

Chapter 1

MERGERS AND ACQUISITIONS: AN UPDATE AND APPRAISAL

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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.

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. Kleppeto (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 Kleppeto (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

coverage (Schneider & Dunbar, 1992; Vaara & Tienari, 2002). These studies have been highly critical of integration research which has attempted to objectively measure cultural differences (Calori, Lubatkin, & Very, 1994; Datta, 1991; Morosini & Singh, 1994) as being superficial in adopting a structural-functional approach to culture.

In a laboratory-based experiment, Haunschild, Moreland, and Murrell (1994) demonstrated that groups that had a common identity, based on previous experience of working together, displayed stronger resistance to the prospect of group merger than groups with no shared work history. In a field study, Van Knippenberg, Van Knippenberg, Monder, and de Lima (2002) investigated how employee perceptions of partner domination influenced organizational identity post merger by conducting pre- and post-merger surveys. They found that organizational identity post merger is contingent upon a sense of continuity of identity, which in turn is contingent upon the extent to which the individual's own pre-merger organization dominates or is dominated by the other partner. If employees of a merging organization perceive that their organization will be dominant and that there will be little change, then it is more likely that they will preserve their identification with the former organization and that this identification will be transferred to the new organization. In contrast, if continuity is threatened it is less likely that employees will transfer their former identification to the new organization.

In another recent study investigating social identity, also using pre- and post-merger survey data, Dackert et al. (2003) reported similar results in that the threatened group were more inclined to respond to the survey items in a way which emphasized their own distinctiveness. The Dackert et al. (2003) study is interesting in that prior to the survey the researchers conducted a series of interviews with employee groups and used a variant of the repertory grid technique to elicit constructs which reflected perceived differences between the two organizations. These constructs were then used to generate questionnaire items. Several other studies (Hogg & Terry, 2000; Panchal & Cartwright, 2001; Terry, Callan, & Salori, 1996) have found that employees of the acquired or smaller merger partner have welcomed the opportunity provided by M&A to enhance their social identity (i.e., by joining a higher status and more prestigious social group). In the Panchal and Cartwright (2001) study of a UK merger of two sales teams, focus group discussions and questionnaires were used to collect data. Members of the dominant organization considered that combining with a less prestigious organization would diminish their status, whereas the acquired members felt their reputation and, hence, their ability to increase sales had benefited as a result.

The view of many researchers (e.g., Gertsen & Soderberg, 1998; Kleppesto, 1998) is that a new organizational identity will naturally evolve over time, suggesting that efforts by post-merger management teams to escalate the process are unlikely to be effective. There has been little research to

indicate whether a slow rate of change in M&As is preferable to rapid change, although compelling arguments have been presented on both sides (Nikandrou et al., 2000). Schweiger et al. (1994) favor quick-change implementation as being effective in reducing employee uncertainty and fulfilling employee expectations, whereas Buono et al. (1985) argue that employees can only accommodate a limited amount of change at any one time and advocate a slow and gradual approach. Results from the Nikandrou et al. (2000) study of 27 Greek acquisitions involving 133 administrative employees found that slow-change implementation erodes initial positivity toward merger and reduces trust in management. However, this study did not directly consider the concept of social identity and included a diverse sample of domestic and foreign acquisitions. Further research, comparing the pace and scheduling of change and its impact on organizational identity formation and other individual and organizational M&A outcomes, is clearly needed.

Human Resource Management Practices

According to a considerable number of researchers (e.g., Cartwright & Cooper, 2000; Gutknecht & Keys, 1993; Meeks, 1977; Sinetar, 1981) post-merger performance is adversely affected by lowered morale, which is often linked to perceptions of unfair treatment. Employees' perceptions of justice or fairness concerning how they are treated with regard to pay, promotion, and individual consideration have important consequences for organization performance more generally (Colquit, Conlon, Ng, Porter, & Wesson, 2001) and have become an important focus of psychological research (Folger & Cropanzano, 2001; Gilliland & Paddock, 2005; Greenberg, 1990, 2001; Korsgaard & Robertson, 1995). The concept of organizational justice is underpinned by equity theory (Adams, 1965), in that people expect to receive fair rewards for their work efforts and will reduce their efforts if they experience a sense of injustice. According to organizational justice theory, perceptions of fairness are linked to both procedural justice (how fair the organizational processes and procedures are) and distributive justice (how fairly the rewards are distributed). Employees who feel they are treated fairly and with respect have been shown to be more inclined to exhibit high levels of Organizational Citizenship Behaviors (OCBs) and do things for the organization over and above that which they are contractually obliged to do (Guest, 1998). High levels of OCB are considered to be desirable post merger to meet the demands of increased workload and increased employee flexibility (Cartwright & Cooper, 2000).

