar emotions as they perceived in their colleagues. Although the possible causalities behind these findings are outside the scope of this research, it would be an interesting avenue for future research to examine if employees are likely to perceive their own emotions also in their colleagues, or to adapt to the emotions they perceive in others. Similarly, it would be interesting to examine the relationship between the emotional climate and individual emotions further, in order to see if a distinction can be drawn between the influence of the climate on emotional experiences and the influence of emotional experiences on the climate.

## MANAGERIAL IMPLICATIONS

Interestingly, according to the findings employees are likely to react to any integration-related change as predicted by literature on the human side of acquisitions. Thus, integration management should be aware that even though they might not plan on a great extent of socio-cultural integration, employees will react to the acquisition emotionally, and will need to be taken into consideration. It is also important to note that the emotional climate surrounding post-acquisition integration is indeed dynamic. Thus, acquirers need to be aware that the emotional climate at the acquired company can change even quickly. Based on the Delta case, positivity did seem to predispose employees to positive experiences, but did not rule out negative ones (cf. Bartal et al., 2007). This suggests that even though the emotional climate may seem positive, acquirers should pay attention to possible underlying negative emotions that could in the long-term come to overrule the positivity.

Employees at Delta seemed to react most negatively to a perceived loss of direction. When the future strategy of the company became unclear to them, they experienced confusion, uncertainty, anxiety and lack of motivation. The employees seemed to want for more communication, and especially more concrete communication, from their immediate supervisors. Acquirers should therefore note that despite their best laid plans, if the acquired employees' immediate supervisors are not on board, the deal can turn sour very quickly (cf. Teerikangas, 2012). The importance of communication following acquisitions has been studied many times, but despite the amount of literature available on the subject, it seems that in practice there can never be too much communication. However, of course top management must consider if and when to let employees in on strategic discussions. Nevertheless, showing compassion in terms of open and frequent communication will likely not go amiss.

Based on the Delta case, positivity following acquisitions centers on images of the acquirer and the future of the company. Therefore, to increase positivity, acquirers and acquired company management may find it useful to emphasize what they think is interesting and positive about the companies themselves, and beneficial for the employees in the deal. For example, longevity or improved resources can be encouraging to employees. In addition, change itself can be experienced as a positive challenge that raises curiosity. As mentioned, communication should be frequent, open and honest. Honesty in terms of the benefits and plans is especially important, as Delta employees felt they had been misled, when management communicated that no changes will occur.

Negativity, however, centers on the uncertainties of integration. To alleviate negativity, acquirers and acquired company management can repeatedly crush potential rumors and speculation regarding job losses. Based on the Delta case, such speculation is likely to be ongoing, whether or not the rumors reach management. Major changes always cause fear, so offering employees enough time and information to prepare for the change may help maintain a positive emotional climate. Also explicitly justifying made changes may help get the employees on board. Acknowledging the mental toll of managing the integration process may be equally important, as those “in the know” often experience keeping secrets from their subordinates difficult. Also, sufficient resourcing can help alleviate feelings of exhaustion as workloads during integration may compile.

A positive emotional climate following acquisitions, as discussed above, can be supported in many ways. However, there are also means to boost positivity not directly related to the acquisition. Therefore, acquirers and acquired company management should pay close attention to the emotional climate that precedes the integration, as it can have a major influence on how the

acquisition is greeted in the beginning. Making sure employees feel a “team spirit” can improve both unity and performance. Such team spirit can be boosted through organizational socialization. Encouraging, positive communication can increase motivation and making sure an established communication chain exists can help avoid communication mismatches between different groups of employees. Finally, investing in the well-being of the employees through making sure the physical surroundings for work are adequate and employees can experience psychological comfort at work may help improve performance.

## CONCLUSION

This paper set out to examine how the surrounding emotional climate influences the emotions emerging during the integration period. More particularly, this paper explored *how organizations can influence the emotional climate surrounding change*, and thereby encourage the emergence of positive rather than negative employee emotions. According to the findings, companies can support the emergence of positive emotional climate through offering employees positive emotion triggers and making sure the employees have an objective to work towards – that the strategy of the post-acquisition company is clear.

Through a single case study of a German–Finnish acquisition, this paper revealed that the positive or negative valence of the emotional climate surrounding change is likely to trigger similarly valenced emotional experiences in the employees. The findings show that positivity following acquisitions centers on images of the acquirer and the future of the company, whereas negativity stems from the myriad of uncertainties related to acquisitions and integration. As expected, a positive emotional climate was found to ease integration, as it predisposes employees to positive perceptions and behaviors.

The theoretical contribution of this paper lies in the new perspective it brings to the discussion on emotions following acquisitions. On the one hand, literature on emotions following acquisitions is still scarce. On the other hand, research on the influence of organizational cultures on post-acquisition integration far surpasses that on organizational climates. Organizational cultures have been found to take even years to change following acquisitions. However, as climates can change more quickly, it may be that in fact the emotional climate influences integration first. The framework in figure 1 can help scholars understand why post-acquisition integration is such a complex, volatile process both in the short and long term, both in cases of small scale and extensive integration.

