

Mind the Gap: The Effects of Mergers and Acquisitions on Organizational and Individual  
Identity

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## **Mind the Gap: The Effects of Mergers and Acquisitions on Organizational and Individual Identity**

### **Introduction**

As 2011 drew to a close, the “Organizing for M&A: McKinsey Global Survey” results were published to forecast merger and acquisition (M&A) planning in a representative sample from diverse industries, regions, and company sizes. Nearly a thousand chief executives, evenly split between finance and operations, think M&A is an important growth strategy. In addition, 46% indicated strategic acquisition deals were likely in the next three years. Strategic acquisition of products, intellectual property, and capabilities was a common rationale. Equally cited, was the need to diversify from core business areas, to build critical capabilities, including integration planning, and responding to cultural issues. However, nearly a third of these respondents report that “cultural” integration planning occurs after M&A negotiations begin, and although 75% noted their companies understand their own cultural strengths and weaknesses—fewer than half conduct internal efforts to confirm this understanding. In fact, less than half reported diagnosing strengths and weaknesses in the context of specific deals, and 29% report their companies will not launch integration interventions or changes to address cultural gaps. Given only a quarter of chief executives conduct due diligence to confirm cultural strengths and weaknesses, and a third reject integration efforts or interventions to address cultural gaps, it’s no wonder the failure rate of corporate M&As is greater than 50%, and that 83% of all mergers fail to create value. Even more concerning, is that half of all M&As actually destroy value (KPMG Study, *Unlocking shareholder value: The keys to success*, 1999).

Although the authors of the global survey adamantly note that a systematic and fact-based approach to understanding corporate culture is critical to retain capabilities and people

after a transaction—the numbers don't add up, or at least are not compelling enough to warrant executive intervention. Hence, this paper presents a qualitative approach to understanding organizational culture gaps inherent in M&A. Specifically, to explore how M&As affect collective and personal identity to further understand the phenomenon of cultural integration, and to provide insights for organizational development interventions.

## **Background**

The McKinsey's Global M&A survey sparked an active discourse among six doctoral students engaged in a team qualitative research project on organizational culture, and inspired further exploration. We discovered that each of us had direct experience with mergers and acquisitions (M&As). Our experiences varied as a few of us had been employees of companies that had merged into other firms; others had been employees of acquiring companies; and the remainder had been longstanding clients of acquired firms. However, issues surrounding adapting to new or changing organizational values, behavioral norms, structure and artifacts emerged as salient aspects of the experience. Organizational values, norms, and artifacts are associated with the construct of culture, whether national, occupational, or organizational.

Culture and identity are closely related concepts, where culture denotes the goals, values, and norms in the organization and identity the degree of acceptance or relative alignment these characteristics represent to individuals and groups. The concept of organizational identity first appeared in the field of organizational studies through Albert and Whetten's (1985) seminal work; theorized through their criteria of "central character", "distinctiveness", and "temporal continuity". Identity, at the individual level, however, denotes to what extent the individuals are committed to the culture by internalizing the goals and values as a part of their self-concept. This description offers a qualitative perspective of cultural integration lacking in the aforementioned

quantitative M&A forecast, which directly relates to maintaining critical capability and key people post integration—a stated rationale of executives and a necessity for strategic capabilities acquisition success. Consequently, our research question sought to answer, “What is the impact of M&As on the identity of organizations and their stakeholders?” Although the systematic and fact-based approach to understanding corporate culture provided statistical data that a problem exists, a phenomenological study would augment this evidence, and provide a more detailed description of the merger and acquisition experience from the perspective of key people representing critical capabilities. Before embarking on the study, we agreed on a subjectivity statement that reflected all six members' experiences with at least one merger or acquisition.

### **Addressing the Problem of Why M&As Are Not More Successful**

Clearly, there is economic importance to investigating the 50% failure rate of corporate M&As; and that 83% of all mergers fail to create value; and why half of all M&As actually destroy value" (KPMG Study, *Unlocking shareholder value: The keys to success*, 1999). Assuming the purpose of a merger or acquisition is the expected market value of profitability, increased market share, and capability diversification for growth, the intangible impact of culture and identity integration may not be directly linked with M&A success, and therefore undervalued. Although quantitative measures of cultural effectiveness exist, attributes such as innovation, friendliness, customer service, and customer loyalty describe a company's identity from the perspective of the customer. If these intangible attributes are not considered and investigated at the outset of a proposed merger or acquisition, the result might well be an unanticipated loss of stakeholder value. Therefore, the importance of this study is in its emphasis on exploring the impact M&As have on intangible organizational and individual identity of employees, and customers.