In the context of M&As perceptions of organizational justice and fairness concern not only the way in which new roles and rewards are allocated to those who are retained by the merged organization but also the ways in which termination decisions are made and the process of employee lay-offs is handled (Cartwright & Cooper, 2000). In addition, employee perceptions

and future expectations concerning organizational justice and consideration are likely to shape the terms of the psychological contract (Rousseau, 1995) which acquired employees will be seeking to re-establish with their new employer. If they consider that their new employer is unjust and lacking in consideration toward employees, then the reciprocal expectations which form the basis of that psychological contract between employer and employee are unlikely to extend beyond the transactional level to the deeper, more enduring relational level. M&A researchers have only recently begun to study the concept of organizational justice (Meyer, 2001). As yet this does not appear to have been extended to include consideration of the psychological contract.

However, there is a body of research evidence to suggest that the morale of survivors is adversely affected by employee lay-offs and the resultant increase in workloads (Brockner, 1986; Gutknecht & Keys, 1993). In a survey of over 50 US M&As, Jacobs (1988) found that 80% of the respondent organizations had initiated downsizing operations post merger and in 75% of cases the work performed by the redundant employees was reallocated among the remaining workforce. Although, initially, surviving employees report feelings of guilt, anger, and/or relief at the dismissal of co-workers, over time these feelings are often replaced by fear of future dismissals and anxiety and frustration about increased workloads (Brockner, 1986; Cartwright & Cooper, 2000). Furthermore, there is some limited, mainly anecdotal, evidence that feelings of injustice among displaced executives and employees can damage the reputation and performance of the merged organization (Cabrera, 1990). Not surprisingly, the literature has emphasized the importance of providing support, advice, and outplacement services to employees who are made redundant or are early-retired in the process of M&A (Gutknecht & Keys, 1993). The impact of organizational initiatives to assist redundant employees seems to have been little evaluated, although some years ago Allied Signal, who made 45 acquisitions over a 6-year period, attributed their success to the investment they made in a program to develop and retrain survivors (Fulmer, 1986). More recently, Summers and Holcombe (1990) conducted a small study of employees who lost their jobs following the closure of their division post merger. The employees were offered alternative employment elsewhere in the company, although this would have necessitated major relocation to another part of the US. Consequently, none of the employees took up the offer. Summers and Holcombe (1990) conducted a questionnaire survey to ascertain how fairly the employees felt they had been treated. A correlational analysis found partial support for the notion that the offer of alternative employment contributed to their satisfaction with and perceived fairness of their employer. Unfortunately, however, the sample size was less than 30, thus limiting the generalizability of the findings.

Schweiger and Very (2003) have observed that the allocation of post-merger roles and functions invariably benefit some employees and is perceived to disadvantage others. Power differentials between the organizations

are considered to influence the allocation process (Halvorsen, 1984). Other criteria, such as merit, equality, and seniority, which emphasize how important it is that acquiring management are not seen to favor appointing their existing staff over acquired employees, have also been mentioned (Marks & Mirvis, 1992, 2001). Systematic selection processes present a means of ensuring the equality criterion is met. However, such processes are lengthy and time-consuming and reselection and promotion decisions are more often made on the basis of seniority, which enables decisions to be made easily, quickly, and safely, in legal terms (Serpa, 1988).

