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Lupina-Wegener, Anna Aleksandra; Schneider, Susan Carol

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THREAT TO PRE-MERGER IDENTITIES IN MERGERS AND ACQUISITIONS : ANTECEDENTS, CONSEQUENCES AND MODERATORS

Ana LUPINA-WEGENER
Susan SCHNEIDER

Threat to pre-merger identities in mergers and acquisitions: antecedents,
consequences and moderators

Anna LUPINA-WEGENER

HEC, University of Geneva, Switzerland

Anna.LupinaWegener@hec.unige.ch

Susan SCHNEIDER

HEC, University of Geneva, Switzerland

Susan.Schneider@hec.unige.ch

Threat to pre-merger identities in mergers and acquisitions: antecedents, consequences and moderators

The high rate of failure in mergers and acquisitions is often blamed on cultural differences, organizational or national. More recently, it has been argued that cultural differences per se may be less of the problem than how the integration process is managed. The objective of the paper is to show how the process of socio-cultural integration can lead to positive outcomes such as a strong sense of a shared identity with the new organization, or negative outcomes such as intergroup polarization. Specifically, we argue that when socio-cultural processes threaten pre-merger identities, intergroup polarization becomes stronger which impedes the development of a shared identity. Threat to pre-merger identities may depend on the amount of changes envisioned and the extent to which organizational autonomy is decreased. However, this threat to pre-merger identities may be moderated by the perceived legitimacy of the differences in power and boundary permeability. This argument is illustrated by presenting a merger between two regional banks in Poland. Recommendations for future research are proposed and implications for managing integration processes in mergers and acquisitions are discussed.

key words: mergers/ acquisitions, socio-cultural integration, identity, threat

Introduction

Mergers and acquisitions (M&As) are a frequently used method of corporate growth and development. Yet, a high number of them fail to achieve the objectives and hoped performance (Jansen, 2002). For more than 20 years academics and business practitioners have intensively investigated the reasons for success and failure of M&As from different perspectives including financial (Datta, Pinches & Narayanan, 1992; Travlos, 1987), economic (Banaszak-Holl, Berta, Bowman, Baum, & Mitchell, 2002), strategic (Haspeslagh & Jemison, 1991), human resources (Buono & Bowditch, 1989) and cultural (Chatterjee, Lubatkin, Schweiger, & Weber, 1992; Nahavandi & Malekzadeh, 1988). Cultural differences are often cited as a key reason for failure of M&As due a "clash of cultures" (Buono & Bowditch, 1989; Chatterjee, Lubatkin, Schweiger, & Weber, 1992) and the disruptive tension often felt by individuals of one culture when they are required to interact with and adopt another culture (Nahavandi & Malekzadeh, 1988).

However, empirical research has not been conclusive in demonstrating a negative impact of cultural differences (Stahl & Voigt, 2007). Rather, it seems that cultural differences per se may be less of the problem than how the socio-cultural integration processes are managed. Building on the existing research, our paper attempts to provide insight into how socio-cultural integration processes can lead to positive outcomes such as creating a sense of a shared identity or negative outcomes such as a high intergroup polarization. Creating a strong identification with the new organization has been shown to be related to employees intention to remain, job satisfaction, and cooperative behavior (van Dick, Wagner, & Lemmer, 2004; Olie, 1994; Smith, Organ, & Near, 1983).

We argue that failure to create a strong sense of a shared identity may be due to the socio-cultural integration processes, which often pose threat to pre-merger identities. The degree of threat may vary as a function of the amount of culture change required and the degree of organizational autonomy. However, the impact of the amount of culture change and decrease in organizational autonomy can be moderated by perceived legitimacy of the differential power relations between merging organizations and boundaries permeability. In order to illustrate the intergroup dynamics underlying the socio-cultural integration processes, we will analyze a merger between two Polish regional banks that had been acquired by a foreign institution.

Finally, we will provide recommendations on managing socio-cultural integration and present guidelines for a future research.

The impact of cultural differences on outcomes of M&As

Cultural differences are usually understood as “differences in beliefs and basic assumptions shared by employees of merging partners” (Nahavandi & Malekzadeh, 1988), as "different skill sets and backgrounds" (Krishnan, Miller, & Judge, 1997) or in terms of a "national distance", i.e. when organizational cultures are rooted in different national cultures (Very, Lubatkin, & Calori, 1996). The negative impact of perceived cultural differences on success of M&As (especially if financial measures apply) has been demonstrated by empirical research. For example, Veiga, Lubatkin, Calori & Very (2000) found that post-merger performance (as measured by earnings, sales and market share) was the highest when organizational cultures were highly compatible. The negative impact of cultural differences is often explained by the theory of a “similarity-attraction” (Byrne, 1971), which argues that individuals prefer to work with such others who are similar to them. Thus, intergroup dynamics are often considered to better when group members perceive one another to be similar (Vaara, Tienari, & Sääntii, 2003).

However, intergroup polarization can also be encountered in M&As between organizations with similar cultures. This is supported by so-called minimal group studies, in which individuals, who were randomly assigned to groups, were found to favor members of their own ingroup independently of any similarities or differences with the outgroup (Tajfel & Turner, 1992). Therefore, even minor differences are often magnified by individuals involved in socio-cultural integration (Kleppesø, 1998), such that they might deny existence of any actual similarities between the two cultures. In fact, M&As between organizations with similar cultures may actually enhance intergroup polarization. Zaheer, Schomaker, and Genc (2003) supports this view as they found that perceived similarities between organizational cultures may indeed set expectations such that both partners will maintain their organizational cultures.

