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THE HUMAN SIDE OF MERGERS AND ACQUISITIONS: A LOOK AT THE EVIDENCE[1]

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ABSTRACT. This paper surveys the strategy literature on human resources' role in the process of mergers and acquisitions. Although many studies acknowledge the important role of the "human" side in these major events in the life of a firm, we do not have up to now a comprehensive and encompassing survey of this literature. At the micro level we find consistent results across studies, mainly supporting the idea that M&A are disruptive events in the lives of the employees involved, they lead to increased stress and uncertainty which leads to dysfunctional outcomes. However the evidence is not so clear on whether these observed psychological and behavioral reactions have an impact on performance (at the individual or firm level). From a macro level perspective the hypothesis of a fit between the merging firms seems to have some empirical support, as it is found to have a positive impact on performance across the studies surveyed. The dynamic effects of this fit hypothesis, though, are not well understood yet. The impact and importance of social and formal controls and cultural fit are issues still begging for an explanation.

Key words: cultural clashes, employee resistance, merger outcome.

1. INTRODUCTION

Do mergers and acquisitions (M&A) realize their expected synergies? This question and the search for the source of gains in a merger process have been the focus of numerous studies in finance as well as in strategy and economics. Marks (1988) and Hunt (1988) estimate the overall success rates of mergers vary from a pessimistic 23% in the US to a more optimistic 50% in the UK. Due to the sizeable rate of merger failures, the academic literature of the last decade has made a distinction between combination potential (expected synergies) and synergy realization; "while ostensibly presented as a strategy for wealth creation, many organizational marriages fail to realize the potential synergism anticipated by the marriage brokers" (Cartwright and Cooper,

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1993, p328). An interesting perspective on the issues involved is brought about by the Organizational and Human Resources literature. This strain of research emphasizes the importance of people in this process of synergy realization, indicating that a substantial number of merger failures can be traced to neglected human resource issues (Schuler and Jackson, 2001)

Apart from the increase in consciousness about the importance of people in merger synergy realization, there has been an explosive increase in the business press recently in executive literature and guideline proposals about how to successfully manage mergers and acquisitions. In spite of the soundness of these recommendations, the question of whether, and to what extent, they are based on scientific evidence is open to debate. This concern is important not only because factors driving M&A activity in the past appear to be intensifying but also because failure rates still appear to be substantial. We can think of the merger process by comparing it to the functioning of an electrical engine. It is well known from physics that part of the energy feeding the engine (expected synergy) is lost in friction and heat (employee resistance, for example), and that only a portion of the initial energy is actually transformed in motion (realized synergies). The ratio of realized synergies over expected synergies is what we understand as the efficiency of the merger process. The interesting research questions arising from this comparison are for example: to what extent can this efficiency ratio be managed by organizations; is this process endogenous or exogenous to the firms involved; can an effective communication and integration/transition process help increase the efficiency ratio?

The answers to these questions are important not only for practitioners but also for researchers. Even though comprehensive and detailed answers to these questions would involve detailed inter-disciplinary studies that go beyond the scope of this paper we believe it is important to understand what empirical research is bringing on these issues. Thus, the motivation and purpose of this paper is to review and evaluate the empirical evidence that relates merger success with employee issues. For study purposes, we shall define the aforementioned efficiency ratio as a function of employee resistance, which we define as the loss in efficiency due to frictions. We approach then the employee resistance from macro and micro level dimensions. Even though these two dimensions are interrelated, for expositional purposes we group in the first dimension the collective factors and in the second the individual factors.

This paper is organized as follows. Section two discusses the micro level or individual responses to merger processes. Our main focus is on the behavioral and attitudinal responses and on the role of communication in reducing undesirable outcomes. In section three we review the macro level factors. The importance of organizational culture and organizational compatibility in mergers outcomes will be our major focus in this section. The final section, four, briefly summarizes our review and proposes avenues for future research.

2. MICRO LEVEL ISSUES AND MERGER SUCCESS

Mergers and acquisitions have become more often associated with lowered morale, job dissatisfaction, unproductive behavior, increased turnover and absenteeism, rather than with increased financial performance as expected. An estimate by Davy et al. (1988), blames "employee problems" as being responsible for one-third to one-half of all merger failures. Therefore, the underlying causes of employee resistance need to be studied carefully because their understanding has the potential of improving merger planning and outcomes. As negative employee reactions are believed to account partially at least for unsuccessful M&As, the interesting question to answer is why mergers and acquisitions trigger negative reactions in employees. We identify two sources: first mergers are a source of profound change for the organization, and change, in any shape or form is likely to be a source of stress for the employees as it places special demands on them. As it is well recognized, excessive stress increases job dissatisfaction and this, in turn, is associated with a number of dysfunctional outcomes including increased turnover, and absenteeism and reduced job performance. Secondly, the main source of stress in the merger/acquisition process is the uncertainty surrounding organizational and personnel changes that follow them. It is often these uncertainties, rather than the actual changes themselves that are more stressful to employees.