Citera (2001) conducted a simulation study to investigate the criteria on which judgements of fairness are likely to be made in M&A situations. Students were presented with four different types of acquisition scenarios and asked to make judgements. It was found that the higher the degree of expected integration the more likely individuals were to expect more unfair and fewer fair changes to occur. Child, Faulkner, and Pitkethly (2001) have presented data to suggest that changes in relation to pay, promotion, and reward mechanisms are more pronounced in cross-border than domestic M&As. In a study of European mergers Very, Lubatkin, and Veiga (1997) found that changes in the perceived objectiveness of the performance and reward procedures were significant predictors of employee stress levels.

Meyer (2001) applied an organizational justice perspective to investigate the role allocation processes in two Norwegian mergers. Earlier studies (Fried, Tiegs, Naughton, & Blake, 1996; Newman & Krzystofiak, 1993) have found that the timing, criteria, and mechanisms used to allocate new roles can result in negative emotional and behavioral outcomes. In her study, Meyer (2001) conducted a series of interviews, supplemented by documentary and archival data and direct observation, to compare the experiences of key informants involved in a banking merger and an insurance merger. In terms of outcomes, Meyer discusses the comparative impact the allocation processes had on employee satisfaction and the difficulties that organizations may face in applying justice rules which satisfy both productivity- and relationship-oriented goals. In total, 78 interviews were conducted, some retrospective, others in real time. In the case of the banking merger, the partners were of a similar size but with significant performance differentials. In the selection of management and head office jobs, the distributive justice rules adopted by the bank prioritized equality (i.e., all individuals had an equal chance of receiving a role regardless of differentiating characteristics such as knowledge or ability). In practice, such rules translate into proportionality of jobs allocation relative to size. In contrast, seniority was used to reallocate other employee jobs and grades to staff. This led to extensive political negotiation in role allocation of managerial jobs.

In the insurance merger between two organizations of significantly different size, the distributive justice rules adopted prioritized equity (i.e., people should have received rewards consistent with their inputs). In both

organizations, justice rules were incorporated into the reallocation process but were far more extensive in the insurance merger. Both organizations were keen to ensure that they met two goals—economic productivity and the fostering of relationships. Whereas in the case of the insurance merger these goals appeared to have been compatible and employees seem to have been satisfied with the fairness and outcomes of the role allocation process, this was not true in the banking merger. The organization encountered problems meeting both goals and subsequently prioritized the economic goal at the expense of maintaining good relationships. Consequently, the distributive rules were changed and equity rather than equality became the priority, so that positions and functions could be reallocated in a quicker and more efficient manner. Employees of both merger parties were dissatisfied with the allocation process. Meyer suggests that the use of equity is open to abuse by managers pursuing their own interests. This, together with the time spent trying to establish fair procedural rules, raises doubts as to its viability as an approach to M&A role allocation. Meyer acknowledges that her findings and proposed hypotheses for future studies need to be tested in a variety of different M&A situations and national cultures, where perceptions of organizational justice may differ significantly.

(iii) COMMUNICATION AND TRUST

The M&A literature has continued to emphasize the importance of communication throughout the three stages of the process; that is, pre merger, the time the merger actually happens, and throughout the post-merger integration process (Gertsen & Soderberg, 1998; Marks, 1997; Risberg, 1997). Characteristically, employees involved in M&As report dissatisfaction with the amount of communication they receive (Napier, Schweiger, & Kosglow, 1993). In the absence of sufficient information, employees are considered to be 'too smart' to believe that nothing will change (Haspeslagh & Jamieson, 1991) and so create their own meanings to fill the void (Shearer, Homes, & Runge, 2001). It is argued that extensive and realistic communication can significantly reduce resistance to change, influence the adoption of new practices and cultures, dispel rumors and minimize uncertainty and employee stress (Appelbaum, Gandell, Yortis, Proper, & Jobin, 2000).

