

Different experiences of socio-cultural integration: A European merger in Mexico

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Abstract

Purpose – Building on social identity theory, we present a study on the socio-cultural integration process in a merger of two European pharmaceutical subsidiaries in Mexico. We investigated antecedents of perceived threat to pre-merger identities in an officially claimed “merger-of-equals”.

Design/methodology/approach – A mixed-methods approach was adopted comprising semi-structured interviews (with 37 interview partners) and standardized employee surveys with 890 respondents.

Findings – Findings indicate that identity of the new organization was largely shared among members of the different subgroups. Though the employees considered their pre-merger identities to be at stake (as demonstrated through the interviews), this experienced threat was not very strongly expressed in the survey. In fact, the sub-groups were able to maintain distinctiveness, acknowledge the value added of each group, and had access to resources.

Research limitations/implications – The main study limitation concerns the fact that this research was conducted using a cross-sectional design. It would be interesting in future research to observe the processes as they unfold over time.

Practical implications – Our findings may help managers and change agents to understand that within merger partners, subgroups exist and different concerns in terms of their identity may emerge.

Originality/value – The results shed light on how shared identity in the new organization can successfully develop despite different perceptions of the integration process of members from the acquired and the acquiring groups. In contrast to past research findings on M&As, positive results were achieved despite contradictory perceptions of integration process of members of the acquired and the acquiring groups.

Keywords - Mergers and Acquisitions, Socio-Cultural Integration, Qualitative/Quantitative Comparisons, Threat to Pre-Merger Identities

Paper type – Research paper

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INTRODUCTION

Mergers and acquisitions (M&As) are a frequently used strategic tool of corporate growth and development. Yet, a high number of them fail to achieve the organization's objectives and fail to deliver the expected performance (Jansen, 2002). Cultural differences, or a "clash-of-cultures" are often cited as a key reason for failure of M&As (Chatterjee, Lubatkin, Schweiger, and Weber, 1992). However, empirical research has not been conclusive in demonstrating an impact of cultural differences on performance. While cultural differences have been found to be problematic (e.g., Vaara, Tienari, and Sántii, 2003; Veiga, Lubatkin, Calori, and Very, 2000), others have found that cultural differences might be an asset (e.g., Chakrabarti, Gupta-Mukherjee, and Jayaraman, 2009; Morosini, Shane, and Singh, 1998). Thus, it seems that cultural differences per se may be less of the problem but what is more relevant is how the socio-cultural integration process is managed. Several authors (e.g. Stahl and Voigt, 2008; Riad, 2007) have called for the need to "open the black box" of socio-cultural integration in order to understand how these processes may contribute to successful outcomes of M&As, and more specifically, how they can promote the development of a shared identity, i.e. the employees' feeling of identification with the larger post-merger organization. The existence of such shared identities has been shown to be related to positive outcomes such as the intention to remain in the organization, job satisfaction, motivation, and cooperative behavior (Riketta, 2005), and thus can contribute to M&A performance (van Dick, Wagner, and Lemmer, 2004).

Past research has demonstrated that developing a shared identity becomes problematic when socio-cultural processes are perceived as a threat for pre-merger identities (Millward and Kyriakidou, 2004). Furthermore, Gleibs, Mummendey, and Noack (2008:1107) underline the necessity of understanding "what causes perceptions of threat [in M&As]". Indeed, there have been few in-depth studies that assessed how identity-based threat can be experienced throughout the organization and by sub-groups during the integration process (Terry, Carey, and Callan, 2001). Understanding how identity threat might develop among different sub-groups involved in the merger is in line with Brown's (2001: 761) following statement: "At present SIT [social identity theory] does not differentiate between different kinds of groups. (...)all groups— be they small face-to-face units or large scale societal categories— are thought to be psychologically equivalent for their members, at least

as far as the operation of social identity processes is concerned.” This call for more research is in line with findings of Fronda and Moriceau (2008) whose investigation of organizational change found contradictory perceptions of recipients (operational managers) and change agents (top executives) of management interventions. Also, van Dijk and van Dick (2009) found that resistance to change has different meaning for employees and change agents– based on their respective differences in identity.

In this paper, we study the socio-cultural integration process in the merger of two European pharmaceutical companies’ subsidiaries in Mexico. We employed a mixed-methods approach in order to triangulate the results. We first used semi-structured interviews that were then coded based on constructs identified in the literature. Such a qualitative approach is most appropriate to understand how and in what way threat may develop and thus helps to capture the complexity of intra-and intergroup dynamics (Miles and Huberman, 1994). This approach also accounts for the individual employees’ subjective constructions of the merger activities (Berger and Luckman, 1969). Second, we conducted an employee survey based on established measures. In this way, we triangulated the results to strengthen construct and internal validity of the findings and to initiate new lines of thinking through attention to eventual discrepancies between qualitative and quantitative findings (Rossman and Wilson, 1991).

In the present paper we aim at contributing to the existing research on M&As by exploring three research questions. (1) First, we explore how and in what ways different sub-groups of employees experience the process of socio-cultural integration. (2) our study tries to explain how perceptions of threat differ at the intra- and inter-group levels. (3) we will investigate how and in what ways threat impacts on the development of a shared identity.

The structure of our paper is as follows: We will start with a theoretical overview of a social-identity based theory on M&A activity. We will then uncover a Case Study of an organizational merger using both inductive and deductive methodology that provides rich information on the three research questions. We will finally summarize the findings and discuss implications and limitations of our study.

THEORETICAL BACKGROUND

Research on the impact of integration processes on M&A performance has utilized Social Identity Theory (SIT; Tajfel and Turner, 1986) and Self-Categorization Theory (Hogg and Turner, 1987) as analytical framework. According to these theories, individuals define themselves in terms of a particular social category to maintain and enhance their self-esteem. People identify, for instance, with their organization, or team or department within their organization. In the context of organizational mergers, two groups are integrated and the challenge is that the previously separate (and often competing) organizations need to be seen as *one* new category by the employees in order to identify with the post-merger organization, i.e. that the two merger partners are able to develop a shared identity. Past research on M&As, however, has provided evidence that the socio-cultural integration often fails to create such *shared identity* due to employee perceptions of threat to their pre-merger identities. More specifically, research has shown that members from the acquired organization experience more threat to their pre-merger identities (Terry and Callan, 1998; Dackert, Jackson, Brenner, and Johansson, 2003) and therefore demonstrate stronger in-group bias and a weaker shared identity in the new organization (Terry et al. 2001; Van Knippenberg, Van Knippenberg, Monden, and de Lima, 2002).

