International Review of Industrial and Organizational Psychology 2005 Volume 20

Edited by

Gerard P. Hodgkinson
The University of Leeds, UK

and

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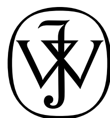
Michigan State University, USA



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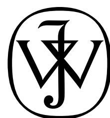

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EDITORIAL FOREWORD

This is the 20th volume of the *International Review of Industrial and Organizational Psychology*. In keeping with previous volumes in the series we have commissioned chapters on a range of topics at the cutting edge of the industrial, work, and organizational psychology field, from some of the world's leading researchers. A number of central topics covered in the present volume (e.g., burnout, the psychology of mergers and acquisitions, and emotions in the workplace) have been surveyed in earlier volumes in the series, but such is the scale of developments currently taking place in these areas that we considered it timely that these topics should be revisited. Topics new to the series in the present volume include a thought-provoking chapter on the contribution of I/O psychology to aviation safety, an issue of considerable and growing importance at the present time.

There is no question that during its first two decades the *International Review of Industrial and Organizational Psychology* has become firmly established as 'the most prestigious series of annual volumes in the field of Industrial and Organizational Psychology', the ultimate ambition of the series' Founding Editors, Cary L. Cooper and Ivan T. Robertson. Under their careful stewardship, from its inception the series has attracted a great many thoughtful, state-of-the art reviews, spanning the entire field, from personnel selection and assessment to work motivation and job design, training and development, organizational development and change to cognitive processes in organizations, stress and well-being, careers and career development, workplace bullying, the prevention of violence at work, and advances in research methods.

We were both highly delighted when we received our respective invitations to assume the editorship of this series. Under our editorship the *International Review of Industrial and Organizational Psychology* will continue to commission authoritative and scholarly reviews that comprehensively survey developments across the entire range of topics that comprise the field of industrial, work, and organizational psychology. Continuing the ethos of the series' Founding Editors, our aim is to publish chapters that will appeal to academic researchers, educators, and practising applied psychologists and other professionals seeking to gain insights into the behaviour of individuals and groups and up-to-the-minute assessments of the underlying evidence base for psychological tools, techniques, and processes that purport to enhance human effectiveness and well-being in workplace settings. Future volumes will include surveys of developments in organizational learning, task analysis, socialization in organizational contexts, the costing of human

resources coping with workplace stress, qualitative research methods, attribution theory and international management, among other topics, with contributions from around the globe.

GPH
JKF
November 2004

Chapter 1

MERGERS AND ACQUISITIONS: AN UPDATE AND APPRAISAL

Susan Cartwright
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INTRODUCTION

The underperformance of Mergers & Acquisitions (M&As) has been a significant cause for concern since the 1960s (Kitching, 1967) and has provoked continuing research attention. In an earlier volume of this publication, Hogan and Overmeyer-Day (1994) presented a comprehensive review of the current literature relating to the psychology of M&As. The literature they cited was drawn predominantly from US sources and reflected the concentration of interest and activity in this field at that time. In this review the literature was usefully conceptualized as falling into four main research categories which in broad terms considered inputs, process, impact on employees, and performance outcomes:

(i) Studies which examine the pre-merger or exogenous variables such as: objectives, relative size, parent characteristics (e.g., past experience), culture, and target characteristics (e.g., prior performance and organizational or cultural fit).
(ii) Studies which focus on the integration or acculturation process and/or consider variables such as identity, communication, speed of change, control mechanisms, and human resource interventions.
(iii) Studies which assess emotional and behavioral outcomes such as stress-related variables, affective variables (e.g., commitment and staff turnover), and absenteeism.
(iv) Studies which attempt to measure ultimate performance outcomes using objective measures like stock price or subjective measures like managerial assessment.

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Given the economic and human importance of M&As, the contribution of psychology to the understanding of the M&A phenomenon and process outlined in the 1994 review was disappointing. In terms of literature coverage and the number of empirical research studies reported, it was apparent that the psychological aspects of M&A had received disproportionately less attention than the financial and strategic issues. Inputs and outcomes, it seemed, were more important than the integration process itself and the emotional and behavioral responses of employees. This lack of advancement reflected similar comments made earlier (Humpal, 1971), and more contemporary reviews lamenting the fragmented nature and paucity of research in this field (Cartwright & Cooper, 1990; Hunt, 1988).

The 1994 review was also highly critical of the quality of the existent studies relating to psychological issues which were variously described as being retrospective, anecdotal, speculative, and atheoretical. Furthermore, Hogan and Overmeyer-Day (1994) concluded that most studies lacked generalizability, as they were based on small sample sizes or the single case study method.