In a well-designed longitudinal study, Schweiger and De Nisi (1991) compared the impact of minimal communication with an extensive realistic merger communication program. The research was conducted in the US and involved two manufacturing plants belonging to one of two merging Fortune 500 companies. The study compared levels of employee uncertainty and job satisfaction between the two plants. Measures were taken 4 weeks before the announcement of the merger, 2 weeks after the merger announcement, 10 days later, and finally a further 3 months later. Measures were also taken to

assess employee perceptions of the company's trustworthiness, honesty, and caring. Over 70 employees at each plant completed questionnaires at each time stage. At one of the plants, the 'control' plant, employees did not receive any formal communications about the merger other than the initial letter from the CEO. This provided minimal information, which was typical of the approach adopted by the company in previous circumstances of organizational change. Employees at the other, 'experimental' plant received a similar letter but in addition were provided with information designed to provide a Realistic Merger Preview (RMP). The RMP program was introduced 1 week after the second survey administration and included a regular newsletter, weekly meetings between supervisors and staff, and the introduction of a telephone hotline to answer employees' queries. The results demonstrated that, at the time of the final survey, employees in the 'experimental' plant reported significantly lower levels of uncertainty and job dissatisfaction than those in the 'control' plant. Furthermore, their perceptions of the honesty and trustworthiness of the organization were also significantly higher.

Miller (1999) also advocates the value of communication events as being a useful tool for conveying company policy and other important issues to employees following a merger. Koonce (1991), in a survey of merged organizations, found that almost half of all respondents considered that communication had been a major contributor to maintaining good employee morale. Other studies have linked M&A success to the quality of communication and its positive impact on employee morale (Brandon, 1999; Citera & Rentsch, 1993; Sloan, 1993) and its effectiveness in breaking down cultural stereotypes and promoting shared values (Cartwright & Cooper, 2000). However, some researchers have cautioned against open communication in M&As, as this might alert competitors to impending changes or cause employees to leave rather than endure the painful consequences of remaining (Buono & Bowditch, 1989; Marks & Mirvis, 1998).

More recently, Nikandrou et al. (2000) have investigated the factors associated with organizational trustworthiness in a study of 27 domestic and cross-border acquisitions in Greece. Trust relates to the confident positive expectations that an individual has about the motives of another in regard to situations entailing risk. Trust is at the core of successful relationships and an antecedent of cooperation. The independent variables included in the study were frequency and usefulness of communication, employee relations, perceived uncertainty, and tolerance to change. In addition, three control variables—nationality, time of acquisition, and speed of change—were incorporated in the study in order to take account of acquisition characteristics. All the dependent variables, with the exception of job uncertainty, were significantly correlated with trust in management and were in the range of 0.20 to 0.45. Although a significant negative correlation between job insecurity and trust was not found, the relationship was in the expected direction, but weak ($r = -0.10$). The results of the basic regression analysis

found that the most significant factor in explaining the variance was good employee relations, followed by tolerance to change. A further regression analysis was conducted to examine the effect of acquisition characteristics. Some variation in pattern among the predictor variables was found, but unfortunately the article provides no information as to the numerical distribution of the sample across the various categories. Given the overall sample size, it is reasonable to assume that these data are likely to be weak.

In a study of a Swedish hospital merger, Engstrom, Rosengren, and Hallberg (2002) found that lack of trust in management was a significant predictor of employee commitment and involvement.

Some interesting studies have also been undertaken to examine the emotive language used in M&A communications, particularly the use of metaphors (Vaara, Tienari, & Santt, 2003). 'Marriage' has become a popular metaphor for mergers (Cartwright & Cooper, 1992; Jick, 1979) in differentiating between the terms on which the partnership is founded and emphasizing the emotionality and distinct stages of the evolving relationship. Discourse analysis of merger-related communication, press, and other media coverage has also highlighted the use of more brutal and aggressive metaphors, ones which have likened the event to war and rape (Vaara & Tienari, 2002). Sudarsanam and Mahate (2004) have also drawn attention to the way in which bidders are depicted in the media either as destructive and greedy 'raiders' or 'plunderers', or as friendly and chivalrous 'white knights', although their evidence, based on the performance of over 500 UK acquisitions, suggests that hostile takeovers tend to outperform friendly acquisitions.

(iv) EMOTIONAL AND BEHAVIORAL OUTCOMES

M&As have long been associated with a range of negative emotional and behavioral outcomes, including lowered morale, job dissatisfaction, increased stress, unproductive behavior, acts of sabotage, petty theft, increased staff turnover, and absenteeism (Bruckman & Peters, 1987; Hall & Norburn, 1987; Marks & Mirvis, 2001; Sinetar, 1981). This section focuses on two prominent research areas that have received considerable scholarly attention within the review period: merger stress and executive turnover.