Threat to pre-merger identities in M&As has often been measured as perceived stress (Terry and Callan, 1998; Terry and O'Brien, 2001), or the degree of perceived continuity between pre- and post-merger identity (Van Dick, Ullrich, and Tissington, 2006). Shared identity in M&As has mainly been operationalized as the degree of identification with the new organization (Van Dick et al., 2006) or the perception of a common in-group identity (Gaertner, Dovidio, Anastasio, Bachman, and Rust, 1993). To our knowledge, the only study that has focused specifically on identity threat in M&As was conducted by Van Dijk and Van Dick (2009) wherein inter-group dynamics played a crucial role. They found that while employees experienced threat to their work-based identities as a result of change management, change leaders experienced threat due to employee resistance to their own identities as change-agents.

Although past research has provided important insights into the negative impact of threat to pre-merger identities on developing shared identity, antecedents to threat have not been explored in-

depth. Also, subjective perceptions on the integration process have not been investigated. Currently, it is being assumed that members of the acquired and acquiring organizations hold convergent perceptions, though they might be contradictory (c.f. Fronda and Moriceau, 2008). Therefore, we will investigate whether and how threat is experienced at the inter-group (both for the acquired and the acquiring organizations) and intra-group levels (within the acquiring group). Our research builds upon acculturation and social identity theories. This cross-disciplinary perspective can provide a more integrated understanding of the integration in M&As.

Acculturation theory

Research on acculturation in M&As emerged in the mid-1980s as cultural differences per se failed to explain merger outcomes (Stahl and Voigt, 2008). Acculturation is defined as change resulting from contact between two groups of a distinctive culture (Berry, 1980). Research on M&As from this perspective focuses on patterns of integration processes in terms of amount of change and willingness to change (Nahavandi and Malekzadeh, 1988). Findings of experimental studies conducted by Giessner and colleagues (2006) provide evidence that members of both the acquiring and the acquired organization prefer to minimize the amount of culture change. Marks and Mirvis (2001) suggest that mergers involving a high degree of cultural change will encourage stronger in-group bias. Haspeslagh and Jemison (1991) argue that integration patterns, which involve the preservation of autonomy, can reduce resistance to change. Furthermore, research based in acculturation theory reveals that management practices such as communication, integration events, and employee involvement can positively impact the development of a shared identity (Larsson and Lubatkin, 2001). In this vein, we will explore how the degree of autonomy and change may lead to different perceptions of threat to pre-merger identities both for the acquired and the acquiring organizations.

The amount of *change to pre-merger cultures* is defined in literature as the degree to which members from the acquiring and the acquired organizations retain their way of doing business (Marks and Mirvis, 2000). Changes to pre-merger cultures are expected to have an impact on pre-merger identities. Organizational culture and identity are considered to be interrelated in that culture provides rules that define a social system, whereas identity defines "who we are" in relation to the social system to which "we" belong (Fiol, Hatch, and Golden-Biddle, 1998). This is supported by research

conducted by Ravasi and Schultz (2006), who provide evidence that organizational culture is a central construct in understanding the evolution of organizational identities in the face of environmental changes. Thus, confronted with potential culture change in M&As, employees' beliefs about the central and distinctive attributes of their organizations may be put into question. Thus, such changes were proposed in previous research to potentially pose threat to pre-merger identities (Giessner et al., 2006; Van Knippenberg et al., 2002). Secondly, *decrease of organizational autonomy* can be conceptualized as loss of control over decisions in the new organization (Eilam and Shamir, 2005). Although M&A research studied the impact of decreased autonomy (e.g., Datta and Grant, 1990; Larsson and Lubatkin, 2001), its' impact on pre-merger threat remains ill-explored. Perceived autonomy decrease in the context of M&As may diminish employees' image as being distinctive and thus can result in a threat. However, existing research has not directly addressed how and in what ways autonomy might decrease in the socio-cultural integration process (Gleibs et al. 2008). Thus, in this paper we investigate how culture change and organizational autonomy are experienced on inter-/intra-group levels aiming to better understand threat to pre-merger identities.

Social identity theory

The impact of decreased autonomy and changes to the pre-merger culture on the threat to pre-merger identities may be influenced by the nature of inter-group dynamics in terms of perceived legitimacy of the power relations and perceived permeability of group boundaries. Hogg and Terry (2000: 133) state: "Social identity theorists make clear predictions about the success of a merger. The behaviors that group members adopt to pursue self-enhancement through positive social identity are influenced by subjective belief structures: beliefs about the nature of the relations between the in-group and relevant out-groups."

While the importance of the nature of intergroup dynamics on success of M&As has been acknowledged by researchers referring to SIT, it still remains under explored *how and in what ways* these dynamics can interact with autonomy decrease and culture threat in resulting in pre-merger identity threat (Terry and O'Brien, 2001). First, *power relations* refer to the distribution of influence of the organizations in the integration process, i.e. whether one merger partner is dominant over the other (as is typically the case in acquisitions) versus 'mergers-of-equals' (Meyer and Altenborg, 2007). We

define *legitimacy of power relations* as an acceptance of the dominant group's stronger influence in the integration process by members of a non-dominant group (Bierstedt, 1964). In the same vein, social identity theorists argue that a non-dominant position may be considered legitimate when pre-merger identities are associated with lower self-esteem and limited access to scarce resources (Terry and O'Brien, 2001). For example, asymmetry in power relations will be regarded as legitimate when the dominant organization is perceived to be stronger, having greater operational efficiency, better market position, or larger size (Terry and O'Brien, 2001; Vaara et al., 2003; Schweiger, Csiszar, and Napier, 1993). Thus, the merger provides an opportunity for members of the non-dominant organization to improve organizational status and, in turn, personal self-esteem (Hogg and Terry, 2000). Secondly, *boundary permeability* is defined as a possibility of mobility within the new organization through access to resources in terms of rewards, development opportunities, informal networks, and career progress (Santos and Eisenhardt, 2005). Social identity theory suggests that employees of the non-dominant organization will respond more positively to the merger if boundaries are perceived to be permeable. At the same time, members of the dominant organization tend to prefer boundaries not to be permeable to secure their higher status (Terry et al., 2001).