It is well accepted that communication is the key tool within any change process (Kanter, Stein and Jick, 1992). Any failure to communicate leaves employees uncertain about their future and will lead them to seek other means to reduce this uncertainty, such as reliance on rumors and other means of informal communication which are not an effective means of reducing anxiety since they tend to focus on negative, and often inaccurate information (Rosnow, 1988). Buono and Bowditch (1989) mention that, during mergers and acquisitions activity, "rumor mills and the grapevine work overtime, leading to more anxiety and, in many cases, counterproductive behaviors. Often based on fears rather than reality, these rumors can significantly exacerbate employee anxiety, tension and stress". This anxiety and uncertainty are usually leading to dysfunctional outcomes. Ashford, Lee and Bobko (1989) found empirically that the greater the number of changes in an organization, the grater the perceived job insecurity by the employees and in turn, this perceived job insecurity is negatively related to organizational commitment, trust in organization, job satisfaction and ultimately, job performance.

Therefore, given the magnitude and importance of the employees' psychological reactions on the merger outcome, it is very important to understand the sources of this stress and the way it affects the organization in order to be able to reduce employee resistance as a way to maximize synergy realization. With this focus in mind, we proceed to discuss evidence at the individual level around two of the most debated issues: the psychological effect of mergers and acquisitions on individuals; and the role of communication in reducing and managing this uncertainty.

2.1 Individual psychological reactions

It is very interesting to understand how the layoffs impact the performance of the resulting firm. The literature generally suggests that layoffs have a negative impact on the survivors of the layoff (Brockner, 1992) and a negative impact on the performance of the firms (Cameron, 1998). If layoffs in general do not improve performance, are they more or less effective when they are part of a merger? As there is often a significant gap between the expected value of an acquisition and its actual performance, it is interesting to evaluate if the expected gains associated with planned layoffs offset the realized negative performance impact of these layoffs. These are interesting questions related to layoffs and are probably the root of individual reactions to M&A processes. For example, O'Shaughnessy and Flanagan (1998) perform a thorough analysis of this issue by constructing a sample of 50 of the largest mergers in U.S. for the period 1989-1993. By creating a logistic regression with layoff as the dependent variable, they find that related acquisitions are more likely to be followed by a layoff announcement than are unrelated acquisitions. This is expected, because when similar firms combine, there should be more opportunities for the combined firm to realize operational synergies by eliminating redundant activities than when dissimilar firms combine.[4] Target revenue per employee is found to have a negative significant impact on the probability that a layoff would be announced, suggesting that the labor efficiency of target firms is negatively related to the probability of layoff announcements following a merger.

Therefore, M&As appear to be particularly stressful forms of organizational changes that induce a series of dysfunctional individual outcomes in the employees of the firms involved. Panchal and Cartwright

[4] Mork et al. (1989) point out that shareholders will look to the managers of firms in poorly performing industries to use layoffs as a means of increasing shareholder wealth.

(2001) carry out an empirical research whose results support the assertion of elevated stress levels following mergers and acquisitions. Their research investigates post-merger stress in a sample of field sales employees from a recently merged organization. A survey methodology was used to examine group differences, comparing employees from the two pre-merger companies to the ones that joined the organization after the merger. Results revealed that effects of stress exist and that there are group differences in both sources. The employees from the dominant pre-merger company reported the highest stress levels and the most negative work attitudes. Specifically, the questionnaire data revealed that the acquired company employees and the new employees were significantly more satisfied with their jobs and more committed to the organization than the acquirer company employees. Their findings conflict with the majority of past research examining group differences in response to mergers and acquisitions, which had discovered negative outcomes for the employees of the acquired company. The authors interpreted these findings in light of the social identity theory, which states that because the merged organization does not provide the acquirer group with a positive social identity, they disidentify with it in an attempt to maintain self-worth. Given these results, further in-depth research in this area could shed some light in identifying the factors that underlie group differences in the context of mergers and acquisitions dynamics.

Considerate attention has been given to the uncertainty factor brought about by the merger or acquisition. Schweiger and Denisi (1991) designed a study to measure empirically if mergers and acquisitions activities do lead to uncertainty and to assess the dysfunctional outcomes associated with it. The study is a longitudinal field experiment aimed at providing a clear picture of the effects of mergers and acquisitions on individual employees. Their data is collected in a plant involved in a merger, at four points in time: before the impending merger was announced; following the announcement of the merger but before the implementation of the merger; three days after the implementation of the changes; and four months later. Specifically, the hypothesis they test is if the announcement of the merger resulted in increased uncertainty, stress, absenteeism and turnover of the employees, and a decrease in their job satisfaction, commitment, intentions to stay with the organization, self-rated performance, and perceptions of the organization's trustworthiness, honesty and caring. This testing of the various negative effects mergers and acquisitions are supposed to have on employees is accomplished by administering surveys at the four different points in time that provided data on perceived uncertainty, satisfaction, intentions to stay with the organization, stress, self-reported performance and perceptions of the company's trustworthiness, honesty and caring. Data on absenteeism and turnover was obtained from company records. The results, using subsequent univariate tests (ANOVA) indicate significant increases in global stress, perceived uncertainty, and absenteeism; significant declines in job satisfaction, commitment and perceptions of the company's trustworthiness, honesty and caring; and no significant changes in self-reported performance. They also find a significant decline in intentions to remain with the organization. Less consistent support is found on the hypothesized effect on performance and absenteeism.