The purpose of this current chapter is to outline the main developments which have occurred in the M&A literature in the intervening period, particularly the contribution made by psychologists. In the last 10 years, the M&A literature has grown significantly as the level of activity has remained high worldwide. During that time, human and psychological factors have increased in prominence, yet it still remains a literature dominated by financial and market strategists (Sudarsanam, 2003). In the course of conducting this review an online library search of all the major management and psychology databases found that only about 5% of the abstracts retrieved, using M&A as the key words, could be considered to be related to the psychological aspects of M&As. On closer scrutiny, even fewer related to empirical studies and could be classified as pragmatic science as defined by Hodgkinson, Herriott, and Anderson (2001) and so could be regarded as making a contribution to evidence-informed management knowledge (Tranfield, Denyer, & Smart, 2003). The literature included has been chosen because it is widely cited, and hence perceived to be influential, and/or because it presents new perspectives and methodologies and draws upon empirical data. The material reviewed will be presented and organized around similar headings to those used in Hogan and Overmeyer-Day (1994). First, however, it is appropriate to briefly discuss the background and current context.

Current Developments in M&A Activity

There have been successive waves of M&A activity which can be traced back as far as the late 18th century (Buckley & Ghauri, 2003). In 1997, M&A activity entered its fifth and latest wave. At its height, in 2000, the dollar

value of completed mergers, acquisitions and divestitures was in excess of US$1.7 trillion which represented an increase of 25% on the previous year (Cartwright & Price, 2003). A significant contributor to this increase has been an escalation in the frequency and value of international M&As, which account for approaching half of all deals worldwide. The countries regarded as most active in Europe are the UK, Germany, France, and the Netherlands (Sudarsanam, 2003).

While the USA continues to be a major acquirer of foreign companies, the value of these deals during the period 1991–2000 was notably less than the level of investment flowing into the US in terms of foreign acquisitions of US companies. In 2000 alone, over 1,000 American companies were acquired by overseas buyers at a value of US$340bn. In contrast, in the 10-year period between 1978–1988, a little over 200 US organizations were bought by foreign acquirers each year. The UK has also seen an increase in foreign direct investment, mainly from the USA, Japan, Germany, and France (Child, Faulkner, & Pitkethly, 2000) and in 1996 foreign acquisitions of UK companies exceeded the combined total value of all other EU countries (KPMG, 1997). In a recent survey of US and European senior managers working for organizations employing in excess of 1,000 employees (Cartwright & Price, 2003), it was found that over half had been involved in a merger during the previous 5 years and one in three had experienced an acquisition.

Since its beginning (Kitching, 1967; Meeks, 1977), the M&A literature has sought to explain why so many M&As tend to destroy rather than enhance firm value. Over time, estimates of M&A failure have been produced, ranging from 80% (KPMG, 2000; Marks, 1998) to 50% (Buono, Bowditch, & Lewis, 2002; Cartwright & Cooper, 1997; Hunt, 1988; Weber, 1996), which have served to reinforce earlier observations made that acquisition strategy is:

> ‘an area of corporate strategy where inappropriate mathematical theory and a yearning for greener grass has prevailed over commonsense’.
>
> (British Institute of Management, 1986, p. 3)

While some sectors, such as banking and insurance, tend to achieve higher success rates than others in terms of enhanced shareholder value (*Financial Times*, August 2000), irrespective of the sector, it is the ‘mega-mergers’ between large, comparable-sized organizations which fail more frequently. Coopers & Lybrand (1992) carried out a study of 50 large UK acquisitions with a minimum value of £100mn during the late 1980s/early 1990s. Based on interviews with senior executives they found that 54% were regarded as failures. The most common reasons for failure were cited as being target

management attitudes, cultural differences, and lack of post-acquisition integration planning. More recent reports (Booz, Allen, & Hamilton, 2001; Henry, 2002) suggest that between 60 and 70% of mega-mergers fail to improve shareholder wealth and more than half actually reduce it (KPMG, 2000). It is worth noting that such reports have mainly been produced by accounting and consultancy firms that offer advisory services to businesses involved in M&As.

In a relatively small-scale study of acquisition performance Hunt (1988) also highlighted a concerning issue that experienced acquirers performed no better than those organizations acquiring for the first time. This would suggest that there is little transference of management learning or that the strategy and process of integration is contingent upon the circumstances and so varies from one acquisition to another. However, more recent studies (Haleblian & Finkelstein, 1999; Schoenberg, 2003) have found evidence that previous experience is associated with superior performance and that, in part, it is the result of a greater level of resource-sharing and the centralization of functions.

Within the psychological literature, it has been consistently argued that human factors are the key to M&A success or failure (Cartwright & Cooper, 1997; Terry, 2003) and that insufficient attention has been paid to the way in which M&As are planned and implemented, a view which is also increasingly shared by M&A managers (Coopers & Lybrand, 1992). However, because so much of M&A success, in terms of share performance, is dependent upon market confidence, organizational leaders may be prone to exaggerate the potential gains and benefits of M&A activity in their statements to the business press and so create unrealistic expectations as to what the deal will deliver. More attention to human factors is likely to improve the likelihood of M&A success, but it seems inevitable that a gap between expectation and reality will continue to exist.