While the importance of the nature of intergroup relations has been acknowledged by researchers referring to SIT, it still remains underexplored how and in what ways they might influence experienced threat to pre-merger identities as perceived by sub-groups in the new organization (Terry and O'Brien, 2001). In this paper, we will address this research gap in the following manner. First, we will investigate perceptions on socio-cultural integration on intra-/inter-group levels. For example, power legitimacy might not necessarily be assessed alike by different sub-groups (Kovoor-Mistra and Smith, 2008) and boundary permeability might be perceived differently by members of the acquiring and acquired organization, respectively (Millward and Kyriakidou, 2004). Secondly, we will demonstrate how perceptions of identity threat differ at the intra- and inter-group levels. Finally, we will provide insights into how threat at the intra- and intergroup levels might impact on developing a shared identity with the new organization

The general purpose of our research is to open the "black box" of the socio-integration process and to explore threat to pre-merger identities. As shared identity may develop differently on the level

of sub-groups involved in an M&A (e.g., Kovoov-Mistra and Smith, 2008), we consider it important to explore different perceptions of threat to identities and its' antecedents to better understand multiple social realities (Guba and Lincoln, 1994). Thus, research questions that define the study can be summarized as follows:

Research question 1: How and in what ways do employees perceive threat to pre-merger identities during the socio-cultural integration process?

Research question 2: How do perceptions of threat to pre-merger identities differ at the intra- and inter-group levels?

Research question 3: How and in what ways does threat to pre-merger identities at the intra- and intergroup levels impact on developing a shared identity with the new organization?

We explored these questions in a merger of two European subsidiaries in Mexico. We chose an embedded case study research strategy which is most appropriate in exploratory investigations aiming to understand an unknown “real-life” phenomenon in contemporary setting (Yin, 2009). This research design helped to capture the complexity of different experiences of the integration process at the intra- and inter-group levels. Finally, survey data allowed triangulation of interview findings based on a more representative sample of the studied population (Onwuegbuzie and Teddlie, 2003).

THE CASE

In 2006, the public takeover offer for SAG¹ was officially submitted by BAG; both organizations being European-based pharmaceutical corporations. Within a few months, ABC was created from merged SAG with a pharmaceutical division of BAG (BAGPharma). This merger reflected a common trend in the pharmaceutical industry wherein a relatively small, specialized research oriented company (SAG) is acquired by a large corporation (BAG). The merger was officially proclaimed by global headquarters in Europe to be a “merger-of-equals” so as to achieve synergies on the best-of-both principle especially related to R&D, sales force and marketing operations.

¹ Given the sensitive nature of this research, the names and some details about organizations and individuals involved in the research have been changed.

Our case looks specifically at the merger of the Mexican subsidiaries of BAG and SAG. Both these firms were considered to be market leaders in Mexico. During the pre-merger integration (duration: nine months²), the new legal entity - division ABC was created from merged SAG with a pharmaceutical division of BAG. More specifically, the Mexican operations of SAG were placed under BAGMexicana (support services, 272 employees), and integrated with BAGPharma as shown in Figure 1 creating the ABC division, comprising 747 employees from BAGPharma and 246 employees of SAG. Consecutively, during the merger integration phase (duration: six months), SAG and BAG Pharma had gradually started joint operations at the ABC. In this study there are two main groups— BAGrs and SAGrs in Mexico. Within BAGrs, two subgroups can be identified— BAGPharma and BAGMexicana. Within SAGrs, also two subgroups can be identified— SAG Mexicana and the SAG Latin American headquarters. The former is a very small organization employing roughly 50 people, mainly at the executive level. In this merger, the salient group memberships are BAG and SAG (inter-group), and BAGPharma and BAGMexicana (intra-group).

INSERT FIGURE 1 ABOUT HERE

Sample selection and procedures

The research employed a single, embedded case, which was designed to inform the different perceptions resulting from the “socio-cultural integration process” at the intra-/inter-group levels. We started the investigations three months after the beginning of the post-merger integration phase. In January 2008, 38 semi-structured interviews were conducted based on stratified sampling in order to identify particular sub-groups to facilitate inter-group and intra-group comparisons (Kuzel, 1992). Our informants included actors from the three main sub-groups (BAGMexicana, BAGPharma, SAG; including Regional Latin American headquarters), from different functional areas and hierarchical levels: executives; middle managers; support staff; and medical representatives as shown in Table 1.

INSERT TABLE 1 ABOUT HERE

² In order to guarantee confidentiality of the studied organizations, we cannot provide exact dates of the merger.

The interviews lasted between 40 and 90 minutes. They were mainly conducted in English and a few in Spanish by a professor based in Monterrey. The interview guide consisted of six key themes: amount of culture change, decrease of organizational autonomy, boundary permeability, legitimacy of power asymmetries, threat to pre-merger identity and shared identity. These themes related both to the individual and the organizational level of analysis (Yin, 2009). Interviews were tape recorded, transcribed and subsequently coded based on theoretical constructs. Interview questions and the questionnaire were originally written in English and translated into Spanish by a translator based in Mexico. Finally, the questions were back-translated from Spanish to English by a bilingual research assistant in order to verify the quality of the translation. After completion of interview analysis, survey data were collected between November 2008 and January 2009 based on existing measures refined by interview results. Table 2 shows the data structure, highlighting the theoretical categories that make up our framework related the integration.

INSERT TABLE 2 ABOUT HERE

Questionnaires were distributed among all the employees through an email invitation, which described the research objectives and assured confidentiality. Table 3 presents the variables that were studied, qualitative and quantitative constructs measured and sample questions. Response rates were very good with 84% at SAG, 75% at BAGPharma and 72% at BAGMexicana resulting in 890 respondents in total (174-SAG, 519-BAGPharma and 197-BAGMexicana). Demographic information is presented in Table 4.

INSERT TABLE 3 ABOUT HERE

INSERT TABLE 4 ABOUT HERE

In order to ensure a quality of our analysis, we used the following procedure (Yin, 2009; Gibbert, Ruigrok and Wicki, 2008). The questionnaires served to provide internal and external validation to interview analysis, which is important in embedded case studies seeking to collect precise data on differences among sub-groups. Moreover, reliability was based on a case study

protocol. Finally, construct validity was possible as key informants from BAG reviewed draft case study reports.

FINDINGS

We used ANOVA to compare differences between sub-groups. We will present our findings by first describing the interview results and then, the relevant survey results. Table 5 presents a summary of interview and survey findings.

INSERT TABLE 5 ABOUT HERE

Threat to pre-merger identity

Overall, interviewees indicate that pre-merger identities of the three sub-groups were threatened in the integration of SAG and BAG. First, interviewees of SAG perceived their pre-merger identities to be threatened due to a loss of their family spirit, fast and efficient processes, and employee-oriented practices. For example, one SAG interviewee explained:

Some people [BAGrs] take every opportunity to complain “Ohh SAG people” ... I consider that integration should be real. It is not integration just by getting everybody into the same building. But, I as myself – SAG – feel integrated into this new company. I really do... but others [BAGrs] don't. [...] People at BAG, I don't know whether they don't want to, or they don't welcome us, but they still refer “Ohhhh SAGrs...”. They do not accept any comment, any critics from us.