It is well accepted that mergers and acquisitions often create significant trauma for the employees and managers of both acquiring and acquired firms that result in attitudinal and productivity problems as well as turnover of valued personnel. Buono and Bowditch (1989) note that negative reactions may lead to significantly lower levels of job satisfaction and job security and less favorable attitudes toward management. Employees often cope with the uncertainty surrounding a merger by reducing levels of commitment and instead use energy either to cope with anxiety and confusion or to try to find new employment opportunities (Fulmer and Gilkey, 1988) These consequences are particularly critical given Schweiger and Denisi's finding mentioned above, that the negative effects of mergers do not seem to simply go away with time, but rather seem to get more serious as time passes.

Acquired firm employees, finding themselves "sold" as a commodity, may suffer from feelings of worthlessness, and may feel inferior because of loss of autonomy and status. The imbalance of power inherent in the acquirer/acquired relationship has also been shown to affect behavioral outcomes. Schweiger, Ivancevich and Power (1987) found that 58% of managers in an acquired firm are gone within 5 years or less of an acquisition. Based on the above, Covin, Sightler, Kolenko and Tudor (1997) hypothesize that employees of an acquired firm will feel the impact of a merger more strongly and that this impact will be associated with specific attitudinal and behavioral outcomes. Their sample consists of 2,845 employees of a Fortune 500 Company, to whom a questionnaire was administered. The results revealed that employees of the acquired firm had significantly lower merger satisfaction scores than either employees of the acquiring firm or new hires. In an attempt to predict post-acquisition attitudes, Covin et al uses the attitudinal and demographical variables as predictor variables for merger satisfaction.

Previous research emphasized the importance of carefully planning for human issues in mergers. Although little information regarding demographic influences on individual merger satisfaction is available, one would intuitively expect that particular personal characteristics might predispose an individual toward favorable or unfavorable merger attitudes. Covin, Sightler, Kolenko and Tudor investigate the following demographic variables: yearly salary, full-time work experience, time in current job, age, and gender, educational level, pay classification, employer at time of the merger, number of companies worked on a full-time basis. By using attitudinal and demographic variables as predictor variable for the entire sample, they found that satisfaction with supervision, satisfaction with career future/company identification, communication with top management, agreement with the mission statement, turnover intent, union status, and employer at time of the merger were significant predictors of merger satisfaction. Given the significant differences in the merger satisfaction attitudes of acquired and acquiring firm employees discussed earlier, separate regressions were performed to determine if different variables were better predictors of attitudes of these two groups. Results show that for acquired company employees, satisfaction with career future/company identification, turnover intent, and educational level were predictive of merger satisfaction. For acquiring company employees, satisfaction with career future/company identification, satisfaction with teamwork, age and union status were predictive of merger satisfaction. Only satisfaction with career future/company identification was a common predictor across the two groups.

Yet another study planned by Cartwright and Cooper (1993) in the form of a questionnaire survey that was administered to both the acquirer and the acquired firms of a U.K. merger in the financial services sector. A total of 300 questionnaires were collected and the aim was the assessment of the extent to which the organizational commitment, job satisfaction and physical and psychological health of those individuals involved had been affected by the event. The most remarkable result of this research is the fact that they found no evidence to suggest that the merger had adversely affected overall levels of job satisfaction. Moreover, a comparison of scores between the acquirer and the acquired company employees revealed that there was no significant difference between the two groups.

Another noticeable analysis by Davy et al. (1988) involves a field study in a large firm aiming to determine the direct impact on employee's attitudes, performance and behavioral intentions over time. Their participants (216 employees) completed survey questionnaires on 2 separate occasions: less than a month after the completion of the sale and the second one three months later. Their findings suggest that employee's attitudes and intentions to leave or be absent deteriorate between the first and the second survey. The feelings of job insecurity significantly increase, which is consistent with the fact that layoffs indeed did occur during the three-month period between the surveys. Also, organizational commitment significantly decrease, while intentions to leave and be absent increase. As organizational commitment declines, workers tend to look for new jobs, which distracts them from their current work, thus, there seems to be a direct connection between changes in attitudes and intentions. Moreover, employee's evaluations of their performance changed, as respondents reported that their performance over the last three months was lower than in all their years of service.

These results presented here seem to agree that mergers and acquisitions are stressful events, due to the uncertainty that they bring in employees' lives and this has negative implications on their attitudes, intentions and behaviors. The issue that requires further analysis is the degree, to which these changes actually reflect in job performance since empirical evidence, as noted previously, is not consistent across studies. A clarification of this question can bring important light on the investigation of loss synergies and their causes.