Interestingly, it was found that even if integration is minimal, employees are likely to experience emotional reactions. Therefore, ensuring that the surrounding emotional climate is positive can help acquirers achieve sought synergy objectives easier and quicker, despite the intended level of integration. Revealing the dynamic nature of the emotional climate also deepens understanding of the role of emotions following acquisitions, as previous research largely focuses on single emotions or emotions as singular events.

Managerially, this paper has offered many insights and helpful hints to ease integration processes. It is important for managers to remember that employees are likely to react to changes emotionally, and that the emotional dynamics at the organization can change even quickly. Thus, line managers have an important role in keeping up a positive emotional climate even when faced with negative events. Emphasizing positive events and alleviating the consequences of the negative is likely to increase employees' positive emotions regarding the deal, whereas making sure that working is comfortable both physically and mentally is likely to improve performance.

The limitations of this paper stem mainly from the context-specific nature of a single case study. Future research in different case contexts is necessary to gain deeper understanding of how for example the chosen integration mode, the pre-acquisition emotional climate, or the employees' affective dispositions influence the emotional climate following acquisitions. Similarly, data for this research was collected almost solely from the acquired organization. A more balanced data collection can offer future research increased understanding of how the emotional climate shapes with regard to the acquiring, the acquired, and the integrated company. Finally, as this research can only propose outcomes based on previous works, future research is necessary to reveal the possible relationship between emotional climates and acquisition performance.

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## ILLUSTRATIONS

Figure 1 Emotional climate during integration

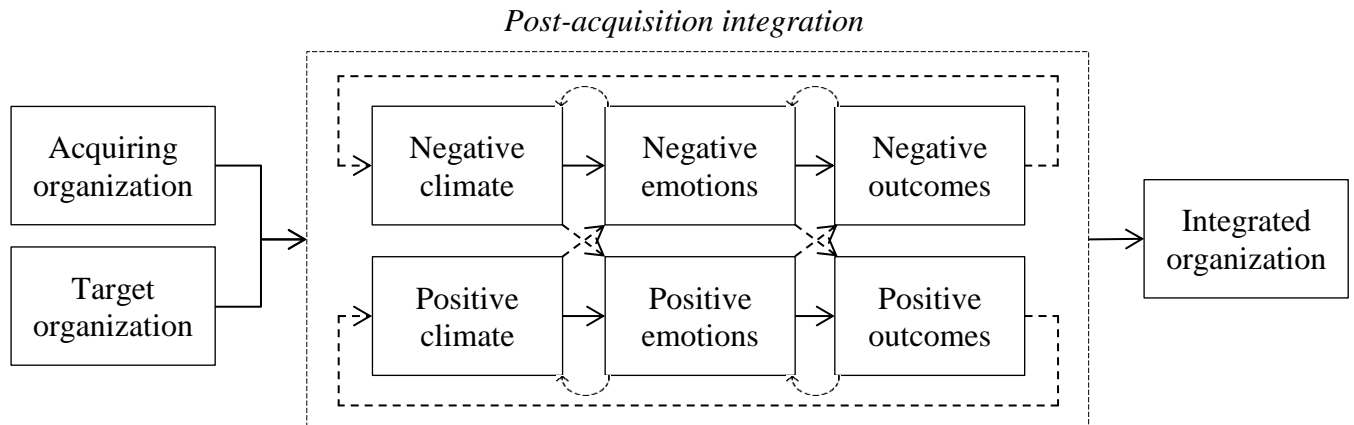


Table 1 Interviewees

Job title	Function	Length of interview 1	Length of interview 2	Type of interview
Managing Director	Top management	57:44	57:38	Face-to-face
Deputy Managing Director, Integration Manager	Top management	1:03:18	52:01	Face-to-face
Supply Chain Director	Production	47:34	28:30	Face-to-face
Chief Financial Officer, Personnel Director	Finance	1:02:27	56:36	Face-to-face
Country Manager	Sales	52:44	51:02	Face-to-face
Manager	Sales	40:33	-	Skype
Customer Service Coordinator	Customer Service	50:10	57:08	Face-to-face
Senior Purchaser	Purchasing	58:03	-	Face-to-face
Purchaser	Purchasing	44:03	-	Skype
Logistics and Quality Manager	Logistics	1:02:25	-	Face-to-face
R&D and Training Manager	Technology	1:02:07	49:00	Face-to-face
Manufacturing Supervisor	Production	40:31	-	Face-to-face
Assembly Supervisor	Production	46:17	48:31	Face-to-face
Employee	Production	38:27	-	Face-to-face
Employee	Production	54:45	-	Face-to-face
Employee	Production	1:02:07	54:15	Face-to-face
Employee	Warehouse	58:33	-	Face-to-face