Chapter #5

THE SOCIAL IDENTITY APPROACH TO MERGERS AND ACQUISITIONS: AN OVERVIEW

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ABSTRACT
Since mergers and acquisitions (M&As) clearly require a recategorization process where previously distinct corporate partners are combined into one merged entity (i.e. the new post-merger organization), they point towards the effects of group membership and intergroup relations that often end up in more conflict, decreased motivation and subsequently lowered organizational performance (Giessner, Ullrich & van Dick, 2012 p. 2). Often the change that comes along with the merger process is designed and experienced in discontinuous ways that threaten employees' stability and undermine the strategic and financial goals of the merger. The Social Identity Approach (SIA) which reflects the effects of group psychology on perceptions, attitudes and behavior, provides influential insights into understanding employees' reactions to mergers. Not surprisingly then, the following chapter presents an overview of the essentials of the Social Identity Approach (SIA) and its implications in merger contexts to better understand the human side of them. We summarize the theoretical assumptions of the SIA regarding identification processes and management of identity in tandem with significant insights from empirical research applying such a perspective that may facilitate achieving favorable merger integration (Amiot, Terry & Callan, 2007). At the end, we discuss issues and implications for further research.

Keywords: organizational mergers, merger integration patterns, sense of continuity, status differences, leadership.

The present chapter is dedicated to my mother, teacher Georgia Makri.

1. INTRODUCTION

1.1. The social identity approach (SIA) to organizational context

A well-known assumption and actual realization is that social-psychological insights have been successfully used to analyze issues and concepts from social settings to organizational conditions and the field of organizational behavior. Organizations are seen as social groups and as such, behavior is largely guided by people's membership in work groups and teams. Accordingly, topics related to the ways and norms work groups tend to operate either collectively or by competition, are in effect borrowed and applied by organizational behavior researchers in actual organizational environment. For example, the way an employee sees himself and behaves in relation to his membership in a given organization or work group, is fundamentally guided by the Social Identity Approach (SIA). Conceived by social psychologists and grounded in Social Identity Theory (SIT; Tajfel & Turner, 1979) and Self-Categorization Theory (SCT;Turner, Hogg, Oakes, Reicher & Wetherell , 1987), it stands as a promising social-psychological approach that is influential in improving our understanding of the group processes, attitudes and behavior at work in any given organizational setting.

The Social Identity Approach (SIA) addresses the effects of group membership on perceptions, evaluations, attitudes and behavior. It is constructed upon the critical assumption that people perceive the social environment in terms of social categories they belong to (i.e. groups) (e.g. members of an organization, etc.) and define themselves (positively), i.e. form their (favorable) self-image on the basis of their membership to these particular groups in relation to others. In that sense, people move from the personal self (personal identity) to the social self (social identity) and in effect the organizational self (organizational identity), in other words, experience a transfer from interpersonal to intergroup attitudes and behavior (Giessner et al., 2012 p. 5).

As Ullrich & van Dick (2007) suggest, this concept of self from the personal (or individual) to social (or organizational), spots the "ends of a theoretical continuum from interpersonal to intergroup behavior" (p. 3). In other words, the personal self-concept, i.e., how I perceive myself as a person (or individual), becomes the social (organizational) self-image, i.e., how I perceive myself as a member of the organization I work at, in a distinctive way. This notion is reflected in Tajfel's (1978) definition of social identity: "the individual's knowledge that he or she belongs to certain groups together with some emotional and value significance to him or her of the group membership" (p. 31).