2.2 Communication and uncertainty

Usually, any failure to communicate either before or during a merger leaves employees uncertain about their future and this uncertainty is known to be more stressful than the changes themselves. Communication can help employee to manage the merger syndrome because it informs them of the changes in their environment, thus reduces uncertainty and ambiguity.

As cited before, during mergers and acquisitions activity rumor mills are overly active, leading to more anxiety and counterproductive behaviors (Buono and Bowditch, 1989). Often based on fears rather than reality, these rumors can significantly exacerbate employee anxiety, tension and stress. Further, the repetitive nature of rumors tends to strengthen people's belief in them (Rosnow and Fine, 1976), and therefore, subsequent management attempts to deny well-developed rumors that possess even a grain of truth can easily compromise employees' faith in management's honesty (Rosnow, 1988). Thus, it seems the only way for management to deal with the anxiety that follows a merger or acquisition announcement is to communicate with employees as soon as possible about all the anticipated effects of the change. If not dealt with, the uncertainty and anxiety can lead to such dysfunctional outcomes as stress, job dissatisfaction, low trust in the organization and commitment to it, and increased intentions to leave the organization. These dysfunctions can, in turn, diminish productivity and increase turnover and absenteeism.

Schweiger and Denisi (1991) designed a longitudinal field experiment that evaluates the effects of a communication program that they called a realistic merger preview. Their study was intended to answer the question of whether such a program could mitigate the expected negative effects of mergers and acquisitions on employees. Their results suggest that realistic communication during a merger process in the form of a realistic merger preview can help the employees get through the process, as illustrated by the significantly lower measures on global stress and perceived uncertainty and significantly higher on job satisfaction, commitment and self-reported performance for the experimental group, exposed to the communication program.

Following the same line of research, Davy et al (1988) designed a study to determine the impact of management communication about a merger on employee's attitudes, intentions to leave or be absent and performance. Their participants (216 employees) completed a survey questionnaire three months after the completion of the merger. The questionnaire asked employees their perceptions about the adequacy and accuracy of management's communication about the merger. From a methodology perspective, the way it was done was to correlate employee's perceptions about management's communication with employee's attitudes, intentions and performance indicators. It was found that employees evaluated the communication program positively and, as expected, these evaluations correlated significantly with perceptions of personal control, organizational commitment and job satisfaction. Interestingly, job security, intention to quit and intention to be absent and performance were not significantly correlated with the program evaluations. These results indicate that positive reactions to the communication program engendered higher perceptions of control, organizational commitment, job satisfaction and lower intentions to quit and be absent. Performance, similar to the previous studies mentioned in this review did not seem to be affected by employee's attitudes and intentions.

Conversely, management has historically been opposed to advanced notification before mergers and acquisitions because they fear productivity losses due to work slowdown, intentional sabotage or employees seeking employment elsewhere before the organization is ready to terminate them (Harrison, 1984). Then, the fact that management often does not know exactly what will happen until much later into the merger or acquisition process makes realistic communication an impossible process. Yet, an empirical study by Leana and Feldman (1989) found that no significant changes in absenteeism, tardiness or productivity have been observed as a result of advance notification of a merger or acquisition to staff.

It appears that we have equally compelling arguments on both sides of the question of whether management should try to communicate realistic information to employees during mergers and acquisitions. The empirical evidence though in this field is very limited and cannot shed more light into which approach has a better success at alleviating the dysfunctional outcomes that are said to follow the uncertainty associated with mergers and acquisitions activities.

3. MACRO LEVEL ISSUES AND MERGER SUCCESS

The issue of cultural compatibility between merging firms has long been proposed as an important determinant of the realization of potential synergies. The analogy between mergers and marriages proposed by Levinson (1970) highlight the issue that culture is as fundamental for organizations as personality is for individuals. Unfortunately and despite the intuitive appeal of the compatibility hypothesis, it did not translate into widespread empirical research until recently. Most evidence in 1980s corresponds to case studies and stories of dramatic *cultural clashes* or *happy marriages*. As discussed by Cartwright and Cooper (1995), most of our understanding of organizational behavior during mergers is based on extrapolations from an individual or micro-level analysis rather than on a direct analysis of collective impacts at the organizational level.

Nahavandi and Malekzadeh (1988) is the first paper that formalizes the role of socio cultural factors in mergers processes. Their model is an adaptation of theories from cross-cultural psychology and intends to explain the process of cultural adaptation and acculturation in mergers. They identify four modes through which acculturation takes place: Integration, Assimilation, Separation and Deculturation.[5] In their model, characteristics of merging firms will determine which mode of acculturation will be triggered.

Even though the model just described forms the basis of analysis of numerous papers about organizational culture and merger success, another interesting model proposes acculturation as a dynamic process. Elsass and Veiga (1994) follow the anthropological framework proposed by Nahavandi and Malekzadeh, but they propose that acculturation is a function of the interaction of inter-group dynamics that encourage groups to maintain separate and unique cultural identities, and organizational requirements for interaction and organizational integration. Under this model, there are four initial outcomes: Deculturation, Separation, Assimilation and Acculturative Tension. They argue that an increase in performance will reinforce the initial outcome and that a reduction in performance will tend to modify cultural forces, integrate cultural forces or both. Thus, they propose that performance has a feedback effect that helps to reach a stationary state or, the so called, final acculturation mode.