## **The Clash of Cultures**

One need only have a bank account or mortgage to have experienced an M&A first hand—an immediate and radical symbolic and environmental transformation in the form of new branding, corporate name, structure, taglines, logos, and procedures. However, empirical research on cultural identity indicates that deeply ingrained assumptions, values, perceptions, and associated identity symbols are not so easily altered (Schein, 2010). Though our core values and beliefs may be aligned, our corporate cultures are distinctive and the process of integration must be gradual and systematic. However, organizations engaged in M&A comprise sub cultures, which may adhere to the norms and values of groups external to their organization, such as CEOs, engineering or technology, and operations or line supervisors. Consequently, an in depth description of the experience will enhance understanding of the impact on identity that results from an M&A and clarify cultural gaps to address for integration, which may affect the success of M&A outcomes.

## **Organizational Identity**

Organizational identity from the social actor perspective is rooted in institutional theory, defining identity as residing in identity claims that are available to members of the central, enduring and distinctive properties of their organization. It is clear that the most important issues to be dealt with among team members of organizations acquired or merged are (1) the new corporate identity and (2) finding common ground. Common ground becomes the basis for integrating as a new entity, with a distinct culture. Careful management is required during a period of tumultuous change, as this new culture is formed. In the end, it is all about making sense of the experience for all stakeholders (Ravasi & Schultz, 2006). A thoughtful alternative to traditional M&A practices is to intentionally create external images that reflect on joint cultural

practices and artifacts, and projecting desired images as well as embedding revised identity claims in the newly created organizational culture (Albert & Whetten, 1985). A collaborative team building approach should be employed through this process of sensemaking and sensegiving.

### **Personal Identity**

Research suggests that our identity is rooted in the people, places, and things that we feel are important in our lives (Levinson, 1972). As a result, the interactions and relationships we form are an integral part of our personal growth and development. When radical change occurs, and these ties are forcibly broken, the result for most of those impacted is a sense of helplessness, loss of control over the situation, and a lowered self-image. However, this may not always be the case, and research indicates that there are three post-merger/acquisition mindsets that impact personal identity (Mirvis & Marks, 1992):

1. "The Ready" mindsets are those excited and zealous employees who are wrapped-up in the positive aspects of the merger and are excited to get on with the new way of doing things. Regardless, there will be employees who will resent this positive outlook and regard them as traitors for adopting the new culture so readily.
2. "The Wanting" are those employees who did not get the jobs they wanted once the merger/acquisition was completed. They now feel as though they are stuck in a dead-end job with nowhere to go. They need time to figure things out, especially where they are going or where they would like to go.
3. "The Wrung-Out" employees are extremely pessimistic. They see their new situation as a move for the worse and feel as if they have just survived a disaster and do not know

where to turn or what to do. Although they may stick around, their commitment to their job suffers greatly.

Clearly, M&As have the potential to contribute to productive efficiencies where economies of scale are concerned, and can also be effective vehicles for acquiring increased intellectual, product, or market share. The challenge lies in how organizations navigate the change successfully, resulting in the integration and sustainment of identities that promote a healthy corporate culture and a ready mindset.

### **The Need for a Deeper Understanding**

To date, research on M&As has been heavily influenced by systematic, quantitative studies. Although quantitative data can provide useful and generalizable data, it does not reveal description of the experiences of employees in relation to M&As or insights on how to manage integration effectively. In order to understand the true role of culture in the changing identity inherent in M&As, a qualitative research approach is warranted.

Qualitative research describing individual experiences and perceptions of organizational cultural identity relative to an M&A, would fill a discernible gap in the existing empirical research. M&As represent a profound example of punctuated equilibrium in an organization, given the likely tectonic shifts in power, strategy and structure (Romanelli & Tushman, 1994). These characteristics are critical components of organizational identity and are further explored in this research study.

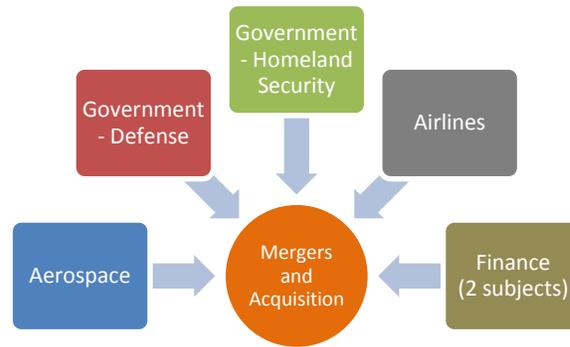
### **Research Design**

To gain insight into the impact of M&As on varied stakeholder identity, our team employed a qualitative phenomenological research design. We investigated organizational and individual identity through our varied cultural and individual lenses. In order to deepen our

understanding of the M&A experience we utilized a cross-case methodology and relied on Saldana (2009) for coding methods and analysis.