Merger Stress

A number of studies have highlighted the fact that major organizational change and restructuring results in increased stress, confusion, and lost productivity (Gibbons, 1998; Koonce, 1991) and that it takes a significant period of time before satisfaction and trust is regained and stress levels decrease (Nelson, Cooper, & Jackson, 1995). Furthermore, stressful effects

of re-organization seem to be universal and are apparently little moderated by individual differences such as personality (Ashford, 1988). However, individual characteristics have not been extensively researched in the context of M&A stress. Idel et al. (2003), in a recent study of nurses involved in a hospital merger, suggests that self-efficacy may play a role in the appraisal of threat, but further studies, examining a more extensive range of individual characteristics, are needed.

The unexpected and non-routine nature of M&A events is considered to set the experience apart from other forms of organizational change and so further increase their stressful potential. Although Crouch and Wirth (1991) have argued that the impact of M&A is often exaggerated, there is a growing body of research evidence collected from both public and private mergers in a variety of cultural settings which challenges this view. Schweiger and Ivancevich (1987) have suggested that M&As are particularly stressful because employees have not developed an effective set of coping strategies to deal with such a novel and emotive situation that impacts on such a wide range of work issues. Subsequent research conducted by Cartwright and Hudson (2000) has confirmed that employees who experience a merger for the first time report significantly poorer levels of mental health than those who have had previous merger experience. Their study found that, irrespective of prior experience, the stress levels of merged employees were significantly higher as measured by the Pressure Management Indicator (Williams & Cooper, 1996) than a relevant normative group and that the differences in health outcomes were moderated by the superior adaptive coping skills of those who had encountered such events before. In particular, employees who had prior experience were more inclined to use problem-focused coping strategies than emotion-focused coping strategies to deal with experienced stress. Marks (1997) asserts that physical signs of stress are present in all M&As, even the friendliest and best managed combinations, primarily because they are events over which employees have little or no control. In support, he reports that incidents of high blood pressure among employees doubled from 11% in the year preceding an acquisition to 22% in the year following its announcement.

Cartwright and Cooper (1993a) conducted a post-merger study of 157 building society managers, using a clinical measure of mental health (Crown & Crisp, 1979). They found that managers from both merging organizations had significantly poorer mental health scores than the general population, with an abnormally high percentage scoring higher than psychoneurotic outpatients on one of the subscales. The effects were more pronounced among the managers from the smaller merger partner. Interestingly, the pre-merger cultures of both organizations were found to be very similar and in financial terms the merger was highly successful. They concluded that it appeared to be the expectancy of change and fears for future survival, rather than the actual change itself, which triggered merger stress. This is

consistent with an earlier qualitative study by Schweiger and Ivancevich (1987), thus suggesting that the most stressful time for employees is likely to be the period between learning of the intention to merge and the time any changes are actually implemented. Hence, mergers are likely to be more stressful than acquisitions because integration is a slower and more protracted process.

In a study of mergers within the educational sector in Northern Ireland, McHugh (1995) compared the health of a group of teachers from schools that had merged with those under a threat of merger, using the General Health Questionnaire (GHQ: Goldberg, 1972). She also included in her study a control group of teachers from schools that were not under any merger threat. The results indicated that teachers from those schools under threat reported the poorest psychological health. Compared with the control group, their psychological health was found to be significantly poorer. Again, abnormal threshold scores for the GHQ were reported by a high percentage of respondents, this being indicative of moderate to severe psychological disturbance. Siu, Cooper, and Donald (1997) found elevated stress levels relative to normative data among employees of an acquired television company in Hong Kong, as measured by the Occupational Stress Indicator (OSI: Cooper, Sloan, & Williams, 1988). However, in common with the other studies discussed, this study was cross-sectional in design. There are several additional cross-sectional studies to those discussed above, which have also reported evidence of high stress levels and mental distress post merger, both in the private (Begley, 1998; Gibbons, 1998; Very, Lubatkin, & Calori, 1998) and public (Gulliver, Towell, & Peck, 2002; Idel et al., 2003) sectors.