On the other hand, it has been argued that cultural differences can have a positive impact on success of M&As, which is supported by empirical research done by Morosini, Shane and

Singh (1998). Based on a multidimensional measure of national cultural distance, they examined a sample of 52 cross-border acquisitions that took place between 1987 and 1992. They found a positive association between national cultural distance and financial performance in cross-border acquisitions. In a study comparing British and French M&As, Very, Lubatkin and Calori (1996) found that cultural differences were valued and perceived as enriching. Further empirical evidence suggests that cultural differences can also have a positive impact on organizational learning and flexibility (Barkema & Vermeulen, 2001) and can be inversely related to turnover during and after a merger (Lubatkin, Schweiger, & Weber, 1999; Krishnan et al., 1997).

It is apparent that empirical research has not been conclusive in demonstrating impact, positive or negative, of cultural differences on outcomes of M&As. In fact, Stahl and Voigt (2007) argue that cultural differences might be both of an asset and a barrier. Indeed, a meta-analysis conducted by them demonstrates that outcomes of M&As rather depend on the way integration processes are managed. This leads to the question: what is in the “black box” of socio-cultural integration processes? How can these processes lead to intergroup polarization (negative outcomes)? And, how can they contribute to a strong sense of a shared identity (positive outcomes)? Next, we will explore the underlying managerial actions that might help to shed light.

Socio-cultural integration processes aim to develop a culture of the new organization (Larsson & Lubatkin, 2001) that will help to improve its competitive advantage. These processes are dynamic, involving continuously changing interactions between groups of individuals from the two companies (Elsass & Veiga, 1994). Furthermore, a strong shared identity is desired to increase employee commitment and cooperation (Kleppetø, 1998). However, often the processes of socio-cultural integration result instead in an intergroup polarization. Social Identity Theory (Tajfel & Turner, 1986) provides a valuable perspective to the understanding of how socio-cultural integration processes may create intergroup polarization rather than the shared identity hoped for. According to Social Identity Theory, individuals define themselves in terms of a particular social category to maintain a positive distinctiveness, while at the same time becoming depersonalized members of a group, no longer perceived as individuals (Self-Categorization Theory: Turner, 1985; Hogg & Turner, 1987). Thus, particularly in the beginning of a socio-cultural integration process, ingroup identities may become more salient as there is a need to secure self-esteem, access to rare resources, and to maintain distinctiveness.

Causes and consequences of perceived threat to pre-merger identities in socio-cultural integration processes

Indeed, processes of socio-cultural integration call into question individuals' beliefs about central and distinctive attributes of their organization (Albert & Whetten, 1985; Ravasi & Schultz, 2006): Who are we? Who are we going to be in the new organization? Pressure to create a shared identity with the new organization poses a threat, increasing ingroup identification (Voci, 2006) and cohesiveness among group members (Dackert, Jackson, Brenner, & Johansson, 2003). Furthermore, intergroup polarization becomes more apparent as ingroup members may actively strive to differentiate themselves from the outgroup (Hogg, Terry, & White, 1995). Consequently, in-group judges itself more positively in terms of competence, creativity and success (Haslam, 2004). This decrease of a perceived value of the outgroup can lead to an unwillingness to work together.

Secondly, intergroup polarization might be strengthened when individuals become engaged in discrimination for in-group and against out-group in resources allocation (Turner et al. 1983) such as for example a better access to rare resources to be assigned i.e. top management positions, keeping management practices and maintaining control in the new organization. Intergroup discrimination in resources allocation is supported by empirical research; decisions regarding allocation of resources (such as money or points) to individuals are a function of their category membership (Brewer & Kramer, 1985). This intergroup competition might be present even in circumstances of abundant resources (Ashforth & Mael, 1989). Members of the dominant organization especially tend to resent and exclude members of the non-dominant organization due to perception of the acquired organization as less successful (Marks & Mirvis, 2001). This is supported by laboratory studies, which suggest that mainly members of the dominant organization discriminate for ingroup in terms of evaluation ratings and resources allocation (Ellemers, Kortekaas, & Ouwerkerk, 1999).

To summarize, socio-cultural integration processes may lead to a high intergroup polarization and as such to a failure to create a shared identity due to threat to pre-merger identities. In such circumstances, individuals resist identifying with the new organization but

rather strengthen their identification with the pre-merger organization and actively seek to differentiate from and discriminate against the outgroup.

Therefore, we suggest that:

Proposition 1a: Perceived threat to pre- merger identity is positively associated with intergroup polarization in the new organization.

Proposition 1b: Perceived threat to pre- merger identity is negatively associated with creating of a shared identity of the new organization

Figure 1 presents the model guiding this study and gives an overview of the following discussion. It focuses on two outcomes of M&As: intergroup polarization versus a shared identity of the new organization. Through the model we try to demonstrate how processes of socio-cultural integration may lead to threat to pre-merger identities. More specifically, we suggest that a degree of threat may primarily depend on an amount of changes to organizational cultures and a degree of decrease in organizational autonomy. However, an impact of socio-cultural integration on threat to pre-merger identities is moderated by legitimacy of power relations and permeable boundaries. In other words, if the non-dominant position is considered legitimate and employees of this organization are able to become members of the new organization, they might experience a lower degree of threat to their pre-merger identity. On the other hand, in circumstances of legitimacy of power relations and permeable boundaries, rather members from the dominant organization might feel more threatened as their dominant position might be potentially lost.