Research Context

M&As are recognized to be difficult settings in which to conduct psychological research. Access to commercial organizations at such a sensitive time is problematic. Establishing the attitudes, behaviors, emotions and psychological states of employees prior to the event are particularly difficult because of the secrecy which surrounds M&A negotiations. Once rumours of an impending M&A start to circulate, organizational stability is disturbed and employees have already effectively become engaged in a change process. Therefore, even at this early stage, any data collected related to their current attitudes and behaviors will have already been shaped by the rumored event. Consequently, studies which have attempted to compare data pre and post merger have done so using retrospective reconstruction methods by

questioning employees as to how they felt or thought during a period of time prior to the event, despite the inherent weaknesses of such an approach (Cartwright & Cooper, 1997). More fortunate researchers have been able to draw upon data from pre-existing employee attitude surveys or personnel records (Schweiger & De Nisi, 1991).

In the past, other researchers have chosen to avoid the problems associated with M&As in the private sector and focused on quasi-mergers involving combinations in the public and voluntary sectors which are generally more accessible (Blumberg & Weiner, 1971; Dackert, Jackson, Brenner, & Johansson, 2003; Humpal, 1971; Shirley, 1973; Wicker & Kauma, 1974). Others (Berney, 1986; Rentsch & Schneider, 1991) have abandoned field investigations altogether and conducted laboratory-based experiments using hypothetical M&A scenarios, usually involving student samples. Although such methods have the advantage of providing a more controlled environment in which to isolate, manipulate, and investigate variables, they fail to capture the complexity and dynamic nature of real-life M&A situations. Because mergers, as well as acquisitions, are rarely a marriage of equals (Humpal, 1971), power dynamics play a major role in determining who are the 'winners and losers' in terms of merger outcomes. Consequently, the validity of M&A data can be weakened by response bias and unrepresentative sampling. Furthermore, the emotional and behavioral responses are liable to temporal fluctuation at different stages in the merger process (Cartwright & Cooper, 1997).

However, there have been some encouraging developments in more recent studies which have become more theory-driven than in the past. Although it is still the case that the majority of recently published empirical studies are cross-sectional rather than longitudinal in design, a greater emphasis has been placed on systematic theory-building and testing (Ashkanasy, 1985; Krug, 2002). The case study method has continued to be a popular methodological approach (Empson, 2001; Meyer, 2001), but there are now some studies which use multiple cases rather than rely on a single case study (Larsson & Lubatkin, 2001; Larsson & Risberg, 1998). Perhaps the most notable change in the M&A literature is the growth in research which has emanated from outside the US, particularly the degree of attention which the topic is now receiving in Europe. Domestic M&A activity is complex; the increase in cross-border M&As has added an additional layer of complexity to this intriguing phenomenon. Ten years ago, the compatibility of M&A partners was debated and considered almost entirely within the context of similarities and differences in organizational cultures; the focus of this debate has since been extended to consider the role of national culture differences. While the themes within the literature have changed little from the categories identified by Hogan and Overmeyer-Day (1994), some have grown and developed more than others and will now be considered in detail.

(i) PRE-MERGER OR EXOGENOUS VARIABLES

Motives

The motives for M&A are many and various and are closely linked to prevailing economic, social, regulatory, and market conditions (Cartwright & Cooper, 1990). A distinction is usually drawn between managerial or non-value-maximizing motives and financial or value-maximizing motives (Napier, 1989). Managerial or non-value-maximizing motives refer to M&As which are aimed at increasing market share, managerial prestige and market confidence, whereas financial or value-maximizing motives are concerned with achieving financial synergies. Whilst the motives for M&A remain unchanged, the continuing expansion of the membership of the EU and the growth of new market economies like China over the last 10 years has provided new geographical opportunities for organizations to grow through merger and acquisition (Buckley & Ghauri, 2003).

Comparatively less attention has been paid to the potential psychological and less overt motives for M&As (Hunt, 1988; Levinson, 1970; McManus & Hergert, 1988; Rhoades, 1983), whereby CEOs and senior managers engage in the activity out of personal fear of obsolescence as a means to increase their power, enhance their career prospects, or create excitement (Donaldson & Preston, 1995). As Fitzroy, Acs, and Gerlowski (1998) observe, executive remuneration and compensation are both closely related to organizational size and the financial enticements offered to senior executives to remain or to leave merged or acquired companies can be substantial (Cartwright & Cooper, 2000).