In sum, M&A stress is an area which would greatly benefit from longitudinal research to identify the extent to which the potential sources and effects of stress vary over time in terms of their nature and intensity.

Executive Turnover

A growing number of studies (Buchholtz, Ribbens, & Houle, 2003; Cannella & Hambrick, 1993; Hambrick & Cannella, 1993; Krug & Hegarty, 1997; Unger, 1986; Walsh, 1988) have shown that M&As result in increased levels of executive turnover among acquired companies, compared with matched non-acquired organizations over the common time periods.

In a study of 55 US acquisitions, Walsh (1988) found that a quarter of senior executives left in the first year post acquisition. Furthermore, after 5 years only 40% of senior executives still remained in the acquired organizations. Unger (1986), in a large study of 150 acquisitions, reported an even higher turnover rate of 50% in the first year. By the end of 3 years, a total of 75% of senior executives were no longer working for the acquired firms. More recent studies (Cannella & Hambrick, 1993; Hambrick & Cannella, 1993; Krug & Hegarty, 2001) suggest that about one-third of senior

executives in acquired organizations are involuntarily terminated and another third leave voluntarily within 2 years post acquisition.

UK research examining turnover among 100 large acquisitions found that only 43% of CEOs remained in post 2 years after the acquisition (Angwin, 1996). Buchholtz et al. (2003) tracked the rate of senior executive turnover among 161 uncontested acquisitions over a 4-year period. Their findings were consistent with previous studies in that 75% of executives had left by the end of 3 years. However, executive turnover continued into the 4th year, when a further 25% left the acquired organization.

Krug (2002) conducted a longitudinal analysis of post-acquisition turnover by comparing senior management turnover rates among 89 US acquisitions with 90 control firms. The strength of this study is that data were collected over a 15-year period. This period included the 5 years prior to the acquisition, the year of the acquisition, and 9 years post acquisition. The study showed that the acquired and non-acquired organizations were well matched in that executive turnover rates were not significantly different in the 5 years prior to acquisition. Consistent with previous research, average turnover rates among incumbent executives was significantly higher in acquired than non-acquired organizations and was highest in the 1st and 2nd years post acquisition. The rate of executive turnover among new-hires was also investigated. Interestingly, it was found that over the 9-year period post acquisition, the overall executive turnover rate, including new-hires, averaged nearly 19% per year in the acquired companies. This was twice as high as in the control group, which lost an average of 9% of their executives each year. On the basis of this evidence, it would seem that acquisitions can result in long periods of employment instability and changes in top management teams that impact upon both existing and new-hire executives. While it has been argued that changes in top management teams are crucial for acquisition success (McCann & Gilkey, 1988), the evidence to support this remains equivocal (Cannella & Hambrick, 1993; Krishnan, Miller, & Judge, 1997). Future research needs to take more account of the match between leadership skills and the proposed integration strategy (Haspeslagh & Jamieson, 1991; Schoenberg & Norburn, 1998; Thach & Nyman, 2001).

Several theories have been advanced to explain the post-acquisition departure of senior executives. The market discipline perspective (Walsh & Ellwood, 1991) suggests that poor performers are the most likely to leave, and acquirers make their initial retention decisions on the basis of the pre-acquisition performance of the target company. If acquirers consider that they already have an abundance of managerial talent within their own organization who understand 'the logic' (Napier, 1989) of the acquisition, then target company executives are likely to be perceived as being surplus to requirements, a response that has been described as 'acquirer arrogance' (Jemison & Sitkin, 1986), which can lead to the loss of the most talented (Very, 1999).

Relative standing theory (Hambrick & Cannella, 1993) presents an alternative view. According to this theory, executives leave acquired companies due to conflictual relationships or because they experience an erosion in their status and/or feel inferior relative to acquiring management. Empirical support for this theory has come from a number of studies which have shown that differences in organizational size tend to be associated with a greater loss of status and autonomy and an increased propensity to leave (Hayes & Hoag, 1974; Humpal, 1971).