INSERT FIGURE 1 ABOUT HERE

Before we discuss managerial actions which might lead to threat to pre-merger identities, we consider necessary to discuss power asymmetries in socio-cultural integration processes. Power asymmetries do not directly effect degree of threat to pre-merger identities but might

rather influence an amount of changes introduced and degree of decrease in organizational autonomy. In literature on integration processes in M&As, it is often argued that socio-cultural integration processes might involve less threat to pre-merger identities when both organizations equally share power. However, announced “mergers of equal” may exist only on paper (Hogg & Terry, 2000). Despite formal announcements that both organizations will equally share the power, one partner often has a stronger influence in the process of socio-cultural integration and possesses preferential access to rare resources (Pettigrew, 1998). Therefore, we suggest that it might be impossible to address intergroup dynamics in socio-cultural integration processes without looking at power asymmetries (Clegg, Courpasson, & Phillips, 2006).

Power asymmetries in integration processes might be related to differences such as in pre-merger performance, capabilities or size. Consequently, in socio-cultural processes an amount of change to pre-merger cultures and degree of autonomy decrease is influenced by power relations between merging organizations: i.e. who has more power to influence the process of socio-cultural integration; who possesses more power to take control over the new organization and to define a new culture. Therefore, threat to pre-merger identities mainly concerns the non-dominant organization due to higher amount of changes to be introduced and thus, stronger pressures to give up organizational autonomy. This is supported by empirical research conducted by Terry and Callan (1998) on a merger between a metropolitan teaching hospital and a local area hospital. Their study confirmed that there was an evidence of a higher level of threat posed by socio-cultural integration processes to a non-dominant organization.

However, while it is apparent that the stronger threat to pre-merger identity often concerns members of the acquired organization, a “reverse takeover” may occur when an acquiring organization has a non-dominant position and less influence. Thus, its members might perceive a stronger threat to pre-merger identities than members of acquired organization (Marks & Mirvis, 2001). Our paper is guided by a principle that integration processes always involve power asymmetries. However, as explained above, the acquired organization does not necessarily have less power than the acquirer. Therefore, in this paper, we will avoid using the term acquirer versus acquired organization, but rather dominant versus non-dominant organization.

Amount of change to organizational culture

Amount of change to pre-merger cultures might vary according to approach of integration. In case of a high operational integration, many changes to pre-merger cultures might need to be implemented in order to ensure value creation (Haspeslagh & Jemison, 1991). Conversely, in a low degree of operational integration only minor changes need to be introduced (Marks & Mirvis, 2001). Moreover, the non-dominant organization is more likely to be concerned with a greater culture change as members from the dominant organization consider themselves to be superior and thus, expect the latter to adjust (superiority syndrome, Marks & Mirvis, 2001). In consequence, members of the non-dominant organization are expected to abandon their pre-merger identities due to pressures by the dominant organization to introduce significant amount of changes into their pre-merger culture. On the other hand, individuals of the dominant organization may expect the merger to enhance their individual (e.g. better career opportunities) and organizational identities (e.g. better competitive advantage, higher prestige, stronger market power, higher competitive advantage). Research conducted by Dackert et al. (2003) on the merger between two public service organizations supports this view as members of the dominant organization expected only minor changes to their pre-merger culture. Thus, organizational identity of the members of the non-dominant organization was stronger threatened due to expectation of significant number changes.

The higher amount of change to pre-merger cultures, the stronger beliefs about central and distinctive attributes of the organization are put into question. This is due to the fact that culture and organizational identity are interrelated; culture provides rules that define a social system, whereas organizational identity is a culturally embedded aspect, which states "who we are" in relation to the social system to which "we" belong (Fiol, Hatch & Golden-Biddle 1998). Therefore, changes to pre-merger cultures imply a re-definition of "who we are" in the new social system. The more changes are introduced, the more individuals are required to abandon their pre-merger identities to adopt an identity of the new organization (identity coherent with the new social system); e.g. from being formal, traditional, static to informal, innovative, dynamic. This might be considered as a threat to pre-merger identities – "Who are we?" versus "Who will we become in the new organization?".

Therefore, we suggest that:

Proposition 2a: The greater the amount of changes to an organizational culture, the greater the

perceived threat to pre-merger identity.

Proposition 2b: The greater amount of changes to organizational culture is more likely to be of concern to the non-dominant organization.