Transferring the above essentials of the SIA into work settings in particular, the social self (social identity) becomes the organizational self (organizational identity) through the process of organizational identification, i.e., the psychological attachment with the organization. Mael & Ashforth (1992) suggest that the construct of organizational identification reflects the individual's "self-definition of cognitive-perceptual group membership" (Ellemers, Haslam, Platow & van Knippenberg ., 2003 p. 14) and mirrors the psychological linkage between the self (individual) and the group (i.e. organization). In other words, the more one perceives himself in terms of him being a member of a particular group, the more probable is that he will behave and proceed in line with the social identity entailed by that group membership (van Knippenberg & Ellemers, 2003). Clearly, organizational identification reflects not only the propensity to perceive himself as a member of the employing organization (i.e. the process of identification per se), but also the positive or favorable self-image that stems from that membership (i.e. the state of being identified) (Ellemers et al., 2003 p. 13). Therefore, it represents the psychological bond or psychological merging (Ellemers et al., 2003 p. 14) between the employee and the organization (or a team and department within that organization).

In that sense, when an employee identifies with his organization, he perceives himself in terms of that membership and focuses on traits shared with other members of that organization, i.e. other employees. As a result, he assumes organization's goals as his own and exerts extra effort and goes the extra mile in favor of the organization he is a member (van Knippenberg & van Leeuwen, 2001). However, this process of identification with the employing organization refers to sharing salient, i.e. distinctive characteristics of this organization with other members within and in comparison to other organizations.

The degree of distinctiveness may be rendered by contextual factors such as, among others, organizational life restructuring events like mergers and acquisitions that distract employees from adopting a common or shared organizational identity due to feelings of insecurity and threat (Terry, 2001). These feelings, as already known and acknowledged, are associated with the great deal of changes that often come with merger activity (Schraeder & Self, 2003): these involve, among others, changes in management, in culture and procedures of the corporate merger partners as reflected in the merged organization that unavoidably influence job designs and work roles and subsequently, employees' responses and reactions to the new merger reality, pattern of values, structure and practices (Terry, Carey & Callan, 2001). These may range from adjustment and integration to

conflict and resistance to the new merged organizational rules imposed (Bijlsma-Frankema, 2001), or more notably, to lowered perceived autonomy (Dackert, Jackson, Brenner, & Johansson, 2003), us versus them thinking (Terry et al., 2001) and sense of discontinuity from the previous to the restructured organization after reformation (van Knippenberg, van Knippenberg, Monden & de Lima, 2002).

2. MAIN SECTION

2.1. The social identity approach (SIA) to mergers and acquisitions

During the last years, ongoing economic crisis and recession have stressed the need for organizations to be involved in organizational restructuring and changes like mergers and acquisitions in order to survive. Despite a rather stable wave of mergers and acquisitions in 2013 and 2014, a new volume of deals are in progress (Annema, Bansal & West, 2015). However, mergers and acquisitions either national or cross-border ones, often result in considerable failure rates estimated up to 70-80% (Cartwright, Tytherleigh, & Robertson, 2007), an issue that on one hand, still remains unresolved (Stahl & Voigt, 2008), but on the other hand, people management issues are given less attention at the expense of financial and strategic aspects and are identified as a significant factor in mergers and acquisitions' underperformance (Makri & Ntalianis, 2015; Bartels, Douwes, de Jong & Pruyn , 2006; van Dick, 2004).

The challenge of successful merger integration involves employees cooperate effectively and identify (i.e. be psychologically attached or affiliated) with the merged organization (Giessner et al., 2012). Increased identification with the merged organization has been indicated to lead to favorable organizational behavior outcomes like, for example, enhanced organizational commitment, job satisfaction and reduced turnover intentions (van Dick, Ullrich, & Tissington, 2006; Lipponen, Olkkonen, & Moilanen, 2004;van Dick, Wagner & Lemmer , 2004), while lowered levels of employee identification have been associated with more conflict, diminished motivation and subsequently, lowered organizational performance (Ullrich & van Dick, 2007). These outcomes decrease employees' health and well-being at work, together with the level of social interactions in everyday work life (Giessner, et al, 2012). In addition, the latter researchers also suggest that greater identification with the merged organization is assumed to be favorable to merger integration, as it means that employees adopt the targets related to post-merger identity.