Understandably, the covert nature of psychological motives which organizational leaders may have in initiating a merger or acquisition is not an area which easily lends itself to empirical research. However, there is some limited evidence to suggest that the collective decisions reached by senior management teams are affected by the composition of the group and the extent to which they share similar beliefs when evaluating potential M&A targets. Corner (2003) has studied collective cognition, in terms of the extensiveness and homogeneity of beliefs toward acquisition among top management teams in New Zealand. Based on a sample of 60 top management teams responsible for recent acquisitions, she found that belief extensiveness, defined as 'the richness or number of different acquisition beliefs', possessed by top management teams had a positive and significant relationship with financial performance, whereas belief homogeneity was negatively correlated with acquisition performance. The findings support the view of Hitt, Harrison, Ireland, and Best (1998) that the cognitive limitations of top management teams affect the financial success of an acquisition and can lead to inadequate target evaluation as a result of group think (Janis, 1982). Therefore, strong leaders who discourage challenge and belief diversity within their senior management teams may be more able to influence M&A decisions that benefit their own personal interests rather than those of shareholders.

Parent and Target Characteristics

Size

The different types and forms that M&As can take are generally classified according to the extent to which the activities of the acquired organization or smaller merger partner are related to those of the acquirer or dominant partner and the envisaged degree of integration necessary to achieve M&A objectives (Haspeslagh & Jamieson, 1991; Schweiger, Csiszar, & Napier, 1994). It has been argued that the lack of generalizability of much of the earlier research into M&A performance stems from the failure to adequately consider pre-existing organizational characteristics such as relative size, strategic fit, culture, and managerial style in relation to objectives and integration strategies (Jemison & Sitkin, 1986; Schraeder & Self, 2003; Sudarsanam, 2003).

Early research (Wicker & Kauma, 1994) demonstrated that levels of organizational commitment decreased post acquisition among employees of the smaller acquired organization. However, the suggestion that employees become less committed simply because the organization has become larger has been challenged by more recent studies. Cartwright and Cooper (1993a) found no significant differences in organizational commitment and job satisfaction among a sample of financial services sector managers drawn from both merger partners, despite substantial differences in relative organizational size. They attributed these findings to the similarities in the pre-existing cultures of the merging organizations. Although the larger organization was perceived to be dominant and the more influential partner, the post-merger culture and working practices were not perceived to be significantly different from those which existed pre merger, as demonstrated by the results of a post-merger questionnaire survey. A follow-up investigation found that over time it was the senior managers from the smaller merger partner that assumed the majority of the top management positions in the merged organization (Cartwright & Cooper, 1997).

Although many writers (Marks & Mirvis, 1992, 1997; Morrison & Robinson, 1997) have emphasized that M&As result in negative attitudes and emotions among employees of the acquired company or smaller merger partner, there are examples of the reverse situation, where acquired employees have perceived the event more positively than members of the acquiring organization (Buono, Bowditch, & Lewis, 1985; Panchal & Cartwright, 2001). Evidence from studies conducted by Matteson and Ivancevich (1990) and Pritchett (1985) emphasize that employee perceptions and attitudes toward M&A are linked to their individual appraisal of the likely impact the event will have on their own career, irrespective of any organizational benefits or potential changes in working practices. Matteson and Ivancevich (1990) found that employees of acquiring companies who were at the mid-career stage were more likely to express negative attitudes

toward acquisition because they perceived that their chances of career progression would become more restricted as a result of increased organizational size. The data they collected were based on interviews conducted early in the M&A process, when fears concerning job future are likely to be highest. Once job loss concerns subside, any changes in culture and job practices may have become more salient. Overall, it would seem that the issue of increased organizational size can be experienced both positively and negatively by different employee groups, irrespective of whether they are members of the acquired or the acquiring organization.

However, the issue of size does play a role in shaping employee perceptions concerning partner domination and their expectations of how the merger will affect them. Dackert et al. (2003) investigated the expectations of employees involved in a Swedish hospital merger. They found that employees of the smaller hospital expected the other larger hospital to be dominant and that its practices would be adopted post merger. Consequently, they anticipated more organizational change and experienced a greater threat to their continued social identity than employees of the larger hospital. The strength of this study is that it was conducted some months prior to the merger rather than retrospectively, as is more often the case (Isabella, 1990). The study achieved a good response rate, approaching 60%; however, it was restricted to head office staff ($n = 114$) across the two organizations and so would be expected to be close to the corporate decision-makers. Perceptions of partner dominance may be less consistent and more ambiguous at different employee levels, and in the case of global M&As might vary between operating countries.

Relative size also has implications for post-acquisition acculturation and the relative standing of acquired executives which will be discussed in more detail later in this chapter (p. 25).