On the other hand, interviewees of BAG perceived their pre-merger identities to be threatened due to their leadership position and status of being the acquirer. As for example, one of BAG Mexicana interviewee explained:

In my understanding, we have a major problem... At the top management level, the merger was clearly defined. But, the message to the lower levels was not clear. It was not clear in a way, as it was only said “It is a merger”... But, they [top management] didn't say who is purchasing whom... Then, people from SAG came over to us to say: “Well, we are the bosses and we came here to take over BAG's operation”.

BAGPharma interviewees experienced a threat to identity as for example pointed out by one interviewee:

You can hear the SAGrs say “Oh you don't have culture. We have culture.” Sorry maybe you don't know the culture of BAG. But you can't say that you have the culture and we don't....

Contrary to the interview findings, the survey indicates only moderate feelings of threat to pre-merger identities by employees of the three sub-groups (BAGMexicana M=2.29, BAGPharma M=2.02, SAG M=2.13; the difference is only significant for BAGMexicana and BAGPharma [$F(2,849)=6.51, p<0.05$]).

Identity in the new organization

Overall, interviewees indicate that employees from BAG and SAG were proud of ABC considered to be highly successful in terms of market power, research and development. As one BAGMexicana interviewee explained:

With the acquisition of SAG, we became pharmaceutical leaders. In the past, we have been working on introducing of new products, to obtain new licenses, to increase our growth on the local market. Well, they [SAGs] brought more innovations into our research. These are young people with great experience and excellent preparation.

This is echoed in interviews with BAGPharma, for example:

We have always been in the eyes of the whole [BAG] world and for us and our country it is very important. Now, obviously we are very strong and we have highest rankings in the pharmaceutical industry in Mexico. We have more impact being ABC, rather than just BAG or SAG. We also have a stronger perception by the physicians, media....

I believe the only way to hold it all together [integration between SAGs and BAGs] is to have a success together. [...] If the success if not coming, we will never hold it all together.

Most SAG interviewees shared these perceptions of success of ABC, for example:

SAG was ranked 26 at the Mexican market. Now, we are in the top ten. So, this is a very different position when we have to make commercial deals and negotiate with external parties. It is really very different to arrive as a company number 26 to different institutions, or to different hospitals or to different wholesalers than to arrive as a company of a top ten...

Survey data, in line with interview findings, indicates a strong identification of both SAG and BAGPharma employees with ABC. On average, employees of BAGPharma and SAG identified stronger with ABC (M=4.13; 4.22, respectively) but BAGMexicana employees identified significantly less (M=3.66) [$F(2,889)=36.32, p<0.05$].

Nevertheless, despite the enthusiasm regarding ABC's success, the majority of interviewees perceived the new organization to consist of two separate groups (ex-SAGs and ex-BAGs). As one of BAG interviewees explained:

When we returned from the integration meeting, and we were always told that we are no longer SAG or BAG. Now, we are ABC. Personally, what does this mean? I felt as a BAGr, they feel SAGr...

This perception was shared by SAGrs:

One part of the building is SAG and the other is BAG. Coincidentally, the closets with files are placed in the middle, creating a physical frontier that separates both sides. [...] You can see that almost no one goes over to the other side. Not even to chat for two minutes to ask: 'How was the weekend? How are you doing?' Everyone is on their side of the border.

Indeed, most of the employees consider ABC to be only partially integrated; common in-group identity of BAGMexicana, BAGPharma and SAG is rated as average ($M=3.04, 3.01, 3.09$, respectively). No significant differences between the three subgroups emerged [$F(2,850)=0.38$, $p>0.05$].

Amount of culture change

Overall, interviews indicated that the acquisition implied mainly changes for the employees of SAG. All SAG interviewees perceived higher efficiency of their pre-merger processes and systems such that the changes experienced were predominantly resulting from adopting systems, procedures and processes of BAG which were experienced as having increased bureaucracy:

BAG is like 20 years behind SAG.... I think for us, it was the step behind and was kind of difficult ... We were paperless and now, huge paper... And, at SAG, I guess because we were small, we had defined processes... And, there are no processes at BAG and too many people involved. So one day, you find someone is doing something that way, and the other day, in another way...

In contrast, most of BAGPharma interviewees claimed not to have experienced changes:

Anywhere you look, you see 'BAG'; we feel, at least the team that I manage, that it is the company where we are coming from, where we started. Objectively there is no difference. We know that we are in a larger company, which represents a greater share of the market. But objectively, we have not experienced any change after the merger took place.

Also, most BAGMexicana interviewees shared these perceptions. For example:

Things have continued after the integration, because we are not really part of Pharma. We are above... we are one step above the process of integration.

In order to compare differences between the cultures of the pre- and post-merger organization, we conducted *t*-tests. Overall, BAGMexicana respondents perceived the new organization (ABC division) to be very different than the former BAGPharma in terms of decreased formality and faster

decision making. On average, BAGMexicana employees reported a significant difference between ABC division and old BAGPharma with respect to: work environment (M=3.65, and 3.75, respectively; $t(179)=-2.76$, $p<0.05$); formality of business relationships (M=3.83, and 3.93, respectively; $t(179)=-2.44$, $p<0.05$), and speed of decision-making (M=3.09, and 3.22, respectively; $t(179)=-2.04$, $p<0.05$).

On the other hand, BAGPharma respondents perceived the ABC division not to be different from the pre-merger BAGPharma reporting an insignificant difference between the ABC division and old BAGPharma regarding 1) work environment (M=4.08, and 4.05, respectively; $t(509)=1.23$, $p>0.05$), and business relationships (M=4.12, and 4.12, respectively; $t(509)=-0.07$, $p>0.05$). However, BAGPharma employees did report a significant difference regarding speed of decision-making (M=3.10, and 2.95, respectively; $t(509)=3.34$, $p<0.05$).

Overall, SAG respondents perceived the ABC division to be very different from the former SAG in terms of increase formality, and reduced speed of decision-making. SAG employees reported a significant difference between the new ABC division and the former SAG regarding work environment (M=3.66, and 4.08, respectively; $t(171)=-6.26$, $p<0.05$), business relationships (M=3.89, and 4.16, respectively; $t(171)=-4.26$, $p<0.05$), and speed of decision-making (M=3.60, and 2.89, respectively; $t(171)=6.47$, $p<0.05$).