Figure 1. below illustrates our diverse experiential backgrounds:

Figure 1. Industries Impacted by M&As During this Study



In addition to the diverse industries we represented in this study, we also had different situational perspectives as described in Table 1, below.

Table 1. Situational Perspectives for Merger and Acquisition Studied

| Subject | Merger and Acquisition Situation                             |
|---------|--|
| Sarah   | Major defense contractor acquisition of small company        |
| John    | Regional centers merged into larger agency of the government |
| Megan   | Global investment bank acquisition of a U.S. broker-dealer   |
| Sherri  | Merger of two major airlines                                 |
| Beth    | Merger of two federal agencies                               |
| Paul    | Global bank acquisition of credit card company               |

Note: all subject names are pseudonyms

### Data Analysis

Given the unique nature of our respective M&A experiences, we believed that attribute coding was critical. Table 2 below describes our individual attributes.

Table 2. Attributes of Study Participants.

| Participant Pseudonym | Age | Gender | Ethnicity | Years in Workforce | Times through a M&A | Time Frame of Interview | Industry   |
|-----------------------|-----|--------|-----------|--------------------|---------------------|-------------------------|------------|
| Sarah                 | 54  | Female | Caucasian | 35                 | 1                   | November 2011           | Aerospace  |
| John                  | 49  | Male   | Caucasian | 32                 | 1                   | November 2011           | Government |
| Megan                 | 48  | Female | Caucasian | 26                 | 2                   | November 2011           | Finance    |

|        |    |        |                 |    |   |               |            |
|--------|----|--------|-----------------|----|---|---------------|------------|
| Sherri | 49 | Female | Caucasian       | 30 | 1 | November 2011 | Airlines   |
| Beth   | 49 | Female | Caucasian       | 28 | 3 | November 2011 | Government |
| Paul   | 42 | Male   | Native American | 27 | 5 | November 2011 | Finance    |

A fundamental objective of descriptive coding is to discover the essence of experience in a phenomenon or, “what is going on”. A summary of the descriptive codes that inductively emerged from the interviews is illustrated in Table 3, below.

*Table 3. Descriptive Coding Summary*

| Code                           | Description  | Count |
|--------------------------------|--|-------|
| <sup>1</sup> ACQUISITION       | Organization was bought by another   | 4     |
| <sup>2</sup> CHANGE            | Change in state of the organization  | 10    |
| <sup>3</sup> ROLE              | Organizational role in the company   | 2     |
| <sup>4</sup> OPERATIONAL STATE | Organization’s health or wellbeing   | 6     |
| <sup>5</sup> PERCEPTION        | Interviewee perception   | 20    |
| <sup>6</sup> FOCUS             | Specific target based on question; responding to a specific part of the organization | 1     |
| <sup>7</sup> SELECTION         | Movement of employees in the organization  | 2     |
| <sup>8</sup> FAILURE           | A selected part of the organization failed   | 1     |
| <sup>9</sup> COMMUNICATION     | Verbal or written communication identified   | 6     |
| <sup>10</sup> IDENTITY         | Organizational identity was impacted   | 4     |

The In Vivo coding method is used to capture participant responses (typically in the form of verbatim quotations) that enliven the participant’s own voice. An additional level of analysis is focused on moving from specific to abstract themes. In this study, it was important to uncover the emergent themes, or explanations relating to the impact of M&As on identity in order to provide a rich description with salient quotes.

Continued analysis of the coding in Table 2 yielded a summative theme in Table 4, shown below. Interestingly we found that two pattern codes resonated through this inductive analysis:

1. incongruence and
2. the role of affect.