Strategic Fit

A number of studies have examined over time the relationship between financial performance and the strategic fit of the combining organizations (Chatterjee, 1992; Lubatkin, 1987; Schoenberg, 2003; Singh & Montgomery, 1987). Such studies have failed to find a consistent relationship and have inadequately explained the large variance among M&As where the strategic fit was considered to be good, in terms of providing opportunities for revenue enhancement, cost savings, or new growth. Strategists suggest that related M&As between companies in the same industry or business sector are likely to outperform unrelated M&As, because they provide greater opportunities for value enhancement. However, this has not been found to be the case where there has been a lack of organizational or culture fit. This was illustrated in the case of the recent merger between the German car manufacturer Daimler and the American Chrysler Corporation, which has received

extensive press coverage. When the merger was announced it was described as the 'perfect' strategic fit, as the respective markets hardly overlapped and it provided the opportunity to capitalize on the complementary strengths of the enterprise of the US organization with the technical expertise of the German company (Schoenberg, 2000). As it turned out, in little over 12 months the combined value of Daimler–Chrysler was significantly less than the pre-merger value of either partner and there were rumors of major cultural conflicts between the two management groups and significant integration problems.

Cartwright and McCarthy (2005), Jemison and Sitkin (1986), Marks and Mirvis (2001), and Schoenberg (2003), among others, have argued that better M&A outcomes could be achieved if decision-makers paid more attention to wider organizational and behavioral factors, which affect integration success, together with a greater involvement of the Human Resources (HR) function from the outset (see also Cartwright & Cooper, 2000). This view was supported by a survey of chief executives of Fortune 500 companies (Schweiger & Goulet, 2000) which found the ability or competence to manage human integration was rated a more important factor in M&A success than financial or strategic factors, including the price paid. Although several researchers (Cartwright & Cooper, 2000; Cartwright & McCarthy, 2005; Sudarsanam, 2003) have argued for the benefits of cultural profiling as a first step toward aligning culture to strategy, in practice this rarely occurs. Hunt, Lees, Grumbar, & Vivian (1987) have also highlighted the limited nature of the due diligence audit, which is normally restricted to an assessment of the financial and legal health of a target. Significantly, in 88% of the cases they studied the implementation team was significantly different in composition from the negotiating team.

Culture Fit

Researchers who have emphasized the importance of culture fit to M&A performance differentiate between the recognition of potential synergies as being related to the goodness of the strategic fit and the actual release or realization of those synergies as being related to the goodness of the cultural fit (Cartwright & Cooper, 1997; Jemison & Sitkin, 1986; Weber, 1996). The concept of culture has been widely researched (see, e.g., Cooper, Cartwright, & Early, 2001; Walter, 1985), particularly in relation to organizational performance and employee outcomes (Denison & Mishra, 1995). Culture is considered to be underpinned by (often unconscious) assumptions, values, and beliefs which are manifested in observable symbols, rituals, and normative patterns of behavior, which influence the way in which an organization thinks and goes about its business (Cooper et al., 2001). Furthermore, because it provides stability, order, and a sense of cohesion among

organizational members, culture is problematic for M&As, in that established cultures are difficult to change or displace and lead to the development of a 'them' and 'us' mentality (Marks & Mirvis, 2001). According to Daly, Pounder, and Kabanoff (2004) most of the research into the role of culture in M&As has focused on three inter-related dimensions: degree of cultural compatibility (Cartwright & Cooper, 1993a; Datta, 1991; Sales & Mirvis, 1984), organizational resistance (Schweiger & De Nisi, 1991), and acculturation processes (Elsass & Veiga, 1994; Nahavandi & Malekzadeh, 1988).

However, few studies have directly examined the relationship between culture fit and financial performance. One such study (Chatterjee, Lubatkin, Schweiger, & Weber, 1992), based on a sample of 30 US acquisitions, investigated the extent to which share prices and their projected future earnings were influenced by the extent to which the senior managers involved considered the two organizations to be culturally different. The study demonstrated that share market expectations and behavior were more positive in relation to M&As where there was perceived to be cultural similarity. Cartwright and Cooper (1997) related the degree of culture fit to managerial assessments of M&A success and concluded that, although similarity was advantageous, different cultural combinations could also work well.

Cartwright and McCarthy (2004) have proposed that areas of potential cultural difference, as a pre-merger or exogenous variable, should be investigated as part of the due diligence process. Schoenberg (2003) also suggests that the assessment of management styles should form an important part of the pre-bid evaluation as it has implications for resource-sharing. Whilst various measures of culture exist (Sparrow, 2001), with the exception of a measure devised by Forstmann (1997) to investigate the performance of a sample of pharmaceutical acquisitions, there are no instruments which have been specifically designed to assess cultural compatibility in the context of M&As. Sparrow (2001) has argued that the design and use of culture diagnostics generally have limited value for informing HRM practices, without more specific and robust research which directly links individual dimensions or cultural elements to performance outcomes. Cartwright and McCarthy (2004) acknowledge that the same issue applies to any cultural profiling techniques developed for M&A situations. As will be discussed later (p. 12), there is growing evidence that the most salient cultural dimension in terms of organizational and employee outcomes concerns the degree of autonomy allowed to organizational members as being an important cultural dimension (Cartwright & Cooper, 1997; Larsson & Lubatkin, 2001).