Decrease of organizational autonomy

Overall, a slight majority of the interviewees claimed their group to have experienced decreased autonomy. Specifically, many SAG interviewees claimed to have lost autonomy in the result of having become a division of BAGMexicana:

It is evident that the people in control within the organization [ABC] are predominately from BAG. From one day to another, BAG took direct control of our operations.

Also, SAG interviewees claimed to have lost autonomy as a result of the Latin American headquarters of SAG having to report to BAGMexicana instead of directly to the European headquarters:

SAG had several interregional, sub-regional organizations. And, there was a special situation here in Mexico as we are supposedly having a regional coordination; we are the regional supervisors

for Latin America. But sometimes, we are reporting to BAG Mexicana and it has been a little bit confusing. How can the chief of a region be reporting to the chief over of a local subsidiary?

At the same time, many BAG interviewees reported both SAG and the European headquarters to have greater control:

Managing director is from BAG [Pharma]. But, his boss [indicates the name, head of Regional Office] is from SAG. And, his boss is also from SAG. And, the other guy upper is from SAG.

For the first time, I feel as if I found out that my wife is unfaithful. [...] I can understand that this is a realistic approach, but on the other side, I have to say... When I look at this, I believe a lot of political decisions have been taken, also. And, if you see who was named here or there at BAG, it was really from the very beginning, all the things have been pre-defined.

A majority of BAGMexicana employees agreed with their BAGPharma colleagues about a decrease in organizational autonomy:

In my case, I have to wait for the official approval from my manager before I can take over certain activities. But when I notice that there are still certain deficiencies in the handling of those same activities with other ex-SAG units, it disturbs me personally. Because, I know we can handle it, we can do it the way we have always done our work. But this would require coordination with central offices [i.e. European headquarters] because we do a lot of activities for central offices. And, this obviously holds us back as we do not have the authorization we have been waiting for since October [2006].

Quantitative findings are in line with the interviews. According to the survey, respondents from BAGMexicana, BAGPharma and SAG perceived a moderate decrease to autonomy ($M=3.02$, 3.14 , 3.00 , respectively). There is no difference in perceptions among the three sub-groups [$F(2, 866)=3.62$; $p<0.05$].

Legitimacy of power relations

Overall, current power relations are perceived to be only somewhat legitimate according to the majority of interviewees. More specifically, interviews with SAGs indicate that the dominance of BAG over SAG was perceived to be slightly legitimate due to their position as acquirer, as well as their larger size, market position and a better reputation among physicians and patients. For example one SAG interviewee stated:

Experience of the holding of BAGMexicana is significantly greater than the one of the SAG operations. BAG has better conditions at the market, better deals with the banks, better government relations and this kind of things.

Both BAGMexicana and BAGPharma interviewees claimed that BAG should have a dominant position as for example:

When you go into nature, the strong is the king, to say it that way. And the strong kill the weak. When you are talking about the companies, you are talking about one company buying another one, and there are the conquerors and there are the defeated. [...] And logically, for BAG employees, it is the same feeling. We, as BAGrs, and I am a BAGr, we have to go to fight for our positions also.

At the same time, those interviewed at SAG considered BAGrs not to be open for accepting their “better ways of doing business”:

We have been trying to do changes, small ones, because we did not like to be perceived by them [e.g. BAGrs] as just ex-SAG... But, rather as a force to do something that they do, but differently. They ask ‘how can this be possible?’ [...] they [BAGrs] say ‘we have always done it this way and it works’. It works? For whom? What about some people inside the organization who do not like that.”

Nevertheless, a slight majority of BAGPharma and a few BAGMexicana interviewees valued SAG because of their complementary (and successful) products and showed admiration for its modernity. As one of BAGMexicana’s interviewees claimed:

They [SAGrs] are very young people, very well trained, with great master’s degrees and speaking several languages, with mastery of their position. Truly, I have seen very young people and very well prepared. Not that the people that were in BAG before were not prepared, but what surprised me is that this people are younger and taking on important challenges in key positions.

A slight majority of BAGPharma respondents also agreed on the positive qualities of SAG:

I think that they [SAGrs] are experts in what they bring. Just as we are, I think that for them in other lines they see us also as the experts. But well, I think they are very competitive, they work in a very competitive environment and that is good, isn’t it? And that is obviously good for us, since we have to keep up to date, studying and reviewing the materials we have and keeping up to date also.

According to the survey, BAG was seen to have a more dominant position than SAG in the integration process as perceived by BAGMexicana, BAGPharma and SAG (M=3.82, 3.69, 4.01, respectively). There is no significant difference in perceptions of BAGMexicana and BAGPharma. However, compared with BAGMexicana and BAGPharma, SAGrs perceived BAG’s position as significantly more dominant [$F(2,884)=12.43$; $p<0.05$]. Nevertheless, the dominant position of BAG (slightly dominant as claimed by BAGrs, considerably dominant as claimed by SAGrs) was perceived as legitimate by BAGMexicana, BAGPharma and SAG (M=4.30, 4.18, 4.28, respectively). There is no difference in perceptions between the three sub-groups [$F(2,884)=0.76$, $p>0.05$].

Boundary permeability

Overall, results from the interviews point to perceptions of high boundary permeability. First, interviewees reported having equal access to resources as almost everyone was guaranteed a job and the maintenance of their pre-merger salary levels. As one BAGMexicana executive explained:

My objective is to give people confidence and to tell them “OK, you are integrating the successful, huge organization”. We kept the conditions clear, before and...Everybody had the possibility to ask, read contracts, etc. Nobody stepped out. And, that was for us not such a surprise, because in the other integration phases, we have always protected things confidentially and there are no doubts at the end. Basically, no complaints.

Also, these perceptions of permeability were shared by most BAGPharma interviewees:

Merger of SAG and BAG is on a “win-win” terms. Let’s take my particular case ... Right now, I’m a X manager for BAG Mexicana. It’s a great opportunity for me as my responsibilities improved substantially.

Finally, most SAGrs agreed with BAGrs on boundary permeability:

Mr. X [CEO BAGMexicana] from the very early beginning gave us the security that he will try best to keep all SAG people on their current job. I have been X director in SAG, and it was quite clear that this part will be cut. You don’t need two admin areas. But, he gave me from the beginning the backup that we will try to give all SAGrs a new position in BAG. And, it worked extremely well.

Survey results align with interviews and provide evidence that employees of the three sub-groups, BAGMexicana, BAGPharma and SAG perceived boundaries to be somewhat permeable (M=3.52, 3.82, 3.59, respectively). Boundaries were perceived significantly more permeable for BAGPharma employees than for SAG and BAGMexicana [$F(2,870)=11.01$; $p<0.05$].