Even though these two models are apparently similar, there are significant differences between then not only from the theoretical perspective but also from a practical one. First, Nahavandi and Malekzadeh's model is static and strategic in nature while Elsass and Veiga's model is dynamic and behavioral. Second, from the first model we can infer that the acculturation mode is exogenous to firms and this implies that acquirers must check for cultural fit before engaging in a merger, and after it they should manage conflicts arising from potential incongruence between preferred modes of acculturation. In the second model, firms have some control over the acculturative process through the level of required organizational integration. This implies that potentially acquirers have some tools for reducing the acculturative stress,

[5] Integration describes the situation when there is structural assimilation, but little cultural and behavioral assimilation. Assimilation occurs when one group is willing to adopt the other's culture. Separation occurs when both groups want to preserve their culture and practices. Deculturation corresponds to the situation when both groups loose their cultural and a new culture emerges.

such as implementation or transitions processes/efforts. Furthermore, this model posits that groups tend to change the structure of inter-group relations or to reduce the perceived differences between the two cultures over time. Another interesting difference pertains to the occurrence of conflict and cultural clashes: Nahavandi and Malekzadeh's model predict that these occurrences are likely when there is no congruence in the preferred acculturation modes. Elsass and Veiga's model anticipate that cultural clashes are expected only when the initial outcome is high tension followed by lower performance.

The lack of empirical evidence in this respect is stated by Cartwright and Cooper (1995) as follows "although articles published of a hypothetical, prescriptive and anecdotal nature still numerically far exceed actual research studies, there is the beginning of a research-based literature which seek to draw on quantifiable hard data", p36. The following section describes empirical evidence relating mergers and acquisitions to acculturation and performance.

3.1 Cultural compatibility and executive turnover

Another important issue associated with cultural differences in mergers is the high rate of executive turnover following M&As (Krug and Hegarty, 1997). Since most empirical studies survey top executives when looking for cultural compatibility and merger outcomes we will briefly note relevant studies in the executive turnover literature. Weber (1996) thinks that top executives role as the main source of information is conferred by their significant role in shaping and transmitting culture. Cultural differences at the top management level are most likely to influence the merging organizations' ability to realize synergies. Moreover, synergy realization relies on efficiency of contacts among groups intended to evaluate perceived cultural incompatibility and top management has the ability to influence the outcome of these contacts due to their superior knowledge of the integration process and its effectiveness.

As discussed by Lubatkin et al. (1999), previous evidence indicates that the high turnover rates are not associated to the type of mergers (related or unrelated), relative size, premium paid, number of bid offers, method of payment and target pre-acquisition performance. Hambrick and Cannella (1993) develop a theory of relative standing, and test the implications of this model by measuring factors hypothesized to affect the relative status of acquired executives. These factors are pre-acquisition performance of an acquired firm relative to that of the acquiring firm, social climate of the acquisition (friendly or hostile), relative size of the two firms, extend to which the acquired firm's autonomy is removed, and the extent to which acquired executives receive status in the merged entity. In general, their results support their hypotheses, at least over the medium-term (0-3 years). Interestingly this theory of relative standing is found to explain over 50% of the variance in the first year turnover and over 40% of the fourth year turnover. Surprisingly, the two perceptual measures of relative standing[6], cultural differences and autonomy removal, are not significant explanatory variables of turnover variance during the second and third year after the acquisition. The explanation provided is that "we still have no understanding of the causes of second and third year turnover, and only vague understandings of the delayed fourth year effects and the mechanics by which industry differences might moderate those effects", p69.

In another study of post acquisition executive turnover in 270 acquisitions of US targets during 1986-1988 divided into 102 domestic and 168 foreign based on the acquirer identity, Krug and Hegarty (1997) find that the behavior of turnover rates between the two groups are statistically indistinguishable during the first three years following the acquisitions. Beginning in year four, however, turnover in the foreign acquisitions began to increase at a greater rate than domestic acquisitions. During the fifth year, the turnover rate of foreign acquisitions becomes statistically higher than that of domestic acquirers. To analyze the importance of cultural (national) differences in turnover behavior, they classify the foreign acquisitions into Anglo and Non-Anglo acquisitions. They find no statistical difference between the turnover behaviors of the two groups. Contrary to their expectations, they find that Japanese acquirers have significantly lower turnover rates than non-Anglo acquisitions during the fourth and fifth year after the acquisition. In a more detailed analysis they discover that Canadian and Australian acquirers had significantly higher turnover rates than acquirers from Continental Europe, United Kingdom, Japan and United States. The overall conclusion of the study is that cross-national differences are important in the turnover behavior, but their effects are seen in the medium term (4-5 years). Consistent with the organizational perspective of executive turnover, this pattern in behavior rates might be a consequence of foreign acquirers retaining top managers for some years for strategic purposes only.