In practice and under real merger conditions which rarely involve equal partners, since one organization is always in charge of another (Wickramasinghe & Karunaratne, 2009), any merger event represents a recategorization of the previously distinct organizations (i.e. corporate merging partners) into the one superordinate merged organization (entity) post-combination (Terry & O'Brien, 2001).

In that event, organizational members (i.e. employees) need to shift and transfer their organizational membership (i.e. identity) from the pre-to the post-merger organization. During this process, the literature so far has been relatively conclusive that "sameness is not a required feature of identity; rather, what is required is a *sense of continuity* (Rousseau, 1998, p. 227), i.e. the feeling that the post-merger organization tends to be (or bears) a continuation of the pre-merger one, in terms of vision, values, practices, operations and systems embedded. This sense of continuity instigates feelings of security for employees after merger as it makes them feel that they continue to work for the same organization as before (Giessner, Viki, Otten, Terry & Täuber 2006; Jetten, O' Brien, & Trindall, 2002) which is now perceived as "their" organization (Giessner, 2011). As a result, it affects

positively their identification with the merged organization (van Dick, Ullrich, & Tissington, 2006) and thereby facilitates behavior directed towards achieving merger goals and integration success (Cartwright, 2005; van Dick, 2004).

2.2. Status and dominance in mergers and acquisitions

As already stated above, most mergers are not mergers of equals (Cartwright & Cooper, 1996) and they usually involve corporate partners that may differ before the merger, for example, in size, reputation or status (Marmenout, 2010). In that respect, any merger event tends to increase status differences between pre-merger corporate partners post-combination and threaten integration success (Terry & O'Brien, 2001). If employees' membership to the new merged organization is perceived as a continuation of their pre-merger identity, i.e. high pre-merger status one, then it is most likely to be transferred to the merged organization, especially if the merged organization is perceived as of being a high-status one (Boen, Vanbeselaere & Cool, 2006). In contrast, in cases where employees perceive they belong to the lower status or the dominated merger corporate partner, then they are most likely to experience a sense of discontinuity (i.e. from the pre-to the post-merger organization), threat to their organizational identity and consequently exhibit negative attitudes and responses towards the merger (Terry, Carey & Callan, 2001).

As such, employees of the lower status pre-merger partner are inclined to feel more threatened by merger integration and likely to exhibit less positive responses towards the merger post-combination, while employees of the higher status pre-merger organization are less threatened by merger integration and thereby more motivated to demonstrate favorable responses and reactions towards merger support (Giessner et al., 2006).

According to the SIA, employees especially those of the low status pre-merger organization, are likely to use a number of strategies to advance their social identity, i.e. to have a positive and distinctive social identity in the new and as a part of the new merged organization (Tajfel & Turner, 1986). For example, individual mobility, i.e. looking for membership in the higher status organization, either by leaving the current organization, seeing the new merged organization as an opportunity to achieve better career prospects, or adopting negative actions like protests, sabotage, gossiping, hostility over members of the other merger partner, or even using new dimensions of comparisons (e.g. better organizational climate) to evaluate positively their pre-merger in relation to the merged organization (Ellemers, 1993; Terry & Callan, 1998; Weber & Camerer, 2003).

Empirical data demonstrate that when employees perceive the merged organization as a continuation of their pre-merger organization, the relationship between the pre-merger and the post-merger organizational identification is stronger (van Knippenberg & van Leeuwen, 2001). Also, the sense of continuity from the pre-to the post-merger organization and subsequently identification, is found to be stronger for employees perceiving their pre-merger organization as of being larger, more dominant, or of higher reputation and status which largely defines the character of the merged organization post-integration (Giessner et al., 2006; Terry, 2003).