DISCUSSION

Previous research has demonstrated that success or failure of M&As is not necessarily related to cultural differences per se, but to how the socio-cultural integration is managed. Success of M&As is often measured as the degree of shared identity in the new organization, which can fail to develop if pre-merger identities are threatened (Terry and Callan, 1998). However, less is known about the reasons that cause threat to pre-merger identities (Gleibs et al. 2008) and the differences in perceptions of various sub-groups (Terry and O’Brien, 2001).

Our findings indicate that identity of the new organization was shared among members of the

three subgroups. Though the employees considered their pre-merger identities to be at stake (as demonstrated through the interviews), the amount of experienced threat was only moderately expressed in the survey. In fact, the three sub-groups were able to maintain distinctiveness, acknowledge the value added of each group, and had access to resources at ABC (and BAG). In contrast to past research findings on M&As, positive results were achieved despite contradictory perceptions of integration process of members of the acquired and the acquiring groups. Both SAGs and BAGs considered their organization to be the “acquired” one despite officially claimed integration based on the “merger-of-equals” principle. Our analysis echoes finding of Steuer & Wood (2008) who found discrepancies between the official discourse and the actual merger implementation.

Intra-group differences in experienced threat to pre-merger identities

SAG was acquired by BAGMexicana and integrated to BAGPharma as officially stated on an “equal” basis. Our study indicates that BAGMexicana employees considered the integration process to pose significantly more threat to their pre-merger identities than perceived by BAGPharma employees. This difference is due to a gap between expectations of maintaining organizational autonomy and the actual level of autonomy decrease as perceived by BAGMexicaners. Interestingly, a decrease of BAG’s autonomy was more accepted by the employees of BAGPharma who demonstrated a stronger willingness to build ABC on a “best-of-both” principle due to complementary products offered by SAG. Also, BAGPharma employees more strongly admired SAG for their administrative efficiency and employee oriented practices. Finally, while interviews revealed that boundaries were perceived to be permeable by BAGs, survey results indicated more permeable boundaries for employees of BAGPharma than for BAGMexicana employees. This discrepancy might be related to the fact that BAGMexicaners were less affected by the merger.

Inter-group differences in experienced threat to pre-merger identities

Despite many changes to the SAG culture, survey results indicated that there was no significant difference in a degree of perceived threat to pre-merger identities between BAGs and SAGs. This is in contrast to past research (Terry and Callan, 1998; Dackert et al., 2003) where members of the acquired organization were found to experience more threat than members of the acquiring group. While the integration process posed threat to the status of “acquirer” for BAGs,

SAGrs experienced threat to their pre-merger identity with regard to “family spirit” and “efficiency of work processes”. Such threat resulted from different perceptions between BAGrs and SAGrs of how the integration actually occurred. Our results may help to explain findings of Giessner et al. (2006) wherein members of a dominant and a non-dominant organization preferred a different integration pattern. Our study suggests that it may not be about differences in preference, but rather that the same integration process is *experienced* differently.

Our analysis indicates that while SAGrs considered themselves to have been “acquired”, BAGrs feared an eventual “reverse takeover”. Nevertheless, SAGrs considered BAGrs to have a substantial dominance in the integration process, which they considered to be only somewhat legitimate. On the other hand, BAGrs perceived to have only a slight dominance over SAG, which they also considered to be somewhat legitimate. Finally, interestingly and in contrast to past research (Terry et al., 1998), both SAGrs and BAGrs appreciated the permeability of boundaries. However, BAGrs were more concerned by making sure that such an equal access of SAGrs to resources was not at their own expense.

Intergroup differences in developing a shared identity

Our study contributes to research on M&As by demonstrating how it might be possible to reduce threat to pre-merger identities and to promote the development of a shared identity. Our analysis indicates that the identity of ABC was shared among members of the three subgroups although pre-merger identities remained salient. Low threat to pre-merger identities was possible as the three sub-groups perceived boundaries to be permeable by having access to resources. In addition, autonomy was maintained to some extent and power differences were seen as legitimate (“we are good at *x* so we should have influence..., they are good at *y* so they should also have influence...”). Consequently, members of the three sub-groups were able to maintain distinctiveness in the acknowledged value added of each group leading to pressures to preserve what is good about BAG and SAG. Thus, our findings demonstrate how it might be possible to balance a “dominant logic” with a “social community” approach in M&As seeking innovation (e.g. R&D; Verbeke, 2010).

Positive results in the studied case were achieved despite contradictory perceptions of the process (being acquired) in this officially stated “merger-of-equals”. Employees were proud that ABC

is highly successful in terms of enhanced market leadership and R&D capabilities. At the same time, ABC remained to be seen as two separate groups (SAGrs and BAGrs) rather than one. BAGrs and SAGrs continued to make in-group favoring comparisons.

CONCLUSIONS

We argue that contradictory perceptions on the integration process and in-group favoring comparisons may represent a natural stage of shared identity building and even can be of added value in questioning the status quo, and consequently, building a new, better organization. However, we suggest that the development of a deep-structure identification wherein the new identity becomes incorporated in the identities of the employees rather than just having common interests with the organization (i.e. situated identity, Rousseau, 1998) can be possible only if differences in the perception of the integration process are taken into account. Currently, the shared identity of ABC is mainly related to common goals (achieving success) and the pre-merger identities remain salient. Such “dual identities” where both sub-group and superordinate identities co-exist, wherein the sub-group identities are secured (distinctiveness, clear value added and access to resources) and the superordinate identity is strong, are an important milestone in building a deep structured identification with the new organization (Fiol, Pratt, and O’Connor, 2009). This is in line with Ullrich, Wieseke, and Van Dick (2005) and Van Knippenberg et al. (2002) who found that identification with the new organization is contingent on a sense of continuity of the pre-merger identity. However, we suggest in the long term such continuity might not be enough and identity of the new organization should rather develop new distinctive characteristics (Fiol et al. 2009) as in-group bias may remain when members perceive their group to be the most “fitted” and “belonging” to the new organization’s identity.