3.2 Cultural clashes and the acculturation process

The two most cited studies in cultural collisions and merger failures are Buono et al. (1985) and Sales and Mirvis (1984). Buono et al. studies the merger of two savings banks in 1981 and look at organizational culture and climate by analyzing data extracted from pre and post merger interviews, observations, archived information and survey questionnaires. Although the two banks were serving two different market niches, the cultural clash was immediate in that case. It was clear that one bank's culture

[6] Unlike Hambrick and Cannella (1993) who use archival (indirect) data to measure relative standing, most posterior studies have used directly perceptual measures of relative standing.

dominated over the other. In the dominated culture, there was a feeling of invasion/conquer; "they took us over". In the middle of conflicts, people started feeling nostalgic about their earlier culture. Finally, there was a profound and widespread distrust due to layoffs. Despite their feelings of being better paid, having better benefits, there were significant feelings of lower satisfaction and commitment. Sales and Mirvis (1984) find similar outcomes in a different merger. They identify three major cognitive processes in the dominated culture during the year following the acquisition: *Polarization*, people describe the two cultures to highlight contrasts; *Evaluation*, for each dimension described dominated culture placed a positive value on their pole and a negative value on the other's pole; and *Ethnocentrism*, dominated culture was unwilling or perhaps not yet ready to see behaviors and events from the point of view of the other. The outcome observed in their study was miscommunication, misunderstanding and conflict, as the dominated culture developed a stereotyped view of the dominant culture based upon limited contact and data gathering.

Cartwright and Cooper (1993) in a merger of two UK building societies find an interesting result. Their analysis found that prior to the merger the existing cultures were basically similar, "role cultures". In this case, both groups presented consistent views of the post merger culture. There were no noticeable impacts on job satisfaction and organizational commitment after the merger, but the stress level increases for both groups. This merger was considered successful and Cartwright and Cooper argue that the synergistic potential was realized because of the cultural match between the two merging firms. They finally state that even though the acculturation process might have been smooth, the merger induced a higher level of stress and deterioration in the mental health of employees. From the analysis of the three previous cases, we can infer that the cultural fit hypothesis has some empirical support. Unfortunately, this evidence and most of what is available in relation to cultural fit and behavioral/attitudinal responses is based on small samples and often a single case study.

Given that culture defines the "shoulds" and "oughts", Very et al. (1993) study the effect of national culture on the perceived organizational cultural compatibility in cross national mergers. Even though no nation is so pure as to have all of its members sharing a single dominant viewpoint, there is some evidence of "the existence of a national culture" (Very et al. 1997, p599). They study a random sample of 155 French and 192 British mergers from the period 1987-1989. Top managers of the acquired firms received structured questionnaires in order to assess the perceptions of culture at the national and organizational levels. A series of 23 items associated with national differences were studied using principal components (varimax rotation) from which 5 factors were identified. Consistent with previous empirical evidence, they find that the French culture has a stronger femininity, long-term and competitive orientation than the British culture does. They find that these national differences impart a strong influence on the perceived organizational cultural compatibility of the two organizations involved in cross-national mergers. Thus, they conclude that problems of cultural incompatibility can be amplified in an international setting, implying a greater challenge for implementation.

Thus far we have discussed empirical literature testing mainly the Nahavandi and Malekzadeh's cultural fit hypothesis where pre-merger cultural attributes play the major role in determining post-merger acculturation. As mentioned before, there could be dynamic effects in the acculturation process that cannot be captured with cross sectional studies. A notable exception, and the only one to our knowledge, is Larsson and Lubatkin (2001). In their study, they use what they call "case survey methodology", which is a form of meta-analysis that combines in-depth case study richness with a larger sample breadth. From case catalogs, reference lists, computer searches and bibliographies, they start with an initial sample of 500 US and Swedish M&A cases for the period 1959-1988. After the screening process, they end up with a sample of 50 cases consisting of 23 US domestic mergers, 15 Swedish domestic and 12 Swedish cross-national cases. They analyze six theorized determinants of acculturation: Autonomy Removal, Merger Relatedness, Relative Size, Social Controls,[7] National Culture and Cross-Nationality. The first three dimensions cover the managerial aspects of organization and strategy, and the last three dimensions cover the human-sociological aspects. The level of achieved acculturation is measured as a single-item variable defined as the level of development of jointly shared meaning fostering cooperation between joining firms towards the end of the studied integration period. Sixteen raters participated in the coding process of the six dimensions and the achieved level of acculturation. Of these, 12 were the writers of the cases, 2 experienced M&A researchers and 2 doctoral students. 15 out of the 16 raters were blind to the research hypotheses. Surprisingly, they find that Social Controls and Nationality of the acquirer were the only statistically significant dimensions in explaining the achieved level of acculturation. Based on previous literature they hypothesized that Swedish acquirers would be more effective in achieving acculturation[8], but the opposite relation was found; Swedish buying firms are perceived to be less successful at achieving acculturation than US buying firms. The use of social controls was positively related to the level of achieved acculturation. By referring to previous research, they state "our findings suggest a different and more optimistic view of acculturation … they (previous research) found post-merger acculturation to be largely predetermined by pre-merger cultural attributes and therefore outside management's control during the integration process; we find that achieving acculturation depends mainly upon how the buying firm manages the informal integration process (i.e. its reliance on social controls or the amount of

[7] Unlike formal integration mechanisms, social controls (i.e. joint socialization or shared experiences) are by intent non-authoritarian and informal. They include coordination efforts such as transition teams and task forces, which stress cooperation, informal communication and teamwork.