However, the issue of dominance and status tend not to be alike and by far, not equal, i.e. the same (Ullrich, Wieseke & van Dick , 2005). Dominance usually reflects the state of acquired vs acquiring corporate partner which is most often clear after combination and most likely to cause sense of discontinuity from the pre-to the post-merger organization, while status usually reflects comparison dimensions in terms of prestige, viability, reputation, etc. before the actual merger event. For example, board of directors, or aspects of culture are likely to be criteria on which one merger partner may dominate the other and ultimately deprive his employees from being identified with the merged organization as a

whole (Ullrich et al., 2005). Or, in other cases, the perceived fame and reputation of the merger partner is found to be related to employees' identification with the merged entity after merger (Smidts, Pruyn, & van Riel, 2001). As implied by the above, the sense of continuity tends to be dependent on certain factors that continue to be present after the merger event and help fulfilling the "gap" of belongingness between the pre-and the post-merger organizations. Or metaphorically speaking, between past and future.

2.3. Observable and Projected Continuity in Mergers and Acquisitions

As stated above, a certain sense of continuity transferred to the merged organization, is considered to decrease the insecurity that often prevents post-merger identification (Boen, Vanbeselaere, Hollants & Feys 2005; Giessner, 2011). The social identity-related merger studies introduce two types of continuity: observable and projected continuity (Ullrich et al, 2005). Observable continuity reflects a sense of continuity where employees compare the past and the present state of their organization, in other words, their pre-merger with the new merged organization, while projected continuity represents employees' perception of the future that their merged organization is likely to have, accompanied by a "road map into the future" (Ullrich et al., 2005 p. 1555), that is, a path of how to get there which reflects, in effect, the merged organization's future identity. Both kinds of senses of continuity and especially projected continuity which represents employees' sense of "where are we going to and what can we do to make it happen" (Ullrich et al., 2005 p. 1562), are associated with lowered feelings of insecurity that often prevent post-merger identification (Boen et al., 2005) and facilitate post-merger organizational identification for both merger corporate partners (Ullrich et al., 2005). In cases where employees experience decreased senses of continuity from the pre-to the post-merger organization, post-merger identification is found to be further facilitated when employees perceive the merger as a meaningful activity that serves the strategic goals of the organization, making them feel less anxious about the future and thereby demonstrate increased psychological attachment with the merged organization (Boen, Vanbeselaere & Swinnen , 2005b; Ullrich et al., 2005).

2.4. Merger integration patterns

Inherent to the SIA to mergers and acquisitions appears to be the path under which merger integration is actually applied post-combination (i.e. the ways merger partners exert their influence during integration process post-combination).

As stated earlier, organizational dominance usually reflects "power relations" within merger conditions (Giessner et al., 2006). Although the high status pre-merger corporate partner often dominates the merger process, organizational dominance is also reflected in the ways merging partners choose to exercise their influence according to the different ways of integration after combination (i.e. merger integration patterns). In other words, whether different dominance positions (e.g. due to the fact that one merger partner is the acquirer and the other the acquired) that translate into an imbalance of influence in the post-merger organization, depend on the merger integration pattern. These merger integration patterns have been suggested in previous and more recent relevant typologies (e.g. Schoennauer, 1967; Marks & Mirvis, 1998; 2001), as follows:

Absorb reflects a complete assimilation of the acquired (i.e. dominated) merger partner into that of the acquiring (i.e. dominating) corporate partner, the most common integration pattern employed (Giessner et al., 2006). In other words, the influence of the dominant merger partner exceeds in absolute terms that of the other dominated merger partner (Lupina-Wegener, Schneider & van Dick, 2011) and its identity is the one

represented in the new merged organization. Blend or integration-equality pattern depicts an integration where merger partners are both recognizable in the new merged organization and exercise their influence and in effect their identity in rather equal terms, while combine (transformation) pattern actually represents a formation of a completely new organization after merger which delineates a new identity representation in the integrated organization (Giessner et al., 2006). In the logic of the low status pre-merger organization, employees are more likely to perceive blend or integration equality merger patterns as of most beneficial due to their status enhancement (i.e. positive organizational identity), while in the high status pre-merger organization, employees are expected to experience absorb or combine merger patterns as most favorable due to their high status maintenance and related identity (Gleibs, Täuber, Viki & Giessner, 2013).