Although we think that the findings presented here contribute to the research on M&As by exploring antecedents to pre-merger threat, our study is not without limitations. First, we conducted a single-case study and thus generalization can only be attempted with great cautiousness. Second, we investigated the development of shared identity of ABC, in the early stages of the integration. However, an assessment of the integration process over a longer period may allow a more complete exploration of barriers to a shared identity. Therefore, longitudinal studies are desired to understand

how socio-cultural integration evolves over time and help or hinder the development of a deeply shared identity. Third, our study demonstrates that it is important to investigate intra-group relations in order to get further insights into how perceptions develop, for example to understand differences between functional and hierarchical groups. For example, consider a merger of two companies, one wherein finance dominates and the other where marketing is the dominant function. Thus, loss of status and autonomy may create tensions that interfere with developing a shared identity. In this case it would be helpful to use a survey approach to be able to uncover different “pockets of alienation” (Brannen and Peterson, 2009). Fourth, the type of merger we have investigated is but one possible form of large scale organizational change. It would be interesting in future research to see how other forms of strategic corporate change, such as subsidiary renewal and subsidiary venturing that each are entailing different processes (Covin, and Miles, 1999; Guth, and Ginsberg, 1990; Miles and Covin, 2002; Sharma and Chrisman, 1999) would reveal similar aspects of identity concerns. We consider it important for future research to explore the conditions under which strong pre-merger identification may be a barrier or when it may be an asset in developing a shared identity. We hope that our study will guide future research along these lines to ultimately help accomplishing M&As deliver more favorable results than is currently the case.

Finally, from a practical perspective we believe that we have offered a framework to change leaders to draw upon. Our research suggests that perceived threat and the resulting resistance to change will be lower when managers consider social identity-based implications of the change. Change leaders are well advised in following social identity in terms of (1) allowing for permeability between groups; (2) increasing legitimacy by fair and transparent communication; and (3) by helping the different groups involved to maintain at least parts of their original identities.

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Table 1. Semi-structured interviews; hierarchical levels of informants

BAGPharma	SAG	BAGMexicana
10 executives	10 executives	7 executives
2 medical representatives	3 medical representatives	4 support functions
	2 support functions	