National Cultural Differences

As M&A activity has become more international, research attention has increasingly focused on the impact of national cultural differences on

M&A activity. Nahavandi and Malekzadeh (1988) suggest that international M&As present a double acculturation problem in that national cultural differences add an additional layer of complexity over and above organizational culture. In a study of employee stress and attitudes toward mergers, Weber, Shenkar, and Raveh (1996) found that national culture differences were more strongly associated with negative attitudes and stress than differences in organizational culture. Larsson and Risberg (1998) suggested that an analysis of the pattern of European cross-border mergers and acquisitions shows that acquirers are attracted to foreign targets which are geographically close to their own country and/or perceived to be relatively similar in terms of their cultural attitudes and business practices. Hence, within Europe, organizations tend to invest in neighboring countries or those with which they have the closest economic, linguistic and cultural ties. The case of the Nordea banking merger which has been the focus of extensive European research (Soderberg & Vaara, 2003) and involved the merger of four different Nordic institutions is a recent example of this.

Two surveys of managerial attitudes toward foreign M&As have been conducted to investigate the extent to which national culture may play a role in M&A selection decisions (Cartwright, Cooper, & Jordan, 1995; Cartwright & Price, 2003) and have provided support for the notion that cultural similarity promotes M&A activity. The surveys questioned a sample of international managers as to their preferences toward entering a merger or making an acquisition involving a foreign-owned organization and required them to rank-order these preferences by country. Although conducted 8 years apart, the results of both surveys were similar in that, given a choice, managers would prefer to combine with an organization from a national culture which they perceived to be approximately similar to their own and were highly avoidant of cultures which they perceived to be significantly different and lacking a shared understanding. The surveys found that managers from the highly individualistic cultures, as identified by Hofstede (1980), such as the US, the UK, and the Netherlands, clearly preferred to merge or be acquired by organizations emanating from other individualistic cultures and would least prefer to engage in M&A activity with collectivist cultures such as Italy, Spain, and Japan. According to Cooper and Kirkcaldy (1995), in the absence of more specific and detailed knowledge, M&A selection decisions are strongly influenced by cultural stereotypes. There are similar examples in the marketing literature which demonstrate that consumer purchase decisions regarding foreign goods are influenced by the perceptions that individuals have about the country of origin (Zarkada-Fraser, 2001). However, evidence from Kakabadse and Myers (1996) challenges the accuracy of cultural stereotypes in business. In a study of European executives, they concluded that senior managers exercised four different broad management styles, but that only French

and German managers consistently conform to their supposed stereotypical national characteristics.

As ethnocentricity remains a potential problem and barrier to international M&A activity, the benefits of intercultural training initiatives need to be further explored (Stahl & Mendenhall, 2005).

(ii) INTEGRATION PROCESS VARIABLES

Acculturation Process

In many ways the separation of pre-merger characteristics from integration process variables is a false dichotomy as the essence of M&A integration involves an interaction between them. Research by Cartwright and Cooper (1992), Larsson and Lubatkin (2001), and Nahavandi and Malekzadeh (1988) suggests that the cultural dynamics of a merger or acquisition reflect the process of adaptation and acculturation and shape its outcome. Acculturation is an anthropological term, generally defined as 'changes introduced in (two cultural) systems as a result of the contact and diffusion of cultural elements in both directions' (Berry, 1980). Although this suggests a balanced two-way flow, Berry (1980) points out that the members of one culture frequently attempt to dominate the members of the other. The outcome of the acculturation process is seen as being dependent upon the way in which the process evolves or is managed and the extent to which any potential conflicts are resolved. According to Marks and Mirvis (2001) M&As are only likely to work if there is sufficient strategic and psychological preparation to ensure that both partners share a commonality of purpose and recognize and accept the terms of the relationship. This means that both parties must be in agreement as to the strategic intent of the combination.

According to Napier (1989) M&A integration strategies fall into three types: extension, redesign, and collaborative. When organizations decide to extend their activities into different areas, as in vertical M&As, cultural differences are not necessarily that important as the acquired business, at least in the short term, continues to operate separately. However, in redesign M&As, the strategy of the acquirer or dominant merger partner is to absorb and assimilate both the activities and culture of the acquired or smaller merger partner into its own and so monopolize on potential economies of scale. In these circumstances cultural differences may become an obstacle to the 'cloning' process, as the dominant culture may not be perceived by employees as an attractive and acceptable alternative to their pre-existing culture (Cartwright & Cooper, 1993b; Nahavandi & Malekzadeh, 1988). Similarly, a collaborative strategy intended to take advantage of shared knowledge and resources and the creation of a new 'best of both worlds' culture is dependent upon a degree of cultural consensus and mutual respect (Cartwright & McCarthy, 2005).