[8] This hypothesis is based on the assumption that national cultural factors are extrapolated into organizational culture.

coordination and socialization efforts expended by the buying firm)", p1575. These findings are important because available evidence, discussed below, relating merger performance and organizational culture are cross-sectional studies that do not allow uncovering potential dynamic effects. Furthermore, even though we show bellow that the cultural fit hypothesis has some empirical support, perhaps dynamic effects dominate in the long term. Thus, whether or not cultural fit or social controls (integration efforts) or both are the actual determinant of merger success has important managerial implications for merger management.

3.3 Cultural fit and merger performance

The first study dealing empirically with organizational integration problems and performance in a large sample is Datta (1991). He studies the effects on acquisitions performance of "organizational fit" represented by two dimensions: Differences in Management Styles and Differences in Reward and Evaluation Systems. He controls for Level of Post-acquisitions Integration[9] and Relative Size. Acquisitions in the US manufacturing and mining sectors were studied for the period January 1980 – March 1984. His final sample consisted of 173 acquisitions. Differences in Management Styles (17 items), Differences in Reward and Evaluation System (8 items), Post-Acquisition Integration (9 items) and Performance[10] (5 items) were measured using perceptual measures of top management executives of acquired firms through structured questionnaires sent in 1986. For the full sample he finds that perceived differences in management styles are negatively and significantly related to post-acquisition performance. Reward and Evaluation System is not found to be a statistically significant explanatory variable for post-acquisition performance. When splitting the sample into two groups (high integration, low integration), Datta finds similar qualitative results. He concludes (against his expectations) that low integration acquisitions also seem to need a previous organizational fit and that the non-significance of Reward and Evaluation Systems is perhaps a consequence of it being relatively easier to modify.

Chatterjee et al. (1992) study a sample of 30 acquisitions carried out between 1985 and 1987. He hypothesizes that the stock price reaction, as measured by abnormal returns, of the acquiring firm at the acquisition announcement will be negatively related to perceived Cultural Differences and positively related to Tolerance to Multiculturalism of the acquirer. Both measures were obtained through structured perception questionnaires administered to the top management of the acquired firm (29 and 23 items respectively). Confirming previous evidence in financial economics, they find a significant –3% abnormal

[9] The higher level of required integration might exacerbate problems of cultural incompatibilities.

[10] Performance was measured by asking the respondents for their assessments of the extent to which the acquisition was able to achieve prior expectations along five criteria: return on investment, earnings per share, stock price, cash flow and sales growth.

returns in an event window [-10, 5] for acquirers during the acquisition announcement. Both Cultural Differences and Tolerance to Multiculturalism explain 38% of the variance in abnormal returns, are found to be significant at conventional levels with the hypothesized sign. Weber (1996) studies 73 mergers in the period 1985-1987. He tests the effects of Cultural Differences, Autonomy Removal and Executive Commitment on post-acquisition Financial Performance. All the variables used, except financial performance, are calculated by perceptual measures of acquired executives. Financial performance is measured by the Return on Assets (ROA) during the four years after the merger. The control variables used are industry, size, mode (friendly, unfriendly) and type (related, unrelated). Acquired Executive Commitment if found negatively related to Cultural Differences and Autonomy Removal. Surprisingly, post-acquisition financial performance is positively related to Autonomy Removal and not related to Cultural Differences.

As was discussed before, cross-border acquisitions are potentially more difficult to implement than domestic acquisitions because organizational cultures are, to a high extent, influenced by national culture. Data and Puia (1995) examine 112 large cross-border acquisitions undertaken by US firms in the period 1978-1990. They evaluate the wealth creation (stock price reaction) during the announcement of these acquisitions and relate the abnormal returns to a measure of cultural distance and the relatedness of the acquisition (horizontal, vertical). The assumption is that the greater the cultural distance between two countries the more different organizational characteristics and practices are. The measure of cultural distance corresponds to a composite index as implemented by Kogut and Singh (1988) and Erramilli (1991) based on Hofstede's (1980) four dimensions of cultural differences. The relatedness of the acquisition is determined from the Wall Street Journal's description and the description of products and services in the journal *Mergers & Acquisitions*. They find that unrelated acquisitions have a significantly lower abnormal return and that acquisitions from more culturally distant countries earn also a significantly lower abnormal return. By performing univariate tests (correlations), they find support to the hypothesis that national cultures have an impact on the expected implementation problems during acquisitions.