Table 2. Coding scheme of the interviews

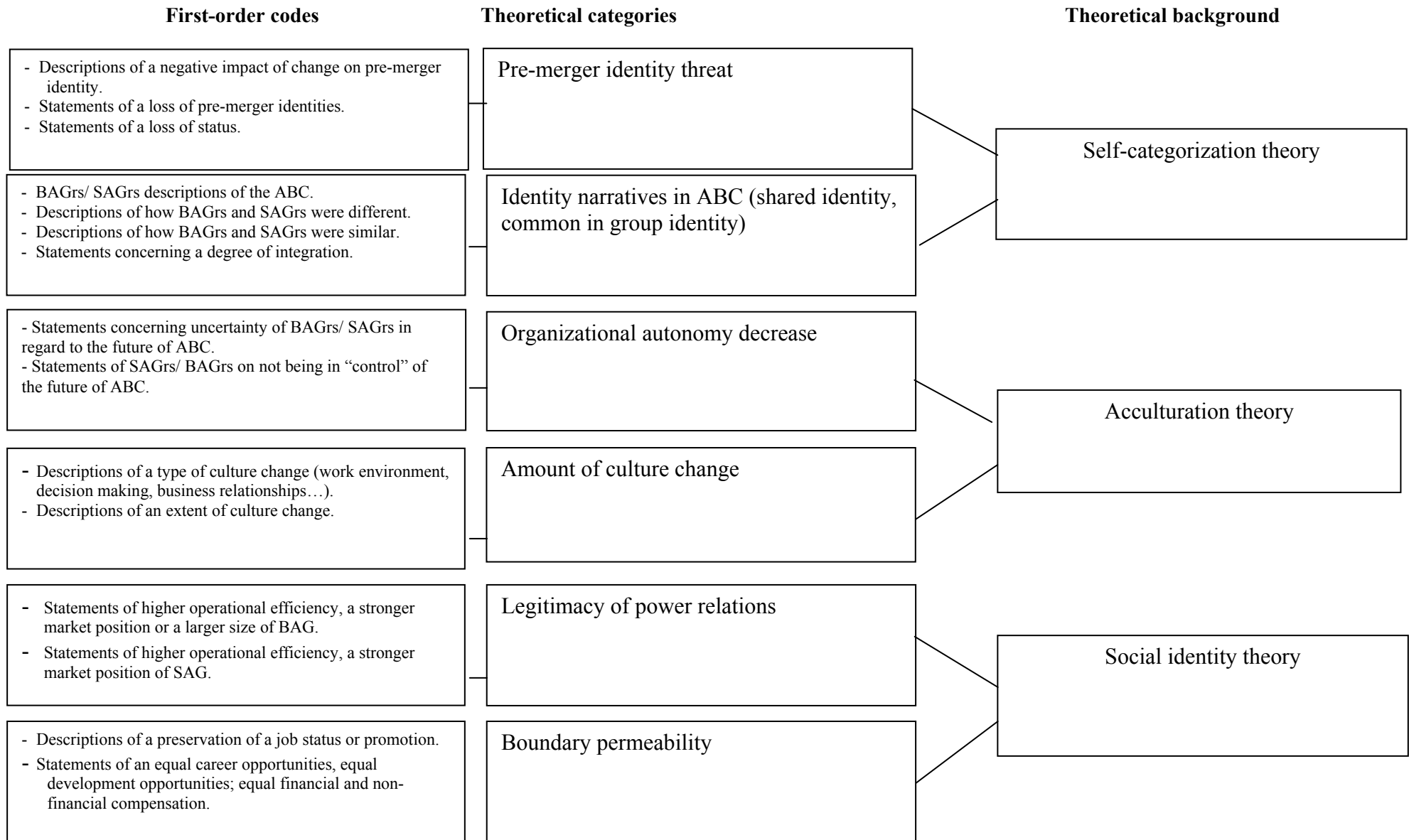


Table 3. Measured constructs: interview questions and survey items					
Variable	Illustrative questions	Related scale	Number of items	Sample item	Cronbach's Alpha
Shared identity	As you see it ... - How would you describe BAGPharma, BAGMexicana and SAG? - How do you feel about ABC? - What are your expectations/ hopes on the integration of SAG and BAG?	Identification with the new organization Mael and Ashforth (1992) Common in-group identity Gaertner et al. (1993)	6	When someone criticizes ABC, it feels like a personal criticism. (1-very much disagree; 5 – very much agree)	Alpha = 0,88
			2	At ABC, it feels like former BAGPharma's and former SAG's employees are on the same team. (1 –very much disagree; 5 – very much agree)	Alpha = 0,75
Threat to pre-merger identity	- Given differences/ similarities between BAG and SAG, what have been the issues in the integration process? - How do you feel about these (eg. ...) changes? - What are the “bottle necks”/ problems in the integration?	Identity threat	2	I feel threatened by the acquisition of SAG by BAG. (1 – very much disagree; 5 – very much agree)	Alpha = 0,76
Change to pre-merger cultures	- What actually happened in your department after the acquisition? - What actually happened in your organization after the acquisition?	Assessment of an amount of culture by comparing pre-merger with a new culture. List of 3 most relevant cultural issues brought up by our informants. Compared amount of change by subtracting old culture from new culture (in absolute values)	3	- Work environment (dress code, offices, etc.) - Business relationships (1 – very informal; 5 – very formal) - Decision making (1 – very few people involved; 5 – many people involved)	N/A
Organizational autonomy	- In what ways were you involved in the integration process? What about your direct supervisor? (specific examples of how s/he and the boss contributed to building of ABC) - Can this [wished way of running ABC] be maintained? How is it possible?	Organizational autonomy decrease Datta and Grant (1999)	6	Assess the overall degree of autonomy of former BAGPharma executives in the ABC BU in the following areas: - Promoting lower/ middle level managers in ABC. (1-very low autonomy, 5- very high autonomy)	Alpha = 0,87
Legitimacy of power	- To what extent is the acquisition of SAG advantageous or disadvantageous		1	In comparison with SAG, indicate the overall influence that BAGPharma has in the	N/A

asymmetries	<p>for your unit/ organization?</p> <ul style="list-style-type: none"> - What can SAG learn from BAG and vice versa? - What are the skills/ competencies that BAG employees brought to the New Organization? 			<p>integration process. (1–no influence; 5 – very high influence) Indicate whether this balance of influence (mentioned in question #1) is appropriate or is not appropriate. (1 – very inappropriate; 6 – very appropriate)</p>	
Boundary permeability	<p>How do you see yourself in the New Organization 12 months from now? What about your direct supervisor and colleagues? What issues do you see in such a sharing of resources (e.g. re-recruitment, maintaining pre-merger salary levels...)?</p>		1	<p>Assess the impact of the acquisition of SAG by BAG on your career. (1 – very negative; 5 – very positive)</p>	N/A

Table 4. Survey Winter 2008/2009- sample information

	Number of responses	Response rate	Gender	Average age in years	Seniority
BAGMexicana	197	72%	Female: 39; Male: 122; Missing: 36	41	13
BAGPharma	519	75%	Female: 186; Male: 269; Missing: 64	39	9
SAG	174	84%	Female: 63; Male: 98; Missing: 13	39	8

Table 5. Summary of interview and survey findings by employees			
Variable	Interviews BAGMexicana (BM, n=11), BAGPharma (BP, n=12), SAG (S, n=15)	Stated by % interviewees	Survey - mean
Identity threat	Overall, interviewees demonstrated a concern for threat to pre-merger identities <ul style="list-style-type: none"> Identity of SAG was threatened by having family atmosphere and effectiveness of internal processes at stake. Identity of BAG was threatened by having its' dominant position (leadership) at stake. 	BM 73 % BP 83 % S 93 %	BM: 2,29 BP: 2,02 ³ S: 2,13
Identity of the new organization	Overall, interviewees were proud to having become ABC in terms of enhanced: <ul style="list-style-type: none"> Leadership (success) R&D 	BM 91% BP 92% S 92%	BM: 3,66 BP: 4,13 S: 4,22 ⁴
Low common ingroup identity	Overall, interviewees perceive ABC to be composed of two separate groups of employees.	BM 82% BP 83% S 78%	BM: 3,04 BP: 3,01 S: 3,09
Culture change	Overall, while SAGs experienced many change to culture, BAGs reported none: SAG experienced changes in terms of: <ul style="list-style-type: none"> different work environment, processes, systems and procedures, considered to increase bureaucracy. 	BM 0% BP 8% S 64%	SAGs experienced significantly more change to culture than BAGs (see page 13 for details)
Autonomy decrease	Overall, a majority of the interviewees claimed their group to have experienced autonomy decrease: Autonomy of SAG was perceived to have decreased in terms of: <ul style="list-style-type: none"> key decisions being imposed by BAGs being “in control”. Autonomy of BAGPharma and Mexicana was perceived to have decreased in terms of: <ul style="list-style-type: none"> key decisions imposed by SAGs and European headquarters being “in control”. 	BM 72% BP 50% S 78%	BM 3,02 BP 3,14 S 3,00
Legitimacy of power relations	Overall, current power relations are only mildly legitimate as claimed by a majority of all the interviewees. Majority of BAGMexicana interviewees claim an integration to be on equal basis and that BAG	What power relations should be legitimate? BAG should have	Are power relations legitimate? BAG dominates:

³ Differences in perceptions of BAGMexicana and BAGPharma are significant (p<0.05).

⁴ The difference between BAGMexicana and both SAG and BAGPharma is significant (p<0.05).

	<p>should have more leadership due to:</p> <ul style="list-style-type: none"> its larger size and better performance in terms of performance orientation, work attitudes <p>SAG claim BAG to have a more dominant position whereas SAG should share the influence due to:</p> <ul style="list-style-type: none"> BAG is much larger in size, market share and reputation SAG is superior in terms of effectiveness of systems and processes. 	<p>influence</p> <p>BM 100% BP 92% S 86%</p> <p>SAG should have more influence</p> <p>BM 37% BP 58% S 93%</p>	<p>BM 3,82 BP 3,69 S 4,01⁵</p> <p>Degree of legitimacy of BAG's dominance over SAG: BM 4,30 BP 4,18 S 4,28</p>
Boundary permeability	<p>Overall, results from the interviews point to a high permeability of intergroup boundaries.</p> <p>BAGMexicana & BAGPharma:</p> <ul style="list-style-type: none"> Good access to resources, job guarantees (BAGrs and SAGrs) (1) BAGrs earn often less and some BAGrs fired to make space for SAGrs (2) <p>SAG:</p> <ul style="list-style-type: none"> Good access to resources, job guarantees (BAGrs and SAGrs) (1) Employment at lower hierarchical levels of some executives, lower remuneration, employment uncertainty (2) 	<p>Permeable (1)</p> <p>BM 100% BP 75% S 78%</p>	<p>BM: 3,52 BP: 3,82⁶ S: 3,59</p>
	<p>Impermeable (2)</p> <p>BM 55% BP 67% S 36%</p>		

⁵ Compared with BAGMexicana and BAGPharma, SAG employees perceived BAGs position as significantly more dominant.

⁶ Boundaries were perceived to be significantly more permeable for BAGPharma employees than for SAG and BAGMexicana.

Figure 1. Structure of BAG