Decrease in organizational autonomy

Often, the dominant organization takes control over the process of integration and the decisions regarding the new organization (Larsson & Lubatkin, 2001). Furthermore, information about eventual changes is lacking and employees base their knowledge on the merger on gossips. Therefore, in conditions of uncertainty, ability to predict consequences of integration decreases (Lupina-Wegener, 2005). Thus, uncertainty might reduce sense of control and autonomy in the new organization (Eilam & Shamir, 2005). Secondly, autonomy decrease might be apparent in such circumstances, when merging organizations do not agree on the amount and character of introduced changes, i.e. have an incompatible approach to integration (Nahavandi & Malekzadeh, 1988). For example, a dominant organization may want to reduce cultural differences as soon as possible, whereas a non-dominant organization may strive to preserve its culture and prefer a limited amount of changes. In case of disagreement, the dominant partner may try to change what was associated with the former management of the acquired company such as strategy, systems and procedures (Hambrick & Cannella 1993). Therefore, a high decrease in autonomy might be apparent when the acquirer undertakes strong efforts to take control over the acquired organization and introduce changes to pre-merger cultures that are not accepted by the acquired company. This is supported by a survey study conducted by Lipponen, Olkkonen and Moilanen (2004) in a merger between two Finish service organizations, which provides evidence that rather than an amount of changes, it is whether the employees accept the changes that might impact outcomes of a merger.

Therefore, in case changes are not mutually negotiated but imposed upon, organizational autonomy decreases. Faced with decreased autonomy, employees from the non-dominant organization may feel that their way of running business is considered inferior by the acquirer (Larsson & Lubatkin, 2001). Moreover, concerned individuals do not see continuity between past and present as they are not the ones who build their future (van Knippenberg, van Knippenberg, Monden, & de Lima, 2002). Instead, a culture of the new organization is imposed to them. This

destroyed image of themselves as being distinctive and unique may lead to threat to pre-merger organizational identities (Hambrick & Cannella, 1993; Schweiger, Ivancevich, & Power, 1987).

To summarize, we propose that:

Proposition 3a: The greater the degree of organizational autonomy decrease, the greater the perceived threat to pre-merger identity.

Proposition 3b: The greater degree of organizational autonomy decrease might concern the non-dominant rather than the dominant organization.

Impact of a high number of change to pre-merger cultures and a decreased organizational autonomy on threat to pre-merger identity might be moderated by a degree of legitimacy of asymmetries in power relations and a permeability of organizational boundaries (Hogg & Terry, 2000). In other words, in case of a non-dominant organization, legitimate power relations and permeable boundaries will decrease impact of culture change and autonomy decrease on threat to pre-merger identities. On the other hand, in case of a dominant organization, an impact of culture change and decreased autonomy on threat to pre-merger identities will increase.

Perceived legitimacy of power relations

Asymmetries in power relations might be considered legitimate when individuals expect a high utility of the merger, i.e. perceive the new organization to be more efficient and productive than the pre-merger one. For example, in case of an organizational rescue, the expected utility is high because an acquirer helps the acquired organization to avoid bankruptcy (Buono & Bowditch, 1989). In such circumstances, a non-dominant position might be considered legitimate, as its existence is at risk and thus, a new organization is perceived as potentially beneficial. Therefore, it is apparent that asymmetries in power relations are considered legitimate when a pre-merger identity provides individuals with a lower self-esteem and a weaker access to resources. In such a case, employees might rather be glad to abandon pre-merger identities and adopt an identity of the new organization (Ellemers, Wilke, & Van Knippenberg, 1993). An empirical research conducted by Bartels, Douwes, de Jong and Pruyn (2006) in the context of a

Dutch police organization supports this view. They found that an expected utility of the merger on future the organizational identification was positively associated with willingness to adopt an identity of the new organization. In such circumstances, changes to pre-merger cultures are rather welcomed and giving up autonomy accepted.

On the other hand, in case of hostile takeovers, asymmetries in power relations can be perceived as illegitimate, because members from the acquired organization tend to expect a low utility of the merger. Therefore, they attach a higher importance to the pre-merger identity and strive to keep strongly valued pre-merger identity (Tajfel, 1978). Research conducted by Ellemers, Wilke and Van Knippenberg (1993) shows that if the non-dominant position is considered to be a result of a collective injustice, efforts to keep pre-merger identities are strengthened. Therefore, any changes to pre-merger cultures will be perceived as threat to pre-merger identities.

While it is apparent that perceived legitimacy of asymmetries in power relations is considered to pose less threat to pre-merger identities of the non-dominant organization, it might not be a case for members of the dominant organization. In such circumstances, members of the dominant organization fear that socio-cultural integration might question their dominant position and therefore, asymmetries in power relations will need to change (Tajfel & Turner, 1979). Therefore, impact of changes to pre-merger cultures on threat to pre-merger identities will increase for a dominant organization in circumstances of legitimate power asymmetries. This is supported by empirical research conducted by Terry and O'Brien (2001) based on a cross sectional study of a merger between government funded scientific organizations. Results of their research suggest that perceived legitimacy of power relations was associated with more positive responses to the merger among employees of the non-dominant organization, but with poorer responses to the merger among employees from the dominant organization. Empirical research conducted by Panchal and Cartwright (2001) also supports this view. They suggest that in case of legitimate power relations, members of the non-dominant organization might experience a lower degree of threat than members of the dominant organization. They proposed that these differences between responses of dominant and non-dominant organization might be due to the fact that "merger offered acquired company employees an opportunity to improve their social identity, whilst undermining that of acquiring employees" [p.429].

To summarize, we propose that:

Proposition 4a: The relationship between an amount of culture change and threat to pre-merger identity is moderated by perceived legitimacy of power relations. Specifically, we expect culture change to be less threatening to identity of the non-dominant organization and more threatening to identity of the dominant organization if power relations are perceived as legitimate.