*Table 4. Second Cycle Coding*

| In Vivo Coding   | Descriptive Coding | Pattern Coding             | Resulting Pattern Codes            |
|--|--------------------|----------------------------|------------------------------------|
| “not viewed positively by either organizations’ working level staff”         | PERCEPTION         | PERSPECTIVE REALITY        | CULTURAL and IDENTITY INCONGRUENCE |
| “the administration cherry picked the best employees”                        | LEADERSHIP         | PERSPECTIVE REALITY        |                                    |
| “rather abrupt”  | PERCEPTION         | “rather abrupt”            |                                    |
| “The <sup>10</sup> employees identified with treasury and one of 13 bureaus” | IDENTITY           | PERSPECTIVE REALITY        |                                    |
| “ no longer cowboys “  | PERCEPTION         | PERSPECTIVE REALITY        |                                    |
| “my <sup>11</sup> leadership came upon me to make that happen”               | LEADERSHIP         | INCREASED RESPONSIBILITIES |                                    |
| “I don’t identify with this culture”   | IDENTITY           | IDENTITY CHALLENGE         |                                    |
| “identity was non-existent”  | IDENTITY           | IDENTITY CHALLENGE         |                                    |
| “there was resistance to change”   | PERCEPTION         | PERSPECTIVE REALITY        |                                    |
| “very public display”  | COMMUNICATION      | “very public display”      |                                    |
| “inflated bureaucracy”   | PERCEPTION         | PERSPECTIVE REALITY        |                                    |
| “increased negative perception”  | PERCEPTION         | PERSPECTIVE REALITY        |                                    |
| “bloated and unresponsive”   | PERCEPTION         | “bloated and unresponsive” |                                    |
| “Paleolithic ice flows”  | PERCEPTION         | “Paleolithic ice flows”    |                                    |
| “it was horrible”  | COMMUNICATION      | “it was horrible”          |                                    |
| “seem to appreciate”   | CHANGE             | “seem to appreciate”       |                                    |
| “conquered mutual trust”   | PERCEPTION         | “conquered mutual trust”   |                                    |

### **Cultural and Identity Congruence—Critical to Success**

We have learned from this experience that culture is indeed a web of stories, artifacts, and language (Ravasi & Shultz, 2006). While several salient points emerged from this exercise, the most telling was the consistency in emotionally charged rhetoric related to our respective M&A experiences.

The data emerging from the interviews provide a platform for new conversations addressing critical considerations towards achieving successful M&As. This phenomenological study indicates that in order to affect a positive experience, attention to personal and professional perceptions throughout the M&A process must not be ignored. Further, the data reveals that environmental transformation in the form of symbols and artifacts should be aligned with personal and organizational identity. As illustrated in Table 4, thematic representation of the

coded interviews supports our assumptions that culture and affect are powerful drivers in the perceived value and success of organizational M&As.

### **Implications for OD Practitioners**

Ultimately, this study reveals recognition and sensitivity to differences in individual and organizational identity improve the likelihood of successful M&A cultural integration. Thus, we offer the following suggestions to guide OD practitioners when consulting with firms that are considering or experiencing an M&A:

**Invite—don't suppress—the role of emotions.** M&As are strategic financial and intellectual endeavors. However, they place an emotional strain on employees and customers.

Acknowledging and addressing the "elephant in the room" that is the emotional impact of change in identity is required to successfully navigate the individual impacts and cultural integration for successful M&As. This is also an excellent opportunity for leaders to model behaviors; for example, sharing with subordinates their own emotional challenges during this transition period.

**Listen, listen, listen.** When an M&A is eminent, solicit feedback from your customers and employees. Tap into preferred customer contacts to discover what attributes of the company are most valuable, and which they believe could be improved. Ask employees the same questions, and place a priority on carefully listening and responding to their feelings about uncertainty, change and grieving the loss of their former identity.

**Caution on speed: mind the culture gap.** Bringing together two organizational cultures is not for the faint of heart. The challenge for leadership and organization development professionals is to leverage the strengths of the individual merging cultures, be aware of weakness and limitations, and incorporate the strengths of the blended culture to create a new entity that is

synergistically superior. With increasing globalization and demographic shifts in the workforce, we believe that leaders should also advocate a culture of mindfulness, diversity and inclusion.

**Don't drag out the process.** Change is stressful for everyone affected by the M&A, so attention should be paid to ensuring a systematic, timely transition. The engagement of key stakeholders in preliminary planning is therefore essential. We discovered that too often employees feel the stress of being in a state of turmoil until the merging process is complete. One employee in the midst of a merger commented recently that the process kept the employees separate too long. She said, "We are ready to become one."

**Train the front line.** The impact of an M&A is greatest on the front line, with those employees who interact directly with the customers. Achieve buy-in through clear, consistent, and accurate communication to all stakeholders. Communicate why certain decisions and changes are being made, and how the new processes will impact and/or enhance their ability to do their job more efficiently and effectively. An understanding of the need for varied training techniques and venues, and easily accessed 24/7 support resources is essential.

**Take the opportunity to move forward not back.** Technology is important to nearly every facet of business today. When two entities are merged or another is acquired, leaders should be encouraged to carefully evaluate the technological impact and invest in systems that are better than those prior to the M&A. Establish participative and collaborative transition plans to incorporate employee feedback and development for agile adaptation and alignment.

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