In a series of large-scale studies, Cartwright and Cooper (1992, 1993a, b) gathered data from more than 150 formal interviews and 600 questionnaires to analyze the impact of cultural dynamics on the integration or acculturation process across three acquisitions and two mergers. They found that the pre-existing cultures of the merging organization could either facilitate or obstruct the integration strategy adopted by the implementation team. In all but one of the M&As they studied a redesign strategy was adopted, which they described as representative of a 'traditional marriage'. This worked well and the mode of acculturation was accepted by employees in cases where the direction of cultural change was toward increased employee autonomy and was conflictual and problematic in terms of both employee behavior and organizational performance when employee autonomy was perceived to have been eroded. Although these studies were extensive in scale and influential in promoting subsequent research studies, the majority involved domestic M&As and relied heavily on retrospective measures of pre-existing cultures. In a longitudinal study of domestic mergers between accounting firms in Australia conducted by Ashkanasy and Holmes (1995), the researchers similarly found that disagreement between the parties as to the preferred mode of acculturation led to significant integration problems. These problems were found to center on the imposition of a dominant culture, which in turn reduced employee discretion.

More recently, Daly et al. (2004) conducted an innovative study examining the impact of pre-existing differences in espoused values on the post-merger financial performance of 59 M&As which took place during 1989–1996. Using the techniques of content analysis they examined publicly available archival data from which differences in espoused values were assessed and assigned numerical difference scores. The archival data took the form of the opening letters written by the company president or CEO in the annual reports published by the acquiring and target firms for the 3 years prior to the acquisition. Espoused values were organized around two main value themes: concern for employees and concern for production; a numerical difference score was constructed across each acquirer–target pair. A major strength of this study was that it incorporated a range of control variables, including prior acquisition experience, relative size, and prior performance. Hierarchical regression analysis revealed that similarities in pre-existing espoused values between target and acquirer (i.e., low difference scores) had a significant positive influence on post-acquisition financial performance, which explained 11% of the variance. Interestingly, none of the other control variables was found to be significant. As the authors point out, their methodology circumvents many of the problems associated with M&A research, such as poor access, retrospective bias and low response rates (Datta, 1991). However, espoused values have been found to differ from culture in use, particularly when publicly expressed in corporate communications (Cartwright & Cooper, 1997).

In a meta-analytic study of 50 domestic and international M&As, which occurred during the period 1959–1988, Larsson and Lubatkin (2001) investigated the impact of a range of variables on the extent to which acculturation was achieved. The independent variables included in the study were degree of autonomy removal, merger relatedness, relative size, social control, and nationality. The methodology adopted was that of a case survey, whereby qualitative descriptions from a range of individual case studies were converted and coded into quantified variables by multiple raters to enable comparisons to be made across the sample of cases. The majority of individual cases included in the survey were based on unpublished material or doctoral dissertations. The cases varied in length from 3 or 4 pages to over 400 pages. The sample consisted of 23 US domestic, 15 Swedish domestic, and 27 Swedish cross-border M&As. The study found that the most important variable associated with achieving acculturation was the degree of social control, with a significant positive correlation of 0.40 ($p < 0.001$), which explained an impressive 42% of the variance.

Social control was measured by just two items on a 5-point scale which required raters (1) to estimate the degree of effort expended through the use of various coordination mechanisms, such as transition teams, senior management and personnel exchanges (coordinative effort); and (2) to estimate the degree to which socialization activities such as introduction programs, training and social 'get-togethers' were used (degree of socialization). Interestingly, there was no direct correlation found between autonomy removal and achieved acculturation. However, further analysis, splitting the sample into two conditions, high/low autonomy, and deconstructing the Social Control Index into its two components, found that in the high-autonomy removal condition, both components, coordinative effort ($r = 0.59$) and degree of socialization ($r = 0.41$), were positively correlated with achieved acculturation, whereas in the low-autonomy removal condition only socialization ($r = 0.41$) was positively correlated with achieved acculturation. The authors conclude that reduced autonomy is not an obstacle to acculturation, provided that both aspects of social control are introduced.

The case survey method has undoubted strengths and would have been even more powerful if it had included the type of financial data incorporated in the Daly et al. (2004) study. However, it does have some observable weaknesses. The richness, extensiveness, and quality of the data together with the methodological rigor of the case studies is likely to have been highly variable, given that the descriptive material varied so much in terms of length and detail. This may have created difficulties for raters to code cases. Although there was an option in the coding system for 'insufficient information' it is not clear how frequently this option was used.