Proposition 4b: The relationship between an autonomy decrease and threat to pre-merger identity is moderated by perceived legitimacy of power relations. Specifically, we expect autonomy decrease to be less threatening to identity of the non-dominant organization and more threatening to identity of the dominant organization if power relations are perceived as legitimate.

Permeability of organizational boundaries

Impact of an amount of culture change and decrease in organizational autonomy on threat to pre-merger identities might as well be moderated by a degree of permeability of organizational boundaries (Hogg & Terry, 2000). Boundary permeability implies that members of the non-dominant organization are allowed to pass to the dominant one by acquiring the social identity of a member of the dominant organization. However, in case of impermeable boundaries of the new organization, members of the non-dominant group are excluded from rewards, development, networks, or career in the new organization. In such conditions, they are not allowed and they are not willing to adopt the identity of the new organization. Then, any attempts to introduce changes to pre-merger cultures will be perceived as threat to pre-merger identities.

It seems evident that a permeability of boundaries can moderate the impact of a high amount of culture change and a decrease in organizational autonomy on threat to pre-merger identities. In such circumstances, members of the non-dominant organization might rather welcome the merger as it provides them with a higher self-esteem. Whereas, permeability of organizational boundaries can decrease threat to pre-merger identities of a non-dominant organization, it might lead to threat to the dominant organization, because their dominance becomes at risk (Hogg & Terry, 2000) as power in the new organization might need to be shared.

To summarize, we propose that:

Proposition 5a: The impact of the amount of culture change on the threat to pre-merger identity is moderated by a permeability of organizational boundaries. Specifically, we expect culture change to be less threatening to identity of the non-dominant organization and more threatening to identity of the dominant organization if organizational boundaries are permeable.

Proposition 5b: The relationship between organizational autonomy decrease and threat to pre-merger identity is moderated by permeability of organizational boundaries. Specifically, we expect autonomy decrease to be less threatening to identity of the non-dominant organization and more threatening to identity of the dominant organization if organizational boundaries are permeable.

In summary, we argue that pre-merger identities are often threatened in a result of a high amount of changes introduced to pre-merger cultures and a high degree of decrease in organizational autonomy. However, in certain circumstances, changes are welcomed and organizational autonomy is given up. For example in conditions of legitimate power relations and permeable boundaries, individuals from the non-dominant organizations may experience less threat to pre-merger identities. On the other hand, in such circumstances, individuals from the dominant organization might perceive higher threat to their pre-merger identity.

Antecedents to threat in a merger between two Polish regional banks

At the beginning of the 1990s, Polish institutional environment was characterized by a rapid shift from a centrally planned to a market driven economy. Organizations had to develop quickly to adjust to new environmental challenges, often by means of M&As. Therefore, in the early phase of transformation, numerous acquisitions of local companies by foreign organizations took place and then, as of 2000, they were merged by their foreign parents.

Alpha and Beta were divested in 1989 from the Polish National Bank and they gained a status of an independent, but a state owned bank. In the centrally planned economy, the Polish National Bank monopolized banking activities and offered limited services and products. Firstly,

Beta was privatized and Gamma, a foreign financial institution, was chosen as the strategic investor. Alpha was privatized four years after Beta, and Gamma became its strategic investor, too. Gamma acquired the two Polish banks in order to profit from the potential of a growing Polish market. Within a year after Alpha was privatized, Gamma merged Alpha and Beta in order to implement transformational changes designed to increase performance of the both banks. The merger between Alpha and Beta was announced and completed within 7 months. The new bank was called Alpha-B.

Alpha and Beta had the same origins up until 12 years before the merger, they were one of many divisions of the Polish National Bank. The cultures of these two banks were similar, characterized, as in most former communist companies, by avoiding risk, lacking performance orientation and accountability (May, Puffer, & McCarthy 2005). Yet, differences existed given the changes that had been introduced in Beta four years earlier (e.g. market orientation, shareholder value, and modern HR practices). Though, many changes were still needed to reinforce modernization, Beta had become more flexible, open to changes and more profitable than Alpha, which was much larger than Beta in number of employees, but had generated losses.

Amount of change to organizational cultures

The objective was to introduce a superordinate culture, which would better support business goals and new market realities. Superordinate culture of the new organization was related to a culture of Gamma in terms of customer-focused values and practices. In fact, a key objective was to build a strong relationship with clients and better satisfy her/ his needs. The latter was reinforced by changing relation between the headquarters and branches. Until the merger, the headquarters had a superior position, even though profit was generated by the branches. As a result of these changes, branches gained on importance and main role of the headquarters was to provide a necessary support. This implied that all activities, not directly related to sales and customer support, were moved to the headquarters. Branches would also evaluate the services delivered by the headquarters. Furthermore, a performance management system was introduced setting measurable objectives enabling assessing of individual and group performance. In Alpha-B, decision-making became decentralized involving more people in the process. Finally, work deadlines became strictly respected and individual and group performance was measured.

Decrease in organizational autonomy

Despite a large number of changes introduced to pre-merger banks, the integration process did not decrease organizational autonomy, but rather increased for those who stayed in Alpha-B. Firstly, a low uncertainty was an important factor that contributed to preserving of organizational autonomy. In fact, employees were early informed on what were the objectives of the integration process, what they would do in the new bank and what the new bank would be like. Therefore, they felt in control of the future of their organization. Furthermore, in Alpha-B, the tasks became more complex, required more advanced skills and a stronger involvement of the employees in decision making.