In addition, merger integration patterns affect employees' willingness to support the merger process, especially in cases where portions of each merging partner identity remain observable and distinct (e.g. blend or integration-equality patterns) post-integration.Mottola, Bachman, Gaertner & Dovidio. (1997) indicated that employees seem to be less threatened in relation to their job status and job security and more supportive of merger when aspects of both merger partners are represented in the merged organization. Merger integration patterns are additionally influenced by perceptions of legitimacy and procedural justice (i.e. beliefs of whether merger is legitimate and how employees are treated in the new merged organization (Gleibs, Mummendey, & Noack, 2008). Absorb or assimilation merger pattern is expected to represent a less legitimate integration pattern for members of the low status pre-merger organization as it may increase status differences, in relation to combine merger pattern that creates a new identity-related merged organization and realizes status equality (Giessner et al., 2006).

2.5. The social identity approach (SIA) to leadership in mergers and acquisitions

Giessner, Ullrich & van Dick(2011) argue that the SIA aspect of leadership in mergers and acquisitions has received lowered research attention. However, one can assume that leaders play a critical role in initiating, facilitating and supporting change initiatives especially in the context of a merger and considered to be successful when achieving post-merger identification (Giessner et al., 2012). As such, the SIA essentials to leadership during merger and acquisition activities suggest that leaders need to act not only as change agents by generating, influencing and directing change, but also as agents of continuity by forming a strong sense of continuity for employees during post-merger integration (Giessner et al., 2012).

Closely related to the above stand the concepts of leader group prototypicality (i.e. the extent to which the leader represents and adopts the traits of the organization) and leader group orientedness (i.e. the degree to which the leader is perceived to be committed to the organization's shared interest (Giessner, Horton & Humborstad, in press; January 2016) which act together in facilitating leadership influence (Giessner et al., 2012) by fostering willingness to change (Bobbio, van Knippenberg & van Knippenberg, 2005; van Knippenberg &van Knippenberg, 2005), support and trust (van Knippenberg, 2011). Moreover, leaders may also strengthen employees' post-merger identification by creating and actively supporting a vision of the organization that guarantees a sense of continuity, in other words, supporting employees' perceptions that the core identity of the organization is not changing due to the merger (Giessner et al., in press; January 2016; Venus, 2013). Further, engaging to fairness actions by using and communicating deferential allocation of resources and outcomes to merger partners during post-merger integration, would also

enhance employees' perceptions of identification with the merged organization (Gleibs et al., 2008; Amiot et al., 2007) and thereby, support of merger integration. The question remains whether these effects are dissipated over time and both in implemented and desired merger integration patterns, as well as in top-and middle-level managers alike.

3. CONCLUSION

Identity-based dynamics highlight the significance of our lives as social beings and emphasize group membership for individuals' perceptions, attitudes and behavior. The current chapter drawing on existing evidence, presented an overview of the SIA essentials in mergers and acquisitions in an attempt to emphasize their contribution to merger management and people identity management, in particular.

Understanding the processes of social identification and self-categorization together with the identity-related factors summarized above, is significant for employee motivation and merger support. However, as Giessner et al. (2012 p. 26) argue, "applications of the SIA in the field of mergers and acquisitions are still rare though", given the innate difficulties associated with the process of data collection at the different stages of the merger process, reflected in modern merger research (e.g. Wickramasinghe & Karunaratne, 2009). In that sense, we believe it would be interesting to explore further the key issues raised above, i.e., the sense of continuity, the status and dominance differentials with merger integration patterns and leadership in cross-border context and across the various stages of the merger activity including both top-and middle-level management alike, as it would help clarifying merger identity development issues further. In addition, we believe that future merger identity-related research should also tap into additional issues (e.g. gender) on different fields (e.g. health) to help us understanding further how we can merge "well".

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