More recently, executive turnover has been explained within the context of human capital theory (Phan & Lee, 1995; Siehl, Smith, & Omura, 1990). According to this theory, incumbent CEOs and other members of top management teams have value as human capital in terms of the stock of knowledge and skills they possess. Both incumbent executives and acquiring management conduct a cost-benefit analysis when deciding the value of employment continuance. Acquirers will weigh the costs of retaining executives against the benefits of future returns when deciding the level of future investments needed to retain and develop human capital. Similarly, acquired executives consider the effort and time investments which they might need to make to adjust to the new rules and expectations of the acquirers against the future benefits of doing so. According to Buchholtz et al. (2003), the effect of age on the human capital calculation is significant. In their study of acquired executive turnover, they found that the rate of departure was greatest for the oldest and youngest CEOs and lowest for middle-aged CEOs between 45 and 54 years of age. This was attributed to the greater mobility and less emphasis placed on money and security by younger executives and the declining motivation of older executives to invest further effort and time in their careers as they approach retirement age. It has also been argued by Cartwright and Cooper (1997) that members of an acquired organization choose to move to other organizations because they prefer to select the type of organizational culture they wish to join rather than face the prospect of having a culture imposed upon them by the acquirer or dominant merger partner.

One of the problems associated with the study of executive turnover is the difficulty in differentiating between (1) outright dismissals, (2) financial inducements to leave, and (3) voluntary resignations. Information is hard to ascertain due to the sensitivity of the situation and possible fears of litigation. While the focus of post-acquisition labor turnover has been predominantly on executive turnover, unplanned personnel losses have been shown to occur at all levels in the acquired organization. Graves (1981) conducted a total population survey of a UK merger between two re-insurance brokers and found that a third of all employees had left within less than 2 years post acquisition. Similarly, Cartwright and Cooper (1997) reported employee turnover rates as high as 60% in the 1st year post acquisition.

(iv) ULTIMATE PERFORMANCE

Over the last decade the M&A literature has continued to expand and the awareness of both researchers and practitioners to the importance of human factors and the psychology of M&As has increased. Consequently, there is no shortage of advice to managers as to how they might improve the selection and performance of M&As (Balmer & Dinniek, 1999; Di Giorgio, 2003; Tetenbaum, 1999). Balmer and Dinniek (1999) highlight the role of leadership and communication and the importance of securing the goodwill of stakeholders common to both organizations. Yet, in terms of providing empirical evidence to demonstrate the potential link between leadership and M&A performance, the psychological literature has remained, to date, surprisingly silent. Without doubt, psychology has important things to say and contribute to the M&A phenomenon. However, with a few exceptions (e.g., Cartwright & Cooper, 1997; Daly et al., 2004), it has failed to demonstrate the actual financial costs to organizations of poor organizational fit, ineffective acculturation processes, high staff turnover, merger stress, and other dysfunctional employee behaviors and how these costs directly and indirectly impact on the ultimate performance of M&As.

In increasingly large numbers, finance scholars continue to analyze the ultimate performance of M&As and further refine and elaborate the methodologies they use to do this (Baker & Limmack, 2001; Gregory, 1997; Sudarsanam & Mahate, 2004). Yet, despite the academic rigor of these studies, there has been little change in acquisition failure rates over the last 50 years. In a recent meta-analytic study of M&A performance King, Dalton, Daily, and Covin (2004) announced that the most frequently studied variables in the finance and strategy literature offered no significant explanation of M&A outcomes and that 'post acquisition performance is moderated by variables unspecified in existing research'. The challenge for the psychology literature is to find ways of linking behavioral research and associated methods to the largely independent literatures of finance and strategy to address this shortcoming.

SUMMARY AND CONCLUSIONS

While more attention has been paid to theory-building and testing since the Hogan and Overmeyer-Day review (1994), there are still many psychological variables, such as leadership, motivation, commitment, consultation, trust, and readiness for change, which have been little investigated in M&A settings. Also, there is a continuing need for larger scale cross-sectional and longitudinal studies. At present the psychology of M&As still remains an eclectic and independent literature. Progression ultimately requires a multi-disciplinary approach to develop a more holistic understanding of

the processes and outcomes of M&As and a greater refinement of measures to better capture the unfolding dynamics of M&A activities.

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