Secondly, continuity between pre-merger and post-merger organizational identity was ensured, which positively influenced organizational autonomy. At the early stage of integration, pre-merger identities were reinforced by temporarily retaining all top management from both Alpha and Beta. Continuity was also ensured by the fact that employees of both Alpha and Beta gradually took over new tasks, experienced by employees as working in "two realities": on their pre-merger activities and on the new job. Moreover, continuity was enhanced by the fact that key decisions in the process of socio-cultural integration were taken by the three partners, working together in transition teams. In order to foster cooperation, various formal and informal integration initiatives for all the employees were launched; e.g., integration parties, and weekend trips for employees. Moreover, a strong emphasis was put on both formal and informal communication to make sure that all employees understood the rationale of the merger. For example, a temporary brand for the new bank during the integration process was created ("Bank on the Move"). Also, meetings for all the employees with top management, internet chats were organized and "The Integration Guidebook" and "The Merged Bank Guidebook" (after completion of the merger) were published.

Perceived legitimacy of power relations

Gamma had a dominant status, which was accepted by Beta and Alpha. Officially, Alpha was acquiring Beta due to privatization agreement signed between Gamma and the Polish state. In fact, Beta had a higher status than Alpha due to its higher level of modernity and from this perspective, Beta was in a slightly preferential position. However, a necessity to conduct

transformational changes was accepted by a large number of members of both Alpha and Beta, who were attracted to Gamma and Alpha-B. Thus, they did not aspire to fully preserve their pre-merger cultures. Most "young" members (early twenties – early forties) of Beta and Alpha perceived a high utility of the merger due to Gamma's managerial and technical knowledge. Thus, they expected the changes to enable Alpha-B to better respond to a growing competition of the Polish banking sector. These expectations were also due to strong trust relations between the three banks already developed during the positive learning experience during the pre-merger cooperation with Gamma (privatization). However, the "old" employees (mid forties – sixties) tended to perceive a low utility of the merger and considered a merger to pose a threat to their pre-merger identity.

Boundaries permeability

Though, individuals working for Beta felt they were stronger than Alpha, these discrepancies between Beta and Alpha were gradually reduced by offering intensive development to members of both Alpha and Beta. Gamma offered development to Polish staff by sending expatriates to assist Polish managers as well as by sending Polish managers to the foreign headquarters. Moreover, a strong focus was put on developing competencies in information technology, customer service, project management, and risk management. Consequently, employees, mainly "young" ones, chose individual advancement strategies in order to profit from the merger. Merger was often perceived as a break from routine as well as an opportunity of both gaining a new experience and of career advancement. At the same time, a high number of employees was made redundant. However, "survivors guilt" was not present as people were mainly concerned for their own careers and the staffing processes were perceived as fair.

Threat to pre-merger identities

Due to the changes introduced in the integration process, members of Alpha and Beta had to adopt a new superordinate identity of Alpha-B; i.e. modern, market leader, client focused, effective and valuing team work. This required abandoning to a high extent the pre-merger identity i.e. state owned (versus private in Alpha-B), Polish (versus international), lack of performance orientation (versus performance oriented), non-profit oriented (versus shareholder value maximizing), and successful while not threatened by competitors (versus necessity to better

satisfy needs of the customers), team spirit. Even though, the new bank reflected the client oriented values of Gamma, the latter valued past success of both Alpha and Beta, as well as competencies of the employees. Gamma was interested in retaining employees from Alpha and Beta and wanted to build the new bank in collaboration with local employees. Gamma did not strive to conduct a full adoption of organizational and technological assets to Polish background. Such an approach was rare in Central and Eastern European (CEE) acquisitions. Rather, a high number of M&As in CEE had a “brownfield” character i.e. a hybrid option combining acquisition with a greenfield investment (Meyer & Estrin, 2001). This implied in-deep restructuring, major resource transfer, and preference of expatriates on decisive positions. In a consequence, marketing assets such as brand names are recreated and a new organization rather resembles a greenfield investment.

On the contrary, an identity of Alpha-B partially referred to the heritage of the both Polish banks (Polish character, valuing teamwork, loyal), but also reflected the new market orientation. It is important to note that even though, employees were often unable to preserve pre-merger identities, "young" employees did not perceive merger to pose threat to their pre-merger identities. They participated in building of the new organization and they perceived to be valued by Gamma for their past and competencies. However, in many cases the changes posed a high threat to the organizational identity of the “old” employees. As this group of individuals was brought up and educated in a centrally controlled economy, they often did not possess mindset required to work in an organization in the market economy (Kozłowski, 1971). Thus, they were often made redundant. However, the employees often younger who were offered good and more challenging jobs welcomed the changes.

It is apparent that in the process of socio-cultural integration did imply threat to pre-merger identities of the "old" employees. The individuals who were offered employment in Alpha-B (within 4 months after merger announcement) were engaged in cooperation and were willing to contribute to further success of the new organization. Low degree of threat to the employees in Alpha-B was possible due to perceived legitimacy of power relations and boundary permeability. In a result, changes were not resisted and not only profits significantly increased, but Alpha-B has recorded a double-digit growth for the last years.