In an attempt to test the validity of a US theory in a different context, Very et al. (1997) study European mergers for the period 1987-1989. Their sample consists of 42 French and 64 British acquired firms. The counterparts of the French sample were 16 French firms (domestic), 16 British firms and 10 US firms and the corresponding items of the British sample were 20 British firms (domestic), 24 French firms and 20 US firms. They studied the effect of Perceived Cultural Compatibility (PCC) and Autonomy Removal (AR) on post-acquisition performance. Through questionnaires, top managers of the acquired firms are asked to assess the post-acquisition performance since the merger along three dimensions: earnings, sales and market share. The measure PCC and AR were also measured by perceptual questionnaires with 23 and 11 items respectively. They find that the PCC is positively and significantly related to perceived post-acquisition performance. Consistent with the theory of relative standing, they find that Autonomy Removal is negatively and significantly related to perceived post-acquisition performance. Furthermore, French acquired firms are perceived to be significantly less successful suggesting a national culture effect as well. Confirming previous evidence, related acquisitions are perceived to have a better post acquisition performance.

Finally, as an important step toward our undertaking of M&As, Larsson and Finkelstein (1999) develop an integrative model of acquisitions by borrowing insights from Strategy, Economics, Finance, Organization Theory and Human Resource Management. They propose that the step from Combination Potential and Synergy Realization is a complex process involving organizational integration and employee resistance issues. As in Larsson and Lubatkin (2001), they use a case survey methodology (similar methodological implementation). They test the model's predictions in a sample of 61 M&A cases carried out in Europe and United States covering more than ten home countries and a period of more than 30 years. Results show a number of interesting interrelations among several factors dispersed in the empirical literature. Due to space we only mention their most important finding that Organizational Integration and Employee Resistance are positively and negatively related, respectively to realization of the combination potential of the merger.

4. DISCUSSION AND FINAL REMARKS

The strategic requirement that motivate mergers and acquisitions is to create synergy so as to build a competitive advantage position and finally improve the performance of the joined firms. Given the high costs of carrying out mergers and acquisitions, and the less than encouraging results so far, it is essential that top managers understand, prepare for and manage all factors that potentially contribute to success. Even though it is difficult to isolate the relative contribution of each factor to the success of M&As, it is apparent that organizational and human resource issues have not received in practice the level of attention that they should.

This study had the scope of bringing together the available empirical evidence that relates to the actual achievement of fit through the integration of the two firms, an essential factor to success, beyond the identification of a strategic fit between the combining firms or an appropriate purchase price. In order to capture all relevant factors and their influence on the merger or acquisition success, we divided our paper into micro and macro level analysis of these issues.

The main conclusion from the individual perspective, that comes up over and over again in many of the case studies of the literature is that mergers and acquisitions are disruptive events in the lives of the employees involved, and that they lead to increased stress and uncertainty with their usual associated dysfunctional outcomes. Where the evidence is not clear and we have conflicting results, is whether or not all these observed psychological and behavioral reactions have an impact on performance (at the individual or firm level). Future research should aim to bring light to this important issue as an elucidation can improve our chances at better understanding the mergers process and outcomes.

On the collective level, even though a consensus seems to exist among top executives and researchers regarding the importance of cultural issues to the success of mergers and acquisitions, the exact process is not well understood yet. Most theories have been imported from anthropology and most empirical evidence comes from individual case studies.

As discussed by Elsass and Veiga (1994), there are differences between anthropological and organizational acculturation. First, organization members, unlike individuals experiencing social acculturation, have the option of not acculturating or of withdrawing from contact all together; or they may even choose to leave if acculturation proves to be too stressful or distasteful. Second, although acculturation can result in a balanced merging of the two groups, anthropological studies would suggest that this balance rarely occurs; one group tends to dominate another and influence the direction of cultural change much more than the subordinate group. Finally, the organizational acculturation process, unlike social acculturation, has a mediator (management) who can successfully manage the transition process even when initially a fit does not exist. These three differences suggest that our knowledge of organizational acculturation, and therefore our ability to manage mergers, will be limited until we understand the particularities of organizational acculturation. This is an interesting and challenging direction for future research.

Even though the fit hypothesis, and its effect on performance, seems to have some empirical support, dynamic effects are not well understood yet. The impact and importance of social and formal controls (integration efforts), and cultural fit are issues still begging for an explanation. Current research is limited in at least three dimensions. First, most evidence corresponds to cross sectional studies which do not allow uncovering dynamic effects. Second, available evidence is mainly concentrated in the US and Europe. There is still little knowledge about other business environments. Third, as discussed in some of the reviewed papers, regulatory changes seem to trigger acquisitions in some industries. Thus, given that most studies are concentrated on 1980s, the evidence is probably biased toward those industries that have suffered these changes (banking, for example). Therefore, an interesting avenue of research in this important area is the international context of human resources issues in M&A.

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