In summary, studies have consistently identified that the alignment of strategy with culture is a major challenge for M&A integration (Schweiger & Goulet, 2000). Several studies attest to the difficulty of resocializing

acquired employees particularly when different value systems are in operation (Carrol & Harrison, 2002; Larsson, 1993). Other studies have demonstrated that similarities in organizational and national cultures and management style reduce resistance and increase post-merger cooperation (Larsson & Finkelstein, 1999; Weber et al., 1996) and that differences adversely affect the transfer of knowledge (Empson, 2001). On the other hand, evidence from Larsson and Lubatkin (2001) suggests that culture clashes can be avoided through increased employee involvement in the integration process, even in situations where autonomy is restricted post merger. By utilizing the integration models proposed in the strategic management literature (Haspeslagh & Jamieson, 1991; Napier, 1989), the psychological literature on M&As has made some important advances in the last 10 years, generating testable hypotheses which can further inform our understanding of the acculturation process.

Development of Post-merger Identity

Research has shown that high levels of employee identification with the organization's identity is beneficial and results in increased work motivation, performance and organizational citizenship behaviors, and reduced labor turnover (Haslam, 2001). A proxy measure of successful M&A integration, therefore, is the speed with which employees put aside their separate pre-existing 'them and us' identities and assume a new shared organizational identity (Marks & Mirvis, 2001). The concept of identity has been discussed and researched within the M&A literature in relation to the sense of lost identity which employees experience at the time of acquisition and the process by which both employee groups form a new social and organizational identity.

In terms of the individual's response to M&A, a comparison is frequently drawn between the experience of acquisition and that of bereavement in that employees grieve the loss of their organization and its identity (McManus & Hergert, 1988; Mirvis, 1985; Schweiger, Ivancevich, & Power, 1987). Schweiger et al. (1987) likened the intensity of the feelings of loss experienced by acquired employees to the loss of a close family member, and Holmes and Rahe (1967) rate M&A as a highly significant life event in terms of its impact on stress and health. Both Hunsaker and Coombs (1988) and Mirvis (1985) have presented stage models to describe the way in which employees respond and adjust to the loss experience associated with M&A. These models, adapted from the clinical psychology literature (Kubler-Ross, 1969), highlight the feelings of denial, anger, and depression which employees experience prior to accepting the changed circumstances. It is only when employees have achieved some form of closure that they can move on and form a sense of identity with the new organization. Such stage models also accommodate the possibility of employee regression to, or

fixation at, an earlier stage in the bereavement cycle. Some evidence in support of these stage models has been found in interview data collected at different time points within the M&A process (Cartwright & Cooper, 1997; Kasstucher, 2004). However, there is also recent evidence to suggest that employees may become psychologically resilient to the negative emotional aspects of M&As, as a result of increased experience of such events (Cartwright & Hudson, 2000).

Findings from a correlational study examining the factors associated with employee trust post acquisition, conducted in Greece (Nikandrou, Papalaxandis, & Bourantes, 2000), suggest that the extent to which employees have confidence and trust in management may influence their reactions to the M&A event. Therefore, the universality of the proposed stage models needs to be further tested and would benefit from larger studies involving more systematic and quantitative investigation of a range of potential moderating variables. As well as employee attitudes toward the organization, studies should consider individual differences, such as tolerance to change (Hardin, 1967), and a range of demographic variables, including prior experience, age, job status, and tenure.

The process by which members of merged organizations form new identities has been studied within the context of Social Identity Theory (SIT) (Tajfel & Turner, 1979). In Chapter 2 in this volume Haslam and Ellemers (2005) discuss the potential value of SIT to industrial and organizational psychology more generally and the exponential rise in articles that make reference to the theory. SIT posits that individuals create and reinforce their identity by regarding themselves as members of certain groups or social categories and that membership of these social groups forms a significant part of their self-concept. An important part of establishing identity is linking with others as well as defining boundaries that separate and exclude the membership of certain others. Kleppesto (1998) suggests that SIT explains why, in an M&A situation, actors tend to emphasize cultural differences as part of the natural process of creating and maintaining social identities, boundaries, and social categories. Drawing upon case study data, Gertsen and Soderberg (1998) and Kleppesto (1998) argue that, although many M&As appear to result in conflict over various technical and procedural issues, such as policies, systems, and financial control processes, the underlying communication between the parties is at a relational rather than content level and that culture becomes a much used metaphor to convey those relational difficulties. Other European research studies (Dackert et al., 2003; Soderberg & Vaara, 2003) have also conceptualized the interaction of cultures and the resultant 'culture clashes' as a process of negotiation and sense-making, whereby organizational members seek to establish their social identity. Many of the studies grounded in a social constructionist approach have focused on the analysis of post-merger narratives provided by managers and employees (Gertsen & Soderberg, 2000; Vaara, 2002) as well as media