Practical implications

Although cultural differences are commonly believed to be a key reason for failures in M&As, we agree with more recent research that how processes of socio-cultural integration are managed may be more important. We have presented a conceptual model to shed a better understanding into how the processes of socio-cultural integration can lead to threat to pre-merger identities. The latter can create intergroup polarization and impede creating of a shared identity in the new organization (proposition 1a and 1b). We argue that a degree of threat is due to an amount of changes to organizational cultures (proposition 2a and 2b) and a degree of decrease in organizational autonomy (proposition 3a and 3b). However, an impact of socio-cultural integration processes on threat to pre-merger identities is moderated by a perceived legitimacy of power relations and a permeability of organizational boundaries (Hogg & Terry, 2000). In other words, in case of a non-dominant organization, legitimate power relations (proposition 4a and 4b) and permeable boundaries (proposition 5a and 5b) will decrease an impact of culture change and autonomy decrease on threat to pre-merger identities. On the other hand, in case of a dominant organization, an impact of culture change and decreased autonomy on threat to pre-merger identities will increase. In other words, even if a dominant organization is concerned by a culture change and a decrease in autonomy to a lesser extent, threat to their pre-merger identities might be high in such conditions.

Following this logic, our model suggests that socio-cultural integration processes are dynamic as they involve continuous interactions between groups of individuals from both companies over time. These interactions influence and are influenced by the perceived threat to pre-merger identities. Threat to pre-merger identities may even be salient in circumstances of "friendly" mergers. Regarding that, we propose that managerial efforts to introduce changes may increase threat to pre-merger identities and attempts to create a shared identity might fail. Instead, managerial actions should aim at acknowledging intergroup differences and thus, maintaining intergroup distinctiveness – “we have our ways, and they have their ways” (Lupina-Wegener, & Schneider, 2005; Brewer, 1999). Intergroup distinctiveness can be ensured by retaining top management from both companies and by "social controls", e.g. building the new organization behind mutual strengths (Larsson & Lubatkin, 2001). This was the case in the merger between Alpha and Beta, where top management was retained and specialists from both banks worked

together in achieving mutually set objectives such as through determining the new culture.

In the later phases of socio-cultural integration, such changes need to be introduced, which can encourage the development of a shared (super-ordinate) identity. This can be done by means of organizational structural changes such as assigning hierarchical positions and roles. Moreover, divesting sub-units or sub-groups is another strategy to weaken elements of pre-merger identities that otherwise could have posed barriers to building a shared identity in the new organization (Pratt & Foreman 2000). For instance in the merger between Alpha and Beta, employees were dismissed when they were not willing nor able to adopt the identity of the new organization. Creating a shared identity (Pratt & Foreman, 2000; Dutton, Dukerich, & Harquail, 1994) can be done using a variety of techniques such as a symbolic manipulation, training programs or introducing new rituals (e.g. team building events, “best employee” of the month). In the merger between Alpha and Beta, a temporary brand for the new bank during the integration phase was created (“Bank on the Move”), and afterwards, a brand for the new bank was clearly communicated: Alpha-B. Meetings for all the employees with top management took place and numerous integration events for the employees of Alpha and Beta as well as development workshops were organized. Shared identity of the new organization can also be reinforced by introducing common management practices that promote a new culture. For example, customer and performance orientation in the merger of Alpha and Beta, were introduced through Human Resources practices and IT systems.

Creating a shared identity also requires ensuring permeable boundaries in the new organization, as in case of the merger of Alpha and Beta where specialists in tasks forces and managers were involved in building their team together. Moreover, as employees often lacked necessary skills to be able to access to Alpha-B, they received a necessary development. Shared identity can also be strengthened by reinforcing boundaries between the new organization and its environment for example by identifying outside enemies (see Schneider, 1987; Janis, 1972) such as the growing power of competitors, which threaten the existence of the new organization. Consequently, cooperation with the internal outgroup may be perceived as an opportunity to succeed rather than threat to identity (Piontkowski, Florack, Hölker, & Obdržálek, 1999). Indeed, boundaries between Alpha-B and environment increased as the competitive threat became more salient. As such, comparison with one specific bank competitor was often mentioned by the

respondents. Indeed, boundaries between ALPHA-B and environment increased as a fear of growing in power competitors became more salient.

Combining these insights, we propose that managerial efforts to integrate two organizations should take into consideration a tendency of groups to protect their pre-merger identities i.e. what they consider valuable, distinctive and enduring. Especially, if power asymmetries are considered illegitimate, changes introduced to pre-merger cultures might be perceived as threatening. Introducing drastic changes to pre-merger cultures should rather be avoided at the beginning of integration. Integration efforts should aim first to decrease intergroup polarization; only then it might be possible to create a common identity of the new organization by jointly introducing necessary changes (Lupina-Wegener, & Schneider, 2006). This implies partially preserving organizational autonomy of both organizations by mutually negotiating changes. In such circumstances, identity of the new organization might rather be distinct from pre-merger identities, but at the same time partially related to them. This implies both a high identification with the ingroup and with the super-ordinate category. This argument is in line with the conceptual model of Haslam, Egghins, & Reynolds (2003), which suggests that employees should define themselves in terms of a relatively complex super-ordinate identity, but are simultaneously aware of the sub-group memberships from which that identity has been forged. This is also supported by a longitudinal study of 83 work groups conducted by Polzer, Milton & Swann (2002); the results indicate that positive intergroup relations can be ensured if group members express rather than suppress the characteristics that make them unique. Also, empirical research conducted by Gaertner, Dovidio, Anastasio, Bachman & Rust (1993) suggests that best intergroup relations might be ensured in conditions of salient group boundaries within a context of superordinate identity. Finally, multiple organizational identities might positively contribute to performance of the new organization by allowing the new company to better respond to different needs of stakeholders who often have multiple needs and interests (Albert & Whetten, 1985; Pratt and Foreman, 2000). In case of Alpha-B, multiple identities were salient such as on one hand being a leader (in what concerns customer satisfaction and profit generation), innovative, young and competent, and on the other, socialist heritage was salient such as successful in non-financial terms, strong team spirit, solidarity, and Polish identity.

Conclusions

This article presents an analytical attempt to improve our understanding of how socio-cultural integration processes might influence outcomes of M&As such as measured by intergroup polarization and shared identity development. We discuss antecedents, consequences and moderators to threat to pre-merger identities. We illustrate our model on an example of a merger between two Polish regional banks. We also believe that advances in our understanding of these processes might decrease the failure rate and enhance the effectiveness of integration processes.

Our work has clear implications for managers involved in M&As, however, the model presented should be further explored. More specifically, research concerning this model should take two approaches to gain a better understanding of the dynamics underlying socio-cultural integration processes. Firstly, effect of threat to pre-merger identities on outcomes of M&As should be tested and further explored by means of quantitative and qualitative research. Currently, the concept of threat to pre-merger identities remains unexplored in research on M&As. Therefore, empirical research in this field should take a more systematic approach based on theoretical considerations of Social Identity Theory. Moreover, it seems important to determine which type of threat is salient in socio-cultural integration processes. Only then, it might become possible to measure effect of threat to pre-merger identities on outcomes of M&As. Finally, socio-cultural integration should be explored on longitudinal basis at different stages of the process. The study needs to start at the very early phase of integration in order to track the development of a shared identity. This will allow to verify in an organizational context why pre-merger identities are threatened and how threat evolves over time.

Clarifying these two above mentioned issues may help to manage socio-cultural integration processes and enable creating of a shared identity.

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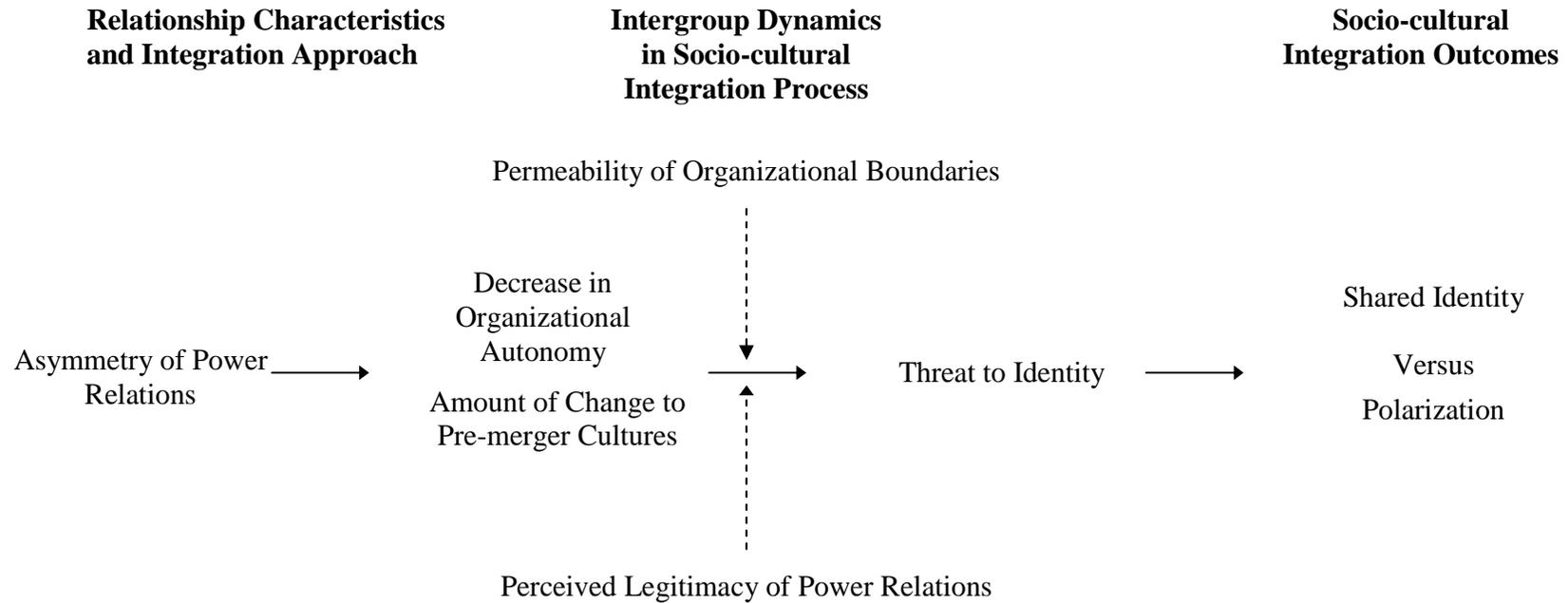
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Figure 1. Threat to identity in M&As: Antecedents, Consequences and Moderators



Note: Dotted arrows indicate moderating effects